2009 Fares Q&A

What is happening to fares for 2009?

The Mayor and TfL are investing billions to improve and expand London's transport network, increasing reliability and capacity for public transport and road users. We remain committed to delivering major projects including the upgrade of the Tube, preparations for 2012 and Crossrail.

However strong project management and a determination to drive value for money across all of TfL's services cannot compensate for the last Mayor's irresponsible ~~and cynical~~ pre-election bus fare cut and subsequent fares freeze.

This has cost over £60m in lost revenue in the last year alone and that forces a tough decision on fares for the year ahead, one that we cannot avoid making if we are to ensure the delivery of better transport services for London.

TfL's 2009 fares will therefore rise by RPI+1% on average to enable the delivery of transport improvements for London.

In a tough economic climate the Mayor is also increasing support for London's least well off and older communities. The Bus and Tram Income Support Discount concession will continue, reduced fares in a new 009:30 to 16:00 day time off peak period will help the less well off and visitors and the Freedom Pass will now be extended to 24 hours, all from January next year.

Which fares are going up?

BUS

The Oyster PAYG bus single fare increases from 90p to 100p, back to 2007 levels. The bus and Tram cash single fare is unchanged at 200p.

The Weekly Bus and Tram Pass rises from 1300p to 1380p. This ticket cost 1400p prior to September 2007. Other Bus Pass seasons rise in proportion to the weekly.

TRAVELCARDS

Increases in prices for adult tickets covering Zones 1-6 range from 5.8% to 6.7% in the case of Travelcard seasons and from 5.7% to 7.5% in the case of One Day tickets.

LONDON UNDERGROUND, DLR AND OVERGROUND

The minimum adult cash fare of £1.50 on the DLR and Overground rises to £1.60.

The £4 adult cash fare via Zone 1 is frozen, while the £3 non-Zone 1 fare rises to £3.20.

In an effort to achieve a fairer fares structure, PAYG fares on the Underground are being further graded. This will split out zones 3-6 into individual zones. The One Day Price Caps continue to offer a 50p saving on the cost of a One Day Travelcard.

The higher PAYG fares currently prevailing on the Tube etc from 07:00 to 19:00 Monday to Friday will be restricted to apply in the morning and evening peaks only (06:30-09:30; and 16:00-19:00). New off-peak PAYG fares apply at all other times: pre 06:30 hours; during the interpeak; post 19:00 hours; and at weekends.

Season ticket prices on the Overground rise in line with the overall RPI+1% target.

CHILD AND DISCOUNTED FARES FOR YOUNG PEOPLE

Most child and discounted fares on the Underground are set as 50% or 70% of the adult fare. These reduced fares will increase pro-rata to the adult fares. The PAYG flat fare for 11-15s on the Tube increases from 50p to 55p in line with the increase in the PAYG minimum adult fare from 100p to 110p. The child One Day cap remains at 100p. Child offpeak One Day Travelcard prices remain at 100p and 200p. Travel by the under 11s will remain free on the Tube at all times.

ZONES 7 TO 9 OUTSIDE GREATER LONDON

Revised fares to Zone 1 from Zones 7 to 9 are in line with those within Zones 1-6. Travelcard season prices increase by almost exactly 6%. Increases for other fares range from zero to 9.8%.

What will fares do in the longer term – should we expect continued inflation busting rises for the rest of the Mayor's term?

The situation we have been left with by the last Mayor means that further RPI+ increases are likely in subsequent years. A clearer picture will emerge with the publication of TfL's Business Plan later in the year.

Surely 2008 fares increases could reduce the numbers of passengers using public transport - what about any loss of fare revenue as a result of fares rising?

Fares will only increase at a rate which is affordable for Londoners, commuters and visitors to our city. As a result we expect that there will be very little impact on passenger numbers which are forecast to continue growing during 2009.

How can you justify this inflation-busting increase given continued delays and disruption to Tube and bus passengers?

The Mayor and TfL are investing billions to improve and expand London's transport network, increasing reliability and capacity for public transport and road users. We are absolutely committed to delivering major projects including the upgrade of the Tube, preparations for 2012 and Crossrail.

The scale and importance of the work on Tube is certainly causing disruption to passengers whilst the renewal works of Thames Water have impacted on London's roads. However against this challenging backdrop TfL's overall service has continued to improve with 95% of scheduled Tube and 97% of all bus services operated last year.

This has been reflected in the continued growth in passenger numbers with the Tube now carrying over 1.1bn and the buses over 2bn a year.

How much revenue will the increase in fares raise?

£150m in 2009 which resulting from an increase in revenue from bus, Tube, DLT and London Overground fares.

How much are you saying that the previous Mayor's fares policy has cost?

Cutting the bus fare to 90p cost over and the freeze on Oyster pay as you go fares for 2008 has cost over £60m.

IF PRESSED – exactly how much?

£62m.

Is it not the case that you have to raise fares to pay for the financial black hole created by the failure of Metronet?

The full financial implications of the failure of Metronet are still being assessed. The increased fares revenue for 2009 will help enable the delivery of the key transport improvements for London including the upgrade of the Tube, the preparations for 2012 and the building of Crossrail.

Why should we pay higher fares when it's just going on fat-cat salaries?

It isn't. TfL carries over 10 million passenger journeys every day, over 2 billion bus journeys and well over a billion Tube journeys every year.

This year's £8bn budget and the £39bn settlement with Government are both part of an investment over the next ten years to upgrade the Tube, prepare for the 2012 Games and deliver Crossrail. Managing an organisation of this scale and complexity requires high calibre people and TfL has them in its senior management team.

What is the benchmark for the RPI+1?

The Retail Price Index figure of 5.0 per cent in July 2008 is the benchmark, in accordance with DfT guidance.

This compares with an RPI figure of 3.8% in July 2007, showing evidence of the inflationary pressures in the wider economy

Individual fares

With 8%+ rises for peak time Oyster PAYG Tube fares and 6-7% Travelcard rises are you not unfairly targeting commuters here, safe in the knowledge they have no choice but to pay up?

The irresponsible fares cuts and freezes of the last Mayor have forced this decision, one that we have to make to ensure the delivery of major improvements to transport including the upgrade of the Tube, preparations for 2012 and Crossrail.

In a tough economic climate the Mayor is increasing support for London's least well off and older communities. In reality this means that some of us will pay a little more in order that we can provide support through the continuation of the Bus and Tram Income Support Discount Travel scheme and through the extension of the Freedom Pass to apply 24 hours a day.

The cost of PAYG weekend travel on the Tube is up by 10%, isn't this going to affect footfall at central London retailers?

The cost of a journey in to Zone one remains affordable – it is rising by 10p. It is unlikely to be the cost of transport that is affecting retail sales in Greater London. In fact there is some anecdotal evidence to suggest that people are actually using public transport to travel in to London to shop, to avoid the fuel costs associated with driving out to shopping centres such as Bluewater.

The four Zone PAYG Tube fare is rocketing by 12%, that's worse that any Train Operating Company increase.

On average fares will rise by RPI+1 forced by the irresponsible and cynical pre-election fares bribes of the last Mayor.

However this is the first time that Oyster PAYG Tube fares have risen since 2006. The zone 4 fare is rising 30p. At an increase of 4% a year, well under the RPI rate, the January 2009 fare will still be less in real terms, in January.

This contrasts with Train Operating Companies who have raised their fares by the maximum possible amount year after year.

Day travel card prices are up by over 6%. Given the knock-on effect for Train Operating Companies isn't this leading to higher TOC prices?

Train Operating Companies have raised their fares by the maximum possible amount year after year. The Travelcard increases have been agreed between the TOCs and TfL.

In reality whilst most London Train Operating Company fares are regulated to a maximum average of RPI+1, in years when the Travelcard has been kept to RPI, the TOCs have increased other fares to reach that overall average.

Economic downturn

What impacts have you seen on passenger numbers as a result of the economic downturn?

Passenger numbers are continuing to grow. Within the current trend, in a city such as London in which people already have a high dependency on public transport and a variety of transport choices, it is difficult to isolate the impact on passenger numbers of individual events, for example a rise in fuel prices.

What about fuel prices, surely any more increases are likely to be passed out to bus passengers by the operators?

Rising fuel prices are not reflected in fares at this time. However we will need to continue to monitor and review any impacts of continued fuel price rises over time.

UK city bus comparable prices

How do these bus fares compare to other UK cities?

Overall London fares compare very well with other UK cities. We have made comparisons between tickets covering bus operators over the entire regions indicated, which are broadly comparable in geographic size with the London area.

For weekly bus passes the January 2009 £13.80 London price compares with:

- Greater Manchester - £16
- West Midlands - £15.60
- S Yorks / NE Derby / N Notts - £17
- Brighton - £16 at shop, £12 from website

Cheaper tickets are generally issued by individual operators for their own services covering a more limited area, e.g. £10 for Stagecoach services in Manchester.

London's £1 Oyster flat bus fare is again cheaper than most though difficult to make absolute comparisons as most UK cities single fares are still charged according to distance based.

- Greater Manchester - 80p to 260p (Stagecoach)
- West Midlands - 110p up to 1 mile, 150p for longer journeys (from 1 January – currently 100p and 140p respectively)
- S Yorks - 50p to 390p; 120p for 2 mile journey, 180p for 3 miles
- Brighton & Hove - 130p flat fare in central Brighton, 180p if going further.

Bus and Tram Income Support Discount concession

Given the scheme ended on 20th August, why did you not make the announcement earlier?

The Mayor was never comfortable with the principle of the oil deal with Venezula that funded the previous scheme, and brought the agreement and the previous scheme to an end.

However he has moved to ensure that the new Bus and Tram Income Support Discount scheme will be in place as soon as practicable with the new fares package in January.

How much will the scheme cost TfL to run this year?

The expected cost of running the scheme will be £7m for 2009.

How is a reduction possible given that you've spent £16m on the last year?

The cost of running the scheme in 2008 included the cost of setting up the scheme, its marketing and the loss of revenue to TfL. The cost to TfL reflects a lower maintenance cost for the scheme in 2009.

Have you paid or do you anticipate paying any money back to Venezuela?

We are in discussion with PDVE around the conclusion of the Energy Funding Contribution and Co-operation Agreement which funded the original scheme and expect that some funds will be returned.

Adi Frost
TfL Press Office
28.08.08
v1.1

Fares Briefing Note
28 August 2008

1. Mayoral Approval Form (MAF) for next January

The latest draft of this is attached. The proposals have been cleared by Kulveer and it is hoped to finalise the draft this week. Best practice is for the Mayor and advisors to have signed off the MAF prior to any public announcement.

2. Freedom Pass Issues

A final draft of the 24/7 MAF has been produced. A launch date of 2 Jan is included and the assumption has been that the extension will be announced with the 2009 fares.

