

PREM 19/832

PART ..... 9 ..... ends:-

s/s Ind to u/s Env of 14/4/82.

PART ..... 10 ..... begins:-

E (82) 36 of 16/4/82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(82) 2	11. 1.82
E(82) 18th Meeting, Minutes	14. 1. 82
CC(82) 4th Conclusions, Minute 1	4. 2. 82
L(82) 40	12. 2. 82
L(82) 6th Meeting, Minute 1	17. 2. 82
CC(82) 6th Conclusions, Minute 4	18. 2. 82
CC(82) 11th Conclusions, Minute 3	18. 3. 82
L(82) 47	25. 3. 82
CC(82) 13th Conclusions, Minute 1	1. 4. 82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 27 September 2012

PREM Records Team



Secretary of State for Industry

*ce J.V.*

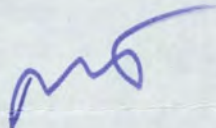
*Prime Minister* (2) *local Govt*  
*Mrs 15/4*

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

14 April 1982

The Rt Hon Tom King MP  
Minister of Local Government  
and Environmental Services  
Department of the Environment  
2 Marsham Street  
London SW1P 3EB



*Dear Tom,*

Thank you for copying to me your letter of 2 April to Nick Ridley about the amendment on the C & AG's rights presented at the Report stage of the Local Government Finance (No 2) Bill.

2 I note your assessment that assurances on the lines suggested in your letter were necessary to cope with the amendment, but I understand that you intend to ensure that the eventual Government amendment will not provide the C & AG with any rights of access to documents of individual local authorities. No doubt there are good arguments for this related to local accountability, but I do particularly want to support the point in Nick Ridley's letter to you of 31 March that it is also important to hold the line because of the direct parallel with access to the books of the nationalised industries. The argument that C & AG access should not extend beyond the scope of Ministerial accountability, which you mention, has been vital in the presentation of our policies and I do feel strongly that if we cannot hold this position in relation to local authorities, it will be very much more difficult to sustain the argument and maintain the very necessary line that C & AG access is inimical to the activities of nationalised industries, public companies and commercial organisations generally.

3 I am copying this letter to members of the Cabinet and to Sir Robert Armstrong.

*You ever*  
*Pat*

15 APR 1982



8 April 1982

Report by HMI on the Effects of Local Authority  
Expenditure

---

The Prime Minister was grateful to be  
forewarned of publication of the above Report.

MAP

Mrs I. Wilde,  
Department of Education and Science.

57.



cc. MA V&K/LSK  
*LS*

10 DOWNING STREET

From the Private Secretary

8 April 1982

Dear Anthony,

THE GLC AND LONDON TRANSPORT

The Prime Minister was grateful for your Secretary of State's minute of 6 April, to which was attached a draft paper for E Committee about the GLC and London Transport.

*B/F. 1*  
 The Prime Minister agrees to Mr. Howell circulating this paper, after discussion with Treasury and Environment Ministers. The Prime Minister has also agreed to a discussion of this paper at the meeting of E scheduled for Thursday 22 April.

I am sending copies of this letter to the Private Secretaries to Cecil Parkinson and Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

Anthony Mayer, Esq.,  
 Department of Transport.

*LS*

YD

*cc JU*



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

My ref: SH/PSO/31616/82

Your ref:

*7. April*

*Lee Nicholas*

*✓ MF*

LOCAL GOVERNMENT FINANCE (No 2) BILL -  
WATER AUDIT

Thank you for your letter of 25 March. We were happy to agree to the two changes you proposed, and our amendments, incorporating these changes, were tabled and passed at Report stage.

/ I am sending copies as before.

*Giles Shaw*

GILES SHAW

The Hon Nicholas Ridley MP



10 APR 1982



~~XXXXXXXXXXXXXXXXXXXX~~

**CONFIDENTIAL** Prime Minister

(1)

JV

Mr Howell seeks your agreement to circulating an E paper proposing new LT legislation legitimising a "reasonable" level of subsidy, i.e. at the same level in 1983-84 as in 1982-83; and an early oral statement.

PRIME MINISTER

THE GLC AND LONDON TRANSPORT

Agree to his circulating the paper, after discussion with Treasury and ~~perhaps~~ Environment?

The extremists at the GLC remain in a position to cause the Government more difficulty and political embarrassment.

Despite the Attorney General's firm opinion on the legality of the 1982 London Transport budget they are seeking every opportunity to push up fares again, allow wages and other costs to rise, stir up industrial action and cut and close services, blaming Government or the Law Lords ruling in every case. No political opportunity to damage us will be lost. My information is that the next move will come very soon and the GLC's newspaper advertisement campaign is clearly building up to April 23rd when the Douglas Jay Bill is scheduled for 2nd Reading (which it will not get).

I'm sure we were right to act swiftly in the limited area of concessionary fares in London - but not to yield to pressure for emergency legislation to "put the clock back" and allow Mr Livingstone to go back to his low fare/high rates policy.

A reasonable course would now have been to wait for future GLC plans, study them and see what changes in the law are needed and bring them forward in the Autumn.

But we are not dealing with reasonable people - we are dealing with political opponents who will put political opportunities first and transport considerations a poor second. I have therefore concluded we must now act.

with a view to a discussion

Yes

at E m say, Thursday April 22?

MLC 6/4

**CONFIDENTIAL**

CONFIDENTIAL

By 'act' I mean set out clearly now what we intend for London's transport system, the framework in which the GLC ought to work and our intention of changing the law next session. QL have provisionally agreed a slot as a contingency measure in next session's programme for a Transport Bill covering this area.

Mr Livingstone could still even then spend the summer trying to cause further disruption. But if he does he will no longer be able to blame this Government for future uncertainty. All he will do is force us into more fundamental measures - e.g. taking London Transport from the GLC and setting up a new passenger transport authority - which would, if we came to this, be very popular in the Party and, I suspect, generally.

This may come. Meanwhile I urge that we move very fast to keep the political initiative on the lines in the attached paper which I would like to put to 'E' Committee colleagues.

I am copying this minute to Cecil Parkinson and to Sir Robert Armstrong.

JH

DAVID HOWELL

6 April 1982

CONFIDENTIAL

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DRAFT E PAPER THE GLC AND LONDON TRANSPORT

1. The GLC failed in their attempt to persuade farepayers' to disrupt the operation of London Transport when the new fares came in on March 21. But their publicity campaign is continuing unabated, and has undoubtedly created a widespread public feeling that the Government is somehow to blame for the high fares - my Department has so far received over 3,000 letters asking us to take action.
  
2. The GLC are now deliberately building up pressure on the unions and the public - by refusing to approve details, on the grounds that it has implications for next year, of the LT capital budget; by telling LT that they must prepare a budget for next year on the assumption that they will have to "break even" without revenue support, which will involve large cuts in services and manpower, some of which will be required in the current year; and by threatening further major fare increases, possibly very soon and certainly early next year. So we remain faced with a difficult handling situation, full of political dangers which extend in my view well beyond the 'inner' London scene, although our London Parliamentary and local government supporters are obviously to the fore in pressing on me their anxieties and the need to regain the initiative.
  
3. The GLC are also, I know, encouraging the unions to press high pay claims, and are backing threatened strike action to achieve these as well as a standstill on all the service cuts proposed by the Executive. This makes an impossible situation for London Transport management. Because of the link between underground and railway workers' pay, the handling complications affect British Rail as well. Last, but certainly not least, the appointment of a successor to Sir Peter Masefield as Chairman is now imminent, and we know that the GLC are considering the appointment of a highly political figure - for example Councillor Waugh, architect of South Yorkshire's low fares policy, is on the short list.

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4. We have therefore only a very brief time in which to take a firm grasp of the situation. The two points on which in my view we must now speak out loud and clear are:-

i. we must announce a firm intention to clarify the law about subsidy, so that the public will know that reasonable subsidy will be legitimate, and the GLC will no longer be able to create mayhem - and take political credit to themselves - on the grounds that the law requires London Transport to cut back on their services so that they can operate on a break even basis; and

ii. we must refute the allegation that starvation of resources by the Government is why London Transport now has the highest fares in Europe, GLC rates are high, the London Transport system is run down and the capital's whole traffic and transport system clogging up.

5. In regaining the initiative we must state clearly what we intend to do next session on the legislative issue and what level of resources we think right for London's transport system for future years. It is tactically essential that I should be in a position to make a statement to the House on these two matters as soon as it returns after the Easter recess. If I leave it any longer we shall be straight into one or more of a number of possible difficult situations, such as trouble with the unions, appointment by the GLC of a Chairman wholly unsuitable in our eyes, insistence that LT impose deliberately provocative cuts and dire warnings about further fare increases. We could also be faced with an outright refusal by Mr Livingstone to do what I have told him is necessary - that is to prepare a proper Transport Plan this summer that reflects a sensible amount and deployment of public resources.

Clarification of the law

6. The opinion by the Attorney General was crucial in carrying matters forward as far as we have this year. But the GLC are now concentrating on the prospects for LT in 1983. Quite apart



from the fact that the legitimacy of any given level of subsidy is genuinely in question, we cannot go on issuing further legal opinions simply to counter each propaganda weapon used by the GLC. We must announce that we propose to introduce legislation early in the new session which will:

- a. clearly establish that the provision of a reasonable level of subsidy for London Transport is legitimate (i.e. in line with what has been paid in recent years);
- b. allow London Transport to prepare their budget in the expectation of receipt of that subsidy; and
- c. firmly prevent a return to extravagant subsidy policies.

7. The last element is of course the crucial one to fulfil our pledge that we shall not turn the clock back and leave ratepayers at the mercy of the GLC. I would seek in my statement to avoid giving any details of how we propose to control subsidy. Indeed, I think I should make it clear that I would be happy to discuss any suggestions that the GLC and other interested bodies may have. I want to avoid details, because it would be a mistake to give the GLC more warning than is necessary. I am sure their immediate reaction will be to think of ways of criticising our proposals, and indeed trying to find a way round.

8. Following the remit given to me on 14 January (E(82)1st meeting) a group of officials in Misc 70 is reviewing all the options urgently, and I will put detailed proposals to my colleagues when their report is available.

9. I propose at this stage to limit my statement to legislation for London. This would confine it to the immediate crisis, and would avoid stirring up the Metropolitan Counties, who seem to be lying low in the hope that matters will be left unchanged for them. When Misc 70 reports, and when we have the other reports

affecting local authority powers and structures we may need to consider whether any legislation should cover the Metropolitan Counties as well. But I see no need to say anything about areas other than London at this stage. Likewise when we have the officials' report we shall be able to spell out how a greater degree of competition and private sector involvement can be introduced.

Resources

10. The GLC are claiming that the Government intends to remove all subsidy from London Transport. We have to make it clear that this is wholly untrue. And I need to try to ensure that the Council will prepare a realistic plan this summer as a basis for my allocation of transport supplementary grant in the autumn. I can only do this if I give, now, a firm and clear indication of the level of resources for 1983/84 which should be taken as a guideline in preparing a plan for transport in London. I propose that I should say that this would be at roughly the same level as the resources being made available by the Government through TSG in the current year for both current and capital purposes. We will of course wish later in the year to reach specific decisions on resources for local transport nationally. But I am convinced that my statement must include some indication of the level of resources likely to be available if I am to remove from the GLC all excuse for attempting to alarm the public and the unions by talk of unnecessary cuts or unnecessary fare increases.

Other Measures

11. My statement should also include brief references to a number of other measures. I shall give a central place to the need to increase productivity. I must also emphasize the importance of worthwhile capital investment, particularly in cost-saving equipment rather than general revenue support. The installation of automatic ticketing on the underground in order to cut significant numbers of staff is a good example where I would like to press ahead. This seems to me a good example of the sort of investment which we should be able to finance in the private sector.

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12. I would also want to refer to a comprehensive set of measures to tackle London's traffic problems and the need for more vigorous measures by the GLC in their area as well. I intend to build on the provisions already in my Transport Bill for fixed penalties. I am already in touch with Willie Whitelaw about the best way to tackle the large scale failure to enforce existing parking restrictions.

13. I will need to make a very early statement of our intention - on or about April 19. - if I am to capture the initiative and provide a framework within which the GLC can get ahead and start to manage their responsibilities. This will not of course in any way be a concession to GLC and opposition demands for emergency legislation to undo the effects of the House of Lords' judgement. My announcement of the continuation of TSG later this week will stress that I shall lay specific requirements on local authorities when they prepare transport plans not only for London but for the Metropolitan Counties generally. I can then spell out in more detail in a letter to Mr Livingstone, immediately after my statement, what I expect of him in the case of London, and I shall give him a clear and unmistakable financial benchmark against which he should plan.

14. If in spite of my statement the GLC continue to run amok on their transport policies and with the management of London Transport, we might still have to move quickly to take over their powers. I have already said as much. But I believe that the approach I have outlined above will avoid the need for this - at least until we have had the results of all the studies currently in hand and can take a comprehensive view of the right way forward in respect of local authority responsibilities in London and the conurbations.

#### Conclusion

15. I seek colleagues agreement to make an oral statement to the House as soon as possible after the Easter recess on the lines indicated in paragraphs 6, 10, 11 and 12. I will clear its terms in correspondence.

CONFIDENTIAL





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RESTRICTED



*Local Govt*  
*Lee JV*  
Prime Minister (2)

Treasury Chambers, Parliament Street, SW1P 3AG

MUS 5/4

Rt Hon Tom King Esq MP  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

5 April 1982

*Dear Tom*

*ms*

LOCAL GOVERNMENT FINANCE (No2) BILL *with mcs*

Thank you for your letter of 2 April about the Barnett/du Cann amendment to the Local Government Finance (No 2) Bill.

I agree with you that you should try to persuade them to withdraw the amendment on the promise of a Government amendment in the Lords. I agree also with the line you propose to take. I am sure, it would be helpful if you could leave as vague as possible the principle which the Government is prepared to accept. For example, the C&AG having the right "to examine studies done by the Commission" could mean that the C&AG examines and reports on the Commission's final document, or alternatively that he has access to the Commission's working papers, which may reveal quite a lot of detail about local authorities. I think that the value of avoiding a vote now on the amendment is such that if necessary you should concede access to the Commission's working papers, but if you can avoid doing so so much the better.

Your two arguments, first that the C&AG would have access to local authority papers, and second that the amendment would create a non-sense with two similar reports issuing at the same time, strike at the main weaknesses <sup>of</sup> the amendment. You may want to stress the first in particular if, as I hope, local authority interests have been alerted, and stimulated to make their views known by the time you meet Joel Barnett and Edward du Cann. It seems to me most important that we do not concede C&AG access to the papers of individual authorities.

If you find it necessary to modify the position in order to gain agreement from Joel Barnett and Edward du Cann to withdrawing the amendment, you might like to consider dropping the requirement for the Commission to consult the appropriate Minister. I understand why you want to include this, but I wonder how effective it would be, and the proposal is bound to be viewed with the deepest suspicion by our opponents!

I am copying this letter to members of the Cabinet and Sir Robert  
Armstrong.

*Yours  
Nicolas*

NICHOLAS RIDLEY



CONFIDENTIAL

cf 3V  
Prime Minister (2)

MS 5/4

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Tom King MP  
 Minister for Local Government  
 and Environmental Services  
 Department of the Environment  
 2 Marsham Street  
 LONDON  
 SW1P 3EB

5 April 1982

See Tom

## LOCAL GOVERNMENT FINANCE (NO 2) BILL

I very much agree with what Nicholas Ridley said in his letter of 31 March to you about the Barnett/du Cann amendment to your Bill, and I hope that you will resist it successfully. If enacted, it could mean that I (or perhaps you!) would have to answer to Parliament for the actions of individual local education authorities without adequate knowledge of those actions or responsibility for them. This would be centralism with a vengeance. I am sure that it would be right for you to play this card to its full value. Even with the limitation suggested by Nicholas at the end of his letter, we should be in very difficult territory.

2. I am sending copies of this letter to the members of the Cabinet, Nicholas Ridley and Sir Robert Armstrong.

Evan,

Kear.

CONFIDENTIAL



cf Press

2.

Prime Minister  
To be aware, and to note especially comments in the following paras:  
64, 65 (primary)  
68, 69 (secondary)  
72, 73, 74 (General)  
We will get briefing for questions on Tuesday

DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222  
FROM THE SECRETARY OF STATE

M A Pattison Esq  
Private Secretary  
10 Downing Street  
London  
SW1

2 April 1982 MAF

Dear Mike,

REPORT BY HMI ON THE EFFECTS OF LOCAL AUTHORITY EXPENDITURE

I am writing to let you know that, with my Secretary of State's agreement, a report by HMI will be published on 5 April setting out the effects of local authority expenditure policies in 1981 on the education service in England. Publication of the report will be announced by means of a Written Answer on 5 April and copies will be placed in the Library of the House.

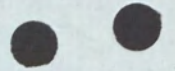
I attach a copy of the report for the Prime Minister's information and would draw particular attention to the sections containing commentary (paragraphs 57-74 on schools and 106-110 on higher and further education). I also attach a copy of the short statement which my Secretary of State will be making by way of a Press Notice.

In view of the wide interest there is likely to be in the report, I am sending copies of this letter and enclosures to the Private Secretaries to members of the Cabinet, the Paymaster General and the Secretary to the Cabinet.

Yours ever  
Imogen Wilde

MRS I WILDE  
Private Secretary

2000



DEPARTMENT OF SOCIAL SERVICES  
STATE OF NEW YORK  
OFFICE OF CHILDREN AND FAMILIES

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7 APR 1982

**REPORT BY HER MAJESTY'S INSPECTORS  
ON THE EFFECTS OF LOCAL AUTHORITY EXPENDITURE  
POLICIES ON THE EDUCATION SERVICE IN ENGLAND – 1981**

	Page
Introduction	1
Schools: analysis	2
Commentary	10
Higher and Further Education: analysis	13
Commentary	18

March 1982



# REPORT BY HMI ON THE EFFECTS OF LOCAL AUTHORITY EXPENDITURE POLICIES ON THE EDUCATION SERVICE IN ENGLAND 1981

## INTRODUCTION

1. This is the fifth in a series of short annual reports by HMI as presented to the Expenditure Steering Group (Education). It is based upon returns on all LEAs in England, made in November 1981 by district inspectors, together with observations and assessments made during the autumn term 1981 by HMI in the course of routine and programmed visits to educational institutions.

2. The returns made by district inspectors are based on information currently available to them and their teams and allow some comparisons to be made with the position reported in autumn 1980.

3. The returns on schools and colleges, though they cannot be taken as statistically representative nationally or for any one LEA, constitute a cross-section of inspection visits and are sufficiently numerous to provide some indication of tendencies and trends. They do not allow direct comparison with the situation of individual institutions reported last year. Evidence from direct observation has been analysed in respect of programmed inspections and a much larger number of individual HMI visits. In the case of secondary schools which did not have a full inspection and in the case of colleges, individual returns reflect the specialised focus of the visit and are unlikely to provide information on all aspects of provision considered in this report. The descriptions of observed effects of expenditure policies are therefore no more than illustrative both in terms of geographical distribution and coverage of the curriculum. 2126 returns have been received in respect of 1761 schools and 629 returns relating to 363 colleges.

4. Analysis of the returns has been undertaken in three separate stages. The later data have reinforced the main conclusions from the first and it is reasonable to conclude that further inspections would produce broadly similar results.

5. As in previous years some of the issues highlighted in this report do not relate to LEA expenditure policies alone. For example the effects of falling school rolls are increasing and, in the context of overall real reductions in expenditure, raise particularly difficult problems of diseconomies of scale.

6. HMIs' judgments in the returns on LEAs and in those on individual schools and colleges are on standards of educational provision as they exist. These result from the combined effects of previous levels of provision, financial policies, inflation, falling rolls and, in the case of HFE, from a shift in the balance of course demand. It is not always possible to disentangle these. The district inspectors' returns on LEAs allow the identification of changes in direction and magnitude of provision since 1980/81. The returns on individual school and college visits do not; in these HMI are reporting on the standard of available educational provision and assessing its effect on the quality of work observed. They are judging whether what they observe is good enough, not whether levels of provision and quality of education have changed since last year as a result of financial policies. Within the continuum from "very good" to "very poor", the term "satisfactory" is used to denote a level, range and balance of resources that are, in HMIs' judgement, at least adequate in educational terms for pupils to be taught according to their ages, abilities and aptitudes.

## SCHOOLS: ANALYSIS

7. Last year's report drew attention to the variation among LEAs in levels of observed provision that already existed and to evidence that the variations not only persisted but that the gaps seemed to be widening. This year's returns on the schools sector suggest the trend has continued.

8. There has been a reduction in levels of provision in 71 LEAs which affected from one to most of the items\* for which returns were made, the overall reductions being described as slight in 55 and moderate to considerable in 16. Of the 16 four were among the small group of LEAs whose levels of provision gave HMI most cause for concern in autumn 1980. Eleven LEAs that were judged to have had either a reasonable or better level of provision in autumn 1980 have improved it, increasing, in four cases, expenditure on teaching staff, non-teaching staff, in-service training, books, materials and equipment and, in seven cases, all these except teaching staff. Twelve other LEAs that were judged to have had either a reasonable or poor level of provision in autumn 1980 have reduced it, in six cases in respect of all the above items and in six in all except teaching staff.

9. Of the 11 LEAs that improved provision from a previously reasonable or better level one was a London borough, four were metropolitan districts and six were shire county LEAs. Of the 12 where provision has worsened from a previously reasonable or poor level one was a London borough, four were metropolitan districts and seven were shire counties. This illustrates the widening gap in levels of provision among LEAs, the trend being most marked among shire counties, and least marked among the London boroughs.

### Teaching Staff

10. The number of teachers in schools in England contracted by more than 10,000 between September 1980 and September 1981 while the number of pupils fell by nearly 200,000. This substantial reduction in the number of teachers employed has been achieved mainly by natural wastage and early retirement. Authorities have continued their efforts to avoid redundancies but are finding it increasingly difficult to do so. Exceptionally, redundancies have been declared. Redeployment of teachers is usually within the primary or secondary phase although there is some movement from primary to secondary schools in about a quarter of the LEAs.

11. In the majority of LEAs the stated overall ratio of pupils to teachers in both primary and secondary schools has not changed by more than 0.5 in either direction. Where change of this magnitude has occurred it has, on balance, been unfavourable, more so in the case of secondary than primary schools. Of the 23 LEAs whose changes in notional PTRs for primary schools have been greater than 0.5, 13 have worsened them within the range 0.6 to 1.3. Of these, 5 LEAs had less favourable ratios than the median for all LEAs last year. Ten authorities have improved notional primary ratios within the range 0.6 to 1.3. Of these, seven had more favourable ratios than the median last year. Eight LEAs have worsened notional overall secondary PTRs within the range 0.6\*\* to 1.0. Of these one had a less favourable ratio than the median last year. Two authorities improved ratios by around 0.6. One had a more and

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\* Teaching staff, non-teaching staff, in-service training, induction, advisory service, premises, per capita allowances for books, materials and equipment.

\*\* As an example of the effect of PTR changes of this order a secondary school with 1000 pupils on roll has a staff of 60.6 when the PTR is 16.5 : 1. A change of the ratio to 17 : 1 would result in a reduction to 58.8 or the loss of almost 60 teaching periods; a change to 16 : 1 would result in an increase in the staffing establishment to 62.5 and a gain of a similar number of teaching periods.

one a less favourable ratio than the median last year. The median LEA pupil : teacher ratio for secondary schools (including sixth-forms and middle deemed secondary schools) in January 1981 was 16.6 : 1 and the recorded range in individual LEAs 14.3 : 1 to 20.2 : 1. These figures do not demonstrate either the differentiation between the compulsory years and the sixth-form or the variation in the range of PTRs that exists in the individual schools of an authority. HMIs' returns do not, in all cases, include PTRs. The evidence available records a range of PTRs from 15.0 to 19.5 : 1 for the compulsory secondary years (11 – 16) and 8.6 to 14.0 : 1 for the sixth-form.

12. District inspectors' returns show that while the current level of staffing of primary schools has caused no drastic overall change in their internal organisation, there has been an increase in the number of mixed-aged classes in nearly a third of the LEAs and a reduction in the number of small teaching groups for remedial work in just over a tenth.

13. Observations were recorded on the provision of teaching staff in some 970 primary schools. The observed provision, in numbers and range of expertise, was judged satisfactory or better in 790 – some five-sixths. This is about the same proportion as last year. In the remaining schools, and particularly in small schools, there is evidence that loss of staff through falling rolls, the stricter application of staffing formulae, worsened pupil : teacher ratios or a combination of these is leading to inflexibility in organisation. This makes it difficult at best, impossible at worst, to provide remedial teaching or to respond to pupils with a range of special learning needs, or to provide specialist help for parts of the curriculum requiring particular subject knowledge. While there is little evidence that work in early skills of language and mathematics is being restricted, there is ample evidence of reduction in the amount of remedial work. Music and physical education also show reductions.

14. In over one-third of the authorities, and especially in the shire counties, district inspectors report changes in the curriculum for secondary school pupils in the form of reduction in the range of courses offered. These changes affected pupils of all abilities to some extent but particularly the less able. Examples include the cutting out of such courses as child care and motor vehicle technology from the range available in the fourth and fifth years\* and less provision for remedial work, physical education, instrumental music and sixth-form general studies. There were also reports that pre-16 teaching is increasingly didactic with less practical work and fewer out-of-school activities. District inspectors report an increasing incidence of subjects being taught by teachers who do not hold appropriate specialist qualifications. In small secondary schools in 11 LEAs staffing levels and range of qualifications were judged to be having an adverse effect.

15. District inspectors report that in 12 LEAs sixth-form courses have been cut back, particularly, but not only, those designed for the less academic pupils. In sixth-forms in four LEAs they report that the staffing levels and range of qualifications were also judged to be having an adverse effect.

16. The reports of 932 individual HMI visits to secondary schools and sixth-form colleges suggest that, within the range of subjects inspected, about a fifth of schools and colleges suffered from too few appropriately qualified staff. Examples were quoted in respect of virtually all areas of the curriculum but most frequently referred to craft, design and technology, history, art and design and courses for the least able pupils. These reports confirmed

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\* See also paragraph 82 for reference to linked courses in FE, more often decreased than increased.

those of district inspectors that secondary teachers continue to be asked to teach subjects which are not their main specialisms in most areas of the curriculum including English, mathematics, modern languages and science. There were a few reports of subjects disappearing altogether from the curriculum, available to fewer pupils or having reduced allocations of time. Examples included craft, design and technology (11 cases) and languages (10 cases) with the elimination of second modern language courses mentioned in four reports.

17. Several reports refer to difficulties in mounting or sustaining an appropriate range of courses in the sixth-form, particularly for pupils not taking GCE A levels.

18. There were examples from secondary schools of various attempts to sustain their curricula, among which were co-operation between institutions, for example, to provide second languages, internal reorganisation such as mixed-age groups, adopting different teaching methods to maximise the use of materials and making extra demands upon the teachers, including, in some cases, lunch-time classes.

### **In-service Training**

19. Total funds for in-service training have remained unchanged from last year's level, in real terms, in 50 LEAs. They have been increased in 21 and reduced in 25. In just over half of the LEAs the range of subject and phase coverage was judged at least satisfactory.

20. Of the 50 LEAs where funding has remained unchanged, 25 were judged not to make a satisfactory range of provision. (Six of these LEAs reduced funding last year and two increased it.) Of the 21 LEAs that increased funding, eight were judged not to make a satisfactory range of provision (six of these LEAs increased and seven reduced funding last year), and of the 25 who decreased funding (11 of whom decreased it last year), 10 were judged not to make a satisfactory range of provision.

21. Within the range of subject and phase in-service training that was provided, the amount was considered at least satisfactory in 64 LEAs.

22. The sums allocated for financial assistance to teachers to attend outside courses and conferences have remained unchanged in real terms in 65 authorities and have increased in 10, although these increases have, in some cases, been improvements on a previously low level.

23. In 23 authorities, teachers' centre provision has been reduced, in 10 cases by a reduced provision of courses and a failure to replace warden or assistant leader posts, and in 13 others, by closure of some of the centres entirely. In two cases only one teacher centre is left, and in another only three out of the previous eight remain.

24. In around 260 of the 863 primary schools visited and 330 of the 816 secondary schools visited, opportunities for teachers to participate in in-service training were judged unsatisfactory or poor, while in only half of the 59 special schools were arrangements for teachers considered satisfactory. In authorities where the coverage has been reduced, there was no local provision at all in some secondary subject areas, for example, in modern languages and history.

## Induction

25. Since last year a further nine LEAs have abandoned established or deferred proposed induction schemes. This is due in some measure to a reduction in the number of probationary teachers employed. Although 53 LEAs have retained some centrally planned arrangements for induction and six have increased such provision, the main responsibility rested in most cases with the school.

26. Returns on the induction of probationers were made from visits to 138 primary and 416 secondary schools. For both phases the proportion of satisfactory or better assessments was rather more than three-fifths. Some probationers' difficulties were compounded by temporary contracts and others were judged to be teaching too wide a range of subjects.

## Advisory Services

27. The total number of advisers in all LEAs is about 20 fewer than last year's total of approximately 1900. The number increased in 16 authorities and fell in 31 and district inspectors judged the coverage by advisers of subjects or phases to be satisfactory or better in only 38 authorities. Increases occurred in four London boroughs and two metropolitan districts with less than 15 advisers in 1980 and in eight shire counties and two London boroughs with more than fifteen last year.\*

28. As in 1980, the reductions affected mainly the metropolitan districts (15 cases) and the shire counties (12) rather than the London boroughs. In 14 authorities, nine of which were metropolitan districts, these losses occurred where the strength of the advisory team was already less than 15. Again, in 15 authorities the reductions followed losses experienced in 1980/81. The number of advisers was judged to be satisfactory or better in 45 LEAs and these were evenly divided between those that had increased and those that had decreased their numbers.

29. When commenting on deficiencies, district inspectors drew attention to insufficient coverage in the humanities (principally history and geography) in 31 authorities and in English, mathematics, multi-cultural education, religious education and science in at least 14 instances each. Some of these deficiencies have been of long standing. Poor coverage in the primary phase and special education was mentioned in 18 and 17 authorities respectively.

30. Most reports tell of an increasing proportion of advisers' time being spent on administrative work, particularly that concerned with the redeployment of teachers.

## Non-teaching Staff

31. Overall, there is a continuing contraction of all categories of non-teaching staff although 13 LEAs have made small increases in individual categories. The provision of classroom ancillaries has decreased in 44 LEAs; librarians in 17 LEAs; technical assistants in 31 LEAs; clerical staff in 48 LEAs and language assistants in 16 LEAs, nine of which have made substantial reductions in this last category of support staff. Other staff (cleaners, gardeners, etc)

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\* For the purposes of this paper HMI is using, in line with the Association of Education Committees' evidence to the 1967-68 Select Committee Enquiry into HM Inspectorate, a basic minimum of 15 advisers per LEA to reflect the range of subjects, aspects and phases, with additional numbers according to size of authority.

have been cut in 20 authorities. Overall, the provision of non-teaching staff is reported by district inspectors to be entirely satisfactory in only 37 LEAs, compared with the two-thirds judged tolerable or better last year. There are reports from 10 authorities where reductions are secured as and when staff leave, thus causing unplanned effects in individual schools.

32. From the reports of 845 individual HMI visits to primary schools and 644 to secondary schools, the provision of non-teaching staff was assessed as satisfactory or better in nearly three-quarters of primary and nearly two-thirds of secondary schools and sixth-form colleges. Although primary schools, normally employing fewer non-teaching staff, presented a more favourable picture than secondary schools and sixth-form colleges, there were reports of difficulties arising from the reduction of secretarial help in small primary schools in nearly 50 returns and of ancillary assistance for teachers of very young children in over fifty.

33. From observations by subject specialists in secondary schools some difficulties were reported in providing adequate technical assistance in craft, design and technology in three-quarters of the observations in that subject, modern languages in one-half and science in one-fifth. In some schools less use is being made of relevant audio-visual equipment because of insufficient technical support.

#### **Per-capita Allowances**

34. Nineteen authorities, 11 of them shire counties, have increased allowances, in real terms, from last year's levels while in 36 the current allowances represent a reduction. The remainder have broadly maintained last year's levels. However 14 authorities, including seven where capitation has been reduced and five where it is unchanged, have increased the range and nature of the items falling within per-capita expenditure and, in some, capitation now has to cover such items as postage, telephone charges, cleaning materials, visits, field studies, furniture and repairs and the maintenance of library book stocks.

35. District inspectors report that in one-tenth of LEAs, schools are still able to draw upon reserves of materials, particularly stationery, and are no doubt better off in some cases because of reduced numbers of pupils. The effects of changes in per capita allowances are assessed as moderate or considerable in the primary schools of 24 LEAs and, in the 11-16 stage of secondary schools, in 27 authorities. Reports from five shire counties refer to the added difficulties occasioned by mid-year cuts or the withholding of the previously agreed levels of per-capita allowances.

#### **Books**

36. District inspectors reported that the library and text-book stock is satisfactory or better in just under one-half of the LEAs. This compares with just over half last year. The schools of the London boroughs as a group are significantly better provided with books than either the metropolitan districts or shire counties. Twenty-six returns from district inspectors express concern about the level of provision in school libraries.

37. Individual HMI visits to schools produced some 1900 returns on book stocks, and these returns were evenly divided between primary and secondary. In the primary schools, almost three-quarters of the reports indicate that book provision is satisfactory or better, while the equivalent proportion in the subjects seen in secondary schools is almost two-thirds.

38. In 240 primary school returns recording less than satisfactory provision, an acute shortage of books was referred to in 15 instances and in a similar number reference was made to book stocks which were out-dated and in poor condition. Individual comments included most curriculum areas and reference to text-books as well as works of reference and fiction.

39. Among the 300 secondary school reports of less than satisfactory book provision, an acute shortage, particularly of library stocks, was mentioned in 33 returns. In addition reference was made to out-dated books in use in most subjects including English and mathematics. In a few schools and subjects appropriate text-books were made available to only a limited number of pupils, usually those on examination courses, and there were reports of unsuitable sharing of text-books and of homework opportunities being restricted by the unavailability of appropriate books, including a small number relating to sixth-form courses.

40. Of the 58 returns on special schools, 37 indicated satisfactory or better provision while 21 report book stocks to be less than satisfactory, eight of these being described as poor.

### **Materials and Equipment**

41. As last year, the provision of basic consumable materials appears to have first claim on per capita allowances and district inspectors report that this is satisfactory or better in two-thirds of the LEAs, although this figure suggests some deterioration since the previous report — when the position was described as satisfactory in nine-tenths of LEAs. The provision and maintenance of more durable equipment appear to have changed little since last year with the situation described as satisfactory in about two-thirds of LEAs. Some apparent deficiencies may be the result of schools' curricular policies and priorities rather than public expenditure policies. The purchasing policies of both LEAs and schools are an important factor, the use of relatively cheap sources of local supply, resourcefulness and economy in the use of materials being crucial.

42. Just under one-fifth of observations in primary schools referred to individual shortages of equipment and examples included basic equipment for physical education, for investigational science and for instrumental music as well as audio-visual apparatus.

43. Nearly one-quarter of returns from secondary schools and sixth-form colleges noted specific shortages of equipment, most frequently in science, craft, design and technology and art. Audio-visual apparatus and other electronic equipment also featured in some reports, although in some other schools these were observed to be available but under-used. A few schools and colleges faced difficulty in meeting the costs of maintenance or replacement of worn-out or obsolete equipment, and examples are quoted in respect of machinery and equipment for craft, design and technology, science and physical education.

### **School Premises**

44. Thirty-seven LEAs have reduced their expenditure in real terms for maintenance, repair and re-decoration of premises as compared with last year. In 23 of these, district inspectors record that the present state of repair and decoration of schools is less than satisfactory. In 19 LEAs, reduced expenditure follows a cut in the previous year. Of the 34 LEAs where there was no change in the level of expenditure, the building stock in 23 was judged to be in a less than satisfactory state of repair and in 18 of these authorities a reduction had been made in the previous year. Twenty-five LEAs increased expenditure on premises, 11 of them following

a reduction last year, while in eight authorities a higher level of expenditure followed increases in 1980/81. District inspectors reported maintenance, repair and re-decoration to be less than satisfactory in 17 of the LEAs which were increasing their expenditure. Less than a quarter of all LEAs are judged to have a satisfactory programme of maintenance.

45. Returns received from 1961 individual HMI observations record that the state of maintenance and decoration was satisfactory in about three-quarters of the primary and about two-thirds of the secondary schools and sixth-form colleges visited. Other comments mention the educationally unsuitable environment provided by shabby and inadequately maintained buildings. Older school buildings are generating problems, but the trend identified in last year's report of difficulties with newer buildings is reinforced by occasional examples of rotting external joinery and leaking flat roofs. Especially in some of the shire counties, funds raised by parents are being used to improve the quality of the school premises.

46. Overall, the stock of school premises is continuing to deteriorate, and failure to maintain the fabric of some buildings has already presented at least two LEAs with heavy repair and renovation costs. Six other LEA reports refer to the serious consequences of long-term neglect of maintenance, and a further two record the closure of all or part of school premises as a result of structural deterioration.

#### **Surplus Accommodation**

47. In the three-quarters of the authorities where there is a discernible policy on surplus accommodation, most are concentrating on removing or re-locating mobile temporary accommodation and, where possible, selling surplus permanent accommodation and sites. Eighteen authorities are reported as making spare accommodation available to other local government departments, to the community and, particularly, for use by FE including YOP courses. The high cost of moving temporary buildings was frequently mentioned as an inhibiting factor.

48. About a tenth of the returns made on visits to schools referred specifically to accommodation as "surplus" and nearly nine-tenths of these related to primary schools. In most cases schools had already taken steps to make use of spare rooms, for example, for music, PE, library, pottery or as a parents' room. In consequence much of the "surplus" was not so regarded by the schools.

#### **Parental Contributions and Other Sources of Funding**

49. In virtually all LEAs parents are contributing to schools in cash, kind or labour, to an increasing extent. In rather more than half of the LEAs, district inspectors reported that parents and other individuals are contributing funds to a moderate or considerable extent for the purchase of such basic items as books and materials. Support on a similar scale for the provision of equipment was reported in over three-quarters of the authorities. About two-fifths of LEAs are said to adopt "neutral" policies on whether monies raised in this way should be spent on such basic items, the decisions being left, in the main, to the heads. However, about a fifth of authorities, mostly metropolitan districts, regard such provision as being their responsibility alone.

50. Returns made by HMI in the course of visiting schools confirm that in many parts of the country, and especially in the shire counties, school funds are enlarged, often substantially,



through money raising events. In small primary and special schools, this income, in some cases, exceeds the capitation allowance from the LEA. In some instances, parents contribute regular weekly, termly or annual payments. The reports include such examples of fund raising as £12.50 per head per annum in a small rural school, £9000 pa in a large London primary school, £15000 pa in a metropolitan grammar school and £1000 pa in a shire primary school of 121 pupils.

51. This income is still used mainly to buy relatively expensive items of equipment over and above the normal provision for the school, but there were 50 reports from primary and secondary schools and sixth-form colleges of such funds being used for the purchase of books, and 33 references to the purchase of equipment directly related to curricular activities, some of which would normally have been a charge upon LEA funds. Examples included the acquisition of microscopes, weather instruments, sewing machines, welding equipment and musical instruments. Other uses mentioned include support for educational visits, field-work, transport to games, redecoration of school premises and, exceptionally, payment for extra hours of non-teaching staff. Parents have also contributed towards the costs of such improvements as the construction, maintenance and up-grading of swimming pools, the extension of playing fields and laying of hard-courts, the erection of covered ways, cycle-stands, changing accommodation, the adaptation of premises for libraries and rooms for music and careers education and improved facilities for storage and display.

52. Twenty-five reports referred to schools, both primary and secondary, receiving income from trust funds and covenants. Examples ranged from £120 pa in a small primary school to £3500 spent on library books in a sixth-form college. Occasionally, schools are in receipt of small grants from parish councils, community groups and voluntary associations. In some areas contacts with local industry enable both primary and secondary schools to acquire supplies of materials such as wood, plastic, card, paper and fabric.

53. Although many parents in the more affluent areas appear able and willing to respond to requests from schools, over 40 HMI observations refer to schools in areas of unemployment and other deprivation where headteachers feel unable to seek financial help or where fund-raising events produce much smaller sums.

#### **Changes in Other Aspects of Provision**

54. The returns from district inspectors show little change from last year in LEA policies for the admission of pupils under the age of five. Five authorities have increased admissions to a moderate or considerable extent as primary rolls fall, and one authority has cut back on entry. In two of the LEAs admitting more under-fives and in three others there has also been an increase in the provision of nursery schools and classes, and in one, the appointment of a pre-school advisory teacher. One authority has reduced nursery provision.

55. In six LEAs, improvements have been made in the provision for children with special educational needs in ordinary schools, including the establishment of advisory posts and the opening of special units. Otherwise there is little change in the provision for special educational needs.

#### **Public Examinations**

56. The examination policies of almost exactly half of the LEAs impose some degree of restriction on entries for which fees are paid by the authority. These variously relate to the

resitting of examinations, late-entry fees, CSE "conversions" to GCE O level, double entry to both CSE and GCE O level, and limitations on the total number of entries per candidate. None of these policies imposes undue restrictions upon the schools or candidates and there is no evidence that expenditure on public examinations has been reduced.

#### **COMMENTARY: Schools**

57. Schools set out upon the academic year 1981-2 with a shared set of imperatives: for example, to inform parents and others of their educational aims; to review their curriculum with reference to these aims and to "The School Curriculum"; to initiate their pupils into the micro age; to re-examine in a variety of contexts the fitting of education to individual need, including that identified as special; to cooperate in the development of criteria for examining at 16+; to serve an increased and diversified post-16 population; and to prepare all pupils better for the demands of adult life and work, not least by offering them opportunities for learning to develop their personal potential and, where possible, to give them a usable qualification.

