

## Tube and bus fares

September 2006





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**Greater London Authority  
September 2006**

**Published by**

Greater London Authority  
City Hall  
The Queen's Walk  
More London  
London SE1 2AA

**[www.london.gov.uk](http://www.london.gov.uk)**

enquiries **020 7983 4100**

minicom **020 7983 4458**

ISBN 10: 1 85261 923 6

ISBN 13: 978 1 85261 923 7

Cover photograph © Adam Hinton

This publication is printed on recycled paper

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The Budget Committee's general terms of reference are to examine at each stage of the consultation process the Mayor's budget proposals for the next financial year and to report to the London Assembly thereon as necessary. It can also examine, monitor and report to the London Assembly from time to time on matters relating to the budgets and performance of the Greater London Authority (GLA) and the Functional Bodies (Transport for London (TfL), Metropolitan Police Authority (MPA), London Fire and Emergency Planning Authority (LFEPA) and the London Development Agency (LDA)).

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## Chair's foreword



When the Oystercard was launched we were told it was so named because of the pearl it would contain. Ironically, the analogy may be extended by viewing it as an unattainable jewel, a pearl of too great price, for some Londoners.

The Mayor wishes, for good reasons, to move travellers from cash on the day to using a smartcard. But this may never be wholly achievable, and in the meantime Londoners with the lowest incomes are paying cash in disproportionate numbers. There seems to be a number of reasons for this and we are keen that the Mayor investigates the reasons for the lower take up among lower income groups, and at the same time looks at what can be done to make Oyster both financially and practically a feasible option for them.

48 hours before the committee unanimously agreed this report the Mayor announced next year's fares. A single bus ticket paid for by cash will go up from £1.50 to £2, double what it was in 2004. A single Zone 1 ticket on the Tube paid for by cash will go up from £3 to £4. The use of the fare structure to act as an incentive to passengers to become Oyster cardholders must be balanced against how it hits those who pay cash because Oyster itself provides for them financial problems due to the initial outlay.

24 hours before we agreed the report the Mayor told the Assembly that TfL would be spending another £2 million on advertising Oyster. Perhaps some of the money could be diverted from persuasion to research, or indeed for promotions such as waiving the deposit on the card for socially excluded groups.

I am grateful to those who gave us evidence and assisted us in this piece of work. We have appended some of the material including our discussion with, among others, TfL and the Mayor's Director, Public Affairs and Transport, whom we asked for details of the Mayor's market research on relevant transport questions; we would have welcomed being able to publish his reply.

Decisions on fares are the Mayor's alone. He consults (as he has to) on his precept on the council tax. Fares can hit Londoners daily and painfully and our second set of recommendations regards a consultation process.

We will in due course publish responses to all our recommendations, but if you have comments on our report, I would be glad to hear from you. This is an issue that deserves long-term attention.

A handwritten signature in black ink that reads "Sally Hamwee". The signature is written in a cursive, flowing style.

Sally Hamwee,  
Chair of the Budget Committee

September 2006

## **Executive summary**

Since 2004 Tube and bus fares have increased year-on-year in real terms and they are set to increase further. For Londoners on low incomes higher cash fares could mean public transport becomes unaffordable. The Budget Committee has sought to identify how far Londoners on low incomes are taking up the cheapest fares available via Oyster cards. It has also considered the extent to which the Mayor consults on his fares to ensure any adverse effects on Londoners are properly identified and addressed.

### Take up of Oyster

There is some evidence that the take up of pay-as-you go Oyster cards amongst Londoners on low incomes is less than amongst higher earners. There is not enough information to draw an immediate conclusion on the implications of this low take up. It will depend on people's use of other fare products. However, there should be more research into this area to obtain better data about which people in socio-economic groups D and E including any on low wages are not using Oyster cards, what this means for them financially and what might be the barriers to take up.

There could be various reasons for lower take up of Oyster cards amongst socio-economic groups D and E. People might not understand how Oyster cards work and prefer to use cash. Or it may be that a lack of travel accounts for a proportion of this – more research is needed. However, poor take up of Oyster cards amongst those on low incomes is important because other Mayoral fare policies have not necessarily made public transport more inclusive. Increases in Tube fares have made it too expensive for some people and certain sections of society now travel almost solely by bus. This is a slower mode of transport that can limit people's travel horizons and their potential employment opportunities.

Although the Mayor has introduced separate fares initiatives to promote social inclusion, such as free bus travel for under 16s, these initiatives have not assisted all Londoners on low incomes. Whilst it might not be possible to differentiate fares on the basis of people's incomes, more could be done to increase the take up of pay-as-you go Oyster cards. This could include removing the Oyster card deposit and giving free Oyster cards to socially excluded groups. In the long-term cash may be removed altogether from the Tube and buses. Before this happens there should be demonstrable increases in the number of Londoners on low incomes who have pay-as-you go Oyster cards and their use of cash fares should have decreased.

### Fares consultation

There is no annual consultation on fare changes, which might provide an opportunity to identify adverse effects of new fares on different socio-economic groups. By contrast in Paris and New York there is public consultation on metro and bus fares. The Mayor does consult on his budget, of which fares income is an important element, but the consultation takes place in December, after the Mayor has announced his fare changes. There should be an opportunity to comment on fare changes with the Mayor undertaking proper annual consultation that includes setting out the reasons for proposed fare changes and the anticipated outcomes. There could be an annual public meeting of the Transport for London (TfL) Board about fares at which stakeholders can give views. There should also be greater clarity on the objectives that guide annual fare changes with the Mayor publishing an up-to-date long-term fares strategy. In the future external funding pressures may require the Mayor to increase fares beyond the levels so far announced. Londoners should be able to have a say on such developments.