Kulveer apparently has reservations about announcing the extension prior to any agreement with the Boroughs to share the costs. However, at a meeting with TfL and the GLA last week, Nick Lester indicated that any Borough contribution was only likely to be agreed as part of an overall package deal including the Reserve Scheme and a multi-year funding settlement. The time-scale for this is probably November/December.

Given that the Mayor is already committed to the 24/7 extension, it is not clear that anything would be lost from an early announcement. The Mayor could signal that he was "expecting" a contribution from the Boroughs but was determined to push ahead.

3. Season ticket multipliers

A specific proposal to amend the multiples is attached. This appears to be feasible, based on conversations with ATOC, DfT etc. This proposal needs to be signed off by City Hall so that it can be put to DfT in the next week or two as TfL's solution to funding ITSO. DfT will need to use their good offices to get the Train Operators to agree to the proposal. As evidenced by recent emails, the TOC's see no commercial advantage for themselves in the proposal and are reluctant to adopt it without a push.

The changes will be implemented incrementally in conjunction with national rail in successive fares revisions starting with January 2010.

4. Bus and Tram Discount Scheme (successor to Venezuela scheme)

New photocards ceased to be issued on the 20th August. A limited number of complaints from customers are starting to come through. The replacement scheme is provided for in the January 2009 fares MAF, with a commencement date for the issue of new photo-cards of 2nd January. Planning work for the new scheme is in hand.

Travelcard season ticket multipliers:
a proposition for discussion
28/08/08

<table>
<tr><td>The Proposition</td><td>For Travelcard season tickets valid in Zones 1-9 only, it is proposed to increase the multiple of a weekly ticket charged for monthly and annual tickets as follows

<table>
<tr><th></th><th>monthly</th><th>annual</th></tr>
<tr><td>today</td><td>3.84</td><td>40</td></tr>
<tr><td>January 2010</td><td>3.90</td><td>41</td></tr>
<tr><td>January 2011</td><td>3.95</td><td>42</td></tr>
<tr><td>increase</td><td>+2.9%</td><td>+5%</td></tr>
</table></td></tr>
<tr><td>Rationale</td><td>Monthly and annual tickets currently offer significant discounts against all other TfL tickets, including weekly seasons and PAYG.
This is hard to justify particularly in the case of London Travelcards which are used extensively for leisure travel at weekends and at holiday times, not simply for commuting.</td></tr>
<tr><td>Financial Implications</td><td>The proposed increases should raise around £12m pa for TfL (£60m over 5 years).
There will be no increase in Train Company revenue since the proposed increases will count towards regulated fare caps (generally RPI +1%)</td></tr>
<tr><td>Use of Funds</td><td>The funds raised will be used to improve fares integration and the extension and acceptance of smartcard ticketing in the London area.</td></tr>
<tr><td>Operational Implications</td><td>To avoid the need for changes to national fare policies, multiples for railway only season tickets (including tickets from outside London which include a Travelcard component) will remain unchanged.
Operating the new policy will require significant development of Train Company systems, costing notionally £0.2m, which TfL will fund, along with the costs of testing and communications to staff and passengers.</td></tr>
<tr><td>Odd Period Tickets</td><td>Around 1% to 2% of Travelcard season ticket customers purchase odd-period tickets – eg for 5 weeks rather than a month. This facility will no longer be offered and customers encouraged to switch to PAYG for any odd days required.
An exception to this may be needed to cater for term time scholars' tickets purchased by local authorities.</td></tr>
<tr><td>Bus Pass seasons</td><td>Bus Pass season multipliers will be adjusted as for Travelcards.
The revenue raised will be some £1m pa.</td></tr>
</table>

Fares Policy: Issues for 2010

1. Introduction

There are three major interconnected issues up for discussion for the 2010 fares revision:

a. Overall fares levels and specific changes
b. Oyster pay as you go extension on national rail
c. Withdrawal of paper products

Following a discussion of the background around this fares revision these items are discussed in this paper.

2. Background

London has followed a policy of annual fares changes for a long time. Fares can change up to four times each year but major fares changes are usually made in January. Fare change dates are coordinated with the national rail industry resulting in three fixed dates in January, May and September.

The Mayor sets all fares on the TfL system under powers granted by the GLA Act. The only major constraint to this comes from fares agreements with national rail with the Travelcard Agreement being particularly significant. Under the Travelcard Agreement fares need to be set jointly by TfL and the train operating companies (TOCs). In the event that agreement is not reached fares must change by the annual change in RPI each January, with the July RPI being the relevant benchmark.

In the past TfL and national rail have followed a variety of fares policies. For example, during the early part of this decade TfL had RPI only increases in fares. That followed a long period of increase at RPI+3%. The TOCs were mandated to follow an RPI-1% policy after privatisation but from 2002 this was changed to an RPI+1% policy.

TfL's current business plan assumes an RPI+1% fares increase each year. Deviating from this policy creates (or destroys) about £25 million in revenue in the first year for each percentage point deviation. Over the course of the business plan such a deviation would result in changes to revenue of about £200 million.

3. **Timetable for decision making**

   In order for fare changes to be implemented for January 2010 decisions on fares will need to be taken by the end of July 2009. This allows time for discussions to take place with TOCs and for any resulting changes to be incorporated by September, when the process of producing electronic fares tables needs to start.

4. **Overall fares level**

   The annual change in the Retail Price Index is likely to be negative in July this year. Recent months have shown a slight increase in underlying index after sharp falls between September 2008 and January 2009. Were the index to remain constant between now and July, something that is broadly expected, the annual change in the RPI would be -2.4%. Under these circumstances a fares freeze would deliver the equivalent of an RPI+2.4% increase. There is obviously some risk that inflation between now and July erodes some of this increase.

   There is clearly a choice to be made about what overall level of fares are acceptable for January. Maintaining an RPI+1% fare change policy will result in a reduction in fares of 1.4%. If this results in disagreements with the TOCs then it is also possible that the Travelcard Agreement defaults to a 2.4% reduction in fares thereby making Travelcards cheaper relative to Oyster pay as you go (PAYG). This would be against the trend of fares policy for the past several years as Travelcards are already generally cheaper than Oyster PAYG. A fares reduction is also likely to result in demands from customers to refund fares on the unused portion of season tickets.

   From a broader perspective of fares integration with national rail (discussed further below) it would be useful to have a fares freeze. The DfT is proposing to stick with a fares policy of RPI+1% for January 2010. So far the TOCs and the DfT seem content with the idea of freezing Travelcard fares in London and concentrating the reductions on Oyster PAYG. PAYG fares on TOCs in London will replace single and return tickets that are significantly more expensive than TfL's fares. Concentrating reductions on these fares brings them closer to TfL's fares and improves the prospects that, in the future, there will be complete integration of fares between TfL and the TOCs.

   From a business plan perspective, the impact of a fares freeze compared to an RPI+1% fares change would be to create an additional £40m in the first year and, if followed through with RPI+1% increases in future years, about £320 million over the business plan period.

Based on practicality and revenue considerations it is recommended that the Mayor direct a fares freeze for January 2010.

We propose to make one change in fares in addition to the freeze, which is to remove the difference between the daily capping rates on Oyster pay as you go and the price of the equivalent one day paper product. The rationale for this on one day Travelcards is straightforward. Until now the 50p discount on the daily cap reflected the fact that PAYG was a slightly more limited product compared to the one day Travelcard as PAYG is not accepted on national rail. However, by January 2010 PAYG will be accepted on all national rail services, at which stage there is no distinction between the daily cap and Travelcard fares. The revenue raised by this increase in the daily cap will offset reductions in the interchange penalty between national rail and TfL services for PAYG travel.

A similar increase in the daily cap for bus travel will help raise some additional revenue for buses and also aid in the removal of the daily bus pass product.

5. Oyster PAYG on national rail

Over the past 18 months Oyster PAYG acceptance has started on some TOC services (Chiltern, c2c, First Great Western, and some services on National Express East Anglia). Some other inter-available routes have had Oyster PAYG since its initial launch on TfL services. TfL fares apply on all these services, reflecting the fact that most of the services offered by these TOCs are closely intertwined with the Tube.

Later this year Oyster PAYG will go live on other TOCs, and in particular on Southeastern, Southern, Southwest and First Capital Connect. The introduction of PAYG will require a different fare structure on these services. In line with current arrangements the PAYG agreement allows the TOCs to set their own fares on their services. This will mean that we end up with three different sets of fares for Oyster PAYG on rail services – TfL fares, TOC fares and through fares. TOC fares are likely to be much higher than TfL fares.

While integration of these fares would be a good idea attempting to do so in January 2010 is difficult. Within the constraints of an overall fares freeze the only way that integrated fares could be achieved is by TfL offering compensation to the TOCs for lost fare revenue if they bring their fare levels down to TfL levels. This is clearly not affordable and offers no particular policy benefits.

In the longer term it is possible to achieve convergence between TfL and TOC fares by selectively balancing both TfL and TOC fares to find the right equilibrium. The only thing that can be done in this direction in the near future is to continue working with the DfT and the TOCs to keep fare integration high on the agenda for future fares policy.

In the nearer term we will need to find ways to communicate the more complex fare structure to the travelling public. We will however be helped by the elimination of the restrictions on use of PAYG on national rail services.

There is broad agreement within TfL that this is the only feasible path open to us.

6. Withdrawal of paper products

Despite the widespread use of Oyster we continue to offer a paper alternative to some products. These legacy products cause complexity in the fares structure and make it harder to present a simple customer proposition. For example, the fares system is currently cluttered with 270 different fares products, of which only 44 are sold. The top 10 products account for 99% of sales and the top 20 for 99.9% of sales.

These products cause more than system complexity though. Paper products are typically more expensive to retail and more prone to fraud and misuse.

Some paper products also have a dependency on ticket offices. For example, child rate accompanied One Day Travelcards are sold for £1 only from ticket offices. For Londoners this is a redundant product as children under the age of 11 travel free on TfL services and above the age of 11 children generally have an Oyster card where a range of cheap fares are on offer in addition to free travel on buses.

The most recent experience of withdrawing a paper product was with the Bus Saver Ticket that was withdrawn in September 2008. This resulted in no complaints.

It is now proposed to withdraw more paper products. The proposal for each of these products is outlined in Table 1. Each of these proposals result in savings in commissions or reduction in fraud.

We estimate that the fraud and commission savings from these changes will be around £5m in 2010 and, following withdrawal of One Day Travelcards completely, more than £7m.