58. Education law allows for local variation in translating these imperatives into effect. But pupils of comparable ability and aptitude have a right to equal access to the basic enabling programme of education. The majority of schools are still well found and the majority of pupils still adequately served but there are growing differences in access to education both for comparable pupils and for pupils with different needs. Both the academically able and the less academic, particularly the slow learners, are affected in some degree, the latter more obviously than the former and at every stage from the primary school to the sixth-form. The awareness of schools and LEAs of the limitations set to what they can offer generally evokes a determination to do everything possible, but it is also professionally undermining. So too is the uncertainty caused by protracted discussion of re-organisation and closures.

#### **Primary schools**

59. Further general restraints in spending and falling school rolls have, together, continued to affect primary schools in similar ways to those described in last year's report.

60. Teaching staff levels have broadly remained the same in relation to the number of pupils. As school rolls become smaller and staffing formulae continue to be rigidly applied, flexibility in the deployment of the reduced number of teachers has diminished and the number of mixed-age classes has increased. Where such classes are larger than about 25 in number the children's performance can suffer. Also, there will be fewer opportunities for those children who have learning difficulties, or are very able, to be taught for some of the time individually or in small groups and they are therefore unlikely to make the progress they should.

61. Increasingly when teachers leave, they are either not replaced or are replaced by teachers on short-term contracts or by redeployed teachers who may not fit the school's needs in terms of curricular cover or the age and ability range of pupils to be taught. With continuing tight staffing it is difficult for heads to arrange for experienced teachers, or those with specialist knowledge, to help and advise these and other teachers in their classrooms or for the release of staff for in-service training.

62. Another effect of the combination of economic restraint and falling rolls is the deflection of head teachers from their proper role as setters of standards and leaders in curricular and educational matters affecting their schools. This has come about because of reduced clerical assistance, which increases the administrative chores for the heads, and the increasing teaching load as schools become smaller to the point where heads have to take over, permanently, a class full-time.

63. Economies continue to impinge on swimming, field studies and instrumental music. For these activities and for the upkeep of the supply of books, materials and equipment of all kinds voluntary contributions from parents, both in money and in kind, have become increasingly important to many of the schools, though not all do, or can expect to, receive similar levels of support of this kind.

64. Given the variation in parental support among schools; the disparities which already exist in pupil : teacher ratios, and increasingly in levels of teaching resources, among LEAs; it is clear that educational provision for pupils with broadly similar needs has become less comparable across the country as a whole.

65. Unless the level and pattern of staffing and the provision of other resources for primary schools can be maintained in such a way that they allow broad coverage of the curriculum and both expertise and time for teachers to deal with the range of learning needs identified, it is unlikely that existing standards, particularly in numeracy and literacy, will be maintained or that it will be possible to achieve comparable educational standards in all primary schools. It is even less likely that they will be able to secure improvement or implement new policies.

### **Secondary schools**

66. Financial restraint similar to that set out in last year's report and falling rolls, which are now beginning seriously to affect many secondary schools, are adding to the cumulative effects of restraint in spending over the past few years. Widening differences in provision across the country for pupils who have similar needs and abilities are accentuated by widely differing levels of parental and other financial support. A sharp rise in parental contributions has, in many cases, enabled schools to maintain a wide range of activities within and outside the formal curriculum.

67. In general, LEAs have attempted to retain as favourable a staffing ratio as possible and pupil : teacher ratios have been maintained at about the same level as last year. There are, as always, wide differences in the notional ratios between LEAs and the actual ratios operating in similar schools within the same LEA: ratios of 1:17 or less favourable in the compulsory age range were recorded in 31 out of the 48 LEAs for which information was available in this form. In eight out of the same 48 LEAs, the 16-19 ratio was 1:13 or less favourable. Problems caused by mismatch between the qualifications and experience of teachers and their teaching commitments are increasing throughout the curriculum, and subjects such as English, history, mathematics, modern languages, science and craft, design and technology are not immune. Small schools, especially those with falling rolls, are particularly vulnerable in this respect.

68. Effects on the curriculum, of the kind noted last year, are again to be found in a considerable number of schools, for example:

- (a) the loss of individual subjects and opportunities, including craft design and technology, modern languages, general studies in the sixth-form, aspects of physical education and instrumental music. Subjects such as motor vehicle technology, child care, geology and photography have, in some schools, disappeared from the options in the fourth and fifth years. The curriculum of the less able throughout their secondary schooling continues to be constrained. Curtailment of remedial provision is fairly common;
- (b) restriction of the range of work and experience provided within certain subjects, eg practical work in science, residential fieldwork in biology and geography. Shortages of materials and equipment adversely affect subjects such as science, home economics and craft, design and technology. Shortages of text-books and deficiencies in school libraries affect particularly the setting of appropriate homework and may generally diminish the pupils' part in their own learning;
- (c) restriction of desirable developments in the curriculum, particularly the improvement of courses for non-academic pupils in years 4 and 5 and post-16, at a time when opportunities for linked courses with FE colleges are also being reduced (see paragraph 82).
- (d) more pupils are staying on in school to take courses other than A-level. Although many schools understand what they should provide, and there have been some successful ventures, many have not been able, given their existing commitments to pupils, to make enough and appropriate provision of courses for these students. LEAs have left largely undetermined the relationship of these and of GCE courses to comparable courses offered in FE colleges (see para 108).

69. Taken together, these characteristics add up to a serious threat to the maintenance of standards and to desirable improvements.

### General

70. With a few exceptions, schools have been standing up remarkably well but many are clearly under strain. Most authorities have maintained their pupil : teacher ratios around the 1980/81 levels but these decisions to protect teaching staff have led to a reduction in other types of expenditure which, in many cases, limits the effectiveness of the teachers employed. In only five LEAs were the levels of provision in the schools described as satisfactory or better under every one of the major resource headings (see footnote, p.2).

71. In general, viewed in isolation, the further reductions in provision are small, or affect a minority of authorities. However, it must be remembered that these same areas of provision bore the brunt of cuts in 1980/81. Thus the reductions in per-capita allowances noted in 36 authorities this year followed similar reductions noted last year in four-fifths of LEAs. The provision of books is satisfactory in fewer LEAs, there has been a further general contraction of non-teaching staff and two-fifths of LEAs have further reduced their building maintenance, repair and redecoration programmes. The standstill, or in some cases further reductions, in these areas of provision suggests that the conditions in which many teachers work are less tolerable than they were and the range of books, materials and equipment needed to support their teaching is reduced. Unchanged pupil : teacher ratios in most LEAs, means an increase in mismatch between qualifications, experience and what some teachers are asked to teach, as falling rolls affect more, and especially secondary, schools.

72. To put it in a nutshell, many LEAs and schools are surviving financially by doing less; but they are often obliged to take the less in the form that comes easily to hand rather than shaping it to match educational priorities. This means, in some cases, a general retrenchment in which most services, schools and pupils are affected to some degree. But it is clear that some things are more vulnerable than others. Subjects that require expensive specialist books or materials and equipment for practical work, and which are taken by relatively few pupils, are particularly at risk. Remedial teaching, courses for academically less able pupils and additional work with the very able, are less easy to justify and provide when provision for the majority is under pressure. Except in those LEAs with well organised policies of positive discrimination, schools and pupils in deprived and disadvantaged areas are adversely affected by a combination of factors including old and deteriorating buildings, sharp falls in pupil numbers, reductions in specialist help for pupils with learning difficulties, cuts in ancillary staff, such as nursery assistants and classroom helpers, and the absence of alternative sources of funding from, and support within, the community.

73. Schools are turning increasingly to parents and the local community for financial and other help. Some schools have a long tradition of raising funds to pay for educational visits and desirable but expensive items of equipment. Funds are now frequently used to provide basic materials and equipment. This trend is leading to marked disparities of provision between schools serving affluent and poor areas.

74. At the time of their visits to institutions, HMI gained the impression of continued professional commitment and resourcefulness but of the teachers' morale worn very thin as the uncertainties and changes arising from falling rolls and cuts in expenditure affect both the maintenance of present standards and attempts to bring about improvements. For many LEA officers and teachers a particular frustration is that of being unable, because of shortages of funds and resources and tight controls on staffing, to capitalise on the benefits that could arise from the fall in pupil numbers or to respond to problems or new needs of which both officers and teachers are acutely aware.

## HIGHER AND FURTHER EDUCATION: ANALYSIS

### General

75. Returns were made by district inspectors on all local authorities, though not in all cases on the same range of aspects of provision. Six hundred and twenty-nine reports came from HMI's routine and formal inspections. These together form the basis of this part of the report. Reports on visits and inspections are mainly based on individual courses and subjects, whereas district inspectors' reports are based on whole LEAs and their institutions. Individual inspection returns confirm the trends described in the district inspectors' returns.

76. Individual returns came from 79 visits to polytechnics, 22 to mainly AFE institutions, 195 to mixed AFE/NAFE institutions, 275 to mainly NAFE institutions, 11 to adult education centres, 30 to youth centres, two to community centres and 15 to colleges of agriculture. Wherever possible, the comments in this report distinguish between institutions offering mainly advanced further education, those offering mixed advanced and non-advanced further education and those offering mainly non-advanced further education. It is not possible to comment separately on teacher training institutions or on courses, entirely or in part, directed to the education of teachers. Given the complexity of HFE, the returns allow only a fairly broad analysis.

## Enrolment Trends and Teaching Capacity

77. The trends in enrolment and course demand previously reported continue and there is now clear evidence to show that major changes in quantity and character are taking place in the post-16 further and higher education student population. Reports of increasing numbers of post-16 year old students staying on full-time in further education (as in schools) are widespread. Full-time numbers are generally increasing. Part-time recruitment in the 16-19 age-range has fallen substantially in many areas, while part-time recruitment in advanced further education is either steady or in some subjects ("high technology" and business studies) increasing. Demand for the technical and applied scientific subjects is generally steady for both full-time and part-time courses; on the arts side and for business studies, and such specialities as catering and hairdressing, it is increasing rapidly. The swing towards full-time academic courses (mainly GCE O and A level), business studies, catering and hairdressing is pronounced in non-advanced further education.

78. These student population changes, which are occurring in a period of restrained finance, apply stresses to the system which are widely reported by HMI. Additional sources of finance, like Manpower Services Commission and other full-cost courses, both relieve and complicate the pattern of stress. However, from the information in the returns, there is little evidence that there is either a serious breakdown in the capacity to provide or a large volume of unused capacity in the system. There is evidence of actual or potential problems in:

- (a) the future prospects for the technical subjects in NAFE, particularly for part-time 16-19 craft-technician engineering and construction courses, in which recruitment has been moderate to low for some time;
- (b) rapidly increasing demand for courses in catering, hairdressing, nursery nursing and the pre-health services subjects, where recruitment is limited by the availability of places (catering, hairdressing) or employment uptake (nursery nursing and pre NHS);
- (c) the effects of large reductions in the numbers of recruits for the specialised areas of vocational education such as printing, textiles and marine navigation studies. Recruitment to printing and textiles courses has been falling for several years and is now running at about one-half of the 1976-77 enrolment. For marine navigation, first-year recruitment until recently fairly steady, has fallen below half its 1979-80 level.

79. In 54 authorities, additional provision is being made for full-time NAFE students including those on GCE O and A level courses. In many authorities, additional provision for GCE subjects continues to be made without any apparent reference to what is or might be provided in schools. Seventy-six authorities are attempting to make increased provision in the more specific and technically expensive subjects of catering and hairdressing. Substantial increases in demand are extensively reported for courses in nursery nursing, "pre-caring" courses, art and design, and full-time business studies. There are reports from seven LEAs of adequately qualified students being turned away from catering courses. Part-time recruitments in the traditional technical subjects of NAFE have declined for five years; the total number of first year apprentices is approximately half the 1975-76 level and many colleges have under-used capacity in, for example, engineering and construction. These subjects are not as popular in their full-time form as GCE O and A level. Neither the associated staff nor these technical facilities are readily adaptable to new types of demand. Provision for the adult and youth services is unchanged in the majority of LEAs from last year's level when it had already been reduced in size and scope in many LEAs.

80. There are 38 reports from institutions, of new initiatives to deal with poorly-qualified school leavers, including a number of pre-vocational courses of the "A Basis for Choice" type. The response of the colleges visited to these new populations of students is variable; some reports record no more than the fitting of these students into existing courses and their chances of success may be poor.

81. Provision for the FE parts of the Manpower Services Commission — Youth Opportunities Programme for unemployed young people continues to increase. Seventy-six reports, mostly from the midlands and the north, record that in regions where young adult unemployment has been prevalent for some time, major and more effective YOP operations are now being mounted, mostly with MSC funds. In others, mainly in the southern counties, this type of work is very new to the institutions, who are still working through problems associated with the nature of the programmes and the suitability of the facilities.

82. Thirteen authorities are giving increased priority to school — FE linked programmes but in 21 authorities the support is being reduced, sometimes because colleges are directing their resources to provide for young unemployed students.

83. Colleges providing predominantly for AFE have so far experienced fewer changes of demand. In September '81, recruitment to many full-time degree and higher diploma courses increased, mainly in the arts subjects and in business studies. Smaller increases occurred in sciences and technology. The majority of these increases have occurred with no reported difficulties in providing staff or teaching accommodation. Demand for post-18 part-time AFE remains buoyant and no difficulties of provision are reported. Small increases in AFE provision for full-cost courses are reported in four LEAs.

84. The fact that these changes in recruitment have occurred without serious difficulty is evidence of the substantial margin of slack capacity which existed in the AFE parts of the system.

#### **Teaching Staff**

85. The position observed in respect of teaching staff shows little change from last year. Where additional staff have been recruited, it is to meet markedly changed course needs in NAFE. Where change has occurred, it has tended to be a decrease of modest proportions but randomly distributed as a result of policies which use voluntary and early retirement. The great majority of mainly AFE institutions are satisfactorily provided with teaching staff; a slightly smaller majority of the non-advanced and mixed advanced and non-advanced colleges is reported to be satisfactorily staffed.

86. The previously reported trend of reducing numbers of part-time staff continues. Only 12 LEAs have provided for increases, 27 are maintaining the same position as last year and 53 are reducing their allocation. Some colleges are said to be placing too high a reliance on part-time staff and some are placing limitations on their use. No separate reports were made on the overall LEA provision for the staffing of youth work or adult education. Reports on provision observed in visits to NAFE and AFE colleges confirm the district inspectors' reports of broadly satisfactory staffing but less than half of the activities observed in 30 visits to youth centres were considered to be satisfactorily staffed. Nine of the visit reports on the eleven adult education centres record satisfactory staffing.

87. The use of income from external sources, particularly MSC, is now common. One college is reported as being almost entirely dependent on MSC funds to provide for the part-time teachers concerned with YOP programmes.

88. Although the nature of demand in NAFE has changed significantly in the recent past, only seven colleges are mentioned specifically as having a marked under-loading of staff, mainly in the technical subjects. In another 24, some over-loading was recorded, mainly in general education, business studies and catering. There is much less evidence of over-loading in the mainly AFE colleges.

89. In five non-advanced colleges, teaching provision for the high-demand subjects was being reduced from the common 25-27 hours out of a 30 hour week to 20-25 hours. Five other returns report that additional paid part-time work was being undertaken by full-time staff as a means of meeting the teaching requirements of courses.

90. Among the institutions offering mainly advanced education, several continue to adjust their teaching capacity by early retirement or voluntary redundancy, with evidence of an increase in explicit planning, sometimes for reductions of the order of 20 or 30 staff.

#### **Staff development**

91. In general, LEA funding of staff development in HFE shows little change in real terms from last year, but where it has occurred the evidence is predominantly of modest reduction with very little difference between types of institutions. Provision is judged to be satisfactory in 38 LEAs, barely satisfactory in 30, and unsatisfactory in 26. A wide diversity of practice in assistance with travelling and subsistence costs is reported with very varied effects on the uptake of provision.

#### **Non-teaching staff**

92. In some two-thirds of LEAs, the level of expenditure on non-teaching staff has remained unchanged from last year while the remainder are fairly evenly divided between those making a modest reduction and others who have made a small increase. For the non-advanced and mixed institutions, the returns assess the provision as satisfactory in 35 LEAs, barely satisfactory in 44, unsatisfactory in 15; this contrasts with the returns on the advanced institutions – satisfactory in 24 LEAs, barely satisfactory in 11, unsatisfactory in six.

93. In a number of authorities, there are reports of marked variations in the provision of support staff within the departments of colleges and between colleges in the same LEA. A policy of reducing numbers by natural wastage is quoted as a contributory factor. As a result of shortages in individual colleges, there are difficulties in introducing new areas of work such as computing and electronics, restrictions on experimental work in laboratories and curtailment of library opening hours. In one LEA, young people on YOP schemes are being employed to relieve the problem.

94. Inspection visit returns are more likely to be related to individual subjects. In two-thirds of the polytechnic departments visited, and in the mixed AFE/NAFE and NAFE institutions, the provision of non-teaching staff was satisfactory. In the AFE colleges (other than polytechnics), the figure was three-quarters.



95. In about two-thirds of the adult education and youth service visits, and in almost three-quarters of the colleges of agriculture visits, the provision of non-teaching staff was recorded as satisfactory.

96. Twelve visit returns repeat the now frequent observation that, in NAFE particularly, the increased administrative requirements of TEC, BEC and other validating agencies are straining clerical staff resources and, where these are inadequate, the teaching staff.

#### **Equipment and Books (including Library Provision)**

97. Against a previous background of tight control over the level of provision of equipment, this year's returns now show that just under one-half of authorities are maintaining last year's level of expenditure in real terms and that between one-quarter and one-third are providing increased funding for both NAFE and AFE. District inspectors' returns describe the provision in the non-advanced and mixed colleges as satisfactory in 38 LEAs, barely satisfactory in 39, and unsatisfactory in 16. For the mainly advanced institutions, 27 are judged as satisfactory, 11 barely satisfactory and four as unsatisfactory. The inspection visit returns provide information about the provision and condition of equipment; three-quarters of the observations recorded express satisfaction. However, a number note the presence of obsolete or worn out equipment.

98. Three-quarters of all inspection reports on library book provision in HFE record it to be satisfactory or very satisfactory. Less than satisfactory provision is more often found in some of the mixed colleges: these colleges are also the source of the few recorded cases of poor or very poor provision. Although library budgets are mostly at a standstill, and in some cases decreasing, a few specific comments refer to colleges and authorities being able to maintain excellent provision. Evidence of weak or inadequate library stocks is frequently a consequence of changing course demand.

99. Restrictions in the opening time of libraries resulting from shortages or reductions in library staff are now more frequently reported. The movement of the student population to full-time courses is creating problems for the provision of study space as the libraries of many colleges were not originally designed for large populations of full-time students.

#### **Materials**

100. The general trend continues, in both NAFE and AFE, of requiring tight economy in the provision of teaching materials. In a third of authorities, cuts have been made in budgets for materials in adult and youth and community centres but mostly on a moderate scale. A very few authorities have increased allocations for all institutions. The returns on LEAs report the provision of materials for the non-advanced and mixed institutions as broadly satisfactory in all but 13 authorities, for the advanced group of institutions, in all but six.

101. Many colleges are adjusting to these conditions by paying strict attention to economy in the use of materials. Although gifts from local industry and techniques of using materials several times for various teaching purposes are used, there are still difficulties reported from colleges using costly materials such as metals, fuels, photographic chemicals, and foodstuffs.

102. A very few authorities have made supplementary allowances to colleges to assist them in the purchases they need to make. In some colleges, costs are being passed on to students, either by direct payment for materials used or by means of fee surcharges and levies. However, returns on visits to colleges suggest that the present position remains generally satisfactory with only 15% of observations recording an unsatisfactory situation.

### **Premises**

103. Building maintenance programmes continue to be common targets for economies. There was no change this year in the level of funding in real terms for NAFE and mixed colleges in 52 LEAs, an increase in 11, and a decrease in 33; in six of these the decrease was considerable. For AFE colleges there was no change in 25 LEAs, an increase in five and a decrease in 11, considerable in two cases. Returns for this year show that one-third of authorities are keeping to fairly low expenditure under this heading. Provision for modifications and the acquisition of buildings has been less affected. The district inspectors' returns report that provision and maintenance of premises were satisfactory or better in about two-thirds of the non-advanced and mixed institutions. Non-advanced students and their teachers, generally continue to occupy a greater proportion of unsatisfactory or inappropriate accommodation than their advanced counterparts.

### **Grants and Out-county Payments**

104. Some two-thirds of authorities continue to limit out-county payments, largely by restricting payment to specific subjects and courses, duration of travel and mode of study. In at least one case, additional provision is being made within an authority, so that out-county payments will be curtailed, although equivalent provision is available in a neighbouring authority.

105. About two-thirds of authorities are making additional provision for discretionary grants and the remainder are either maintaining last year's level of finance or, more frequently, reducing their allocation. The allocation of grants within the sum available uses variations in number and value with very mixed effects on the support available to students. This trend is having its most serious effects on grant support for many vocational non-advanced courses (eg textiles, catering) and on many areas of advanced further education, where there are numerous non-graduate level vocational courses entirely dependent on discretionary awards.

### **COMMENTARY: H and FE**

106. This report and those of previous years show that HFE, although stressed by stricter financial control and changes in its student population, has considerable adaptive capacity. That it has this capacity also demonstrates that it was, and is, a generally well-provided service with rather more resource potential than has often been displayed. The general tendency in most authorities and institutions is to use, more severely, economic measures which are fairly easily applied, rather than those designed to adjust the capacity of the teaching systems in their charge. Overall, the frequency of less than satisfactory judgments recorded is still relatively low and may not be significantly greater than in organisations operating in less stressful circumstances. The exceptions are the youth service and adult education.

107. The system will, in future, face more severe challenges. Current financial policies call for a level of improved institutional efficiency and concentration of effort that will not be easily achieved by the economy measures used so far. NAFE is already being stretched by student population changes arising from young adult unemployment and the general trend amongst the 16-19 year groups of going into employment later, on the basis of courses and qualifications achieved after leaving school. The Government's intentions for a comprehensive youth training scheme is likely to make demands on LEAs' provision, for post-16 education in both schools and FE, which have complex resource and organisational implications.

108. In many authorities, studies of future arrangements for 16-19 education are still only in the very early stages of consideration, and there remains a considerable amount of uncoordinated and duplicated provision between schools and non-advanced FE. Ironically, financial arrangements still allow provision (eg for O and A level), squeezed out of the schools by tighter staffing, to be established in the NAFE and mixed colleges.

109. The future size of the contribution to be made by the education service to the comprehensive youth training scheme needs to be known fairly quickly so that authorities can begin to think about the effects of this potentially large increase in demand in their post-16 institutions and systems. The potential volume of work involved in this change suggests that authorities will need to have more determined policies for the structure and staffing of their post-16 institutions if the available capacity is to be properly applied to this new demand. Ways of stabilising the teaching capacity of NAFE in the technical and vocational subjects (whose presence and general academic health is essential to the youth training scheme development) also need attention.

110. AFE and HE, on the other hand, have, by their recent response to a substantial increase in full-time recruitment, both demonstrated their substantial reserve capacity and their ability to use it more efficiently.

March 1982

83/82

NOT FOR USE BEFORE 15.30 HOURS  
ON MONDAY 5 APRIL 1982

EDUCATION SECRETARY COMMENTS ON HMI REPORT

Commenting today on the report by Her Majesty's Inspectors on the effects local authority expenditure policies were having on the education service in England, Education Secretary Sir Keith Joseph said:

"The report summarises the observations of HMI on the standard of provision in English schools and colleges in the autumn of 1981.

"What HMI have observed is the combined result of the expenditure policies of local authorities and several other factors, including the continuing fall in the number of pupils in our schools.

"The report relates to a year in which the local authorities in England spent on education in schools and colleges nearly £750 million more (total just under £8 billion) than in the previous year - representing a fall in real terms of less than one per cent. The number of pupils fell by about two and a half per cent.

"In 1981-82 the money spent per pupil was at a record level in real terms - £810.

"And the pupil-teacher ratio continued to be at a record level.

"I recognise the case for saying that, with fewer pupils, spending in the schools should have been higher still to give better protection to the curriculum.

"But we must face economic realities. We can spend on education and other public services only what we can afford.

"Moreover, quality in education does not depend solely on money.

"The report states that most of the schools observed were well found and most pupils adequately served. It is the growing disparities that cause concern. Too many of the reductions in staff and other resources seem to have been unplanned.

"In higher and further education HMI report that the service is generally well-provided.

"Some local authorities were still overspending last year - despite all the warning signs of the last few years.

"If only they could be persuaded to exercise the same restraint that other authorities are displaying, there would be more scope for putting right the deficiencies - revealed by the report - which money could remedy."

0000-----0000



DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

Local Govt

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

(1)

2 April 1982

Prime Minister

Agree to this approach?

De Nier,

Yes not

MUS 2/4

I understand that at yesterday's Cabinet, Michael Jopling indicated his concern about our ability to defeat the C & AG amendment at Report Stage in the Commons on Monday. Michael Heseltine and I have now discussed the amendment with Joel Barnett and Edward du Cann. Our impression is that they may be prepared to accept some restrictions on it, but they are absolutely committed to the general principle.

The line I propose to take on Monday is that the Government accepts the importance of the amendment but, given that the provisions in it are totally new, we cannot possibly give a detailed considered view at such short notice. I would however say that in principle, we accept that the C & AG should have a right to examine studies done by the Commission which show the effects of Government policies on the ability of local authorities to provide good value for money. But certain aspects of the amendment cause us concern and we would want to sort these out in the Lords after fuller discussions with the sponsors of the amendment. Three areas are of particular concern. First, the amendment gives the C & AG access to the documents of individual local authorities, even though he cannot report on them. This will be strongly opposed by the local authorities as undermining their constitutional position vis a vis their electors. Moreover it gives the C & AG access to more information than is available to Ministers. Second, the procedure to be adopted needs clarifying. The amendment appears to allow the C & AG to carry out his examination in parallel with the Commission's own study. This will undermine the Commission's authority and is in any case administratively undesirable. I therefore propose to suggest that the C & AG should not be involved until the Commission has reported. Third, we need to sort out the relationship of the new clause to the existing clause 20 in the Bill which puts the Commission under a duty to do comparative value for money studies. In response to pressure from our own backbenchers and the Opposition we have added a requirement for the Commission to consult local authority associations and unions before undertaking these studies, and it would seem appropriate to add a similar requirement to the new clause providing also for consultation with the appropriate Minister.

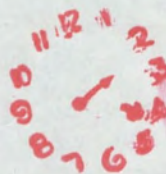
As I must obviously give guidance on the Government's response to Joel Barnett and Edward du Cann before Report Stage on Monday afternoon, I should welcome any comments by 10.00 am on Monday. Unless I am able to give satisfactory assurances on the lines set out in this letter, it seems clear that the sponsors would press their amendment, and as the business managers have indicated, would be likely to succeed.

I am copying this letter to members of the Cabinet and to Sir Robert Armstrong.

*Handwritten signature:*  
Z  
—  
L

TOM KING

2 APR 1982





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP  
 Minister of Local Government and Environmental  
 Services  
 Department of the Environment  
 2 Marsham Street  
 LONDON  
 SW1P 3EB

31 March 1982

Dear Minister,

As you know, Joel Barnett and Edward du Cann have tabled an amendment to the Local Government Finance (No.2) Bill (copy attached) which would grant to the Comptroller And Auditor General (C&AG) a substantial part of the access to the papers of individual local authorities which the PAC recommended in its report on the Role of the C&AG. The PAC recommendations would have granted the C&AG full access to the books of local authorities by placing him in charge of the District Audit Service. The only limitation was that the C&AG should report only on general matters, and not on individual authorities.

The Barnett/du Cann amendment would grant the C&AG access to papers which the Audit Commission by statutory right had called for from individual authorities in complying with its own statutory responsibilities. The only limitation would be that the C&AG would have access only to those papers relating to the impact on the efficiency of local authorities of Government instructions and guidance.

The PAC's original proposals were strongly resisted by local authority interests as an intrusion into local autonomy and accountability to ratepayers. The amendment is subtly drafted to focus on the effects of Government regulations, which points up the aspect of accountability to Parliament. It also, inasense, focuses on matters within the range of ministerial presponsibility, but of course it involves the C&AG having access to the papers of bodies for which Ministers are not responsible.

Whatever the merits of these particular debating points I am sure that the passage of this amendment would seriously damage our credibility in defending our general position on the role of the C&AG, as agreed by E Committee on 9 February (E)(82) Fouth meeting). Against the background of the pressure in the House for extension of the role of the C&AG we should have put this sort of provision in the Bill ourselves, if we thought it had merits. The PAC's



position seemed at its weakest in relation to local authorities because of the arguments relating to local accountability. If we cannot hold our position here, our <sup>case</sup> on the nationalised industries is bound to appear weak. As a first step, it might be argued that the C&AG should have access to the papers of the MMC.

On the amendment itself, the result would be that the C&AG would produce reports in parallel with reports by the Audit Commission. There would be duplication, and the reports by the body which the Government had set up to comment on local government efficiency would be overlaid by the C&AG's reports.

I conclude that the amendment should be resisted unless it is clear that we have no chance of winning the vote. One might expect the local authority interest to be strongly against it, and I understand that the AMA have made clear their opposition. It seems that the Opposition would have a free vote, and therefore we might expect some of them to support us. But if our chances of winning are very doubtful I think that as a fall-back position we should offer to table an amendment in the Lords which would give effect to the amendment but without allowing the C&AG access to the papers of individual local authorities. This would then not provide a direct parallel with access to the books at nationalised industries.

I am copying this letter to member of the Cabinet and to Sir Robert Armstrong.

Yours sincerely,

D.L. Willetts

Mr NICHOLAS RIDLEY

(Approved by the Financial Secretary & signed in his absence.)

Local Government Finance (No. 2) Bill continued

Accountability to Parliament

Mr Joel Barnett  
Mr Edward du Cann  
Mr Gerald Kaufman  
Mr Gordon Oakes  
Mr Michael Morris  
Mr Peter Hordern

Mr Ted Graham  
Mr Dick Douglas  
Mr W. W. Hamilton

Mr Geoffrey Robinson  
Mr Harry Cowans

Mr Michael Shaw  
Mr Donald Anderson

To move the following Clause:—

(1) The Commission shall undertake or promote studies of the impact on economy, efficiency and effectiveness in the provision of local authority services and in the financial management of local authorities of statutory provisions and of guidance and instructions issued to them by Ministers of the Crown.

(2) The Comptroller and Auditor General shall have access to all documents and records held by the Commission relating to any such studies.

(3) The Comptroller and Auditor General shall report to Parliament the results of his examination of any such documents and records, provided that he shall not in any such report refer to the affairs of any individual authority in a way which identifies that authority by name or otherwise.

Mr Joel Barnett  
Mr Edward Du Cann  
Mr Gerald Kaufman  
Mr Gordon Oakes  
Mr Michael Morris  
Mr Peter Hordern

Mr Ted Graham  
Mr Dick Douglas  
Mr W. W. Hamilton

Mr Geoffrey Robinson  
Mr Harry Cowans

Mr Michael Shaw  
Mr Donald Anderson

Page 16, line 17 [Clause 21], after '20', insert 'or section (Accountability to Parliament)'

Mr Secretary Heseltine

Page 5, line 9 [Clause 5], after 'with', insert '(d)'

Mr Secretary Heseltine

Page 5, line 10 [Clause 5], leave out from 'and' to end of line 11 and insert—

'(b) such bodies of accountants, such bodies representing local authority employees, and such other organisations or persons as appear to him to be appropriate.'

Mr Secretary Heseltine

Page 7, line 26 [Clause 8], after 'prepare', insert ', and keep under review.'



NBPM

Local Govt.

*[Handwritten signature]*

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Giles Shaw  
Parliamentary Under-Secretary of State  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1

25 March 1982

*Dear Giles*

LOCAL GOVERNMENT FINANCE (NO 2) BILL - WATER AUDIT

Thank you for your letter of 19 March. I am glad that we now have a little time to consider the draft of the amendments you propose to table at Report.

If we are to argue that water authorities are unlike nationalised industries because they still retain vestiges of the "local accountability" of a local authority, then it would help if all the rights of access given by your amendments were restricted to "local electors". It would also help, as you suggest in your letter, to exclude the National Water Council from the scope of the amendments, since the "local accountability" argument will not hold in that case. I hope you will be able to accept these slight modifications. I am asking my officials to discuss these two points with yours.

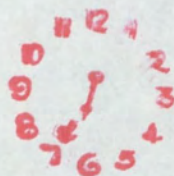
I am copying this as before.

*[Handwritten signature]*

*Nicholas*

NICHOLAS RIDLEY

5 MAR 1982





DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

MINISTER FOR LOCAL GOVERNMENT  
AND ENVIRONMENTAL SERVICES

Prime Minister (2)

Ms 24/3

24<sup>th</sup> March 1982

Dear Michael,

*[Handwritten signature]*

LOCAL GOVERNMENT FINANCE (NO 2) BILL

I am very grateful to you for the helpful advice in your letter of 18 March about points arising on Part I of the Bill following the issuing of a supplementary precept for 1982/83 by Bedfordshire County Council.

In the light of your advice I propose to make a statement in Standing Committee tomorrow morning, the last day on which the Committee is due to consider the Bill. The purpose of the statement is two-fold. First, to confirm the Government's view about the retrospective effect of the Bill in relation to supplementary rates and precepts for 1982/83 and to clarify the position of the districts in Bedfordshire. Secondly, to announce our intention to table amendments on Report in the Commons if possible to clarify the position of rating authorities and ratepayers generally in the light of the House of Lords decision in the GLC/Bromley case as well as in view of the Bedfordshire situation.

I am proposing that rating authorities be given not merely the power to reduce a rate and to make refunds but also the duty to do so in the event of for example a (supplementary) precept being declared invalid. We do not intend at this stage to give rating authorities express powers to pay interest to ratepayers. We do, however, propose to take the opportunity to provide for the recovery by the rating authority both of monies paid to the precepting authority in respect of an invalid precept and of the costs of collecting it, reducing the rate, making refunds to ratepayers and other associated costs.

I attach a copy of the draft of the statement which I propose to make tomorrow. I should be very grateful for your agreement to its terms by close of play tonight, with apologies for having to trouble you again at such short notice.

CONFIDENTIAL

I am sending a copy of this letter to the Prime Minister  
and to first Parliamentary Counsel for information.

*Tom King*

TOM KING

CONFIDENTIAL

~~On a point of order, Mr Chairman, I think it may help the Committee if, with your permission, I intervene to make a brief statement.~~

Members of the Committee will be aware that a number of complicated rating issues have flowed from the House of Lords' decision in the GLC/Bromley case. As I indicated to the Committee on 2 February we have been considering whether any changes to rating legislation are needed in the light of that judgment. I undertook to report back if the Government felt that action was necessary.

The Government believes that it is necessary to make further statutory provision to clarify the position of rating and precepting authorities and of ratepayers, particularly in cases where a precept or a rate is found to be unlawful. The provisions will deal with the powers and duties of rating authorities to reduce a rate, make refunds to ratepayers and to recover sums paid to precepting authorities and to deal with resultant costs incurred by the rating authorities. We intend to table amendments to this effect on Report in the House of Commons if possible, or otherwise in the House of Lords.

Members of the Committee will appreciate that I cannot be more specific at this stage about the technical details of our proposals in this complex area of rating law. A meeting which ~~we~~ had <sup>been</sup> ~~hoped~~ ~~to~~ arranged with the local authority associations has unfortunately been delayed, but we shall be consulting them very shortly about the best means of achieving our objective of protecting the position of rating authorities and ratepayers alike.

Members of the Committee will also be aware of the situation which has arisen in Bedfordshire, where the County Council has issued a supplementary precept for 1982/83. We discussed these matters at length on 16 March and I indicated that we were looking into the matter and that I would give the Committee any guidance that might be helpful.

I should like to confirm the legal advice which I have received, namely that the Bill will invalidate retrospectively any supplementary rates or precepts made in respect of 1982/83, that this includes those made before 1 April and that Bedfordshire County Council's supplementary precept will, therefore, fall on Royal Assent. I am also advised that nevertheless, until the Bill receives Royal Assent the supplementary precept is valid and the four districts in Bedfordshire must rate for it. My advice is that in the case of the two districts which issued a supplementary rate to collect the supplementary precept, the supplementary rate will be invalidated on Royal Assent and that in the case of the two districts which included both the original and supplementary precepts in their main rate, that rate will remain valid after Royal Assent.

---

The amendments which we propose to table will make it clear that these main rates can be amended, and that any payments made to the precepting authority in respect of the supplementary precept can be recovered by the rating authorities along with the administrative costs incurred. The rating authorities will in consequence be able to reimburse their ratepayers.





Prime Minister (2)  
ms 19/13

cc JV

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

My ref:

Your ref:

ms

19 March 1982

Dear Nicholas

Tom King

Thank you for your two letters of 18 March in the light of which I have not tabled our proposed amendments.

Following your discussions with Tom King late last night I understand that you have agreed to accept that we should amend the Bill in the manner which we propose but at Report Stage.

I will therefore seek to persuade Tony Durant and Brian Mawhinney to withdraw their amendment, as I believe to accept it may prove more hazardous than at first thought. I shall, however, have to give a cast-iron assurance of our intention to amend.

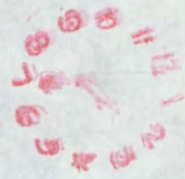
Meanwhile I have asked my officials to continue consultation with yours on the text of our amendment which was sent to them on 10 March. I have also asked them to consider omitting the National Water Council from its scope in order to distance our proposal further from your concern over its implications for nationalised industries.

I reaffirm our view that we are merely preserving the status quo in the water industry. Any change in the industry's structure is clearly a matter for future debate which could allow us to review audit arrangements if necessary. I hope you will confirm acceptance of the position reached.

I am copying this to those who have received copies of our previous correspondence.

Giles Shaw

GILES SHAW



17 8 MAR 1982



Prime Minister (2) cf. J.V. Local Gov

ms 18/3

Treasury Chambers, Parliament Street, SW1P 3AG

Giles Shaw Esq MP  
Parliamentary Under-Secretary of State  
Department of Environment  
2 Marsham Street  
LONDON  
SW1

18 March 1982

Dear Giles

LOCAL GOVERNMENT FINANCE (NO 2) BILL: WATER AUTHORITIES

I have seen your letter of <sup>17</sup>17 March, but I am afraid I cannot agree that you should table amendments tonight. I have not yet seen the amendments. I hope you will not think it unreasonable that I should have time to consider them, and the sort of alternatives we discussed at our meeting. We agreed, after all, that you would stall if necessary until Report.

I shall come back to you as soon as I can. But I must ask you not to proceed until you hear from me further.

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

NICHOLAS RIDLEY

17 88 MAR 1982

9 10 11 12 1  
8 7 6 5 4  
3 2



Prime Minister (2)  
Mrs 19/3

100/50

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Parliamentary Under Secretary of State

John Wakeham MP

Giles Shaw Esq MP  
Parliamentary Under Secretary  
of State  
Department of the Environment  
2 Marsham Street  
LONDON SW1P 3EB

ms

18 March 1982

Dear Minister

LOCAL GOVERNMENT FINANCE (NO 2): WATER AUTHORITIES

We spoke this afternoon about the question of public access to the Water Authorities. I explained that Ministers here have been following your correspondence with Nicholas Ridley with interest and had hoped that there might be an opportunity to consider the question in E Committee, perhaps when the Committee returns to the broader question of the Role of the C&AG at a date yet to be fixed. The timetable for your Bill seems to make this difficult and your latest letter (17 March) takes our silence for consent to the line you are proposing. I must therefore record that we share the concerns Nicholas has expressed and would prefer you to stall in Committee if at all possible until the implications of what you are proposing for the wider campaign in the House to empower the C&AG to "follow public money wherever it goes" can be sorted out.

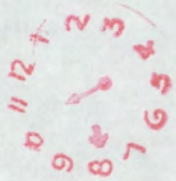
You explained however that you felt that you had passed the point of no return in your commitments on the Bill, but you undertook to do everything possible in presenting your amendments to distance the concession you are making from the debate over C&AG access to the nationalised industries etc. Nevertheless if it were possible to hold this matter until report stage, it would give us longer to resolve it in the best possible way.

Copies go to Nicholas Ridley, Michael Jopling, Nicholas Edwards, Members of E Committee and Sir Robert Armstrong.

Yours sincerely  
Joanna Davidson

for JOHN WAKEHAM  
(approved by the Minister  
and signed in his absence)

18 MAR 1982



1001



01-405 7641 Extn 3201

ROYAL COURTS OF JUSTICE  
LONDON, WC2A 2LL  
18 March 1982

*Urgent advise please  
(to McDonald)*

The Rt Hon Tom King MP  
Minister for Local Government and  
Environmental Services  
Department of the Environment  
2 Marsham Street  
LONDON S W 1

*cc PS/Secretary of State  
→ PS/Tom King  
PS/McShane  
Mr Hester  
Mr Davey  
Mrs D. Phillips LG4  
PS Comber LG.*

*Dear Tom*

LOCAL GOVERNMENT FINANCE (NO 2) BILL : BEDFORDSHIRE COUNTY COUNCIL

You wrote to me on 16 March about three points which have arisen on Part I of this Bill in relation to Bedfordshire County Council.

Status of the Supplementary Precept

I agree that the effect of Clauses 1(2), 2(2) and 30(2) of the Bill will be, once it receives Royal Assent, to invalidate retrospectively any supplementary rates or precepts made in respect of 1982/3. I note that Alan Fletcher of Counsel and I believe others consider that it is arguable that the prohibition on supplementary precepts does have retrospective effect. However I am reasonably confident that the courts would hold that it did.