## 1. Introduction

- 1.1 Since 2004 Tube and bus fares have increased year-on-year in real terms and they are set to increase further. Previously the Mayor proposed overall annual rises in Tube fares of inflation plus 1 per cent and in bus fares of inflation plus 10 per cent until 2007. Thereafter overall Tube and bus fares were expected to increase annually by inflation plus 1 per cent until 2011.<sup>1</sup> However, within this overall picture, cash fares have been increasing at a greater rate. In 2003 a single zone 1 cash fare on the Tube cost £1.60 and a single zone 1 cash fare on the bus cost £1.<sup>2</sup> By 2007, as the Mayor seeks to encourage take up of Oyster cards, these cash fares will have more than doubled to £4.00 and £2.00 respectively.<sup>3</sup>
- 1.2 The Mayor has reported that income poverty affects one in four of London's population.<sup>4</sup> Nearly two million Londoners<sup>5</sup> might therefore find higher cash fares difficult to afford, limiting their use of the Tube and buses. The Mayor has recognised this. His Transport Strategy states "high fares...exacerbate social exclusion by disproportionately affecting those with low incomes, reducing their access to the transport system."<sup>6</sup> One of his stated criteria for assessing fares initiatives is "promoting social inclusion, by making access to public transport more affordable for less well off groups."<sup>7</sup>
- 1.3 The Budget Committee has sought to identify how far the Mayor's current fares policy is taking into account Londoners on low incomes. A key feature of the fares policy is the Oyster card, which the Mayor has championed as the cheap alternative to cash fares. When announcing fare changes for 2006, he stated, "the simple message is that you don't have to pay the new cash fares – switching to Oyster and pay as you go will save money as well as time. I believe Londoners are astute enough to choose the best value fare for their journey."<sup>8</sup> We wanted to know if Londoners on low incomes are taking up Oyster cards.
- 1.4 Take up of Oyster cards was just one of a number of issues we considered as part of wider work on Tube and bus fares conducted between May to June 2006. We also looked at the extent to which the Mayor has a long-term fares strategy, the assumptions underlying TfL's fares modelling and how Tube and bus fares in London compare to those in Paris and New York. We commissioned external research on these issues and discussed the findings at a public meeting.<sup>9</sup> This report focuses on two issues that emerged from our work: the take up of Oyster cards and fares consultation.

<sup>1</sup> Colin Buchanan's report to the Budget Committee, 'TfL fares Study', June 2006, page 4. Subsequently, on 11 September 2006, the Mayor announced fare changes for 2007 that would mean an increase in the overall bus fares package of inflation plus 3.8 per cent and in the overall Tube fares package of inflation plus 1 per cent

<sup>2</sup> TfL's Fares and Tickets Guide 2003, pages 12 and 27

<sup>3</sup> GLA news release 2006/444 "Transport for London financial success allows planned bus fare increase to be cut by two-thirds", 11 September 2006

<sup>4</sup> GLA 'Tackling Poverty in London – A consultation Paper', April 2003, page 2

<sup>5</sup> The population of London is around 7 million so 1 in 4 is equivalent to 1.75 million.

<sup>6</sup> Mayor's Transport Strategy (2001), page 111

<sup>7</sup> Mayor's Transport Strategy (2001), page 113

<sup>8</sup> GLA news release 2005/479, "Mayor sets out 2006 fares package", 4 October 2005

<sup>9</sup> Copies of the research and transcript of the meeting are appended to this report

1.5 We have concluded that the Mayor and TfL need to do more to understand better and as necessary to increase take up of Oyster cards by Londoners on low incomes. We also suggest the Mayor needs to undertake proper consultation on annual fare changes and be more transparent about his long-term fares strategy. This would help to ensure the impact of future fare decisions on all Londoners, including those on low wages, is properly identified and addressed.

## 2. Take up of Oyster cards

2.1 There is some evidence that the take up of pay-as-you go Oyster cards amongst Londoners on low incomes is less than amongst higher earners. Colin Buchanan transport consultancy conducted research that indicated a significant proportion of people with low travel horizons do not possess an Oyster card. It also reported, as set out below,<sup>10</sup> that socio-economic groups D and E account for 25 per cent of London's population but only 12 per cent of Oyster pay-as-you-go journeys.

Socio-economic group	Oyster pay as you go users	London Population
AB (upper/middle class)	32%	32%
C1 (lower middle class)	43%	31%
C2 (skilled working class)	13%	12%
DE (other working class/ lowest level of subsistence)	12%	25%
Total	100%	100%

2.2 There is not enough information to draw an immediate conclusion on the implications of low take up of Oyster pay-as-you go cards amongst people in socio-economic groups D and E. Their use of other fare products such as the Freedom Pass and bus passes has to be taken into account in order to provide a complete picture. We would like to see more research into this area to obtain better data about which people in socio-economic groups D and E including any on low wages are not taking up Oyster cards, what this means for them financially and what might be the barriers to take up.

2.3 Whilst the big picture is overall decreases in the use of cash and increases in the use of pay-as-you go Oyster cards on the Tube and buses, these trends have not necessarily been repeated for socio-economic groups D and E.