7. Conclusions and decisions sought

Based on all of the factors explained in this paper the Mayor is asked to agree:

- Planning for a fares freeze in January 2010.
- Removal of the 50p discount on daily capping
- Withdrawal of the paper products as detailed in Table 1

Table 1: Proposal for paper tickets

Product	Current sales	Proposal	Rationale	Savings
One Day Travelcards	230,000 per day; of which approx. 23,000 are sold from Oyster Ticket Stops	Withdraw from Oyster Ticket Stops in Jan 2010	High commission products – 5%; substitute available with Oyster PAYG once Oyster launches on national rail	c. £1.2m p.a in commissions £0.5m-1m in fraud reduction
		Withdraw from LU stations in 2011?	Subject to numbers becoming more manageable; need to cater to tourist trade	£2m? p.a. in fraud reduction
One Day Bus Passes	11,000 per day, mostly from Oyster Ticket Stops	Withdraw product from Jan 2010	High commission products – 5%; substitute already available with Oyster PAYG	£0.4m p.a. in commissions
Child rate Travelcards	£1 accompanied tickets: 5,000 per day	Withdraw product completely	Marginal product; One Day Cap on child cards provides equivalent value for Londoners; high scope for fraud and misuse	c.£1.5m p.a. in revenue/fraud reduction
	£2 tickets: 15,500 per day; of which 5,300 from Oyster Ticket Stops	Stop sales from Oyster Ticket Stops along with other paper products	Removal in line with One Day Travelcards; high proportion of sales at Oyster Ticket Stops indicates fraud	c.£1.5 in fraud reduction/commissions
Three Day Travelcard	Marginal	Withdraw product completely	Largely redundant product now with high usage of PAYG	Marginal
				Total: c.£7.1m-7.6m p.a.

RPI versus RPI+1% fares in 2013

Draft October 25 2012

This note examines the differences between TfL fares packages of RPI and RPI+1% for January 2013.

Background

The retail prices index for the benchmark month of July 2012 was up 3.2% on the value the previous year. This means that an RPI fares increase in January equates to a 3.2% increase overall and an RPI+1% increase to 4.2%.

Travelcard prices

Travelcard prices must be agreed with the Train Companies. Their fares target for 2013 has now been reduced by the government to RPI+1% from RPI+3%.

It is proposed to adopt an RPI+1increase for the Travelcard whether or not the overall TfL package aims for RPI or RPI+1.

The reason for this is that the Train Companies are remitted to seek an RPI+1 increase overall. If compelled to adopt RPI only, the Companies would simply increase their other London fares disproportionately.

Some 75% to 80% of Travelcard users are ABC1. The Travelcard accounts for around a half of Tube fares income and around a third of bus fares income.

A typical weekly Travelcard costs £40, and will increase by around £1.60 whether or not the overall package adopted is RPI or RPI+1.

TfL Rail only fares - PAYG.

For TfL rail, the other major source of fares income is PAYG. Rail PAYG fares will increase by just over 4% (like the Travelcard) if an RPI+1 overall target is agreed but by only just over 2% if the overall fares target is RPI or 3.2%

Some 80% of rail PAYG users are ABC1.

Table 1 shows that with the RPI package most PAYG fares increase by 10p only with some fares frozen. With the RPI+1 package, some peak fares increase by 20p.

Bus only fares

Aside from the Travelcard, bus fares income comes from PAYG and the Bus and Tram season. Proposed bus fare increases with the RPI and RPI+1 packages are shown in Table 2. Essentially, the RPI only package means the 135p PAYG singe fare can be frozen; whereas it increases by 5p to 140p under the RPI+1 package.

Nearly 60% of bus PAYG users are ABC1.

Fares Yields

The RPI+1 package is estimated to yield some £134m in a full year. The RPI package yields some £109. See Table 3.

Impacts on typical Londoners and typical households

Annex A and Annex B give examples of the fare changes for typical users and families. Annex C shows trends in the proportion of Londoners' disposable income absorbed by fares, which was 2.8% in 2011.

Table 1: TfL Rail PAYG fares proposed increases in Jan 2013

	2012 prices	Increase (pence)	
		RPI package	RPI+1 package
Peak			
No. of zones including Zone 1			
1	£2.00	10	10
2	£2.70	10	10
3	£3.10	10	10
4	£3.60	10	20
5	£4.40	10	20
6	£4.80	10	20
No. of zones excluding Zone 1			
1 or 2	£1.50	-	10
3	£2.20	10	10
4 or 5	£2.60	10	10
Off peak			
No. of zones including Zone 1			
1 or 2	£2.00	-	10
3 or 4	£2.60	10	10
5 or 6	£2.90	10	10
No. of zones excluding Zone 1			
up to 5	£1.40	-	10

Table 2: TfL bus fares proposed increases in Jan 2013

	2012 prices £	RPI Package pence	RPI+1 package pence
PAYG single	1.35	-	5
Day cap	4.20	20	20
Cash single	2.30	10	10
7 Day Pass	18.80	80	80

Table 3: Revenue yields from the 2 January 2013 fare changes

	Bus		Tube		London Rail	
	RPI	RPI+1	RPI	RPI+1	RPI	RPI+1
	£mpa	£mpa	£mpa	£mpa	£mpa	£mpa
Price effects						
Cash single	2	2	2	4		
PAYG	12	23	20	38		
Bus and Tram season tickets	12	12	-	-		
Travelcards	11	11	41	41		
Total yield from higher prices	37 +3.2%	48 +4.2%	63 +3.2%	83 +4.2%	9 +3.2%	12 +4.2%
Losses due to higher fares after allowing for inflation	0	-3	0	-5	0	-1
Final revenue yield	37	45	63	78	9	11

Annex A

Effects of RPI and RPI+1 fare rises for typical Londoners

Tube commuter using monthly Travelcard season from Zone 4 into Zone 1 - lives in Woodford (Zone 4) and travels to work each weekday in Westminster. He also makes a number of Tube and bus journeys at weekends and during evenings. He currently pays **£160.60** per month for the Travelcard which covers all his journeys. In January this will increase by **£6.90** to £167.50 **under either RPI or RPI+1 scenario.**

If this commuter has a net income of £40,000 p.a. in 2013, travel costs under either option will represent 5.03% of after-tax income.

Bus commuter Zones 1-2 – lives in Camberwell with work split between home and 2-3 days a week in the office in Victoria. He currently pays **£2.70** for the return journey – using Oyster PAYG. However, from 2 January 2013, user will pay **£2.80 per day under the RPI+1 scenario.** Fares are frozen under the RPI scenario.

If this commuter has a net income of £20,000 p.a. in 2013, travel costs under the RPI option will represent 1.76% of after-tax income, or 1.82% under the RPI+1 option.

Bus commuter and leisure user with a Weekly Bus and Tram Pass – lives in Bromley and travels to work in Croydon each day on the bus. He regularly travels after work to socialise with friends so purchases a seven day Bus and Tram Pass each week. This currently costs **£18.80**, but in January this will increase by **80p** a week to £19.60 under either RPI or RPI+1 scenarios.

If this commuter has a net income of £30,000 p.a. in 2013, travel costs under either option will represent 3.40% of after-tax income.

Regular multi-modal commuter, bus and Tube – lives in Putney Bridge (Zone 2) and on a relatively regular basis makes multiple journeys on the Tube, bus and National Rail services in Zones 1 and 2. He prefers the flexibility of Oyster PAYG and on a weekday currently pays a maximum of **£8.40,** or **£7.00** if his first journey starts after 09:30. (The £7 day cap applies at any time at weekends.) These amounts **will not change** in January, although if he does not travel enough to reach the day cap he will pay 10p more for each Tube journey - and 5p more for each bus journey under the RPI+1 scenario.

If this commuter has a net income of £50,000 p.a. in 2013, travel costs under the RPI option will represent 5.80% of after-tax income, or 5.93% under the RPI+1 option.

Annex B

Effects of RPI and RPI+1 fare rises on typical households

Single professional, no children, lives in Zone 2 and works in central London.

Tube commuter with monthly Zone 1-2 Travelcard

This also covers leisure travel by Tube and bus within Zones 1 and 2.

2012 cost per month: £112.20; 2013 cost per month: £116.80 (+4.1%)

Increase applies under the RPI and RPI+1 scenarios.

If this commuter has a net income of £30,000 p.a. in 2013, travel costs will represent 4.67% of after-tax income under either option.

Single parent with two school age children, lives and works full time in Zone 6

Bus commuter holds a monthly Bus & Tram Pass. Children take bus to school so travel free.

2012 cost per month: £72.20; 2013 cost per month: £75.30 (+4.3%)

Increase applies under the RPI and RPI+1 scenarios.

If this commuter has a net income of £15,000 p.a. in 2013, travel costs will represent 6.02% of after-tax income.

Two parent family living in Zone 4.

One parent works full time in the City travelling by Tube. The other works locally two days a week, travelling by bus, and makes occasional Tube journeys into Zone 1.

Older child age 19 attends college in Zone 2, travelling by Tube. Younger child age 15 attends school locally, travelling by bus.

2012 cost per month - £262.90 composed of:

1. full time commuter - £160.60 (Zone 1-4 Travelcard Season)
2. part time worker – £37.40 (20 bus PAYG + 4 off-peak Z1-4 Tube PAYG journeys)
3. older child - £64.90 (Zone 2-4 Travelcard with 30% discount)
4. younger child – free

2013 cost per month - £273.90 (+4.2%) composed of

1. Full time commuter - £167.50 (+4.3%)
2. Part time worker – £38.80 (+3.7%)
3. Older child – £67.60 (+4.2%); younger child – free.

If this household has a net income of £60,000 p.a. in 2013, travel costs under the RPI option will represent 5.45% of after-tax income, or 5.48% under the RPI+1 option.

Annex C

London public transport fares related to trends in disposable income

Year	London households				London public transport weekly					Fares revenue as % of household income		Fares revenue per jny as % of weekly household income	
	Number	Average size	Average weekly income Disposable	Average weekly income Gross	Fares revenue	Journeys	Revenue per jny	Journeys per h'hold	Fares rev per h'hold	Disposable	Gross	Disposable	Gross
	m		£	£	£m	*m*	*p*		£	%	%	%	%
2001	3.04	2.42	602	752	40.4	48.4	83.6	15.9	13.3	2.2%	1.8%	0.139%	0.111%
2002	3.07	2.39	587	736	41.1	50.4	81.7	16.4	13.4	2.3%	1.8%	0.139%	0.111%
2003	3.09	2.40	591	740	41.2	53.5	77.0	17.3	13.3	2.3%	1.8%	0.130%	0.104%
2004	3.11	2.40	592	743	45.9	57.9	79.3	18.6	14.8	2.5%	2.0%	0.134%	0.107%
2005	3.15	2.40	609	766	48.3	58.3	82.8	18.5	15.3	2.5%	2.0%	0.136%	0.108%
2006	3.18	2.39	647	818	51.9	58.0	89.5	18.2	16.3	2.5%	2.0%	0.138%	0.109%
2007	3.21	2.39	658	834	55.9	63.1	88.6	19.7	17.4	2.6%	2.1%	0.135%	0.106%
2008	3.24	2.39	712	900	58.5	65.3	89.6	20.1	18.0	2.5%	2.0%	0.126%	0.100%
2009	3.27	2.40	738	940	60.1	65.6	91.6	20.1	18.4	2.5%	2.0%	0.124%	0.097%
2010	3.31	2.40	776	982	66.1	66.7	99.0	20.2	20.0	2.6%	2.0%	0.128%	0.101%
2011	3.27	2.50	798	1009	73.4	68.8	106.7	21.1	22.5	2.8%	2.2%	0.134%	0.106%
Change 2001-2011	7.6%	3.6%	32.5%	34.2%	81.5%	42.2%	27.6%	32.2%	68.7%	27.4%	25.7%	-3.7%	-4.9%

Estimated number of households: from Department for Communities and Local Government up to 2010; from Census data in 2011.