Position of the District Councils and the Ratepayers

This is a more difficult problem. Until the Bill receives Royal Assent the supplementary precept is valid. The four district councils must rate for it (section 2(1) General Rate Act 1967). They are not entitled to refuse to pay over the supplementary precept before Royal Assent. Moreover the precept must state the date or dates on which payments are required to be made on account (see - section

/12(2)).

CONFIDENTIAL



01-405 7641 Extn

ROYAL COURTS OF JUSTICE  
LONDON, WC2A 2LL

12(2)). If the amount due is not paid the precepting authority can charge interest (see - section 12(8)). They can also sue for it (see section 15(3)).

I understand that 2 rating authorities have made one rate which includes the original and the supplementary precept and that the two other rating authorities have issued two rates - one for the original precept and one for the supplementary.

In the case of the first two authorities I take the view that the rate is valid and will remain so after the Bill receives Royal Assent because the rate will not offend Clause 1 of the Bill. In the case of the latter authorities the supplementary precept and rate will be invalidated upon Royal Assent. It is then arguable in these circumstances whether the district councils can recover from the County Council the rate raised to meet the invalid supplementary precept. The position is unclear, it differs from the GLC case where the precept was invalid ab initio. However it is possible to see arguments in support of a view that they can.

I have left out of consideration questions arising in relation to whether interest can be claimed and what the position would be if the precepting authority has already spent the precept. There may also be other transactions contingent upon the validity of the rate e.g. tenant's covenants to pay rates, inclusive rents and benefit related payments such as rate rebates which you will of course need to consider.

/However,

CONFIDENTIAL



CONFIDENTIAL



ROYAL COURTS OF JUSTICE,

LONDON, WC2A 2LL

01-405 7641 Extn

However, I am driven to the firm conclusion that in view of the difficult position the district councils are placed in and their several reactions to it there is no alternative but to have transitional provisions in the Bill. It cannot be right that ratepayers should be treated in different ways both within Bedfordshire itself and compared with the rest of England and Wales. The Bill must provide transitional arrangements to deal with repayment and if it is thought necessary, interest. This method could also have the added advantage of making it clear beyond the shadow of doubt that the Bill is retrospective.

In view of the decisions of the four district councils it is no longer necessary to pursue the idea of two resolutions. However, it follows from the views which I have expressed above that it would not have been open to the district councils to hold back the supplementary rate.

I am copying this letter to First Parliamentary Counsel.

Yours etc.  
Michael

CONFIDENTIAL

cf. JV.

Prime Minister (2)

MS 1713



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

My ref:  
Your ref:

*MS*

17 March 1982

*Mr Nicholas*

LOCAL GOVERNMENT FINANCE (NO. 2) BILL: WATER AUTHORITIES

I wrote to you on 9 March amplifying our reasons for preserving public rights in relation to the audit of water authorities. You have received a letter from Michael Jopling reinforcing my view that we could not get away without making a concession on this point.

We have contacted other colleagues and Departments. As you know, Janet Young supports our line. There is support also within MAFF, and no comments from Industry, Energy, Transport, Employment or Trade. A number of Departments do not, of course, consider that they have any interest.

As you know, there is already an unsatisfactory amendment to reinstate public rights, tabled by Tony Durant and Brian Mawhinney, and if we are to introduce satisfactory amendments I therefore really need to do this in Committee. I would like to table amendments on Thursday evening if at all possible, as we will reach clause 24 of the Bill next Tuesday. Our officials are already in touch about the form of amendments, and unless I hear from you to the contrary I will authorise them to go down then.

I am copying this to the recipients of our previous correspondence and to the Lord President (with copies of our earlier letters).

*Giles Shaw*

GILES SHAW

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17 MAR 1982



DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

16 March 1982

*Dear Michael*

LOCAL GOVERNMENT FINANCE (NO 2) BILL: BEDFORDSHIRE COUNTY COUNCIL

A point has arisen on Part I of the Bill, on which I would welcome your urgent advice. My officials have already spoken to yours.

Part I of the Bill bans supplementary rates and precepts and prevents local authorities from issuing rates or precepts for any period other than a financial year. Clause 1 relates to rates and Clause 2 to precepts; each provides that "this section has effect in relation to any financial year beginning on or after 1 April 1982".

The problem arises because of a most unusual series of events in Bedfordshire, where the political control of the County Council is very finely balanced. The Council approved in February a budget for 1982/83 prepared by the Conservative Group (which is in an overall minority on the Council) and an appropriate precept to finance it. However, on 9 March the Labour and Liberal opposition parties on the Council combined to force through an extra amount of expenditure for 1982/83 on top of the original budget, together with a supplementary precept to finance it (press reports suggest that there were in fact two separate resolutions involving two supplementary precepts, but this is not materially significant to the points at issue).

Although it is stated on the face of the Bill that it has effect in relation to any financial year from 1 April 1982, the Bill has yet to receive Royal Assent and is unlikely to do so until about June. The questions which now arise are:

- (1) what is the status of the supplementary precept(s) issued by Bedfordshire;
- (2) what should be the response of the 4 district councils in the county, 2 of which have already made their rate for 1982/83 on the basis of the original precept issued by the County in February, while the other 2 have yet to make any rate for 1982/83; and

(3) what should ratepayers be advised to do?

We are being pressed for early advice on these matters by County Councillors and by the District Councils. As we are clearly going to have to give advice I thought it right to seek your views.

Status of the Supplementary Precept

It has always been our intention that Clauses 1 and 2 of the Bill should bite retrospectively for the whole financial year 1982/83 and they have been drafted with this in mind. As I indicated in my first paragraph, both Clauses provide explicitly that they shall have effect in relation to any financial year beginning on or after 1 April 1982; furthermore clause 1(2) defines "financial year" as meaning a period of twelve months beginning with 1 April, while clause 2(2) defines supplementary precept as a precept for a period in respect of which the precepting authority has already issued a precept. In addition, Clause 30(2) makes it clear that Part I of Schedule 4 to the Bill (which repeals, inter alia, local authorities' existing powers to levy supplementary rates and precepts, respectively S.3(5) of the General Rate Act 1967 and section 149(1) of the Local Government Act 1972) has effect for financial years beginning on or after 1 April 1982.

My advice is that these provisions will, as soon as the Bill receives Royal Assent, invalidate in toto any supplementary rates or precepts made in respect of 1982/83 before enactment of the Bill. My lawyers have confirmed this with Parliamentary Counsel (a copy of the appropriate letter is attached). I am therefore satisfied that the Bedfordshire supplementary precept(s) will be invalidated on Royal Assent and I assume you would not dissent with that view.

Your officials will be aware that in the context of the much more controversial proposals in the Local Government Finance No 1 Bill, where we are prescribing actual limits to rate levels, we adopted a belt and braces approach to the question of retrospection (Clause 11 of that Bill). In the context of the much more straightforward proposals in the No 2 Bill this did not appear necessary. I should make it clear that I am convinced that any attempt to meet the present situation by seeking to re-introduce the belt and braces approach in the present Bill would be highly embarrassing by undermining our earlier statements that the Bill had the effect of banning supplementary rates and would exacerbate the arguments about retrospection by appearing to act after events. Our principal defence against the retrospection argument has been that we have given ample warning from 16 December onwards when the No 2 Bill was published that a ban for supplementary rates and precepts for 1982/83 was in prospect.

This leaves outstanding, however, the question of the duty of the rating authority to make payments now (ie for the first two or three months of the financial year) in respect of a supplementary precept which may theoretically be lawful at this stage but which will subsequently be invalidated.

Position of the District Councils and the Ratepayers

This is more difficult. The Districts are faced with a demand for a supplementary precept which is currently lawful and with a corresponding schedule of payments which they must make to the

County Council during the financial year. Under the law as it stands (S2(1) of the General Rate Act 1967) they are required to make a rate sufficient to meet their total estimated expenditure which is not met by other means, including sums payable to other authorities under precepts.

I would be grateful for your view as to whether or not, in view of the impending legislation, the districts will be entitled to refuse to pay over the supplementary precept amounts demanded by the Council before Royal Assent is secured. If they are, all well and good: once the Bill is enacted, the supplementary precept falls and assuming that the Bill is fully retrospective - the districts owe the county nothing further apart from the main precept; if for any reason clauses 1 and 2 are not enacted in their present form they will then have to levy the necessary supplementary rates. If the districts, however, are not absolved from making supplementary precept payments to the county pending Royal Assent - and I imagine that the districts are being advised by their own lawyers that this is the case - then the position is more difficult. How do the districts cover themselves in such circumstances?

One possibility might be for the districts to make separate rate resolutions: one for the original main precept and the other for the supplementary precept (in the case of districts which have already made a rate such a resolution would have to be separate in any case; in the case of those which have not, the situation is a little less happy). The districts would then issue the main rate but hold the supplementary in reserve. They would pay the full amount demanded by the County Council as if the supplementary precept were valid, financing it from balances, or by borrowing in anticipation of revenue receipts or simply by "front-loading" their payments to the County in the first two or three months of the year. Once Royal Assent was obtained the districts could re-schedule their payments to the County as necessary. If for any reason Royal Assent was not obtained the supplementary rate could then be issued. I would like to be in a position to give this advice to the districts provided you are content that the steps outlined above would not be unlawful. If you are so content, then no problems should arise for the ratepayer, since - assuming the districts are also prepared to follow this advice - they would never actually receive the supplementary demand.

We are being pressed to give urgent advice on these matters and really do need to be able to do so not later than the end of this week. I would therefore be very grateful for your views as soon as possible. If you would like to discuss this I would be very willing to do so.

I am copying this letter to First Parliamentary Counsel.

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TOM KING



Department of the Environment  
2 Marsham Street London SW1

Direct line 01-212 4729  
Switchboard 01-212 3434

C H de Waal Esq, CB  
Office of the Parliamentary Counsel  
36 Whitehall  
LONDON  
SW1

Your reference

Our reference

Date 11 March 1982

Dear de Waal

LOCAL GOVERNMENT FINANCE (NO 2) BILL: RETROSPECTION

This is to confirm our telephone conversation today.

Bedfordshire county council have resolved to issue a precept for 1982/83 for 24.6p in the pound. Subsequently, they resolved to issue a supplementary precept for the same year for a further 16.7p in the pound.

Clause 2(1)(a) takes away a precepting authority's power to issue a supplementary precept. Clause 2(3) makes it clear that the clause has effect in relation to the financial year 1982/83.

Clause 30(2) and Part I of Schedule 4 repeals section 149(1) of the Local Government Act 1972 for financial years beginning on or after 1st April 1982 to the extent that it enables a local authority to issue a supplementary precept.

Section 16(1)(a) of the Interpretation Act 1978 provides that the repeal of an enactment does not affect the previous operation of the enactment repealed or anything duly done under that enactment. But this rule yields to a contrary intention.

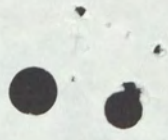
We agreed that the Bill if enacted in its present form would retrospectively invalidate the Bedfordshire county council supplementary precept. I mentioned that Bedfordshire county council had been advised by leading counsel that he believed that the Bill "may not be sufficiently tightly drawn" to achieve this result. You said that the link between a precept and a financial year was not too secure, but that there was nothing in any event which we could do about this. The Bill proceeds on the assumption that the link can be established.

If we are able to obtain a copy of counsel's opinion I will send it to you. Meanwhile, we are agreed that nothing further needs to be done to secure that the Bill when enacted will operate retrospectively to invalidate a supplementary precept issued before Royal Assent.

Yours sincerely

J. L. Comber

J L COMBER



4-11-1968

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TORONTO

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LIBRARY





Government Chief Whip  
12 Downing Street, London SW1

*local go c/su*

Prime Minister (2)

*Mus 12/3*

12 March 1982

LOCAL GOVERNMENT FINANCE (NO 2) BILL: WATER AUTHORITIES

Thank you for sending me a copy of your letter of 8th March to Giles Shaw.

I do not think we could hold the Committee on the line you propose, especially after what Giles has indicated both privately to Tony Durant/Brian Mawhinney and publicly to the Committee.

If we lost in Committee, I very much doubt if we could reverse on the floor: we would then be in the position of asking people to vote for reducing public rights v. W.As.

It is conceivable that a hard line on this might destroy the deal on the Bill: Labour laid a lot of emphasis on the Water Authority point in the earlier debates.

In conclusion, I feel that we shall be on very dangerous ground unless Tony Durant/Brian Mawhinney can be persuaded.

I am copying this to recipients of yours.

The Hon Nicholas Ridley MP  
Financial Secretary  
HM Treasury  
Parliament Street  
London SW1P 3AG

21 MAR 1992





Prime Minister (2)

cf sv

Mus 103

Local Govt

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

2 P/S

My ref:

Your ref:

9<sup>2</sup> March 1982

ms

Dear Nicholas

LOCAL GOVERNMENT FINANCE (NO 2) BILL: WATER AUTHORITIES

Thank you for your letter of 8 March about water audit.

I think it would be helpful to colleagues if I were to comment on one or two points in your letter, and to correct one or two misimpressions. Firstly, I do not think it at all probable we could get away without making any concession either in Committee or on Report. There is a peculiar sensitivity amongst members on both sides of the House about water authorities, and the idea has got about that we are denying the public an important existing set of rights in relation to them and offering nothing in return.

As the public do not have similar rights in relation to other industries, the implication of any concession is very limited; in particular, I cannot see where any implications for the PAC arise. We are involved in maintaining the status quo.

Last year's decision to restructure the membership of water authorities has to be seen in context. We were then contemplating a Water Bill in the current Session. That did not materialise, and we decided to issue a consultation paper about membership presenting a number of options. This is not a cynical exercise undertaken with our minds made up. We must allow the possibility of coming back to the membership question in the light of consultation. I welcome your evident conviction that there will be a Water Bill next Session, but colleagues have not decided this yet. We must meanwhile produce a workable proposal for auditing water authorities, as I believe my letter of 4 March does. I am certain that opposition members - or our own backbenchers - will seek to force amendments to the Bill.

Finally, whatever our decision in the Commons I believe the House of Lords will prove vigilant on this issue. In addition to the Chief Whip's views, colleagues may wish to take note of those of Janet Young, as expressed in the attached letter of 25 January from her Private Secretary.

I am sending a copy of this letter to those who received yours.

Yours  
Giles Shaw

GILES SHAW



Chancellor of the Duchy of Lancaster

RESTRICTED

RECEIVED IN  
26 JAN 1982  
PRIVATE OFFICE

*Adv to PS/Se/S  
Mr Gumb*

Management and Personnel Office

Whitehall London SW1A 2AZ

Telephone 01-273 4400  
GTN 273 4400

25 January 1982

*cc PS/PT. King*

Helen Ghosh  
Private Secretary to the Secretary of State  
for the Environment  
2 Marsham Street  
LONDON SW1P 3EB

*King*

*Dear Helen*

LOCAL GOVERNMENT FINANCE BILL: WATER AUTHORITIES

The Chancellor of the Duchy saw the Sunday Times article of 17 January about proposals to bring water authority audit arrangements into line with those of nationalised industries, and the effects on the present public rights of access to the accounts of water authorities. She has also seen the relevant passages in the Second Reading debate on the Local Government Finance Bill.

The Chancellor of the Duchy fully appreciates why it is proposed to bring water authority audit arrangements into line with those of nationalised industries. However, she has a good deal of sympathy with those who have misgivings about the withdrawal of an existing right of public access to information. Is the continuation of that right incompatible with a change in the audit arrangements?

There is, as you know, considerable pressure for a "Freedom of Information" Act. So far as we know, the advocates of such legislation have not yet addressed the question of public access to water authorities' accounts; but it seems inevitable that they will do so. If these provisions in the Bill go through as they stand, they will certainly be regarded as retrograde, and damaging to the credibility of the Government's policy of making "as much information as possible" publicly available.

If your Secretary of State considers it possible - even if somewhat anomalous - to preserve the historical rights of access to water authorities' accounts, the Chancellor of the Duchy feels that this would be extremely helpful in maintaining the Government's stand against general legislation on freedom of information. She believes that, at least, the question needs to be considered against the background of policy on open government.

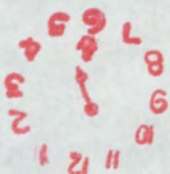
*Yours sincerely*

*Douglas Board*

D R H BOARD  
Assistant Private Secretary

RESTRICTED

107



-9 MAR 1982

BF



Local Govt

cc: J.V.

DEPARTMENT OF EDUCATION AND SCIENCE

Elizabeth House, York Road, London SE1 7PH

Telephone: 01-928 9222

The Permanent Secretary

Sir James Hamilton KCB MBE

MSPM

ms 1073

G W Moseley Esq CB  
Department of the Environment  
2 Marsham Street  
LONDON SW1P 3EB

8 March 1982

Dear George,

Thank you for sending me a copy of your letter of 23 February to Robert Armstrong about central/local government relationships. We are in the lead in one of the five operations to which you refer; and I very much agree with you that we should meet to take stock before Easter.

I am copying this to those who had Robert Armstrong's letter of 28 January.

Yours ever,

J

J A HAMILTON



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9 MAR 1982



Prime Minister

② local Govt.

Nick Ridley continues to think

that the proposed concession

Treasury Chambers, Parliament Street, SW1P 3AG on water

Giles Shaw Esq MP  
Parliamentary Under Secretary of State  
Department of Environment  
2 Marsham Street  
LONDON  
SW1

authorities' audit

will make it harder

March 1982 to hold the general

line on N.I.'s

audit.

Ms 8/3

Dear Giles

LOCAL GOVERNMENT FINANCE (NO 2) BILL: WATER AUTHORITIES

attached

Thank you for your letter of 4 March, which we have discussed.

To change our present policy, which you summarise in your second paragraph, could have implications for colleagues. The members of E Committee should therefore be consulted before matters are taken further.

To ensure that there is adequate time for this, you agreed to stall as necessary in the Committee stage of the Local Government Finance Bill. If need be, you could say that the matters under discussion raise wider issues, and that Ministers will come back to them on Report. I have to record that I regret that you have given a rather different impression to the Committee. As you know, I made my reservations known to you as soon as I heard of your proposals.

Briefly, you are suggesting that we should at least restore, and possibly enhance, the public's rights of access to the internal documents and the auditors of Water Authorities. As I have explained, this seems to me to pose three main problems.

If we confirm such rights in relation to water authorities, it would make it that much harder to deny them in relation to nationalised industries, or indeed other bodies. Yet it is our policy to do so.

Second, if we confirm such rights for the public, I cannot see how we could deny them to the Public Accounts Committee and the Exchequer and Audit Department. Yet we are in the midst of very delicate discussions on this.

Third, it is our collective policy to move the treatment of the water authorities away from that of the local authorities and towards that of the nationalised industries. If we do not carry through

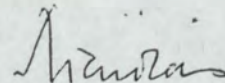
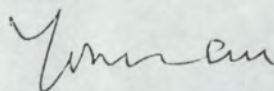


this year our decision to remove the public's right of access to the internal documents and auditors of water authorities, we are likely to face the same problem next year in the Water Bill. That Bill will remove the local authority majority from water authorities. It will therefore remove the only defence for maintaining rights which are appropriate only in relation to local authorities, where the rights exist because local authorities are answerable to their electors. On the other hand, not to do it now, might make it even harder to do it then.

Despite these misgivings, I entirely understand, that there is pressure to preserve the rights which now exist. I have seen some of this myself. As I explained to you, I hope very much that it can be resisted. If we bow to pressure here, we risk adding to our troubles on wider fronts. I should therefore be very glad to know from the Chief Whip whether he judges that we should be likely to succeed if we resisted the pressure on Report.

If some concession has to be made, we have common interest in trying to identify the least damaging course. I should like to help you as far as I can. But I have to say that any move would have to be more limited than that suggested in the annex to your letter. You kindly offered to take this away and consider it further.

I am sending copies of this letter, together with yours, to the Members of E Committee, the Secretary of State for Wales, and the Chief Whip, and Sir Robert Armstrong. I suggest that we proceed by correspondence unless colleagues feel that a meeting would be more useful.



NICHOLAS RIDLEY

13



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

My ref:

Your ref:

4 March 1982

*John Nick*

LOCAL GOVERNMENT FINANCE (NO. 2) BILL: WATER AUTHORITIES

Your Private Secretary wrote to Michael Heseltine's on 1 March about our proposals to amend the Local Government Finance No. 2 Bill as it relates to the audit of water authorities.

E(EA) Committee on 21 July last year accepted a number of proposals in a paper Michael had circulated on the water industry, including one that local government audit arrangements should cease to apply. Instead, we proposed that the Secretary of State should appoint the auditors of water authorities and the National Water Council. Existing public rights under the Local Government Act 1972 to inspect the accounts of water authorities and supporting material, to question the auditor, to object to items in the accounts and to call for an extraordinary audit should cease.

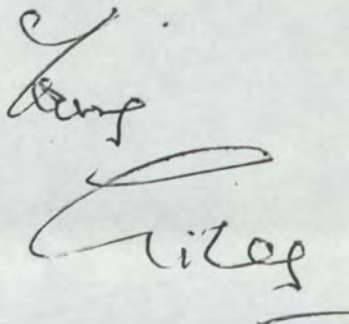
Our decision was a conscious one to put water authority auditing on all fours with the normal pattern of nationalised industry auditing. No public rights on access to accounts or to the auditor exist in relation to the conventional nationalised industries. We have however come under very considerable pressure to change our policy on public rights. Local ratepayers' associations and the National Federation of the Self Employed have mounted a campaign of strong resistance. You may yourself have received copies of letters from them. Over 50 members have passed correspondence on to me, and both Tony Durant and Brian Mawhinney, who are on the Bill Committee, have pressed the ratepayer's case. I am certain that if we were not to agree to amend the Bill ourselves, amendments would be tabled by the opposition or our own backbenchers. Accordingly, I have had to concede in Committee that we shall amend the Bill. In view of the sensitivity of access to nationalised industry accounts, and of audit questions more generally, I would like to consult you before we go any further.

What we have said, on the basis of the letter of 1 March, is that rights traditionally enjoyed by the public should be preserved. We cannot say less, since the weakness of our position all along

is that we have been removing rights without putting anything in their place. We cannot however say more without implying that we have taken a fresh look at what rights the public should have, and have concluded that they should be enhanced. This could have repercussions on the audit of other bodies which you, and other colleagues, might well find unacceptable.

For reasons explained in the Annex, it is not possible to preserve the exact provisions of the Local Government Act 1972, but it is possible to arrive at a reasonable approximation. We have not made so much public play of the analogy between water authorities and nationalised industries for these proposals, in my view, to constitute any embarrassment for you and other colleagues. The fact is that water authorities are sui generis - a hybrid between a local authority and a nationalised industry - and in this instance we are being constrained to continue a close link with local government. I do not accept the implication that any real analogy can be drawn between the activities of the Reading Ratepayers' Association in investigating the car pooling arrangements of the Thames Water Authority and the potential activities of the PAC in investigating the financial affairs of a nationalised industry.

We do accept that, if we secure a place in the legislative programme to restructure the water industry, we would need to reconsider these rights. I do not however think that we can rely on this eventuality to solve our difficulties quickly. I hope you will therefore find it possible to agree to the proposals in Annex A. It would greatly ease progress on the Bill if we could introduce amendments in Committee and we have told the Committee that is our <sup>intention</sup> aim. If we are to have any chance of achieving this we will need agreement tomorrow if at all possible.



GILES SHAW

## PUBLIC RIGHTS IN RELATION TO WATER AUDIT

At Present

1. The rights of the public in relation to the audit of water authorities (WA) and the National Water Council (NWC) are contained in Section 159 of the Local Government Act 1972. They are, in summary:

- (a) To inspect the accounts and all books, deeds, contracts etc relating to them and to make copies.
- (b) to question the auditor.
- (c) If the audit is carried out by the district auditor, to attend before him and make objections.
- (d) If the audit is carried out by an approved auditor, to apply to the Secretary of State for an extraordinary audit.

Proposed

2. It is proposed to retain identical rights to the present ones in relation to inspection and questioning the auditor.

3. It is not possible to preserve an identical right of objection as the district auditor, and hence the distinction between audits by the district auditor and audits by approved auditors, will disappear under the Bill. In future, the Secretary of State appoints the auditors of all WAs, so it is necessary to confer the same right of objection in relation to all of them.

4. "Objection" has been interpreted by the district auditor as restricted to matters on which he could take action if he finds the objection upheld. He has powers under the Local Government Act 1972 to surcharge or take court action if he finds there has been illegality, wilful misconduct etc. He also has power to make a report in the public interest on any matters arising out of or in connection with the accounts. All these powers may be triggered as the result of a successful objection.

5. It has been decided not to confer all the above powers to follow up illegality etc on the auditors of WAs. The powers imply the wrong approach to accounts and audit; in future, we want the true and fair view/profit and loss approach to prevail.

6. It is, however, possible to impose a duty, modelled on the local government equivalent, and deriving from the present duties of WA auditors, to make a report in the public interest on any matter coming to notice in the course of the audit. The corresponding public right in this case should be to draw the auditor's attention to any matter on which, in the view of the objector, he might make such a report. This preserves in essence the present right to bring before the auditor something on which he can take follow up action.

Alternatives

7. We have considered a number of alternatives to this approach, but have found them all defective.

(a) Not to make any concession.

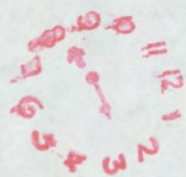
This would be quite impractical, considering the overwhelming weight of the public pressure to reinstate the rights.

(b) Preserve the rights to inspect and to question, but not the right of objection as the district auditor's office has ceased to exist.

This would be a clear diminution of existing rights, and would be unacceptable to ratepayers' groups and to Mr Durant.

(c) Put WAs under Audit Commission.

This would be at variance with our policy objective of achieving a closer direct relationship between the Secretary of State and the auditor. It would be a very embarrassing reversal of policy.



8 MAR 1982

dc 12/0  
✓

SC



**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522 ext 6981  
*From the Permanent Secretary*  
Sir Kenneth Stowe KCB CVO

G W Moseley Esq CB  
Permanent Secretary  
Department of the Environment  
2 Marsham Street  
LONDON SW1

3 March 1982

*in hand.*

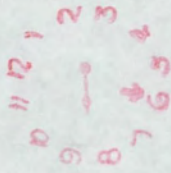
**CENTRAL/LOCAL GOVERNMENT RELATIONSHIPS**

Thank you for copying to me your letter of 23 February to Robert Armstrong. I agree that it would be a good idea for the Permanent Secretaries concerned with the CPRS study to meet and take stock, and I would be happy to join you before Easter as you suggest.

I am copying this letter to those who received copies of yours.

*Yours sincerely,*  
*K*

- 4 MAR 1982





*[Handwritten signature]*  


Prime Minister

MCS 3/3

The Treasury are  
revising a proposal  
to change the  
audit arrangements  
for water  
authorities,  
because of the  
wider CAG/PAC  
implications.

Treasury Chambers, Parliament Street, SW1P 3AG

David Edmonds Esq  
Private Secretary to the  
Secretary of State  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3ED

3 March 1982

*[Handwritten mark]*

Dear David,

LOCAL GOVERNMENT FINANCE BILL: WATER AUTHORITIES

I understand that Mr Giles Shaw, the Parliamentary Under-Secretary of State, will be writing later today to report on yesterday's Committee Stage of the Local Government Finance Bill. His letter is being copied to the members of E Committee because of its relevance to Government policy on the role of the Comptroller and Auditor General which was discussed at that Committee on 9 February. I am therefore attaching to this letter the previous correspondence on this subject and copying it to the Private Secretaries to the members of E Committee and to Sir Robert Armstrong.

Yours sincerely,  
David Willetts

D L WILLETTS  
Private Secretary



Treasury Chambers Parliament Street, SW1P 3AG

David Edmunds  
Private Secretary to the Secretary of  
State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1

March 1982

*Dear David,*

LOCAL GOVERNMENT FINANCE BILL: WATER AUTHORITIES

The Financial Secretary has seen your letter of 26 February to Jim Buckley about the proposed amendments to the audit arrangements to the water authorities. He was surprised that Treasury Ministers have not been consulted about these before.

The Financial Secretary is concerned not only that the amendments would move the treatment of the water authorities away from that of the nationalised industries and back towards that of the local authorities which was counter to the government's general policy, but also that they could be embarrassing in the wider context of the government's discussion with the PAC about the audit arrangements for nationalised industries. He has therefore asked that no commitments should be made to come forward with amendments until he and others have had a chance to consider what precisely is proposed. This is especially so as he understands there is some question of amendments creating new rights as well as preserving existing ones. If your Minister wishes to table amendments he will no doubt write to the Financial Secretary in the normal way.

In the meantime, the Financial Secretary has no alternative but to ask your Minister to stall in Committee tomorrow. The furthest he believes your Minister could conceivably go tomorrow would be to offer to consider an amendment to preserve existing rights without creating new ones. He wonders if it would be possible to rely on an undertaking to bring the whole matter back to the House on Report.

If there is any question of your Minister's making a prepared statement of the government's intentions, the Financial Secretary would be grateful if it could be cleared with his officials.

I am sending copies of this letter to the private secretaries to the Chancellor of Duchy of Lancaster, the Lord President, and the Secretary of State for Wales. I am also copying this to William Chapman in Giles Shaw's office: I have already reported its contents to him over the phone.

Yours sincerely,  
David Willetts

D L WILLETTS  
Private Secretary



Prime Minister (2)

To note.

MUS 3/3

3 March 1982

Prime Minister

At their meeting on 3 February, Cabinet asked me to circulate a note on the GLC's expenditure plans and precepts for 1982/3.

The position has now been clarified considerably following the Council's budget meeting on 16 February. As I understand the position, the Labour Party have succeeded in steering through a budget of £688m and a net precept of 34.85p compared with 18.2p for 1981/2. Discounting the special provision for the LTE deficit the budget provides for a 23% increase in cash expenditure. It includes:

- a. a 100% fares increase for London Transport in March, but no further increase in 1982;
- b. a further £15m reduction in the London Transport budget for 1982, either through improved efficiency or reduced services;
- c. a further £20m reduction in revenue support for London Transport in the first quarter of 1983 which may precipitate a further fares increase in 1983;
- d. continuation of free fares for old-age pensioners and the disabled at the present level, and costing £50m;
- e. repayment of London Transport's £125m deficit brought forward from 1981-2 in a single year with money raised from the rates, ie they reject the Secretary of State for Transport's offer of a £125m loan repayable over 5 years. Together these add up to an 88% increase in Transport spending;
- f. 3% real terms reduction in all non-transport services. (My target for the GLC seeks a 7% real reduction on all services). But this is offset by;
- g. £40.6m for new policies and developments, including £1 a week rent rise for council tenants (as opposed to the £2.50 guidelines I have recommended.);
- h. £70m for contingencies, including £45m for pay and price rises up to March 1983 (£14m for LT) and a net £25m (1½p rate) for potential block grant losses during the year.

This budget is somewhat more reasonable than we had originally feared. The decision to pay off the £125m of LT deficit from 1981/2 (instead of accepting David Howell's offer of a loan to enable it to be paid off over 5 years) is expensive for the ratepayer in 1982/3 but will be cheaper for them in the long run. The GLC cannot be strongly criticised for adopting that view, although of course it in no way excuses their having created the problem in the first place. With the quashing of the supplementary precept Londoners have in any event now benefitted from 6 months cheap fares for which they have not paid. It is not unreasonable that they should do so at some stage. I agree with David Howell, therefore, that there is no need to seek to force the GLC to accept a loan.

Outside the transport field we cannot, however, regard the budget as satisfactory. The 3% in real reductions on committee budgets is more than offset by the provision for new development and goes nowhere towards meeting the 7% real reduction I had called for in the targets I set for this year. There is no doubt, therefore, that the GLC precept is higher than it needed to be and we should point this out at every opportunity.

#### General London Rate Increases

/ The attached note puts the GLC's precept increase in the context of the pattern of London rate increases generally. This shows that even with this 92% increase in the GLC precept the average domestic rate increase in London will probably be in the range of 18-20%. (This is because the GLC precept in 1981/2 accounted for only 15% of the total expenditure in London; and it appears that generally rate increases in the London boroughs will be at comparatively low levels). At this level London rate increases in percentage terms, will be slightly above those in the rest of the country which I presently estimate at 17-19%. This estimate is still provisional.

*MH*

MH

ILEA AND METROPOLITAN POLICE

The Metropolitan Police have announced a precept 17.6% higher than last year. ILEA has increased its precept by 13%. In inner London these 2 precepts have 2 or 3 times the weighting of the GLC precept so that effect of the GLC increase is considerably moderated.

The evidence on borough rate increases so far - excluding the effects of precepts - shows the following pattern of increases in domestic rates.

INNER LONDON

Increase	Number of Authorities				
	-10% and over	-5 to -10%	-5% to 0	0 to +5%	5 to 10%
	3	3	1	5	1

- suggesting an average decrease of between 0 and 5%.

OUTER LONDON

Increase	Number of Authorities		
	-5% to 0	0 to 5%	5 to 10%
	3	8	9

- suggesting an average increase of just about 5%.

These rate increase figures reflect the slightly more helpful grant settlement agreed for London and the pressures of election year. The average increase in London rates is likely to be in the range of 18-20%.

The following table shows the number of persons who have been granted a grant of 17.5 percent in London in 1950. This has increased to 17.5 percent in 1951. In 1950, 17.5 percent of the total population of London was granted a grant of 17.5 percent. In 1951, 17.5 percent of the total population of London was granted a grant of 17.5 percent.

The change in the number of persons who have been granted a grant of 17.5 percent in London in 1950 and 1951 is shown in the following table. The number of persons who have been granted a grant of 17.5 percent in London in 1950 is 17.5 percent of the total population of London. The number of persons who have been granted a grant of 17.5 percent in London in 1951 is 17.5 percent of the total population of London.

TABLE 10 (continued)

Number of persons	Number of persons		Number of persons
	17.5 to 19.0	19.0 to 20.5	
1	1	1	1

The change in the number of persons who have been granted a grant of 17.5 percent in London in 1950 and 1951 is shown in the following table.

TABLE 10 (continued)

Number of persons	Number of persons		Number of persons
	17.5 to 19.0	19.0 to 20.5	
1	1	1	1

The change in the number of persons who have been granted a grant of 17.5 percent in London in 1950 and 1951 is shown in the following table.

The following table shows the number of persons who have been granted a grant of 17.5 percent in London in 1950. This has increased to 17.5 percent in 1951. In 1950, 17.5 percent of the total population of London was granted a grant of 17.5 percent. In 1951, 17.5 percent of the total population of London was granted a grant of 17.5 percent.

3 MAR 1952



17

C. A. Whitmore, Esq.



CABINET OFFICE

With the compliments of  
Sir Robert Armstrong KCB, CVO  
*Secretary of the Cabinet*

70 Whitehall, London SW1A 2AS  
Telephone: 01-233 8319





CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A07673

1st March, 1982

Central/Local Government Relationships

Thank you for your letter of 23rd February.

I agree that it would be useful if the Permanent Secretaries concerned were to meet from time to time informally to take stock of the various pieces of activity that are going on in this area. I note that you propose to arrange for a first meeting just before Easter; I hope that I may be included in your list of invitations.

I am sending copies of this letter to those who have received copies of yours.

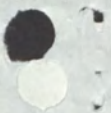
**ROBERT ARMSTRONG**

G.W. Moseley, Esq., CB

Local Govt

AD

NBPM



12 11 10 9 8 7 6 5 4 3 2 1  
MAR 2 1982  
F. A. B. C. K. O.

MS/PS/PS/100/1/1

Your ref:

26 February 1982

Dear Sir

LOCAL GOVERNMENT FINANCE BILL: WATER AUTHORITIES

Thank you for your letter of 25 January <sup>✓ added</sup> about public rights in relation to the audit of water authorities.

There has been a considerable degree of opposition from MPs, ratepayers' associations and others to the loss of these public rights. The rights are unprecedented in nationalised industries, and the purpose of the water authority provisions in the Local Government Finance (No 2) Bill is to put water authority accounts and audit provisions on all fours with the normal nationalised industry provisions.

Nevertheless, in view of the widespread public feeling, Mr King and Mr Shaw have concluded that the right to inspect accounts and supporting material, to question the auditor and to draw the auditor's attention to any matter on which he might make a report in the public interest should be made available to the public. This will preserve in substantial measure the present rights.

Amendments on these lines are now to be drafted. I am sending a copy of this letter, together with yours, to the Private Secretaries to the Lord President, the Chief Secretary, and the Secretary of State for Wales so that they may be aware of this change in policy.

In view of the present rate of progress in Standing Committee and the Opposition's interest in this area we shall need to move quickly to get them down, and I would be grateful to have your agreement by midday on Monday, 1 March.

*Yours ever*  
*D A Edmonds*

D A EDMONDS  
Private Secretary

Chancellor of the Duchy of Lancaster

Helen Ghosh  
Private Secretary to the Secretary of State  
for the Environment  
2 Marsham Street  
LONDON SW1P 3EB

Ministry of the Environment  
Whitehall London SW1A 2JF  
Telephone 01773 2200  
076 270 2200

25 January 1982

cc PS/PT. Kinc

Dear Helen

LOCAL GOVERNMENT FINANCE BILL: WATER AUTHORITIES

The Chancellor of the Duchy saw the Sunday Times article of 17 January about proposals to bring water authority audit arrangements into line with those of nationalised industries, and the effects on the present public rights of access to the accounts of water authorities. She has also seen the relevant passages in the Second Reading debate on the Local Government Finance Bill.

The Chancellor of the Duchy fully appreciates why it is proposed to bring water authority audit arrangements into line with those of nationalised industries. However, she has a good deal of sympathy with those who have misgivings about the withdrawal of an existing right of public access to information. Is the continuation of that right incompatible with a change in the audit arrangements?

There is, as you know, considerable pressure for a "Freedom of Information" Act. So far as we know, the advocates of such legislation have not yet addressed the question of public access to water authorities' accounts; but it seems inevitable that they will do so. If these provisions in the Bill go through as they stand, they will certainly be regarded as retrograde, and damaging to the credibility of the Government's policy of making "as much information as possible" publicly available.

If your Secretary of State considers it possible - even if somewhat anomalous - to preserve the historical rights of access to water authorities' accounts, the Chancellor of the Duchy feels that this would be extremely helpful in maintaining the Government's stand against general legislation on freedom of information. She believes that, at least, the question needs to be considered against the background of policy on open government.

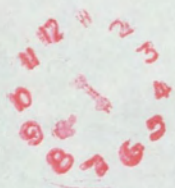
Yours sincerely

Douglas Board

D R H BOARD  
Assistant Private Secretary

RESTRICTED

13 MAR 1952



CM

26 February 1982

Dear Horace,

Many thanks for your letter of 10 February, together with your enclosed copy of a letter of the same date to Michael Heseltine.

It was good of you to send me this important correspondence. I have been keeping in close touch with events. I share your worries about the outcome, for travellers and ratepayers alike.

Yours ever,

(sgd) MT

Sir Horace Cutler, O.B.E.

W



*200*

*NBPM  
MM 25/2*

DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222  
FROM THE SECRETARY OF STATE

*SECRET*

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON SW1 3EB

25 February 1982

*Dear Michael,*

LOCAL GOVERNMENT FINANCE (NO 2) BILL

*TPMD*

Thank you for your letter of 22 February.

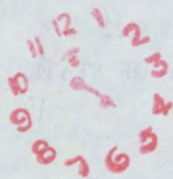
Tom King said in Standing Committee on the Bill on 9 February (Col 168) that the categories dealt with in the amendment under discussion - which included "Any circumstances over which it [The local authority] had no control" - might be of a kind to "sustain a case for a local authority to come to the Secretary of State to try to borrow". I take your point about the need to avoid a firmer public pronouncement than this, and am therefore content with what you say in your penultimate paragraph.

I am copying this letter to the Prime Minister, the other members of E Committee and Sir Robert Armstrong.

*Yours,*

*King*

25 FEB 1982



DEPARTMENT OF EDUCATION

100 WATERLOO STREET, LONDON WC2A 3LH

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The Permanent Secretary  
G W Moseley CB

NBPM Ms 24/2

Department of the Environment  
2 Marsham Street London SW1P 3EB  
01-212 8051

Sir Robert Armstrong KCB CVO  
Permanent Secretary  
Cabinet Office  
70 Whitehall  
LONDON  
SW1A 2AS

23 February 1982

✓ AD  
*Dear Robert,*

CENTRAL/LOCAL GOVERNMENT RELATIONSHIPS

Please refer to my letter to you of 9 February.

I understand from Terry Heiser that Alan Bailey chaired a very useful meeting last Friday to discuss the implementation of the CPRS remit to examine issues on the relationship between central and local government.

I gather that CPRS have decided to prepare a first report for Cabinet for May, aimed at providing a framework for the pieces of work already in hand interdepartmentally and drawing on bilateral discussions between CPRS and the Departments concerned; and that CPRS will consider the timing and content of a further stage to this work in the light of Cabinet decisions at the end of May.

If I may say so, I think that this is a very sensible approach. But I have little doubt that we will all be involved in continuing work on local government matters for some time ahead - there are already five interdepartmental operations in play. In the circumstances I would feel reassured if I and other Permanent Secretaries immediately concerned were to meet from time to time informally to take stock. Although of course we will each separately be receiving reports from our own Department, I think there is much to be said for us looking collectively at developments and the way forward.

If you agree, I suggest that I arrange for a first informal meeting just before Easter to which I would plan to invite Alan.

I am copying this letter to the recipients of your first letter of 28 January.