- Between October 2005 and June 2006 there was roughly a halving in the proportion of all monthly Tube and bus journeys being paid for by cash. However, between September 2005 and April 2006, the proportion of all cash Tube journeys being made by socio-economic groups D and E increased slightly from eight to nine per cent. The proportion of all cash journeys on buses being made by people from socio-economic groups D and E has decreased but as of March 2006 the proportion was 26 per cent. This is higher than for socio-economic groups A and B, which accounted for 19 per cent of all cash journeys on the buses.<sup>11</sup>
- Between October 2005 and June 2006 the proportion of all monthly bus journeys paid for by pay-as-you go Oyster cards rose from three per cent to 11 per cent. However, the proportion of all bus pay-as-you go Oyster card journeys being made by people from socio-economic groups D and E decreased slightly from 14 per cent in October 2005 to 13 per cent in March 2006.<sup>12</sup>

2.4 There could be various reasons for limited take up of Oyster cards amongst those on low incomes.

<sup>10</sup> Colin Buchanan's report to the Budget Committee, 'TfL Fares Study', June 2006, page 10

<sup>11</sup> TfL's written submission to Budget Committee, 29 August 2006

<sup>12</sup> TfL's written submission to Budget Committee, 29 August 2006

- People do not understand how Oyster cards work. This may be particularly true for communities where English is not the first language. The London Borough of Tower Hamlets has reported that, in one sample, only 26 per cent of people from the Black and Minority Ethnic community had Oyster cards.<sup>13</sup>
- People consider Oyster cards expensive. London TravelWatch reported that “there is a widely held perception, particularly among [people in socio-economic groups] D and E, that when they first get the Oyster card not only do they have to spend £3 on getting it [the deposit] but they have to put a substantial amount of money on the card.”<sup>14</sup>
- People prefer to use cash and some do not have a bank account. The London Borough of Lambeth reported that many people on low incomes only deal with cash in their day-to-day lives.<sup>15</sup> The London Borough of Tower Hamlets reported that it finds “cash a favoured method of payments for some Council services and this is likely to apply equally to public transport fares.”<sup>16</sup>
- People find it difficult to obtain and maintain Oyster cards. London TravelWatch has pointed out that outside the area covered by the Tube, it is fairly rare to be able to find a shop that sells Oyster cards. It is also necessary to visit a Tube station to validate any on-line or over the telephone top up of Oyster cards.<sup>17</sup>

2.5 Limited take up of Oyster cards amongst Londoners on low incomes is important because this group may not benefit from other mayoral fare policies. For example, our research highlights that more affordable buses can in fact perpetuate the notion of limited travel horizons. Increases in Tube fares mean people are priced out of using this transport mode and certain sections of society now travel almost solely by bus. People from socio-economic groups D and E make only 13 per cent of all Tube trips as opposed to 36 per cent of all trips on buses.<sup>18</sup> John Siraut, Associate Director of Colin Buchanan transport consultancy, advised us that on the bus system you cannot travel as far within 30-45 minutes as you can by Tube, thus limiting job opportunities.<sup>19</sup> We recognise that not all people on low incomes will want to travel far from their immediate neighbourhood or necessarily have easy access to the Tube. However, when they do, they should not be financially disadvantaged by not having an Oyster card and having to pay higher cash fares.

2.6 The Mayor’s separate fares initiatives might promote social inclusion for some disadvantaged Londoners but not necessarily for those of working age. Redmond O’Neill, Director of Public Affairs and Transport – Mayor’s Office, told us that social inclusion was a significant problem for older people who no longer work, families with children and people without skills.<sup>20</sup> He did not mention people of working age on low incomes. He told us that taking into account the fact that fares initiatives such as the Freedom Pass for the over 60s and free travel for children were being delivered via Oyster cards meant take up of Oyster cards is actually highest within socio-economic groups D and E (65 per cent compared to 57 per cent for socio-economic groups A and B, 61 per cent for C1 and 51 per cent for C2).<sup>21</sup> But this is

<sup>13</sup> London Borough of Tower Hamlets’ written submission to the Budget Committee, 11 May 2006

<sup>14</sup> Transcript of Budget Committee meeting on 22 June 2006, page 8

<sup>15</sup> London Borough of Lambeth’s written submission to the Budget Committee, 13 June 2006

<sup>16</sup> London Borough of Tower Hamlets’ written submission to the Budget Committee, 11 May 2006.

<sup>17</sup> Transcript of Budget Committee meeting on 22 June 2006, page 9

<sup>18</sup> Colin Buchanan’s report to the Budget Committee, ‘TfL Fares Study’, June 2006, page 8

<sup>19</sup> Transcript of Budget Committee meeting on 22 June 2006, page 2

<sup>20</sup> Transcript of Budget Committee meeting on 22 June 2006, page 16

<sup>21</sup> Transcript of Budget Committee meeting on 22 June 2006, page 7

misleading. It could mask low take up of pay-as-you go Oyster cards amongst people of working age in socio-economic groups D and E. Previously the Mayor has acknowledged that the impact of fares on such people is a cause of concern. The Mayor told us “there are a lot of very low paid people who still have to pay high fares. I do not have the legal mechanism that allows me to have a differential to reflect the income of people. I would love to, but we do not.”<sup>22</sup>

2.7 Whilst it might not be possible to differentiate fares on the basis of people’s incomes, more could be done to increase the take up of Oyster cards amongst those on low incomes.

