

CC89



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

16 JUL 1987

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

Dem Nictry

NRM

PASSENGER TRANSPORT AUTHORITIES UNDER THE NEW LOCAL GOVERNMENT FINANCE REGIME

I have been considering the position of the joint board Passenger Transport Authorities (PTAs) under the Community Charge regime whose main features were agreed in principle at the 7 July meeting of E(LF). While I support the proposal to use figures of per-adult spending at assessed need on the community charge demand note to aid accountability, I fear that the GRE system can at present provide only a broad approximation of assessed need for single service authorities dependent on only a few GREs, in particular the PTAs.

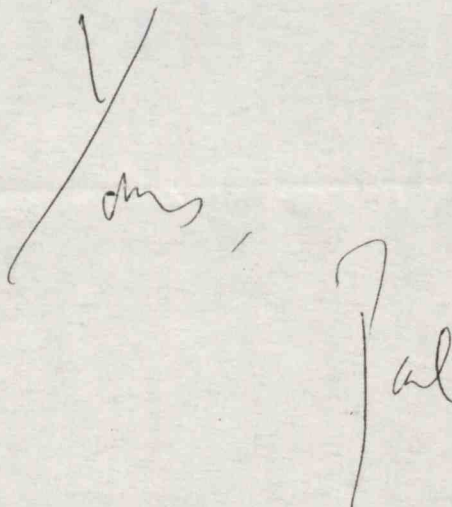
I also support the principles of GRE simplification and stability. But while it is reasonable to expect authorities with a wide variety of functions and GREs to absorb a certain amount of rough justice, on the grounds that losses on some GREs will be offset by gains on others, the PTAs as single service authorities might be dependent on only one or two current expenditure GREs. This will affect the grant available to them, but more importantly it will undermine the accountability comparisons of actual and assessed need spending. Our officials have been re-examining the public transport GREs but have not been able to discover a simple GRE formula that can be shown to reflect a need to spend. Without such a formula I believe that PTAs will be able to demonstrate that the Government's figures for their spending needs are untrustworthy, and disguise the true extent of any overspending from the chargepayer.

Moreover, if the Chancellor's recent proposal for a radically-reduced number of GREs is adopted, then it is difficult to see how assessed-need spending figure for single service authorities could ever be determined. We are to discuss these broader GRE questions at a later E(LF) but I think we need to examine the particular issue of the PTAs now.

/ The attached note by officials on this problem sets out some alternative solutions. I am most attracted by the removal of the PTAs from the community charge demand note altogether. Changing the financial relationship between PTAs and metropolitan districts from precepting to billing would essentially be a technical change. The PTAs are joint boards made up of district members. Accountability, in the sense of voting for or against those responsible for spending decisions, is thus to the districts; and that is where GREs for assessed need spending should be visible.

I would therefore propose, subject to your views and those of colleagues, to ask our officials to explore the details of this proposal in order to make the appropriate provisions in the forthcoming Local Government Finance Bill.

/ I am copying this letter to the Prime Minister, the Chief Secretary, other E(LF) colleagues, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Paul', is written over a large, light-colored scribble or mark that resembles a large 'V' or a stylized 'P'.

PAUL CHANNON

CONFIDENTIAL

PASSENGER TRANSPORT AUTHORITIES UNDER THE NEW LOCAL GOVERNMENT FINANCE REGIME

Note by the Department of Transport

1. There are at present two main public transport GREs (bus subsidies and concessionary fares), and two smaller ones (local rail subsidy and pensions increase payments for ex-bus undertaking employees). An element of the transport professional and technical services GRE is associated with public transport, and there are also debt charges GREs. The current expenditure GREs total some £550m. These GREs are distributed principally to shire counties and metropolitan Passenger Transport Authorities, and for concessionary fares to shire districts and London boroughs.
2. The public transport GRE formulae have been a continuous source of controversy and difficulty since the beginning of the GRE system. In no other major service is there such a range of per capita spending, with London and the metropolitan areas spending at many times the rate of most of the shire areas. This is only partly accounted for by the extra responsibility of the PTAs for supporting local BR services under S.20 of the 1968 Transport Act: it applies equally to bus subsidy and concessionary fares. Many changes to the formulae, involving the introduction of factors favourable to built-up areas, have failed to bring the GREs very close to actual spending even after its reduction through PTA precept control. (Table 1)
3. Further reviews of the formulae, conducted with the aims of amalgamation and simplification, as well as attempting to take account of the new commercial market in bus services following deregulation under the Transport Act 1986, have fared no better. Only highly complex single formulae come close to a satisfactory distribution of GRE.
4. It may be worth reviewing on wider grounds whether there would be advantage in transferring back to the Exchequer the responsibility of the PTAs to support local rail services; but such a change would not solve the GRE problem.
5. External concern about the impact of the GREs has concentrated on their relationship with PTA ELs and their effect on grant entitlements. The former will lapse as automatic precept limitation ceases, and the latter may