*Yours ever*

*G W Moseley*

G W Moseley

24 FEB 1982

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11/12

*Local Govt*



*Copy to Mr. [unclear]*

*2*

2 MARSHAM STREET  
LONDON SW1P 3EB

*Prime Minister*

My ref: H/PSO/10584/82

*MS  
22*

Your ref:  
22 February 1982

*Dear Ruth*

*MS*

LOCAL GOVERNMENT FINANCE (NO 2) BILL

*AS*

Thank you for your letter of 22 January about temporary borrowing by local authorities in the context of Part I of the Bill. I am sorry not to have picked up the point as raised in your earlier letter to me of 15 December, commenting on my draft statement to the House about the Green Paper and the new Bill.

In your letter you express concern about the cash flow difficulties an authority might get into, in view of the ban on supplementary rates and precepts, if it budgeted in line with Government inflation assumptions which subsequently turned out to be over-optimistic. You asked for my assurance that I would not adopt too restrictive an approach if authorities in such circumstances sought my approval for temporary borrowing. You also suggested that what Tom King and I said in the Second Reading Debate on the Bill gave the impression that we would adopt a hard line in the face of approaches of this nature.

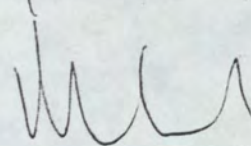
The pay and price assumptions used by Government in the RSG settlement are of course as much a guideline and a discipline for authorities as a forecast - inevitably so, since pay lies in the hands of the authorities themselves. The traditional approach of successive Governments has been that pay awards in excess of the guidelines must mean savings elsewhere; they are not to be regarded simply as a licence to increase expenditure still further. In the fight against inflation and in our efforts to maintain the downward pressure on local authority expenditure and to stimulate economies and the elimination of waste it is essential that we do nothing to undermine this position.

Together with the need to re-assure the money markets that the Bill would not precipitate a jump in local authority borrowing, this is one of the main reasons why our public pronouncements on the possibility of temporary borrowing have necessarily been tough. It would have defeated the object of the exercise if we were ever to hint that there existed an easy way out for authorities if pay or price increases exceeded expectations. This was why we instanced in public only natural disasters as a case where an authority might seek temporary borrowing approval.

This does not, however, imply that a natural disaster is necessarily the only situation in which temporary borrowing approval would be granted. In the event of any application for approval I intend to take each case as I find it, reaching my decision - after due

consideration and consultation with colleagues as necessary - in the light of all the relevant circumstances. As I have made plain in various statements, I do indeed intend to adopt a rigorous and critical approach in scrutinising such applications; but I can assure you that it would not be my intention to push a local authority into serious difficulties, either in relation to its finances or to the fulfilment of its statutory obligations, by deciding to withhold or to modify the borrowing approval it sought, if it were clear that this would be the inevitable consequence of such a decision. But as far as public pronouncements on this matter are concerned I think it would be most unwise to say any more than has been said already.

I am copying this letter to the Prime Minister, the other members of E Committee and to Sir Robert Armstrong.

*Yes*  


MICHAEL HESELTINE

2 FEB 1982

1 2 3 4 5 6 7 8 9 10 11 12



*See AT*  
*ces. Tsy*  
*JOE*

10 DOWNING STREET

*From the Principal Private Secretary*

22 February 1982

*Mrs Imogen,*

The Prime Minister has asked me to thank your Secretary of State for his minute of 17 February 1982 about the performance of Hertfordshire LEA.

She was grateful for this information.

I am sending copies of this letter to John Kerr (Treasury) and David Edmonds (Department of the Environment).

*Mrs Imogen,*

*Anne Whitman*

Mrs Imogen Wilde,  
Department of Education and Science.

*AT*

RATES

cc Mr Ponsford  
Mr Walshe

PS/Secretary of State

PROPOSED RATE INCREASES - 1982-83

Nine non-met. counties changed control to Labour in May 1981.

These councils have before them recommendations from Finance/  
Resources Committees:

Percentage Precept increases (April to April)

Humberside	61
Notts	53
Avon	40
Derby	25
Cumbria	23
Lancs	22
Cleveland	20
Northumberland	20
Staffs	19

The other council under full Labour control, Durham has a recommended increase of 17%. (April to April)

← The 20 Conservative controlled counties have average recommended precept increase of 11-12%. (April to April)

The remaining 9 counties with no overall control or Liberal control have an average recommended precept increase of 20%. (April to April).

The Annex gives a list of recommended increases in the Shires.

Four of the six Met. counties changed control to Labour in May 1981.

Greater Manchester has before it a recommendation for an increase of 27% in its precept (April to April).

Press reports suggest that W. Yorkshire's plans imply an increase of 66½% (April to April), though this is not a recommendation by the Policy and Resources Committee.

Information is not available for the other Met. counties.

GLC declared net precept increase of 91% (April to April).

J. E. Kidgell.

J E KIDGELL  
FLAS

18 February 1982

## ANNEX A

Shire Counties - Recommended rate increases April 1981 to April 1982

(percentages)

Conservative Controlled

Dorset	11.8
E. Sussex	13.8
Here. & Worcs	16.4
Kent	11.0
Lincs	5.2
Norfolk	11.8
N. Yorks	9.6
Oxford	12.4
Somerset	6.9
Suffolk	9.7
Surrey	9.7
W. Sussex	10.7
Wilts	13.9
Bucks	9.49
Cambs	5.22
Devon	15.78
Hants	11.84
Herts	15.32
Warwicks	10.98
Essex	14.87

Average = 11.32%

N.O.C.

Cheshire	32.5
Cornwall	9.8
Gloucs	9.6*
Northants	19.3
I.O.W.	11.9
Leics.	27.58
Berks	37.50
Salop	9.77
Beds	n.a.

Average = 19.74

Labour Controlled

Avon	39.8
Cleve	20.0
Lancs.	22.2
Staffs	19.1
Cumbria	23.29
Durham	17.08
Humbs.	61.06
Northumb.	19.59
Notts.	52.75
Derby	n.a.

Average = 30.67

\* Declared

RATES 13

Speaking Note for Prime Minister

Mr Straw purports to show ratepayers pay more in Conservative controlled areas than in Labour controlled.

This is misleading and fallacious.

You can't look at average weekly payments in different authorities without taking account of the types of property.

Does Mr Straw really argue that someone living in a large detached suburban house ought to pay same weekly rates as someone in small terraced house, and?

if they are not, this is a tribute to the Labour Council concerned?

It is the poundage that is important - comparing houses of similar rateable values in different areas

Example: Rateable Value of £200

in Herfordshire	- rate bill - £239 per annum
West Midlands	- rate bill - £287 per annum
South Yorks	- rate bill - £355 per annum

Labour are responsible for higher rate poundages - look what happened last May when Labour gained overall control of 9 Shire counties - 7 raised supplementary rates; gained control of 4 Met. counties - 3 raised supplementary rates.





Briefing Notes on JACK STRAW's press release 25/1/82

1. Sources of information: CIPFA "Financial, General and Rating Statistics, 1981-82".
2. Mr Straw's figures are correct.
3. His argument fallacious. He compares tax take in each county. This is influenced by wealth of the county.
4. Should consider tax rate - i.e. the rate poundage.
5. This shows different picture: of 10 counties with lowest rate poundage, 7 are Conservative; only 2 Labour (these were won in May 1981 - Humberside - equal 7th; Notts. 10th).  
Of 10 counties with highest rate poundage 7 are Labour and only 3 Conservative (8th, 9th and 10th in this list).
6. Supplementary rates: 9 Shire counties and 3 Met. counties raised supplementary rates in 1981-82. All were Labour.  
Of the 9 Labour gains (shires) in May 1981, 7 raised supplementary rates.
7. Mr Straw's list shows very little - almost equivalent to listing counties by their wealth (as measure by Rateable Value).  
"If you asked me to list the 9 counties with the highest domestic rateable value per hereditament, I would give you the first 9 of Mr Straw's list of rate bills'."

# Domestic rate poundage and RV per domestic hereditament 1981-82

(Source: CIPFA)

<u>Shire counties</u>	Domestic Poundage		Dom. RV per dom. hereditament	
	(p)	(Rank)	(£)	(Rank)
<u>conservative</u>				
Beds +	119.7	32	228.3	6
Berks +	110.6	12	253.4	4
Bucks	112.1	16	273.9	2
Cambs.	114.5	25	201.1	14
Devon	102.6	3	175.9	24
Dorset	116.8	30	211.6	12
E. Sussex	113.6	20	223.6	9
Essex	108.5	7	240.1	5
Gloucs +	114.3	23	186.6	16
Hants	113.8	21	212.3	11
Hereford + Worcester	113.3	19	209.2	13
Herts	119.4	31	258.8	3
Kent	110.6	12	183.6	20
Leics +	99.3	1	185.3	18
Lincs	113.0	17	153.7	32
Norfolk	106.3	4	169.7	28
N. Yorks	113.2	18	152.2	33
Oxford	111.5	15	224.2	8
Somerset	108.9	9	176.2	23
Suffolk	116.7	29	183.7	19
Sussex	107.6	6	279.9	1
Warwickshire +	115.7	27	224.3	7
W. Sussex	107.2	5	216.5	10
Wilts	110.0	11	172.2	27

## Ind. & Lib

Cornwall	102.3	2	152.1	34
Isle of Wight	115.2	26	172.8	26

+ No overall control; CON. largest party.

FLAS: 25/1/82

Domestic rate poundage and RV per domestic hereditament

1981/82

(Source: CIPFA)

Shire counties			Domestic Poundage (p)	(Rank)	Dom. RV per dom. hereditament (£)	(rank)
<u>Labour</u>						
Avon	S	*	122.2	33	181.9	21
Cheshire +	S		126.6	35	196.8	15
Cleveland	S	*	154.4	39	159.5	29
Cumbria	S	*	134.6	37	128.2	38
Derby			114.3	23	155.9	31
Durham	S		137.8	38	126.3	39
Humberide	S	*	108.5	7	144.6	37
Lanes	S	*	125.0	34	145.7	36
Northants +	S		115.8	28	185.8	17
Northumberland		*	127.8	36	147.2	35
Notts	S	*	109.6	10	158.3	30
Shrops. +			114.0	22	173.5	25
Staffs		*	110.6	12	180.7	22

+ no overall control; LAB largest party

Met. counties

G. Manchester		*	140.1		166.7	
Merseyside	S	*	139.6		181.1	
S. Yorks			177.5		129.8	
Tyne & Wear			165.8		142.0	
W. Midlands	SS	*	143.7		206.8	
W. Yorks	S	*	129.4		127.0	

S - Supplementary rates levied at county level  
 SS - " " " " " " and local level  
 \* - Labour gain in May 1981

FLAS: 25/1/82

## Rates analysis 'justifies Labour'

By David Walker

Rates in London and the South-east are substantially higher than those in most other parts of England, according to calculations for 1981-82 released yesterday.

Average weekly household payments in inner London are more than £8 and above £5.50 in several of the home counties, while in West Yorkshire they are just over £3. For Cornwall, the cheapest English county, the figure is £2.99 a week.

The library of the House of Commons made the calculations at the request of Mr Jack Straw, Labour MP for Blackburn. He said in a statement that the analysis destroyed the myth that all local Labour councils levied high rates.

A table of weekly payments showed that rates in the 13 shire counties controlled by Labour averaged £3.77, which was 74p a week lower than in the 24 comparable Conservative counties.

"The figures undermine the case by which the Government has sought to justify the powers which it is taking under the Local Government Finance Bill now before Parliament", he said.

Mr Straw's figures do not tell the whole story. All the counties now in Labour control, except Durham, were Conservative until May last year. The rates were set before the change of political control. But Mr Straw said that even with the supplementary rates levied by incoming Labour councillors in several areas, those shire counties looked relatively frugal.

The rates burden appears heavier in the South of England than in the North, regardless of political control. That is probably explained as much by the relative rateable values as by the collective parsimony of people in such counties as Yorkshire.

Average weekly household rates week (£)

Inner London	8.59
Outer London	6.88
Hertfordshire	5.94
Buckinghamshire	5.90
Surrey	5.79
Essex	5.01
East Sussex	4.89
Merseyside	4.86
Cheshire	4.79
Cleveland	4.73
Hampshire	4.65
Tyne & Wear	4.53
Greater Manchester	4.49
Cambridgeshire	4.43
South Yorkshire	4.43
Suffolk	4.12
Kent	3.91
Lancashire	3.50
Devon	3.47
Cumbria	3.32
West Yorkshire	3.15
Cornwall	2.99

The figures include payments for supplementary rates; no adjustment has been made to the London figures for any repayments made as a result of the Law Lords' decision in the Greater London Council fares case.

The Times 25 January 1982

2.

Prime Minister

AD

*[Handwritten signature]*

17/2

PRIME MINISTER

see MCS to  
/ Env 2/2/82

I understand from Paul Channon that during the course of the meeting on 1 February to discuss the RSG Settlement for 1982-83, Michael Heseltine remarked that Hertfordshire LEA ran an expensive education service; and you asked whether Hertfordshire's 'O' and 'A' level results were better than elsewhere.

2. Hertfordshire's provision is better than the average for shire counties in certain respects, but the authority's expenditure on education as a whole is reasonable. In the past, the authority had, for example, generous pupil teacher ratios, but it has reduced its expenditure on education in real terms by 4.2 per cent between 1979-80 and 1980-81 compared with an average reduction for English authorities of 2.3 per cent. In 1981-82 its budget for education is estimated to be at or slightly below the education component of its grant-related expenditure (GRE) assessment.

3. There are variations in expenditure between the different education sectors. Compared to national averages it spends relatively less on non-advanced further education than it spends on schools. Its overall pupil teacher ratios for primary and secondary schools are therefore somewhat more favourable than the national average, though with the usual variation from school to school. In non-advanced further education, however, the authority has been rather slow to replace obsolete equipment. The authority has put a particular emphasis on nursery education and a much higher percentage of three and four year olds are receiving education in nursery schools and classes or in reception classes than in most English counties.

4. In the opinion of HMI Hertfordshire provides a reasonably satisfactory education service with a satisfactory level of resources, sustained through a reserve of books and materials built up in previous years. Shortages are beginning to appear which, together with the consequence of falling rolls, are affecting adversely the organisation and curriculum of the authority's smaller secondary schools.

5. Hertfordshire's examination results are consistently well above the average, thereby reflecting the nature of its population and its expenditure policies. In 1980, for example, 27 per cent of the authority's school leavers obtained at least 5 higher grades in GCE 'O' level or CSE examinations, compared with the national average of 21 per cent; at 'A' level, 16.1 per cent of school leavers obtained at least 1 pass, compared with the national average of 12.6 per cent for school leavers from maintained schools.

6. I am sending copies of this minute to Geoffrey Howe and Michael Heseltine.

*[Handwritten initials]*

17 FEB 1982

117 FEB 1982



117

CONFIDENTIAL



01-405 7641 Extn 3201

Prime Minister

Ms 15/2  
ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

12 February 1982

Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
2 Marsham Street  
SW1

Dear Michael.

Thank you for your letter of 8 February about the case brought against you by some of the London Boroughs in which your decision to abate rate support grant for 1980-81 was quashed by the Divisional Court.

As you say, the terms of the Court's judgments left it open to you after considering representations to reach a fresh decision within the terms of the Act and the 1980 Multiplier Order. The effect of that decision could be to abate rate support grant due so that no further money is now payable to the Councils in respect of that financial year.

I understand that Robert Alexander's advice that you should consider offering ex gratia payments in lieu of interest was based in part upon the consideration that it might prevent further troublesome litigation being commenced. However, this objective can no longer be achieved.

Accordingly, I am content that you should not offer to pay any interest or equivalent sum at this stage. I do not think it would be advisable to make any such concession in the context of the further litigation which has begun. Assuming your decision has the effect you think possible, to make a payment would be inconsistent with the contention that that decision was validly made. The important point is that you should

/announce

CONFIDENTIAL

CONFIDENTIAL



01-405 7641 Extn

ROYAL COURTS OF JUSTICE  
LONDON, WC2A 2LL

- 2 -

announce your decision as soon as possible.

I understand that your decision letters are being considered in draft by Counsel and they will be discussed in conference with Robert Alexander on Tuesday morning.

I am copying this letter to the recipients of yours (the Prime Minister, the Chief Secretary and to the Leader of the House).

*Yours are - Michael.*

CONFIDENTIAL



15 FEB 1982



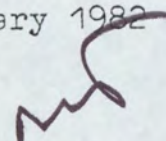


Prime Minister (2)  
rus 11/2  
2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

February 1982



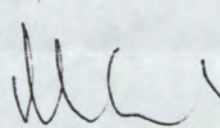
In brief

David Howell sent me a copy of his letter to you of 5 February about the GLC fares issue.

I agree with David that we need to take this subject on a wide front if we are to get our message across. In particular, I see no great advantage in getting drawn into the intricacies of the block grant argument. Although our position on this is logically impregnable - in the sense that the GLC's loss of grant for high spending is no different in kind from that of many other authorities with high resources - the argument is too technical to make a wide political impact.

/ I would therefore propose to base my public comments on the enclosed note, which concentrates on the simple political points.

I am sending copies of this letter and enclosure to the Prime Minister, other members of the Cabinet, and Sir Robert Armstrong.

Yours ever  


MICHAEL HESELTINE

Rt Hon Francis Pym MP

CONFIDENTIAL FILE SW



bcc: Mr. Duguid

10 DOWNING STREET

*From the Private Secretary*

11 February 1982

*Dear Anthony,*

GLC AND LONDON TRANSPORT: EMERGENCY POWERS

The Prime Minister read with interest your Secretary of State's minute of 10 February, together with the enclosed paper on the emergency powers which may be needed if events so turn out in relation to the GLC's budget.

The Prime Minister is generally content with the Secretary of State's approach. She agrees that an urgent meeting of E Committee will be needed as soon as possible after 16 February if the GLC's meeting on that day fails to settle the budget issue in a reasonable way.

I am sending copies of this letter to the Private Secretaries to Members of E Committee, the Lord President, Sir Robert Armstrong and First Parliamentary Counsel.

*Yours sincerely,*

*Michael Scholar*

Anthony Mayer, Esq.,  
Department of Transport.

*SW*

CONFIDENTIAL

From **SIR HORACE CUTLER, O.B.E.**  
**LEADER OF THE OPPOSITION**  
**GREATER LONDON COUNCIL**  
**THE COUNTY HALL, SE1 7PB**  
**Telephone 01-633 3304/2184**

CF Harweack'd replied?

Prime Minister (2)

*mb*  
I am acknowledging.

MUS 10/2

10 February 1982

The Rt. Hon Mrs. Margaret Thatcher, MP  
The Prime Minister  
10 Downing Street  
SW1

*My office  
will reply  
next*

*Dear Mrs Thatcher,*

Although you have not had the benefit of the events and correspondence on this matter I thought it of sufficient importance and principle to bring it to your notice.

*I hope you are well*

*Yours ever*

*Horace.*

From SIR HORACE CUTLER, O.B.E.  
LEADER OF THE OPPOSITION  
GREATER LONDON COUNCIL  
THE COUNTY HALL, SE1 7PB  
Telephone 01-633 3304/2184

The Rt. Hon. Michael Heseltine, MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London, SW1P 3EB

10 February 1982

*Dear Michael,*

Together with my colleagues I have now had the opportunity of discussing both your letter and that from David on London Transport fares and the GLC Budget itself.

As we read it, it seems that whatever we do as a responsible Opposition and whatever reasoned amendments we put forward, in the event of their not being carried we would be in default of our statutory obligations if we did not then vote for the substantive motion in order for it to succeed, notwithstanding that certain members of the controlling labour group voted against.

If this is the correct interpretation of what is said it means that in the final reckoning we will become part of the decision to raise rates to whatever level the labour group want, whether it be 12p or however outrageous it may be. It is quite pointless and useless to tell us that amendments can be moved and the force of our arguments made known. We do not have the benefit of a Hansard and no way of communicating our views except by press release.

The analogy is that if the Government found themselves in the same position as the labour group here, i.e., split to the point of not being able to carry their business, they would fall. There is no provision in the Acts under which we exist for any such an eventuality, and the position becomes farcical.

In the circumstances it is going to be a formidable task to keep our group together, and I certainly am in no position to whip them if they are warned that they are in default of their statutory duty and therefore there is a possibility of surcharge.

So far as London Transport is concerned what is going to be our position if the labour group propose a further fares increase this year? David's letter points out that there is no need for this to happen but it may be proposed. We will then be in exactly the same difficulty that we find ourselves in now.

All in all/

All in all this is most unsatisfactory. The advice means that we apparently have to agree to a Budget next week that will result in a very substantial rate increase, most of which is unnecessary, and a gift of some £200 million for the labour group to spend as they wish in 1983/4 and 1984/5. The damage they could do to the Government and the Party would be far greater than is generally thought possible at this time. I view it with considerable concern and anxiety. We must not forget what Herbert Morrison achieved in the 1930's with the London County Council and the consequences of his success which were very far reaching indeed.

*Yours  
Horace*

(HORACE CUTLER)

I am copying this letter to the Prime Minister  
and to David Howell

10 FEB 1982

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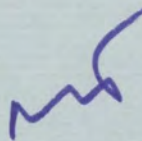
**CONFIDENTIAL**

2 pps

①  
AD

Prime Minister

PRIME MINISTER

Yes 

Agree with the approach  
at X and Y?

MCS 10/2

GLC AND LONDON TRANSPORT : EMERGENCY POWERS

At our meeting on 3 February I was asked to develop proposals for legislation which would require the GLC to approve London Transport's budget and to pay subsidy to LT against the possibility that the GLC might not approve LT's budget or otherwise failed to act in a reasonable manner.

I understand that the Labour group have now agreed on the budget to be proposed at the Council's meeting on 16 February. They propose:

- (a) to implement LT's revised budget without any further fares increase in 1982 beyond the 100% next month;
- (b) the continuation of their full concessionary travel scheme; and
- (c) to pay off LT's deficit next year without taking advantage of our offer to allow LT to borrow to cover it.

They have taken the view, however, that the Lords judgement would require further fare increases in LT's budget for 1983. They have therefore assumed that an extra £25m would be raised from increased fares in the first quarter of 1983 unless the law is amended. This could mean an increase of 50% or more on top of the increased March 1982 level.

**CONFIDENTIAL**



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x / If the GLC adopt a budget on these lines, I would not see any need to intervene further. It therefore looks as though the legislation I am bringing forward may need to deal only with travel concessions. Nevertheless I think it necessary to draft emergency powers just in case. I am enclosing a paper on the powers that would be needed. The Secretary of State for the Environment has seen it and is content. In practice it would be difficult to force the GLC to take actions which they had been unwilling to vote for. If the need should arise therefore the only practical way of dealing with the situation would be for me to assume their powers for a short period.

y / I shall in any event need to publish a Bill as soon as we know the outcome of the Council's meeting on 16 February. If they should fail to settle a sensible budget we shall need an urgent meeting of E Committee to decide whether to take the emergency powers described in the paper. Otherwise I shall clear the provisions about concessionary fares in the normal way.

Copies of this minute go to members of E Committee, the Lord President, Sir Robert Armstrong and First Parliamentary Counsel.

DA  
7

DAVID HOWELL

10 February, 1980

CONFIDENTIAL

CONFIDENTIAL



GLC AND LONDON TRANSPORT : EMERGENCY POWERS

1. If the GLC fail to approve London Transport's (LT) budget on 16 February or otherwise fail to act in a reasonable manner, emergency powers might be needed. These would secure approval of LT's budget and payment of subsidy to LT.

Coverage

2. It is important to avoid any risk of hybridity. We therefore consider that the powers should apply not only to LT but to the Passenger Transport Executives (PTEs) in the major conurbations. In any event once the powers are available it may be difficult to avoid intervening elsewhere e.g. in South Yorkshire if they do not now change their low fares policy in the light of the House of Lords' judgement.

The Trigger

3. The legislation would need to provide a mechanism for triggering the use of the powers. It is difficult to define in advance the various possible situations that might give rise to the need to use these powers. The legislation would need to provide that the Secretary of State may make an order if it appears necessary for him to do so. A power drafted in such general terms may be open to criticism. It would help to meet this if there were Parliamentary sanction for the Order, particularly if it were subject to affirmative resolution. This would also help to reduce the risk of legal challenge on the ground that the Secretary of State had acted unreasonably, as might well be alleged where the reason for taking control was that GLC were not paying sufficient grant and insisting on higher fare increases.

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Form of the Powers

4. So far as LT is concerned, the first essential is to ensure that the GLC budget is approved so they can implement their 100% fare increase. To achieve this the Bill would need to include provision that where an order has been made the Secretary of State may take over the powers of the GLC in relation to LT and exercise them himself.

Finance

5. If powers are to be used to settle LT's budget, it is quite possible that the GLC will refuse to continue financial support for LT. The Government will then need to ensure that LT receives the finance needed to keep it going. The most obvious course would be to deal with the situation as if the Secretary of State were acting in the place of the GLC. He would therefore pay LT any necessary subsidy himself as if on behalf of the GLC and treat it as a debt due to him from the GLC, which could be offset against any payments of Government grant to them. The amount of revenue support involved, assuming that LT borrow to cover their outstanding deficit, would be around £160m. If the GLC refused to support LT's capital expenditure, however, he could authorise LT to borrow for it - including the depreciation element - rather than follow the GLC's practice of making a capital grant.

6. It would be made clear to the GLC that it was for them to decide whether to go on providing the present travel concessions for the elderly and disabled and that the Government would not intervene if they reduced or abolished them.

7. Treating any subsidy paid to LT as paid on behalf of the GLC means that it would count as the GLC's own expenditure for grant purposes. Because of its high rateable resources the

GLC has a "negative marginal rate" of grant. This means that any extra expenditure which they incur as a result of the Secretary of State acting in their place would therefore lead to a reduction in their grant. [REDACTED]

[REDACTED] This would no doubt be represented by them as a penalty which we were imposing on London ratepayers.

8. This would not be too difficult to defend in a situation where the GLC had failed to approve any budget for LT: the outcome would be the same as if they had acted responsibly themselves. But these powers might have to be used in a situation where the GLC had decided to go for bigger fare increases because of the burden which supporting LT's budget would place on ratepayers, taking account of the grant loss. We have discussed with DOE whether there are defensible options which could ensure that the loss of grant is avoided. We have concluded that there are not.

#### Duration

9. The powers could clearly be only an interim measure. If they were invoked the Government would need to introduce further legislation next Session to deal with the substantive issues. Even so, permanent new arrangements could probably not be introduced before 1984 and could take longer if any reorganisation was involved. The Bill therefore might provide for the emergency powers to expire after three years.

#### Summary

10. The proposals would be:

- (a) the powers should cover London and the PTEs;
- (b) they should provide that the Secretary of State may make an order subject to affirmative resolution applying them to the GLC or any metropolitan county;

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- (c) they should provide that a Council to which they apply should not use its powers in relation to its executive without the Secretary of State's consent and that the Secretary of State may exercise those powers himself;
- (d) the Secretary of State should have power to pay subsidies direct to an executive and treat them as a debt owed to him by the Council, which he may recover by setting it off against payments of grant to the Council; and
- (e) the powers should expire after three years.
- (f) we should leave it to the GLC to decide whether to continue the existing travel concessions for the elderly and disabled.

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Prime Minister (2)

cc AD  
Local Gov

Mus 10/2 10 February 1982

*[Handwritten signature]*

Prime Minister

LOCAL GOVERNMENT: LONG TERM STRATEGY

The Home Secretary has copied to me his minute of 4 February to you.

I am arranging for my officials, in consultation with those in the other Departments concerned, to prepare a paper setting out the implications of reorganising local government in the metropolitan areas. I want this to be a rapid survey of the practical problems involved, including those of time-scale, and to be completed in about a month. This should present us with a basis for decisions on our next steps.

I am copying this to the Home Secretary and to those who received copies of his minute.

*[Handwritten signature]*

for MH

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



110 FEB 1982

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7





PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

9 February 1982  
*Local Gov*

*Dear David,*

*attached*

Thank you for your letter of 5 February with which you circulated to me and our other Cabinet colleagues factual material to help counter the GLC low fares publicity campaign.

I think the material is very useful indeed and I hope that all our colleagues will make the maximum use of it. I particularly endorse your view of the importance of taking up this subject on a wide front as we agreed in discussions. The theme of low cost public transport is intrinsically very attractive and it is vital for us to make people address their minds to the larger questions of the costs and how they should be shared.

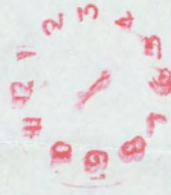
*Yours*

*Francis*

FRANCIS PYM

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

1110 FEB 1982



1110

CONFIDENTIAL



The Permanent Secretary  
G W Moseley CB

✓  
MCS  
Department of the Environment

2 Marsham Street London SW1P 3EB

01-212 8051

CC AD

Sir Robert Armstrong KCB CVO  
Permanent Secretary  
Cabinet Office  
Whitehall  
LONDON  
SW1A 2AS

9 February 1982

Dear Robert,

Thank you for your letter of 28 January about the CPRS study on the relationship between central and local government. *will request if required*

We are of course very ready to contribute although we cannot offer much in the way of staff resources as the people likely to be involved from here are already, as you will well understand, under considerable pressure in dealing with current issues.

CPRS will obviously want to mesh in their work on their remit with the several other Ministerial commissions in this field, including those set out in CC(82)4th (minute 5). This will no doubt be sorted out at the meeting which Alan Bailey has called for 12 February.

There remains the difficult question, to which you referred in your letter, of the extent and timing of the study. I very much like the approach set out at the beginning of Alan's letter of 1 February. If CPRS and Departments are committing hard pressed resources to the study then I certainly favour starting it on the assumption that it will be an input to decisions on more fundamental and wider-ranging issues than those which could be considered before legislating on rates this session.

I am copying this letter to the recipients of yours.

Yours  
George

G W Moseley

10 FEB 1952



Prime Minister (2)

Mus 9/2

2 MARSHAM STREET  
LONDON SW1P 3EB

ms

My ref:

Your ref:

2 February 1982

R v. SECRETARY OF STATE FOR THE ENVIRONMENT EX PARTE  
LONDON BOROUGH OF BRENT AND OTHERS

You will remember that last October the Divisional Court quashed my earlier decision under sections 48 to 50 of the Local Government, Planning and Land Act 1980 to abate the Rate Support Grant entitlements for 1980-81 in respect of six London authorities; it follows from the grounds of the decision that similar decisions in respect of two other authorities that were not parties to the action were also unlawful.

The Court said that it was open to me to reconsider the matter, and after considering representations to reach any decision that I considered right that was within the terms of the Act and the Rate Support Grant (Principles for Multiplier) Order 1980. I have accordingly invited further representations, and I enclose a copy of a submission prepared by my officials that summarises and comments upon the main points that have been made.

I am now in a position to retake my decision. None of the new representations that I have received convinces me that the policy which underlay my original decision was wrong, and in general my inclination is to reaffirm it. I nevertheless think that I should accept two of the points that have been made, for they would have the effect of bringing my proposals for 1980-81 into line with those I subsequently announced for 1981-82. They would mean allowing urban programme expenditure to be excluded in determining whether an authority achieved a waiver, and basing the whole of the waiver calculation on outturn instead of budget expenditure. This second point, in particular, I think it would be difficult not to concede. Both points are discussed in more detail at 111a on page 9 and 111f on page 10 of the enclosed submission.

I cannot judge the effect of these changes with any certainty, but all they could possibly do is increase the chance of an authority gaining exemption from abatement; they would not affect the size of the abatement faced by authorities that did not achieve a waiver. It is therefore possible that they would have no practical effect.

We now face further litigation, for Hackney and Camden have applied for leave to apply for judicial review of my decision not to pay them increased rate support grant for 1980-81 and not to pay them interest. I enclose a copy of their application. It is against this background that I should welcome your advice on a point of particular difficulty which is dealt with in paragraphs 9 to 16 of the submission.

I have been advised that it follows from the Court's judgement that monies due to the authorities since last January have been unlawfully withheld between the dates on which they should have been paid and the date on which I make a valid decision; on the other hand, it appears that the authorities do not have any right in law to interest. In the circumstances, Mr Robert Alexander, QC has advised in conference that I should carefully consider offering ex gratia payments in lieu of interest. His reasons were first that this might dissuade the authorities from challenging my new decision, and secondly it would put me in a more favourable position if there were a challenge. It would nevertheless be a substantial concession which might be thought to create an undesirable precedent. If it were decided to make such a payment, the appropriate amount could be in the range of £1m to £2m; on balance I am inclined not to offer ex gratia payments, and I have asked my officials to draft decision letters on that basis. I would propose to show you these letters in draft, once they have been considered by Counsel.

In view of the likelihood of further litigation I should be glad to know that you are broadly content with the line I intend to take.

I hope to be ready to announce my decision by the time of the debate on the RSG Order on 16 February.

I am copying this letter, without the enclosure, to the Prime Minister and the Chief Secretary, and the Leader of the House.

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lll

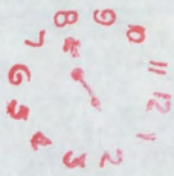
MICHAEL HESELTINE

Rt Hon Sir Michael Havers QC MP

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2F

-9 FEB 1982





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Francis Pym MC MP  
Lord President of the Council and  
Leader of the House of Commons  
Privy Council Office  
Whitehall  
LONDON  
SW1

*Prime Minister*

*Has seen*

*MP 7/2*

*na MP 10/2*

5 February 1982

*Dear Brian*

I now enclose the factual note we have prepared setting out points that can be used to help counter the arguments being advanced in connection with the GLC low fares publicity campaign.

I myself will be answering some written PQs this week in order to tackle particular points - I enclose a copy of the sort of thing I envisage. I shall in any event be answering First Order Questions on Wednesday when no doubt some of these matters will be aired. Thereafter I propose to provide a newspaper article setting out our theme - i.e. who is to pay for low fares and to follow that up with a major speech, probably at the Dinner of the Confederation of Passenger Transport Operators I am attending on 18 February, two days after the GLC budget day.

I hope this will begin to get the record straight on transport aspects. I think it would be very helpful if those concerned with the wider budget of the GLC and the block grant implications could simultaneously build up their programme of



clarification, since, as we all agreed, in our discussion yesterday, we must take this subject on a wide front if we are to get our message across.

I am sending copies of this letter and the notes to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

*Yours etc*

*David*

DAVID HOWELL

LOW FARES AND SUBSIDY

PQs

MONDAY 8 FEBRUARY

1. To ask the Secretary of State what is his policy on subsidy for urban transport undertakings.

Suggested Answer

The Government shares the view of its predecessors that public transport needs a reasonable level of support to keep essential services going. This is reflected in the public expenditure provision - £1.2 billion was spent last year to support public transport. London Transport, for example, received some £250m subsidy. But there is a question of balance and value for money. Indiscriminate subsidies are not an effective way of meeting environmental and social objectives. The problem we have seen in acute form over the last year is where local authorities have embarked on low fare/high cost policies without regard to their relevance to travel needs or to their duty to maintain a fair balance between travellers and ratepayers.

TUESDAY 9 FEBRUARY

2. To ask the Secretary of State how much ratepayers' money will be saved if the Government, in response to the Livingstone publicity campaign, enables the GLC to lower fares.

Suggested Answer

I note the Leader of the GLC is now talking of pushing up their precept on London Boroughs to over 40p in the £1 - an increase of

129% over 1981/82. Were they now also to be enabled to revert to their low fare high cost policies of last year, they would impose at least a further £200m levy on ratepayers. So the aim of the campaign for which ratepayers' money is now being used would, if achieved, push rates up even higher. It would mean a further increase of nearly 60% taking the GLC precept to nearly treble the level when they took office less than a year ago.

WEDNESDAY 10 FEBRUARY.

3. To ask the Secretary of State whether the Government's policies will now prevent London's old age pensioners from getting free travel.

Suggested Answer

That is a complete myth. I have already made clear that the GLC is to have powers like those of every other authority to continue to run their own concessionary fares scheme. The cost, again as in every other local authority, will form part of their total budget and they will have to decide their priorities within that. If they choose to use their resources for other policies they regard as having higher priority than financing old people's concessions that will be their decision and not in any way a consequence of the state of the law. It will be the GLC's choice as to whether they prefer providing indiscriminate low fares for rich and poor alike, or whether they make more resources available to use selectively in order to help travellers such as the old and disabled for whom public transport is especially important.

## BRIEFING NOTES

### LOW FARES AND SUBSIDIES

#### A. LINE TO TAKE

1. The Government accepts that public transport needs a reasonable level of support to keep essential services going. This is allowed for in public expenditure - £1.2 billion this year going in support of public transport - and in the Transport Supplementary Grant settlement for local authorities.
2. So Government accept need. What we are opposed to is indiscriminate, wasteful and unbalanced subsidies. We will not subsidise inefficiency. A fair balance must be struck. The GLC's low fares policy increased costs and put far too much of the burden on London's ratepayers.
3. The Government is not opposed to low fares. We would all like to see a cheap efficient public transport system in London - and elsewhere. But who is to pay? Is the burden on the national taxpayer to be increased? or is it to be shouldered by the ratepayer? Costs to ratepayers of continuing low fares policy likely to have been over £200m in 1982-83 without taking any account of loss of grant.
4. Low costs and matching services to real demand are the key to low fares. London Transport has a history of high costs eg the costs of vehicle mile run and per passenger journey on LT buses are considerably higher than in the PTEs. All this needs to be tackled and LT management would like to do so but the present GLC have increased costs by eg requiring extra bus miles to be run.
5. It is the direct consequence of these GLC policies that fares now have to rise more than they would otherwise have had to do, to unprecedented levels, to cover the costs.
6. And ratepayers this year will also have to make a special contribution towards the cost of the debt the GLC piled up during the past few months by their high cost low charge policies.

#### B. WHAT THE GOVERNMENT HAS DONE

1. Before the Livingstone policies, London Transport was already getting some £250m subsidy annually. A further £150m goes to BR's L & SE services through the PSO. This is not an unreasonable share of the national resources available to assist public transport in this country.
2. London is getting more than 40% of the transport supplementary grant being paid out in England. This recognises its special transport problems and its position as a capital city.
3. The Government acted swiftly and sympathetically to the GLC request for clarification of their powers to continue their concessionary fare scheme for the old and disabled. Like other

authorities, the GLC will have a clear power to continue to provide for these to the extent they think appropriate within the total resources available.

4. The Government have clarified that Councillors in London will not be breaking the law in approving a budget on the lines LT have submitted and that the fact that some share of the cost of clearing up the mess will fall on ratepayers as well as travellers is not a breach of their fiduciary duty. In the Opinion of the Attorney General.

"The fiduciary duty requires that the authority must do its best to reduce the burden falling upon the ratepayers. It does not require the authority to relieve the ratepayer from all of the burden. A fair balance must be struck. To quote Lord Scarman, "loss may have to be accepted as a necessity, but may not be sought as an object of policy."

C. FURTHER BACKGROUND MATERIAL

Background notes are attached on:

- 1 costs and efficiency in LT
- 2 History of GLC subsidy to LT
- 3 What the Government has done

COSTS AND EFFICIENCY IN LT

(a) Losses on LT before and since GLC changes

1. At the end of 1980 LT's bus services were operating at a cost of around £2 a bus mile and a deficit of 80p a bus mile. London's buses ran short of covering their costs by 5p a passenger mile (Underground 0.5p a passenger mile). The total loss on bus services was £133m - Underground £13m.
2. In mid-1981 the Council policies added about £115m to the revenue support required for 1981-82. Part of this was to pay for the low fares, part for the uncorrected deficit (£25m mid-1981) and part to cover increased services, pay settlements etc.
3. By the end of 1981, when the low fares policy had been running for only 3 months, the shortfall per bus passenger mile had become 6.3p (Underground 1.9p). The forecast deficit per bus mile had risen to 97p.
4. The 1981 original budget (agreed by Cutler) included a deficit of £142m on the bus services and £11m on the Underground - total £153m. The 1982 base budget (prepared for the low fares policy) envisaged a deficit of £423m. This is not broken down between bus and underground but clearly the bus service would have received the lion's share. With a deficit of 2½ times larger the loss per bus passenger mile could easily be in the range 12p-14p - deficit per bus mile would have been around £1.35.

(b) Comparison of LT with other operators

5. The normal performance indicators show LT buses doing less well than the PTEs and the NBC:-

		1980	
	LT	PTEs	NBC
Cost per vehicle mile	£2	£1.42	£0.90
Fares/operating expenditure ratio	.52	.63	.86
Subsidy per passenger journey	12p	8p	4p
Vehicle mile per staff employed (000)	5.08	7.08	11.19
Labour costs % of total costs	73	N/A	67

## REVENUE SUPPORT FOR LONDON TRANSPORT

1. The London Transport Executive was established by the Transport (London) Act 1969 and replaced the former London Passenger Transport Board. £270m in debts of the former London Board were written off to allow LT to start with a clean slate and for the first few years it paid its way but in 1973 it incurred an operating deficit of £10.1m and from 1974 onwards deficits increased substantially.
2. Initially these deficits arose because LT was prevented by the prices and incomes legislation from making required fare increases. The difficulties were compounded by a steady reduction in use of LT services and a consequential increase in unit costs.
3. LT has received the following in revenue support and depreciation and renewal grant (which also meets the "gap" between revenue and operating costs) since 1973 (nothing in 1970-72):-

	£m cash prices								
	1973	1974	1975	1976	1977	1978	1979	1980	1981
Revenue Support		23.6	93.3	86.9	62.7	50.6	50.8	80.0	82.0
Depreciation and Renewal Grant	18.1	19.3	23.1	26.9	33.8	43.6	59.9	70.1	78.3

WHAT THE GOVERNMENT HAS DONE

1. Over the last few years London has had the lion's share of resources for transport. In the 1982-83 Transport Supplementary Grant settlement, its % share was as follows:-

	London	Metropolitan Counties (6)	Shire Counties (39)
% of resources available nationally for transport supplementary grant for	%	%	%
Revenue support	28	48	24
Capital	38	15	47
(Highway maintenance etc)	15	23	63
Total expenditure accepted for grant aid	25	25	50
* % Grant paid	40	26	34

\* The amount of Transport Supplementary Grant paid increases with the size of the programme.

