

Balancing Act
The Mayor's 2011 fares decision
August 2010



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Role of the Budget and Performance Committee

The Budget and Performance Committee scrutinises the Mayor's annual budget proposals and holds the Mayor and his staff to account for financial decisions and performance at the GLA. The Committee also looks at spending and performance across the GLA group, undertaking investigations into issues such as the cost of policing, spending on the Olympics and public transport fares.

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Chairman's foreword



Londoners and visitors to the city pay about £3 billion in fares each year towards our transport system. The Mayor has a specific power to set fares in London and this makes the decision a political one. However, the Mayor's decision is based, at least in part, on advice from Transport for London (TfL) about the revenue it says it requires to balance its books.

TfL told the Committee it plans to ask the Mayor for fares to rise by two per cent above inflation but we argue in this report that the case has not yet been made for such an increase. TfL acknowledged that fares revenue has been better than anticipated during the recession but argued that it has also faced escalating costs – TfL should set out the detail of these figures in public if it is to justify its request to the Mayor.

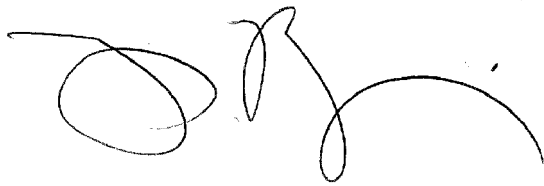
With threatened government spending cuts likely to affect TfL's future income significantly, the Mayor's fares decision this year is going to be more difficult than usual. Should he seek to protect TfL's longer-term budgets with a big increase in 2011? With a challenging efficiency programme already in place at TfL, the indications are that farepayers could be asked to pick up any shortfall if the Mayor is going to avoid cutting back substantially on current services, let alone continue with investment.

To add to the Mayor's problems, Londoners took a huge increase in fares last year, with bus passengers, often the most vulnerable passengers across the transport network, taking the biggest hit at up to twenty per cent. Another such hike would make it even more difficult for the many on low incomes who are not eligible for concessions to afford public transport. It could mean sacrifices in other areas of their lives, particularly if they have been affected by the recession as well. It could turn some other people away from public transport with the risk of them driving more, increasing congestion and emissions – something which no one would want to see.

This is a tough decision – but then nobody ever said being Mayor was easy! Our report highlights the factors he needs to weigh up. We recognise that the balance between protecting passengers from higher fares and maintaining transport spending is becoming more difficult, so we are urging a greater transparency from the Mayor in his decision-making. The absence of transparency and debate has

characterised both of London's Mayors to date on this important decision.

Our recommendations are balanced and non-partisan and the Mayor needs to give them careful consideration before coming to his decision, which could affect the pockets of millions of Londoners' everyday.

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a series of loops and a long horizontal stroke.

John Biggs AM
Chairman of the Budget and Performance Committee

Executive Summary

This time last year this Committee published a report suggesting there was a significant gap in TfL's finances because of reduced fares revenue due to the recession. We indicated that the Mayor would need to plug the gap either through an above-inflation rise in fares, cutting back on investment or spending on services, or by finding further efficiency savings. Although it contested the findings of our report at the time, when TfL published its revised Business Plan in November 2009 it included a combination of all the financial remedies we had suggested could be applied.

However, since the publication of the Business Plan in the autumn last year, the situation regarding public transport ridership and, as a result, fares revenue has been better than had been expected. TfL says this is mainly due to a smaller than projected fall in employment levels in the capital. TfL told us though that it plans to ask the Mayor to implement an average fares rise of around seven per cent (two per cent higher than the level of inflation this July) in January 2011. In this report we conclude that the case for this scale of increase has not yet been made and we ask TfL to justify publicly this call on the income of Londoners.

If the Mayor is convinced of the need for the scale of fares rise TfL says it is likely to recommend, important decisions remain about how this increase is spread across the different types of fares. The results of a survey of bus passengers commissioned by the Committee for this investigation shed some light on the choices he faces when deciding how to allocate increases across the different modes and ticket types.

Of particular interest are the demographics of the passengers who tend to use the types of tickets affected by the highest fares increases in January 2010. Our survey showed that they are more likely than the average across all bus passengers to be on low incomes and less likely to be employed. To ensure these passengers are protected through this year's fares decision, we call for the average increase in the prices of Oyster Pay As You Go bus fares and bus seasons tickets not to be more than the overall average fares rise.

As well as the affordability of public transport for different groups of passengers, the allocation by the Mayor of individual changes to fares may have an affect on travel behaviour. Of particular interest to us, and no doubt the Mayor, are any signs of undesirable modal shift away from public transport towards the use of private cars – our survey does appear to indicate there may have been a small net

reduction in bus journeys in parts of outer London. The Mayor will need to be particularly mindful of any changes to fares next year which could bring about a potentially damaging shift towards, for example, driving with consequent increases in congestion and emissions.

We show in this report that London's farepayers are contributing proportionately more for public transport in the capital than they were a year ago. And by 2017/18 the balance of contributions between central government and farepayers is expected to shift even further towards farepayers. Put simply, for every £1 of funding from central government for transport in London in 2009/10, farepayers provided £0.99. On current plans, by 2017/18 farepayers will be expected to provide £1.29 for every £1.00 provided by central government.

However, TfL's longer-term funding is very uncertain and next year's government grant could make balancing TfL's finances very challenging. This should raise questions about ways to minimise the upwards pressure of fares – potential alternative way of financing investment projects, the cost-effectiveness of TfL's spending and the potential for further efficiencies – as well as the long-term contribution from farepayers.

