

Budget and Performance Committee 18 June 2009

**Transcript of Item 8: Proposal for an Investigation
into the Impact of the Mayor's Fares Decision**

John Biggs (Chairman): Do you want to make an opening statement about the role of Transport for London (TfL) in fare-setting and advising the Mayor on this?

Steve Allen (Managing Director, Finance, TfL): Of course, the position is that fares are set by the Mayor. That is the position laid down in the GLA Act [the GLA Act 1999 (as amended)] and that is the Mayor in his personal authority rather than acting as Chair of the TfL Board. So clearly, he will take a number of factors into consideration in coming to that decision, one of which is the impact on TfL's finances but he will also look at affordability of fares in the current environment and I suspect a range of representations that he may receive. That is, ultimately, his decision and his alone and not one for TfL or the TfL Board.

John Biggs (Chairman): One of the reasons we are here today is because that is - I think we all recognise - a bit of a fiction in that you cannot set the fares policy independently of the rest of the budgets. Obviously say, for example, he was to abolish fares in a flight of fancy then that would completely cripple the TfL budgets, if he was to not increase them --

Steve Allen (Managing Director, Finance, TfL): That would have an impact on us, yes.

John Biggs (Chairman): -- by the levels that seem to be required to fund investments then that might cause you problems and so on and so on, and we are going to explore that a bit further. So, one of the reasons we are considering this matter today is because there is a bit of a fiction there: the Mayor secretly, privately, considers his fares decision but clearly it is part of a wider set of decisions about budgets. And you would accept that fundamental analysis would you not?

Steve Allen (Managing Director, Finance, TfL): Certainly we discuss with him his intentions on fares and we make him aware of the impact that any decisions might have on TfL's budgets as part of the considerations he takes.

John Biggs (Chairman): OK. I think we will explore this a bit further but another reason we are interested in this is, of course, in the current economic circumstances life might get more difficult.

So shall I start with a gentle question which is, with the Retail Price Index (RPI) and fares in the sense that they are linked to RPI - RPI plus 1% is the formula the Mayor has used in previous years. It is RPI in July of the previous year so it is next month's RPI figure that would tend to set the fares level. Can you tell us what scope the Mayor has to increase fares by more than RPI plus 1%?

Steve Allen (Managing Director, Finance, TfL): As I understand it - and Shashi [Verma] will correct me if I get this wrong - the Mayor has the discretion to set fares at whatever level he sees fit. Clearly, the general level of inflation is one of the factors that he will take into consideration. The particular reason for looking at the July RPI is that that is embedded in the

Travelcard Agreement which is the agreement between TfL and the train operating companies which says that we should agree further increases for the Travelcard product. The assumption is that you use the July RPI as the starting basis for that and, if you are unable to reach agreement, then the default position in the Travelcard agreement is that Travelcard will increase in January by the RPI in the previous July.

John Biggs (Chairman): One per cent?

Steve Allen (Managing Director, Finance, TfL): No. The default position in the Travelcard agreement is RPI. So if we are unable to reach agreement with the train operating companies that is what happens automatically.

We in our business plan have made a planning assumption throughout the period of the business plan - so that is up to 2017/18 - that fares will generally increase in line with RPI plus 1% and that is something that the Board has adopted, recognising that the actual decisions year-to-year are for the Mayor. So it is a planning assumption rather than a confirmed statement that that is what is going to happen.

The other factor that is relevant for the Travelcard agreement is the train operating companies, as part of their franchise agreements with Government, enter into -- they have fares' regulations set through their franchise agreement and those are generally at RPI plus 1%. So they have a basket of their fares - including Travelcard but including various other fares products - that generally needs to rise by RPI plus 1%. If we want to do something different from that with Travelcard then that is potentially a constraint in the system.

John Biggs (Chairman): So just to chase it up in two questions. The first is that there has been some coverage in the national press of this, that train operating companies have lobbied the Government and said that if RPI is less than minus 1% - which is quite possible - that would imply on the RPI plus 1% that they have a fare cut next year. There was some fairly unambiguous coverage in the press that the Government has said, "Well, tough. If that is what the formula says then you will have to cut your fares". I think that is a matter of public record. You are saying that TfL is not bound by that in any particular way?

Steve Allen (Managing Director, Finance, TfL): That is correct. That is my understanding from the press, as you say. TfL is not bound by national Government fare decisions in any formal sense except the need to negotiate the price of Travelcard which is part of the regulated fares basket that it is bound by with Government.

John Biggs (Chairman): Is there a reserve power of direction from the Secretary of State? There may or may not be, but it is unlikely it would be used if there was.

Steve Allen (Managing Director, Finance, TfL): There is a reserve power. The Secretary of State has the power to direct the Mayor's Transport Strategy if it is incompatible with national transport strategy but that is at a strategic level rather than an individual level.

John Biggs (Chairman): OK. The other question then is that someone who looked remarkably like the Mayor and, indeed, was the Mayor sat opposite us at the London Assembly Transport Committee a few months back and berated the previous Mayor's policy of freezing fares in the last year of the administration, and said that part of the agreement that had been entered into to fund Crossrail required TfL to increase fares by RPI plus 1% and this was a

solemn undertaking which he considered the previous Mayor had reneged on and that forced him to put up fares this year by RPI plus 1%.

I think that is a matter of record of what he said; essentially that was his justification. I do not know if you were there at that meeting or whether you are acquainted with that. Certainly Mr Ranger was there and I think that was what was said at the time. Do you think that is a fair record of the discussion we had previously?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): I do not recall being at that meeting. I think the advice that we received from TfL and this Mayor has is that it is not just about Crossrail; it was actually the funding package, the Spending Review 2007, that was agreed with Government and on that basis there was an assumption in TfL's budgetary planning that fares would be increasing approximately RPI plus 1%.

Steve Allen (Managing Director, Finance, TfL): Yes. I think the solemn undertaking between the previous Mayor and Government is rather overstating it. There was a Spending Review settlement which included, amongst other things, the funding package for Crossrail but also included the continued funding for the line upgrades in the Tube and various other TfL investments. It was clearly understood on the part of the Mayor and TfL that a consistent fares policy of RPI plus 1% throughout the period of the Spending Review settlement was needed in order to make that plan balance. That also accorded with Government policy on the train operating companies, so it was compatible in that sense too.

But I think to say it was a solemn undertaking -- Government would have stepped back from that because that is intruding on devolution of powers to the Mayor.

John Biggs (Chairman): Right. So I am wrong in two respects. One is it was not just about Crossrail and, secondly, it was not a solemn undertaking - but it was an understanding and I think the record of those committee meetings will tell us that the Mayor used that as an argument to underpin his RPI plus 1% fare increase for the current year.

Richard Tracey (AM): Can I take you on to the vanishing passengers or returning passengers? What assumptions have you made on how and when passenger demand will return to the levels forecast in the business plan?

Steve Allen (Managing Director, Finance, TfL): I will probably ask Shashi [Verma] to come in on this. The way we work is we take external economic assumptions. So passenger demand is obviously linked to the general level of activity in the economy and that is probably one of the major drivers. Also population numbers in London and so forth. So we rely on external forecasts of those things as an input to the fares modelling that we do. Our practice has been to adopt the modelling from GLA Economics as our base assumption in the business plan and input that into our fares model in terms of what that produces in terms of fares income.

There is a slight disjoint in the planning timetable as to when those forecasts are available. I think the GLA Economics forecasts come out in February and August, but August is actually a little late to be using for a business plan that we adopt in October because it takes a bit of time to work through the numbers and agree the detail of it with each of the operating businesses. So we tend to be using the slightly out of date forecasts which in past years have not been a particularly great issue because the forecasts have not changed much from one forecast to the other. Obviously, in the current environment that has been a change.

So the business plan that the Board adopted in October would have taken as its economic assumption the GLA forecasts from the previous February. So that is what happens in October. We published a balanced business plan in October or November on the basis of those forecasts which also inputs into the Mayor's budget which goes through the Assembly approval process. We then publish a one year budget in March which gives us the opportunity to update the forecasts from August.

So that is what we are doing. That is what we did. Then we will look again at the business plan this October and look again at a revised economic forecast. Now obviously there is a lot of uncertainty around economic forecasts at the moment. I suspect we will continue to use GLA Economics forecasts as the base assumption in our business plan. Given there is a bit of a lag we might look at whether there are any changes since the most recent forecasts have been published. It might be material in the context of the plan. There is clearly consensus that economic growth is down this year and next. There is much less consensus as to how quickly it might come back and therefore what the overall impact over the life of the business plan will be. Those are things that we will take the best available evidence from in looking at the inputs that we put into the fares modelling.

Richard Tracey (AM): Can I ask you, Shashi, what is the reality? Have many passengers disappeared? As many as you would expect or have they not disappeared as rapidly? Are they coming back? What is the reality from your experience in dealing with fares and ticketing?

Shashi Verma (Director of Fares and Ticketing, TfL): The reality is very murky right now. There are a number of factors that are going on in parallel. Bus revenue, for example, is holding up quite well. Tube revenue is down, as we would expect from the economic forecasts. But there are other factors going on as well. So, for example, the devaluation of sterling over the last few months has given a big increase to the number of tourists in London.

There is no doubt that the recession is having an impact but it is not a very marked impact yet and it is not a marked impact yet mainly because the job losses in London have not been quite as bad as the national numbers are. Likewise, the devaluation of sterling has given rise to other kinds of traffic which we did not have before.

Where we are right now is that we could make a forecast every week and it would be different every week because there is that much uncertainty in the underlying economic factors. So we can keep updating the forecasts but that does not shed any more light on what is about to happen.

Richard Tracey (AM): Right.

John Biggs (Chairman): I appreciate your technical answers and that life is unpredictable. I have two very simple questions. The first is, in prior recessions there has been a decline in Tube ridership so it has fallen below projections and it has, in real terms, declined, depending on the severity of the recession. Buses have tended to be less determined by that. That is a matter of record is it not?

Secondly, on the last two, three and four months' trends there has been a reduction in Tube ridership. Starting with a reduction in the predicted growth there has actually been a real reduction in Tube ridership in the last couple of months. I think that is a matter of record as well.

Steve Allen (Managing Director, Finance, TfL): Yes. It gets slightly difficult. One of the reasons why Shashi was saying it is a bit murky is not that we do not have the data; it is that year-on-year comparisons get distorted by which week Easter falls in and particular holidays. How many working days you have in a particular week is quite a big factor in looking at the year on year comparisons of fare revenue and then we had things like disruption due to the snow and so forth.

Shashi Verma (Director of Fares and Ticketing, TfL): It has been genuinely difficult to do this analysis because in February we had the snow event which caused disruption; Easter was in March last year and in April this year so both March and April have been difficult to analyse. Of late we have had the strikes which have had their own impact. So we do not have a stable set of numbers on which you can establish very clear trends.

What I think can be said is that, yes, Tube numbers have gone down but they have not gone down by any more than what has already been accounted for in the business plan and the budget, so far. Now they could go down by more. They could go down by less in the future. We have not seen the kind of sharp drop in the Tube traffic this time, so far, as we saw in 1991.