2. In 1980 London Transport received some £250m in various grants (a large element of which came from central taxpayers) which meant that for every £ earned through fares LT received over 50p in grants.
3. In addition BR estimate that their London and South East services account for about 25% of the total grant paid by Government to the railways to meet their public service obligation - which would mean about £180m out of last year's grant of £755m.
4. In total public transport serving London is receiving some £400m in grants.



19 FEB 1982

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cc A-D



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

5 February 1982  
7.2  
MIS

*John H. ...*

PROPOSED MODIFICATION OF THE RSG SETTLEMENT

Thank you for your letter of 2 February.

In your second paragraph it is suggested that all London authorities would be able to benefit from the increase in grant going to London. In fact, only those authorities which are in the safety net will be in a position to benefit from spending at target. This was made clear in the table of exemplifications attached to the Secretary of State's minute of 27 January to the Prime Minister.

I am sending a copy of this letter to those who received copies of yours.

*Yours ever  
D A Edmonds*

D A EDMONDS  
Private Secretary

Michael Scholar Esq  
Private Secretary - No 10



CONFIDENTIAL

File A22  
ces as below

10 DOWNING STREET

From the Principal Private Secretary

5 February 1982

Dear John,

LOCAL GOVERNMENT : LONG TERM STRATEGY

The Prime Minister has seen the Home Secretary's minute of 4 February 1982 and she is content that matters should now be carried forward in the way agreed at the meeting which Mr Whitelaw held on 3 February.

I am sending copies of this letter to Imogan Wilde (Department of Education and Science), David Edmonds (Department of the Environment), Muir Russell (Scottish Office), John Craig (Welsh Office), Anthony Mayer (Department of Transport), David Clark (Department of Health and Social Security), Terry Mathews (Treasury), Lester Hicks (Department of the Environment), and David Wright (Cabinet Office).

Yours sincerely,

Alan White

John Halliday Esq.,  
Home Office.

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10 DOWNING STREET

*From the Private Secretary*

5 February, 1982.

Greater London Council and London Transport

The Prime Minister held a meeting on Wednesday afternoon to discuss recent developments in relation to the GLC and London Transport.

I attach a record of the meeting.

I am sending copies of this letter and its enclosure to John Halliday (Home Office), David Edmonds (Department of the Environment), Terry Mathews (Office of the Chief Secretary), David Heyhoe (Lord President's Office), Jim Nursaw (Law Officers' Department), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

Anthony Mayer, Esq.,  
Department of Transport.

Sw

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✓ CC AD  
Prime Minister  
Concur with X / hhr?  
Yes not  
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PRIME MINISTER

LOCAL GOVERNMENT: LONG TERM STRATEGY

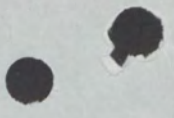
Last year I was invited by E Committee to discuss with colleagues directly concerned certain implications of the long-term strategy for local government (E(81) 22nd Meeting, Conclusion 3). That discussion was deferred pending the outcome of the work done in Merseyside after the riots, and the thought we have been giving to more immediate issues affecting local government. As I reported at Cabinet today, I chaired a private and informal meeting yesterday which was attended by Keith Joseph, Michael Heseltine, George Younger, Nicholas Edwards, David Howell, Norman Fowler, Leon Brittan and Tom King.

X | Although considerable doubts were expressed in our discussion about the wisdom of proceeding with large-scale local government re-organisation, it was agreed that we should consider within Departments the implications of such a step as regards the role of the Metropolitan authorities, and that Michael Heseltine, having the primary responsibility in this field, should take the lead and report his conclusions urgently.

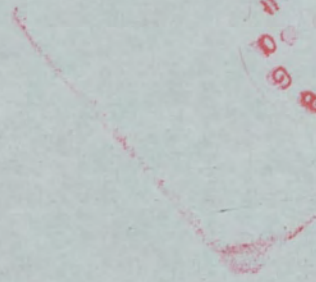
I am sending copies of this minute to those who attended my meeting, and to Sir Robert Armstrong.

W. H. W.  
4 February 1982

CONFIDENTIAL



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10 DOWNING STREET

*From the Private Secretary*

4 February 1982

This is just to record our conversation this morning about the Attorney General's Opinion on the London Transport subsidy issue.

The matter was raised in Cabinet this morning, and the Prime Minister asked that the Attorney's Opinion should now be made available to all her Cabinet colleagues. You undertook to arrange this. I told you that there may also be a request for further material for wider circulation, under the auspices of the Paymaster General.

I am sending copies of this letter to Keith Long (Paymaster General's office) and David Wright (Cabinet Office).

M. A. PATTISON

(see that Transport have now circulated it)

Jim Nursaw Esq  
Law Officers' Department.



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3BB

*MCS to see*

*MA 4/2*

Mike Pattison Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

4 February 1982

*Dear Mike,*

GLC AND LONDON TRANSPORT

I sent you, David Edmonds, John Kerr, Nick Huxtable and Jim Nursaw copies of the Attorney-General's advice earlier this morning.

I understand that the Prime Minister would like all members of the Cabinet to have a copy. I attach this, together with a copy of my Secretary of State's letter to Mr Livingstone.

I am copying this to the Private Secretaries of the remaining members of Cabinet and to David Wright.

*Yours Sincerely,*  
*Anthony Mayer*

R A J MAYER  
Private Secretary





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

David Edmonds Esq  
Private Secretary to  
the Secretary of State  
for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1

4 February 1982

*Dear David,*

LONDON TRANSPORT

In the light of yesterday's discussion with the Prime Minister I attach a copy of the letter my Secretary of State has just sent to Mr Ken Livingstone.

I am copying this letter to Mike Pattison, John Kerr, Nick Huxtable, Jim Nursaw and David Wright.

*Yours Sincerely,*

*Anthony Mayer*

R A J MAYER  
Private Secretary



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Councillor Ken Livingstone  
Leader  
Greater London Council  
County Hall  
LONDON  
SE1

4 February 1982

*Ken Livingstone*

LONDON TRANSPORT

Thank you for your letter of yesterday's date asking for a most immediate answer.

You say that merely to bring in legislation empowering the GLC to subsidise old people's transport and to permit special borrowing would leave Members and officers in an intolerable position and liable to challenge. I know that this has been a matter of some concern to you and I had therefore sought advice from the Attorney General. I am enclosing a copy of his Opinion which he has agreed may be made available to the Council. As you will see, he concludes that London Transport's revised 1982 budget complies with the House of Lords' judgement and that your Council would not be in breach of their fiduciary duty to the ratepayers if they approved it. I should be grateful if you would bring this Opinion to the attention of all members of your council's Finance Committee which I understand is to meet today.

The rest of your letter appears to be concerned with the financial problems the GLC face and for which you would like extra resources not available to other local authorities (and which can only be provided at their expense).

First you stress the disagreeable financial consequences of borrowing to spread the cost of clearing the debts created over the past year. I fully recognise these. It will be for you to weigh them against the advantage of using such a power to provide the Council with a breathing space to turn round its policies in a manageable way.

Second, you do not mention the main dilemma of your Council - the need to review the total cost of all the policies being pursued of which transport is only one element, in order to settle your budget and a rate precept that reasonably reflect the resources available.

This dilemma would have been much more acute had you continued to pursue the policies of last year.

The effects of the block grant system to which you refer are not a new situation created by the Lords' judgement, but largely the consequence of the standard financial arrangements to equalise the resources of rich and poor authorities. I note you have written separately to the Secretary of State for the Environment raising some points on this. So far as TSG is concerned, your Council already receives over 40% of the grant I pay and I could not agree that they should receive a still larger share at the expense of other authorities.

In view of the urgency, and to ensure that the Opinion of the Attorney General is available at the earliest possible moment to all the Members of Offices of the Council, I am sending copies of this letter simultaneously to Sir Horace Cutler and to Sir James Swaffield.

Yours sincerely  
David Howell

DAVID HOWELL

Secretary of State - to see

From: Ken Livingstone  
Member of the Greater London Council  
for Paddington  
Leader of the Council

Mrs Bridgeman  
urg adv pl  
for Mr Howell

MEMBERS' LOBBY  
THE COUNTY HALL  
LONDON SE1 7PB

PS/Mr Clarke

PS/Sir Peter Baldwin

3 February 1982

Mr Lazarus

Mr Hannigan

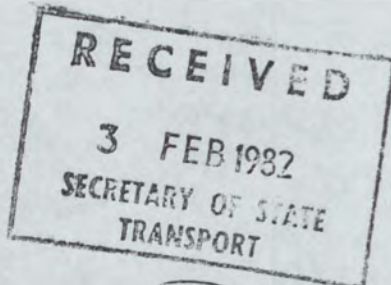
Mr Holmes

Mr Yan

Mr Smethurst

Mr Marchmont

Mr Goodfellow



Dear Secretary of State,

I am sending a copy of this letter to the Secretary of State for the Environment for reasons which will become readily apparent and as a matter of courtesy I enclose ~~not enclose~~ a copy of my letter to him.

Your letters of 14 and 23 January continue to give rise to great concern on the part of the Members and the officers of the GLC for the following reasons:-

1. If the proposed legislation enacts, without more, that LTE may borrow £125m over five years, the cost of such borrowing will itself have to be funded out of increases in fares and reductions in services above and beyond those which are scheduled to be implemented in and after March 1982, rather than by additional revenue support from the Council to LTE. We have been advised that this is the effect of the House of Lords decision.
2. Upon the assumption that the funding of the loan is to be provided not by increases in fares and transport savings (which assumption has been rejected as unlawful by our Leading Counsel but appears to be acceptable to your legal advisers) the money will have to be provided by the Council. It is implicit in your letters that this is what you envisage, because you assert that there is no need for further fare increases. ?
3. The cost of the loan which would fall upon the Council would not be the pure cost of capital and interest repayments, but would be increased both by block grant penalties on the repayments and by block grant penalties on interest costs. Taking into account the interest costs currently being incurred, the cost of borrowing in 1982-3 would be £80m, unless the Secretary of State for the Environment, in accordance with principles applicable to relevant local authorities, directed that such expenditure was not to be included in the Council's total expenditure for block grant purposes. The rate of interest on the loan would rise from just under 17% to just under 27% per annum - a price of borrowing that speaks for itself.

4. In round terms, the penalty for borrowing £125m over five years, if not financed by increased fares and reduced services, would cause a loss of block grant to GLC ratepayers on present known facts of at least £100m. and would cost a total of at least £298m overall.
5. In business terms, the alternatives of financing the £125m deficit on the one hand out of special borrowing or on the other hand from transport economies and fare increases are not alternatives at all because the latter are practicable, although wholly undesirable and, in our view, intolerable, whereas the former cannot be justified in law. How, in the light of the speeches in the House of Lords, is the Council to justify interest costs and in addition block grant losses of over £100m when aggrieved ratepayers or their representatives complain that travellers' interests are being preferred without good reasons to those of the ratepayers?
6. In fact, upon the advice that the Council has hitherto received from Counsel, it would not be lawful for the Council to finance the costs of such a loan. Therefore, although the further increase in fares and reduction in services are the last things which we would want to adopt, your suggested legal remedy would drive us to do this and prevent us from taking any other course.
7. I turn now to what you call 'the tangle over old people's concessionary travel' and fear that once again the block grant implications of your proposed legislation are such that, while it might appear to permit the Council to subsidise such travel, the automatic consequential loss of block grant would render the power illusory. Not only that, the higher the fares, the greater the value of the subsidy and the greater the block grant penalty.
8. In attempting to highlight the problems associated with the proposals described in your letters, I have necessarily ignored an even greater problem with which your letters do not deal, namely, the full scale of the operational subsidy needed to attempt to maintain London Transport in 1982-3. If there are no further increases in fares in 1982-3 after 21 March, if reductions in staff are confined to natural wastage, the budget of which you have expressed approval would, if lawful, require revenue support for LTE rising from £84m already approved to £236m in 1982-3. This takes no account of the financial consequences of old people's travel concessions or of block grant penalties. These figures were accepted by your officers a few days ago.

correct  
 but £236m over  
 includes paying off  
 the £125m deficit  
 in one year.

The answer to these problems must surely lie in the reasonable operation of the transport supplementary grant and the block grant systems and the amendment of the Transport (London) Act 1969. It is also abundantly plain that the differences of legal opinion must be resolved by the legislation.

If neither the financing of the deficit, nor the borrowing of £125m, nor the subsidy of old people's travel resulted in the loss of block grant and if the needs of travellers were given their proper weight in the transport supplementary grant and in legislation, this could and would 'ensure that the public transport that best meets the needs of London can continue to be provided' - your own concluding words. If the operation of the transport supplementary grant and block grant systems unreasonably fails to take account of the matters I have mentioned and if new legislation is as limited as your letters appear to envisage, this will ensure that public transport will fail dismally to meet the needs.

Merely to bring in legislation empowering the GLC to subsidise old people's transport and to permit special borrowing would be a charade. It would leave Members and officers in an intolerable position and liable to challenge while prevented from carrying out the policies necessary to ensure the provision of a public transport system meeting London's needs, unless the transport supplementary and block grant systems are properly applied to permit such action without unwarrantable penalisation of the ratepayers.

In conclusion, I ask you:-

- (1) Have you decided to increase transport supplementary grant in 1982-3 and if you have decided against doing so, why have you so decided?
- (2) Would you inform me when it is the Government's intention to introduce legislation and by what date it is the Government's expectation that such legislation will be enacted?
- (3) To inform me of the details of the proposed legislation.

Since your officers will doubtless have kept you informed of the points raised in this letter and since you will know how important it is that the Members of the Council have answers to the questions and points raised when deciding on the Council Budget on 16 February 1982, I need to request your most immediate answer in order that the Council may perform its proper function.

The Rt. Hon. David Howell, MP.  
Secretary of State for Transport  
2 Marsham Street  
London SW1P 3EB

*Yours sincerely  
Herbert*



The Rt.Hon.David Howell, M.P  
Secretary of State for Transport  
2 Marsham Street  
SW1

3 February 1982

G.L.C. and London Transport

I have now read the Opinions of Counsel advising the G.L.C. and London Transport. In view of the suggestion that concillors might be in risk of surcharge if they were to approve the 1982 Budget, I thought it might be helpful if you had my Opinion.

I have no objection to this Opinion being made available. Whilst it is most unusual for Law Officers' Opinions to be disclosed outside Government, I consider that in view of the present difficult circumstances facing London Transport an exception can be made.

I am sending a copy of this letter to the Prime Minister and the Secretary of State for the Environment.

Yours ever.

Michael



## O P I N I O N

### LONDON TRANSPORT FARES

#### 1. The House of Lords Judgment

1.1. The case concerned the validity of a supplementary precept issued by the G.L.C. to the London Borough of Bromley to enable the G.L.C. to finance by grant to the L.T.E. the cost of reducing fares overall by 25% and of introducing a simplified zone system. Put simply, as an objective of social policy London Transport was being run at a loss to be made good by the ratepayer. The House of Lords decided that:-

- (a) L.T.E. are under a duty to do their best to break even so far as practicable and that the G.L.C. power to pay grant for any purpose must be construed as enabling them to give revenue support only to the extent that it is not practicable for L.T.E. to avoid a deficit, and
- (b) that in considering the use of their grant-making power G.L.C. must have regard to their fiduciary duty to hold a fair balance between ratepayer and user.

#### 2. Implications for L.T.E. and the G.L.C.

2.1. I have had the advantage of reading the Opinion of Counsel for the G.L.C. and the joint Opinion of Counsel for the G.L.C. and L.T.E. In my opinion Counsel for the G.L.C. place an unduly restrictive interpretation on the House of Lords Judgment. I do not consider that any court would upset the L.T.E. 1982 Revised Budget on either of the two grounds referred to in paragraph 1.1. above. I assume here that the Government will legislate to provide for the temporary borrowing requirement and concessionary fares for the elderly.





- 2.2. The G.L.C. approval of the Revised Budget need not be conditional upon any further increase of fares this year. It has been suggested that the G.L.C. would be in breach of their fiduciary duty to their ratepayers if they allowed expenditure on revenue support to L.T.E. to lead to loss of block grant and did not increase fares beyond the 100% increase proposed to a level which maximises revenue. I cannot accept this argument. The fiduciary duty requires that the authority must do its best to reduce the burden falling upon the ratepayers. It does not require the authority to relieve the ratepayer from all of the burden. A fair balance must be struck. To quote Lord Scarman, "loss may have to be accepted as a necessity, but may not be sought as an object of policy."
3. In my opinion the 1982 Revised Budget complies with the House of Lords Judgment and that the G.L.C. would not be in breach of their fiduciary duty to the ratepayers if they approved it.

Mk

3 February 1982

Law Officers' Department  
Royal Courts of Justice  
Strand, WC2A 2LL

SUBJECT

cd Minutes



NOTE OF A MEETING HELD AT 10 DOWNING STREET ON WEDNESDAY 3 FEBRUARY 1982  
 AT 4.45 PM TO DISCUSS THE GREATER LONDON COUNCIL (GLC) AND LONDON TRANSPORT (LT)

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Present

The Prime Minister

Home Secretary

Secretary of State for  
the Environment

Chief Secretary,  
Treasury

Lord President

Secretary of State for  
Transport

Attorney General

Mr J R Ibbs (Central  
Policy Review Staff)

Sir Robert Armstrong

Mr D J Bostock

\*\*\*\*\*

The meeting discussed a minute of 29 January from the Secretary of State for Transport, a letter of 2 February from the Secretary of State for the Environment and a letter of 3 February from the Attorney General about the GLC's policy towards London Transport fares in the light of the House of Lords' judgement on its cheapofares policy.

The Secretary of State for Transport said that when the Ministerial Committee on Economic Strategy had last discussed the implications of the House of Lords' judgement (E(82)1st Meeting) it had appeared that the GLC had approved LT's proposals that its fares should be doubled from 21 March. Following the Committee's discussion and in the light of the Attorney General's advice he had written on 14 January to Mr Livingstone, the leader of the GLC, to say that in the Government's view there was no legal requirement for further fare increases during the year. It was now unclear whether the GLC had fully approved LT's budget; and they appeared now to take the view that the increased fares and reduced services planned for 21 March would not be enough to comply with the Law Lords' interpretation of the Transport (London) Act 1969. Under the block grant system London, as a local authority with high rateable resources, lost grant as its expenditure increased



even at reasonable levels of expenditure at or below its grant related expenditure assessment. Any subsidy payment at all from the GLC to LT would thus reduce London's Rate Support Grant (RSG). Drawing on advice from Leading Counsel, the GCL argued that their fiduciary duty to the ratepayers, on which the House of Lords' decision had partly turned, required them to maximise RSG and minimise rate precepts, irrespective of whether loss of grant occurred through penalties or through the negative marginal rates of grant which were a basic feature of block grant so far as London was concerned. They seemed to take the view that they would need therefore to require LT soon to increase its fares by a further 50 per cent above the level planned for 21 March (ie 3 times the present level), further to reduce services and cut back concessionary fare schemes. Further fare increases and service reductions of this order would be damaging to London's economy, would have undesirable social consequences and would make industrial action by unions representing London Transport staff more likely. It would be difficult to ensure that the blame continued to fall on the GLC rather than the Government. It was far from clear what would happen next. The GLC needed to decide their own budget on 16 February in order to fix a rate precept for 1982-83; it was possible that they would reach a final decision on LT's budget on 12 February. They might however fail to reach responsible decisions in time. The Government might therefore be forced as an interim measure to step in and take effective control of LT from the GLC.

The Attorney General said that he had read the Opinion of Counsel for the GLC and the joint Opinion of Counsel for the GLC and the London Transport Executive enclosed with the Secretary of State for the Environment's letter of 2 February. In his opinion Counsel for the GLC placed an unduly restrictive interpretation on the House of Lords' judgement. He did not consider that any court would upset the LT 1982 Revised Budget on either of the grounds which had led the House of Lords to rule that the GLC's cheap fares policy was unlawful: that the GLC power to pay grant for any purpose to LT enabled them to give revenue support only to the extent that it was not practicable for LT to avoid a deficit; and that in considering the use of their grant-making power the GLC must have regard to their fiduciary duty to hold a fair balance between ratepayers and users of LT. This was on the assumption that the Government would legislate, as the Ministerial Committee on Economic Strategy had decided, to enable the GLC to subsidise



concessionary fares and to permit LT to borrow for up to five years to finance the deficit it had accumulated from the cheap fares policy. The GLC's approval of the Revised Budget need not be conditional upon any further increase of fares during the current year. He could not accept the argument that the GLC would be in breach of their fiduciary duty to their ratepayers if they allowed expenditure on revenue support to LT to lead to a loss of block grant and did not increase fares beyond the 100 per cent increase proposed to a level which maximised revenue. The fiduciary duty required that the authority must do its best to reduce the burden falling upon the ratepayers. It did not require the authority to relieve the ratepayer from all of the burden. A fair balance must be struck.

The following were the main points made in discussion:-

- a. There could be no question of changing the block grant arrangements so that subsidy payments to LT would not reduce GLC's entitlement to RSG. Negative marginal rates of grant were an integral part of the block grant system and affected a good many authorities besides the GLC.
- b. The Opinion attached to the Attorney General's letter of 3 February, which was generally in line with the advice of Counsel to the London Transport Executive, should be made available to all members of the GLC: there were precedents for disclosing Law Officers' Opinions outside Government. The Opinion would effectively remove the danger that members of the GLC would risk being surcharged unless they required LT to introduce higher fare increases and greater cuts in services than those already planned for 21 March. The District Auditor would not recommend a surcharge against the advice of the Attorney General; not was it likely in the circumstances that anyone else would seek to argue in the courts that the GLC were breaking the law. The Government could not force the GLC to follow the Attorney General's advice; but if the Council disregarded it, and sought further fare increases and service reductions, it would be clear that they were acting from political spite and not from a cautious respect for the law.



- c. Without a change in the law the GLC could not be forced to approve LT's budget. LT could seek a declaration from the courts on whether their proposals for fares and services would comply with the law as interpreted by the House of Lords; and they were already considering trying to obtain a writ of mandamus to require the GLC to carry out its statutory obligation to approve LT's budget; but it was unlikely that the courts would wish to issue an order against the GLC which could not be enforced. On the other hand it was on balance unlikely that the GLC would not approve LT's proposals for fare increases and service reductions to take effect on 21 March; or that they would delay setting their own budget and thus be unable to fix a precept in the usual way. Members of the Council would risk being surcharged if they did not approve LT's proposals, while it was unlikely that the GLC would be so irresponsible as to put in doubt their ability to raise a precept and thus continue in normal operation in 1982-83. There would probably however be complicated political manoeuvring within the GLC. The Conservative members of the Council and the more moderate Labour members would probably wish to approve LT's budget. Neither group would however wish to be seen to put down an appropriate motion; and the Council's Conservative members would want to avoid being forced into a position where they could be blamed for doubling LT's fares.
- d. If control over LT were removed from the GLC there would be little point in keeping the Council in existence at all. Its other functions could be absorbed by the London boroughs. Legislation to abolish the GLC or drastically to reduce its role so soon after the election of a Council which was hostile to the Government would however look like an act of vindictiveness on the Government's part. Any legislation should therefore be more limited in scope, probably requiring the GLC to approve LT's budget and pay subsidy. Such legislation would be contentious and difficult to get through Parliament by the beginning of the 1982-83 financial year.



The Prime Minister, summing up the discussion, said that the meeting agreed that the Attorney General's Opinion should be made available to all members of the Greater London Council. On balance it was likely that the Council would approve LT's budget; and that they would settle their own budget by 16 February and fix a precept in the usual way. LT's budget was unlikely to be approved without support from Conservative members of the GLC: they should be reminded that they too might face the risk of surcharge if the budget were not approved. If, notwithstanding the Attorney General's Opinion, the GLC insisted on fares increases and service reductions more severe than those already proposed by LT, the Government could argue with conviction that the Council were not interpreting the House of Lords' decision in a reasonable way and were acting from political motives. Against the possibility that the GLC might not approve LT's budget or otherwise failed to act in a reasonable manner the Secretary of State for Transport should work up urgently proposals for legislation which would require the GLC to approve LT's budget and to pay subsidy to LT: he would need to ensure that there was no chance that the legislation would be hybrid. Ministers might need collectively to consider their policy towards the GLC and LT again, depending on what decisions the Council took over the next fortnight.

The Meeting -

1. Invited the Secretary of State for Transport:
  - i. to arrange for the Opinion attached to the Attorney General's letter of 3 February to be sent to all members of the Greater London Council.
  - ii. To arrange for his officials, in consultation as necessary with those of other Departments, to develop proposals for legislation on the lines indicated in the Prime Minister's summing up.
2. Invited the Secretary of State for Transport, in consultation with the Secretary of State for the Environment, to discuss the problem of LT fares with Conservative members of the GLC on the lines indicated in the Prime Minister's summing up.



P.0641

PRIME MINISTER

Greater London Council (GLC)  
and London Transport (LT)

## BACKGROUND

In January the GLC agreed that London Transport's fares should increase by 100 per cent on 21 March. On advice from the Attorney General, E Committee decided on 14 January that the Secretary of State for Transport should inform Mr Livingstone that in the Government's view there was no legal requirement for yet further fare increases during the year. The Committee also decided:

- i. that there should be an urgent bill to enable the GLC to subsidise concessionary fares and to permit LT to borrow for five years to cover its accumulated deficit: the bill has been drafted but not introduced;
- ii. that officials should examine the options for longer term arrangements for public transport in London and for the Passenger Transport Executives.

2. The Secretary of State for Transport's minute of 29 January reports that the GLC now take the view that the 21 March fares increase is not enough to comply with the Law Lords' interpretation of the Transport (London) Act 1969. Their legal advice appears to be that since the GLC would lose grant if they met LT's revenue deficit of £109 million, they would be in breach of their fiduciary duty to ratepayers; and that to minimise LT's deficit fares must be increased soon by a further 50 per cent above the 21 March level, ie three times what they are at present; services cut and concessionary fares cut back.

3. Mr Howell suggests that it may therefore be necessary for the Government to amend the Transport (London) Act to make clear that the GLC can pay a limited amount of subsidy to LT; or to remove control of LT from the GLC altogether.



4. The Secretary of State for the Environment's letter of 2 February to the Attorney General sets out the legal background more fully.

#### MAIN ISSUES

5. There are a number of points which ought to be clarified before the meeting considers the choices open to the Government.

#### The GLC

6. The Secretary of State for Transport may be able to give further details of GLC's intentions and of their timetable for decisions. In particular:

- i. do the GLC accept that LT will borrow to meet their accumulated deficit up to 21 March, as the Government intends?
- ii. By when must the GLC and LT reach agreement about fare increases or service cuts beyond those which come into effect on 21 March?  
(Probably 16 February, when the GLC need to approve their budget so as to fix their rate precept).

#### Rate Support Grant

7. The position is complicated. The 21 March fare increases should leave LT with a deficit of £109 million in 1982-83, which is of the same order of magnitude as the £89 million deficit which the Government has assumed in fixing the GLC's 1982-83 share of Transport Supplementary Grant (TSG). The workings of the block grant system mean however that any subsidy payment at all reduces GLC's receipts of RSG. In order to equalise the rate poundage cost among authorities of providing a comparable level of services, authorities with high rateable values, such as the GLC, lose grant as their expenditure increases even at "reasonable" levels of expenditure at or below grant related expenditure assessments (GREAs), ie they face "negative marginal rates of grant".

8. It appears that the GLC interpret the operation of this mechanism as equivalent to the imposition of block grant penalties. It can be argued that negative marginal grant rates for the GLC are an essential part of the block grant system and should not be confused with grant penalties proper; the Secretary of





State for the Environment appears to endorse this view in his letter of 2 February.

Legal position

9. If it is agreed that the point at issue is the GLC's view that their fiduciary duty requires them to maximise RSG and minimise rate precepts (whether loss of grant occurs through penalties or the basic machinery of block grant), we then need the Attorney General's advice on the reasonableness of this view.

10. If he advises that the GLC's view is, as the Secretary of State for the Environment would argue, "totally unwarranted", there may be some prospect of persuading the GLC that the increases planned for 21 March are sufficient to comply with the Lords' decision, although there is no reason why the GLC should be particularly disposed to follow the Government's advice. Failing that, it would at any rate be easier to make it clear publicly that the blame for the extra fair increases and other adverse consequences rested with the GLC, although the public debate will be complex and the Government's points may not be easy to put across.

11. If however the Attorney General cannot advise that the GLC's view is "totally unwarranted", there would seem to be little or no prospect that the Government could persuade the GLC to discard the legal advice it has received. The meeting would then need to discuss whether there is any way in which the block grant system could be changed to avoid loss of grant by the GLC. The Secretary of State for the Environment is likely to argue that the system cannot be changed in this way.

12. In those circumstances the Government would be faced with the choices outlined by the Secretary of State for Transport, ie

- a. to legislate quickly to make clear that the GLC can subsidise LT;
- b. to take effective control of LT away from the GLC.

13. Neither of these courses is attractive, and it will be important to establish what either would involve in practice. In either case there would have to be urgent and contentious legislation. (b) looks less attractive than (a): it would lay on the Government all the responsibility for unpopular future decisions about LT and would seem to involve more complex legislation than (a).



## HANDLING

14. It will be for the Secretary of State for Transport to take the lead in discussion. The Secretary of State for the Environment will wish to comment on the RSG implications of the GLC's decisions; the Attorney General may wish to add to his previous legal advice; the Lord President will be able to advise on the prospects of getting through Parliament legislation on the lines Mr Howell suggests may be necessary; and the Chief Secretary will want to comment generally.

## CONCLUSIONS

15. You will want to record the meeting's conclusions on how the Government should respond to the GLC's apparent intention to insist on further fare increases from LT.

16. If the conclusion is that the Government should not take action beyond that on which E agreed on 14 January, it will be for the Secretary of State for Transport to attempt to persuade the GLC to change their minds; and, if they will not, to be prepared to put forward as strong a public case as possible that it is the GLC which should be blamed for a second fare increase. He will need to agree the line which the Government should take with the Secretary of State for the Environment, the Attorney General and other colleagues as necessary.

17. Cabinet or E Committee would need to endorse a decision to introduce legislation going beyond E's decision of 14 January. On present plans E will not meet until 9 February, and it may be necessary to say something to the Cabinet on 4 February.

PLG

P L GREGSON

2 February 1982

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CE AD  
31



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Nick Huxtable Esq  
Private Secretary to  
the Lord President of the Council  
Privy Council Office  
LONDON  
SW1

2 February 1982

Dear Nick

GLC AND LONDON TRANSPORT

Thank you for your letter of 27 January.

You will have seen from my Secretary of State's minute of 29 January to the Prime Minister that the legislation to deal with the situation following the House of Lords judgement in the Bromley case may need to go further than Ministers have so far agreed. My Secretary of State would not wish to put to L Committee and introduce a Bill which may subsequently need substantial amendment or which may need to be withdrawn and replaced by a new one. I am afraid this means that we shall not be able to keep to the timetable we had envisaged.

We are working up possible additional measures on a contingency basis. If the GLC fail to provide a sensible basis on which London Transport can continue to operate we may need to step in quickly. But we may not be certain what is needed until the GLC have met on 16 February to decide their budget. We do, of course, appreciate the difficulties this may create for the Parliamentary timetable, but we are facing a highly volatile situation.

I am copying this to Mike Pattison, Murdo Maclean, Michael Pownall, David Edmonds, David Wright and to the Private Secretary to the First Parliamentary Counsel.

*Yours sincerely*  
*C R Edwards*

C R EDWARDS  
Private Secretary

CONFIDENTIAL

cc AD



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

2 February 1982

*J. L. L.*

## GLC AND LONDON TRANSPORT

You are aware that the GLC are still in disarray over the financial problems of London Transport and have not yet approved the fare increase proposed in LT's budget. This has created an uncertain situation which may need to be resolved by litigation between LT and GLC. David Howell may need to consult you further on this in the light of developments.

Meanwhile there are a number of other issues arising from the House of Lords judgement both in relation to the interpretation of the Transport (London) Act 1969 and because of its implications for the block grant system. These affect both our Departments and I am therefore writing with the agreement of David Howell to seek your advice on them together.

*will regard it as agreed*

As you know, following your advice, David Howell wrote to Mr Livingstone on 14 January to say that in the Government's view London Transport's budget for 1982 - which involved fare increases of 100% next March - was a legitimate one and could stand without further fare increases. The object of the exercise was to make it absolutely clear that the GLC can now get LT back onto an even footing and that if they do otherwise it will be their choice and not the requirement of the law. So far we have succeeded in keeping the initiative. But the GLC are likely to argue that the solution we have suggested is not workable. They have had advice from leading Counsel which conflicts with the advice LT have had. Counsel have now reviewed the position together and produced a joint opinion covering their still conflicting advice. Copies of these opinions are attached. As you will see the advice to the GLC appears to conclude that the budget submitted by LT is not consistent with the terms of the Lords' judgement. However, the view David Howell has taken is that it is for LT to satisfy themselves that they have met the requirements of Section 7(3) of the 1969 Act. But, having received an Opinion from leading Counsel that a proper construction of the 1969 Act is that London Transport should consider a further increase in fares, the GLC in pursuance of their fiduciary duty to their ratepayers, may well feel obliged to go back to London Transport on this basis.

The GLC however seem to be reinforcing their Counsel's interpretation of the 1969 Act by an argument related to the calculation of block grant entitlement under the Local Government Planning and Land Act 1980. Although we have no clear statement of their view on this, they appear to argue that having regard to the terms of Lord Diplock's judgement, they would be in breach of their fiduciary duty to their

ratepayers if they allowed expenditure on revenue support from LT to lead to loss of block grant; and that therefore we must either exclude this expenditure from the block grant system or accept that LT should increase its fares beyond the 100% increase proposed for March to a level which maximises potential revenue.

We obviously cannot exclude revenue support for LT from the block grant without taking all revenue support for local transport outside the block grant system, which would undermine the basic principle of an unhypothecated, general grant to all local government services. But in any case, as you will see from the appendix to this letter, I am advised that the GLC may be taking a totally unwarranted and extreme view of their fiduciary relationship if they were seriously to advance the argument set out in the preceding paragraph.

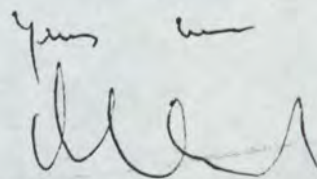
It will obviously create a very difficult situation for us if the GLC were now to ask LT for another big fare increase this year and refused to continue the full travel concessions for the elderly and disabled on the grounds that this was what the law required of them.

If the GLC do take unpopular decisions we shall need to make it clear that it is their responsibility and not due to a legal straitjacket imposed by the 1969 Act or the consequences of the block grant system for their fiduciary duty. To maintain a tenable position we should therefore need to put forward a strong case that they are taking an exaggerated view of the implications of the Lords' judgement and that it is quite unrealistic to suggest that the Courts would necessarily hold that the expenditure required to maintain the status quo after the 100% fare increase was unlawful. In the circumstances David Howell and I would welcome your views both on the implications of the latest conflicting opinions expressed by Counsel for the GLC and LT on the provision of the 1969 Act and on the GLC's interpretation of their fiduciary duty. The Council will be meeting on 16 February to settle their budget and we understand that the Labour group will be meeting to concert their tactics on 8 February. It is therefore essential that we establish a clear line very quickly.

/ Finally, you will see from Annex E that Mr Livingstone has raised certain questions about our powers to carry out our grant 'holdback' schemes in 1981/2 and 1982/3. I propose, subject again to your views, / to reply on the lines of the draft at Annex F. He has also sought an assurance that the holdback scheme for 1982/3 will not be any more severe than that set out in the proposals for the Rate Support Grant Settlement on 21 December. This is the subject of separate correspondence with colleagues.

/ I also enclose (at Annex D) copies of the 2 letters from the GLC's Controller of Finance, and the draft reply we propose to send to him at official level, and would welcome your views on that. We are trying to fix a meeting with you and David Howell later today.

I am copying this letter (but not the extensive enclosures) to the Prime Minister, all Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.



MICHAEL HESELTINE

20  
Local Govt.

10 DOWNING STREET

*From the Private Secretary*

2 February, 1982.

Proposed Modification of the RSG Settlement

The Prime Minister held a meeting yesterday afternoon with your Secretary of State to discuss the addition of £25 m to the RSG proposed in your Secretary of State's minute of 27 January; the Chief Secretary's minute on the same subject of 28 January was also before the meeting. The Chief Secretary, the Secretaries of State for Scotland and Wales, the Chief Whip, the Minister of State for Local Government and Environmental Services, and the Minister of State for Education and Science were also present.

After discussion it was agreed to add £25 m to the total grant, as proposed by your Secretary of State. Your Secretary of State would have to refer in Parliament to this change, and he would say that it was, for technical reasons, necessary thus to modify the way in which the increase in the London resource discount was being applied; by making this modification at a later stage in the calculations, after applying safety nets, all London authorities would be able to benefit from the increase in grant going to London. It was also agreed that there would be no further additions to the block grant, notwithstanding the strong case which a number of other authorities would be putting forward.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office), Muir Russell (Scottish Office), John Craig (Welsh Office), Murdo Maclean (Chief Whip's Office), Lester Hicks (Office of the Minister for Local Government and Environmental Services), Mary Giles (Office of the Minister for Education and Science), David Clark (Department of Health and Social Security), Anthony Mayer (Department of Transport), and to David Wright (Cabinet Office).

M. C. SCHOLAR

David Edmonds, Esq.,  
Department of the Environment.

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BM



Secretary of State for Industry

MBPM

cf JV  
AD

MS DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

2 February 1982

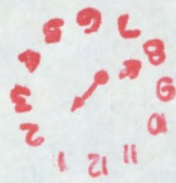
The Rt Hon Michael Heseltine PC MP  
Secretary of State for  
The Environment  
Department of the Environment  
2 Marsham Street  
LONDON SW1

Dear Michael,

POSSIBLE MODIFICATION TO THE RATE SUPPORT GRANT SETTLEMENT

You invited the views of colleagues on the proposal contained in your letter of 27 January to the Prime Minister to amend the distribution of RSG to London authorities. I support the proposal, which should bring about useful reductions in the rate bills of industry in the boroughs that benefit.

Your  
Pat



3 FEB 1982





10 DOWNING STREET

Prime Minister

GLC/LT

No word from the Attorney -

General's office, (in a pair), about

when his advice will be

available.

MUS 2/2

CONFIDENTIAL

Prime Minister

MUS 2/2

PRIME MINISTER

GLC AND LONDON TRANSPORT

SECRETARY OF STATE FOR TRANSPORT'S MEMORANDUM OF 29 JANUARY

1. The various events that have taken place over the past few months give us excellent grounds both politically and economically for rapidly increasing the introduction of private sector stage-bus operations in London and the suburbs. The fact that fares are already scheduled to increase by 100%, and are threatened by the GLC to increase by 200%, gives ample scope for profitable competition by private operators. So far private operators have been largely deterred by the very low subsidised fares that have ruled in London Transport. And stage-bus operations are the preserve of LT. But we know that there has been considerable development of private (non-stage) bus commuting in competition with the higher fares on British Rail.
2. There are undoubtedly many problems such as insurance arrangements, public vehicle licences, control (if any) of fares, etc. Many of them are of a bureaucratic nature, however, and can be solved with suitably directed energy.
3. One of the deterrents, however, is political in character. The private operators will want to be assured that, having carved out a successful market, they can continue to compete for it. Only then will they invest the time, effort and resources. This can be achieved by guaranteeing the private operator free access to the market during the life of this Parliament. Any legislation needed to effect such a guarantee may need to be incorporated in the Secretary of State's programme.
4. A further advantage of such an approach would be that it would give a competitive discipline on the behaviour of the GLC and LT. Cheap, frequent, courteous private service will highlight the faults of the slovenly public buses. The threat may also be used to help in our negotiations with them.

2 February 1982

AW  
ALAN WALTERS

CONFIDENTIAL

*cc Adyund**MAJ local govt.*

Treasury Chambers, Parliament Street, SW1P 3AG

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

1 February 1982

*Dear Minister,*

LOCAL GOVERNMENT FINANCE (NO 2) BILL: CLAUSE 4

Thank you for your letter of 28 January explaining your difficulties with clause 4 in Committee. I have also seen Janet Young's letter of 27 January.

Of course I am sorry that you feel that it would be impossible to carry clause 4 as it stands. That would be my preference since it would leave us with greatest flexibility. But I accept your judgement that some concession is required.

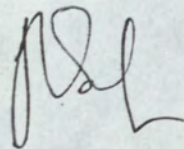
I also accept, with reluctance, your judgement that the two amendments you propose would give us the least bad package. Given a free choice I should prefer to leave us with freedom both to increase the severity of the grant penalty arrangements within predetermined limits and to make overspenders bear most or all of the cost of keeping grant within the cash limit. Of these, I think the former superior, as I believe my officials indicated to yours. We would make our intentions explicit from the start of each year, and local authorities would be able to plan within a known margin of risk about grant. I suspect that confining this margin within limits would meet the main worry of the ACC.

If we go along with the concession you propose, we must be very clear among ourselves that if circumstances arise in which overspending is severe, readjusting the grant distribution by differential close-ending may be not a sufficiently strong response. We might have to cut grant overall too - even though that might be represented as unfair (depending a bit on how, if at all, we would adjust the poundage schedules). Selectively imposed adjustments to keep grant within the cash limit would, if coupled with a grant cut, have much the same effect as my preferred course of limited adjustments to the grant holdback regime.