1 Introduction and overview

The annual fares decision

- 1.1 Each year the Mayor decides in the autumn how much to raise public transport fares the following January. Transport for London's (TfL's) finances have always been quite separate from the rest of the Mayor's budgets, so a key factor driving his fares decision is likely to be TfL's advice on the level of fares revenue it requires from a financial perspective. Presumably TfL also provides assessments of the potential of fares rises to bring about changes to travel behaviour and the affordability of higher fares. This information is not usually published but we suggest in this report that more of it should be.
- 1.2 TfL's November 2009 Business Plan assumed overall annual fares increases of inflation plus two per cent until at least 2017/18, although, as it notes, decisions on fares rises are an executive decision of the Mayor.¹ TfL uses the Retail Price Index (RPI) in the July prior to each January increase as its measure of inflation. This July, RPI is likely to be around 5 per cent,² compared to the 2.7 per cent assumed in the Plan.
- 1.3 Average annual fares rises of RPI plus two per cent represent an increase to what had been planned (until last year RPI plus one per cent rises had been assumed each year until 2017/18).³ TfL said the new level was required "to ensure that fares income keeps track of underlying cost growth and that future investment can be funded".⁴
- 1.4 Our report at this time last year suggested that lower fares income through the recession would result in a funding gap at TfL of £0.4-1.7 billion by 2018.⁵ We concluded that the Mayor and TfL would need to fill this funding gap through a combination of the following options:
 - Increasing fares at a higher rate than planned
 - Reducing services
 - Deferring or cancelling planned improvements and expansions
 - Finding further efficiency savings

¹ TfL, Business Plan, November 2009, Table 4, p. 82

² http://www.statistics.gov.uk/downloads/theme_economy/rp04.pdf

³ TfL, Business Plan, November 2008, p. 96

⁴ TfL, Business Plan, November 2009, Table 4, p. 82

⁵ Budget and Performance Committee, *A fare decision?*, July 2009

- 1.5 Despite contesting the findings of our report at the time,⁶ in the twelve months since TfL has done all four: the savings programme has been more than doubled to over £5 billion by 2017/18; examples of planned improvements being deferred are the many Underground stations which had previously been scheduled for step-free access; and, in terms of services, bus provision, for example, is now due to fall instead of the gradual rise anticipated by the 2008 Business Plan.⁷

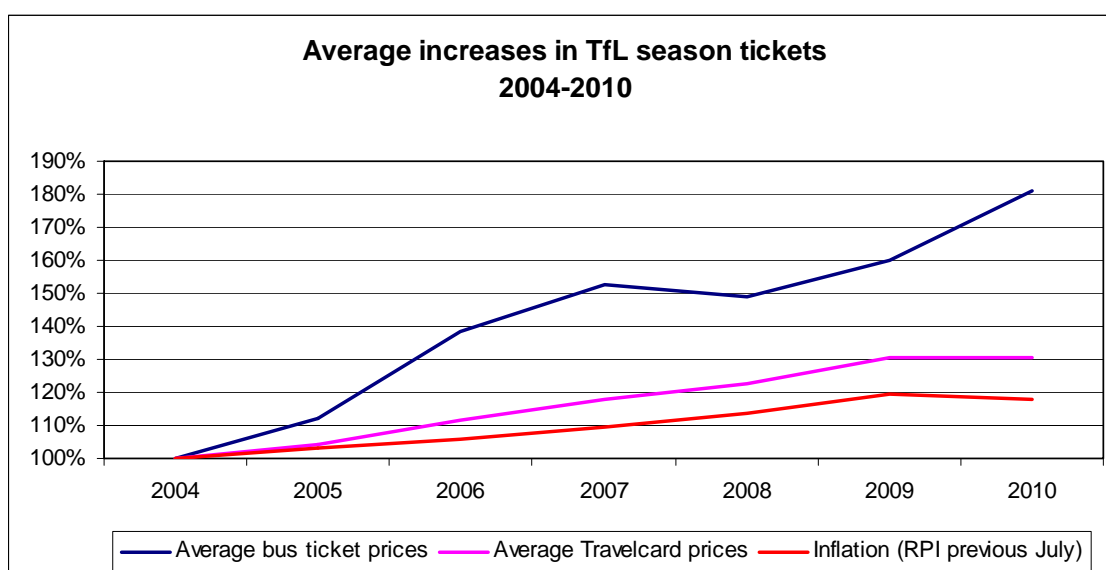


Figure 1: Graph indicating how average bus and Tube fares have risen since 2004, relative to inflation

- 1.6 With regard to fares, for January 2010 the Mayor determined that there would be average rises of 12.7 per cent for bus passengers and 3.9 per cent on the Underground.⁸ RPI inflation the previous July had been negative (-1.4 per cent) so the planned formula of RPI plus two per cent would have led to much reduced increases. In fact, many bus fares increased by 20 per cent, including Oyster Pay As You Go (PAYG) singles (£1.00 to £1.20) and seven-day, monthly and annual bus season tickets, while the prices of all-mode period Travelcards were frozen. Figure 1, above, shows how the 2010 fares decision affected the relative increases in the average prices of bus tickets and Travelcards alongside inflation.

