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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

1. Mr Sanders
2. P.S.

Tim Lankester Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

18 June 1979

cc Mr Times

Prime Minister
You asked what will be the effect on fares of a excessive settlement on the underground. Every 1% to the settlement adds about 2% to fares - for the reasons set out below.

Thanks v. much.

Dear Tim

I understand that the Prime Minister wanted to know why London Transport needed fares increases of more than the amount of the possible increase in wages, even though wages represent only about three quarters of their total operating costs.

TL 18/6

We have not got London Transport's detailed pricing assumptions. But there are basically three reasons why fare increases have to be higher. First, the GLC's revenue support (£49m this year) will not be increased to cover any extra wage costs and therefore the whole of the increases have to be recovered from fares. Second, when fares are increased quite a lot of people decide to travel less, not to travel at all, walk, or switch to other modes. So a 1% increase in wage costs needs more than a 1% increase in fares to finance it. Third, London Transport have to start paying the higher wages before they can increase the fares and get more revenue in.

If there is anything more you need, please let me know.

I am copying this letter to Ian Fair, John Chilcot and Martin Vile.

Yours
Genie

MRS E C FLANAGAN
Private Secretary