If this last point causes you difficulty, perhaps we could meet to discuss it before your next Committee meeting, on Tuesday. I should in any case be grateful if your officials would agree with mine a draft of what you might say in Committee.

I am sending copies of this letter to the recipients of yours, and to the Secretaries of State for Scotland and Wales.

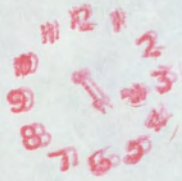
yours sincerely



pp LEON BRITTAN

(appeared by the Chief Secretary  
& signed - his absence).

1 FEB 1982



E

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CONFIDENTIAL

JWP

cc. Ingham  
Verker

1 February 1982

GLC AND LONDON TRANSPORT

The Prime Minister was grateful for your Secretary of State's minute of 29 January on developments arising from the House of Lords judgment in the Bromley case.

The Prime Minister feels that the situation, as described in your Secretary of State's minute, is becoming very difficult, and that the Government ought to take a firm hold quickly. She has decided to hold a meeting on Wednesday at which she hopes precise advice will be available from the Attorney General; together with advice from the Secretary of State for the Environment on the specific possibilities as regards the grants concerned. We will be in touch with you later on today about specific arrangements for the meeting.

I am sending copies of this letter to the Private Secretaries to Members of E Committee, the Attorney General and Sir Robert Armstrong.

M. C. SCHOLAR

Anthony Meyer, Esq.,  
Department of Transport.

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CC AD

I must have a meeting with

(i) private advice for the PM

PRIME MINISTER

(ii) the public position on grant for SLD Gov.

GLC AND LONDON TRANSPORT

(iii) SLD for Transport.

Prime Minister

(2)

A very unsatisfactory situation. X takes me by surprise.

MCS 29/1

This is getting into a mess and we must take a firm hold quickly

At E Committee on 14 January we decided the immediate action which needed to be taken to deal with the issues arising from the House of Lords' judgement in the Bromley case. This was based first on a firm statement that in the view of the Government's legal advisers there was no requirement for further fare increases in 1982 over and above the 100 per cent proposed by London Transport and secondly our offer to introduce legislation to enable LT to borrow to spread the cost of the accumulated deficit over a number of years and to authorise the GLC to continue travel concessions for the elderly. This enabled me to take the initiative and demonstrate our concern both for the ratepayer and the traveller while leaving responsibility firmly with the GLC. Their own display of incompetence has helped us to maintain a strong public stance.

The position is changing, however. Leading Counsel advising the GLC and LT have tried to resolve their differences. But the GLC's adviser has reinforced his view that the Lords' judgement requires LT's deficit to be minimised regardless of the consequences for travellers. The GLC are also taking another tack. They argue that the expenditure needed to finance LT on the basis of the budget it has submitted will carry with it heavy grant penalties, and that rating for this level of expenditure would put them in breach of their fiduciary duty to their ratepayers. This duty was a factor which weighed heavily on the judgement in the Bromley case. They therefore argue that unless the grant

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penalties are waived they will have to ask LT to increase fares by another 50 per cent, i.e. three times their present level - or even more - to make still greater service cuts, and to cut back on their current concessionary fares scheme. They have launched a massive publicity campaign, costing £200,000 to get their case across.

The Secretary of State for the Environment and I have arranged to consult the Attorney General urgently on these further legal points. In the light of the advice the GLC are being given it may well prove necessary for us to go further than we have so far agreed and amend the Transport (London) Act of 1969 to put the lawfulness of a limited amount of subsidy beyond doubt.

This would not however deal with the block grant aspects, about which I am in touch with the Secretary of State for the Environment. This is a more intractable problem. The Law Lords' view on fiduciary duty is welcome in strengthening the effectiveness of the grant system in restraining local authority expenditure. The GLC will argue, however, that the grant system as it applies to them may make any avoidable expenditure unlawful, and they will undoubtedly do all they can to embarrass us by cutting in those areas where the results will cause the greatest political upset. So far as transport is concerned, we could face a situation in which fares are trebled, concessions for the elderly are slashed, but the rates still go up. This would be damaging to London's economy, would have undesirable social consequences and will make industrial action by the unions even more likely. It will be difficult to ensure that the blame continues to fall on the GLC rather than the Government.

I shall keep in touch with the GLC and see whether there is any scope for meeting their genuine difficulties. But if they show themselves incapable of reaching responsible

**CONFIDENTIAL**



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x) decisions we may be forced as an immediate interim measure to step in and take effective control of LT out of their hands. That is a very unwelcome prospect which would raise for us in acute form the problem of whether fares can rise by more than 100% and what rate burdens can be imposed on London. Nevertheless we must now plan for that contingency.

So far the metropolitan counties have been taking a much more moderate view of the implications of the Lords judgement. The AMA are coming to see me on 9 February.

I shall consult colleagues concerned on all the implications of these developments, and of the action I may need to take in respect of transport, but I thought it right in the meantime to let you know that we are likely to be faced with a major campaign in the coming week.

I am copying this to members of E Committee, the Attorney General and Sir Robert Armstrong.

*RAF Mayer*

PP DAVID HOWELL

29 January 1982

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

**CONFIDENTIAL**



✓ CC AD



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

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

28<sup>th</sup> January 1982

(2)

MS

Prime Minister

MUS 28/1

Dear Leon,

LOCAL GOVERNMENT FINANCE (NO. 2) BILL - CLAUSE 4

Thank you for your letter of 25 January.

I have noted carefully the points that you make and, of course, I well understand the argument of the desirability, if possible, of being able to operate any reduction of grant in a discriminating way rather than across-the-board. I had a preliminary meeting on Monday with our own members on the Standing Committee to ensure that there would be full support throughout Committee Stage. It was then clear that three colleagues had serious reservations about the mid-year hold-back provision; this was expressed at Second Reading by Tony Durant, Robin Squire and Michael Shersby (as well as other colleagues who are not on the Committee). I took the opportunity at this private meeting to point out the merits of the discriminating as opposed to the across-the-board approach, but it was clear that they maintained their strong reservations on this mid-year aspect of holdback. Indeed, Robin Squire has tabled amendments to make this impossible. I understand these were in fact prepared by the ACC. It is my judgement therefore that we shall not be able to carry Clause 4 without amendment following defeat of the Government.

I know also that Janet Young has similar concerns about the pressures that will develop in the Lords on this matter. The ACC have privately informed us that they would if necessary be seeking to achieve these amendments through their spokesmen in the Lords.

I would add that one must recognise their reservations are not without merit. There is clearly a risk that the possibility of mid-year holdback would lead to higher main rate provision

by Treasurers and hence higher rate bills in the coming year. If we are to give reassurance on this point it is obviously desirable to give it at the earliest possible time, so that it can be taken into account in the budget/rate fixing process.

I now have a further reason for urgency in determining this issue, since we are already in Committee. I came under great pressure during today's Debate to make clear the Government's attitude to an amendment to Clause 4 since it has such an obvious connection with the banning of supplementary rates. While we were able to make progress today, the Opposition have made clear that they will not be willing to make further progress next Tuesday if I am not able to make a statement about our position on Clause 4.

I would therefore like to recommend the following. I would propose to give an assurance that the Government would table amendments, either in Committee or at Report Stage, that would require us to state at the time of the main RSG Report for any year the principles on which any holdback scheme for that year would operate, but which would therefore not allow us the power to introduce more severe holdback scheme during the course of the year except on an across-the-board basis. (We shall, of course, still be retaining the powers to either reduce the total of grant or to shift the slope of the main schedule or the taper as you pointed out.) This would mean we accept the spirit of the Squire amendment, but I would couple it with a proposal to enable us to do 'close-ending' in a discriminating way, ie. to make over-spending authorities pay for the close-ending that they had caused. This would also require the use of multipliers, and would, I think, need an amendment to Clause 4 to give us express powers.

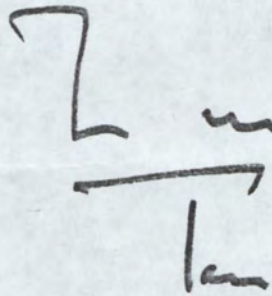
I understand this latter proposal has been discussed informally between our officials, but that they also suggested the possibility that we could retain the power to vary a holdback scheme during the year, but only up to a specific limit. I have not felt able to support this further proposal, since I believe it will still be objectionable to our own colleagues and, indeed, could even exacerbate the problem I have referred to with the main rate, in that the definition in advance of a specific figure could well encourage Treasurers to provide contingency funds for it.

You will also have seen two letters from Wyn Roberts and Nicholas Edwards, of the 26 and 28 January respectively, about the Welsh position. There has clearly been some misunderstanding about the position, but I can confirm that I am satisfied that my proposal fully meets Nicholas Edwards' point in his letter of 28 January that nothing in it would commit the Welsh to the setting of individual targets, to which Nicholas is clearly opposed.

I apologise for having to come back to you on this, and to ask for such a quick response, but I know you appreciate the problems

of a Standing Committee on a Bill of this nature, and why it is essential that I am in a position to make a statement about the Government's position on Tuesday morning.

I am copying this letter to the Prime Minister, the members of E Committee, the Business managers, and Sir Robert Armstrong and Parliamentary Counsel.

A handwritten signature in black ink, appearing to read 'Tom King'. The signature is stylized, with a large 'T' and 'K' and a cursive 'm'.

TOM KING



Local Govt  
Legislation

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

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

✓ AD

28<sup>th</sup> January 1982

MS.

Prime Minister

(2)

PLS 28/1

Dear Willie,

Before he left for Liverpool, Michael asked me to reply immediately to your letter of 27 January about the AMA representations about their targets for local authority expenditure. Clearly we must look urgently at any figures the AMA may produce, but we are very sceptical about the targets having such severe effects as are suggested for the West Midlands. I suspect that the figures do not take full account of the reversal of the cheap fares policy which the Courts have now imposed on the West Midlands, which should now lead to substantial savings on transport revenue expenditure. The AMA figures will need to be scrutinised very closely with this kind of point in mind.

On timing, you will be aware that it is essential to table the Rate Support Grant Report in Parliament next week. It is clearly too late to consider any substantial changes to the targets and grant distribution before then, even if we were persuaded by any of the AMA arguments when they are received. So if there is a genuine problem here it would have to be dealt with at Supplementary Report.

In view of what you say about the reduction of the Metropolitan Police GRE, I am, however, immediately having calculations made of the effect of changing the GREs in this way. I doubt whether it will be possible to complete these adjustments in time to incorporate them in the main RSG Report. Although we will try our best to see if this can be done, time is terribly short. If it cannot be done, then here again it will have to be dealt with at Supplementary Report later on. But it could be possible to make a statement, either on the occasion of the debate on the main Report, or shortly thereafter, so that authorities would be aware

of the situation and would be able to take such prospective changes into account in their budgetting.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Transport and Sir Robert Armstrong.

2  
—  
—  
—

TOM KING

COPY  
A.D., A.W.

①



Prime Minister

PRIME MINISTER

*I don't think the Chief Secretary has heard of the mistake position of some authorities of his they have done this work*

I have had Michael Heseltine's

minute copied to the members of MISC 21.

Do you wish to over-ride the Chief Secretary? Or would you like a meeting with the main members of MISC 21 on Monday?

POSSIBLE MODIFICATION OF THE RSG SETTLEMENT

*Yes no*

Michael Heseltine has sent me a copy of his minute of yesterday to you proposing the addition of £25 million to the RSG Settlement, mainly for distribution to the outer London boroughs. MUS-28/1

2. I do not favour this. Ministers decided the rate support grant after extensive examination of the alternatives and their implications. If we had wanted to distribute somewhat more grant to a few outer London boroughs, it would have been possible to do it by distributing slightly less to all the others. To reopen the distribution now, at the cost of an increase in the grant total, would give all the wrong signals to the local authorities (and others). It might also be difficult to hold the line at one concession.

3. If it is thought that, for political reasons, we cannot hold the present line, it would be preferable to secure whatever re-distribution is judged necessary without adding to the total. I recognise the objections, but they are less strong than adding to the total. To my mind, it is perfectly reasonable for the Government to say that the cash total is the maximum that can be made available but, having listened to various representations about our original proposals for distribution, we have decided on some minor changes.

4. Furthermore, I am very doubtful about the wisdom of the particular device Michael proposes. It has always been a principle of RSG that we impose safety nets as the very last



stage and I think we breach that practice at our peril. It would set a poor precedent and would very clearly expose our motives for making the adjustment.

5. If colleagues nevertheless take the view that an addition must be made, then it is essential for us to be assured that Michael Heseltine will not be seeking further concessions, and that the Scottish and Welsh Secretaries of State will not ask for consequential additions to their settlement. (Michael's minute has not gone to them).

6. I am copying this minute to Michael Heseltine, Willie Whitelaw and Michael Havers.

*T. Matthews*  
*for* LEON BRITTAN  
28 January 1982

*Approved by the Chief Secretary  
and signed in his absence.*



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*Jps*  
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01-233 6106 (Direct Line)

*Oddi wrth Ysgrifennydd Gwladol Cymru* The Rt Hon Nicholas Edwards MP *From The Secretary of State for Wales*

28<sup>th</sup> January 1982

*Dear Secretary of State*

LOCAL GOVERNMENT FINANCE (NO 2) BILL - CLAUSE 4

I have seen on my return from Brussels your letter of 21 January to the Chief Secretary (which was not copied to me) about the concession you wish to make on the Bill. As you know the position in Wales is wholly different from that in England. I have not set individual local authority targets; and I have to make it absolutely clear that I do not intend to set such targets. I would not therefore agree to any statement in Committee much less an amendment to the Bill which would commit me in any way to so doing.

I appreciate that you may still want to say something in respect of England. However I must ask you to clear the terms of any such statement with me and to involve my officials in the drafting of any consequential amendment to the Bill to ensure that my position is fully safeguarded.

/ I am sending copies to those who received copies of your letter.

*Your sincerely*

*Jps*  
Approved by the Secretary of State  
and signed in his absence

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON

Prime Minister

2

MS 28/1

QUEEN ANNE'S GATE LONDON SW1H 9AT

27 January 1982



Dear Michael

ms

As you know, I met representatives of the Association of Metropolitan Authorities on Tuesday afternoon to hear their views about the possible effects on law and order services of the targets for local authority expenditure. Of course, much of the AMA argument is politically motivated; and by focussing their campaign on the police they hope to embarrass the Government. But beneath the public rhetoric I am concerned to establish whether there lies a real problem.

Adequate provision for the police has been made in the RSG settlement for 1982/83; but the individual targets confront some of the large metropolitan authorities with very serious problems - even if they are largely of their own making. The AMA claim that if police expenditure were to be wholly protected, the cuts required in other services (some of which are my direct concern) would be unrealistically high. The most striking example which they brought to my attention is the West Midlands: there I was told that to meet the target for 1982/83 would require an overall cut of 32.7%; if police expenditure were exempt from cuts other services would have to be reduced by 46%. I accept that the police cannot be exempt from the search for economies and I am sure some further savings can still be made in police budgets. But the AMA maintain that some of the local authorities cannot possibly meet the targets we as a Government have set them without cutting into police manpower. I simply do not believe that this would be politically acceptable, especially as many of the areas concerned suffered from riots last year.

We must test this claim. The local authorities concerned have undertaken to send me the detailed facts and my officials will pass these on to yours. It should then be possible to see more clearly what the effect would be on other services of safeguarding police expenditure.

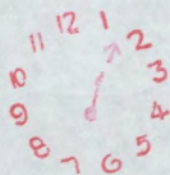
As soon as we have the further and firmer information to which I have referred we can discuss further how we should proceed. Meanwhile, I understand that it should be possible to make a reduction in the Metropolitan Police GRE of £13M which I would welcome, since this is one of the points on which the AMA criticised me.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Transport and Sir Robert Armstrong.

Yours  
William

The Rt. Hon. Michael Heseltine, MP.

28 JAN 1982





PM Hassan

Ms 27/1

27 January 1982

Prime Minister

## POSSIBLE MODIFICATION TO THE RATE SUPPORT GRANT SETTLEMENT

You asked me to look again at the RSG settlement in view of the concern among a number of London MPs and London Boroughs about the way in which our December 21 proposals will affect the London grant distribution.

I have now had the figures re-examined. We have established that by making certain technical adjustments to the methodology we would be able to make significant improvements to the London distribution, at the price of increasing the total of block grant by £25m. The attached note and exemplifications explain the adjustment and illustrate the effects.

The results show that significant gains would be achieved for certain London authorities. £19m of the extra £25m would go to London if authorities spent at target with the rest spread thinly over the rest of the country; no authority would be worse off. I should point out that if ILEA spent at target this change would give it £9.25m. But at the levels they are currently speaking of budgetting they would lose all this, and the extra £9.25m would go to other authorities.

If we were to increase the total of block grant by £25m and distribute it in this way I do not think it would lead to any significant increase in expenditure by the authorities benefitting. All of them would remain under the strongest pressure to reduce their expenditure by the maximum attainable. It would however lead to a significant reduction in the rate increases anticipated in those authorities. The extra £25m could therefore be seen as a reduction in local taxation (rates) rather than as an increase in public expenditure.

I have considered the possibility of making this £25m improvement to London's position at no net cost by taking the same amount away from other authorities. I have concluded however that it would be politically impossible to make such a change from the December figures to the disadvantage of other authorities.

The change would attract a good deal of attention, and some criticism from those authorities which do not benefit from it. I am advised by my Department's lawyers that the principle on which the change would be based is within the scope of my powers under Section 59 of the 1980 Act. But there has not been time to carry out any consultations with the Associations on this suggestion, and we must recognise that there is a degree of risk of legal challenge on this aspect.

There are obviously presentational difficulties in making a last-minute change from our December proposals. They could fuel pressures for wider concessions. On the other hand there could be a very real advantage in terms of rate increases, particularly within London, in making this change.

If colleagues felt that this change should be made and could agree it by the end of tomorrow morning it would just be possible to make the necessary changes to the RSG Report before it is formally made and laid before Parliament later tomorrow. We might however have to defer the debate on the Report to the week beginning February 15 in order to give time for the detailed modifications needed to the Report.

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In view of the difficulty about timing I am sending a copy of this minute to the Chief Secretary, the Home Secretary and the Attorney General, but to no other colleagues at this stage. If you could find a little time to convene a meeting today to look at these possibilities, that might offer the best prospect of reaching an early view.

*MH*

MH

Faint, illegible text at the top of the page, possibly bleed-through from the reverse side.

COPIES



127 JAN 1982



## THE LONDON ADJUSTMENT - A DESCRIPTION

For the 1982/83 RSG Settlement, London's grant position was improved by increasing the overall poundage discount applied to London's high rateable value. In the provisional figures published on December 21, London's grant was increased by approximately £90m as a result of this change. However, this change was introduced at an initial stage of the calculations before the application of safety nets. London authorities in safety nets were unable to benefit from this change because the gains were offset against other safety netted losses (from GRE changes and residual losses from 1981/82)

Further consideration has led us to proposed a modification to the way in which the increase in the London discount is applied. By making this adjustment at a later stage in the calculations, after applying safety nets, all London authorities are able to benefit from the increase in grant going to London. However, authorities have so far made budget and rating plans on the basis of the provisional figures published on December 21, and it would be difficult at this late stage to justify reducing the grant entitlements of non London authorities to benefit a small number of London authorities. To leave the position of other authorities unaffected therefore requires an increase in the total of block grant of £24.191m, which increases the percentage of aggregate exchequer grant from 56% to 56.1%. If authorities spend equal to their expenditure targets, £19m of the extra grant accrues to London and the remainder to safety net authorities outside London. The London authorities to gain from this modification are the following:

### Inner London boroughs

Lewisham (marginally)

Tower Hamlets

ILEA

### Outer London boroughs

Barking

- Croydon

- Hillingdon

Hounslow

Kingston

Merton

- Richmond -

The effects of the changes for these authorities are shown in the attached table.

- Column 1 Shows the block grant which authorities would receive for spending at target in the existing settlement (with final GRE's)
- Column 2 shows the block grant which authorities would receive for spending at target with the proposed increase in the grant total and adjustment of London multipliers
- Column 3 shows the extra block grant authorities would receive for spending at target with the proposed changes as column 3 but shown as a rate poundage effect
- Column 4 shows the extra block grant before holdback authorities would receive as a result of the proposed changes if spending 7.5% above <sup>1981/82</sup> revised budgets
- Column 5 shows the extra block grant before holdback authorities would receive as a result of the proposed changes if spending 7.5% above <sup>1981/82</sup> revised budgets
- Column 6 shows the reduction in holdback as a result of the proposed changes if authorities spend 7.5% above 1981/82 revised budgets

The table suggests that £9m of the extra grant would accrue to ILEA. However, it is known that ILEA are budgetting for a level of expenditure substantially above their target, and the effect will be to take them out of grant. ILEA's grant gain will therefore in practise accrue to other authorities.

## Effect of giving extra London discount after safety nets.

Authority	Spending at target				Gain at higher spend	Change holdback
	Block grant now	New block grant	Grant gain	Grant gain		
	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6
<b>GREATER LONDON</b>						
City of London	-	-	-	-	-	-
Camden	-	-	-	-	-	-
Greenwich	£25.949m	£25.949m	-	-	£0.010m	-
Hackney	£41.282m	£41.282m	-	-	£0.011m	-
Hammersmith and Fulham	£32.510m	£32.510m	-	-	£0.010m	-
Islington	£29.268m	£29.268m	-	-	£0.016m	-
Kensington and Chelsea	£10.969m	£10.969m	-	-	£0.022m	-
Lambeth	£52.282m	£52.282m	-	-	£0.018m	-
Lewisham	£42.368m	£42.459m	£0.091m	0.3r	£0.120m	£-0.004m
Southwark	£40.173m	£40.173m	-	-	£0.017m	-
Tower Hamlets	£21.971m	£23.048m	£1.077m	2.5r	£1.318m	£-0.040m
Wandsworth	£42.773m	£42.773m	-	-	£0.013m	-
Westminster	-	-	-	-	-	-
Barking and Dagenham	£24.095m	£25.153m	£1.057m	4.0r	£1.289m	£-0.033m
Barnet	£37.239m	£37.239m	-	-	£0.046m	-
Bexley	£42.231m	£42.231m	-	-	£0.024m	-
Brent	£65.477m	£65.477m	-	-	£0.040m	-
Bromley	£44.411m	£44.411m	-	-	£0.038m	-
Croydon	£45.360m	£47.222m	£1.861m	2.8r	£2.060m	-
Ealing	£55.221m	£55.221m	-	-	£0.043m	-
Enfield	£40.947m	£40.947m	-	-	£0.038m	-
Haringey	£61.078m	£61.078m	-	-	£0.027m	-
Harrow	£30.645m	£30.645m	-	-	£0.027m	-
Havering	£40.883m	£40.883m	-	-	£0.029m	-
Hillingdon	£22.584m	£24.569m	£1.985m	3.5r	£2.335m	£-0.170m
Hounslow	£27.059m	£27.611m	£0.553m	1.2r	£0.718m	£-0.048m
Kingston-upon-Thames	£16.448m	£17.355m	£0.907m	3.2r	£1.021m	£-0.085m
Merton	£25.733m	£26.709m	£0.977m	3.3r	£1.093m	£-0.037m
Newham	£70.743m	£70.743m	-	-	£0.026m	-
Redbridge	£38.036m	£38.036m	-	-	£0.023m	-
Richmond-upon-Thames	£19.401m	£20.355m	£0.953m	3.1r	£1.079m	£-0.091m
Sutton	£25.270m	£25.270m	-	-	£0.022m	-
Waltham Forest	£56.899m	£56.899m	-	-	£0.024m	-
GLC	£192.450m	£192.448m	£-0.003m	-	£0.240m	£0.001m
ILCA	-	£9.255m	£9.255m	0.8r	-	-
Metropolitan Police	£141.003m	£141.387m	£0.384m	-	£0.436m	-

## Effect of giving extra London discount after safety nets

Authority	Spending at target				Gain at higher spend Col 5	Change holdback Col 6
	Block grant new Col 1	New block grant Col 2	Grant Col 3	Grant Col 4		
TOTAL England	£8,648.826m	£8,673.027m	£24.191m	0.3p	£24.182m	£-0.826m
Non-met districts	£625.588m	£625.929m	£0.341m	-	£0.989m	£-0.016m
Non-met counties	£3,990.366m	£3,993.833m	£3.472m	0.1p	£7.771m	£-0.122m
Metropolitan districts	£2,065.473m	£2,066.608m	£1.136m	0.1p	£2.678m	£-0.075m
Metropolitan counties	£503.875m	£504.020m	£0.145m	-	£0.501m	£-0.011m
Non-met total	£4,615.954m	£4,619.767m	£3.813m	0.1p	£8.760m	£-0.135m
Metropolitan total	£2,569.347m	£2,570.628m	£1.280m	0.1p	£3.179m	£-0.036m
City & Westminster	-	-	-	-	-	-
Rest of Inner London	£339.546m	£340.714m	£1.168m	0.2p	£1.556m	£-0.044m
Inner London inc IEA	£339.546m	£349.969m	£10.423m	0.9p	£1.556m	£-0.044m
Outer London	£789.809m	£793.103m	£3.293m	1.0p	£10.010m	£-0.565m
GLC & Met Police	£333.453m	£333.835m	£0.381m	-	£0.676m	£0.001m
London total	£1,462.803m	£1,481.906m	£19.093m	1.0p	£12.242m	£-0.603m
Partnership authorities	£846.294m	£847.816m	£1.522m	0.2p	£2.343m	£-0.074m
Programme authorities	£716.213m	£716.493m	£0.280m	0.1p	£0.743m	£-0.019m
Partnership & programme	£1,562.513m	£1,564.314m	£1.802m	0.1p	£3.086m	£-0.092m

Local Govt  
Relations

Privy Council Office,  
Whitehall,  
London, SW1A 2AT

*With the Compliments  
of the  
Lord President of the Council*



✓ AD

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

27 January 1982

Dear Chris

LEGISLATION ON TRANSPORT SUBSIDIES

Thank you for your letter of 25 January about progress on the Bill on transport subsidies. I confirm that the Lord President is content to give his formal authority for the employment of Parliamentary Counsel on the drafting of this Bill.

The timetable for the Bill is extremely tight, even if the possible problems which you envisage in your penultimate paragraph do not materialise. It will be particularly important therefore to ensure introduction as soon as possible. The Lord President hopes that every effort will be made to minimise delays to the Bill, and that he will be given immediate warning of any likely hitches.

The Lord President has also asked me to tell you that he has not yet formed a view on the best way of handling the Bill's progress through the House of Commons. He believes it might be unnecessarily provocative to take all stages on a single day and he will therefore consider this point further with the Chief Whip.

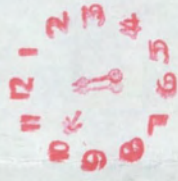
I am copying this letter to the recipients of yours.

Yours ever  
Nick Huxtable

N P M HUXTABLE  
Private Secretary

C R Edwards Esq  
Private Secretary to the  
Secretary of State for Transport  
2 Marsham Street  
LONDON SW1P 3EB

28 JAN 1962



Y SWYDDFA GYMREIG

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*Oddi wrth yr is-Ysgrifennydd Seneddol*



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*From The Parliamentary Under-Secretary*

26 January 1982

*Dear Tom,*

LOCAL GOVERNMENT FINANCE (No 2) BILL - CLAUSE 4

Further to our conversation yesterday about the Welsh position in relation to Bill amendments dealing with expenditure targets, I think I must set out quite clearly where we stand on this issue.

For reasons which I am sure you understand, we do not wish to set individual local authority expenditure targets in Wales if this can be avoided. For 1981/82 we seem to have succeeded in constraining local authority expenditure generally without setting targets. For 1982/83 Nicholas Edwards has made it clear that he expects Welsh authorities as a whole to meet his aggregate expenditure target and no individual authority expenditure targets have been set or details given of possible means of effecting any withholding of grant. If of course 1982/83 budgets indicate a substantial overspend in aggregate is likely, then grant holdback would have to be considered and that will almost certainly require us to set individual expenditure targets: but there is no question of our setting such targets before that stage is reached, ie before we have been able to consider authorities' 1982/83 budget plans later this year.

The primary purpose of any Bill amendment on this matter is, presumably, to ensure that individual authorities do not suffer a grant penalty before they have a chance to take into account the possible grant penalty before setting their budgets. Whilst I do not necessarily oppose an amendment with this aim, it must cover the position we might be in in Wales in 1982/83. If expenditure in aggregate exceeds Nicholas' overall target we will probably need to call for revised budgets, making it clear at that stage that an unsatisfactory response would mean grant holdback. The call for revised budgets would of course need to be accompanied by details of the holdback scheme, including any individual targets which might be set. Clearly as Robin Squire's amendments stand at the moment, this would not be possible.

/I do appreciate ...

Rt Hon Tom King MP  
Minister of State, Local Government  
Department of the Environment  
2 Marsham Street  
London SW 1





I do appreciate the reason why Michael wishes to offer this concession. But I know you will appreciate too the need for any amendment, to give the concession Michael wishes to make, to take account of Welsh circumstances. I am sure that a suitable form of words can be devised by officials and lawyers to this end. Clearly this needs quick resolution.

These comments would have been made in response to Michael's letter of 21 January to the Chief Secretary but unfortunately that letter was not copied to the Welsh Office. I would be most grateful if you could ensure that we are kept fully in the picture on any future matters relating to the Bill.

I am copying this to the Chief Secretary and the other recipients of Michael's letter and to George Younger.

*James ...*

*Wyn Roberts*

WYN ROBERTS

CONFIDENTIAL

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB



*L.P.S.*  
Prime Minister (2)

*E.M.A.P.*

*MUS 25/1*

David Hayhoe Esq  
Private Secretary to  
The Rt Hon Francis Pym MP  
Lord President of the Council  
Privy Council Office  
68 Whitehall  
LONDON SW1A 2AT

25 January 1982

*Dear David*

LEGISLATION ON TRANSPORT SUBSIDIES

We have been considering the form and timing of the Bill which E Committee agreed should be introduced to provide that the GLC may subsidise concessionary travel and to enable London Transport and the PTE's to borrow to finance accumulated deficits resulting from cheap fares policies.

The Bill will be very short, probably only two substantive Clauses. Although it is likely to be fairly controversial, we do not expect the Opposition to try to prevent it making progress. It will however be difficult to draft it so as to exclude amendments to relax the constraints on transport subsidies more generally. Government supporters may also be concerned about introducing powers for the GLC to subsidise concessionary travel. Mr Howell intends to discuss the proposals with the Transport Backbench Committee shortly but so far there has been no adverse reaction from Government supporters to the proposed legislation.

In order to ensure that there is no uncertainty about the continuation of concessionary travel in London, the Bill needs to achieve Royal Assent by 31 March. We hope therefore that it will be possible to go to L Committee and have the Bill introduced in the Commons in the week beginning 8 February. We would then like to take all stages on the floor of the House in one day in the week beginning 22 February. This would leave a month for its remaining stages. It will not be a Money Bill.

We plan to send Instructions to Parliamentary Counsel before the end of this week. Counsel is already aware of what is in mind. The main tactical consideration is that the GLC is meeting on 16 February to settle its budget for 1982/83 and it is

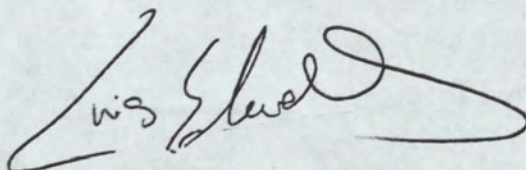
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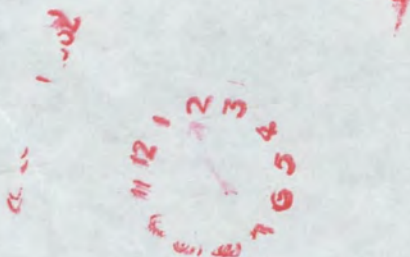
important that the Bill should be published by then. You should be aware however we might need to look at the Bill's contents again, and therefore delay matters slightly, after this meeting should the GLC adopt an irresponsible attitude over the 1982/83 budget. For example they might insist on taking a narrower view than that advised by the Attorney General of what their legal responsibilities are and insist on a further large fare increase this year.

I am copying this to Mike Pattison in the Prime Minister's Office, to Murdo Maclean in the Chief Whip's Office, who is aware of our thinking on timing and to Michael Pownall in the Chancellor of the Duchy's Office. A copy also goes to David Edmonds in the Secretary of State for the Environment's Office, to the Private Secretary to the First Parliamentary Counsel and to the Private Secretary to Sir Robert Armstrong.

*Yours ever*



C R EDWARDS  
Private Secretary



CONFIDENTIAL



✓ CC AD

2

Prime Minister

MCS 25/1

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
London SW1

25 January 1982

ms

Dear Secretary of State,

LOCAL GOVERNMENT FINANCE BILL: CLAUSE 4

TPM

Thank you for your letter of 21 January suggesting how we might amend clause 4 of the Bill so as to ensure its safe passage in Committee.

I am sorry that you feel it necessary to offer a radical change in this vital clause. What you propose would deny us the option of further reductions in grant to high spenders beyond those implicit in the schedule set at the time of the RSG settlement, irrespective of the level or distribution of the overspend as it emerged. I would add that clause 4(ii) does no more than restore the position to what we thought obtained under the Local Government Planning and Land Act 1980.

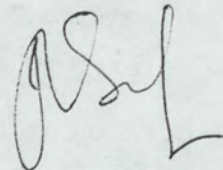
Naturally I understand ACC's desire for certainty in their grant determinations. But absolute security in this respect for local authorities could be bought only at the risk of higher public expenditure with potential inflationary consequences. Because we cannot foresee the distribution of overspending at the time of the RSG settlement, we cannot set a tariff with completely predictable results to relate overspending to penalties. Nor can we foresee all possible economic developments over the eighteen months until the end of the year. So, although none of us would relish it, if we do what you propose we might have to contemplate cutting aggregate RSG or sharpening the poundage schedule, which would be even worse for most of our supporters than using the power in clause 4.

May I suggest, therefore, that you and Tom King present our supporters on the Bill Committee with the stark choice: if the worst comes to the worst, would they prefer the government to respond to overspending by cutting grant selectively or generally? I find it hard to believe that anyone would favour making all local authorities suffer for the profligacy of a few. Moreover, the Bill as drafted would not deny Parliament the right to consider any in-year grant holdback since Supplementary Reports are subject to affirmative resolution procedure.

Of course I would expect to couple these arguments with assurances - to be repeated in Committee if necessary - about the government's good faith in applying general principles and not acting capriciously in determining grant penalties. The outlook is uncertain for central as well as local government, and we cannot afford to rule out all possibility of acting selectively if need be. Only if we fail to marshal sufficient support for clause 4 of the Bill should we consider a concession and I hope we need not go as far as the substantial limitation to our powers you suggest. Our officials should discuss the alternatives, and we may want to discuss them extensively if some concession does appear necessary.

I am copying this letter to the recipients of yours.

yours sincerely



LEON BRITTAN

kg

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

25 JUN 1982





2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

22 January 1982

*Dear David*

ARRANGEMENTS FOR THE RATE SUPPORT GRANT SETTLEMENT

We have discussed briefly my letter to you of 14 January. I have also spoken to Murdo MacLean. *will repeat if agreed*

I understand that there may be difficulty in arranging a debate on our Rate Support Grant Settlement in the week beginning 8 February. I am writing to underline the importance for us of having the debate in that week, and to ask you to do all you can to fit it in.

The laying of the Settlement Reports traditionally, as you know, takes place before Christmas, so as to allow local authorities to take account of the settlement in making their budgetting and rating, decisions for the forthcoming financial year. This year, of course, decisions were delayed, and we cannot now lay the Reports in Parliament until 28 January.

There are 2 main reasons for holding the debate as soon as possible after that, ie the week of 8 February. First, although local authorities receive copies of the Orders, they only come into force when Parliament approves them, and until then the proposals are not seen as final. Second, further delay will enable still more lobbying by local authorities.

My Secretary of State very much hopes, therefore, that you will be able to arrange debates on the RSG Settlements in the week beginning 8 February.

I am copying this to the Private Secretaries to Cabinet colleagues, the Chief Whip and to Sir Robert Armstrong.

*Yours ever*  
*D A Edmonds*

D A EDMONDS  
Private Secretary



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DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222  
FROM THE SECRETARY OF STATE

22 January 1982

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London SW1 3EB

*JAD*  
Prime Minister

(2)

Local

MUS 22/1 Gal

*Dear Michael*

LOCAL GOVERNMENT FINANCE (NO 2) BILL

In my letter of 15 December, I asked for an assurance that you would not use in an unduly restrictive way your power to withhold consent to temporary borrowing by local authorities unable, under the Bill, to levy a supplementary rate.

2 You have not yet replied to my letter but your statement on 16 December appeared largely to meet my point, in that you omitted the reference to natural disasters which I had queried in the draft and mentioned commitments which had to be met. I am now concerned to see from your speech on the Second Reading (Col 50) on 18 January that you reverted there to something close to the original formulation which I questioned. In doing so you ran into criticism from nearly all our back-benchers who spoke in the Debate, and I doubt if Tom King's reply towards the bottom of Col 114 will have gone far to satisfy them.

3 This is a serious issue for local government in general and education, the largest service, in particular. Take the example of a local authority - say Suffolk or Kent - which budgets on the basis of the Government's inflation factors to spend next year at its GRE in order to avoid grant penalties. Those inflation assumptions already look optimistic - after the settlement for the manual workers the average for pay seems bound to be more than 4 per cent and we ourselves, in the latest Industry Act forecast, now put price increases at 10 per cent. By October 1982 the county may be facing a cash flow crisis. It will not be able to levy a supplementary rate. Can it borrow? Or must it cut services?

4 We have here a dilemma and I am anxious that we consider it now so that we are not caught unprepared.

5 I am sending copies of this letter to the Prime Minister, the other members of E Committee and to Sir Robert Armstrong.

*Tom King*



DEPARTMENT OF EDUCATION AND SCIENCE  
MAXWELL HOUSE, YORK ROAD, LONDON, SE1 8YB  
TEL: 01-276 3000  
FROM THE SECRETARY OF STATE

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Prime Minister

159 AD

(2)

Mus 24/1

2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:  
21 January 1982

ms

Dear Chief Secretary

LOCAL GOVERNMENT FINANCE BILL - CLAUSE 4

During the Second Reading of the Local Government Finance Bill on 18 January I came under strong pressure on all sides of the House to make some limitation on the way in which Clause 4 could be operated.

As you know this is the Clause giving me explicit powers to set multipliers in order to vary the grant entitlements of authorities according to the degree of their compliance with any expenditure guidance or targets I have issued. It is this Clause which we need in order to implement the grant holdback schemes for 1981-2 and 1982-3.

The opponents of this Clause, who have been briefed by the ACC on this matter, want it to be made subject to the requirement that any grant holdback scheme for overspending authorities for future years should always be specified in advance of the year to which it related in the main RSG Report for that year. In this way authorities would know in advance the scale of penalties that would operate for overspending and could budget and rate accordingly. There would be much greater certainty in the budgeting process. They are afraid that without this restriction a Secretary of State might impose a holdback scheme after the start of a financial year when authorities have already budgeted and rated; since they would no longer be able to levy a supplementary rate (because of Part I of the Bill) they would then have no alternative but to make painful cuts at short notice (unless their balances were sufficient to tide them over). The critics claim that this would maximise undesirable uncertainty, and would ensure large rate increases in the next year or two while authorities try to build up protective balances.

I am naturally reluctant to limit my powers in this way, since it would necessarily involve forgoing the possibility of operating in the way in which George Younger dealt with the Lothian situation using powers comparable to those in Clause 4. On the other hand we must recognise the force of the argument about uncertainty, and the real danger that authorities will rate up to try to build up protective balances in the next year or two.

Moreover I think we must recognise the strength of feeling among our own supporters on this matter, and the likelihood that a concession will in any case be forced on us in Committee. In the circumstances I believe that our best tactic will be to announce a concession on this point right at the start of the Committee proceedings in order to create a better atmosphere at the outset, and to have the greatest chance of influencing rating decisions for 1982-3. Any such concession would of course be limited to future years, and would not affect the

present holdback schemes for 1981-2 and 1982-3 which would go ahead as announced once the Bill is through (though the restrictions would prevent us from contemplating any increase in the penalties for 1982-3 as a possible response to any overspending revealed by authority budgets in 1982-3.) I have the private assurance of the ACC leaders that they accept the inevitability of this, and would seek to damp down any further opposition to the Bill on our side if this one concession were made.

I hope you will be able to agree to an early announcement of a concession on the lines I have indicated. There are no identifiable public expenditure costs; and although I shall lose some flexibility I think it is arguable that the greater certainty that will be created will improve public expenditure control rather than the reverse. We should of course still retain the power to impose an across-the-board grant reduction or a steepening of the poundage schedule or taper as a possible response to any overspending developing during the course of a year.

It would be very helpful to have your agreement by midday on Monday. Tom King will be seeing our supporters on Standing Committee on that day, and he will need to know whether we are prepared to make this concession - if circumstances indeed make it necessary - before he meets them.

I am copying this letter to the Prime Minister, the members of E Committee, the business managers, and Sir Robert Armstrong and Parliamentary Counsel.

*John Major*  
*D.M.H.S.*

for MICHAEL HESELTINE

*(letter approved by the  
Secretary and signed  
in his absence)*



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JAN 21 1968

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## London Transport

4.10 pm

**The Secretary of State for Transport (Mr. David Howell):** Before Christmas I told the House that I was not prepared to legislate to let the Greater London Council go back to its unbalanced transport policies which placed such huge burdens on ratepayers. I said, however, that I was willing to see the GLC leader at any time if he or his supporters had problems. Since then Mr. Livingstone and other GLC leaders have come to see me and explain their problems.