- The deposit for Oyster cards could be removed, possibly as a one off promotion for a limited time period. In Paris the ‘Navigo’ card, similar to the Oyster card but not available for pay as you go, has no upfront fee, although users are charged to replace lost cards.
- The number and range of places where Oyster cards can be purchased and validated could be expanded. Malcolm Fairhurst, Head of Fares and Ticketing at TfL, told us that there are currently about 2,000 high street retailers providing Oyster cards.<sup>23</sup> We would like to see this number increase and have suggested post offices as potential outlets.
- Free Oyster cards could be given to socially excluded groups. Although TfL has advised of targeted advertising for Oyster cards on certain bus routes,<sup>24</sup> we suggest specific communities be provided with free Oyster cards with a nominal amount of money on them. John Siraut told us that this is “probably far cheaper than some of the other benefits of social inclusion like giving free travel to certain groups.”<sup>25</sup> Indeed the estimated cost of producing each Oyster card is only £1.00 to £1.50.<sup>26</sup>
- Oyster cards could be developed for use in other transactions. For example, to access local library and leisure services or for small purchases in local shops. TfL have advised that it has investigated such possibilities, including working with the London Borough of Newham to provide Oyster to borough residents via the multi-application “Connects” card<sup>27</sup>, but so far without significant success. However, it has happened abroad. John Siraut told us that the Octopus card in Hong Kong is used as e-cash to such an extent “with lots of small transactions, if you try to pay by cash in a newsagent they look at you askance.”<sup>28</sup>
- Oyster fares could be simplified. One possibility is to make Oyster fares a straight percentage of cash fare prices. Brian Cook, Chair of London TravelWatch, told us “at the moment, the discount you get from Oyster pay-as-you-go varies between 12%-15%. If there was a standardisation, and across all modes, it would be a huge simplification.”<sup>29</sup> In response TfL has advised that “it believes there is little case for a constant percentage discount per se”.<sup>30</sup> Another possibility is to allow free transfers on buses and Tube when using Oyster cards providing the journeys are in the same direction within a short space of time. Malcolm Fairhurst told us

<sup>22</sup> Transcript of Budget Committee meeting on 15 December 2005, page 29

<sup>23</sup> Transcript of Budget Committee meeting on 22 June 2006, page 10

<sup>24</sup> Transcript of Budget Committee meeting on 22 June 2006, page 18

<sup>25</sup> Transcript of Budget Committee meeting on 22 June 2006, page 18

<sup>26</sup> TfL’s written submission to Budget Committee, 29 August 2006

<sup>27</sup> TfL’s written submission to Budget Committee, 29 August 2006

<sup>28</sup> Transcript of Budget Committee meeting on 22 June 2006, page 20

<sup>29</sup> Transcript of Budget Committee meeting on 22 June 2006, page 23

<sup>30</sup> TfL’s written submission to Budget Committee, 29 August 2006

that this could be costly<sup>31</sup> and TfL has reported that passengers have limited enthusiasm for such a change.<sup>32</sup> However, free transfers might increase the travel horizons of people on low wages and we would like to see TfL investigate this further.

- Oyster fares could be provided through other products (for example, a 'throw-away' carnet of Oyster tickets might be more convenient for socially excluded groups).

2.8 In the future cash fares on the Tube and buses could be abolished, which would clearly impact on the mobility of Londoners who do not have Oyster cards. The main driver for when cashless systems will be introduced is revenue. Redmond O'Neill told us that although the use of cash on the Tube and buses had decreased, there would be a disproportionate fall in revenue until cash use was down to around one to three per cent.<sup>33</sup> However, if there was the required fall in cash use, we would want to see evidence that this included a significant fall in cash use by Tube and bus users from socio-economic groups D and E. We would want to see that their take up of pay-as-you go Oyster cards had improved.

**Recommendations:**

**That the Mayor and TfL undertake more research into the take up of Oyster cards and pay-as-you go Oyster cards amongst Londoners to identify fully any barriers to take up including social grouping, ethnic grouping, geographical location, age and gender.**

**That the Mayor and TfL actively seek to increase the take up of Oyster cards amongst groups of Londoners with low take-up and report to the TfL Board and the London Assembly through the regular budget and performance monitoring reports on the steps being taken.**

**That the Mayor and TfL explore the following as means of increasing take up of Oyster cards amongst Londoners on lower incomes where evidence shows this is below expected levels of take up:**

- a) Removing the Oyster card deposit – possibly as a one-off promotion for a limited period to encourage further take up of Oyster cards;**
- b) Expanding the number and range of places where Oyster cards can be purchased and validated;**
- c) Providing free Oyster cards to socially excluded groups;**
- d) Developing the use of Oyster cards for other transactions e.g. for library services and small purchases in local shops;**
- e) Simplifying Oyster fares e.g. by making Oyster fare prices a direct percentage of cash fare prices and/or enabling free transfers on the Tube and buses if the journeys are in the same direction within a short space of time. Although TfL has indicated that the financial cost of such measures may be prohibitive, in order to justify this and be transparent, a full cost/benefit analysis for each measure should be published; and**
- f) Providing different ticket products via Oyster e.g. a 'throw-away' carnet of Oyster tickets.**

<sup>31</sup> Transcript of Budget Committee meeting on 22 June 2006, page 7

<sup>32</sup> TfL's written submission to Budget Committee, 29 August 2006

<sup>33</sup> Transcript of Budget Committee meeting on 22 June 2006, page 20

**That the Mayor and TfL explain the proposals for further roll-out of Oyster cards including how these proposals will address areas and groups of Londoners where there is low take up of Oyster cards.**