John Biggs (Chairman): Obviously, the fare increases meant that although there might be a reduction in riders the revenue might have held up. But the fact remains in the next month or so you will need to produce your advice to the Mayor on which he will start deciding what to do with fares next year. Yes?

Shashi Verma (Director of Fares and Ticketing, TfL): Yes.

Richard Tracey (AM): Can you tell me what assumptions you are making for RPI in 2010?

Steve Allen (Managing Director, Finance, TfL): At the time we put together the last business plan, last October, we put in a general RPI assumption of 2.7% which was in-line with general Government guidance. I think that remains our long-term assumption but given what has happened in the economy we have looked at the near-term - this financial year and next financial year in particular - both in terms of what it means for fares income and operating costs.

Shashi, our assumption for this year - because we work on financial years so 2009/10 --

Shashi Verma (Director of Fares and Ticketing, TfL): It is minus 2% this year and then reverting back to 2.7% next year. The reason for that, again, RPI statistics are no less murky than passenger statistics right now. The latest RPI numbers that came out a couple of days ago were a lot higher than anyone had expected them to be. It certainly beat all the forecasts. Again, there, there are a number of countervailing factors that are going on, including the depreciation of sterling. But from the commentary on these statistics two days ago it appears that this was a result of seasonal variations in the price of food commodities.

Now, again, we can make planning assumptions and we have. But from where we are right now it seems almost a certainty that we have to alter plans for the fact that these numbers will have to vary because that just seems to be the way the economy is right now. Trying to predict what RPI is going to be in July 2010 is a rather brave exercise right now.

Richard Tracey (AM): I would agree. What plans have you got if the revenue does not support the capital programme as it is presently laid out? What plans have you got for re-scoping, de-scoping and so on of the capital programme? Can you tell us something about that?

Steve Allen (Managing Director, Finance, TfL): That, of course, is precisely the process of revisiting the business plan that we will be engaging with our Board., that we are starting now, up until adoption of a revised plan in October. The first place we would look is are there additional efficiencies that we can generate so cuts in operating expenditure that do not have an impact on the levels of service or investment in the plan? Then, effectively, you would look at what are the lowest priority things either in terms of service levels or investment and see whether there is an opportunity to re-profile or defer some of those things. But that is a process that obviously needs lots of engagement with the Board and with the Mayor on those changes, which we are just starting to do.

Richard Tracey (AM): Not directly relevant necessarily, but I have read and heard some criticisms of some of the TfL engineering that it is unnecessarily expensive and, perhaps, rather bureaucratic in some ways and there could be some savings made in those areas. Can you comment on that or is that not really in your territory?

Steve Allen (Managing Director, Finance, TfL): Well, I probably cannot on the substance because I am not an engineer. Clearly, if we could reduce the cost of some of our investment programmes whilst still delivering broadly the same improvement to the operating services that is clearly the sort of thing we would look to do rather than cancel or defer specific investments. In the same way that on the operating side we would look for efficiency savings. We have already got £2.4 billion of savings baked into the plan that we adopted in October of last year. We would look for further efficiency savings on top of that before we looked at anything that might have an impact on the level of operating services.

So that is an exercise we are very actively pursuing at the moment and, I believe, we will generate, in both respects, further savings that do not have an impact on operational services and savings on the investment programme that do not impact on the improvements to those services that those investments are expected to deliver.

Richard Tracey (AM): Thank you.

Murad Qureshi (AM): I just wanted to go into the whole issue that has been touched on - modal shift during recession. You touched on the possible shift between Tube and bus use. I would have thought TfL, having been through previous recessions, would know the trends there. But the main modal shift is between cars and public transport and given all the initiatives taken by TfL to encourage people to use transport I am just wondering where we are on that one? Because I see some evidence that, actually, there are people during recessions where in their own personal expenditure they drop the use of cars and start using the Tube, for example. It has become more frequent to see prams in the Tube which I have not seen in previous years and decades. I just wondered whether that is happening during these times?

Shashi Verma (Director of Fares and Ticketing, TfL): It is conceivable that it is happening. A lot of these things are difficult to analyse in close to real time because it requires a lot of data to be crunched together.

What is definitely true is that with the petrol price increases last year we saw some evidence of people getting out of cars and into public transport of both Tube and bus varieties. With the petrol prices going back down that factor may have gone away again.

It is very difficult to actually deal with these effects at the margins. It is quite difficult to actually figure out from the entire travelling public and Tube how much of that demand is

actually coming from factors of this kind. Petrol prices: I think there is a case to be made that, yes, there was an impact for that. There may be a similar case from the recession with people feeling their budgets have been tightened. It is not something that is noticeable yet certainly in the statistics. Yes, there is a lot of anecdotal evidence, of the kind that you have just suggested, around. It is quite difficult to pick that up in statistics yet.

Modal shift between the Tube and buses. There is no evidence of that happening because of the recession. What does happen is that bus traffic is driven by a very different set of activities than Tube travel. Tube travel is very heavily influenced by central London employment and shadow central London employment whereas bus traffic reflects many other types of activities as well so it is more robust.

Darren Johnson (AM): Have you done detailed modelling on the scenarios for different modes of transport and fares structure and so on?

Shashi Verma (Director of Fares and Ticketing, TfL): Well, the way we do this is that we have econometric analysis that goes back all the way to 1970 to estimate the impact of various factors including population employment, gross domestic product (GDP) growth, road congestion, fares and so on and so forth. Those are the parameters that we use to convert the forecasts for those factors into our ridership numbers. So in that respect, yes, we have some knowledge of --

Darren Johnson (AM): Is it possible to share some of that knowledge with the Committee? I think some of that reporting information would be extremely useful for us.

Shashi Verma (Director of Fares and Ticketing, TfL): The reports on the econometric analysis have always been in the public domain so if you want to see those you can obviously see those.

I think that the big uncertainty that always exists with econometric analysis of this kind is that that is a look back. What we are trying to do is look ahead and it is always questionable which is something that we need to take into account in our analysis as to whether those factors still hold.

Darren Johnson (AM): Well if you could help us with information on that I think it would be useful for the Committee.

But I was going to ask as well, the TfL business plan shows fares steadily rising up to 2018 but it shows income from the Congestion Charge and the Low Emission Zone (LEZ) actually falling for most of that period. If we are looking at restructuring and revisiting some of these questions does that need to be looked at?

Steve Allen (Managing Director, Finance, TfL): Clearly, in looking at the business plan we will look at all sources of income and discuss with the Mayor whether there are opportunities for - in terms of balancing the business plan - changing the shift of income so Congestion Charge might well be something we look at and the Board and the Mayor would have to be comfortable with any changes that were proposed.

Darren Johnson (AM): Kulveer [Ranger], has the Mayor's Office given any thought to that given that the Congestion Charging income is shown to fall yet fares are shown to steadily rise?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): Well, I think in the first instance the Mayor acknowledges that the Congestion Charge is not something that we look at as a revenue-generating policy; it was to do with encouraging modal shift away from cars. If there is a reduction in the income that is coming from that there is obviously --

Darren Johnson (AM): Absolutely. But if it always gets more and more expensive to travel on the bus and always gets cheaper and cheaper, comparatively, to travel in the car because the pricing structure of Congestion Charging as opposed to fares, then that does impact on modal shift surely?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): Sure. But I think this debate and discussion has demonstrated that there are other macro factors that actually impact on the cost of driving and that have a greater influence than you could even say the Congestion Charge has. For example, fuel prices, probably taxation and many other things. So that would all have to be looked at in terms of then what happens --

Darren Johnson (AM): But congestion charging will not be kept as a separate item that is not revisited and that is not looked at in terms of the overall income and revenue streams? That is something that is thrown in the pot as part of the consideration?

John Biggs (Chairman): You do not give your Congestion Charge income to charity, for example do you?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): No, I do not think that is anything anyone --

John Biggs (Chairman): So that is part of the revenues of TfL?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): Yes. But as TfL has said, it would look at all its revenue streams and then come to us and say, "This is what we project" -

Darren Johnson (AM): It will be looked at and will not be set in stone then?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): It will be looked at, yes. As will everything.

Mike Tuffrey (Deputy Chairman): Roger [Evans] is going to talk about construction costs in a moment so I will not go there but what about the financing costs of the external debt? Now, the majority of that is Public Works Loan Board (PWLb) but, obviously, you pay an interest rate on that. What are your expectations about the cost of borrowing?

Steve Allen (Managing Director, Finance, TfL): The assumption that we have factored into the business plan is a 6% cost of borrowing. That is something we are, fortunately, able to borrow well within. It is certainly the case currently that that remains a conservative assumption that we have been using. Because we have access to the Public Works Loan Board we have been able to borrow well inside that. Also the European Investment Bank is the other continued source of borrowing that we have been accessing.

Mike Tuffrey (Deputy Chairman): So your assumptions - if I understand what you have just said - is the cost of borrowing, you are well within that so, in recessionary times, when interest rates have been cut, there is a sort of compensating saving that you can expect?

Steve Allen (Managing Director, Finance, TfL): Yes. Sorry. The position with interest rates is slightly complicated because we are generally borrowing over long-term periods and fixing the interest rate so it is not just a question of what the immediate interest rate is; it is the yield curve over the period over which we are borrowing. The long end of the yield curve has been pretty stable.

Previously we had the unusual situation where short-term interest rates were actually higher than long-term interest rates. Now it is getting more as you would expect; that there is a premium for lending money over the longer term and you have got a more traditional yield curve. In practice what that has meant for us is the cost of borrowing over the long term has not really changed that much and remains well within our business plan assumption.

Mike Tuffrey (Deputy Chairman): OK. I have been reading the risk ratings from people like Standard and Poor's and Fitch who presumably, if they take a different view, that would affect the cost of borrowing?

Steve Allen (Managing Director, Finance, TfL): It would affect our cost of borrowing if we were going to borrow externally in the bond markets. We have had three bond issues since the prudential borrowing regime came in. We have not done it recently because of the impact of the credit crunch on the bond markets has been that the cost of borrowing even at high credit ratings is disproportionately higher than it was at the time we issued which is why we have been doing all our borrowing through PWLB and the European Investment Bank.

Mike Tuffrey (Deputy Chairman): And you expect that to continue?

Steve Allen (Managing Director, Finance, TfL): Yes. In the current climate. I am hopeful at some point that bond markets will return to - I do not know they will return exactly to how they were before the credit crunch but - something closer that makes it economic for authorities such as TfL to access those sorts of finances. But it certainly is not the case currently.

Mike Tuffrey (Deputy Chairman): OK. What they are saying, in terms of the ratings, is that historically TfL has been viewed as very strong with little or no debt and as a monopoly supplier of transport therefore the revenue side, from their analysis, being sound. But they are starting to ask questions about how sound the finances are going forward and whether that will affect their rating.