⁶ Mayor and TfL statement in response to London Assembly Budget and Performance Committee report on fares, 10 July 2009
<http://www.tfl.gov.uk/corporate/media/newscentre/archive/12220.aspx>

⁷ TfL, Business Plan, November 2009, pp. 8, 40 & 98

⁸ Mayor of London press release, *Fares for 2010*, 15 October 2009
http://www.london.gov.uk/media/press_releases_mayoral/fares-2010

- 1.7 These unexpectedly high increases were blamed by the Mayor on the costs to TfL of the collapse of Metronet, the former Underground contractor; a fall in Underground fares revenue due to the recession; and a hole in TfL's finances stemming, he said, from the fares policy of the previous Mayor.⁹ Despite these rises, many public transport fares in London, particularly bus fares, remain substantially cheaper than average fares across the UK.¹⁰
- 1.8 Nonetheless, better than expected fares revenue, as a result of stronger than expected demand for public transport, suggests that the planned increase of RPI plus two per cent may not be required this year simply to balance TfL's books as they stand. In Chapter 2 of this report we explore the justification for another above-inflation fares rise in 2011. To justify its request for RPI plus two, we believe TfL needs to demonstrate that there are factors – unanticipated cost increases, for example – which offset the additional revenue it is collecting. It is important to note in this context that the obvious unanticipated cost increases – the takeover of Tube Lines and the reduction to TfL's grant for 2010/11 – are factors which TfL told us will not have to be paid for through the farebox.¹¹
- 1.9 As well as the financial aspects of the fares decision there are both issues of fairness, in relation to the particular passengers affected by different levels of fares rises, and effects on travel behaviour. These areas are discussed in Chapters 3 and 4 of the report and we urge the Mayor to consider our evidence before he makes his decision in relation to fares for 2011.
- 1.10 This Committee and its predecessors have repeatedly called for a public consultation in relation to the fares decision. However, successive Mayors have chosen not to go down that route. The key aim of this report is therefore to ensure that there is sufficient information in the public domain to enable an informed discussion about the fares decision and to ensure the advice the Mayor is given by TfL, and his response to it, stands up to rigorous examination.

⁹ Mayor of London news release, *Mayor takes action to sustain "vital investment and front line services" for London's transport network*, 15 October 2009

¹⁰ TfL, *Travel in London report 2*, 2010, figure 8.7, p. 180

¹¹ Budget and Performance Committee, 17 June, transcript pp. 26 & 29

2 Justifying the scale of the 2011 increase

Summary of findings

- TfL expected the economic downturn to affect its fares revenue – it believed there would be a “structural decline” in ridership resulting in a permanent year-on-year reduction in the revenue it had expected. It revised its Business Plan in November 2009 to include reduced assumptions for ridership and increased annual fares rises to make up the short-fall in revenue (RPI plus two per cent rather than the RPI plus one per cent which had previously been assumed).
- However, passenger demand did not decline as much as it had been expected to. In the case of buses, rather than the projected 3 per cent decline, ridership is now up by about one per cent year-on-year. Underground journeys are also up on projections. As such, revenue forecasts for both buses and the Underground will be revised upwards if current trends continue.
- There are a number of pressures on TfL’s finances: inflation, the acquisition of Tube Lines, an in-year reduction to its government grant. However, that TfL is collecting more fares revenue than expected raises questions about its likely advice to the Mayor that a two per cent above inflation fares increase is still required in January 2011. We believe TfL needs to answer these questions if it is to justify its request.
- In the longer term, TfL’s funding is very uncertain. When next year’s government grants are announced this autumn TfL may find itself unable to deliver current plans for investment and service levels without a substantial increase in the proportion of revenue collected through the farebox. It may be that a fundamental review of TfL’s Business Plan would then be required.
- At that stage, we believe the Mayor should weigh up TfL’s assessment of the potential implications of reductions in spending for his transport objectives against the views of Londoners about fares increases. To do that he will need to give Londoners an opportunity to tell him what they think.

TfL’s advice to the Mayor

Stronger than expected demand for public transport in 2009/10

- 2.1 TfL told the Budget and Performance Committee on 17 June that it is likely to request an average fares increase in January 2011 of RPI plus two per cent to balance its finances. This is the increase which had

been assumed in TfL's November 2009 Business Plan.¹² However, as a result of better than expected economic conditions,¹³ it is now clear that there was stronger demand for public transport in 2009/10 than had been anticipated at the time the Business Plan was put together.

- 2.2 After a stronger than expected fourth quarter, annual revenue from the Underground in 2009/10 totalled £1,769 million, £29 million more than was forecast in the Business Plan.¹⁴ On the bus network, demand was also higher than the projection and total revenue for 2009/10 was £1,138 million - £23 million more than had been anticipated.¹⁵
- 2.3 In total, it would appear that during 2009/10 TfL collected around £50 million in additional fares revenue from Tube and bus passengers than it had allowed for in the Business Plan, when it decided on an RPI plus two per cent fares rise. To put this figure into context, TfL expected the much larger fares rises in January 2010 to raise £125 million in additional revenue.¹⁶
- 2.4 We note that the final outturn for bus and Tube fares revenue in 2009/10 was actually less than had been projected in TfL's 2009/10 Budget, set in March 2009.¹⁷ However, 2009/10 revenue projections were revised downwards by the time the Business Plan was published in the autumn. Since the 2009 Business Plan, which assumed lower fares income, was designed to balance income against spending, it is the appropriate baseline from which to work in this context.

Strong demand continuing into 2010/11

- 2.5 The relatively strong demand for public transport will also have an effect on fares revenue during this financial year. In relation to bus demand, TfL had projected a 67 million fall in bus journeys in 2010/11 (3 per cent less than the 2009/10 figure) because of the economic downturn and the fares increase.¹⁸ However, TfL's latest figures show there is actually year-on-year growth in bus demand and that it is now at least 3 per cent higher than had been anticipated in TfL's Business

¹² TfL Business Plan, November 2009, p. 82

¹³ GLA Economics predicted a decline in employment of 3.4 per cent but the actual figure was 1.5 per cent.