### 3. Fares consultation

- 3.1 There is no annual consultation on Tube and bus fares, which might provide an opportunity to identify adverse effects of new fares on different socio-economic groups. In 2000 the Mayor announced, “for the first time since the abolition of the Greater London Council, there will be consultation on annual fares changes. I will now be seeking the views of the TfL Board, London Underground Ltd, the London Business Board, the Association of Local Government, National Rail and the London Transport Users Committee.”<sup>34</sup> Since then, the Mayor has not consulted on fares changes each year. Instead he has announced fare changes each autumn for introduction the following January. London TravelWatch told us “the Mayor has previously ‘consulted’ on his annual fares package, but only to the extent of telling us about what was to happen, with no real opportunity to influence the process or to examine possible options within the [fares] package.”<sup>35</sup>
- 3.2 By contrast in Paris and New York there is public consultation on metro and bus fares. In Paris many different public and private bodies are officially involved in taking decisions on fare policy. In New York the Permanent Citizens Advisory Committee considers itself to have influenced fares policy in terms of pushing for automated fare collection technology and championing the CityTicket fare.<sup>36</sup> John Siraut told us “in New York and Paris the passenger user groups are actively consulted on fares and have an important influence on fare discussions. In London, ...we have a reactive type situation, having to react to fare proposals.”<sup>37</sup>
- 3.3 The Mayor does consult on his budget, of which fares income is an important element, but the consultation takes place in December after the announcements on fare changes. When we asked Redmond O’Neill about the Mayor’s fare decisions being out of sync with the budget consultation, he reported, “no person would wish to be in the position of jerking around the fares policy” and “the decision on fares is always made within the context of the TfL business plan.”<sup>38</sup> However, TfL’s business plan contains only limited information on fares. It states “to ensure the Investment Programme can be financed, the Plan is predicated upon above inflation increases in fares” and that “fare decisions are taken annually by the Mayor.”<sup>39</sup> This is inadequate. In 2006/7 Tube and bus fares income will fund almost a quarter of the GLA Group’s total expenditure of over £9 billion.<sup>40</sup> For many Londoners the fare increases that form part of the Mayor’s annual budget may have more of a direct impact than rises in the GLA council tax precept.
- 3.4 The Mayor should consult each year on his proposed fares changes. He should report the responses he receives to his consultation and how he has taken these into account in his decisions on fares. Redmond O’Neill told us that the Mayor does market research to test opinion on various fare issues. We have sought further information on this research including the questions asked and the

<sup>34</sup> GLA news release 2000/064, “Mayor’s fare proposals will save Londoners £30m”, 21 July 2000

<sup>35</sup> London TravelWatch’s written submission to the Budget Committee, 13 June 2006

<sup>36</sup> Colin Buchanan’s report to the Budget Committee, ‘TfL Fares Study’, June 2006, page 25

<sup>37</sup> Transcript of Budget Committee meeting on 22 June 2006, page 3

<sup>38</sup> Transcript of Budget Committee meeting on 22 June 2006, page 5 and 26

<sup>39</sup> TfL Business Plan 2006/7-2008/9, page 65

<sup>40</sup> The Mayor’s 2006/7 budget provides for £9.644 billion gross expenditure by the GLA Group. Underground traffic income is forecast at £1.34 billion and bus network income is forecast at slightly over £1 billion (see page 15 of the Mayor’s 2006/7 budget).



responses received but have yet to receive a reply. The Mayor should also be more transparent about the potential impact of proposed fare changes. In December 2005, the Mayor told us “we have no idea really what the impact of a second 13 per cent increase in fares is going to be on the buses.”<sup>41</sup> Yet our research highlights that TfL uses a robust fares modelling system to identify the impact of fares changes. Indeed Redmond O’Neill told us TfL’s fares model is very helpful and that its projections “are reasonably accurate and they allow us to see fairly clearly what the likely effects are of any particular fare decision.”<sup>42</sup>

3.5 An annual public meeting of the TfL Board about fares could also help address the current deficit in consultation. In the past the TfL Board appears to have been more involved in the Mayor’s decisions on fares. From 2000 to 2003 the TfL Board received at least one separate annual public report on fares policy and some Board Members’ views were recorded. For example, in 2000, it was reported “[TfL Board] Members were keen for any measures adopted [in terms of fares revision] to be available for all, including those on low income or with special needs.”<sup>43</sup> However, since 2003 there have been no separate annual public reports to the TfL Board on fares policy. Although Redmond O’Neill assured us that the Mayor “listens to everybody on the TfL Board”<sup>44</sup> it is not obvious what the TfL Board Members are telling the Mayor about fares and how he is responding to their comments.

3.6 There needs to be better information on the Mayor’s long-term fares strategy to provide the context for annual fare changes. The Mayor’s current Transport Strategy dates from 2001 and does not cover recent fares initiatives. Redmond O’Neill told us the Mayor’s fares strategy until 2011 is basically three-fold; to encourage the use of public transport, which means keeping fares affordable; to fund investment in the transport system; and as far, as possible, through fares policy to assist in social inclusion.<sup>45</sup> Yet, in the absence of an up to date published fares strategy, it can be difficult to see how far the objectives of keeping fares affordable and promoting social inclusion are being systematically addressed at the same time as raising revenue.

- London TravelWatch told us “rather than being based on some objective assessment of what constitutes the optimal price, the general level of fares appears to be set simply by the need to bridge the gap between grant income (and borrowing) and projected outgoings.”<sup>46</sup>
- Friends of Capital Transport Campaign commented “for the first four years [of the Mayoral term], there was a clear and coherent policy to achieve a net increase in bus usage, and a net decrease in the use of the private car. There has now been a move to a policy of seeking to maximise income, which may increase the use of the car. This could undermine the Mayor’s policy of seeking modal shift ...”<sup>47</sup>
- Our own research highlights that separate initiatives – such as free bus travel for under 16s and free Tube travel for under 11s – do not seem to derive from the

<sup>41</sup> Transcript of Budget Committee meeting on 15 December 2005, page 13

<sup>42</sup> Transcript of Budget Committee meeting on 22 June 2006, page 13

<sup>43</sup> Minutes of TfL Board meeting on 27 July 2000, page 5

<sup>44</sup> Transcript of Budget Committee meeting on 22 June 2006, page 25

<sup>45</sup> Transcript of Budget Committee meeting on 22 June 2006, page 3

<sup>46</sup> London TravelWatch’s written submission to the Budget Committee, 13 June 2006

<sup>47</sup> Friends of Capital Transport Campaign’s written submission to Budget Committee, 12 June 2006

Transport Strategy but “appear to have been more of a political decision than a long-term vision.”<sup>48</sup>

3.7 In the future external funding pressures may require the Mayor to change his fares policy. Our research highlighted the Government’s Comprehensive Spending Review in 2007 as a factor that could affect TfL’s financial position.<sup>49</sup> Redmond O’Neill told us “TfL is a monopoly provider of transport services in London. Left to itself, as was the case before we had an elected Mayor, it would probably solve most of its financial problems by putting up fares. The Mayor is elected by the citizens of London and they wish to have an affordable transport policy.”<sup>50</sup> If the Mayor is to realise an affordable transport policy that is inclusive for all Londoners, including those on low wages, he should be more transparent about his proposed fares decisions and ask people for their views. This could mean that when fare changes might adversely affect certain Londoners this is identified early on and properly addressed.