In immediate response to those problems the Government are prepared to act in two respects. First, although the GLC has powers under the Local Government Act 1972 to spend up to the product of a 2p rate, which could be used to finance concessionary fares for the elderly, it is clear that it is not in a position to continue relying on those powers alone for this purpose; nor are the London boroughs able to get a concessionary fares scheme worked up in time. I have therefore stated the Government's willingness to legislate to give to the GLC the same powers as other local authorities have to operate a concessionary fares scheme.

Secondly, the high cost and low fares policies of recent months have led to a large accumulated deficit. I have said that we would be prepared to legislate to let London Transport pay this off over a reasonable period. Regrettably, the GLC has had to raise fares 100 per cent., not just to get back to 1980 levels, but to pay for the heavy costs of inefficiencies imposed on London Transport in recent months. In the Government's view there is no need for further large increases in 1982. Talk of this, or of large-scale redundancies, is raising thoroughly unnecessary alarm. The GLC leaders have indicated their wish to come for further talks on the future of London's transport system in the longer term. I welcome these as providing an opportunity for constructive discussions on the needs of the public in London and how these can be best met and financed.

**Mr. Albert Booth (Barrow-in-Furness):** I welcome the Secretary of State's acknowledgement that it is necessary to legislate to deal with the massive problem created by a combination of the Lords' decision, the decision of his predecessor about fares policy, and the decision of the Secretary of State for the Environment to cut London's rate support grant. However, does he realise that most of the people who are concerned with this issue will regard his statement as inadequate to meet the problem? Does he accept that legislation is required to enable not only the Greater London Council but metropolitan authorities throughout the country, to continue sensible transport policies as a result of the Lords' decision? Does he further accept that legislation is required to prevent a 100 per cent. increase in fares and a 5 per cent. cut in services in London?

Will the right hon. Gentleman give the House a clear assurance that, as the Secretary of State for the Environment cut £110 million off London's rate support grant on the ground that its fares policy involved overspending, when the Greater London Council brings in the new fares policy involving a 100 per cent. increase in fares the Secretary of State for the Environment will restore that £110 million to the GLC? Will he also give us

**Mr. Younger:** I appreciate my hon. Friend's anxiety about the smelter in Anglesey. That is not directly affected by my statement, but I note what he says. Power prices are a matter for my right hon. Friend the Secretary of State for Energy and no doubt my hon. Friend will pursue him on that. It is worth pointing out that the Invergordon smelter—and I think that the Anglesey smelter is in a similar position—was already getting power at about half the cost charged to other industries. It is a different situation from power prices generally.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. I intend to use the remaining time for those who have been seeking to catch my eye.

**Dr. Jeremy Bray (Motherwell and Wishaw):** What will be the impact of the settlement that the Secretary of State has reached on other electricity consumers in Scotland? Is it fair for Scottish consumers to pay such a large proportion of the cost of carrying spare electricity capacity in the United Kingdom as a whole?

**Mr. Younger:** It does not quite look like that from the electricity boards' point of view, because it is to Scotland's advantage to be able to sell electricity to other parts of the United Kingdom. That helps the finances of the Scottish boards.

Scotland benefits from the fact that a considerable proportion of our electricity is produced by hydro-electric power, which is very much cheaper than other forms of power. Despite all that I have said about nuclear power, it is considerably cheaper than coal, oil or gas.

**Mr. George Foulkes (South Ayrshire):** Will the Secretary of State stop talking about the closure as though it were caused by someone from Mars and accept that it is a direct result of Government economic policy? Is he aware that in the three months to the end of November we imported £61 million of worked aluminium and aluminium alloy, £11½ million of which was from East Germany? Is it right that we should import so much subsidised aluminium while Invergordon starves? What action will he take about that aspect?

**Mr. Younger:** The hon. Gentleman is absolutely right in saying that the situation is due to Government economic policy. That policy was carried out in 1968 and it led to the contract which has resulted in the present sad and disastrous position. On power prices, which lie behind the hon. Gentleman's remarks, the power contract that the company was operating, and on which it made a loss in every year except one, was already very much cheaper than those for other users. Imports are a matter for the aluminium industry to decide when considering how best to operate its affairs to keep all plants in operation. It should be borne in mind that the company still has 2,700 other jobs in Scotland, let alone those in England. Those people are still working and if the company had collapsed, they would all be out of work.

**Mr. Gavin Strang (Edinburgh, East):** Does the Secretary of State understand that this is the most disgusting and disastrous decision ever taken by the Government? It is socially and economically indefensible. Will he and the Secretary of State for Energy stop their pretence of scouring the world and face up to the fact that, if the Government decided to bring forward a revised power contract, the smelter could start up again next

a clear assurance that if the GLC—as I understand is its intention—operates the legal powers which he intends to confer upon it to provide from rates a fares concession for elderly people, that will not be held to be an increase in rates expenditure and thereby attract a further penalty from his right hon. Friend the Secretary of State for the Environment?

Can the Secretary of State for Transport give an estimate of how much extra it will cost London ratepayers to provide this concessionary travel arrangement for the elderly as a result of the increase in fares that has been forced upon them? Can he say how the fares requirement will be calculated for the repayment of the loan, in view of the fact that no one has any experience of the effect of a 100 per cent. fares increase and the drop in ridership that might result from that?

Finally, can he say how quickly this legislation will be introduced, bearing in mind that councils will have to take decisions within the next few weeks about their transport budgets for the coming year?

**Mr. Howell:** The right hon. Member for Barrow-in-Furness (Mr. Booth) has asked me a number of Questions. I begin by reiterating that, as I said before Christmas, it remains the intention of the Government not to propose legislation that would allow the GLC to go on crushing the ratepayers. If I may say so, it was surprising that the right hon. Gentleman omitted to express any sympathy for the plight of the ratepayers, or the fact that many of them were elderly people who were frightened by some of the enormous rate increases that were proposed.

I shall try to answer as many of the right hon. Gentleman's questions as I can. The 100 per cent. fares increase which the GLC approved is regrettable. It appears to be necessary in order to finance not merely getting back to the policy on fares that prevailed before May 1981 and getting some stability and balance between the ratepayers and the fare payers, but the substantial increases in costs that have resulted from the GLC's extremely cavalier attitude to the operations of London Transport in recent months. That is why this regrettable and deplorable 100 per cent. increase appears to be necessary.

The right hon. Gentleman asked about the GLC's expenditure budget generally, the penalties that might be incurred and whether money would come back to the London boroughs. These are matters for my right hon. Friend, but the answer is that some money will come back.

The right hon. Gentleman asked whether the rates penalty will be incurred if the GLC proceeds, for instance, with its concessionary fares policy. This relates to the GLC's expenditure priorities. The GLC has to decide its priorities and expenditure in a way that maximises efficiency and is consistent with the overall public expenditure constraints. That is a matter for the GLC, as is the question that the right hon. Gentleman asked about the extra cost to ratepayers. In prompt response to the GLC's request, as I said I would do, I have offered two ways in which the GLC can proceed and make a budget for 1982 with London Transport which is legal and which enables it to proceed in 1982 in a legitimate manner.

The right hon. Gentleman asked about the repayment of the loan that I am offering the GLC. London Transport is to be given powers to borrow over five years. It is for the GLC to decide whether to take up that offer and to what extent to rely on that source of funds. The council may have other sources of funds, in which case the burden will

not fall exclusively on the fare payer. It is for the council to decide how much of that offer it wishes to take up. I am giving the GLC more room for manoeuvre, so that it may proceed in this way, and accept London Transport's suggestion to raise fares to pay off this large and regrettable accumulated deficit over five years.

The speed of legislation will depend upon my right hon. Friend the Leader of the House. The Government wanted to move as soon as possible, particularly on concessionary fares, because I was worried about some of the unnecessary scaremongering talk about the threat to old age pensioners' concessions. There was no need for that scaremongering talk. The Government have acted promptly in making their position clear on the matter.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. I propose to allow 20 minutes for questions on this statement. If hon. Gentlemen are brief, everyone should be called.

**Mr. Terence Higgins (Worthing):** I support my right hon. Friend's opposition to a general subsidy on fares and I agree with him on the need to protect ratepayers. However, is he aware that the present situation is very unfair in the way that it affects concessionary fares for pensioners? Pensioners in London travel free but in many other parts of the country that have elderly populations it is impossible for local authorities to subsidise pensioners' fares because those who are paying the rates are the people who are getting the concessionary fares. Will my right hon. Friend see whether this can be done on a broader, national basis rather than on the present unfair basis, which discriminates in favour of London?

**Mr. Howell:** I am grateful to my right hon. Friend for his general support. I am aware of the points on concessionary fares that he has made in earlier debates. I should perhaps make it clear that what the Government are proposing is legislation to put the GLC in the same position as practically every other local and metropolitan authority. It would then be for the GLC, like every other local authority, to decide what proportion of its resources it wished to use and the type of policy that it wished to operate on concessionary fares for the old or support for other groups of people. The Government are proposing that the GLC should be put in exactly the same position as almost every other local authority.

**Mr. William Pitt (Croydon, North-West):** Is the Secretary of State aware that his statement, which moves us no further forward from the House of Lords decision, has thrown the future of London Transport into chaos? Is he further aware that he has put London Transport out on a limb in relation to other capital cities of the West? Will he assure the House that the Government will seek to introduce legislation to promote a properly subsidised transport system in our capital city?

**Mr. Howell:** The hon. Gentleman is unjustified and unwise to speak about chaos. There is no reason why there should be chaos. There is every reason to suppose that the present situation can be used by the GLC to put London Transport on a fair and balanced footing. There is every reason for future talks involving the GLC and other local authorities to include the more fundamental issues that arise. That is a much better approach than campaigning on the streets. The hon. Gentleman has his own recipe. I can only assume from what he says that he, like everyone else,

[*Mr. Howell*]

would like to see low fares, low rates and, no doubt, low taxes. There happens, however, to be the question of deciding who pays and, in particular, who pays when a major bungle has been made by the GLC, for which someone has to pick up the tab.

**Mr. George Cunningham** (Islington, South and Finsbury): Will the Secretary of State accept that in every other major capital city in Europe subsidies are required to save city transport, but that such subsidies are now—at least possibly—illegal in this country? In addition to the temporary legislation that the right hon. Gentleman now offers in respect of the GLC, have the Government any intention of bringing forward legislation later to clarify the situation in regard to such subsidies?

**Mr. Howell:** The clear legal advice, and the Government's view based on that advice, is that the position for 1982 is within the law if the GLC proceeds with the 100 per cent. fares increase. No more is required by the law. If the GLC wished to put up fares further, that would be a policy matter. As to the longer term, I have recognised that more fundamental problems are raised by what is recognised to be a complex judgment. The GLC has said that it wishes to come to see me again. I shall also be talking to the metropolitan authorities. We shall need to look at some of the difficult issues raised in the longer term. I believe, however, that it would be wrong to be rushed, as some hon. Members were suggesting before Christmas, into early legislation of a kind that would put the clock back and allow the GLC to carry on punishing the ratepayers, as it was doing.

**Sir John Biggs-Davison** (Epping Forest): What increase in paying passengers resulted from cheaper fares?

**Mr. Howell:** I should need notice in order to give the precise number. I can, however, inform my hon. Friend that some of the claims made for the dramatic reduction in fares, first in South Yorkshire and then in Greater London, have been wholly unjustified. In particular, it was claimed that there would be a dramatic cut in traffic. That has not emerged at all. The GLC's own estimate is that general traffic mileages will be cut only by 1 per cent.

**Mr. Douglas Jay** (Battersea, North): Why did the Secretary of State tell the House before Christmas that old people's concessionary fares were not threatened, when it now turns out that they were and that legislation is needed?

**Mr. Howell:** In fact, the legislation was on the statute book for concessionary fares to continue to be paid out of the 2p rate. When I discussed this problem with the GLC, it was clear that the council was not in a position to rely on the 2p rate to meet the larger sums needed for concessionary fares and that the London boroughs could not go back to the scheme that operated previously. The right hon. Gentleman is therefore right. It was necessary to take the steps that I have taken over concessionary fares.

**Mr. Michael Shersby** (Uxbridge): Is my right hon. Friend satisfied that the legislation that he intends to introduce will meet the important point raised by our right hon. Friend the Member for Worthing (Mr. Higgins)? What is the Government's policy towards the introduction of concessionary fares for elderly people on a wider basis than that already enjoyed? Can my right hon. Friend give an assurance that any future subsidy for London fares will

not be met by Greater London ratepayers alone, but that those in the Home Counties, who have benefited substantially from the scheme introduced by the GLC, will have to pay their fair share of any future subsidy, whatever form it may take?

**Mr. Howell:** I listened closely to my right hon. Friend the Member for Worthing and also to my hon. Friend the Member for Uxbridge (Mr. Shersby) on the matter of concessionary fares. Wider issues arise than the one with which I have been concerned, which is to put the GLC in precisely the same position as all other local authorities and settle concessionary fares on the basis of local requirements and local variations.

On the question of general support for London Transport, it is worth bearing in mind that in the past year national taxpayers gave about £100 million of support to the London Transport system. Overall, the system last year received about £¼ billion in public support before the introduction of the super low fares policy. Considerable sums are therefore available. Against that background it is nonsense to talk of a system starved of resources. A substantial degree of support exists and this has been recognised in Government policies over many years. It continues to be so recognised.

**Mr. Christopher Price** (Lewisham, West): Will the Secretary of State accept that the responsibility for the chaos and the scaremongering lies with him, with his right hon. Friend the Secretary of State for the Environment, with the London borough of Bromley and with the five Law Lords who produced such a confused judgment that different Queen's Counsel have produced different interpretations of what that judgment means? Will the right hon. Gentleman confirm what he has said—that even though he is asking the House to legislate to make it lawful for the GLC to give pensioners free fares, he is giving no guarantee that the moment this is done his right hon. Friend will not come forward and penalise the council and say that it is acting unlawfully?

**Mr. Howell:** On the issue of blame and responsibility, I do not think that the hon. Gentleman has got the matter in perspective. A number of people have said that they intend to campaign for a clearly defined political objective in order to get back to a situation in which they can continue to impose an extremely heavy burden on ratepayers, including many elderly people and many small businesses, which is generally agreed to be extremely damaging. A political campaign is being mounted in a way that seems, in some cases, to be designed to create confusion of a greater kind than I believe is anything like the case. That is a poor way to go about dealing with an undoubtedly complex problem. It would be much better to follow the line suggested by the Government from the start—to sit down, discuss the problems and work them out in a sensible manner.

On the issue of money paid out for old people's concessionary fares, it is for the GLC to decide its expenditure priorities and how it wishes to spend its money. I am proposing that legislation should be sought from the House to enable the GLC to carry on unambiguously with a policy of concessionary fares for the elderly. How the GLC finds the money is a matter for it to work out within its own budget.

**Mr. Tim Eggar** (Enfield, North): Is my right hon. Friend aware that his announcement will be welcomed by



old-age pensioners throughout London? Does he know that many old-age pensioners were extremely upset by the supplementary rate imposed by Mr. Ken Livingstone, which they saw as a nasty and underhand way of forcing them to pay for their free bus passes?

**Mr. Howell:** I am very much aware of the matters to which my hon. Friend referred. As he said, there have been a number of statements in recent weeks allegedly intended to help the elderly, but which on examination seemed to do nothing but create unnecessary anxieties, which is to be deplored deeply.

**Mr. Nigel Spearing** (Newham, South): The Secretary of State mentioned the need for a balanced transport policy in London. Does he not agree that the real balance is between the costs of private and public transport, and that it is essential to get it right? If New York has a 55 per cent. fare box ratio, why cannot London? If the right hon. Gentleman wants a balanced policy for the ratepayer, why does he not get his right hon. Friend the Secretary of State for the Environment to remove his penalties? I remind the right hon. Gentleman that half the supplementary rate did not go to fares at all. It went to pay the penalties imposed by the Secretary of State for the Environment.

**Mr. Howell:** I am not sure that New York is the happiest example of a transport system. I know that the hon. Gentleman looks at these matters very fairly, but he should not underestimate the considerable amount of support and subsidy going into the London Transport system. In the budget for last year, before the introduction of the low fares system, for every £1 raised in fares, there was a further 55.1p added from public support. That is a considerable degree of subsidy.

Of course there are variations in European capitals. The example of Paris is quoted frequently. However, what is often forgotten is that the Paris system runs a similar passenger mileage with about 60 per cent. of the staff. If we want gains, it is to efficiency of operating and manning that we have to look.

**Mr. John Cartwright** (Woolwich, East): Will the right hon. Gentleman accept that the legal advice, like the legal judgment, is anything but clear? Why, therefore, will he not legislate to clarify what is a reasonable balance between the fares income and the essential public subsidy in terms of national public transport, especially in London? Bearing in mind the confused state of London's transport, will the right hon. Gentleman now call together representatives from the GLC, London Transport, British Rail and the transport unions and try to get them working together to provide the efficient and effective public transport system that Londoners need and deserve?

**Mr. Howell:** The legal advice to the Government, which is the basis of the view being put forward by the Government—a view which I have put forward to the GLC—is very clear. In 1982 the GLC will be within the law and acting legitimately if it approves this regrettably large increase of 100 per cent. in fares, and no further increase is needed.

As for the longer term and the matters to which the hon. Gentleman referred, I agree that some fundamental questions about transport planning are raised by this affair. There is a confederation of interests between the different operators about how best to serve the public need. These are matters that need to be discussed and looked at. But

they are not a basis for rushing into early legislation to put us back into the mess that we were in a couple of months ago.

**Mr. Alan Haselhurst** (Saffron Walden): Is my right hon. Friend aware that, as a result of the unsatisfactory position into which the GLC has led us, commuters from outside London are able no longer to purchase combined British Rail and London Transport season tickets on the most advantageous terms and thereby are losing money? Can something be done to compensate them?

**Mr. Howell:** I note what my hon. Friend says. Obviously this is a matter for the transport authorities concerned. I shall call it to their attention.

**Mr. Guy Barnett** (Greenwich): The Minister consistently expresses sympathy for London ratepayers. If he has any respect for the responsibility and accountability of local authorities to their electorates, bearing in mind that London ratepayers voted for this policy at the last election, what has this matter to do with him?

**Mr. Howell:** There is also the question of who pays for it. It was the Government's clear view long before the Lords judgment—and, I suspect, the view of a growing number of people trying to operate the policy—that the dramatic reduction in fares and the general operation imposed on London Transport by the GLC were leading to a chaotic and impossible position for both ratepayers and fare payers. It would be utterly irresponsible of the Government merely to turn back the clock and restore legislation to allow that to continue.

**Mr. Teddy Taylor** (Southend, East): Is it true, as reported in most newspapers, that the result of my right hon. Friend's discussions with Mr. Livingstone is that the GLC will be given another £65 million to help finance the concessionary fares policy? Is my right hon. Friend aware that if a generous package were given it would cause enormous resentment in places such as Southend where very limited concessions are offered to pensioners because last year we adhered to the Government's guidelines, curtailed our spending and reduced our rates? Would it not be a scandalous policy if there were a cash prize for breaking the rules and a penalty for keeping them?

**Mr. Howell:** I assure my hon. Friend that the story on which he has commented is untrue. No such proposal has been made. It is proposed that the GLC shall be in a position, by a change in the law to be passed in the House, to continue with concessionary fares. I understand that that would involve a pay out of about £65 million. The story that my hon. Friend has heard is not true, and he can contain his resentment.

**Mr. Clinton Davis** (Hackney, Central): Quite deliberately, the Minister has sidestepped two essential issues put to him today by a number of my hon. Friends. The first is that if the GLC operates a concessionary policy it can expect a reduction in the support that it receives from the Government. Secondly, the Minister is misleading the House when he suggests that there is no need for increases in fares in 1982. Is it not clear that the GLC will have to repay the loan, plus interest and that the only way in which it can realistically do that and operate its transport policy is by reducing services, increasing fares and making London's roads more and more open to the use of private motorcars?

**Mr. Howell:** The repayment of the loan was taken into account by London Transport in the formulation of its budget and in putting forward its 100 per cent. fares increase. There has been no misleading of the House or anyone else about that. It is the Government's firm view, based on clear legal advice, that the 100 per cent. increase, although regrettably large, for the reasons that I gave earlier, is necessary and all that is required for the GLC to stay within the law.

The hon. Gentleman accused me of sidestepping the fact that the GLC would have its grant support reduced if it operated the concessionary policy. The matter with which the leaders of the GLC asked me to concern myself was the powers of the council to operate a concessionary fares policy. They did not ask me to concern myself with the details of the council's budget or with its expenditure priorities. The Government have moved promptly in response to the difficulties into which the GLC has got itself, and I should expect the hon. Gentleman to give a more sympathetic welcome to that move.

**Mr. Hal Miller** (Bromsgrove and Redditch): Can my right hon. Friend confirm what some of us understood him to say just now, that in the matter of concessionary fares for the elderly in London he has agreed only to legislate to put the GLC in the same position as that of other local authorities, and has not given any Government subvention to the GLC for that purpose? It was reported widely in the press that he had given such a subvention. If he has, it will be resented bitterly by people in other parts of the country.

**Mr. Howell:** I can confirm that the position is exactly that explained by my hon. Friend in his opening sentence.

**Mr. Les Huckfield** (Nuneaton): The right hon. Gentleman said that the intention of his proposed legislation was to bring the Greater London Council into line with local authorities in the provinces. However, will he bear in mind that the legal position relating to the powers of such authorities is equally uncertain? Will the right hon. Gentleman acknowledge that Conservative-controlled local authorities such as Solihull are considering legal action against such authorities as the West Midlands metropolitan county council? Does the right hon. Gentleman not realise that if he really wants to clarify the position he will have to introduce legislation for local authorities outside London as well?

**Mr. Howell:** The hon. Gentleman is not entirely correct to say that the legal position on concessionary fares is the same for other local authorities. All other local authorities have such a power, and the GLC is unique in not having it at the moment. That is where the Government propose to legislate.

On the broader question of support for public transport systems, I have said that I shall be seeing the Association of Metropolitan Authorities. If metropolitan authorities, or others, have problems that they want to discuss with me, I shall be happy to meet them. The proposals discussed with me so far have been raised by the GLC. The GLC said that it wanted to see me to discuss some problems and the Government responded promptly.

**Mr. Speaker:** There are two hon. Members on each side of the House still seeking to catch my eye. I shall call them if they will be brief.

**Mr. Andrew Faulds** (Warley, East): Does the right hon. Gentleman not appreciate, and is he not worried by

the fact, that the Government's position will force the GLC to make cuts in other parts of its budget? One of those cuts may well be the withdrawal of funding of the national arts institutions in London, with all the problems that that will pose for the Government.

**Mr. Howell:** The hon. Gentleman is tempting me into commenting on the GLC's priorities and its overall budget. I must avoid that, although it strikes me, as an outsider, that there is room for economy and efficiency in a number of the programmes on which it has embarked in the past few months.

**Mr. Matthew Parris** (Derbyshire, West): Did I correctly understand my right hon. Friend to say that he does not believe that general subsidy of public transport is wrong, but simply that it is possible to go too far? Does he agree that "how much is too much" is a pressing question for many transport undertakings and that we need to give early guidance?

**Mr. Howell:** My hon. Friend is correct. That position has been reflected over the years in the whole system of transport supplementary grants. The legal position of the GLC in 1982 has now been made clear. If other local authorities and metropolitan authorities have problems that they wish to discuss, I have said that I am ready to see them, although no specific approach has yet been made to me. As I have told the House, I shall shortly be meeting the Association of Metropolitan Authorities, at its request.

**Mr. Dennis Skinner** (Bolsover): As the Minister seems likely to meet several different authorities, including the various associations, and now that he is presenting legislation with specific reference to free fares for pensioners, will he bear in mind that in large tracts of the country, including most of Derbyshire, no bus undertakings belong to the local authority, or to any part of it?

Will the right hon. Gentleman accept that he may need to meet Derbyshire county council, and many other authorities which do not have their own bus undertakings, so that they can introduce concessionary fares for their old-age pensioners and, if necessary, obtain the treatment—through loans or other means—that he describes for Greater London?

**Mr. Howell:** I accept that I may need to meet all sorts of people, but I am not sure that the hon. Gentleman's points relate to the GLC and its unique position on concessionary fares.

**Mr. Douglas Hogg** (Grantham): Will my right hon. Friend accept that, despite the GLC's antics there is a perfectly respectable case for subsidising local transport, but that there is not a respectable case for requiring local ratepayers to do that, if only because they are relatively few in number? It is a narrow tax base. If we are to have a policy of financing or subsidising local transport undertakings—for which, as I say, there is a good case—does my right hon. Friend agree that we must find a more broadly based local system of taxation and link it to that?

**Mr. Howell:** My hon. Friend has raised a much wider issue, but he is correct. The Government accept, and have long accepted, the case for a sensible degree of revenue and capital support for local transport undertakings. The problem with the GLC in recent months is that it did not know where to stop.

**Mr. Speaker:** I have received notice of three applications under Standing Order No. 9. I shall call them in the order in which I received them.

## Invergordon Smelter

4.44 pm

**Mr. Bruce Millan** (Glasgow, Craigton): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 9, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the threatened permanent closure of the British Aluminium smelter at Invergordon and the disastrous employment and other consequences that that would involve in the Highlands and elsewhere."

I need not argue about the specific nature of the subject, Mr. Speaker, because you will have heard this afternoon's statement. It is certainly a very specific matter for the 1,500 or so people who will lose their jobs as a result of the closure of the smelter. However, the matter obviously cannot be allowed to rest on that statement.

I need not emphasise how important the issue is to the area that is directly involved. From my visit to the area last week, I know that there is considerable anger and bitterness about the announcement. The implications go beyond the area concerned and affect the other British Aluminium plants in Scotland and elsewhere.

The matter is important and we need to know exactly what happened during the negotiations between the Government and the company. What happened at Invergordon has important implications for the other two smelters operating in the United Kingdom. As the hon. Member for Anglesey (Mr. Best) pointed out earlier, in Anglesey the charges for power will have to be renegotiated following the commencement of Dungeness nuclear power station. There is another smelter in the North and I understand that the coal price will soon have to be re-negotiated with the National Coal Board. The issue is important because of the general implications for energy policies. It is particularly important because of the effect on the electricity industry and on consumers in Scotland. The loss of no less than 7 per cent. of the total electricity demand is bound to have a considerable effect which will in turn have implications for the coal industry in Scotland. That industry is almost exclusively dependent on the supply of coal for the generation of electricity in Scotland. The matter will also affect the rail industry and the other industries in Scotland.

As regards the urgency of the matter, the closure was announced during the recess and we have already lost three weeks. We might have debated this matter long before now. However, the matter is particularly urgent because the redundancy notices, which were first to be issued a fortnight ago, have been deferred in successive weeks. On the present understanding between the company and the trade unions concerned, those notices will be issued later this week. Therefore, it is extremely important to debate this issue before those notices are issued.

There are important points to be debated and it is essential that those in Scotland, particularly those in the area directly involved, should know exactly what the Government intend to do to reverse the potentially disastrous situation. It is for those reasons that I have sought to raise this Adjournment debate.

**Mr. Speaker:** The right hon. Member for Glasgow, Craigton (Mr. Millan) asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he believes should have urgent consideration, namely,

[Mr. Speaker]

"the threatened permanent closure of the British Aluminium smelter at Invergordon and the disastrous employment and other consequences that that would involve in the Highlands and elsewhere."

No hon. Member who has been in the Chamber this afternoon will have failed to take note of the serious issues raised in the Minister's statement and in the right hon. Gentleman's application. The House is aware that I do not decide whether this matter—which is of undoubted importance in Scotland—should be debated. My powers are limited to deciding whether there should be a three-hour debate on this important question tonight or tomorrow night. The House has instructed me to give no reason for my decision.

I listened with anxious care to the right hon. Gentleman's representations, but I have to rule that his submission does not fall within the provisions of the Standing Order and, therefore, I cannot submit his application to the House.

## Railways (Industrial Action)

4.50 pm

**Mr. Les Huckfield** (Nuneaton): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 9, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the failure of the British Railways Board to increase wages for railwaymen, especially footplate staffs, as agreed by the railway staff national tribunal and the Arbitration and Conciliation Service in August 1981 and its industrial consequences and results for the travelling public".

I submit that the issue is specific because it arises from the failure of the British Railways Board to honour an undertaking that it gave to the Arbitration and Conciliation Service last August. There is a large amount of documentary evidence relating thereto. I submit that the issue is important not only because of its consequences on specific days to the travelling public but also to the increasing consequences for industrial customers, especially in the steel industry and others that are now being reported.

Also, the matter should have urgent consideration because, from the statements that are now emanating from the British Railways Board, we can see that it is daily hardening its attitude. If the attitude of the British Railways Board and British Rail management will harden, I forecast that the action and the industrial consequences will also increase.

I submit also that action and intervention by the Secretary of State is warranted. By his inaction and standing on the sidelines thus far, he has not helped. By what he has said while standing on the sidelines, he has helped even less. I hope that we can have a debate under Standing Order No. 9 so that we can have helpful intervention by the Secretary of State, not least because the position that has been taken by the British Railways Board is basically attributable to the Government's policy. The matter requires intervention and Government action.

Above all—I recognise that I am not entitled to go into the merits of the debate—the House should be given an opportunity to debate and decide such an important issue this week. It is especially important that all hon. Members and the people that they represent should have an opportunity to see the precise facts and figures of the position as soon as possible.

**Mr. Speaker:** The hon. Member for Nuneaton (Mr. Huckfield) gave me notice before 12 noon today that he would seek leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he believes should have urgent consideration, namely,

"the failure of the British Railways Board to increase wages for railwaymen, especially footplate staffs, as agreed by the railway staff national tribunal and the Arbitration and Conciliation Service in August 1981 and its industrial consequences and results for the travelling public".

As the House heard me say in response to the previous application, my powers are very limited. The House knows that an emergency debate is not the only way in which the matter can be debated.

I listened with great care to what the hon. Gentleman said, but I must rule that his submission does not fall within the provisions of the Standing Order and therefore I cannot submit his application to the House.

PRIME MINISTER

LONDON TRANSPORT AND THE GLC

I attach the final text of Mr. Howell's Statement. He had a rough passage in the House, with the Opposition setting out to undermine him.

Albert Booth described the legislative proposals as totally inadequate. All metropolitan authorities required a legal framework for sensible transport policies. Nobody had yet analysed the impact on traffic of the 100% fares increase. Mr. Howell emphasised that someone had to look after the ratepayers' interest. He could not be drawn into matters of the GLC's expenditure priorities, but was simply offering help in two specific directions raised by Mr. Livingstone.

Terence Higgins, echoed by Michael Shersby and others, argued that even the revised arrangements would be unfair to local authorities with large concentrations of pensioners, who could not afford such generous concessions. Hal Miller emphasised that the legislative proposals would only allow the GLC to subsidise free pensioner travel, but would not provide central Government funding for this.

Various Opposition parties pressed for a properly subsidised transport system. George Cunningham pointed out that every other major European capital used subsidies. Nigel Spearing said that the real issue was the balance between the cost of public and private transport. Various commuter belt Members raised the specific problems faced by their constituents, whilst Douglas Hogg suggested that the real issue was finding a better form of local tax, with which to allow local authorities to provide a reasonable degree of subsidy.

Mr. Howell was not entirely convincing, and the Opposition will continue to press for much greater Government involvement.

18 January 1982

STATEMENT

LONDON TRANSPORT AND THE GLC

Before Christmas I told the House that I was not prepared to legislate to let the GLC go back to their unbalanced transport policies which placed such huge burdens on ratepayers.

I said however that I was willing to see the GLC leader anytime if they had problems. Since then Mr Livignstone and other GLC leaders have come to see me and explain their problems.

In immediate response to these the Government is prepared to act in two respects.

First, although the GLC have powers under the Local Government Act 1972 to spend up to the product of a 2p rate which could be used to finance concessionary fares for the elderly it is clear that they are not prepared to use those powers for this purpose. Nor are the London boroughs able to get a concessionary fares scheme worked up in time.

I have therefore stated the Government's willingness to legislate to give to the GLC the same powers as other local authorities have, to operate a concessionary fares scheme.

Second, the high cost and low fares policies of recent months have led to a large accumulated deficit. I have said that we would be prepared to legislate to let LT pay this off over a reasonable period.

Regrettably the GLC has had to raise fares 100% not just to get back to 1980 levels but to pay for the heavy costs of inefficiencies imposed on LT in recent months.

But in the Government's view there is no need for further large increases in 1982. Talk of this, or of large scale redundancies, is alarmist.

The GLC leaders have indicated their wish to come for further talks on the future of London's transport system in the longer term. I welcome these as providing an opportunity for constructive discussion on the needs of the public in London and how these can be best met and financed.

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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Mike Pattison Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

15 January 1982

Dear Mike M/P.

My Secretary of State would like to make an oral statement as early as possible next week to bring the House up to date with the latest position on London Transport fares and the House of Lords' judgement.

Mr Howell thinks the House will expect such a report and he feels one is fully justified, given the GLC's campaign and the very wide interest in this matter. The Lord President, whilst not disagreeing with the principle of a statement, feels that it will be very difficult to find an early slot next week and Mr Howell will be discussing this further with the Lord President.

/ Mr Howell envisages a statement on the lines of the attached and I am circulating it now for the Prime Minister's views on a contingency basis in case the decision is to go ahead on Monday or Tuesday.

I am copying this to Nick Huxtable in the Lord President's office, with whom I have been discussing this, to the Private Secretaries of the members of "E" including Michael Pownall in case it is decided to repeat the statement in the House of Lords, to Murdo Maclean and to David Wright in Sir Robert Armstrong's office. A copy also goes to the Private Secretary to the Attorney General.

Yours ever

C R EDWARDS  
Private Secretary

## THE GLC AND LONDON TRANSPORT

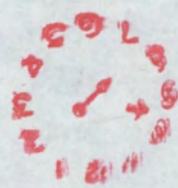
### Draft Statement by the Secretary of State

1. Before Christmas I told the House first that there was nothing to stop the GLC and London Transport from going ahead and agreeing a budget within the law and second, there was no question of legislating simply to allow the GLC to carry on as before. But I said that if the GLC had specific problems they should come to talk to me at any time. The affairs and well-being of the transport system to meet London's travel needs are clearly of very great concern to me. This was reflected in the £400m public expenditure which the Government last year endorsed to support the bus and rail systems of the capital.

2. Mr Livingstone and other GLC leaders came to see me on 8th January and put to me three specific points of difficulty. The following Tuesday the GLC debated at length the LT budget for 1982 and approved it. I welcome this first essential step of an orderly approach towards tackling within the law London Transport's problems. I deplore that it involves a high fare increase, but that is a consequence not merely of the debts from the low fares policy, but also of the high costs imposed on London Transport by the demands of the GLC for extra manning and extra bus miles regardless of real travel demands. However, the GLC also associated with their approval conditions which included a requirement for the Executive to submit proposals within one month for further fare increases in 1982. A number of statements were also made by the GLC which have created considerable confusion about the position and caused unnecessary anxiety to the elderly in respect of the travel concessions they now enjoy.

3. I therefore wrote to Mr Livingstone last Thursday. A copy of that letter is in the Library.

4. My letter made clear that having taken legal advice it was the Government's view that the budget now approved for 1982 is a legitimate one in all the circumstances. There is no reason why further fare increases should be introduced this year.



15 JAN 1982

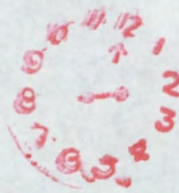
5. Second, the GLC already have powers to go on paying for old people's travel concessions <sup>out</sup> and of the 2p rate but chose not to use them <sup>beyond 31 March</sup>. In order to resolve the uncertainty that GLC statements had cast over this I told them that I would be willing to bring forward legislation to bring the GLC's powers to provide for such a scheme into line with those for other authorities.

6. Third, on the specific problem of meeting the estimated £125m deficit from 1981-82 <sup>and that</sup> the Government would be prepared to widen the options open to the GLC by, as an exceptional measure, bringing forward legislation to enable London Transport to spread the repayment of this debt over a period of up to 5 years. There may well be other preferable ways of dealing with this deficit, but I believe that by providing this power, the Government will ease the task of the GLC by giving them a wider range of choice.

7. Taken together, these steps <sup>aim to clear</sup> ~~mean that~~ the way will be clear for the GLC now to put London's transport system on a fair and stable basis. I note that GLC leaders have announced a massive campaign to change the law to allow them total freedom to run London Transport affairs and finances as they think fit. I do not know to whom they look to provide the money for this but no doubt ratepayers <sup>will</sup> ~~would~~ ask them that question. We have no intention whatsoever of bringing forward legislation to this end. I think it is important for electors, travellers and the staff of London Transport, the stability of whose jobs will otherwise be threatened, to recognise that the real threat and the basic cost of the forthcoming fare rises has been the reckless and ill thought-out actions of the GLC. If the House approves the two measures I shall be bringing forward, the GLC will have a wide range of options open to them for resolving the difficulties they have created, so as to minimise the hardship to travellers and ratepayers. If they deliberately do otherwise and leave the affairs of London Transport in disarray while they fight political battles this will be because they choose to do so and not from necessity.

8. My aim is to see that London's transport is right for Londoners, right for London's ratepayers and right for its public transport users. I believe that the GLC now have a fair and sensible basis on which they can build: I hope they will be responsible enough to do so.

5 JAN 1957



Telephone  
01-212 3751

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET  
SW1P 3EB

Nick

Again a statement  
on these lines. SSS  
yet to clear serially.

Lds 18/1



SE PASS

With the Compliments of  
the Private Secretary to the  
Secretary of State for Transport

✓  
MJD

DRAFT STATEMENT

Before Christmas I told the House that I was not prepared to legislate to let the GLC go back to their unbalanced transport policies which placed such huge burdens on ratepayers.

I said however that I was willing to see the GLC leader anytime if they had problems. Since then Mr Livingstone and other GLC leaders have come to see me and explain their problems.

<sup>immediate</sup>  
In/response to these the Government is prepared to act in two respects.

First, although the GLC have powers <sup>under the LG Act 1972 to spend up to the product of a</sup> ~~to go on paying 2p rate~~ concessionary fares for the elderly ~~out of the 2p rate~~ it <sup>which could be used to finance</sup> is clear that they ~~will~~ not do so, <sup>concessionary fares are</sup> nor are the London Boroughs <sup>prepared to use those powers for this purpose.</sup> able to get a scheme worked up in time.

I have therefore stated the Government's willingness <sup>give to the the same powers as other LAs have,</sup> to legislate to ~~enable~~ GLC to operate a ~~scheme on the same~~ <sup>concessionary fares scheme.</sup> lines as local authorities elsewhere.

Second, the high cost and low fares policies of recent months have led to a large accumulated deficit. I have said that we would be prepared to legislate to let LT pay this off over a reasonable period.



~~On this basis GLC can now put the London Transport system on a fair and stable basis.~~ Regrettably the GLC has had to raise fares 100% not just to get back to 1980 levels but to pay for the heavy costs of inefficiencies imposed on LT in recent months. ~~This was unavoidable.~~

But in the Government's view there is no <sup>need</sup> necessity for <sup>further</sup> future fare increases in 1982, <sup>this</sup> talk of ~~more increases~~, or of large scale redundancies, is <sup>alarmist.</sup> ~~merely misleading.~~

The GLC leaders have indicated their wish to come for further talks on the future of London's transport system. <sup>in the longer term.</sup> I welcome these as providing an opportunity for constructive discussion on the needs of the public in London and how these can be best met. <sup>and financed.</sup>

CONFIDENTIAL

Prime Minister

Local Govt

(2)

MUS 15/11

2 MARSHAM STREET  
LONDON SW1P 3EB



My ref: H/PSO/100240/81

Your ref:

14 January 1982

*De la*

*[Handwritten signature]*

RSG SETTLEMENT 1982-83

Thank you for your letter of 14 December.

*at top p 8*

I agree that if we were unable to abate grant from high spenders, we should need to consider the scope for additional pressure generally through the grant percentage and the poundage schedule. If these had already been determined in the main Rate Support Grant Report, any decision to change one or the other would require a Supplementary Report. We cannot, of course, canvass this possibility publicly, but I accept that we must leave our options open, and say nothing meanwhile to foreclose them.

Any reduction in the grant total or toughening of the grant mechanisms would of course have implications for rates, and would have to be considered in the light of the position at that time on supplementary rates, which, of course, we are proposing to abolish.

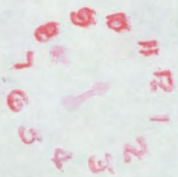
I am copying this letter to the Prime Minister and members of MISC 21.

*Yes am*

*[Handwritten signature]*

MICHAEL HESELTINE

CONFIDENTIAL



15 JAN 1962



✓ (mcs)  
DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

David Heyhoe Esq  
Private Secretary to  
the Rt Hon Francis Pym MC MP  
Lord President of the Council and  
Leader of the House of Commons  
Privy Council Office  
Whitehall  
LONDON  
SW1

14 January 1982

Dear David,

At this morning's 'E' Committee I understand that it was agreed that my Secretary of State should write to Mr Livingstone giving the Government's views on the way forward in the light of the House of Lords' judgement on London Transport subsidies.

He was asked to ensure that Mr Pym was happy with the terms of the references in the letter to Legislation. I attach the latest draft. One point is still being ironed out with the Attorney General's office. This does not bear on your interests.

Mr Howell has asked me to emphasise that the letter is deliberately drafted to avoid specific commitments on the timing of any legislation.

I fear time is very short if we are to be able to keep the initiative on all this. We would like the letter and an accompanying press notice to issue tonight. We would therefore be grateful for Mr Pym's comments by 16.30 this afternoon.