¹⁴ TfL Board, Quarter 4 Operational and Financial Performance report, Item 5, 23 June 2010, p. 12 and TfL Business Plan, November 2009, Table 3, p. 42

¹⁵ TfL Business Plan, November 2009, Table 5, p. 72

¹⁶ This information is contained in the background information for the Mayoral Decision authorising the January 2010 fares increase – MD457

¹⁷ TfL Board, Item 5, 23 June 2010, paras 5.4-5.6

¹⁸ Letter to the Committee from TfL's Managing Direction of Finance, 20 Jan 2010

Plan,¹⁹ which could result in additional annual revenue of some £35 million.²⁰ TfL's 2010/11 Budget acknowledges that its revenue projection for income from buses will need to be revised if the current demand trend continues.²¹

- 2.6 Similarly, the 2010/11 TfL Budget warns that forecasts for Underground ridership will need to be adjusted upwards if current demand is sustained, although details of likely additional revenue are not given.²²

Questions about the justification for RPI plus two in 2011

- 2.7 The additional revenue collected in 2009/10 and being collected this year (2010/11) because of stronger than expected demand for public transport raises questions about the justification for the RPI plus two per cent fares rise pencilled in by TfL for 2011.
- 2.8 When we put this argument to TfL, it stressed that the stronger demand would result in a relatively small bump in its revenue. It also told us it was experiencing greater than expected costs as a result of high inflation, although the extent to which these costs offset the extra revenue was not clear.²³ TfL's 2010/11 budget document talks about "the increased cost of inflation principally affecting employee costs", and that being accommodated within available funding.²⁴
- 2.9 There are other pressures on TfL's finances, not least the acquisition of Tube Lines for £310 million and the £108 million in-year reduction to its government grant. However, TfL has been quite clear that neither of these will be met through the farebox.²⁵
- 2.10 Since the recession the justification for all new public expenditure has been heavily scrutinised. The finances of many Londoners are also being squeezed so similar scrutiny should be applied to new calls by the Mayor on their income, including rises in public transport fares. There is evidence that the Mayor already takes this seriously in the case of the Council Tax precept – the Deputy Mayor, Sir Simon Milton,

¹⁹ Letter to the Committee from TfL's Managing Director of Finance, 14 May 2010

²⁰ TfL Business Plan anticipates income from the bus network to be £1,185 million (Table 5, p. 72); at 3 per cent increase would equate to around £35 million.

²¹ TfL, 2010/11 Budget, 24 March 2010, para 5.18, p. 9

²² TfL, 2010/11 Budget, 24 March 2010, para 5.17, p. 9

²³ Budget and Performance Committee meeting, 17 June 2010

²⁴ TfL, 2010/11 Budget, 24 March 2010, para 2.2

²⁵ Budget and Performance Committee, 17 June, transcript pp. 26 & 29

told us the Mayor would “do whatever he can to ensure that Londoners are protected from that tax”.²⁶

2.11 We do not consider the case for an above-inflation call on Londoners’ incomes through the farebox has yet been made. TfL needs to answer the following questions if it is to make the case from a financial perspective:

- **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?**
- **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?**
- **Comparing additional revenue with additional costs, is the planned RPI plus two per cent fares rise absolutely necessary?**

Recommendation 1

In response to this report, TfL should publish detailed information about the cost increases it faces and a revised projection for fares revenue in 2010/11. It should answer the questions in paragraph 2.11, setting out a comparison between the likely increases in revenue and costs in order to justify the need for an RPI plus two per cent average fares increase. TfL should also describe what options, other than raising fares by RPI plus two, were considered before deciding to recommend that to the Mayor.

In making our recommendation we hope to assist the Mayor in properly scrutinising the advice he receives from TfL.

TfL’s response should be received by the end of September 2010 or before the Mayor announces his fares decision – whichever is earlier.

²⁶ Budget and Performance Committee meeting, 17 June, transcript, p. 16

TfL's longer-term funding situation

- 2.12 Until fairly recently TfL's long-term funding settlement with government appeared to enable it to plan future spending with relative confidence. However, the recent in-year reduction by £108 million of TfL's annual grant highlights the uncertainty surrounding future central funding for transport in London.²⁷ It will be clearer after the results of the Comprehensive Spending Review (CSR) are published in October but the Budget on 22 June set out plans for spending by non-protected Government departments to reduce by an average of 25 per cent over the next four years.²⁸ As it currently represents a significant proportion of the Department for Transport's spending, it seems likely that TfL's grant would be affected by such a reduction, although it should be noted that the Government has committed to protecting capital expenditure.²⁹
- 2.13 In our fares report last year we pointed out that the balance of TfL's funding between the government and London farepayers is increasingly shifting towards farepayers, reducing the level of subsidy provided by taxpayers to passengers on the bus and Underground networks in London.³⁰ TfL's 2009 Business Plan anticipated roughly equal contributions from the DfT and fares in 2009/10, however, by 2017/18 it projected that fares income would be almost 30 per cent higher than TfL's government grant.³¹
- 2.14 Put simply, for every £1 of funding from central government for transport in London in 2009/10, farepayers provided £0.99. By 2017/18, farepayers will be expected to provide £1.29 for every £1.00 provided by central government.
- 2.15 Future cuts in government funding and/or cost increases not yet accounted for by TfL represent a risk of further upwards pressure on fares. However, there are a number of approaches TfL should pursue to reduce the need for farepayers to contribute further. For example, there may be opportunities to secure alternative forms of funds for some projects – Tax Increment Financing, which the Mayor has suggested to fund an extension of the Northern line to Battersea,³² or

²⁷ TfL Board, 23 June 2010, Agenda Item 4, Commissioner's Report, p. 20

²⁸ HM Treasury, Budget 2010, 22 June 2010, para 1.40

²⁹ HM Treasury, Budget 2010, 22 June 2010, para 1.38

³⁰ Budget and Performance Committee, *A fare decision?*, July 2009

³¹ TfL, Business Plan, November 2009, Table 4, p. 90

³² Daily Telegraph, *Mayor demands tax-raising powers to boost London*, 12 June 10

other sources of private finance, Additionally, TfL should continue to look for further efficiency savings on top those identified through its ongoing £5 billion cost reduction programme. Beyond that, the Mayor will need to decide on the balance between further increasing fares and accepting that investment and/or service levels will be reduced.