**Recommendations:**

**That the Mayor undertakes each year a formal consultation on his proposed fare changes, which includes providing details of any separate fare initiatives and the forecast impact of proposed fare changes.**

**That the Mayor reports the responses to his annual fares consultation to the TfL Board and the London Assembly and explains how he has taken into account these responses before announcing any fare changes.**

**That the TfL Board holds at least one public meeting a year where fares policy is discussed and where stakeholders are invited to give their views.**

**That the Mayor publishes details of his fares strategy for the next five years to set out clearly the context for future annual fare changes.**

**4. Follow up**

4.1 The Budget Committee will revisit its recommendations to check on progress in December 2006 when the Mayor publishes his consultation draft budget for 2007/8. This follows the Mayor’s announcement in September 2006 of fare changes for 2007.

<sup>48</sup> Colin Buchanan’s report to the Budget Committee, ‘TfL Fares Study’, June 2006, page 5

<sup>49</sup> Colin Buchanan’s report to the Budget Committee, ‘TfL Fares Study’, June 2006, page 14

<sup>50</sup> Transcript of Budget Committee meeting on 22 June 2006, page 13

## **Appendix 1: List of all recommendations**

That the Mayor and TfL undertake more research into the take up of Oyster cards and pay-as-you go Oyster cards amongst Londoners to identify fully any barriers to take up including social grouping, ethnic grouping, geographical location, age and gender.

That the Mayor and TfL actively seek to increase the take up of Oyster amongst groups of Londoners with low take up and report to the TfL Board and the London Assembly through the regular budget and performance monitoring reports on the steps being taken.

That the Mayor and TfL explore the following as means of increasing take up of Oyster amongst Londoners on low incomes where evidence shows this is below expected levels of take up:

- a) Removing the Oyster card deposit – possibly as a one-off promotion for a limited period to encourage further take up of Oyster cards;
- b) Expanding the number and range of places where Oyster cards can be purchased and validated;
- c) Providing free Oyster cards for socially excluded groups;
- d) Developing use of Oyster for other transactions e.g. for library services and small purchases in local shops;
- e) Simplifying Oyster e.g. by making Oyster fare prices a direct percentage of cash fare prices and/or enabling transfers to be made on buses and Tube if the journeys are in the same direction within a short space of time. Although TfL has indicated that the financial cost of such measures may be prohibitive, in order to justify this and be transparent, a full cost/benefit analysis for each measure should be published; and
- f) Providing different ticket products via Oyster e.g. a 'throw-away' carnet of Oyster tickets.

That the Mayor and TfL explain the proposals for further roll-out of Oyster cards including how these proposals will address areas and groups of Londoners where there is low take up of Oyster cards.

That the Mayor undertakes each year a formal consultation on his proposed fare changes, which includes providing details of any separate fare initiatives and the forecast impact of proposed fare changes.

That the Mayor reports the responses to his annual fares consultation to the TfL Board and the London Assembly and explains how he has taken into account these responses before announcing any fare changes.

That the TfL Board holds at least one public meeting a year where fares policy is discussed and where stakeholders are invited to give their views. That the Mayor publishes details of his fares strategy for the next five years to set out clearly the context for future annual fare changes.

## **Appendix 2: List of evidence submitted to the Committee**

The following attended the Committee's evidentiary hearing on 22 June 2006 to be questioned by Members on Tube and bus fares:

- Redmond O'Neill, Director – Public Affairs & Transport, Mayor's Office, GLA;
- Kevin Austin, Head of Transport, GLA;
- Malcolm Fairhurst, Head of Fares and Ticketing, TfL;
- John Siraut, Associate Director, Colin Buchanan transport consultancy; and
- Brian Cooke, Chair, London TravelWatch; and
- Tim Bellenger, Director, Research and Development, London TravelWatch.

Written evidence was received from: the London boroughs of Tower Hamlets, Lambeth and City of Westminster, Friends of Capital Transport Campaign, London TravelWatch and, following the evidentiary hearing, from TfL.

Written evidence was also sought from the following organisations but none received: Association of London Government, Transport 2000, London Civic Forum, Tony Travers of London School of Economics, London First, London Chamber of Commerce & Industry, British Hospitality Association, Federation of Small Businesses, Southern and Eastern Region TUC, AMICUS, UNISON, RMT, ASLEF and TSSA.

**Appendix 3: Colin Buchanan transport consultancy's report, 'TfL Fares Study', June 2006**

# **TfL fares study**

Report

London Assembly Budget Committee

June 2006

# TfL fares study

## Report

Project No: 11241

June 2006

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Issue no: 0

Date: June 2006

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# 1. Introduction

1.1.1 Colin Buchanan (CB) has produced this report for the London Assembly in order to assist its Budget Committee which is investigating TfL's London underground and bus fares.

1.1.2 The report consists of four main sections which address the key questions:

- Fares policy (section 2) – whether TfL is able to determine fares based on a long-term strategy or if political and financial short-termism is the overriding factor; analysis of the trade-offs involved in setting fares policy; and the impact of Oyster.
- Fares modelling (section 3) - the assumptions underlying TfL's fare model including elasticities, the process followed and risks / limitations.
- International comparisons (section 4) – comparing London with Paris and New York in terms of fare structures, affordability, funding mechanisms and consultation processes.
- Conclusions (section 5).