Population estimates used to calculate household size are from the GLA 2011 round of projections up to 2010, Census data in 2011.

Household average weekly income estimates are from ONS Family Expenditure Survey up to 2010. The 2011 figures are estimates based on the ONS Annual Survey of Hours and Earnings.

Fares revenue and journeys include all Bus, Tube and NR fare payers except those buying Travelcards from NR stations outside London.

DRAFT & CONFIDENTIAL

TRANSPORT FOR LONDON

MAYORAL BRIEFING

SUBJECT: **BUSINESS PLAN AND FARES ASSUMPTION**

DATE: **6 SEPTEMBER 2012**

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1 PURPOSE

1.1 The purpose of this note is to provide a briefing on the development of TfL's Business Plan; in particular to discuss the fares assumptions made in the Plan. A separate paper on the agenda considers specific fares proposals for January 2013.

2 BUSINESS PLANNING AND FARES

2.1 We are currently developing a revised Business Plan for submission as part of the Mayor's Budget process in November, with formal publication in December. The revised plan will incorporate delivery of Mayoral manifesto pledges and update for changes since publication of the last fully updated Plan in 2011.

2.2 Proposals for a revised Plan will be considered at an informal briefing session for TfL Board members on 25 September and submitted for approval at a public meeting of the Board on 12 December. The presentation of the plan will need to be co-ordinated with publication of the London 2020 document and considered as part of discussions with Government in 2013/14 on future grant and borrowing levels.

2.3 We develop our Business Plan over a ten year rolling cycle, which is important given the long lead time of major transport investments such as Tube line upgrades and major road schemes. However, we have generally published plans only to the period of TfL's funding settlement with Government (currently to March 2015). It may be appropriate this year to publish a longer term plan as part of the preparations for the next Spending Review.

2.4 Clearly over such as long period there are many funding uncertainties and we therefore need to base the plan on such assumptions. These assumptions can then be revisited as part of the annual updating of the plan. We have currently developed the following assumptions as a central funding scenario:

- <u>Savings</u>: We have assumed we will continue to deliver a 2.5% per annum reduction in TfL operating costs on top of the savings of £1.3bn in 2012/13, £1.5bn in 2013/14 and £1.6bn in 2014/15 already embedded in TfL's plans. (These figures include the £135m in 2012/13 and £270m in 2013/14 already committed as part of the last two Continuous Savings Exercises.) We believe such savings can be delivered without impacting core services. This commitment delivers an extra £3.3bn of funding over the period 2014/15 to 2021/22.

- Commercial income: A greater focus on commercial income (e.g. property, advertising, sponsorship) is projected to increase receipts from £200m in 2011/12 to over £300m in 2021/22, generating an additional £1bn over the period.

- Contingency: Based on recent years' experience, where we have delivered capital projects without needing to draw on contingency, we can release £500m of contingency from the plan to deliver new investment. This leaves overall contingency of around £700m, which we believe is prudent for the size of the investment programme. In addition, recognising that many factors can cause delays in expenditure on capital investment, we will increase the provision for under-delivery of capital programmes to £200m in each of 2013/14 and 2014/15. We will revisit assumptions for future years in future developments of the plan.

- Government grant: As a central case we have assumed that Government investment grant is held constant in real terms from 2014/15 but that general grant (including the transfer to business rate funding) is cut in line with the Chancellor's announced reductions in overall public expenditure (i.e. a cut of 3.8% a year). This assumption is broadly in line with the outcome of the 2010 Spending Review which saw investment funding protected but general grant cut in line with general government spending. We will of course argue our case for specific investment in the next Spending Review but equally the Treasury may be looking for deeper cuts to meet debt reduction targets.

- Fares: Our central case assumes a policy pegged to national rail fares policy. Thus we have assumed RPI+2% in January 2013 and January 2014, when national rail fares are announced to increase at RPI+3%. We would not expect to implement these fare increases but to receive additional funding if DfT succeed in their discussions with the Treasury to hold fares increases to RPI+1%. Beyond 2014, we have assumed fare increases of RPI+1% in this scenario and we go on to discuss the impact of lower fares policies below. The Business Plan assumption on fares does not constrain the Mayor's annual decision but it does represent an important context and will be seen as an indication of future intent.

3 INITIAL PROPOSED BUSINESS PLAN CONTENT

3.1 As highlighted above, the Business Planning round is in its early stages. While further refinement of programmes' cost and scope is required, this funding position would support the delivery of the following highlights:

As the current Business Plan intends:

- The ongoing maintenance and renewal of TfL's assets to deliver the lowest whole-life cost
- The operation of our current services
- The construction of Crossrail by 2018
- The completion of the Northern line by December 2014 and Sub-Surface lines upgrade by 2018
- The roll-out of the 600 New Bus for London vehicles by 2016

- The completion of congestion relief schemes already underway (Bond Street, Victoria, Paddington, Tottenham Court Road)
- The New South London line by the end of this year
- The introduction of contactless payment on all TfL modes

New items in addition to current Business Plan:

- The funding required to meet the 30% improvement in reliability by 2016 set for London Underground and funding to ensure that the DLR and Tramlink continue to operate reliably.
- The Deep Tube Programme, replacing the trains and signalling on the Central, Piccadilly, Bakerloo and Waterloo & City lines, with air-conditioning on upgraded lines and automation on Piccadilly and Central lines.
- Major investment in London's roads to increase capacity and maximise the reliability of the network for all road users, including implementing schemes through the Mayor's Congestion Blackspot fund.
- Cycle safety measures including one hundred junction reviews and an east-west cycle superhighway, cycle hire phase 3 and funding to improve cycling on borough roads.
- Capacity enhancements to the Northern line, Jubilee line and the London Overground, including an additional car on all Overground trains.
- The development and, with tolling once operational, construction of the new Silvertown tunnel and replacement to the Woolwich ferry at Gallions Reach
- Completion of projects related to growth areas, including Elephant & Castle, Tottenham Hale, Kennington and Woolwich together with Roads related schemes such as at A13 Renwick Road, Fiveways at Croydon and Old Street roundabout
- The major congestion relief scheme at Bank and the beginning of funding for other overcrowded stations, likely to include Holborn, Victoria (District & Circle) and Paddington.
- The investment required to ensure that should Rail Devolution for South Eastern and West Anglia be granted to TfL we can deliver the service promised.
- Maintaining from 2016 the level of funding for policing and the amount given to the London Boroughs through the LIPs.

3.2 The above list represents our judgement of the most balanced business plan proposition, but (subject to further analysis) does not meet all desired outcomes. It does not provide funding for expansion of the bus network, major DLR or Tramlink network extensions and the improvements in air quality and environmental measures is quite limited.

3.3 The above package includes funding for a number of projects designed to unlock the growth of development across London. There is £200m earmarked for roads investment to promote growth and £130m for LU and Crossrail projects (including those listed above). This is distinct from the suggestion of a fund which could enable borrowing against development-related receipts generated by the GLA and the Boroughs, which is being discussed separately.

3.4 If reduced funding was available, further prioritisation would have to take place. Specifically, if fares were only increased by RPI+1% in January 2013 and 2014, this would lose around £600m of funding. This is broadly equivalent to:

- Bank Station Upgrade; or
- Northern Line Upgrade 2 & additional Jubilee Line trains; or
- Safer and Expanded Cycling; or
- Tube and Road Network reliability improvements

3.5 If Fares were only increased by RPI only throughout the plan period, this would lose around £2.2bn of funding, broadly equivalent to all the items listed in the paragraph above.

4 NEXT STEPS

4.1 Work continues on the Business Plan process, with a Board members session planned on 25 September. This will take attendees through the process to date, highlighting the challenges and assumptions made, together with the proposition for the Business Plan.

4.2 We recommend agreement to the funding assumptions outlined in this paper for further discussion with the Board. If DfT are not successful in securing additional funding to limit fare increases to RPI+1%, we would revert to an assumption of RPI+1% and re-prioritise schemes as suggested in paragraph 3.3 above.

Appendix – Cash detail of funding and options

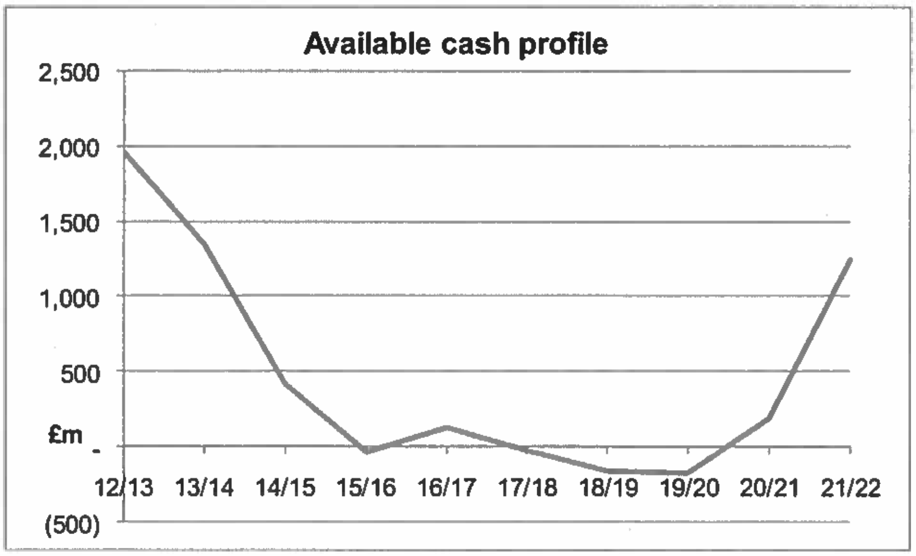
CONFIDENTIAL: Business Plan proposition - work in progress

