3 Controlling transport fares

Above-inflation fare increases may be unnecessary

3.1 In recent years Londoners have often been asked to pay increases to their transport fares that have outstripped inflation. In part this has been due to the policy of successive governments to shift the balance of transport funding from taxpayers to farepayers. But at a time when wages for the vast majority of workers in London are barely rising, transport costs are becoming an increasingly large proportion of their income. The Mayor has a responsibility to ensure that fare rises are minimised, and has the ability to relieve financial pressures on Londoners through his fares decisions.

3.2 Before the election the Mayor said that fares would "go down in an honest and sustainable way".[16] He has not clarified this statement, and has instead approved an above-inflation increase in the first year of his Mayoral term, rising by an average of 4.2 per cent from 2 January 2013. This was the maximum increase possible following the Prime Minister's announcement in October that capped fare increases in 2013 and 2014 to one per cent above inflation.[17] TfL's current Business Plan (2011-12 to 2014-15) had assumed that fares would be increased by two per cent above inflation in those years, so the difference in these two years will be funded by the Department for Transport (DfT).[18] DfT will provide TfL with £96 million of funding to cover this, which is broadly in line with TfL's statement to us that each percentage point rise in fares generated approximately £34 million of additional revenue.[19] TfL has recently published a new draft Business Plan based on annual increases of one per cent above inflation.[20]

3.3 In previous years the Mayor has accepted TfL's proposed fare increases when making his final fares decision, yet we have found that TfL's recent figures have been based on overly pessimistic passenger forecasts, meaning that TfL has generated more fares income than it had expected. In 2010-11 it collected £178 million more than it had budgeted (equal to 6 per cent of budgeted fare income), and in 2011-12 it collected £73 million more (2 per cent).[21] TfL is currently forecasting fares income £36 million above budget for 2012-13.[22]

3.4 It is clear that £34 million (the additional revenue generated each year by a fares rise one percent above inflation) is a relatively small figure for TfL, whose overall budget for 2012-13 is in excess of £8 billion.[23] Furthermore, in recent years TfL has been able to generate unanticipated savings far in excess of what would be raised by an additional percentage point on fares. In 2011-12, for example, TfL exceeded its savings target by £216 million.[24] TfL has also told us that it had found £100 million of additional recurring savings in its 2012 savings exercise.[25] TfL has much smaller savings targets over the next two years (£24 million in 2013-14 and £89 million in 2014-15, making up 0.4 per cent and 1.4 per cent of TfL's budgeted total operating expenditure in those years).[26] In comparison, LFEPA has been asked to save £30 million in 2013-14 and £65 million in 2014-15, making up 8 per cent and 16 per cent of its budget in those years.[27] Based on recent experience TfL should be able to achieve and exceed its targets relatively easily.

3.5 At the moment, there is no way of evaluating the forecasts and calculations of TfL that underpin the Mayor's fares decision, meaning it is impossible for the Assembly to carry out its scrutiny role effectively. TfL has not helped the Committee understand the financial and service implications of the various options for the fares decision. In September we asked TfL to explain the impact of three possible options: a fares freeze; an increase equal to RPI; and an increase of RPI +1 per cent.[28] TfL declined to provide the information we asked for at an appropriate level of detail.[29]

3.6 **The evidence we have heard suggests that there may be options for the Mayor to limit fares rises during the rest of his term. TfL's future savings targets are very small compared to the rest of the GLA Group and it has recently found at least an additional £100 million a year in unanticipated recurring savings. In addition, it has underestimated passenger demand in the last two years, meaning that it has received over £250 million of additional, unanticipated, fare revenue over this period. These unanticipated resources have allowed TfL to reduce borrowing on previous capital investment earlier than would otherwise have been possible.**

3.7 **Limiting future fares increases would allow the Mayor to ease the financial pressure on Londoners during tough economic times. TfL should set out the implications of living within inflation-only fares rises for the remainder of the Mayoral term. This would allow the Mayor to assess the extent to which spending on operations and investment would be affected. The underlying information that supports TfL's business planning, such as passenger forecasts and savings**

projections, should be publicly available so the Assembly and others can scrutinise its spending proposals properly.

Recommendations

4. The Mayor’s Consultation Budget should clearly set out the implications for TfL’s Business Plan of inflation-only increases to fares in 2014 and 2015. It should explain what investment projects would be affected, and the impact this would have on services and passengers. This will allow the Assembly, and Londoners as a whole, to properly assess the options for additional investment before the Budget is approved by the Assembly, and will make the Mayor's annual fares decisions more transparent.

5. In future, TfL’s advice to the Mayor on his annual fares decision should be made publicly available. This would improve the transparency and accountability of TfL, and allow the Assembly to give proper consideration to the Mayor’s fares decision.

References

[16] Boris Johnson speaking on the London Mayoral debate programme aired on BBC television on 22 April 2012.

[17] The Retail Price Index (RPI) measure of inflation for July is used in fares decisions; in July 2012 it had been 3.2 per cent.

[18] TfL, *TfL Business Plan – GLA Budget Update 2011-12 – 2014-15*, page 19.

[19] The £96 million is profiled £6 million / £33 million / £57 million over the years 2012-13 to 2014-15. Figures are provided in a letter from Jonathan Sharrock, Director of London and Olympics at DfT, to Steve Allen, Managing Director of Finance at TfL, 8 November 2012. The £34 million figure was discussed with TfL at the Budget Monitoring Sub Committee on 16 October 2012, and is an approximation.

[20] TfL, *Draft Business Plan* (December 2012), page 48.

[21] TfL, *Operational and Financial Performance and Investment Programme Reports: Fourth Quarter 2009-10, page 31; Fourth Quarter 2010-11*, page 19; *Fourth Quarter 2011-12*, page 23.

[22] TfL, *Operational and Financial Performance and Investment Programme Reports: Second Quarter 2012-13*, page 17.

[23] In 2012-13 TfL had budgeted total operating expenditure of £6.3 billion and capital expenditure (excluding Crossrail) of £2.0 billion. TfL, *Budget 2012*-13, pages 16-17.

[24] TfL, *Operational and Financial Performance and Investment Programme Reports: Fourth Quarter 2011-12*, page 15.

[25] Stephen Critchley, then Chief Finance Officer of TfL, speaking at the Budget and Performance Committee meeting, 12 June 2012.

[26] £24 million savings from budgeted total operating expenditure of £6,326 million in 2013-14 and £89 million savings from £6,442 million in 2014-15. Figures from *The Mayor's Budget Guidance for 2013-14*, page 4 and TfL, *Business Plan - GLA Budget Update, 2011/12 – 2014/15,* Appendix, page 20.

[27] *The Mayor's Budget Guidance for 2013-14*, page 4.

[28] Letter from John Biggs to Peter Hendy, Commissioner of TfL, 11 September 2012.

[29] "With regards to the impact of differing fares options, based on current projections every single-year one-off percentage point change creates a reduction in fares income of around £340m over the following decade. For context, this is greater than the total cost of delivering the proposed scheme to lengthen all London Overground trains and deliver a 25 per cent increase in capacity." Letter from Peter Hendy, Commissioner of TfL, to John Biggs, 21 September 2012.

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