## 2. Fares Policy

### 2.1 Introduction

2.1.1 Recent transport trends as described below have raised a set of questions about TfL's fares policy. Namely:

- Is TfL's annual fares package driven by short-term issues (such as political requirements or financial difficulties) or long-term aims?
- How much of a trade-off is there between financial performance, inclusion and simplicity, and where does TfL position itself?
- How are fares initiatives decided on and implemented?
- What has been the impact of Oyster and what is the future for fares in London?

2.1.2 This section addresses these issues.

### 2.2 Background

2.2.1 Figures 2.1 and 2.2 show how real fares, passenger kilometres and vehicle kilometres operated have changed on London's bus network and London Underground (LU) respectively in recent years. Projections for fares up until 2012 are also included, based on current TfL policy. This includes one more year of a 10% real increase before reverting to a RPI+1% policy. The data has been obtained from TfL's London Travel Report 2005.

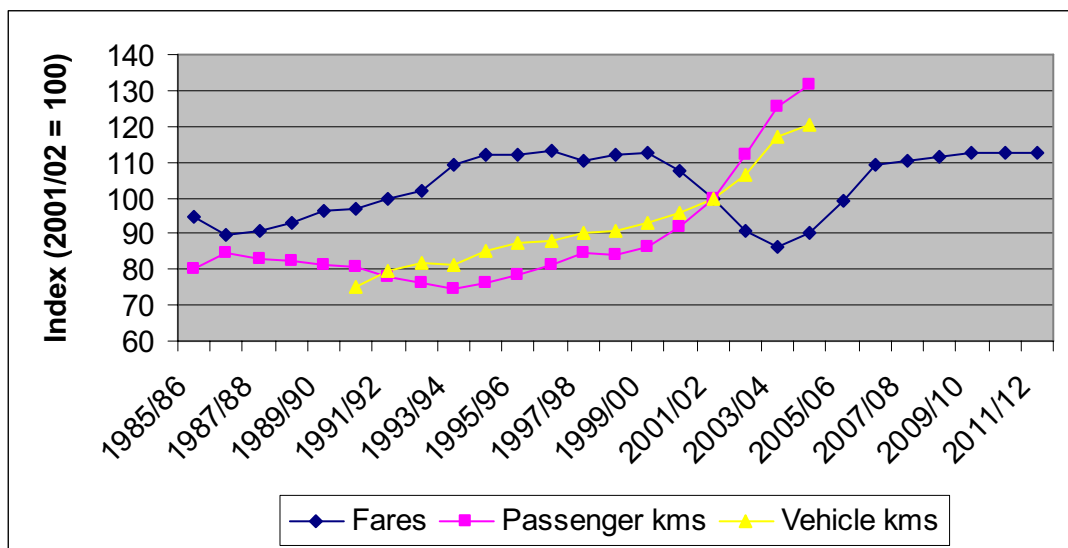
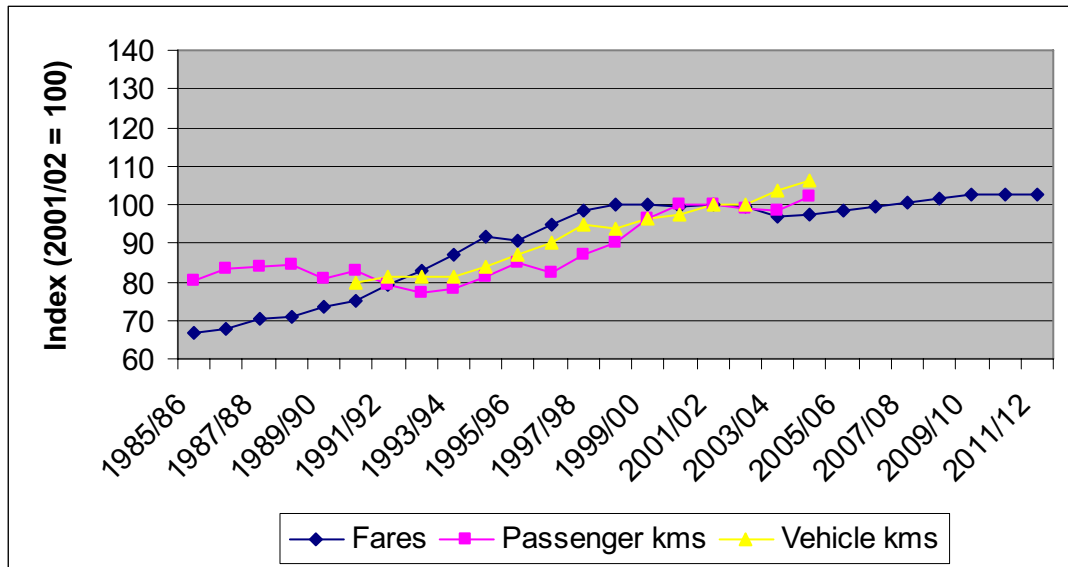


Figure 2.1: Index of real fares, passenger kilometres and vehicle kilometres on London buses



**Figure 2.2: Index of real fares, passenger kilometres and vehicle kilometres on London underground**

2.2.2 The figures above suggest that trends that remained fairly consistent since the mid 1980s have changed in the late 1990s / early 2000s. Bus and LU fares rose gradually in real terms until 1999, at which point bus fares were frozen for several years and thus fell in real terms. At the same time, bus capacity was increased and the number of vehicle kilometres operated rose by 26% between 2000/01 and 2004/05. There was also a large improvement in the quality of bus services provided. Bus demand also rose substantially over the same period, by 43%. On LU fares remained broadly constant from 1999 while strong passenger growth has tailed off.