Steve Allen (Managing Director, Finance, TfL): I think it is important to recognise that Standard and Poor's and Fitch have both confirmed a strong AA rating. They have not put it on credit watch or anything so, yes, they may be making comments in their report about the additional level of debt that TfL is taking on and the clear risks through this period of economic difficulty but they have maintained those strong credit ratings.

Mike Tuffrey (Deputy Chairman): OK. Thank you. Can I just go back to the RPI? Maybe I am slow this morning but I really did not get a clear answer from you, particularly from Shashi [Verma]. Did you say that your current assumption is that RPI is minus 2%?

Shashi Verma (Director of Fares and Ticketing, TfL): For July. Yes.

Mike Tuffrey (Deputy Chairman): For July. You made the point that you cannot be sure and it will keep changing etc etc but in terms of currently, your assumption is that we will be

looking at RPI at 2% and therefore if the RPI plus 1% formula is stuck to, there would be a fares cut decided this summer for next year?

Shashi Verma (Director of Fares and Ticketing, TfL): Yes.

Mike Tuffrey (Deputy Chairman): OK. Thank you.

John Biggs (Chairman): We may delve into this further but you can see other than for reasons of greed why train operators might not want to cut their fares; because it causes problems with reissuing season tickets and so on. So the argument of a floor might be attractive. Are you contemplating recommending a floor or does that delve too far into your confidential advice to the Mayor for you to be able to answer it?

Shashi Verma (Director of Fares and Ticketing, TfL): I think all of those things need to be taken into consideration.

John Biggs (Chairman): Right. I take that as a real possibility that a fare freeze might be an option rather than a real terms cut.

Shashi Verma (Director of Fares and Ticketing, TfL): With any of these factors both the revenue impacts and the practical impacts of these will need to be taken into account and we hope that the Mayor will take those into account.

John Biggs (Chairman): Right. And I think that is the right answer.

Mike Tuffrey (Deputy Chairman): Yes. Perhaps we could though just ask Kulveer the question since you are the Mayor's brain on these matters - or the closest we have got to the Mayor's brain before us. What is your current thinking in terms of what you are looking to do in the summer?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): To be absolutely honest, Mike, we are waiting for what TfL will tell us and, as you can see, it has got quite a complex process to go through, a moving feast, and is hard to pin down - as you are finding - so we are really waiting for it to come to us and then we will think about it.

Mike Tuffrey (Deputy Chairman): You do not have a feel in your gut as to what is the right thing to do?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): I echo Shashi's [Verma] words and say that would be very brave to have a feel in my gut at this point.

John Biggs (Chairman): I do not know whether to be alarmed or reassured that the Mayor's Office has as little idea as we have as what to do with fares' policy but let's move on --

Kulveer Ranger (Director of Transport Policy, Mayor's Office): Maybe as much as the Treasury and maybe the Prime Minister on what they think the economic situation will be.

John Biggs (Chairman): I think the Prime Minister probably knows the answer.

Valerie Shawcross (AM): I think it does throw into question the use of RPI as a forward planning mechanism because it builds turbulence into the system. But that is a personal comment.

Just a question really about the impact of the change in ticketing technology in all of this because you are looking back at previous data? But you have got far more data now. You can tell where people get on the buses, you must have some linkage of identity to mode; technology gives you the opportunity to shift prices not in coinage chunks, which is what used to happen, you can make odd figure changes - it used to be in 5p and 10p chunk price changes - and it gives you opportunities on modal shift.

It is interesting my colleagues were talking about the interplay of, "We've got to fill the funding gap but equally we might need to spend money to promote modal shift" which is a fundamental concept but nobody has talked about the technological improvements in ticketing in terms of not just charging but of benefiting and most of the major retailers in this country now have things like nectar card schemes or points and there would be a way of interplaying sustainability into some of these issues. You could have a system, for example, of building up credits for Congestion Charge --

John Biggs (Chairman): That is a very well posed question. Can I suggest we rest it on the table until we get to Darren's [Johnson] question a bit later on then you come in on that?

Valerie Shawcross (AM): Oh well. OK. Fair enough. It certainly is a question about planning. What more do you know now and are you using it to the max?

John Biggs (Chairman): Can we just tidy up the capital thing and then we will come back to that?

Roger Evans (AM): We have spoken before about how you can make savings in the capital programme because of low or negative inflation. Can you tell us how much of your capital programme is currently able to take advantage of lower costs?

Steve Allen (Managing Director, Finance, TfL): I suppose there are two elements to that. There is the point at which you tender the contract for the works and then, given that many of the contracts that we let are over a number of years, that contract will then generally have some form of indexation in it which may take into account a number of construction industry indices in how those costs are increased.

So it is clearly the case in the market today that tender prices are very much lower than they have been in recent years so there is a real advantage to letting contracts currently which just reflects the construction companies' keenness for business. But you then also have to take a view in your planning as to what level of indexation of that price you build in over future years.

I am afraid it is going to be similar to the answer I gave to the question on fares. We look at the range of external forecasts of construction price inflation, and there has been quite a lot of detailed work that has been done, particularly around Crossrail, because, of course, with a size of project that large the level of construction inflation is a very significant factor. We give guidance to the individual project managers in terms of their cost assessments.

Now of course these indices take into account lots of different price inflation and different projects are more or less subject to different things. So if there is a particular shortage of supply in, say, signalling engineers, that will impact on a signalling project but it will not impact on a road construction project. So each project has to take into account its own views about inflation and its own market.

But there will certainly be a saving I would say in the investment programme today as against what we planned for in the business plan last October.

Roger Evans (AM): So what I think you are saying is that if you let contracts now you can let them cheaper but you may have to build in increased costs for the later years of those contracts?

Steve Allen (Managing Director, Finance, TfL): That is something you have to take into account, yes.

Roger Evans (AM): Yes. So, if the contracts were let several years ago they would build in a figure for savings for the period that we are in or do you only predict costs going up?

Steve Allen (Managing Director, Finance, TfL): The contracts that were let prior to today's circumstances probably assumed construction inflation was going up. It might be at different rates but it was always going up. People tend not to --

Shashi Verma (Director of Fares and Ticketing, TfL): The answer to this is complicated because every contract actually has different indexation provisions. There are some that follow the RPI and in those cases we are going to make savings this year. In others that do not follow an RPI or have floors on the inflation numbers and so on.

So the answer to the question, "What impact will inflation have on the business plan?" is one that will be taken into account as we prepare the business plan because there is no easy way of doing a global analysis on the current expenditure and saying, "Well, if the inflation goes down by 1% our expenditure is going to go down by X%".

What you need to do is to go back into every single contract and every single area of cost and do the analysis based on what is contained in those contracts to come up with a number which is what we are doing currently in the business plan.

Roger Evans (AM): I appreciate it is a complicated task obviously but it must be possible to do otherwise your business plan would not be worth the paper it was written on if it --

Shashi Verma (Director of Fares and Ticketing, TfL): Absolutely.

Steve Allen (Managing Director, Finance, TfL): That is something that we will be doing as part of the business plan that we publish in October.

Roger Evans (AM): What is the global figure you are working towards for savings? Have you got a ballpark number?

Steve Allen (Managing Director, Finance, TfL): I do not have a global figure that I am working towards.

Roger Evans (AM): Have you got a range of possibilities?

Steve Allen (Managing Director, Finance, TfL): As Shashi says, we need to go through an awful lot of detailed analysis with the individual operating businesses as to how their particular costs will vary. That is something that is currently underway. We are presenting some of that analysis to members of our Board over coming weeks and months and that will come to fruition

in the revised business plan in October. I think it would be premature now to try to put some estimates around that before we have had a debate with our Board.

Roger Evans (AM): You feel you should let your Board know before you let us know?

Steve Allen (Managing Director, Finance, TfL): Yes, I do think that would be appropriate.

Roger Evans (AM): That is perfectly respectable but it is good for us to have it on the record. Is there any thought about doing something that is slightly counter-intuitive which is bringing forward more of the capital spending to take advantage of the lower inflation that you have got now?

Steve Allen (Managing Director, Finance, TfL): That is something we are looking at. There are some real practical constraints. First of all there are planning constraints. You cannot bring forward construction until you have got whatever the requisite planning approvals are.

Secondly, you would want to be careful about doing that so you would not want to let a contract before you had done the design work that you had anticipated doing. You do not want to take short cuts that may get you what looks like a cheaper contract today but actually build in cost increases because you have not prepared well for the contract at the time you let it.

So it is something we are looking at but it is a careful balance and there are a lot of practical constraints as to what you can do in reality.

Roger Evans (AM): You raise an interesting issue there because, all right, the savings are clearly applying to a lot of the physical capital work that is going on. Do inflationary savings apply to all the fees and professional services and planning and design as well?

Steve Allen (Managing Director, Finance, TfL): Absolutely. One of the things we are actively doing is going to those professional consultants who do that kind of work and saying, "The market is pricing these things more cheaply, we expect to see that reduction flowing through in the fees you charge us".

Roger Evans (AM): One of the proverbial things that you hear quite often is that there is only a limited amount of people with tunnelling expertise and limited amount of equipment that can do these projects and, therefore, the whole picture is designed to move them on from one thing to another so that, even if you wanted to, there would not be the capacity to do the extra work now. Is that fair?

Steve Allen (Managing Director, Finance, TfL): Well, clearly, market capacity is a constraint in some sectors. I mentioned signalling engineers; it is a real capacity constraint there. I suppose that impacts both things that you have just mentioned. We could not necessarily do more signalling design work more quickly because there just are not the people to do it. Equally, if we went out to the practices that supply this engineering expertise and said, "We expect to see a blanket cut in the rates you charge us" they might feel able to say, "Well, frankly, we can go and work for Network Rail if you are not going to pay our rates". The lack of depth of the market has an impact on whether or not they feel able to take any pricing reductions.

Roger Evans (AM): So the cost of the resource going up is what tends to limit you rather than the resource running out?

Steve Allen (Managing Director, Finance, TfL): I think it is potentially both but it feeds through in both ways.

Shashi Verma (Director of Fares and Ticketing, TfL): The cost goes up because of the resource themselves; they have other opportunities.

Roger Evans (AM): How is the recession likely to affect Public Private Partnership (PPP) costs for a second review?

Steve Allen (Managing Director, Finance, TfL): Well, in a sense it is no different from anything else we have talked about. There is indexation in the contract which is RPI -- I am trying to remember whether it is RPI or RPI X, but anyway it is general inflation related.

Clearly as Tube Lines is putting together its revised price for the restated terms which they are due to provide by the end of this month, it will be looking at price pressures in its supply chain - pressures and opportunities. So, if it is getting better prices from construction contracts that it is letting then it will be able to reflect that in the price that it passes on to us.

Roger Evans (AM): It will do that will it?

Steve Allen (Managing Director, Finance, TfL): I sincerely hope so. We will clearly negotiate with it to see whether or not we think it has done so sufficiently and to the extent we do not think it has we have the opportunity of seeking the PPP Arbiter's direction on those costs.

Roger Evans (AM): OK.