- 2.16 It is unclear whether or not passengers would accept the need to pay more in fares to make up for reductions in central government subsidy, or whether they would rather see levels of service and investment fall to reflect the unfavourable national financial position. To determine the attitude of passengers to these propositions, we believe there needs to be a public debate about the extent to which passengers are willing to pay more through the farebox to protect planned spending if grants are reduced – although, of course, the Mayor would need to examine the results of such a debate alongside an assessment of the potential consequences of various scenarios for other objectives, such as limiting congestion and emissions.
- 2.17 In the meantime, in advance of the result of the CSR, the Mayor could decide to use the fares increase in January to begin to raise funds to close any potential funding gap. However, the decision is likely to be made more difficult by the uncertainty about grant levels beyond this financial year which is expected to remain at that stage.³³ If the situation remains genuinely uncertain, there may still be arguments for making the fares decision on the basis of the position as it is known at the time, rather than putting up fares at this stage to prepare for uncertain future funding cuts.

Recommendation 2

When the Mayor announces his fares decision in the autumn, he should set out the factors contributing to any increase, including the extent to which it is driven by the potential for future grant reductions. He should give details of the balance between increasing the cost of travelling for passengers and reducing spending on services or investments, as well as the reasons for choosing that balance.

³³ TfL's Managing Director of finance told the Committee that the fares decision needs to be made by September or October at the latest (Budget and Performance Committee meeting, 17 June, transcript, p. 33); the level of TfL's grant will not be known until after the Comprehensive Spending Review announcement in late October.

2.18 If it becomes clear that TfL's grants will be reduced significantly, its Business Plan will need a major revision. The Mayor should take that opportunity to listen to Londoners about their priorities for transport spending. When considering the appropriate balance between fares rises and reductions to services and investment, he would then be able to set the views of Londoners alongside the potential implications for his stated transport objectives, particularly in relation to modal shift.

3 Fairness in the fares decision

Summary of findings

- Passengers subjected to the highest fare increases in 2010 were more likely to be on low incomes than other public transport users. Those using Pay As You Go Oyster cards for bus journeys and those with bus season tickets were affected by the highest fares rises in January. Bus passengers are known, on average, to belong to lower socio-economic groups than passengers using other modes. In addition, our survey results show that passengers who use the bus tickets which increased in price the most are more likely to be on lower incomes than other bus passengers and not to be working. Infrequent bus passengers using PAYG were also more likely to have lost their job or to be working reduced hours as a result of the recession.
- Relatively high inflation and a potential relaxation of the rules governing regulated fares mean that, unlike 2010, Travelcards are likely to be increased in 2011. Last year the Mayor was in the way he could allocate fares rises between ticket types because of a restriction in the amount he could put up the cost of Travelcards because of their links with regulated national rail fares. This year, because inflation is higher, regulated fares are likely to rise significantly allowing the price of Travelcards to go up if necessary. The Government has talked about increasing the amount regulated national rail fares can be increased above inflation next year which would allow the Mayor to increase the price of Travelcards even further should he wish.
- While high inflation and an increase in the maximum permitted level of regulated fares could result in another year of relatively high increases, the Mayor should be able to spread the pain more evenly than in 2010 and could protect those on the lowest incomes most affected by last year's rises.

Groups most affected by the highest fares increases

- 3.1 As part of our work in advance of the Mayor's fares decision the Committee commissioned a survey of bus passengers into changes in travel behaviour over the previous 12 months.³⁴ An interesting set of results came from examining the characteristics of those passengers most affected by the January 2010 fares increase – i.e. those

³⁴ A report of the results of the Committee's survey has been produced by the survey contractor, Steer Davies Gleave, and it is available alongside this report on the GLA website (www.london.gov.uk).

travelling regularly using PAYG Oyster cards or bus seasons tickets, the ticket types subject to the highest increases (20 per cent). Passengers in this group are more likely than average to be in the lowest household income band (less than £15,000 a year).³⁵

- 3.2 We know from TfL's data that buses are used more by people in the lower income groups than the other public transport modes.³⁶ Hence, the results of our survey indicate that, of all public transport passengers who are not eligible for concessions,³⁷ it was those with the lowest levels of income that were most likely to be affected by last year's fares decision. A greater proportion of those most affected is also likely not to be working.³⁸ Additionally, our survey showed that less frequent bus passengers using Oyster Pay As You Go are more likely than other passengers to have lost their job or to be working reduced hours as a result of the recession.³⁹
- 3.3 In relation to those passengers who are out of work, last year we raised concerns about the take-up of the Jobseekers Allowance (JSA) concessionary fare, which at that stage was around 20 per cent.⁴⁰ The most recent information from TfL is that some 53 per cent of those eligible have now successfully applied to receive the concession.⁴¹ This increase in take-up is very welcome.