		10 year Total
Total 10 year funding available from existing Business Plan		**6,912**
	includes 600 New Bus for London vehicles by 2016	
Amend for:		
	Unspent CSE3 savings	745
	Unspent CSE4 savings	1,339
	LIPS reduction reversal	(295)
	Policing funding reversal	(244)
Revised forecast to deliver existing Business Plan outputs under existing funding		**8,458**
Business Planning Funding Option Changes:		
	Reduce Fares assumption to RPI+2% for 2 years, then RPI+1% from Jan 2015	(1,092)
	Reduce Grant so Investment Grant protected, General Grant falls by 3.8% p.a.	(2,199)
	Include New Savings Programme - c2.5% of controllable operating expenditure	3,335
	Include additional Commercial Development income	500
	Include reduction in Project Contingency held	526
	Include additional Overprogramming assumption	200
Cash available to use for Business Planning 'Building Block' Options		**9,728**
Business Planning Options Chosen		
E1	Meeting 30% London Underground reliability 2016 target	(281)
C5a	Deep Tube Programme, replacing trains and signalling on Central, Piccadilly, Bakerloo and W&C lines	(3,027)
A1/A2/A3a	Major investment in London's roads to increase capacity and maximise the reliability for all road users, together with supporting growth areas such as schemes as A13 Renwick Road, Fiveways at Croydon and Old Street Roundabout	(1,464)
A5/A6	Cycle safety and growth measures including 100 junctions, E-W Superhighway and Cycle Hire	(640)
D1/D2	Capacity Enhancements to the Northern, Jubilee, and Overground Lines	(1,039)
H2	Development, and with tolling, construction of new Silvertown Tunnel and replacement to the Woolwich Ferry at Gallions Reach	(140)
G5	Completion of station projects related to growth areas including Elephant & Castle, Tottenham Hale, Kennington and Woolwich	(127)
G1/G4	Major congestion relief schemes at Bank and other stations (likely to include start of work at Holborn, Victoria (District & Circle) and Paddington	(760)
J1/J2	Investment required to ensure service promised through Rail Devolution can be delivered	(226)
A4	Road Safety improvements including delivery of 70 RSAP actions, innovative technology and targeted	(100)
B1	Bus Network growth & reliability beyond 2015	(238)
B3	Improvement to Bus Infrastructure such as Bus Stations and Shelters	(60)
F1	Responding to Environment challenge	(90)
G3	Crossrail station complementary measures such as Walking, Cycling and Urban Realm improvements	(30)
H3	Northern Line Extension	-
D3/H8	Tramlink - address Wimbledon pinchpoint and DLR Double Tracking	(77)
J3	LU Station Transformation - Improved ticketing machine provision	(73)
J8	Low cost accessibility improvements including making more bus stops accessible	(20)
J9	Bus Driver Customer Service Additional Training	(48)
J10	Putting Customers at the heart of TfL by improving transparency and making TfL easier to deal with	(9)
K1	IM life expired desktop computers replacement	(30)
		(8,476)
Remaining cash available (in 2021/22)		**1,252**

[redacted]

Highest Priorities not currently funded		
F1/F2/F3	Additional Environmental Improvements	(318)
G7/J8	Improved Accessibility Works	(297)
J3/J4/J5	Customer Transformation	(253)
	Travel Demand Management	TBC
B1	Bus Network expansion	(450)
H8	Tramlink extension to Crystal Palace	(160)
H7	Tramlink extension to Sutton	(220)
H5	DLR extension to Bromley	(239)
H6a	DLR extension to Dagenham Dock	(700)
H6b	Dagenham Dock road scheme	(100)
	Total Cost of options not currently funded	**(2,736)**

Appendix – Cash remaining profile after funding and options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2,500
2,000
1,500
1,000
500
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-
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12/13
13/14
14/15
15/16
16/17
17/18
18/19
19/20
20/21
21/22

TRANSPORT FOR LONDON

MAYORAL BRIEFING

SUBJECT: **JANUARY 2013 FARES**

DATE: **6 SEPTEMBER 2012**

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1 PURPOSE

1.1 This note considers options for the TfL fares revision in January 2013. A separate paper on the agenda considers the fares assumptions to be taken in the TfL Business Plan for the years after 2013.

2 BACKGROUND

2.1 The existing TfL Business Plan assumes an annual fares increase of RPI+2%. Fares revisions in January are generally based on the published RPI for the preceding July, which was 3.2%.

2.2 Under the current DfT policy, national rail fares are due to be increased by RPI+3% in January 2013 and 2014, before reducing to RPI+1% in 2015. Travelcards are part of the DfT regulated fares basket so the London Train Operating Companies will seek an increase to Travelcard prices in line with the general increase in national rail fares.

2.3 There has been considerable public pressure to reduce the national rail increases. It is possible that, as last year, the Treasury funds DfT to accept a lower increase (most likely RPI+1%). In that case, we would press for DfT to pay additional grant to TfL to fund the difference between RPI+2 and RPI+1. It would be important not to make any announcement on TfL fares ahead of clarity on whether such funding might be available

2.4 Based on these considerations and choices made on TfL's fares there are essentially four key outcomes as listed in the table 1 below.

Table 1: Summary of fares options

NR increase	RPI+3%= 6.2%		RPI+1%= 4.2%	
TfL increase	RPI+1%= 4.2%	RPI = 3.2%	RPI+1%= 4.2%	RPI = 3.2%
Travelcards	RPI+3%	RPI+3%	RPI+1%	RPI+1%
Tube PAYG single	some 10p increases	freeze	10p to 20p increases	some 10p increases
day cap	freeze	freeze	freeze	freeze
Tube cash single	440p/550p (+10p/20p)	freeze	450p/550p (+20p)	440p/540p (+10p)
Bus & Tram PAYG single	140p (+5p)	135p (no change)	140p (+5p)	135p (no change)
day cap	430p (+10p)	430p (+10p)	440p (+20p)	440p (+10p)
Bus & Tram cash single	240p (+10p)	240p (+10p)	240p (+10p)	240p (+10p)
Bus & Tram 7 Day Pass	£19.60 (+80p)	£19.60 (+80p)	£19.60 (+80p)	£19.60 (+80p)
TfL revenue yield £m pa	£134m	£108m	£134m	£108m

Ticketing context

2.5 The forthcoming roll out of Wave and Pay bank card acceptance – on buses from early 2013; and on rail from early 2014 will reduce the need for printed tickets and open the way for a major streamlining of TfL's ticketing

2.6 Following the launch of Wave and Pay on buses, an option is presented to introduce cashless bus operation from mid 2013. Progressive measures are also outlined to greatly reduce printed ticket use on the Tube. By 2016, the vision is that nearly all transactions on TfL's services will be smartcard based, using either TfL's own cards, cards issued by the National Rail companies or contactless bank cards. Most customer services would be provided automatically or on-line.

3 TFL RAIL FARES IN JANUARY 2013

3.1 For January 2013, if DfT remain with a RPI+3% fares policy, it is proposed that TfL agrees to Travelcard prices increasing by RPI+3% ie by 6.2%, as set out below in Tables 2a and 2b below. Permitting Travelcard prices to increase in this way avoids the risk of the Train Companies increasing their own PAYG fares by the maximum permitted amount (of RPI+3%+5% or around 11%) in order to achieve the revenue targets set by DfT. It also allows the fares controlled directly by the Mayor (cash and PAYG) to be increased by less and the one day caps corresponding to the One Day Travelcard tickets to be frozen at 2012 prices.

Table 2a: Travelcard seasons – 7 Day ticket prices
RPI+3 increases in January 2013

	2012	2013	Increase
Zones inc Zone 1			
2	£29.20	£31.00	6.2%
3	£34.20	£36.40	6.4%
4	£41.80	£44.40	6.2%
5	£49.80	£52.80	6.0%
6	£53.40	£56.80	6.4%
Zones exc Zone 1			
2	£22.00	£23.40	6.4%
3	£24.20	£25.80	6.6%
4	£29.00	£30.80	6.2%
5	£36.40	£38.60	6.0%

Table 2b: One Day Travelcard prices
RPI+3 increases in January 2013

	2012	2013	Increase
Anytime			
1-2	£8.40	£9.00	7.1%
1-4	£10.60	£11.20	5.7%
1-6	£15.80	£16.80	6.3%
Off-peak			
1-2	£7.00	£7.40	5.7%
1-4	£7.70	£8.20	6.5%
1-6	£8.50	£9.00	5.9%

3.2 Table 3 sets out the cash yield for differing levels of fares increase overall compared with the existing Business Plan assumption of RPI+2%.

Table 3: Indicative yields from alternative January 2013 fare increases

	Base revenue £m	£m yield with fare increase of..			
		RPI+2 (5.2%)	RPI+1 (4.2%)	RPI (3.2%)	TfL-only freeze
Bus & Tram	1,180	54	46	38	16
TfL Rail	2,229	105	88	70	70
TfL total	3,409	159	134	108	86

All options assume Travelcard prices increase by RPI+3 (6.2%).

3.3 If TfL is seeking to raise fares overall by RPI+1% and Travelcards are increasing by RPI+3%, the fares set out in Table 4 would deliver the required yield of £88m.

Table 4: PAYG fares on TfL rail services – with RPI+1 overall TfL increase

	2012		2013		Increase - pence		Increase - %	
	Peak	Off-peak	Peak	Off-peak	Peak	Off-peak	Peak	Off-peak
Zones inc Zone 1								
1	£2.00	£2.00	£2.10	£2.00	10	-	5.0%	-
2	£2.70	£2.00	£2.80	£2.00	10	-	3.7%	-
3	£3.10	£2.60	£3.20	£2.70	10	10	3.2%	3.8%
4	£3.60	£2.60	£3.70	£2.70	10	10	2.8%	3.8%
5	£4.40	£2.90	£4.50	£3.00	10	10	2.3%	3.4%
6	£4.80	£2.90	£4.90	£3.00	10	10	2.1%	3.4%
Zones exc Zone 1								
1	£1.50	£1.40	£1.50	£1.40	-	-	-	-
2	£1.50	£1.40	£1.50	£1.40	-	-	-	-
3	£2.20	£1.40	£2.30	£1.40	10	-	4.5%	-
4	£2.60	£1.40	£2.70	£1.40	10	-	3.8%	-
5	£2.60	£1.40	£2.70	£1.40	10	-	3.8%	-

Note: The table shows PAYG price increases needed to achieve an RPI+1% increase across all ticket types if Travelcard prices increase by RPI+3%. PAYG caps including rail travel are frozen.

3.4 Finally, if the TfL fares target is RPI, it will be possible to freeze TfL rail single fares and the associated one day caps. This RPI package will yield around £70m pa across LU, the DLR and LOROL giving the required yield set out in Table 3.

3.5 Should the Train Companies be given a revised RPI+1% target in the autumn, the proposed Travelcard season ticket increases would also be scaled back. The proposals for TfL single fares would then be adjusted to achieve the overall TfL fares target. Oyster one day caps would be frozen.

3.6 Creating a differential between the One Day tickets and the Oyster caps reflects the longer term vision of encouraging Oyster use and eliminating most printed ticket sales. The fare paid by PAYG users, typically 200p per Tube trip, would also move closer to that for the Travelcard - which is around 160p per Tube trip. This would create a more level playing field for part-time workers, for example.