John Biggs (Chairman): Can I follow that up in a couple of ways just to finish this item off? The first is - and I think the conversation establishes which has been a problem for a long time now - that there is no really strong relationship between general inflation and build cost inflation. There are all sorts of other factors there so you cannot rely on the overall RPI for example. We have to work on guesses at present but my understanding is that there is a potential double whammy on your revenue. The first is that with reductions in ridership you will suffer lower income than your business plan predicts. These are guesstimates but, from my fag packet calculations, you could be talking about several tens of millions of pounds a year in revenue lost as a result of fewer passengers travelling on the network. That is quite plausible.

The second part of this, I guess, is if RPI is close to or below zero or if you have a fares increase of zero or indeed less than zero, then the fares income predictions in your longer term business plan will reduce the result of that as well and that could be several tens of millions of pounds as well. You can correct me if I am wrong on those but the question in relation to capital programme is that that reduces -- because a lot of your costs are fixed costs like wage costs and cost of buying electricity to run trains and so on, the areas of give will be on more discretionary items including capital programmes.

The question would be whether there are risks that capital programme items will have to be axed or delayed as a result of this? Of course, just to complete the picture, as Roger said, there is pressure on the PPP and there is a commitment to funding £500 million a year towards Crossrail, so you have some fixed costs on the capital side. Is there a risk that there are more discretionary or unlet capital contracts that might have to be delayed as a result of this unfortunate combination of events?

Steve Allen (Managing Director, Finance, TfL): You made a number of points there which I will try to pick up.

John Biggs (Chairman): I thought that would save us having to debate it for three hours or so!

Steve Allen (Managing Director, Finance, TfL): Without speculating on the numbers it is certainly correct there is an impact on the fares side both from demand levels and from lower inflation feeding through into the actual fare income that we receive. We talked through the way the impact feeds through in capital construction prices.

One thing just to pick up on that is you mentioned wages. Wages also tend to be inflation related so, to the extent that the inflation assumptions are lower than we assumed at the time we did the business plan in October, that is potentially a lower cost than we had assumed at that time.

It is not true that the only flex is the capital side and I did mention earlier that we are looking very thoroughly through the business plan for additional efficiency-related savings that reduce the need for any impact on the capital programme.

Clearly, TfL has to live within its overall funding and it is not immune to all these impacts of the economic environment that we have talked about. So we will have to look at all the measures that are available to us and that may, ultimately, have an impact on discretionary programmes. That is something that we need to work through with our Board and with the Mayor. So, it is certainly a possibility and it would be extremely rash to give an assurance at this stage that there is no risk to any programme but, as I said earlier, the first priority is to look at efficiency savings that do not have an impact on the level of operating services we provide and whether, either through reductions in inflation or general cost efficiencies that we can take out of the capital side, we can effectively deliver more or less the same improvements to the system at lower cost than we had previously assumed. So those have got to be the first priorities and then we see where we get to with that.

John Biggs (Chairman): Mr Ranger, do you have a hierarchy of more or less sacred cows, if you like, in the capital programme? Things that must be protected? I suppose Crossrail costs are one of those and others which are more discretionary?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): Not really, actually. What we are looking at is saying, "We would like to maintain the programme". So the challenge to TfL and to Steve [Allen] and his team is to work within their programme to identify the efficiencies and the savings they can to ensure that we can deliver all, if not as much as possible, of that capital programme.

John Biggs (Chairman): OK. Shall we move on?

Steve Allen (Managing Director, Finance, TfL): Sorry. You mentioned Crossrail and I did not pick up on that. TfL's contribution to Crossrail is a fixed cash contribution. Crossrail in its estimates have made provision for construction inflation and the need to have risk and contingency budgets. So changes in the inflation position do not affect TfL's funding position towards Crossrail. That is more a question of whether it can live within the risk and provision that it has made within its cost estimates.

Mike Tuffrey (Deputy Chairman): We are talking here about an overall percentage increase in fares but it applies differently to the different products and transport modes. So why do we not get an answer to Val's [Shawcross] question which, I think, was all about have you not got more data to be cleverer about how you get a mix of fare changes?

Shashi Verma (Director of Fares and Ticketing, TfL): We do have a lot more data. That goes without saying. But, to be fair to all of my predecessors, we actually have always had a lot of data. Going back to 1950 we have had entry data into the Tube by 15 minute time bands. Unlike many other transport authorities around the world my predecessors have put in a lot of effort collecting data and analysing data. We have always been very data oriented in that respect.

The advantage that we get from something like Oyster is that every journey is logged. We can go back and analyse every journey. We can analyse every card. There is a lot more analysis that we can do. But that individual analysis of journeys, as far as planning is concerned, only becomes useful when you do a macro analysis from that. We have always had the ability to do the macro analysis from the data previously.

So there are things that we can do right now which are more granular. So, for example, with the introduction of the 24 hour Freedom Pass we can be very clever in analysing just how many journeys are being made on these passes and exactly when; what time of day, by the minute.

So there is clearly some ability to do more analysis now than we have had in the past but in terms of the big decisions for fare policy as to how much should prices go up by, not just across the board but for all individual products, we have had the ability to do that analysis before. The advantage of Oyster is that it provides a degree of accuracy which perhaps we did not have with survey data before.

Valerie Shawcross (AM): A small example relating to this is people changing modes of transport. Would you now not be able to see, for example, if a price increase in the very sensitive area of Tube prices - which are already very expensive - pushed people on to the buses or out of the transport system altogether?

Shashi Verma (Director of Fares and Ticketing, TfL): We could. I must make it clear that trying to separate out data of that kind from the 12 million transactions that we collect every day is really like looking for a needle in a haystack because, by and large, most people are already multi-modal. If you look at the data, about one sixth of the cards in regular use are used only on the Tube and about one third of the cards are used only on buses and the others are all used in a multi-modal manner. I am talking of just one day. If we extended this over a week the percentages of single mode user probably drop even further.

So most people are already multi-modal and most people's journeys are not stable from day-to-day; some days they use buses more and some days they use the Tube more, depending upon where they are going and what they are doing.

So to pick the data down to the individual and say, "Because of pricing individuals have changed from Tube to buses" is hard. What we can do is look at the macro trends and the traffic on the Tube and the traffic on buses and say whether pricing has a difference.

If you look at the first policy, six or seven years ago, when bus prices were held down and Tube prices were raised, yes, that did result in a modal shift to buses. Well that is very clearly established. But when you have fare changes that are roughly similar - as in a percentage or

two different from each other on the different modes - it is not easy to pick that out from the data.

Valerie Shawcross (AM): OK.

Mike Tuffrey (Deputy Chairman): So can I just drill in to a couple of options that you have got? Caroline [Pidgeon] in a moment will talk about how this all ties into national fares and Darren [Johnson] I think is going to come in to the consequences of a complex system. Let me just test you in a number of areas. What is your current thinking about the merits of changing cash fares differently from electronic fares? Maybe we should start with Kulveer, in terms of the policy stance. Do you want to carry on penalising people or profiting from people's ignorance - depending on how you see it - by --

John Biggs (Chairman): Hitting the poor.

Mike Tuffrey (Deputy Chairman): Hitting the poor and the visitors by extenuating that gap between cash and electronic fares?

Shashi Verma (Director of Fares and Ticketing, TfL): Can I just interrupt there? There is no evidence that cash fares are being used by poor people.

Mike Tuffrey (Deputy Chairman): That was John's interjection. Certainly visitors tend not to be as clever with the system.

Kulveer Ranger (Director of Transport Policy, Mayor's Office): I would say, Mike, that a lot of effort is put in to ensuring that there is a greater awareness - especially for tourists and others to the city - about the ease of using Oyster and the benefits of using it. So that is something that is done quite extensively.

However, there is a cost associated with a cash-based system which is obviously more expensive than using other systems such as Oyster which are cheaper to manage and the processes that are used within them. Hence there is a premium within that that is consolidated within the charge of using cash.

We would like to ensure - and I am sure TfL will support this - a continuous migration towards more electronic charging and Oyster charging so that we can simplify those processes and gain further efficiencies out of that. I think that is something the Mayor's Office supports.

Mike Tuffrey (Deputy Chairman): Which takes me to my second area which is if you were a conventional revenue maximising business you would be wanting to increase marginal purchases; people who might hop on to a bus or not. Now if they have this concept that they need a card or if they do not have a card they are going to pay through the nose they will not hop on a bus; you will not get that extra journey. What modelling are you doing to price at the margin to maximise revenue?

Shashi Verma (Director of Fares and Ticketing, TfL): I think to start off with we are not a conventional price --

Mike Tuffrey (Deputy Chairman): But you do have a major funding problem and you do need to get revenue in otherwise there will be very severe consequences so you are presumably looking at how to maximise your revenue, or increase your revenue?

Shashi Verma (Director of Fares and Ticketing, TfL): What we have to do is to balance the way we raise our revenue with the way we operate our system. So to give you the clearest example of this, there is a differential on the single fare on buses on cash versus on Oyster. The result from that is that whereas 7 years ago 30% of bus journeys resulted in a bus ticket being bought on board the bus, that number is now down to 1.4%. The impact of that is that the buses no longer arrive at a bus stop and hang around while you watch other people buying their tickets --

Mike Tuffrey (Deputy Chairman): I understand all that.

Shashi Verma (Director of Fares and Ticketing, TfL): So there is a real efficiency benefit from that. So --

Mike Tuffrey (Deputy Chairman): I understand all that. My question though was what modelling are you doing to increase the margin ridership on buses and Tubes and trams and so forth to increase your revenue?

Shashi Verma (Director of Fares and Ticketing, TfL): The revenue that we can earn without incurring cost is income earned in the off-peak. This is more relevant to the Tube than it is to buses because, once the train is running, having a few more people sitting on the train is actually good --

Mike Tuffrey (Deputy Chairman): Exactly.

Shashi Verma (Director of Fares and Ticketing, TfL): If you recall, this January the Mayor authorised us to introduce a lower inter-peak fare so there is a lower fare that applies from 9.30am to 4pm which we did not have before. The impact of that is very visible on the system. So, again, going back to the Oyster data, this is something that you can actually go and analyse by the minute. There is a big rush of people coming into the Tube right after 9.30am.

Things of that kind are very sensible to do and they are part of the discussions that we have with the Mayor and we hope that the Mayor will take those things into account.

Mike Tuffrey (Deputy Chairman): So you are actively exploring increasing off peak ways of incentivising people to use the transport system in off peak moments?

Shashi Verma (Director of Fares and Ticketing, TfL): To be fair --

Mike Tuffrey (Deputy Chairman): If so, tell us some more about that; what sort of parameters have you got and how much extra revenue might that get?

Shashi Verma (Director of Fares and Ticketing, TfL): The Tube has been trying to do that for 100 years. If you look back at posters, go to Kew Gardens, go here and go there. That is what the Tube has been trying to do forever.

We are now using pricing as an incentive as well on the basis that it does not cost us that much money to carry these people. That has had an impact. Now to take that to its logical conclusion could you have a price by the minute? You could - and with Oyster you could - but it has to be balanced against the fact that people need to also understand what they are paying. So the fares system has to be comprehensible for it to have any impact. That is the kind of analysis that we do routinely.

