Transport for London

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Dear John

Balancing Act: The Mayor's 2011 Fares Decision

Thank you for you letter of 5 August 2010 and for sending me a copy of the Committee's report, *Balancing Act.* I am sorry for not replying sooner but, following the outcome of the Government's Spending Review on 20 October, we are now in a position to discuss its implications for TfL's budget.

We have written to all Assembly Members setting out what impact the Spending Review settlement will have for London's transport. In short, it secures vital improvements to transport infrastructure including Crossrail and the Tube upgrades and ensures funding to maintain London's extensive bus network. This means that the largest upgrade of London's transport network for decades has been protected.

The settlement also allows the Mayor to keep fare rises for next year at the assumed level he announced last year. As he announced on 20 October, fares will rise by RPI plus two per cent on the bus and Tube network, which means a 6.8 per cent increase from January 2011.

The Mayor has sought to keep fares as affordable as possible and competitive in comparison with other major cities. He has also been able to protect the full range of concessionary fares which are of such vital importance in these incredibly tough times to the young, elderly, war veterans and those seeking work.

You call on TfL to justify the assertion that an above inflation fares rise is necessary from a financial perspective.

Approximately a third of TfL's funding comes from the GLA Transport Grant from the Department for Transport (DfT). Following the Government's Spending Review, TfL's grant funding from the DfT has been reduced by £2.17bn in total over four years, or 21 per cent in real terms in 2014/15, when compared to the base year of 2010/11.

However, the GLA Transport grant is just one element of TfL's funding, which also includes capital grants (including DfT's contribution to Crossrail), fares, borrowing and other sources of revenue, such as advertising and commercial partnerships.

TfL will publish a revised Business Plan that takes into account the impact of the Spending Review settlement in spring next year. However, over a third of the reduction in DfT grant funding to TfL has been covered by increased ridership on the Tube, bus and rail network, which has bounced back more strongly than originally assumed this year, together with previously identified savings measures.

As we set out clearly in TfL's 2009 Business Plan, the Mayor makes his decision on fares each year based on a number of considerations, including the need to ensure that fares provide an appropriate and necessary level of financial contribution towards the cost of providing transport services.

To ensure that fares income keeps track of underlying cost growth in the medium term, and that investment can be sustained, fares in January 2011 and in subsequent years are assumed to rise at RPI plus two per cent. You will no doubt be aware that the Government has increased the cap on regulated rail fares to RPI plus three per cent for the three years from 2012.

It would have been irresponsible in the face of the financial challenges ahead for TfL to deviate from this stated sensible and sustainable planning assumption. To do otherwise would have been to endanger vital investment in transport infrastructure and risk frontline services.

I should add that we have been looking at how TfL's programme of work to enhance the Capital's transport network could be delivered while releasing significant savings. The Mayor has asked TfL some very hard questions and we are taking tough and decisive action to bear down on costs and demonstrate value for fare and tax payer money. It has been acknowledged that TfL is well ahead of the game, and certainly other parts of the public sector, in making huge efficiencies and cutting waste.

Turning to the specific information you requested on TfL revenue and costs:

How much revenue over and above that anticipated in the 2009 Business Plan has been collected, and how much is likely to be collected in the future, as a result of stronger than expected demand for public transport?

TfL's Operational and Financial Report for Quarter 1 2010/11 set out that fares income for the full year was forecast to be £138m above Budget. Fares income forecasts for future years are under review, and will be included as part of TfL's submission to the Mayor's Budget this autumn as well as an updated Business Plan to be published in the spring.

How has high inflation affected the costs set out in the Business Plan, in particular employee costs (as highlighted in the 2010/11 Budget as the principal affected area)? And why are unanticipated inflationary pressures not dealt with by the existing link between the fares rise and RPI?

Inflation has been much higher than was forecast in TfL's Business Plan. For example, in February 2010 (the index month for wage settlements), RPI was 3.7 per cent, against a business plan assumption of -0.3 per cent. Higher inflation has resulted in cost pressures of around £40m in 2010/11 (based on the Quarter 1 forecast), as a result of the impact on wage awards and inflation-linked contracts such as PFIs.

On your final point about any future revisions of the TfL Business Plan, I entirely agree that it is important that we are open and straightforward about TfL's finances and future priorities. The recent public consultation on the draft Mayor's Transport Strategy was an opportunity for Londoners to have their say on their broad priorities for transport in the Capital and any decisions we take will be informed by that process. We are happy to receive the views, at any time, of all stakeholders, including the Assembly and London TravelWatch.

Yours sincerely

Peter Hendy