<u>TfL rail fares and ticketing in the later years to 2016</u>

3.7 It is proposed that a similar approach to TfL rail fare setting is maintained throughout the period to 2016. Travelcard prices would reflect the National Rail target while other fares would be held down where possible, depending on the overall TfL target adopted.

3.8 The major change to rail ticketing in the period to 2016 will come with the start of contactless bank card acceptance for PAYG rail travel in 2014. This will make PAYG more attractive – particularly amongst visitors and less frequent users. There will be no need to get an Oyster card before travelling and no need to top-up every few rides

3.9 As customers switch to the new bank card offer, TfL's ticketing costs will fall while new users will grow fares revenue. Sales of printed magnetic tickets will diminish, helping reduce congestion at stations and queues at ticket offices. As demand falls, one day printed tickets would be gradually withdrawn, with such tickets withdrawn completely by 2016. The one day caps would remain in place.

4 BUS AND TRAM FARES IN JANUARY 2013

4.1 Table 5 illustrates the increases in bus only fares needed to achieve overall bus fares yields of RPI or RPI+1% in January 2013 (3.2% and 4.2% respectively). The increases yield between some £38m and £46m pa in 2013, as indicated in Table 3.

Table 5: Bus and Tram fares prices with lower overall increases

	2012	2013 – RPI+1 increase			2013 – RPI increase		
	Price	Price	Pence	%	Price	Pence	%
PAYG - single	£1.35	£1.40	5	3.7%	£1.35	-	-
PAYG – one day cap	£4.20	£4.30	10	2.4%	£4.30	10	2.4%
Cash - single	£2.30	£2.40	10	4.3%	£2.40	10	4.3%
7 Day Bus and Tram Pass	£18.80	£19.60	80	4.3%	£19.60	80	4.3%

Note: The table shows bus and tram ticket price increases needed to achieve overall increases across all ticket types of RPI+1% or RPI if Travelcard prices increase by RPI+3%.

4.2 The RPI+1% target requires the PAYG bus single fare to increase by 5p to

4.3 140p. This fare can be frozen with the RPI only fares target. If all bus only fares, including the bus cash single fare and the Bus Pass price, are frozen, the overall bus yield is under 1.5% - less than inflation – even with Travelcard prices increasing by RPI+3%. This is because Travelcard income is less important to buses than to the Tube. The overall TfL increase if all bus only fares and all TfL rail fares are frozen is around 2.6%. This increase yields some £86m pa in 2013, as shown in the last column of Table 3.

5 OTHER FARE OPTIONS

5.1 Other options which could be considered for introduction in 2013 include reduced bus transfer fares (proposed by Assembly members), cashless bus operation and child bus fares.

Bus transfer fare option

5.2 A bus transfer discount would comprise a reduced PAYG fare charged when a second bus trip is started within an hour of an initial full fare trip, again perhaps starting at 90p in 2013. The second bus discount could be of any size and could be increased over time to give a half or ultimately a free transfer facility. The standard fare would apply to a third bus trip starting within an hour of the first. However, the new trip would open a further one hour window during which a trip would qualify for the transfer discount

5.3 Introducing a reduced fare of this kind for bus transfers would be a major step towards resolving the current anomaly whereby PAYG bus journeys of similar length attract higher fares if no direct bus service is available. This penalty does not apply in the case of Bus Passes or Travelcards or in the case of Tube single fares. As well as being a significant source of customer complaint, this would relieve one of the constraints on bus network planning.

5.4 Transfer discounts would also help level the playing field in terms of fare paid per ride between the Bus Pass season and PAYG. Fare per ride is currently around 60p for Bus Pass seasons and over 100p for PAYG bus trips, even after allowing for daily capping.

5.5 The costs of offering a free transfer would be substantial – over £50m pa at current fares. This is one reason why phasing in the discount to offer a free transfer by 2016, say, looks attractive. By 2016, the further option of offering free travel for all bus rides begun within an hour – essentially providing a one hour bus fare - should be technically possible. This would notionally cost a further £10m to £20m pa on top offering a free transfer confined to the second ride.

Cashless bus operation

5.6 Only around 1% of bus journeys are now made with cash, with sales currently down 20% year on year. Cash sales are now so low that Surface Transport is planning to withdraw the current road-side ticket machines. Wave and pay acceptance on buses is planned from early 2013 and will provide a new alternative for many cash users. It is therefore proposed that the bus cash fare, currently £2.30, would be withdrawn on buses from mid-2013. This will improve operational efficiency.

5.7 A neutral fares revenue outcome is projected. Losses due to the withdrawal of the high cash fare are forecast to be offset by new traffic generated during 2013 and 2014 by bank card acceptance.

5.8 Proposed investment in new driver ticket machines would then not be needed. Garage based coin handling procedures would cease to operate. Bus drivers would no longer need to manage a cash float when on duty or spend time "paying-in" at the end of their shifts. Bus service quality should improve at the margin. It is estimated that these effects should result in net financial benefits worth over £20m pa by 2016.

5.9 At times customers may not have a ticket or other means to pay for travel at times when the off-system retail network is largely closed. In order to meet the challenge from this it is proposed that Oyster top-up devices would be installed at key interchanges and procedures for customers unable to pay their fare late at night extended.

Child bus fares

5.10 A final option would be to introduce PAYG bus fares for most children over the age of 11 (who currently hold Zip cards). The proposal aims to reduce the large number of very short bus journeys generated by free bus travel. This would relieve pressure on peak bus services and reduce the need for additional capacity as demand grows.

5.11 Free travel would continue to be provided from 7am to 7pm Monday to Friday for all groups up to and including age 18 listed by the 2006 Transport Act: more details are given in Annex B. Under the proposals, all under 11s would continue to travel free while most 11-15s would pay quarter rate or 35p at current fares. Most 16-18s would pay half fares or 70p. Annex A sets out the detailed reasoning behind the proposals.

5.12 Zip card holders now constitute around 30% of morning peak bus traffic. See Diagram A1. Many of these journeys are very short. Around 1 in 3 journeys are for rides of a mile or less, and could reasonably be made on foot or by cycle, particularly by the 16-18 age group.

5.13 The legal duty to fund free travel for young people in the 2006 Act categories rests with their local Boroughs. However, in assessing the financial impact of charging fares, it has been assumed that all free bus travel in London would continue to be funded by the mayor/TfL and that TfL would not seek to recoup the cost of free travel from the Boroughs.

5.14 Charging would be phased-in, starting with the 16/17 group in September 2013. For the 11 to 15s, it is envisaged that existing free travel Zip cards would be allowed to expire but that from January 2014, all 11-15 cards would be issued on the new basis.

5.15 Administrative arrangements would be put in place to cater for those 11 to 18 year olds covered by the 2006 Act exemptions, with the local Borough responsible for verifying eligibility. Overall, travel concessions for young people in London would remain more generous than elsewhere in the UK; and more generous than in virtually any major city in the world.

5.16 Once fully implemented, it is estimated that the new fares proposed would raise over £60m pa. This additional revenue could be used to support lower fares generally or to help fund the new concessions for apprentices and the over 60s to be launched over the next 12 months.

6 SUMMARY AND FINANCIAL MODELLING

6.1 The RPI and RPI+1% options, with many TfL only fares frozen or increased by less than inflation, significantly reduce the revenue projected in the current Business Plan. Table 6 shows the impact on the years to 2016.

Table 6: Effect of fares increases of RPI and RPI+1 on TfL revenue - £m

		2012/13	2013/14	2014/15	2015/16	2016/17
RPI+1 instead of RPI+2	TfL Rail	-4	-22	-42	-65	-90
	Bus & Tram	-2	-11	-22	-33	-45
RPI instead of RPI+1	TfL Rail	-4	-22	-42	-64	-90
	Bus & Tram	-2	-12	-22	-33	-45
RPI instead of RPI+2		-12	-66	-127	-194	-269

6.2 Table 7 shows the projected impacts of the three bus initiatives discussed above:

- The new PAYG transfer discount – estimated to cost over £60m pa at 2016 prices and volumes if transfers become free;
- The cashless bus, including the impact of Wave and Pay bank card acceptance – estimated indicatively to yield net financial benefits of up to around £20m pa over the period 2013 to 2016; and
- The Zip fares for the 11s and over – estimated to raise some £70m pa in 2016/17, or £60m at current prices;

Finally, Table 8 gives a notional picture of the likely revenue generation due to Wave and Pay bank card acceptance on TfL rail. This is put conservatively at 1% of total revenue from 2015.

Table 7: Projected impacts of bus fares and ticketing initiatives - £m

	2012/13	2013/14	2014/15	2015/16	2016/17
Bus transfer fares	-4	-20	-41	-62	-66
Cashless bus – **indicative only,** includes bus Wave & Pay revenue generation	7	14	19	21	24
16/17 half fares	0	17	36	38	40
11-15 quarter fares	0	2	10	22	31
Child bus fares total	*0*	*19*	*46*	*70*	*71*

Table 8: Projected impact of Wave and Pay on TfL Rail - £m

	2012/13	2013/14	2014/15	2015/16	2016/17
Wave & Pay Rail (1% generation in full year)	0	4	30	33	35

Annex A

The London free bus travel schemes for young people

Aims and objectives

1 The free London bus travel schemes were developed to make bus travel in London more affordable for less well off families; to reduce car trips involving children; and to encourage use of London's leisure and cultural facilities. These objectives have been considered in this review alongside the Mayor's objective to promote walking, cycling and healthy lifestyles; and a more general aim of avoiding policies for specific groups that have detrimental effects on others.

Background

2 Free travel concessions for young people now account for nearly 20% of all bus passenger journeys in London, amounting to over 1m rides a day or some 400m rides a year. This compares with around 12% of all journeys before free travel was introduced in 2004/05. In the morning peak, around 30% of bus trips are now made by young people travelling free. See Diagram A1.

The original aims of free bus travel were:

- to make public transport **more affordable** for the least well off;
- to enhance young people's **access** to London's opportunities – cultural, leisure, sporting etc;
- to reduce **car use**: to discourage the school run; to make public transport a more attractive proposition relative to the family car and a more familiar option for young people.

The policy was also intended to contribute to wider strategies:

- to make London a more sustainable city;
- to reduce traffic congestion and pollution; and
- to boost the use Londoners make of their cultural and leisure facilities.

MORI polls[1] show strong support for free travel for the young, but this is when the concession is presented as a free gift without strings.

Impacts

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[1] MORI February 2007: "78% of Londoners support free travel for young people"

3 Offering free travel has clearly increased bus use very markedly. The number of bus rides by young people increasing by 75% or so compared with 2004 and nearly doubling compared with 2000.

Increased travel has been most evident in the peaks. Some 30% of AM peak bus travel now consists of free trips by young people. This compares with 15% or less at off-peak times.