Mike Tuffrey (Deputy Chairman): We are trying to understand the range of factors and the scope there is to make some changes to the funding. So, yes, if you were a conventional business you would be promoting, "Buy at this point - half price." You would have posters up saying, "Hop on a bus outside hours and just pay 50p instead of £1" or whatever. You would be doing those sorts of things.

Are you actively looking at a range of new initiatives for the fares structure for next year that will increase your income? What are those, very practically, and what sort of revenue could you conceive of getting?

Shashi Verma (Director of Fares and Ticketing, TfL): I think we have done what we could do with the fare structure that we have right now. The big thing for next year, or the big thing for later on this year, is to try to get national rail in. The only fare where we can genuinely do these things is the Oyster pay as you go fare. Until national rail becomes a part of pay as you go trying to do more than what we have done so far is not an easy task. Even when they come in the first task will be to make sure that that is rolled out and that people understand using it before you start playing clever games with it.

I fully take the point that revenue is part of the equation but there are some other challenges as well you need to take into account.

John Biggs (Chairman): Can I ask Mike's question slightly differently then? If there was no fare increase next year - which is possible - would you be looking at clever ways to rejig the products and the ticketing structures in a way that would nevertheless increase revenue?

Steve Allen (Managing Director, Finance, TfL): Can I just come in on that? Two points I would make. One was reinforcing what Shashi already said about clarity of the fares system is a useful end in itself. So if we were in a scenario where there were no increases I think that is a message everybody can understand. If it is there is no overall increase but a bunch of fares are going to go up a little bit and a bunch of other fares are going to go down a little bit that is a much less clear message for people to understand and that is something the Mayor would have to take into account in thinking about his policy in that environment.

The other point is that the use of Oyster of itself generates demand. There is a lot of evidence that both Travelcard and Oyster - the convenience of the product - in itself is quite a strong generator of demand. People make more journeys because it is easier and perhaps because the marginal cost of the trip is not visible to them. You are not sticking a hand in your pocket and getting 50p out so people do tend to make more journeys.

Shashi Verma (Director of Fares and Ticketing, TfL): I was looking at market research that was done in 1992 - before Oyster was launched - only yesterday. The big thing that people used to complain about was queuing up to buy a ticket. Well they do not queue up to buy a ticket every time they make a journey any more and that actually has had an impact on people's travel behaviour.

John Biggs (Chairman): OK. So this is all good behavioural economics, if you like, but you have not answered the question of whether you might jiggle things within a zero fare increase to increase revenues?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): Can I just come in there, Chairman, to say firstly Mike [Tuffrey] has mentioned conventional business, I think, four times. I think we have to accept this is not a conventional business. Public transport, TfL's

responsibility, is not on the basis of any conventional business. It has an obligation to look at generating fares revenue that is appropriate and costs are sensitive to what people can afford and the macro economic environment and all the things that we have discussed. So I do think we have to move away from the idea of a conventional business.

Secondly, in terms of what else can be done, I think Shashi has advised that you do look at capacity and demand which really is the issue here. Where is there capacity and how can that be made more attractive to be used and at what times of the day? Looking at Oyster usage and picking up on Val's [Shawcross] point on there is data out there that demonstrates when times are being used, when there is capacity in the system and where people are travelling. I think those are things that can be looked at and are being looked at. So, hopefully, that answers some of Mike's points.

Steve Allen (Managing Director, Finance, TfL): Maybe I was not clear in my answer but what I was trying to say is if you were in a zero overall environment you can either apply that literally to all fares and say no fare increases and no fare decreases and that is a very clear message and there are advantages in that clarity. Or you can say some fares are going to go up a little bit and some fares are going to go down a little bit and that might have some incentives at the margin and there might be good reasons for doing that but you have to weigh that against the clarity of the no fare changes message and that is one of the things I would expect the Mayor to be taking into account were he in that situation.

John Biggs (Chairman): OK.

Mike Tuffrey (Deputy Chairman): Just to be clear then - because we do need to move on to the national point - I am not, in making reference to conventional business, saying that I think the Mayor's policy should be to exploit the monopoly position of London transport to maximise his profits! I do however think it should not take a Liberal Democrat to tell a Conservative administration that one should be learning from effective private sector practice and applying it intelligently to give Londoners a better transport system. I take a point from Labour - or at least a point that I have pursued before - which is given we have the Oyster technology and smart cards, should we not be looking at those cards -- for example, Val's [Shawcross] point about incentives, I tried to get the previous Mayor to look at using the Oyster card in a way of giving people points that they can redeem, learning from all the supermarkets and the rest, so that, yes, if you did try and travel after 9.30 am you could have a point which you could redeem for something environmentally sound at some other place.

John Biggs (Chairman): You did make in passing a comment about people on low incomes not being disadvantaged by cash fares anymore. We do not have the time to deal with that now but we will perhaps write to you and ask you to give us an exposition of why that is the case because if it has been achieved then it is a major piece of progress.

Shashi Verma (Director of Fares and Ticketing, TfL): Just to complete my point on that, John [Biggs]. We do analysis on who is buying cash fares and we find that people of all social classes buy cash fares. It is not true that people on low incomes are disproportionately buying cash fares; they do buy cash fares occasionally. The only unifying characteristics of people who buy cash fares are that they are occasional users of the system. That is it. There is no other unifying characteristic of people who are buying these tickets.

John Biggs (Chairman): OK.

Caroline Pidgeon (AM): I wanted to pick up the issue of fares with national rail. Assuming that we get the introduction of Oyster pay as you go on national rail what is going to be the pricing structure? Is it going to be based on TfL fares for the different zones?

Shashi Verma (Director of Fares and Ticketing, TfL): No. Because the Mayor does not have powers to set fares on national rail. It is the train operating companies (TOCs) who have to set those fares within the regulated fares baskets set for them by the Secretary of State. So the structure is going to be - as it has always been - for single fares; that we set our fares and the train companies set their fares and through fares are set by agreement.

Caroline Pidgeon (AM): So, for example, if you are travelling Finsbury Park to Kings Cross, if you use the rail you are going to have to pay £4 for your fare but if you use your Oyster card and go on the Tube it is going to cost you £2.20. It is £1.80 difference. How can you reconcile that?

Shashi Verma (Director of Fares and Ticketing, TfL): That already happens. Finsbury Park to Kings Cross is actually a strange route. It is one of these inter-variable routes which have grandfather rights from a long, long time ago. The fare from Finsbury Park to Kings Cross follows the London Underground (LU) fare structure even today and has always been set by London Underground.

I think the point that you are trying to make is going from Croydon to Oxford Circus is different from going from Osterley to Oxford Circus, which it is today and it will continue to be in the future.

Caroline Pidgeon (AM): So Oyster pay as you go on rail - which everyone was looking forward to coming in - but actually people who use that are going to be paying far greater fares than they would if they were using the Tube or bus on their pay as you go?

Shashi Verma (Director of Fares and Ticketing, TfL): I do not know that they will be paying far greater fares; they will be paying the fares that the train operating companies set for them.

Caroline Pidgeon (AM): As I say, that is a £1.80 difference on that single ticket. Going from West Ruislip to Marylebone it is £5 on rail and it is £3.80 on Tubes. It is quite a considerable difference so it means places in outer London particularly, who might use rail to come in, are going to be really disadvantaged by it.

Shashi Verma (Director of Fares and Ticketing, TfL): Again, West Ruislip to Marylebone is an inter-variable route and the cash fare on the Underground is also £5.

John Biggs (Chairman): So you are not introducing a zonal system even with TOCs integrated into Oyster?

Shashi Verma (Director of Fares and Ticketing, TfL): It will be a zonal system and it is right now. I mean the single fares on the TOCs are set on a zonal basis but they are set by the TOCs.

John Biggs (Chairman): But not at the same rate as TfL.

Shashi Verma (Director of Fares and Ticketing, TfL): Not at the same rate as TfL.

John Biggs (Chairman): So there are a range of perverse incentives and inadvertent punishments, I guess, that will flow from that. For example, Roger [Evans] is inundated with complaints from his constituents who because of the problems with the rail network use an Oyster card on national rail and get a fine. They may no longer get fined but they may get charged three times as much or something for the national rail journey as they would expect to be charged for a TfL journey.

Roger Evans (AM): Their complaints, to be fair, are around convenience rather than the fact that they want a fare cut. Everyone wants a fare cut do they not? But you should introduce it honestly rather than just changing the type of ticket that you use if you are campaigning for it.

Kulveer Ranger (Director of Transport Policy, Mayor's Office): Can I just come in, Chairman, and say that these fares - as Shashi has been saying - are national rail fares and the TOCs are setting them and there is no change in that. If the Committee and the Assembly Members do want to do something then I suggest effective lobbying of the TOCs to actually say, "This is the fares difference and" --

Roger Evans (AM): Presumably of course we could change it if we took responsibility for those lines in the way that we have taken responsibility for London Overground? That may be the route to go down.

John Biggs (Chairman): I do not want to hijack totally Caroline's question - and I have not been on the Transport Committee for a while - but my understanding as a naive semi-informed Londoner was that the objective was to integrate national rail into the TfL zonal system so if you pay £3.80 on the TfL line you would pay £3.80 on a network rail line covering the same zone boundaries. But you are saying that is not going to be the case. This is perhaps a matter for another time.

Steve Allen (Managing Director, Finance, TfL): I think what Shashi was saying is if there is literally the same journey available on national rail and the Tube then the prices are the same. What you are comparing is actually the cash price to the Oyster price. The difference you are quoting is not a difference between rail and Tube; it is cash and Oyster. It is where there are comparable but different journeys so there is --

Caroline Pidgeon (AM): You cannot do Oyster yet on the rail.

John Biggs (Chairman): This is potentially rather a mess and it needs to be looked at elsewhere. There is a related question about the daily cap as well.

Shashi Verma (Director of Fares and Ticketing, TfL): The daily cap is still going to be at the one day Travelcard price.

I think the point here, Chairman, is that there is an institutional boundary here between TfL and the TOCs and it is set by Government; it is not set by the Mayor and it is not set by TfL. To the extent that there is irritation with that institutional boundary that has to be addressed with Government.

Caroline Pidgeon (AM): How are your negotiations going at the moment with the TOCs because surely you must be talking to them a lot and you must be in lots of correspondence? How are they going in terms of how you are going to share the revenue from Oyster pay as you go?

Shashi Verma (Director of Fares and Ticketing, TfL): The negotiations with the TOCs have essentially finished. We are waiting to sign the agreement provided that the Government can issues this fares direction that they need to issue.

John Biggs (Chairman): We are at risk of collapsing into total confusion and issuing a press statement after this which says, "TfL is in a complete mess on this"! My understanding - and I am sure Roger [Evans] would support it - is that the holy grail we were after was to integrate Network Rail within London so that the same zonal boundaries as you get on the Tube map would apply to Network Rail so that if the fare was £4 from a Zone 5 station on Network Rail to a Zone 1 station that would be the same fare as on an Underground line going from the same span of zones. You are saying that is not going to be the case; that all that will happen is that your Oyster card will no longer subject you to a fine but you will pay a very different fare.