I am copying this to Mike Pattison and David Wright.

Yours,

Anthony Mayer

R A J MAYER  
Private Secretary

DRAFT LETTER FOR THE SECRETARY OF STATE TO SEND TO MR LIVINGSTONE

When you came to see me last Friday I undertook to consider further the points of difficulty we saw in getting London Transport's affairs back in order.

2. Since then the GLC have approved the budget that Sir Peter Masefield submitted for 1982 on the bases of certain conditions which included a requirement for the Executive to submit proposals within one month for further fare increases in 1982.
3. The approval of the LT Budget has been the first essential step of an orderly approach towards tackling within the law London Transport's problems.
4. Three points you raised with me were the size of fare increases that might have to be adopted this year, the future of travel concessions for elderly people and the treatment of the £125m deficit that LT will have incurred since last spring.
5. Having taken legal advice it is the Government's view that the budget now approved for 1982 is a legitimate one in all the circumstances. I note that the Council have requested an early report from the Executive on proposals for further fare increases this year. There is, however, in the Government's view no reason why, on the basis of the figures included within the Budget for 1982, this should not stand without further fare increases, though it must continue to be an object to minimise costs and secure value for money. I was therefore glad to note that the Council have already asked the Executive to examine further the scope for reducing costs and increasing savings of expenditure.
6. On the specific problem of meeting the £125m deficit from 1981- it is for the Council to decide how this should be treated. But if it would help the Council, the Government would be prepared to widen the options open to them by, as an exceptional and once-for-all measure, introducing legislation to enable LT to spread the repayment of this debt over a period of up to 5 years.

7. Finally, as I made clear when I saw you, the Government believe that the tangle over old people's concessionary travel should be cleared up quickly. At the time the 1969 legislation was enacted, Parliament thought it appropriate to confer on the London Boroughs only and not the GLC the powers to finance a concessionary fares scheme. I have now heard from the London Boroughs Association that they cannot see their way to taking over responsibility in 1982-83. In order to safeguard the position of elderly and disabled travellers I would therefore be willing to introduce early legislation to bring the GLC's powers to provide for such a scheme in line with those for other authorities.

8. As I said when we met, the aims should now be to get the financial affairs of London Transport back on to a firm footing and for London Transport and the GLC to press forward with improvements in the efficiency of services. These are the policies which until eight months ago councils of both parties had been pursuing over the years, and they will best meet the interests of the traveller and the ratepayer. The Government measures which I have outlined above on concessionary fares and handling the special problems of the LT losses, should mean that the public transport that best meets the needs of London can continue to be provided.

174 JAN 1982  
10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Mike Pattison Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

*[Handwritten signature]*

Prime Minister

(2)

Ms 14/1

14 January 1982

Dear Mike,

LONDON TRANSPORT AND THE GLC

I attach a copy of the letter just issued  
by my Secretary of State to Mr Livingstone  
and a copy of the Press Notice we have also  
issued.

I am copying this to the Private Secretaries  
of the members of 'E' Committee, the Attorney  
General and Sir Robert Armstrong.

Yours,

*Anthony Mayes*

R A J MAYER  
Private Secretary



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Councillor Ken Livingstone  
Leader  
Greater London Council  
County Hall  
LONDON  
SE1

14 January 1982

*Dear Mr Livingstone*

When you came to see me last Friday I undertook to consider further the points of difficulty we saw in getting London Transport's affairs back in order.

Since then the GLC have approved the budget that Sir Peter Masefield submitted for 1982 on the bases of certain conditions which included a requirement for the Executive to submit proposals within one month for further fare increases in 1982.

The approval of the LT Budget has been the first essential step of an orderly approach towards tackling within the law London Transport's problems.

Three points you raised with me were the size of fare increases that might have to be adopted this year, the future of travel concessions for elderly people and the treatment of the £125m deficit that LT will have incurred since last spring.



Having taken legal advice it is the Government's view that the budget now approved for 1982 is a legitimate one in all the circumstances. I note that the Council have requested an early report from the Executive on proposals for further fare increases this year. There is, however, in the Government's view no reason why, on the basis of the figures included within the Budget for 1982, this should not stand without further fare increases. This does not mean that it would not be right to encourage the Executive to minimise costs and secure value for money. I was therefore glad to note that the Council have already asked the Executive to examine further the scope for reducing costs and increasing savings of expenditure.

On the specific problem of meeting the estimated £125m deficit from 1981/82 the Government would be prepared to widen the options available by, as an exceptional and once-for-all measure, introducing legislation to enable LT to spread the repayment of this debt over a period of up to five years.

Finally, as I made clear when I saw you, the Government believe that the tangle over old people's concessionary travel should be cleared up quickly. At the time the 1969 legislation was enacted, Parliament thought it appropriate to confer on the London Boroughs only and not the GLC the powers to finance a concessionary fares scheme. I have now heard from the London Boroughs Association that they cannot see their way to taking over responsibility in 1982/83. In order to safeguard the position of elderly and disabled travellers I would therefore be willing to introduce legislation to bring the GLC's powers to provide for such a scheme in line with those for other authorities.

As I said when we met, the aims should now be to get the financial affairs of London Transport back on to a firm footing and for London Transport and the GLC to press forward with improvements in the efficiency of services. These are the policies which until eight months ago councils of both parties had been pursuing over the years, and they will best meet the interests of the traveller and the ratepayer. The Government measures which I have outlined above on concessionary fares and handling the special problems of the LT losses give an opportunity to ensure that the public transport that best meets the needs of London can continue to be provided.

*Yan = Shury*

*David Howell*

DAVID HOWELL

14 January 1982

LONDON FARES: SECRETARY OF STATE FOR TRANSPORT SETS OUT GOVERNMENT'S POSITION

David Howell, the Secretary of State for Transport has today sent a letter to Mr Livingstone, Leader of the GLC, to clear up some of the uncertainty Mr Livingstone's remarks have created. Commenting on his letter Mr Howell said:

"I wish to emphasise three points in particular:

First, the Government's policy, like that of its predecessors, is that subsidy should continue to be paid where this is needed to keep necessary public transport going. Indeed, last year some £1.2 billion went in support to the bus and rail services of this country. My TSG settlement for local transport authorities, including the GLC, reflected this policy. It is ridiculous to indulge in wild talk of dismantling public transport. What we have said is that resources for transport like those for anything else are not infinite. Nor can ratepayers continue to be treated as they have been in recent months. Resources must be used to keep the essential services going and cater for real needs, not be dissipated in indiscriminate low fare subsidies adopted for political doctrinaire reasons. The GLC's reckless disregard of who has to foot the bill has, to say the least, shown enormous financial naivety.

Second, there is no question of London's old people losing their travel concessions. The stories that have been set afoot on this have caused unnecessary anxiety. The GLC have other powers of their own which can continue to provide a substantial slice of resources for concessionary schemes if they so choose. Moreover

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London's boroughs have powers similar to those in authorities elsewhere. Indeed they operated these for a number of years. But I am not prepared to leave people in uncertainty while the GLC make political statements, and arguments go on about working out new practical arrangements. I therefore told Mr Livingstone last week and have set out explicitly in my letter my willingness to legislate to enable the GLC to operate a scheme on the same basis as local authorities elsewhere.

Third, London's fare increases: I deplore the fact that Londoners will now have their fares doubled, but that is the painful consequence of the GLC's actions. This reflects not only the bill for the low fare scheme but also for the high cost policies deliberately followed by this GLC with demands on LT for wasteful recruitment contrary to their needs and wishes, and millions of empty bus miles. This alone has inevitably been damaging to the existing jobs of London Transport's workers. I welcome Sir Peter Masefield's assurance to his staff that it will be his object in getting back to the status quo to avoid the hardship that the GLC policies would otherwise create, and that in his view the staff adjustments can be achieved through normal wastage.

It is misleading to claim that the LT must inevitably have yet further increases in fares in a few months' time. As my letter says, this is in the Government's view quite unnecessary. I have told Mr Livingstone that I am prepared to introduce legislation to allow London Transport to spread the cost of paying off this year's deficit over a reasonable period. I am not prepared to introduce legislation enabling the GLC to go back and carry on with unbalanced policies at the expense of the ratepayer.

All these points I have spelt out to Mr Livingstone mean that London's transport system now has a firm and equitable basis for putting itself to rights.

I note that GLC leaders have announced a massive campaign to change the law to allow them total freedom to run London Transport's affairs and finances as they think fit. I therefore want to make clear to electors, travellers and the staff of London Transport, the stability of whose jobs will otherwise be threatened, that the real threat has been the reckless and ill-thought-out actions of the GLC. They have the means now to put this right. If they deliberately do otherwise and leave the affairs of LT in disarray while they fight political battles, that is their choice, not necessity. The Government would then have to consider whether the arrangements that allow them to preside over the destruction of this city's transport undertaking can continue in their present form".

The text of Mr Howell's letter is attached.

*Local Govt*



SWYDDFA GYMREIG  
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

WELSH OFFICE  
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

554 W.A.L. A1

RECEIVED  
14 JAN 1982  
✓  
M.P.

14<sup>th</sup> January 1982

*Dear David*

WELSH RATE SUPPORT GRANT REPORT 1982

In his letter of 8 December David Edmonds advised you that it was planned to table the English Rate Support Grant Report during the week beginning 18 January, with the debate on the Report taking place as soon as possible thereafter.

I understand that the timetable has slipped a little and the English RSG Report is now likely to be tabled during the week beginning 25 January. We are planning to table the Welsh RSG Report at about the same time as the English Report and it would also be convenient if the debate on the Welsh Report could follow on immediately after the English debate as happened last year.

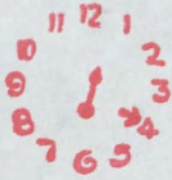
I am sending a copy of this letter to the Private Secretaries to the Prime Minister, all members of Cabinet, the Chief Whip and to Sir Robert Armstrong.

*Yours ever*  
*J F Craig*

J F CRAIG  
Private Secretary

David Heyhoe Esq  
Private Secretary to  
Lord President of the Council  
Civil Service Department  
Whitehall  
LONDON

14 JAN 1982



CONFIDENTIAL



Prime Minister

We are to discuss at E tomorrow David Howell's paper (E(82)2) on the implications of the House of Lords judgement in the GLC/Bromley case.

There are three points about the block grant implications of the Lords decision and the GLC reaction to it which I should draw to colleagues' attention. In addition, I am reporting on the current position with regard to possible refunds to ratepayers who have paid the supplementary rate.

First, the effect of the decision which the GLC have taken yesterday to reduce their subsidy to London Transport in the current financial year (1981-82) to the Cutler level will be to recover for them the block grant (about £60m plus about £30m of prospective grant holdback) which they would have lost under the Livingstone cheap fares budget. This restoration of grant is an automatic consequence of the rate support grant legislation, and does not require any action or decision by the Government.

My only discretion in the matter is about the timing of the restoration of the grant. We should bear in mind in this context that the GLC's grant for 1981-82 is paid not to them but to the London Boroughs, who have therefore borne the grant consequences of the GLC's cheap fares policy, although they had no means of influencing it. I therefore propose to restore the grant as soon as possible. There is fortunately just time to make the necessary adjustments in the Supplementary RSG Report for 1981-82 at proof stage before it is published in the week beginning January 25. This will ensure that the grant gets back to the London Boroughs in their grant payments in February and March, and will enable them to refund that part of their supplementary rate attributable to grant loss as well as that part due to the direct cost of the GLC cheap fares policy.

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Secondly, the block grant position in 1982-83. As David Howell has pointed out in his paper the TSG settlement for 1982-83 assumes that the GLC could and should continue to give revenue support to London Transport at about the same real level as planned in the Cutler budget for 1981-82. The RSG settlement implicitly makes a similar assumption in the GREs and targets for the GLC in 1982-83. If colleagues agreed that this is still an appropriate level of support for the GLC to give to London Transport in 1982-83 there will be no need to reopen that part of the RSG settlement.

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London Transport's 1981-82 deficit of £120-125m will however be more of a problem. Since the GLC have now decided that they cannot themselves meet this deficit in 1981-82 I understand that London Transport will cover their immediate position by temporary borrowing, but that this will have to be repaid in 1982-83. The cost will therefore have to be recovered in that year either by further borrowing (requiring further legislation), or by further fares increases and/or service cuts, or from the GLC, ie from London rate-payers.

The last of these options would have grant consequences. If the GLC resolved to pay off some or all of the 1981-82 deficit as part of their 1982-83 budget (and everyone agreed that it was legal for them to do so), they would inevitably find themselves overspending the targets which I have issued for 1982-83, and hence would incur grant penalties in that year which would add to the ratepayers burdens. If the Government had openly, or even tacitly, accepted that the GLC should meet this cost in 1982-83, we might then come under strong pressure to abate the grant penalties in respect of this expenditure, eg by increasing their target for 1982-83 by the amount of this expenditure.

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This could be difficult to handle. I think we should be very reluctant to consider any concession since the GLC set out on the cheap fares policy in 1981-82 in full knowledge of the grant consequences and ought to suffer the penalties accordingly. Moreover any concessions would have to be paid for either by extra Exchequer grant or by taking grant from other authorities. Neither would be attractive. Nevertheless I can foresee that this may be a hard line to hold, particularly in the current year when we shall want to keep London rates down as far as possible. For my part I would therefore incline more towards one of the options that would leave London Transport to make up the lost £120-125m from the farepayer, perhaps with the option of legislation to enable them to spread the necessary increases over five years with temporary borrowing meanwhile if the single year increases would otherwise be too large.

The third grant issue concerns the concessionary fares for old-age pensioners etc discussed at paragraphs 5 and 6 of David Howell's paper. As he points out there could be considerable difficulties on the grant front in trying to transfer this responsibility from the GLC to the London Boroughs in 1982-83. The GLC's GRE for this purpose is about £30m in 1982-83, whereas it is estimated that their prospective expenditure on the present scheme (after the forthcoming 100% fares increase) could be about £60m. If we were to invite the boroughs to resume responsibility for the scheme but only gave them £30m of GRE they would immediately be faced with the unenviable choice between halving the benefits of the scheme or becoming overspenders overnight in this respect. It would not be right to try to overcome this problem by increasing the total of block grant for 1982-83 or taking grant from non-London authorities. So if the LBA made this a sticking point I would myself reluctantly conclude that we should after all have to give the GLC the powers to carry on this function.

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On timing I agree with David Howell that we should not rush into legislation on the longer term issues. But both the GLC and the Government will need early resolution of the issues concerning the GLC's expenditure, rates, and grant entitlement in 1981-82 and 1982-83.

#### Repayment of Rates

As I indicated in my letter of 7 January to the Attorney General (copied to members of E) I have taken the advice of Counsel on the question of refunding ratepayers who have paid supplementary rates issued in consequence of the now unlawful GLC supplementary precept for the purpose of subsidising fares. As you know, the law is not clear on this issue. In particular, although ratepayers who have not paid have been told by Lord Denning that they need not do so, there is doubt whether the boroughs have the power to refund the money to those who have paid.

Counsel has advised, however, that despite the uncertainties surrounding the legal position the boroughs have power to make voluntary repayments to the ratepayers who have already paid; this action being in accordance with their fiduciary duties to all ratepayers, namely to secure as far as possible parity of treatment for those who have paid and those who have not paid.

With this advice in mind we have now been able to look more closely at the scheme devised by the London Boroughs Association (to which I referred in my earlier letter) which is intended to provide a solution to the various problems. An outline of the proposed LBA scheme, which assumes that the GLC grant penalties will be restored in full, provides that:

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- i. boroughs should rescind in their entirety any supplementary rates which were made (whether in whole or in part) in pursuance of the GLC's supplementary rate for London Transport purposes; and if necessary make fresh supplementary rates where revenue is still required for lawful purposes (eg the ILEA precept);
- ii. where ratepayers have already paid the supplementary rate they should be credited with the appropriate amount for next year's rate, except that -
- iii. ratepayers who ask for a refund should have them;
- iv. no interest shall be payable on refunds.

Subject to colleagues' views I am prepared, on the basis of Counsel's advice, to support in principle the LBA's scheme. Given that we are approaching the end of the financial year it appears to strike the right balance between equity for ratepayers and practical common sense in terms of the administrative burden placed on the boroughs.

It remains to be seen, however, whether individual boroughs are satisfied - given the uncertainty of the law - that they have the vires to comply with the LBA scheme (they could face surcharge if not) or indeed whether they are willing to comply on political grounds. Further, many aggrieved ratepayers have appealed under S7 of the General Rate Act 1967 against the supplementary rate. When these cases are heard (which is expected to be at the end of this month) there will be various options open to the Crown Court, some of which might conflict with the LBA scheme.

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I am, as you know, very concerned to ensure as far as possible uniformity of treatment to all London ratepayers; this could be frustrated if individual boroughs, for whatever reason, are not prepared to play ball. I do not wish, however, to rush into legislation to resolve the situation unless it is absolutely necessary to do so. I therefore propose to give as fair a wind as possible to the LBA scheme by saying that on legal advice I think that the better view is that the boroughs have the power to comply with the LBA scheme, but that, as the legal position is not entirely clear, in order to protect them from the possibility of surcharge I will be prepared to grant a special sanction to individual boroughs under S161 of the Local Government Act 1972. In addition I would say that I want to see uniformity of treatment for London ratepayers and that I therefore hope all boroughs will comply with the LBA scheme; but that if they do not I shall have to consider legislation. (I ought to point out to colleagues that such legislation would have to be of an emergency nature and could in the time available be devised only to deal with the particular position of the GLC in 1981/82).

I am copying this to other members of E Committee, the Lord President to the Attorney General, the Chief Whip, and to Sir Robert Armstrong.

*MH*

M H

13 January 1982



P.0628

PRIME MINISTERTransport Subsidies and Related Issues

(E(82)1 and 2)

## BACKGROUND

The Secretary of State for Transport's proposals for dealing with the transport questions arising out of the House of Lords' judgement on the Greater London Council's (GLC) cheap fares policy for London Transport (LT) are set out in E(82)2; the issues are examined in more detail in the paper by officials attached to E(82)1 which can be regarded as a background paper. The Secretary of State for the Environment's minute discusses the repayment of the supplementary rate and the implications for the London boroughs' block grants; the Attorney General's minute dated 12 January gives his advice on the various legal points arising.

2. The Secretary of State for Transport's general approach is that it should be left to the GLC to sort out the immediate financial problems which arise in 1982 and that the Government should intervene to legislate only in so far as this is absolutely necessary to ensure a sensible policy for transport in London. With the likely exception of concessionary fares, it now seems probable that immediate legislation will not be necessary. This has considerable advantages: as the Secretary of State for Transport points out, it avoids the Government's appearing to take responsibility for the big fare increases in 1982; perhaps more important, it gives time for careful consideration of the complex questions which arise on the legislation which may well be necessary to deal with transport policy in London and elsewhere after 1982.

## MAIN ISSUES

3. The main issues for discussion fall under the following headings:
- a. London Transport in 1982;
  - b. Concessionary fares;
  - c. London Transport after 1982;
  - d. The Passenger Transport Executives;
  - e. Supplementary rates;
  - f. Block grants.

London Transport in 1982

4. The GLC decided last night that LT fares will be doubled on 21 March and that savings will be found from cuts in services and in capital expenditure. This is their decision and, as it seems a necessary and reasonable first step in dealing with the problem, there should be no need for the Government to intervene to persuade the GLC to act otherwise.
5. This action will, however, still leave LT with a substantial deficit. Of this, £125 million is the accumulated deficit resulting from the fares cut and the extra costs incurred in 1981 as a result of GLC's policies. GLC are expected to reject LT's proposal for dealing with this deficit by borrowing over 5 years, which would require legislation. Instead they are likely to fund it by temporary borrowing for the moment and then, in financial year 1982-83, by either further fare increases or by a grant to LT, which would probably mean higher rates than otherwise for the London ratepayers, or by some combination of the two. In addition, there is a current deficit which will require revenue support which is in line with what the Secretary of State for Transport accepted for the purpose of Transport Supplementary Grant. The GLC's legal advisers consider that revenue support of this order in 1982 is consistent with the Lord's judgement.
6. Although you will wish the Attorney General to confirm his views at the meeting, paragraphs 3.1 to 3.3 of his minute seem to make clear that he accepts that the GLC's proposed approach, both to the current and the accumulated deficits, is consistent with the Lords' judgement. This is an important point because it means that it will not be necessary to decide between accepting yet further large fare increases in 1982 and rushing through difficult and contentious legislation to enable reasonable subsidies to be paid in the year. Apart from concessionary fares, any further legislation can be deferred to the 1982-83 session.
7. The next step for 1982 will be for the GLC to decide definitely on how they want to deal with the accumulated deficit. If they do decide to fund it by a grant, and thus fix their precept higher than it otherwise would have been, they will be spending more in 1982/83 than assumed in the Rate Support Grant settlement and they will be liable to grant penalties. The Department of the Environment do not wish these penalties to be waived: to do so would mean revising the RSG settlement, or its distribution, which has just been agreed with great difficulty; it can be argued that since GLC will not now suffer grant penalty in 1981-82 that

is a sufficient concession to them. These points are discussed in paragraphs 1 to 10 of the Secretary of State for the Environment's minute. He warns that if, for good reasons, grant waiver is refused, the Government will be blamed for bringing about higher rate increases than otherwise and this could affect the Conservative Party's prospects in the May London borough elections. This may lead to consideration of one of the alternative courses - putting the burden on the farepayer or early legislation to permit borrowing (this could be in the same Bill as powers on concessionary fares). You will wish to give at least provisional guidance on this to the Secretaries of State for Transport and for the Environment for any further discussions and negotiations they may be having with the GLC and the London boroughs.

#### Concessionary Fares

8. Unlike the London boroughs and the Metropolitan counties, the GLC do not have specific powers to finance concessionary fares. The Lords have ruled that their general grant powers are not appropriate for the subsidies now being given. With your agreement, the Secretary of State for Transport has already said publicly that the Government believes that London's Old Age Pensioners should continue to enjoy concessionary fares and that, if insoluble problems were encountered, he would certainly consider sympathetically what changes were needed to solve them.

9. As he explains in paragraphs 4-6 of E(82)2, he hopes that the London boroughs might take over the concessionary scheme from the GLC. It is, however, unlikely that they will be willing to do so. There is no provision in the Rate Support Grant settlement for them to incur additional expenditure in 1982-83 on this count and, if they were to do so, they would either incur grant penalties or the RSG settlement would have to be redrawn to prevent this. They could also be worried about the cost of concessionary fares at a time when fares will be rising sharply. The GLC could take on responsibility under their present powers, to make grants from the product of a 2p rate, only if they were to reduce substantially the value of the concessions and to withdraw some of the job creation schemes they have in mind. The outcome may well be, therefore, a demand for a short Bill to give the GLC the same powers to subsidise concessionary fares which are available to other councils. The Department of Transport are not yet clear on the timing of this but the likelihood is that it would need Royal Assent this summer.

10. The Committee will wish to take a provisional view on whether they agree that such a Bill should be introduced if necessary. While it may well turn out to be





unavoidable it is likely that, though short, it would give rise to contentious debate particularly on the amount of subsidy which GLC might give under the enabling powers.

#### London Transport after 1982

11. Even if it is accepted that the immediate problems of 1982 can be dealt with broadly as discussed above there remain important questions on the arrangements for later years. While some substantial degree of revenue subsidy may be reasonable for the transitional year of 1982, it still has to be decided whether legislation is necessary to enable continuing "reasonable" subsidies in later years. The broad options for any such legislation are discussed in paragraphs 4.5 to 4.10 of the report by officials attached to E(82)1. They raise difficult questions about the balance to be struck between central and local control and decision making and they will need to be considered carefully.

12. This further work on the case for continuing subsidies, and the legislative options for enabling such subsidies to be provided, needs to be considered alongside the possibilities for radical changes in the arrangements for planning and managing public transport in London and the surrounding regions - this leads in to questions about the role of the GLC, the co-ordination of decisions on all forms of transport in the Metropolitan area and the possible role of the private sector (see paragraph 4 of E(82)2).

13. I suggest that you ask the Secretary of State for Transport to arrange for officials of his Department, of the Department of the Environment and of the Treasury and the CPRS to consider these questions in detail over the next few months and to prepare a report for consideration by Ministers before the Summer Recess. This report could take account of the recommendations which the Select Committee on Transport are due to make in the spring following their examination of transport arrangements in London. It could also cover, as necessary, the need for legislation and different arrangements for the Passenger Transport Executives (PTEs).

#### Passenger Transport Executives

14. Some of the Metropolitan counties are now facing legal action, similar to that taken against the GLC, for their cheap fare policies for the PTEs. The Secretary of State for Transport proposes (paragraph 7 of E(82)2) that he should



now make clear to the Association of Metropolitan Authorities that the Government's legal advice is that they are required to reduce their subsidies on the principles applicable to the GLC and LT. On this basis no legislation should be necessary in 1982, although it is for further consideration whether anything is necessary for the longer term. The Committee will wish to note, and perhaps to discuss, the likely fare increases which will result in the PTEs - see Annex B at the end of the report by officials, E(82)1.

Supplementary Rates (see paragraphs 11-17 of the Secretary of State for the Environment's minute of today)

15. The Treasurers of the London boroughs have recommended to their elected members that those ratepayers who apply for repayment of the supplementary rate, raised following the GLC's precept in 1981, should receive a refund and that those who do not apply should receive a credit against next year's rate. The Secretary of State for the Environment advises that Counsel has confirmed that these proposals are acceptable in law. The Attorney General will wish to say whether he agrees. This is satisfactory in so far as it appears that there is not need for the Government to intervene or to introduce legislation to deal with this problem. The Secretary of State wishes to make an early announcement of the Government's views on this point and to indicate that the London boroughs should act uniformly.

16. The Committee should, however, be aware that the result of all these proposals will not be an unqualified victory for the London ratepayers. They will get something back but the probability is that they will have to pay higher rates than otherwise in 1982-83 because of the accumulated deficit which has arisen as a result of the GLC's cheap fares policy. In addition, services will be cut and farepayers will be paying more. This is, however, largely unavoidable and the important positive point to register is that, if it had not been for the Lords' judgement, ratepayers would have had to finance the GLC's policy on a continuing basis.

Block grants (see paragraphs 1 to 10 of the Secretary of State for the Environment's minute of today)

17. The GLC's decision to revert to the Conservative administration's budget for LT means that £60 million of grants which had been withdrawn from the London boroughs will now be repaid to them and that £30 million grant which would have



been withheld from the GLC will now be paid. This follows automatically under the present RSG arrangements and it does not call for any decisions by the Committee. The Secretary of State for the Environment wishes to make an early announcement on this point.

18. There will, however, be grant penalties on the boroughs if there is a revenue grant to LT in 1982-83 to pay off the accumulated deficit and/or the boroughs have to pay more in 1982-83 as a result of taking over from GLC responsibility for subsidising concessionary fares. The issues here are discussed in paragraphs 7 and 9 above.

#### HANDLING

19. You might first ask the Secretary of State for Transport to make a brief general introduction and also give the Secretary of State for the Environment, the Attorney General and the Chief Secretary, Treasury the opportunity to make any general points they wish to register before turning to the specific issues ie:

- the short term issues concerning London Transport (the 1982 Budget and concessionary fares)
- the longer term issues affecting London Transport
- the analogous short-term and longer term issues affecting the PTEs
- the rates issues (repayment, extra rates in 1982-83, and grant penalties).

20. You might then ask the Secretary of State for Transport to take the Committee through the specific issues arising on the transport front and, following that, the Secretary of State for the Environment to do likewise for his responsibilities; the Attorney General can come in on particular points as necessary.

21. The Lord President of the Council and the Chancellor of the Duchy of Lancaster will want to comment on any proposals for urgent legislation to deal with concessionary fares and any other technical questions arising. The Secretaries of State for Scotland and for Wales have a general interest in the implications of these proposals for relations with local authorities; the decisions could well influence what happens in Scotland although they do not bite directly on them.



## CONCLUSIONS

22. You will wish to record conclusions on the following:

i. confirming that GLC should go ahead broadly as proposed in 1982, with early legislation avoided so far as possible;

ii. whether there are any objections to GLC financing the accumulated deficit by grant in 1982-83, if they so wish; whether any request for waiver of grant penalty should be refused; and whether it would be better to legislate to enable LT to fund the deficit by borrowing over a period (paragraph 7 above);

iii. whether, and if so over what timescale, there might be early legislation to give GLC powers to subsidise concessionary fares, should this prove necessary following the proposed discussions between the GLC and the London boroughs (paragraph 10);

iv. inviting the Secretary of State for Transport to arrange for officials, under his Department and including representatives of the Department of the Environment, the Treasury and the CPRS, to report by the Summer Recess on the longer term options for legislation and possible new arrangements for transport in London and the PTEs on the lines indicated in paragraph 13 above;


v. agreeing that the Secretary of State for Transport should make clear to the Association of Metropolitan Authorities and the PTEs that they are required to reduce their subsidies on the same principle as those applied to the GLC and LT (paragraph 14);

vi. noting the position on repayment of supplementary rates (paragraphs 15 and 16) and of block grant in 1981-82 (paragraph 17).

23. It may well be that, following further discussions with the GLC and the AMA, the Secretary of State for Transport, and possibly the Secretary of State for the Environment too, will wish to come back to the Committee at the end of the month or in early February for approval of some of the details.

P L GREGSON

13 January 1982

  
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*For E Folder*

Qa 05772

12 January 1982

To: MR SCHOLAR

From: J R IBBS

London Transport


1. The papers by officials and those by the Secretaries of State for Transport and the Environment focus attention on the key issues requiring decisions now. On these points the CPRS have nothing to add. There is general agreement that there is no immediate need for legislation in advance of the March fare increase.

2. But the Law Lords' judgement has left a state of uncertainty about whether the GLC can legally continue to pay any subsidy in the longer term since it would presumably be "practicable" to eliminate the subsidy over time by some combination of higher fares, greater efficiency and reduced services. There is thus no satisfactory basis on which to plan and operate public transport in London. Also there are the questions of the accumulated deficit and concessionary fares. To resolve these uncertainties legislation will almost certainly be required before long, no matter what short-term decisions the GLC and London Transport take.

3. Before legislation can be devised, on the level of subsidy for public transport in London, three policy issues need to be addressed:

(i) the extent to which Ministers wish to seek control over public expenditure on this service which has until now been provided locally in most areas (PTEs);

(ii) the balance between different forms of public and private transport; any approach other than that of local discretion (within the grant system) would require Ministers to have a policy about the shape and size, and monopoly role,



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of the public transport system in London; the tighter the degree of control, the more specific the policy would need to be;

(iii) the arrangements for planning and managing public transport within the limits set by any Government policy.

4. These three issues are closely linked; they embrace such questions as:

- how should the balance of traffic between public and private transport be determined?
- how much is private (car) traffic likely to increase when public transport fares are increased?
- what are the implications of this increase for road construction and/or traffic restriction policies (including the parking regime and their enforcement)?
- should the policies of British Rail's commuter system, the Underground and the buses be better co-ordinated, and by what means?
- whether the London Transport Executive is the best arrangement for carrying out the policies for the Underground and bus services;
- whether the GLC is the right body to have local policy control over London Transport's functions, and, depending on the degree of government control, whether there needs to be local authority control at all.

5. These questions are not simple. But the CPRS believes that Ministers should have answers to them, and to the issues (paragraph 3) which underlie them, before they decide the forms of general legislation on subsidies. Although the work of the Select Committee on Transport will help, the CPRS think there is a strong case for Ministers to ask officials to examine these longer-term issues (as suggested in paragraph 8 of the summary of the paper by officials) and report back before the summer recess. The Secretary of State for Transport's paper recognises



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the importance of these issues, but it does not seem to us enough to conclude that Ministers should simply "keep their minds open" about them. The work we suggest might be done in a group led by the Department of Transport, but including the Department of the Environment, Treasury and the CPRS.

6. I am sending a copy of this minute to Sir Robert Armstrong.

*jr*

CONQUEROR



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1983





ROYAL COURTS OF JUSTICE  
LONDON, WC2A 2LL

01-405 7641 Extn 3201

PRIME MINISTER

LONDON TRANSPORT  
MEMORANDUM OF THE LAW OFFICERS

This memorandum considers the following issues:-

1. The House of Lords Judgment.
2. The Implications for LTE and GLC.
3. The 1982 LT Budget.
4. Concessionary Fares.
5. Rates.
6. Metropolitan counties and PTEs.
7. Legislation.

1. The House of Lords Judgment

1.1. The case concerned the validity of a supplementary precept issued by the GLC to the London Borough of Bromley to enable the GLC to finance by grant to the LTE the cost of reducing fares overall by 25% and of introducing a simplified zone system.

1.2. The House of Lords decided that LTE's new fares structure was ultra vires the Transport (London) Act 1969, that the GLC had no power to pay grant under section 3 of the 1969 Act to finance the reduction and that the supplementary precept requiring the London Boroughs to levy a rate of 6.1 p in the pound to finance the unlawful grant was itself ultra vires and void.

/1.3



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1.3 The five judgments can be reduced to the following two propositions:-

- (a) LTE are under a duty to do their best to break even so far as is practicable and that the GLC power to pay grant for any purpose must be construed as enabling them to give revenue support only to the extent that it is not practicable for LTE to avoid a deficit, and
- (b) that in considering the use of their grant-making power GLC must have regard to their fiduciary duty to hold a fair balance between ratepayer and transport user.

## 2. The Implications for LTE and the GLC

2.1. What must the LTE do to comply with the law? It must conduct its operations so as, so far as is practicable, to avoid a deficit taking one accounting period with another. We take the view that as far as expenditure is concerned, this gives the LTE the necessary tolerance to deal with matters which are not foreseeable such as stoppages due to strikes, accidents and emergencies. It also enables the LTE to provide essential transport services which cannot be run on a "break even" basis. Income must be raised principally from fares. This does not mean in our opinion that fares must be set at such a figure that a deficit will be avoided despite a significant fall in passenger services. Here again there is some room for manoeuvre. If in the result there is an unavoidable deficit then the loss may be made good by grant. If an unavoidable deficit is foreseeable a grant may be budgeted for.

/2.2.



01-405 7641 Extn

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2.2. What must the GLC do? The GLC has a statutory responsibility for formulating public transport policy for Greater London (section 1 1969 Act). It must ensure that it and the LTE comply with the law. When it uses its grant making power under section 3 it must hold a fair balance between ratepayer and farepayer.

### 3. The LT 1982 Budget

3.1. The House of Lords did not directly consider the deficit which would arise following their ruling. However they did consider the general treatment of deficit. Lord Scarman said, "If the Executive fails to make good in the following year the deficit that has arisen in the previous year, the GLC shall take action to enable the Executive to overcome the deficit. In other words, deficit is unacceptable: and the GLC may take action to get rid of it either by grant or by requiring an increase in the level of fares, (or by other steps)."

3.2. The LT revised Budget for 1982 anticipates a fares increase of 100%, a borrowing of £125m over 5 years and a GLC revenue grant of £109m. The zonal structure would be retained. There would be cost savings in all areas, rapid reduction in scheduled and manned bus mileage, a smaller reduction in train mileage and some closures and a controlled reduction of employment in London Transport. On this basis the revenue account would break even year by year. Subject to one reservation (this concerns the power of the LTE to borrow under section 8 of 1969 Act over 5 years. The GLC legal advice which is accepted by the Department of Transport is that "temporary borrowing" is restricted to borrowing over 12 months.), we do not consider that the courts would upset

/this



01-405 7641 Extn

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this budget on either of the grounds set out in paragraph 1.3 above. It follows, therefore, that the GLC approval of the revised Budget need not in our opinion be conditional on any further increase in fares during the year.

3.3. This proposal means that the GLC will issue a precept to finance the revenue grant to the LTE. Whilst this would appear to deprive Bromley of some of the fruits of their success we advise that it would not be unlawful on the part of the GLC, provided of course, they have had regard to their fiduciary duty to hold a fair balance between rate-payer and transport user and have considered the RSG consequences.

#### 4. Concessionary Fares

4.1. London Transport offer free off-peak travel to the elderly and disabled. The GLC finance these concessions by grants to LTE under section 3 of the 1969 Act. Whilst the House of Lords judgment did not deal specifically with this question there is no doubt that on their interpretation of this section they can no longer continue to provide this subsidy in this way. Furthermore unlike other PTEs they have no specific statutory powers to enable them to provide concessionary fares.

They would nevertheless continue to provide them under general statutory powers by using section 137 of the Local Government Act 1972 (limited to the product of a 2 p rate) or rely on the London Borough's powers to pay grants.

/5. Rates



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## 5. Rates

5.1. It is clear from the judgment that a precept issued to meet unlawful expenditure is ultra vires and void. It should follow that a rate made to meet such a precept is likewise ultra vires and void and that ratepayers who have already paid the unlawful part of the supplementary rate can recover the amount overpaid. Put another way ratepayers should be treated in a similar manner by all the boroughs affected and ratepayers who have already paid their supplementary rates should not end up worse off than those who have not yet done so.

5.2. It is clear that the GLC is not entitled to recover from the London boroughs any part of the supplementary precept which has been held to be ultra vires. The position of the individual ratepayer is fraught with a number of legal problems involving the General Rate Act 1967 and the legal precedents concerning money paid under a mistake of law. We will have to advise on this question at a later date after detailed consideration with Counsel. The most we can say at present is that it is arguable that the amount overpaid by the ratepayer is recoverable from the rating authority where the rate is ultra vires.

## 6. Metropolitan <sup>Counties</sup> ~~Contracts~~ and PTEs

6.1. These bodies are also subject to the duties referred to in paragraph 1.3 above above. The important difference being that they have specific statutory powers to enable them to provide concessionary fares.

## /7. Legislation

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7. Legislation

Colleagues will be considering as a question of policy the need for legislation to deal with inter alia subsidies, concessionary fares and invalid precepts. However it is clearly desirable that the problems arising in all these areas should be considered in some detail and over a longer period than has been available to prepare this memorandum.

I have sent a copy of this memorandum to the Lord President, the Secretary of State for Scotland, the Secretary of State for Wales, the Secretary of State for Social Services, the Chief Whip, Sir Robert Armstrong and all members of 'E' Committee.

M.H.

12 January 1982



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10 DOWNING STREET

*From the Private Secretary*

11 January 1982

London Transport and the GLC

The Prime Minister was grateful for your Secretary of State's minute of 8 January about his meeting with Mr. Livingstone on Friday morning.

I am sending copies of this letter to John Kerr (HM Treasury), David Heyhoe (Lord President's Office), Jim Nursaw (Attorney General's Office), David Edmonds (Environment) and David Wright (Cabinet Office).

M. C. SCHOLAR

Anthony Mayer, Esq.,  
Department of Transport.

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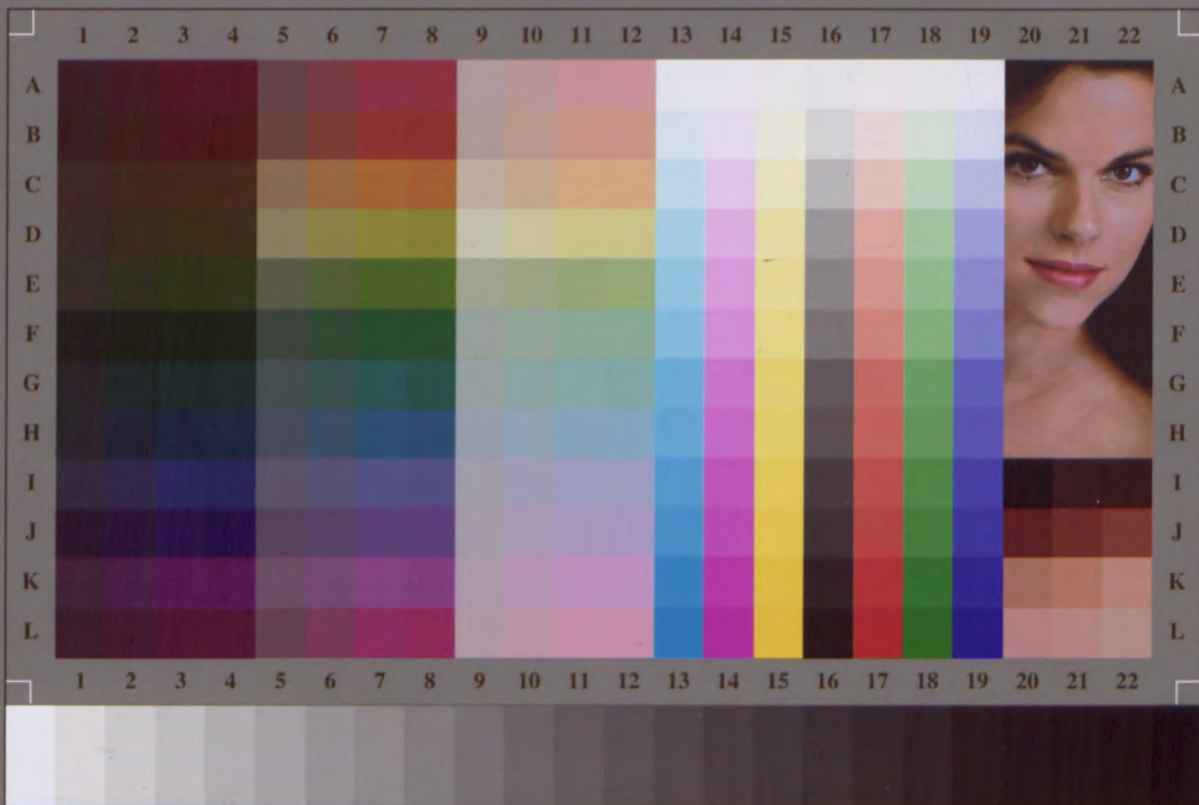
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