CONFIDENTIAL

CONFIDENTIAL

reduce as grant is paid at chargepayer level. However, the proposed use of GREs in community charge demand comparisons with spending as a tool of accountability will emphasise their unsatisfactory nature. Any attempts to simplify them will make matters worse.

6. There are two ways of avoiding these difficulties. The first is to establish separate GRE control totals and formulae for the class of PTAs and perhaps for London (for concessionary fares). This is not an ideal solution for a number of reasons. It involves the proliferation and complication of GREs contrary to policy objectives for the new finance regime; it will be subject to strong criticism from shire areas with relatively smaller control totals; and formula distribution even within the class of PTAs still shows major deviations from reasonable levels of spend. However it would enable the comparison of actual PTA spend with a figure representing need.

7. The second alternative is for the metropolitan districts to pay the PTAs for transport services without the appearance of a separate gross demand on the community charge demand note. This is consistent with the objective of accountability: PTAs are joint committees of district councillors and democratic accountability for their spending decisions can only exist through district council elections. In addition, simple public transport GREs could be tolerated: they would only be one small part of the districts' total GRE and any difficulties would be disguised or lost. Control of excessive expenditure would only be achieved by charge-capping on the districts; but the MCC-inherited levels of excessive expenditure will have been eliminated by the 3 years of automatic PTA precept control.

8. Ministers will wish to consider the comparative attractions of the above alternatives in time for any necessary legislative provisions to be incorporated in the first draft of DOE's Bill.

DTP/FLTR

July 1987

D350

CONFIDENTIAL

TABLE 1

COMPARISON OF 1987-88 PTA BUDGETS AND GREs

	GRE	%diff.	Budget	£m
Greater Manchester PTA	71.6	+10%	78.8	
Merseyside PTA	55.7	+20%	66.9	
South Yorkshire PTA	22.0	+109%	46.1	
Tyne and Wear PTA	51.1	+13%	57.7	
West Midlands PTA	64.5	-15%	56.0	
West Yorkshire PTA	40.5	+46%	59.3	

CCB



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

The Rt Hon Paul Channon MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

My ref:

Your ref:

30 July 1987

NBM

Dear Secretary of State,

PASSENGER TRANSPORT AUTHORITIES UNDER THE NEW LOCAL GOVERNMENT
FINANCIAL REGIME

Thank you for your letter of 16 July 1987.

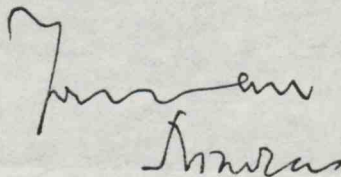
We have now agreed in E(LF) on our approach to GRE simplification: this allows for separate assessments, if necessary, for public passenger transport support and concessionary fares. This should allow reasonable scope to produce realistic needs assessments for these services which at present are some of the most complex. The note attached to your letter describes various options and officials should pursue these further.

I accept that it is conceivable that the needs assessments may differ substantially from actual expenditure for some authorities. But this reflects the fact that the level of service provision varies very considerably, eg the concessionary fares provision in London is much more generous than in shire areas. Such variations in levels of service ought properly to be reflected in community charges. We should not try to conceal from the community chargepayer where he is paying for a higher standard of service than is provided elsewhere. Ultimately it is for him to consider whether he wishes to support that level of service.