The great bulk of peak time trips by young people are to or from school or college. Making these trips free has benefited the less well-off and must have led to some transfers from car. However, it seems likely that most additional peak trips by young people are transfers from walk or cycle.

The short average distance of many trips tends to bear this out. Diagram A2 shows that 35% of trips by the 11-15s are for under a mile, while 65% are for trips of under 2 miles.

Transfers of short journeys from walk and cycle are contrary to the Mayor's policy of encouraging walking and cycling and to the 2008 Department of Health paper "Healthy Weight, Healthy Lives: a cross-government strategy for England", which points to the need to create a society that fully promotes health.

There is a marked difference in terms of impact with the Freedom Pass. Even after the new 24/7 concession, most Freedom Pass trips take place in the off-peak where there is little impact on crowding and the costs of service provision are lower. See Diagram A1. By contrast, free travel for young people has clearly increased peak crowding and extended peak bus journey times to the detriment of other users.

Unruly behaviour at stops and on vehicles, particularly in the late evening also remains a lingering concern for many users, even though bus related crime by young people is now well controlled and is at low levels.

<u>Modified policy objectives</u>

4 Consideration of all the impacts above suggests a modified set of policy objectives. These would continue to include the three core aims identified earlier - the cost of travel; access; and modal share - but add two further objectives:

- to promote walking and cycling and healthy activity levels; and
- to minimise detriments to other passengers;

Table A1 provides an assessment of how well the current free travel policy performs against the enhanced set of five objectives. This indicates that the free fare policy performs best for the youngest age groups (the under 11s) and least well for the eldest group (the 16-17s+).

Continuing to offer substantial fare concessions to all age groups still appears justified to deliver the accessibility benefits for young people that were originally identified. However, the case for offering free bus travel appears robust and without significant disadvantages only in the case of the under 11s.

For the older groups, it is difficult to see how a better balance between the five objectives can be achieved without some mechanism to deter the use of bus for short distance travel. Introducing some kind of fare payment is an obvious solution, provided vulnerable groups are protected and the implications for the overall fares burden are recognised.

The provisions of the 2006 Education and Inspections Act mean that children from low income families and all children living over 3 miles from school would continue to enjoy free school travel. See Annex B. The provisions of the Act are designed to neutralise negative impacts on access and exclusion.

For the 11-15 group, a low fare anyway appears appropriate, given the balance of advantage shown in table A1. The research evidence is that even a nominal fare can deter 10% to 15% of the bus trips made when travel is free. For the 16-17 plus group, a more substantial fare looks to achieve the best balance across the five objectives and would do most to encourage walk and cycle.

Such changes would still leave London with some of the most generous concessions of any major city. In the rest of the UK, for example, the norm is for half fares to be charged for 5-15s and full fares for 16-17s.

Table A1: The policy objectives and the impact of free travel by age group

	Alignment of free travel with the policy objectives					Overall match of free travel to policy objectives
	1. Making travel more affordable for the least well off	**2. Reducing the school run / family car use**	**3. Making opportunities more accessible**	**4. Promoting walking / cycling**	**5. Minimising detriments to others**	
Under 11s	★★★ Parents with youngest children least able to work; most vulnerable financially	★★★ Age group most likely to be driven to school	★★★ Equally desirable for all age groups	★★★ Least able to walk / cycle	★★★ Least likely to be disruptive: often travelling with parents	★★★ Most benefit and fewest drawbacks for this age group
11-15s	★★ Most parents have fewer difficulties in taking employment	★★ Many teens likely to prefer to travel independently	★★★	★★ Able to walk / cycle in the right conditions	★★ Some risk of being disruptive	★★ Many benefits but also significant drawbacks for this age group
16-17s	★★ Parents least constrained from taking employment	★ Age group most likely to travel independently	★★★	★ Most able to walk / cycle	★ Highest risk, most likely to travel independently in the late evening	★ Least benefit and most drawbacks for this age group

Diagram A1: Bus journeys on an average weekday

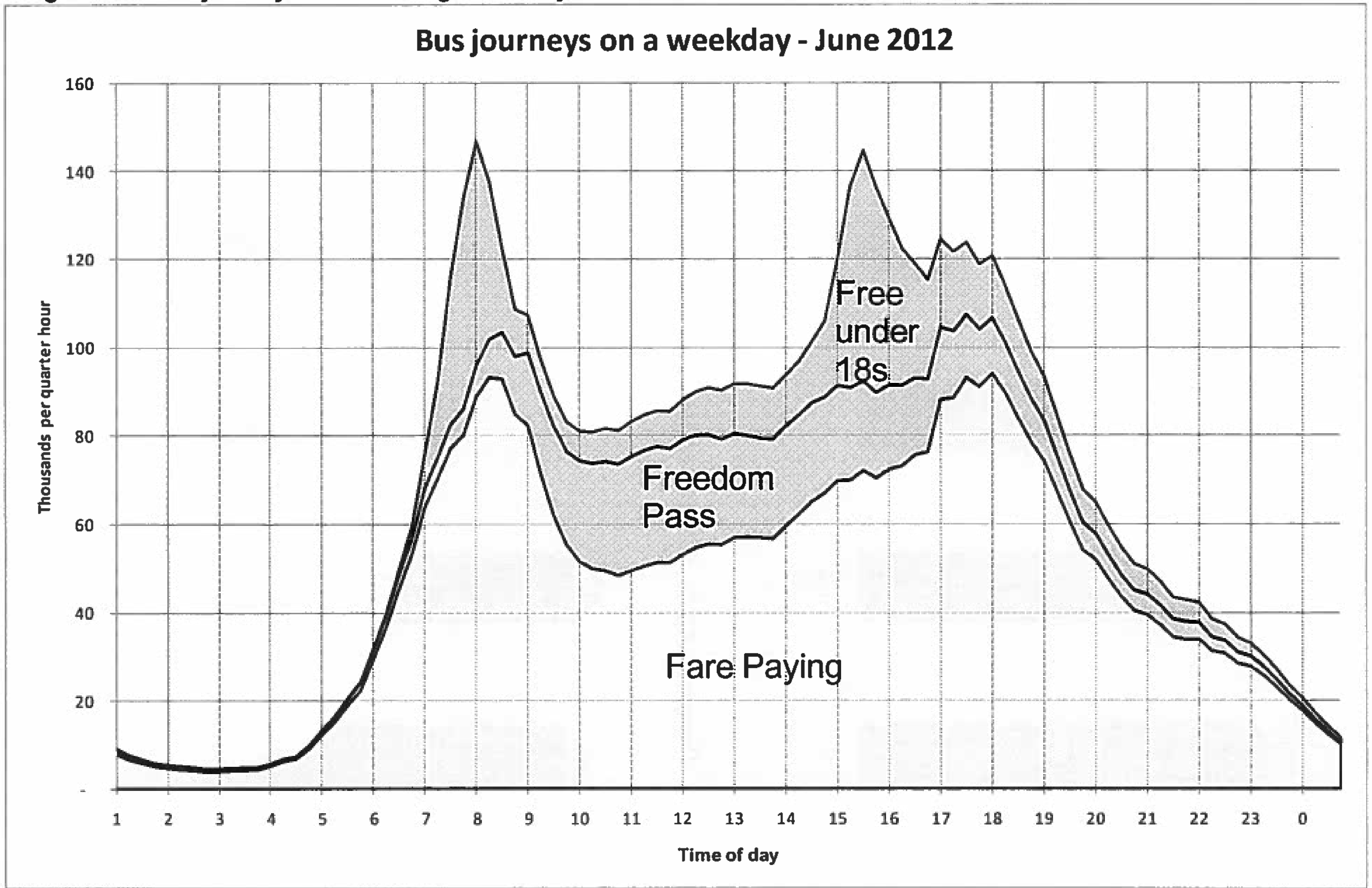

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Diagram A2.1: Distances travelled by bus: 11-15 group

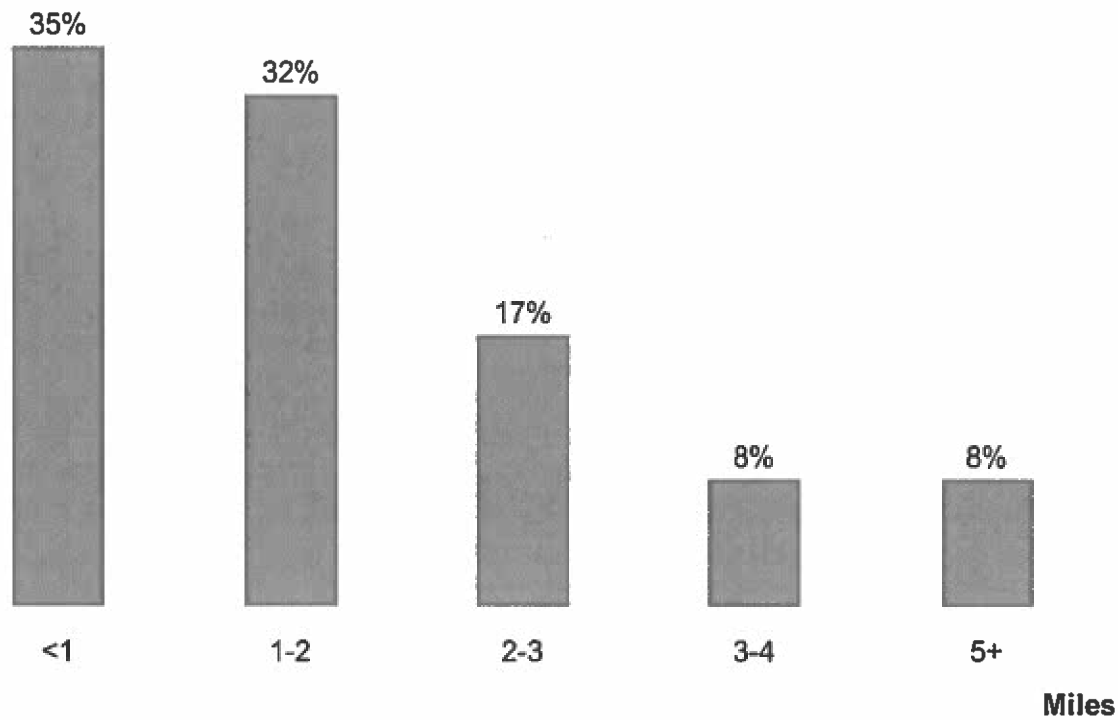
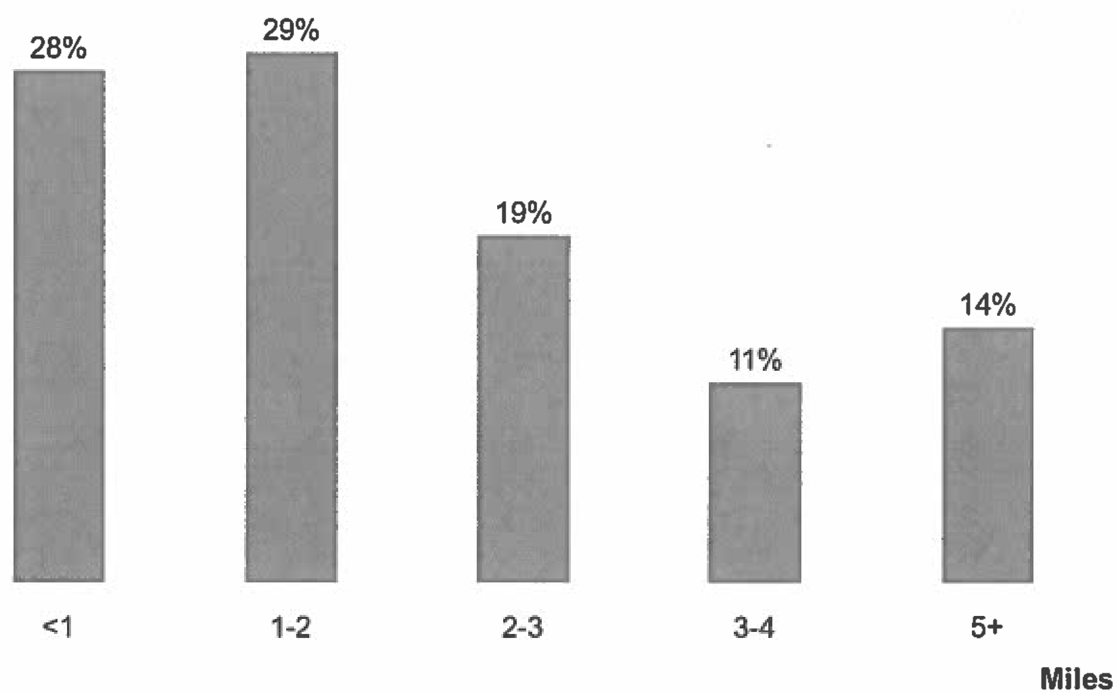