Steve Allen (Managing Director, Finance, TfL): I think what we are saying is two things. One is there is a long term aspiration of convergence between national rail and TfL fares but that is not something that can happen overnight because the existing fares that the train operating companies set are very different from TfL fares so that could only happen if TfL was to pay the train operating companies a lot of money in order for them to reduce their fares. That is - as we have been talking earlier - money that we do not currently have. So, over time, we would be looking to try to converge fares so that some of these discrepancies are ironed out.

But what people will get immediately is the convenience point and the ability to use Oyster pay as you go for all their journeys, be it on national rail, the Tube or bus. So there is an immediate benefit and then there is a long-term goal of convergence.

Caroline Pidgeon (AM): I am not sure Londoners are very aware of that and I think they see Oyster pay as you go coming in it is going to be exactly the same fare structure and I think that is probably what many of us thought as well.

Can I just clarify with you that from 1 January we are going to be able to use pay as you go on national rail?

Shashi Verma (Director of Fares and Ticketing, TfL): If the Government gets its act together and issues its direction we can move on --

Caroline Pidgeon (AM): I love the way it is the Government's fault now on this. It is quite interesting.

Shashi Verma (Director of Fares and Ticketing, TfL): Well it is. Our negotiations with the TOCs finished in February. The only thing that they need is this direction from Government to sign the agreements and to set the fares. That is what we have been waiting for.

Caroline Pidgeon (AM): So 1 January. You are saying it will come in?

Shashi Verma (Director of Fares and Ticketing, TfL): As I say, provided that the Government gets its act together and issues this direction.

Let me say what is within our control and what is not within our control. What is within our control as TfL is the installation of all the equipment which is happening and will be finished in early August. It is to get the whole system ready in terms of the software and so on. The software is being rolled out right now and it will all be ready in August. All system testing and

everything that we are supposed to do is ready in late September, early October. We are ready to launch from that point on.

The issues that stop us from launching from that point on are the TOCs being prepared with their own training for their own staff and the Government issuing this direction.

Caroline Pidgeon (AM): In terms of this direction, Kulveer, what discussions have you or the Mayor had with Secretary of State to ensure this fares directive comes out? We are told the contracts were ready to be signed in February. What discussions have you had on this with Government?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): This issue has been discussed with the Mayor and the previous Secretary of State for Transport and the current Secretary of State for Transport on several occasions and, again, at the last meeting between Lord Adonis and the Mayor the Mayor requested that Lord Adonis put all reasonable pressure on the Department for Transport to issue this fares direction so that we can get Oyster pay as you go in as soon as possible.

Darren Johnson (AM): Moving on from the complexity of ordinary fares to the complexity of concessionary fares. What steps does TfL take to ensure that the concessions that are available are understood and widely used? As part of the briefing we have had a long list of the different types of arrangements that are available on different concessions and it does look rather complex.

Shashi Verma (Director of Fares and Ticketing, TfL): We do a lot of publicity with each of the concessions. The take-up of the Freedom Pass is very high. It is a product that has been around for a long time, it is a product that is well understood so we do not have any concerns about that.

The take up of the child and student concessions is also very high. We do annual publicity with the schools. Also --

Darren Johnson (AM): I agree with that but it is the bit between getting over 16 and before 60 that seems very complicated!

Shashi Verma (Director of Fares and Ticketing, TfL): The other concessions are for people on Income Support, Jobseeker's Allowance, Employment and Support Allowance and the New Deal. These concessions are administered through JobCentre Plus. When people get to their 13 week interview at JobCentre Plus they are given this option and, given that we only launched this in April -- the Income Support allowance has been around since January and there is a high take up on that. The Jobseeker's Allowance concession has been around since April and there is 20% take up on that which, considering that it is only available for people who have been on JSA for more than 13 weeks is actually a number that is proportionate to what we would expect.

Now, as we have discussed in previous briefings that I have done here, we could do a lot of publicity around this but the fact is that the people who are eligible for this are getting information about this concession when they become eligible through the interview process and doing a lot of scattered publicity around it is, we would think, a waste of money when there is a means of targeting those individuals individually and very specifically.

Darren Johnson (AM): What about the arrangements for those in education because you have got the 16 to 17 Oyster card, you have got the student 18 plus and you have got the 16 to

19 in full time education? Three different sets of rules and arrangements there. Are you confident that the public information about that is out there and being disseminated and understood?

Shashi Verma (Director of Fares and Ticketing, TfL): I think so. When this was launched in 2006 there was concern about the publicity and the complexity of the rules. Those complaints have gone away now. We have got a much better relationship with the universities and the schools who are part of the administration of these concessions and if that process was not working we would not see the very fine take up that we have got right now.

Darren Johnson (AM): OK. If I can just come on to Kulveer [Ranger] because I think we agree it is very straightforward if you are a child, it is very straightforward if you are a pensioner but we have got 16 to 17, 18 plus, 16 to 19, New Deal, Income Support, disabled - all these different concessions. Even if the publicity is out there and the awareness levels are generally OK, do you think there is an argument for rationalising some of these and simplifying it?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): I have to say, Darren, that obviously these incentives and these schemes are kept under review continuously but they are quite specifically targeted to meet the needs of these groups. That is why they evolve in the way that they evolve.

Obviously, when we bundle them altogether they can appear to be quite confusing but, as Shashi says, most of these schemes are brought to the attention of the groups and the people who they affect and are looking to benefit at the point of need.

So obviously we will always look at them and keep them under observation to see, "Is this becoming too much of a muddle? Are people unaware?" and we will test that. We will look and ask people, "Do you understand?" I think TfL does that anyway. It is something that is there to benefit varying different groups and hence you get varying different propositions for them.

Darren Johnson (AM): So you keep it under review but there are no plans to simplify any of those structures?

Kulveer Ranger (Director of Transport Policy, Mayor's Office): That is right.

Darren Johnson (AM): OK.

Mike Tuffrey (Deputy Chairman): A couple of quick points. On the question of complexity, one of the features is that the rules are quite different from between buses and trams and Underground and Overground, particularly on the young people's ones where it is free if you are etc etc. What scope is there for, at least, getting simplicity across all the transport modes so you keep the complexity about the different eligibility criteria but then you have one system?

Shashi Verma (Director of Fares and Ticketing, TfL): I will speak only for TfL mode and leave national rail to one side whether there is a different set of complexity.

For under 11s the rules are common; they get free travel at all times.

Mike Tuffrey (Deputy Chairman): From 11 onwards.

Shashi Verma (Director of Fares and Ticketing, TfL): The complexity is between the ages of 11 and 18 where there is free travel on buses but not on the Underground. There is a very

strong policy reason for that; that buses are the primary mode by which children of that age travel to get to school. They do travel on the Tube but very infrequently.

If you back to the time when we did not have these free fares, when there were consistent rules of half fares on buses and half fares on Tubes, the fact is that back then the bulk of the travel was taking place on buses. There are very few children who access schools by the Tube. So when this policy was put in place, of allowing free travel, buses were specifically targeted and that distinction was brought in then as a matter of design, not as a matter of accident.

Mike Tuffrey (Deputy Chairman): I am confused. Are you saying that is how it is or that is how it should be, because if it is how it is then you can one system of fares and nothing will change but if you are using the fares system to basically keep, in your instance, children over 18 off the Tubes, then that is a different set of arguments.

Shashi Verma (Director of Fares and Ticketing, TfL): We have seen increase in demand on the buses and I think seeing a similar demand in peak travel on the Tube from travel that is perhaps unnecessary is not something that we can accommodate right now. So encouraging unnecessary travel at peak times on the Tube, particularly free travel on the Tube, runs completely contrary to the commercial business model that you were advocating just a bit earlier.

Mike Tuffrey (Deputy Chairman): So the answer to the question of could you simplify it? Yes, you could, and that would help people's understanding of the system etc etc but you are saying, in that instance, you are trying to keep children off the Tube system actually at any time of the day because the fares apply at any time of the day, rather than free. That is a deliberate policy decision so that is something then the Mayor can consider; whether he thinks that is a good thing or a bad thing.

Steve Allen (Managing Director, Finance, TfL): I do not think we were saying we have a deliberate policy of keeping children off the Tube. I think we were saying there was not a strong demand for children to use the Tube to travel for free and therefore, amongst the various financial pressures we are trying to manage, that does not seem a good way of giving up income.

Mike Tuffrey (Deputy Chairman): If there is not a strong demand, there are not very many people going to do it, then making it free would not presumably cause a problem --

Steve Allen (Managing Director, Finance, TfL): Would encourage much more people to use it.

Mike Tuffrey (Deputy Chairman): Please just give me a straight answer. I am a very simple person! Either you are saying, "That is the way it is so we don't need to have a fares system" or you are saying, "We are not going to change the fares system because we want to achieve an outcome which is not having the children on the Tube, trying to keep them on the buses and not have them on the Tube". I did not intend to get stuck on the children because it applies to unemployed people and --

Steve Allen (Managing Director, Finance, TfL): We are not seeking to discourage children from the Tube but we are not seeking to encourage them to use the Tube for free when the system is already crowded and that might affect people who are paying for the journey; their ability to --

Mike Tuffrey (Deputy Chairman): So there is a policy intent there.

The purpose of this scrutiny is to look at the current system - which I think everybody agrees is quite complex between ages, types of eligibility, Tubes versus buses etc etc - and to understand what is going on, to understand why it is the way it is now, to understand the financial consequences of changing it and then to put in some recommendations ahead of the Mayor considering all these things in the round. So it really does help us to understand why things and what would happen --

Steve Allen (Managing Director, Finance, TfL): Again, it is a question of balancing simplicity - which is a useful goal in its own right - against having very targeted concessions that meet the specific needs of those affected groups and the financial impact that changing the system would have on TfL's resources overall and it is trying to weigh those different factors into account in whether or not the balance we have got is right.

Mike Tuffrey (Deputy Chairman): So the concessions on the buses which are better than the concessions on the Tubes; the issue there is about peak hours. So they could be harmonised, for example, outside of peak hours if one wanted to.

Shashi Verma (Director of Fares and Ticketing, TfL): There is a whole range of choices that are available. There is a decision that has been taken and that is not to say that a different position could not be taken.

Mike Tuffrey (Deputy Chairman): That is why we are here; to see what could be done rather than is. Sorry, Chairman, I think our officers have asked for information about the financial consequences of these various concessions and as of yesterday we had not had it so we are still awaiting answers to our questions which go back several weeks I think - I do not have the exact date - around the financial consequences of these various concessions. The reason it is particularly -- I have been pushing the Jobseeker's Allowance point. When I was pursuing that for many months, indeed years, we were told, "Well it would cost £10 million" - I remember that - when it was then brought in and the question was, "Well what is the financial cost of this?" it becomes £3 million. So I think the actual hard estimates of loss of income are really very crucial and we need that information from you and we have not had it despite asking.