One of our key objectives in bringing in the new local government financial regime is to increase the accountability of local government to the electorate so that in turn they can exercise a restraining influence on local authority expenditure. To achieve this it is essential that the community chargepayer has the necessary information on the contribution to the community charge of the various authorities to which the chargepayer contributes. This means that in metropolitan areas the chargepayer must be able to distinguish the separate contributions of the metropolitan districts and the police, fire and transport joint authorities. Without such information overspending by a profligate joint authority will appear to be the responsibility of a low spending metropolitan district which perhaps has little influence over the decisions of the joint authority. Accountability must rest with the decision making authority which in the case of public transport is the PTA.

In my view your proposal to remove PTAs from the community charge demand note runs completely counter to our overall approach to accountability and I cannot therefore agree to it.

I am copying this letter to E(LF) colleagues and Sir Robert Armstrong.

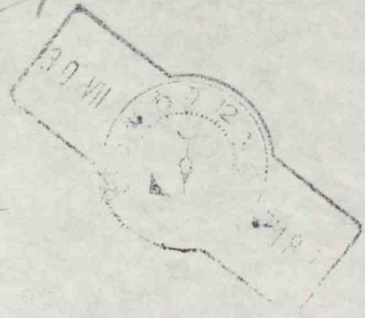
A handwritten signature in black ink, appearing to read 'Nicholas Ridley', with a stylized flourish at the end.

NICHOLAS RIDLEY

LOCAL GOVT

Relations

PT 32



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

Dear Nick,

29 July 1987

NBR

**PASSENGER TRANSPORT AUTHORITIES UNDER
THE NEW LOCAL GOVERNMENT FINANCE REGIME**

I have seen a copy of Paul Channon's letter to you of 16 July, proposing that PTAs should not be included on the community charge demand note, and should instead be funded by billing metropolitan districts.

I think this proposal would be worth exploring further. First, as PTAs are not directly elected bodies, making their costs part of metropolitan districts expenditure, by billing, seems to me to line up accountability to electors with responsibility for expenditure rather better than is done by precepting. Secondly, it would assist us in the simplification of need assessment: without separate PTAs, we may not need separate PTA GREs.

I agree with Paul that officials should explore the details of his proposal and, provided that this does not bring to light any unforeseen problems, that the appropriate provisions should be included in the Local Government Finance Bill.

I am copying this letter to the Prime Minister, Paul Channon, other E(LF) colleagues, and to Sir Robert Armstrong.

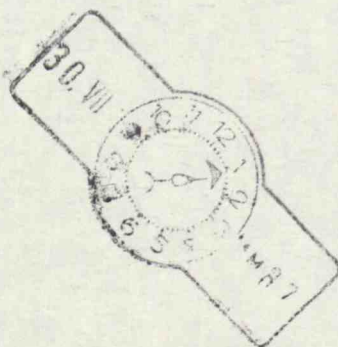
Yours Ever,
John

JOHN MAJOR

LOCAL GOVT

RELATIONS

PT 32



CONFIDENTIAL

CCBA



QUEEN ANNE'S GATE LONDON SW1H 9AT

28 July 1987

Dear Paul,

NBM

PASSENGER TRANSPORT AUTHORITIES UNDER THE NEW
LOCAL GOVERNMENT FINANCE REGIME

attn

I have read with interest your proposals for dealing with the PTAs when the new system of local government finance is introduced, described in your letter of 16 July to Nicholas Ridley.

The difficulties which you describe are familiar to me in the context of the joint police and joint fire authorities. We have sought to meet them by devising - more successfully for the police service than for fire - GRE formulae which more accurately reflect the need to spend. Your more drastic solution to these problems might raise questions about accountability, the signals that could be given on levels of expenditure and the information on spending which should be made available to chargepayers. These issues are common to single service authorities, and I would therefore like the opportunity to consider whether your proposals could be adapted to the police and fire boards. That is not to say that different solutions might not ultimately prove suitable for different classes of authority.

I would be grateful therefore if your officials could keep me involved in the further working-up of the proposals. I suggest then that we should consider their conclusions collectively.

Copies of this letter go to members of E(LF) and Sir Robert Armstrong.

Over,

Douglas.

LOCAL GOVT: Watrous 12732