Diagram A2.2: Distances travelled by bus: 16+ group



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Annex B

The 2006 Education Act and the LEAs

1. Under the 2006 Education Act, Local authorities such as the London Boroughs have a duty to arrange free travel to and from school for all "eligible children" in their areas. In this context, children include young people of 6th form age.

<u>Eligible children</u>

2. Under the Act, eligible children comprise principally children:

   i) needing to travel over 3 miles to school;
   ii) living closer to school than 3 miles where walking is judged unsafe;
   iii) with medical conditions which mean they cannot be expected to walk to school;
   iv) entitled to free school meals whose school is at least 2 miles from home;
   v) whose parents receive maximum working tax credit and whose school is at least 2 miles from home.

   Many children in London live within a mile and a half of school and hence will not be classed as eligible children.

3. In the event that child travel in London was not free, TfL would expect the London Boroughs to notify TfL of children in their Borough eligible for free travel. A ticket permitting free travel from 7AM to 7PM Monday-Friday would be loaded on the child's Zip Photocard. Out of these hours, child rate PAYG fares would apply.

<u>Numbers of eligible children</u>

4. It is estimated that some 20% of London children may be eligible for free 7 to 7 travel based on the 2006 Act criteria, with around 15% of current free bus travel covered by the 7 to 7 free travel ticket.

TfL Fares and the Business Plan

July 2012

Business plan prioritisation is underway

TfL is currently undertaking a business planning round and a first estimate of priorities including Mayoral initiatives is around £13bn additional cost to the core plan.

Some examples:

- Increase tube reliability by 30% £0.7bn
- Promote cycling £1bn
- Improve/expand suburban rail **£0.5bn**
- Increase road capacity **£1.5bn**
- Increase bus service £0.6bn
- Underground station upgrades £1.7bn

- Northern line upgrade phase 2 **£1.0bn**
- DTP full programme £2.0bn
- Silvertown £0.6bn*
- NLE £0.9bn*
- DLR/Tramlink extensions £1.3bn

**although the bulk of project costs will be funded externally, substantial initiation and other costs are expected to be incurred by TfL*

Funding all of these priorities would require a substantial funding package, for example **all** of the following:

A grant that remains flat post-2014/15

A 3% on-going CSE programme

RPI+3% fares increase in all years

A CIL that continues post-Crossrail

While TfL will always seek greater funding from grant and look to innovative funding sources, achieving the above funding position appears unrealistic in the current economic climate.

Achieving a funding blend

Grant

Original plan:

Flat in real terms from 15/16 onwards

Possible alternative starting assumption:

TfL's total grant reduced as per HM Treasury's March 2012 Budget statement. This represents a 3.8% real reduction a year - £3.5bn over plan.

Options:

- 1: Revenue reduced, capex flat: £1.3bn
- 2: Flat in real terms from 15/16: £3.5bn

Fares

Original plan:

RPI+2% in all years

Possible alternative starting assumption:

RPI+0% in all years - £3.3bn reduction over plan.

Options:

- 1: RPI+1% in all years: £1.7bn
- 2: RPI+2% in all years: £3.3bn

Commercial Development

Original plan:

Existing plan (£0.7bn over plan)

Possible alternative starting assumption:

[No change]

Options:

- 1: Stretch Commercial Dev target: £0.5bn

CSE

Original plan:

CSE savings assumed unavailable, no future CSE assumed

Possible alternative starting assumption:

Remaining savings from CSE 3&4 available to be spent (£2.1bn)

Options:

- 1: CSE of 1%: £1.4bn
- 2: CSE of 2%: £2.7bn
- 3: CSE of 3%: £4.1bn

Borrowing

Original plan:

Excluding Crossrail approximately £1.3bn additional borrowing

Possible alternative starting assumption:

[No change]: Note borrowing capacity dependent on fares and grant

Options:

- 1: Dependent on fares & grant

Other funding

Original plan:

None beyond Crossrail assumed

Possible alternative starting assumption:

[No change] Note this funding is hypothecated to specific growth schemes.

Options:

Possibilities exist ranging from £0bn to £1.4bn

Grant

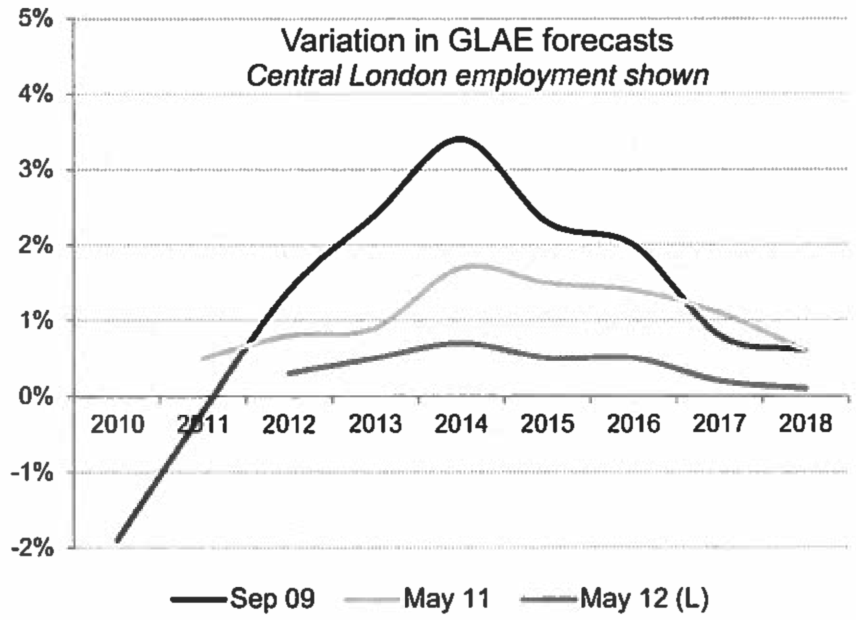
- Grant levels confirmed until March 2015.
- Spending Review expected next year.
- Chancellor has indicated need for 4% real reductions a year in overall public spending.
- There is likely to be continued pressure on operating grants. It may be easier to argue for capital grant, perhaps earmarked to specific projects.

Fare revenue weaker than the current plan

Economic	60+ Pass	Total
▼£0.5bn *Between budget and latest forecast (net of recent demand)*	▼£0.5bn *Between budget and latest forecast*	▼£1bn *Between budget and latest forecast*

Fares are currently tracking budget closely, however latest forecasts show a £1bn reduction in income over the next 10 years, from:

- GLA economics forecasts of a weaker economy
- Costs of the 60+ pass



May GLA economics data shows the most pessimistic expectations for growth since the inception of these forecasts.

This is reflected by lower employment forecasts than previous years.

Commercial development

- New team established to grow revenues from property development, retail at stations, advertising, sponsorship etc.
- Good potential to grow these revenues by up to £500m over 10 years.
- However, large property development projects (e.g. Earl's Court) can take a long time to develop so these revenues are inherently risky.
- Also, there is a need to deliver on property receipts as part of Crossrail funding.

Further savings increasingly politically challenging

Still to secure
▶£2bn
Over ten year plan

- TfL's efficiency programme on track, but around £2bn over next ten years still to secure.
- Current programme includes challenging items
  - Further LU ticket office savings, capital programme savings

Potential 1% Future CSE
▲£1.4bn
Over ten year plan

- CSE has delivered sizeable savings over the last four rounds and we should continue to have a programme to press for additional savings
- Future rounds would present increasing numbers of politically challenging choices, e.g.
  - Policing, LIPs, service reductions, substantial staff cuts

Enhanced management of TfL's capital programme: under-spend

- Last year the TfL capital programme underspent by £290m
  - From a £2bn budgeted programme
- Capital under-spends are generally as a result of re-phasing (around 75% of last year's under-spend)
  - e.g. Nearly half of last year's was a re-phasing of the Northern line upgrade.
- Effects of re-phasing net-off over the longer term
- TfL in part manage under-spends through over-programming
  - May need to look at assumptions over the Plan period
- LU planned investment levels comparable to those already being delivered

Enhanced management of TfL's capital and delivery programme: contingency

- Contingency over 10 years is £1.2bn, largely after 2015.
  - Excluding Crossrail
- There should be scope to release a significant proportion of this, say at least £500m upfront, and possibly more as projects develop.

Borrowing

- Affordable levels of borrowing are linked by the rating agencies to both gross and net revenues. There is limited scope to increase borrowing above levels already assumed for Crossrail without additional revenues.
- Any further borrowing would also need to be agreed with Government as part of the Spending Review.
- Once Crossrail is operational we will have increased revenues against which to borrow. In the longer term, fares policy drives borrowing capacity.

Additional funding sources

- We have not thus far assumed any additional funding sources such as:
  - Road tolls
  - Additional CIL
  - Enterprise zones
- For Business Planning purposes, we have assumed that these will be earmarked to specific growth projects (e.g. Silvertown, Northern Line Extension), allowing those projects to proceed without calling on TfL grant and fare funding.