High inflation now may mean a large fares increases in January

- 3.4 As discussed, TfL is assuming average annual fares increases of RPI plus two per cent until the end of its Business Plan period (2017/18). TfL bases its assessment of RPI on the level in July the previous year. In terms of next year's fares decision, because RPI inflation is around five per cent this July, RPI plus two per cent would mean a rise of around seven per cent.⁴² A seven per cent increase could be perceived by passengers as particularly steep if, as is expected, the time lag from

³⁵ 32 per cent of these passengers had household incomes of less than £15,000, compared to 25 per cent of infrequent users affected by the fares increase and 21 per cent of bus passengers not affected by an increase (survey report, figure 3.6).

³⁶ TfL, *Travel in report London Report 2*, 2010, p. 184 & figure 8.14

³⁷ The survey sample only included passengers who pay for their travel.

³⁸ 35 per cent of frequent bus users affected by the fares increase were not working either full-time or part-time, compared to 26 per cent of infrequent users affected by the increase and 18 per cent of unaffected passengers (survey report, fig 3.10).

³⁹ Survey report, figure 3.18

⁴⁰ Budget and Performance Committee, *A fare decision?*, July 2009, p. 10

⁴¹ Email from TfL to the Budget and Performance Scrutiny Manager, 24 June 2010

⁴² http://www.statistics.gov.uk/downloads/theme_economy/rp04.pdf

July to January means that inflation is at a much lower level by the time the fares increase actually takes effect.⁴³

- 3.5 Annual increases in many 'regulated' national rail fares are capped. Last year, regulated national rail fares were not increased at all because the fares formula had been set at RPI plus one per cent and RPI was -1.4 per cent. TfL's Travelcards were also restricted last year because they allow travel on the national rail network and so are linked to the regulated fares formula.
- 3.6 One potential consequence of higher inflation is that it will be possible to increase regulated fares, including Travelcards, by a greater amount. This gives the Mayor more freedom to allocate fares rises across the range of TfL ticket types and could reduce the relative pressure on unregulated fares, such as PAYG bus tickets. However, if the Mayor implements average fares rises of the RPI plus two per cent, the current RPI plus one cap on national regulated fares would make it impossible not to put up unregulated ticket types by more than the average. Whatever the level of inflation unregulated tickets will have to make up the one percentage point difference between the national upper limit for regulated fares (RPI+1) and the average fare rise in London (RPI+2).
- 3.7 The Secretary of State for Transport has recently warned that a reduced settlement for the Department for Transport could mean the formula for regulated fares being increased for 2011 from the RPI plus one per cent that had been anticipated.⁴⁴ While this would create the potential for bigger increases in the prices of Travelcards, bringing about the prospect of higher fares for many commuters, it would allow the Mayor to protect other types of tickets within an overall RPI plus two fares package.
- 3.8 The Mayor should demonstrate through the allocation of increases between different ticket types that he is committed to protecting the most vulnerable Londoners through his fares decision. Those passengers who bore the brunt of the rises in 2010 – i.e. those bus passengers using PAYG Oyster and bus season tickets – should be spared large rises in 2011, particularly as they tend to be on lower incomes and are more likely to be unemployed or looking for work.**

⁴³ <http://www.hm-treasury.gov.uk/d/201005forcomp.pdf>

⁴⁴ Financial Times, *Hammond warns on rail fares*, 27 June 2010

3.9 It should be noted that the price of these tickets – which rose by the most this year, disproportionately affecting passengers on lower incomes – is not regulated by the Department for Transport. If the Mayor is persuaded that an RPI plus two per cent fares rise in 2011 is necessary, the difference between that and a Government cap of RPI plus one for regulated fares would result in a systemic barrier to protecting those passengers using unregulated tickets from a further higher than average fares rise next year.

Recommendation 3

We recommend that in 2011 PAYG bus fares and bus season tickets should not increase by more than the average rate applied to other fares.

In its response to this report by the end of September, TfL should show what assessment it has done of the implications for the affordability of public transport of the average fares rise of around seven per cent it says it is likely to recommend for January 2011.

4 The fares decision and travel behaviour

Summary of findings

- Stable overall demand for buses masks a significant level of ‘churn’ at an individual passenger level. There are many factors affecting how individuals choose to make all their various journeys each week. People change their travel behaviour because they move house or change their place or work, if their financial position changes, or if their circumstances change in some other way. Our survey indicates that around 40 per cent of passengers have either increased or decreased their bus usage over the past year.
- Our survey indicates that the increase in fares may have affected the travel behaviour of some passengers. It allows a comparison between changes to the travel behaviour of passengers affected by the bus price rises and those using other ticket types such as Travelcards where bus fares did not go up. It shows some differences between the two groups, particular in relation to infrequent passengers, even though fares were not generally cited as a primary reason for changes. Infrequent users of buses affected by a fares increase reduced their proportion of bus journeys by more than half. Also, bus travel in parts of outer London appears to have slightly declined relative to in inner London, although it is difficult to attribute causes to these changes.
- Although our results show only slight movements it is clear that the decisions of the Mayor about the allocation of fares rises between the modes and between different ticket types have the potential to affect travel behaviour. As such the Mayor’s fares decision has the potential to work against the target for a shift on to public transport in his Transport Strategy.

- 4.1 TfL’s figures show that overall bus demand has not decreased over the past year, even though there has been a recession and a substantial fares increase. However, the Committee’s survey shows that TfL’s overall figure masks considerable ‘churn’ in bus usage by individuals. Our survey indicates that around 60 per cent of people’s bus travel habits have remained about the same since this time last year, while around 20 per cent have increased the amount they travel by bus and a similar amount now travel by bus less often than a year ago.⁴⁵
- 4.2 TfL had estimated that the economic downturn and the fares increase in January would act to reduce bus ridership. However, it is difficult to isolate these effects because of the other factors in play. Different

⁴⁵ Survey report, para 3.2

responses to the economic downturn and the fares rise between different groups of passengers, for example in inner and outer London, are also hard to identify using existing data.