Shashi Verma (Director of Fares and Ticketing, TfL): To be clear, the definition of Jobseeker's Allowance changed in January which is why the numbers changed.

Mike Tuffrey (Deputy Chairman): Which is exactly why we need absolute detail and information from you and we have made that request to you and I am this morning publicly asking you to commit to give it to us within, say, 48 hours because of the deadlines we have got.

Shashi Verma (Director of Fares and Ticketing, TfL): We are certainly working on it. I will go back and see where we are with collecting the numbers and --

Mike Tuffrey (Deputy Chairman): No, no. Because we have a timetable. We need to complete our work I think within a week or so. Is that right? So any further delay will frustrate us in doing the job we are trying to do. So I want - perhaps Steve can help us with this - a commitment to move heaven and earth to give us some specific information that we have asked you for for several weeks or so.

Steve Allen (Managing Director, Finance, TfL): Yes. I have not seen the questions that have been asked but I can give you the commitment that we will provide the best information we can --

John Biggs (Chairman): Excellent. Now I would remind other Members that we are not a social policy committee and that, obviously, we may all want to talk about the merits or otherwise of young people travelling on transport and the question of whether they are hooligans or not?

James Cleverly (AM): It is about the financial implications of the change to young people in full time education travelling free on the buses. Do you have comparative figures or can you give us a guide if you do not have the detail with you at the moment - I do not expect you to - about the increase in volume of young people travelling on buses after the free fares were introduced?

Shashi Verma (Director of Fares and Ticketing, TfL): Roughly speaking an increase of about 50%.

James Cleverly (AM): So half. OK. This is not comprehensive but I have seen when travelling on those times what I would define as micro journeys - young people jumping on the bus at one stop, travelling a couple of hundred yards and jumping off. Obviously, one of the concerns - I know we are not drifting into social policy - is the journeys that would have been completed on foot, on bicycle and other healthier and more environmentally friendly journeys have actually been displaced because of this.

We have also seen - again it is anecdotal - that fee-paying passengers were discouraged at travelling at certain times by the volume of young people on the buses. Have you got any indication as to that?

Shashi Verma (Director of Fares and Ticketing, TfL): We certainly have no evidence of that because we try to provide a bus service that matches the demand.

James Cleverly (AM): So you have had to increase capacity to match that 50% increase in demand?

Shashi Verma (Director of Fares and Ticketing, TfL): When the free fares were introduced the capacity had to increase.

James Cleverly (AM): Right. So there has been not only a revenue loss implication but a capacity increase implication as well in terms of financial turnover?

Shashi Verma (Director of Fares and Ticketing, TfL): Yes. If the demand increases by 50% the capacity has to be put on to meet that demand.

James Cleverly (AM): OK. Would it be fair to assume that similar considerations would need to be taken into account if we are going to widen this up to the Underground, surface rail if the negotiations could be made...

Shashi Verma (Director of Fares and Ticketing, TfL): Yes.

John Biggs (Chairman): OK.

Andrew Boff (AM): The consensus of this Committee seemed to be at an earlier stage that we should be more savvy with using data in order to address the travelling needs of the public and start targeting it down perhaps to individual groups of traveller. Would that not be the tendency of increasing the complexity of the fare structure if we actually took that on board?

Shashi Verma (Director of Fares and Ticketing, TfL): That is precisely the point I was trying to make earlier. This data for fares policy decisions or for network planning decisions is only useful at a macro level and that is data that, by and large, we have had access to before by doing surveys. We are not in the business of the Tesco Club card where you get a set of coupons that are tailored to your needs perhaps. If we were in a business of that kind then we could certainly target things down to that level.

What we do with that data down to the individual is provide them with information that is useful to them. So if you live around Regent Park or you use Regents Park Station and it is about to shut down you will get an email from us - if you have signed up for it - that will tell you that something is happening to Regents Park and that message does not go out to all the 6.4 million people using the system because it is not useful to people who do not use Regents Park.

Andrew Boff (AM): Thank you.

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Budget and Performance Committee 18 June 2009

**Transcript of Item 8: Proposal for an Investigation
into the Impact of the Mayor's Fares Decision**

Valerie Shawcross (AM): Are there any particular social groups who suffer from social exclusion who are particularly impacted as a result of the fares decisions within the system? I think in every social benefit that there is in our society we often find, for example, people who are extremely low income earners but not Jobseeker's Allowance recipients. There is a lot of difficulty at that interface where people are expected to pay full prices but are not necessarily financially capable. So I would be interested in your take on who is affected by fare price increases. I am interested in a geographical answer to that as well if your reply is not focused on social issues.

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I think that is a very useful question and I think it does follow on from a lot of the previous discussion which was very much pitched at a macro level, which is understandable in terms of the financing, but I think underpinning this issue about whether you are dealing with a conventional business or something that is delivering a public service is really important in tracking usage. I think the idea of getting clearer data about who is using and poverty-proofing the system, particularly, is very valid given the level of data that probably is being collected.

I think the group I would particularly highlight is those in low paid work; those on Working Tax Credit. A particular problem in London. It is a problem across the country but in a city that is very wealthy we also have a large proportion of children - about 18% I think - in families in low paid work. Those parents I am not sure will be covered by these systems. So that is one large group.

I think the other group I would push on is just unpicking what is going on about these fare concessions. I take the point about newly introduced systems but if we are talking about take up rates of 20% in terms of Jobseeker's Allowance concessions I think that is an issue that needs probing about why the take up is as it is, checking whether that is increasing and also looking whether there are more automated ways of improving the take up of that concession.

Valerie Shawcross (AM): Do you think that public transport fares are a barrier to people taking employment in any instances?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I have no doubt that they could well be. I take the point that there are concessions in place, though again that raises the take up issue and obviously London will be a particular place where there is a lot of travelling and a lot of travelling across boundaries which could well lead to that sort of discouragement and barrier to work.

Valerie Shawcross (AM): Does TravelWatch want to comment on either of those?

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): I think you have to distinguish between the modes because the difference in price per kilometre, if you like, on Tube and on bus is quite substantial and if you look historically the price of bus fares has gone down in real terms; it has remained constant.

There is also a huge difference which we have not talked about at all this morning between the headline fare and what people actually pay because people, if they use Travelcards or Oyster they clearly pay a lot less than they do if they pay cash fares. So what people actually pay may be very different from what you see as a headline figure.

We have been looking at the question of getting to work particularly by bus and trying to find out those areas where there are unemployment hot spots and to see whether the bus network does in fact marry up with those and whether there are any areas where perhaps the bus network could be strengthened in order to help those people because I think that is the primary mechanism that those people are going to be using to get to work.

Valerie Shawcross (AM): Do you have any thoughts - apart from additional transport service provision because this is the Budget Committee and we are looking at the fares issue - about how the Mayor might further adapt the fares system to try to alleviate pressures on socially excluded groups, particularly I think you have all mentioned the low paid?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): May I add a couple of thoughts? I think the London Child Poverty Commission made a recommendation to consider the impact particularly on part time workers and there I guess there must be some issues around off-peak fare structure and the relative balance within the structure; so I think that might be worth looking at.

I am sure that looking particularly on what is going on in relation to buses, and reading the background papers as I understood it, the proportionate increase in bus fares last time round was higher than elsewhere; so I think that is another point that I would make.

There is obviously a question, in terms of trying to capture the low paid, about how far you would be able to go. I think there is a serious issue about in-work poverty; about half of children in poverty have a working parent and those families do not look as if they would be covered.

One particular area of possible focus would be on moves into work because I think it is quite well established that there is a lot of churn in and out of the labour market and perhaps if that triggers an increase in your travel costs then there might be something to look at about run-ons in terms of fare concessions there.

Valerie Shawcross (AM): Sorry, I did not understand that point. You are saying that because you cannot buy a season ticket for the year you may be paying more; if you are in uncertain work? Can you just explain this point about run-ons?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I suppose my question is whether there are any particular times of transition around the move into work where a person might not be covered by a concession which might increase the chances of them not being able to afford to stay in work. Transport is known as one issue that contributes to the cost of employment and particularly given that there is probably a problem of churn in and out of the labour market I wonder if there might be an area that would be worth exploring there.

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): One of the advantages of Oyster is that it does give you the flexibility to get cheap fares without having to invest in a large season ticket payment in advance.

The other suggestion that we have put forward is that the bus fare should cover more than one journey in a limited period of time so that if you are making a connecting journey, rather than having to buy two single tickets, you can buy an hour ticket or something like that provided you are going in a consistent journey; which is used quite extensively in other parts of the world.

Valerie Shawcross (AM): OK. You talked about transition groups: people getting in and out of jobs and lifestyle changes and single parents trying to get back to work and stuff. When I looked at the concessions I was very struck by what a bad deal students 18 plus get - perhaps not a central group to your concern - but being a student is a huge business in London; lots of people do it and lots of institutions provide education. They have a relatively small discount and, of course, there has been a massive increase over time I think proportionately in the amount full time students are paying for transport in London. Do you see that as a particular issue as a barrier to people gaining education qualifications and moving on? Do you think the students get a good deal?

Tim Bellenger (Director, Research and Development, London TravelWatch): I think there is obviously a balance here - as other speakers have talked about - about where those students are actually travelling and their impact on capacity. I think there is also an issue about how you actually transition people from having a free fare system perhaps in the early years and then suddenly going to a full fare arrangement.

You have talked about barriers to get back into work. Obviously, if you have been out of work for a long time and you do get a job and you find that the cheapest way of actually doing that is to buy an annual season ticket but you do not have the capital to buy that ticket in advance, that is a major disadvantage to you to actually getting back into that employment. Maybe there may be ways in which, for example, people who have been on long-term unemployment benefit could be given, in effect, season ticket loans as good employers would normally give a season ticket loan. Maybe that is an area which could be explored.

Valerie Shawcross (AM): No particular comments about full time students then?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): Could I raise one point which is slightly subverting that question, which is around those not in education and training. I think the previous session was questioning this period around the 16, 17 and 18 age groups. I would raise the question about what is going on with those who may not be caught under these concessionary arrangements? We have a large number of them and it is quite a problem in terms of their moves into the labour market and, indeed, back into education.

Valerie Shawcross (AM): So what would you suggest for them?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I would like to know where they are and I would like to audit the extent to which they are covered under existing arrangements. One of the problems obviously with that group is that - because they are not in education and training - it is quite difficult to know where they are. However, there might be ways through things like the Child Benefit system and data that you could track them and work out what was going on there. But if we are trying to open up opportunities to take up education etc then we want to identify any barriers that exist.

Valerie Shawcross (AM): Thank you.

Mike Tuffrey (Deputy Chairman): Can I ask – perhaps from the Child Poverty Action group (CPAG) – do you have a benchmark about the proportion of somebody’s income that can be attributable to transport versus housing? I think some work that GLA Economics did showed that for people in the bottom 20% of the income groups they are paying something like 9% of their income on transport, which feels a lot to me in terms of 10p for every £1 when you think of food and housing and leisure costs and all the rest. Are there any guidelines or benchmarks?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): When you say guidelines do you mean evidence of what that level of spending is currently or evidence of what that spending should be?

