

CONFIDENTIAL

Transport

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5 June 1981

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Prime Minister
MS

MAD 5/11

Dear Tim,

LONDON TRANSPORT: PAY

Thank you for your letter of 5 June.

I attach a copy of the statement Mr Fowler will be making for issue tomorrow morning.

I am sending this to the recipients of your letter.

Yours

Anthony Mayer

R A J MAYER
Private Secretary

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PRIORITIES IN TRANSPORT SPENDING

Local councils face some crucial decisions right now. They need to get their financial plans in order. That means getting their priorities right - in transport as in other services. Let me make three points clear.

First, nothing can alter the amount of local authority spending the country can afford this year. That total will not be increased. The transport supplementary grant settlement for this year has been made and cannot be reopened. There will be no additional resources or grant for any authority.

Second, whatever their priorities councils have a responsibility to their electorates - the rate payers - to get value for money. This means responsible pay settlements which are vital for keeping costs down. Pay is nearly three-quarters of the costs of public transport. In London, for example, each 1% on the pay bill for buses and the underground means £3m a year to be found either by the passenger or the ratepayer.

Third, there are many important services which it is right for the community to support. But public transport in this country is already getting over a billion pounds of subsidy this year. I must make it absolutely clear now that the Government

will not be prepared to finance irresponsible policies on pay or fares. I shall be looking in the autumn at counties' transport spending plans for 1982-83 with this in mind.

Some councils claim they have a mandate from their electors to reduce fares, even if it means putting up rates. Central government has a mandate to run the national economy and that includes a responsibility for the level of taxes people have to pay, both centrally and locally, and on the amount of public expenditure that the economy can sustain. That is why we have had to ask local authorities to reduce the overall level of their expenditure and why we cannot afford extravagant and wasteful new policies.