- 4.3 For those passengers who now travelled less often by bus, when asked to give the main reasons for that change, they did not tend to cite the fares increase or the economic downturn. The most mentioned reason for a decrease in bus journeys was a change in home address or job, followed by a change in lifestyle; other reasons for reducing bus use included walking and cycling more, using their car more and recently purchasing a car or motorcycle.⁴⁶
- 4.4 However, analysis of the survey results suggests that the fares increase in January could have affected the travel behaviour of some passengers. Comparing changes in bus travel behaviour between those bus passengers using tickets where fares were not increased (including Travelcards) and those affected by fares increases (mostly of around 20 per cent, including Pay as You Go Oyster), there are some interesting differences.⁴⁷
- 4.5 Across those bus passengers not affected by fares increases the proportion of journeys taken by each mode of transport did not change significantly between last year and this. For frequent passengers who were affected by an increase there was also not a significant change in modal share. In contrast, for infrequent passengers affected by an increase there was a distinct change in travel behaviour.
- 4.6 Our survey shows that infrequent bus users using tickets which went up in price are travelling less by bus than a year ago, walking and driving more. The average share of their travel undertaken by bus was around seven per cent in 2009 and it reduced by more than half to just over two per cent in 2010.⁴⁸ This group are predominately Pay As You Go Oyster card users and it does not seem surprising that they are travelling slightly less often by bus since the fares rise.
- 4.7 Looking at a representative sample of all bus passengers in London, the proportion of their journeys made by bus has remained broadly stable over the past year. Within that, however, there are differences

⁴⁶ Survey report, figure 3.16

⁴⁷ Survey report, figure 3.14

⁴⁸ Survey report, figure 3.14

between different parts of the city. Our survey indicates that in inner London more people had increased their bus use than decreased it.⁴⁹ In parts of outer London, particularly the east and west regions, bus journeys appear to have decreased, with more passengers now travelling less by bus than travelling more compared to a year ago.⁵⁰ However, it is not clear the extent to which fare changes played a role in that.

- 4.8 More work needs to be done to attribute with certainty causes to these slight modal shifts. However, the results of our survey show that the travel patterns of some bus passengers affected by the fares increase changed over the past year while those of people using tickets not subject to an increase did not, on average.**
- 4.9 In some parts of outer London, the survey indicates, bus journeys could be declining relative to inner London. The survey does not provide conclusive evidence in relation to how trips formerly made by bus are now being made. A move towards more walked or cycled trips would be consistent with the Mayor's objectives for congestion, pollution and climate change. However, a rise in car journeys would work against the target in the Mayor's Transport Strategy to increase modal share for public transport, walking and cycling from 57 to 63 per cent by 2031.⁵¹**

⁴⁹ 22 per cent of passengers surveyed living in inner London had increased their bus usage while 13 per cent had decreased their bus usage (survey report, figure 3.11).

⁵⁰ Survey report, figure 3.11

⁵¹ Mayor's Transport Strategy, para 159

Recommendation 4

When allocating fares rises between bus and Tube passengers the Mayor should be mindful of the potential for fares rises to bring about undesirable modal shift away from public transport. To enable him to do this TfL's response to this report should include an assessment of the likely implications for modal shift of a number of options for the distribution between the modes of its preferred RPI plus two per cent fares rise.

When he publishes his fares decision, the Mayor should show he has considered the relative effects of bus and Tube fare increases in terms of discouraging public transport trips.

- 4.10 While the evidence available to date from our work is not sufficient to justify a specific recommendation on the relative levels of bus and Tube fares, it does highlight a potential area of risk for the Mayor's fares policy. He will need to consider this risk that further increasing bus fares in January 2011 might promote an increase in car trips and ensure that measures are in place to monitor the effect on car usage of future fares increases.

5 Conclusions

- 5.1 The Mayor's annual fares decision is going to be more difficult than usual this year. In the past, this Mayor and his predecessor have needed to draw a balance between the additional revenue required by TfL from a financial perspective and considerations of the affordability to farepayers of potential fares rises – not to mention considerations of the popularity or otherwise of increases amongst voters.
- 5.2 This time around the financial climate in which the decision needs to be made is unlike any since the Mayoralty was created. There is a very real risk that TfL's funding from government will be significantly reduced over the coming years from the level on which its plan for future investment and service provision is based. The situation is complicated by the fact that the Mayor will need to make his fares decision in September or October, before the future scale of government funding for TfL has been finalised – probably in November or early December.
- 5.3 We believe that whatever decision the Mayor makes should be backed up by credible information from TfL on its potential implications for TfL's finances, for travel behaviour and for affordability for passengers. To start with, TfL needs to justify publicly its claim that an average increase of two per cent above RPI – i.e. around seven per cent – is necessary to balance its books, based on current assumptions.
- 5.4 If the Mayor is convinced of TfL's argument for the need for an above-inflation fares rise, the decisions he makes about the allocation of individual rises across the different ticket types could have significant implications in relation to fairness and travel behaviour. We consider that the protection of those passengers who would find big rises most difficult to be an important aim. This could be seen as analogous to the wide-spread aspiration to protect the most vulnerable from the worst of the pain of dealing with the national financial situation.
- 5.5 We have shown in this report that some of the most potentially vulnerable passengers – including those on the lowest incomes or not working – are most likely to travel by bus using Oyster Pay As You Go or bus seasons tickets. That these were the very tickets which were subject to the increases of up to 20 per cent in January 2010 adds weight to our recommendation that their price should not be increased by more than the average next year.