Mike Tuffrey (Deputy Chairman): What it should be. GLA Economics is saying currently it is that end of the income where it is --

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): That evidence is brought out. It is probably the same underlying data but the Family and Food Expenditure Survey traces this stuff and I think --

David Leibling (Chairman of the Fares and Ticketing Committee, London TravelWatch): It is 14% nationally across all income levels.

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I think it follows a pattern where it is slightly less for lower income groups.

David Leibling (Chairman of the Fares and Ticketing Committee, London TravelWatch): Exactly. Yes.

Mike Tuffrey (Deputy Chairman): Well if it was 14%. OK. Then there is a question of what is it?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I think that the figures that I have are for families 13.4% nationally over all income groups. Now my understanding is that is slightly less for lower income groups as a proportion of their spending slightly higher up the income distribution. I do not have a particular how much it should be of your budget.

I think my broader question is the actual size of your overall budget in the first place. There is comparative analysis that has been done by the Joseph Rowntree Foundation on a minimum income standard and it assesses the level of different budget components which transport will be one of them. Now that is national data, it is not London specific and I do not have those figures with me but the study was called The Minimum Income Standard.

I am more concerned about the proportion of current family budgets that is taken up by transport and, as you highlighted, it is a very large chunk.

Mike Tuffrey (Deputy Chairman): I think if you have got any evidence of national data or your own I think our officers would be keen to have that --

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): Certainly.

Mike Tuffrey (Deputy Chairman): -- just so that we can see.

David Leibling (Chairman of the Fares and Ticketing Committee, London TravelWatch): It is published bi-annually.

Mike Tuffrey (Deputy Chairman): OK. At a time when TfL, if you go through to 2018, is looking at real fare increases, if we are not looking at real income increases then that squeeze - whatever is the percentage and whatever ought it to be - it is going to get tougher and people will have to pay more on transport and less on food or kids' shoes or any of these other very real choices people have to make when they are at the bottom end of the income scale.

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): If I may amplify that point? Even if we got into a situation where there were zero increases but RPI inflation was below zero, that would still be growing in real terms so I think that point is very valid.

David Leibling (Chairman of the Fares and Ticketing Committee, London TravelWatch): I was going to make the suggestion, if possible, that should RPI be less than minus 1% and if there is some kind of concession that fares did not decrease under those circumstances that any shortfall was carried forward so that when RPI did increase the deficit was offset against the increase so that would help to balance the costs over a period of time.

Mike Tuffrey (Deputy Chairman): OK. On the JSA point in particular which has come up - because that is something that I have been pursuing - the eligibility criteria are tighter than when announced. When it was announced it was said that something like 150,000 people would be eligible. It turns out that the rules - and they touched on it earlier - limit -- you cannot get it for the first three months of the six months which has radically reduced the numbers who are eligible now down to about 50,000 and then even within that reduced number the take up is around 20%.

So do you have any particular guidance for us or evidence for us around the small print of some of these concessions that changing the small print would help?

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I am not sure that I have evidence but if we are talking about the first 13 weeks then that is a key period that you would wish to be moving back into work. One thing that central Government has made clear is that it feels that -- well in this recession a lot of people have got back into work relatively quickly having fallen out of it are perhaps higher than in previous recessions. That means you want mobile people in the first --

Mike Tuffrey (Deputy Chairman): The way the rules currently are operating may be something that we can look at as a Committee. On precisely the basis that in the first 13 weeks - the first 3 months - there is a lot of movement in and out they have said you cannot have the concession because it is all too messy to keep giving it to you and taking it off and so forth, so they have said it is only people who are at the longer end of the six months who can get the concession.

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): If I may that sounds perfectly sensible from a bureaucratic point of view --

Mike Tuffrey (Deputy Chairman): But from a human point of view it is actually the reverse that you want.

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): Yes.

Mike Tuffrey (Deputy Chairman): There is a philosophical point as to whether we should be having concessions at all. What job is it for Transport for London to be trying to deal with poverty --

John Biggs (Chairman): Is that a liberal point or a sort of neo-liberal point?

Mike Tuffrey (Deputy Chairman): -- and that it should all be dealt with through benefit systems and so forth and we should just provide the transport. But that is not the world we are in and that is not what I am advocating - let the record show - but there is that more profound question as to whether we should go on adding more and more concessions for different groups - whether it is students and young people who are not in training. Is not the problem actually --

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): That may come back to the point that Shashi Verma [Chairman of the Fares and Ticketing Committee, TfL] was making; you have to have a system that is comprehensible and the more variables you introduce the harder it is for people to understand and, while you do want to help people who are in need, you have also got to consider the ability to deliver those complicated formulae on the ground.

Mike Tuffrey (Deputy Chairman): It goes beyond the GLA and certainly this Committee to set national benefits levels and national minimum wage levels and national pension levels if you then took away the concessions.

John Biggs (Chairman): There are parts of the country where local authorities are tearing their hair out over the national half fare travel scheme and London is not generally one of them. Is that a fair summary?

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): I think there are two issues there. One is that the London scheme has been running for so long that it is well established; there is a well-established funding formula through --

John Biggs (Chairman): Right. Except the scheme does apply to non-Londoners travelling in London.

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): That is the issue. It would have been helpful to hear from Shashi [Verma] how many people are taking advantage of that particular concession because, obviously, London will be popular for visitors.

You are quite right that outside London the local authorities are very concerned about the increase in fares because the formula for reimbursement does not seem to be equitable. London Councils and TfL have reached agreement on how to fund the Freedom Pass - a lot of which comes from surplus income from parking accounts which other local authorities outside London do not get.

Richard Tracey (AM): I am rather interested to hear from TravelWatch that the apparent gap between the Oyster pay as you go applies to TfL fares and to the mainline fares. That must be a consideration.

Paul Dornan (Policy and Research Officer, Child Poverty Action Group): I am not quite sure what the point is?

Richard Tracey (AM): The Oyster pay as you go, when it comes in and applies to mainline fares -- you presumably heard the discussion we had earlier where --

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): We are totally in favour of pay as you go because of the convenience factor. There is a separate issue - again as the previous speakers said - about equalising the fares and we would totally support that. We think that there should be a single zonal system across the whole of the London travel area. One appreciates that you cannot necessarily get there and you have also got the fact that the train operating companies [TOCs] are commercial bodies; they are under franchise agreements and hopefully, as the franchise agreements are developed, then there will be greater pressure on them to conform to a London-wide policy.

There is one other point about the fares basket of course which has not been raised this morning so far and that is that previously, even within the RPI plus 1% formula, the TOCs were allowed to increase their fares by up to 10% in total and the Secretary of State in his previous role as Minister for Rail has said that they are not allowed to do that anymore; so that is, I think, a helpful development.

John Biggs (Chairman): I am bewildered and confused about this zonal question in relation to national rail. I am trying to lift the clouds of misunderstanding here. My understanding was that under the previous Mayor there were discussions about whether he might need to give £100 million or £200 million a year to train operating companies for them to integrate their fares within the London zonal system.

I remember talking to him about this very concept. It was a lot of money and it was viewed as unreasonable, almost extortionate, that they were asking for so much money for integrating their fares. Could it be the case then that what is happening is that the TOCs are agreeing to integrate the use of Oyster cards but the Mayor is not offering or the TOCs are not talking about integrating their fares because of the further financial penalties or negotiations required for that?

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): That is right, yes. It is a two-stage process. We are only going through phase one at the moment.

John Biggs (Chairman): So under Mayor one - if we can call him that - there was a proposal although he did not actually reach a conclusion on that because it was quite tricky. Under Mayor two there may or may not be a proposal but it does not look at if it is going to reach a conclusion --

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): I do not think there is any current discussion about that.

John Biggs (Chairman): Right. OK.

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): The mechanics of getting the Oyster pay as you go has taken priority.

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): There are plenty of other anomalies. Caroline [Pidgeon] has already mentioned a few and we are working line by line to try to eliminate those anomalies --

Caroline Pidgeon (AM): It made me think in terms of talking about Oyster pay as you go on rail but also you have got Freedom Pass holders who cannot use their Freedom Pass before 9.30 am on national rail and obviously huge parts of London - I know Bromley, Bexley and places - really rely on the over-ground rail. Some of it would be to get to employment, some of it would be going to hospital appointments or whatever it is. Do you think that is a group that is being excluded from using transport and would you argue that we should have 24 hour --

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): Disabled people can use it at any time anyway can they not? It is only people over 60 who are restricted.

Again, this is one of the anomalies. The Mayor was very generous when he extended the Freedom Pass to all hours in January this year. There was no discussion at that stage with TOCs. Well there was discussion with TOCs and they said, no, they are not prepared to provide the same service because it would be too expensive for them.

Caroline Pidgeon (AM): There was an exchange of correspondence with the TOCs on this matter but no conclusion about it. Would you support it being 24 hours?

David Leibling (Chairman of the Fares and Ticketing Committee, London

TravelWatch): Well there is the issue of capacity. If you have limited capacity - as many of the rail lines do have - then allowing more people to travel on peak rather than encouraging them to travel off-peak may not be the best way of dealing with things.

Caroline Pidgeon (AM): Shashi [Verma] said he had the data and he could show how many had taken up the Freedom Pass before 9.30am, so you could look at that and see and if it was not a huge number would that not be something to make sure that all pensioners in London are treated equally?

Tim Bellenger (Director, Research and Development, London TravelWatch): Yes, I suppose you could do that but the point is that the national rail operators are commercial businesses and they would want compensation for the loss of income for allowing travel before 9.30 am. Yes, I am sure that if the Mayor or London Councils were actually prepared to pay that additional cost the train operators would probably be more than happy to offer it, but it is a question of actually who is going to pay for that concession.

John Biggs (Chairman): I think historically it has been a problem of agreeing what the actual cost is as well.

Tim Bellenger (Director, Research and Development, London TravelWatch): Yes.

John Biggs (Chairman): In theory it is possible; in practice there is a lot of disagreement.

Murad Qureshi (AM): Given the schedule of concessionary fares, the numbers of people on the various concessionary fares, it would be quite useful if as a Committee we just watch that over the years. I have never really had any comprehensive figures and I think it would be useful.

John Biggs (Chairman): OK. No, certainly. Perhaps we can get that in our report. We will be making some representations to the Mayor and we will be publishing our findings. We are grateful for the evidence we have been given by I think TravelWatch. I think, CPAG, if you wanted to submit something we would be very pleased. I am interested in issues about the high marginal cost for people moving in various directions. I do wonder whether transport costs are sufficiently taken into account in the London Living Wage for example. I think they probably are but if you have any observations on that that might be welcome as well.

Can we thank you very much for putting up with this very lengthy earlier session and then giving us your pearls of wisdom in the later part? Thank you very much.