- 5.6 Finally, when deciding on how fares rises are distributed, the Mayor will need to consider their potential to change passengers' travel behaviour. Our research gives some indications of potentially worrying changes in travel patterns since this time last year, particularly a slight net decrease in bus journeys in parts of outer London. When considering 2011 fares this autumn, the Mayor will need to take seriously the potential for his decision to discourage travel by public transport and cause an increase in congestion and emissions caused by cars. We call for him to make clear how he has taken these potentially damaging effects of fares rises into account when he announces his decision.
- 5.7 It may not be possible for the Mayor to balance all the factors we have highlighted when making his fares decision. Between considerations of TfL's finances, fairness across different groups of passengers and concerns about the adverse effects of potential changes to travel behaviour, there may not be a perfect solution. Nonetheless, we believe that this makes transparency and proper scrutiny of the evidence base and the decision making process all the more important. As well as a specific call to hold down Oyster PAYG bus fares and bus season tickets next year, our recommendations in this report are designed to bring this about.

Appendix 1 Recommendations

Recommendation 1

In response to this report, TfL should publish detailed information about the cost increases it faces and a revised projection for fares revenue in 2010/11. It should answer the questions in paragraph 2.11, setting out a comparison between the likely increases in revenue and costs in order to justify the need for an RPI plus two per cent average fares increase. TfL should also describe what options, other than raising fares by RPI plus two, were considered before deciding to recommend that to the Mayor.

In making our recommendation we hope to assist the Mayor in properly scrutinising the advice he receives from TfL.

TfL's response should be received by the end of September 2010 or before the Mayor announces his fares decision – whichever is earlier.

Recommendation 2

When the Mayor announces his fares decision in the autumn, he should set out the factors contributing to any increase, including the extent to which it is driven by the potential for future grant reductions. He should give details of the balance between increasing the cost of travelling for passengers and reducing spending on services or investments, as well as the reasons for choosing that balance.

Recommendation 3

We recommend that in 2011 PAYG bus fares and bus season tickets should not increase by more than the average rate applied to other fares.

In its response to this report by the end of September, TfL should show what assessment it has done of the implications for the affordability of public transport of the average fares rise of around seven per cent it says it is likely to recommend for January 2011.

Recommendation 4

When allocating fares rises between bus and Tube passengers the Mayor should be mindful of the potential for fares rises to bring about undesirable modal shift away from public transport. To enable him to do this TfL's response to this report should include an assessment of the likely implications for modal shift of a number of options for the distribution between the modes of its preferred RPI plus two per cent fares rise.

When he publishes his fares decision, the Mayor should show he has considered the relative effects of bus and Tube fare increases in terms of discouraging public transport trips.

Appendix 2 Orders and translations

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Vietnamese

Nếu ông (bà) muốn nội dung văn bản này được dịch sang tiếng Việt, xin vui lòng liên hệ với chúng tôi bằng điện thoại, thư hoặc thư điện tử theo địa chỉ ở trên.

Greek

Εάν επιθυμείτε περίληψη αυτού του κειμένου στην γλώσσα σας, παρακαλώ καλέστε τον αριθμό ή επικοινωνήστε μαζί μας στην ανωτέρω ταχυδρομική ή την ηλεκτρονική διεύθυνση.

Turkish

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Punjabi

ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਸੰਖੇਪ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਲੈਣਾ ਚਾਹੋ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਇਸ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਉਪਰ ਦਿੱਤੇ ਡਾਕ ਜਾਂ ਈਮੇਲ ਪਤੇ 'ਤੇ ਸਾਨੂੰ ਸੰਪਰਕ ਕਰੋ।

Hindi

यदि आपको इस दस्तावेज़ का सारांश अपनी भाषा में चाहिए तो उपर दिये हुए नंबर पर फोन करें या उपर दिये गये डाक पते या ई मेल पते पर हम से संपर्क करें।

Bengali

আপনি যদি এই দলিলের একটি সারাংশ নিজের ভাষায় পেতে চান, তাহলে দয়া করে যোগাযোগ করবেন অথবা উল্লিখিত ডাক ঠিকানায় বা ই-মেইল ঠিকানায় আমাদের সাথে যোগাযোগ করবেন।

Urdu

اگر آپ کو اس دستاویز کا خلاصہ اپنی زبان میں درکار ہو تو، براہ کرم نمبر پر فون کریں یا مذکورہ بالا ڈاک کے پتے یا ای میل پتے پر ہم سے رابطہ کریں۔

Arabic

الحصول على ملخص لهذا المستند بلغة،
فرجاء الاتصال برقم الهاتف أو الاتصال على
العنوان البريدي أو العادي أو عنوان البريد
الإلكتروني أعلاه.

Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં જોડતો હોય તો ઉપર આપેલ નંબર પર ફોન કરો અથવા ઉપર આપેલ ટપાલ અથવા ઈ-મેઇલ સરનામા પર અમારો સંપર્ક કરો.

Appendix 3 Principles of scrutiny page

An aim for action

An Assembly scrutiny is not an end in itself. It aims for action to achieve improvement.

Independence

An Assembly scrutiny is conducted with objectivity; nothing should be done that could impair the independence of the process.

Holding the Mayor to account

The Assembly rigorously examines all aspects of the Mayor's strategies.

Inclusiveness

An Assembly scrutiny consults widely, having regard to issues of timeliness and cost.

Constructiveness

The Assembly conducts its scrutinies and investigations in a positive manner, recognising the need to work with stakeholders and the Mayor to achieve improvement.

Value for money

When conducting a scrutiny the Assembly is conscious of the need to spend public money effectively.

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