### 2.3 Short or Long-term?

2.3.1 The Mayor's Transport Strategy (2001) set out plans for transport in London for a ten-year period. With regards to fares, Policy 4B.2 sets out that:

*"Fares policy will aim to make public transport more attractive and affordable, with more consistency between modes, greater simplicity and convenience for passengers, shorter queues and quicker journeys."*

2.3.2 Whilst Proposal 4B.1 says that

*"The approach to public transport fares over the next three years will include a bus fare freeze and capping of Underground fares in real terms. Further selective fare initiatives and reductions will be considered, as resources permit."*

2.3.3 It was also made clear that smartcards (now known as Oyster) would be phased in and that more integration would be sought, for instance by developing a common ticketing and fare system for rail in London with the Strategic Rail Authority.

2.3.4 The Mayor's transport strategy therefore set out a long-term strategy with a specific short-term policy for the level of bus and Underground fares.

2.3.5 The fares package for 2004 (announced in August 2003 – see press release<sup>51</sup>), set out that Oyster fares would rise at no more than the rate of inflation over the next four years. Later announcements indicated that bus fares (excluding Oyster) would increase by RPI+10% per year for the next three years (fully offsetting the impact of the previous fare freeze), with Underground cash fares increasing by RPI+1%. Underground and bus fares are then expected to rise by RPI+1% until 2011, remaining constant in real terms after this. This fits in with the funding available and fed into TfL’s Business Plan for 2005/06 – 2009/10, although the overall fares package is still announced on an annual basis and leaves room for changes to announced plans if deemed necessary.

2.3.6 It would appear that short term financial pressures have forced TfL to move away from the policies and proposals set out in the Mayor’s transport strategy. This is discussed further below.

### **Bus fares**

2.3.7 Given the earlier decision to freeze bus fares in order to make public transport more attractive, it is fairly clear that the later decision to significantly raise bus fares over three years was driven by a short-term financial shortfall rather than part of a long-term strategy. The bus subsidy increased from a combination of lower fares and an increase in the number and quality of bus services. Some indication that this was the case is found in the summary of the TfL Board meeting of December 2004 (Item 4, p19):

*“Bus fares were kept low in the Mayor’s first term to reflect the policy of encouraging bus use and the importance of buses to the capital and to promote social inclusion. This has led to high and increasing levels of subsidy. Fare increases have been announced recently to help pay for a significant transport investment programme.”*

2.3.8 The TfL view is that part of the rationale behind the bus fare increases is to move back towards the differentials between Underground and bus fares that were seen in the late 1990s prior to the freeze in bus fares. That said, the charts in section 2.2 showed that relative to 2001/02, bus fares will have increased more in real terms than Underground fares by the end of this decade.

2.3.9 TfL’s hands are tied to an extent, given that around half of its funding comes from government grants (as noted in the Board papers of March 2004) which feed through to TfL from the GLA. The Government will be undertaking its next Comprehensive Spending Review (CSR) in 2007 and this is expected to tighten budgets for many departments, so to the extent that this impacts on TfL, fares policy may have to change again.

### **Cash v Oyster fares**

2.3.10 Although the Mayor’s Transport Strategy set out a clear goal of introducing smartcard technology to London in the form of Oyster, it was not made explicit that cash fares would be substantially increased at the same time – this again raises a question about the extent to which higher cash fares were simply a short-term way of dealing with financial shortfalls.

<sup>51</sup> [http://www.london.gov.uk/view\\_press\\_release.jsp?releaseid=1902](http://www.london.gov.uk/view_press_release.jsp?releaseid=1902)

### ***Mayoral Initiatives***

- 2.3.11 Initiatives have been introduced - such as free bus travel for under 16s and free Underground travel for under 11s – which were not a specific part of the 2001 strategy and appear to have been more of a political decision than a long-term vision, forming a key part of the Mayor's re-election campaign. As a result, this was (and is) an aspect of fares policy that TfL does not have direct influence on.

## **2.4 Trade-offs**

- 2.4.1 There is a key trade-off when setting fares policy between simplicity, financial performance and inclusion.

### ***Simplicity***

- 2.4.1 The fare structure for public transport in London is complex (see section 4 for comparisons with other cities), with the latest public document outlining the structure stretching to 58 pages. The complexity of the fares structure lies in the various fares and passes that are available to users on the Underground and bus/tram network, including.
- Single trip bus or Underground tickets
  - Oyster pre-pay
  - Day tickets
  - Weekly / monthly / annual passes
  - Bus-only weekly / monthly / annual passes
  - Group day tickets
- 2.4.2 The introduction of the Oyster card has simplified the use of public transport in London for Oyster card users. This is because it has reduced overall journey times by reducing the need for queuing and moving towards a quick, cashless system. It also ensures that people who use it pay the lowest fare. However, Oyster has also had the effect of increasing the intricacy of prices and options relating to fares.
- 2.4.3 Ticket prices vary according to:
- Whether cash or Oyster is used as payment;
  - Zones (with a premium fare for Zone 1);
  - Peak / off-peak for singles and some passes;
  - Mode of transport; it is cheaper to get a pass for bus / tram only, or reduced tickets for bus / tram only.
- 2.4.4 Discounts are available for group travel, off-peak travel is free for children under the age of 16 on bus / under 11 for LU (for off-peak travel when accompanied by an adult) and there are discounts for students over 16. Freedom passes, allowing free travel on public transport in London, are available for people aged 60 and over and passengers with an eligible disability.

2.4.5 Oyster has made the overall fares structure more complicated in recent years, with TfL's fares summary document more than doubling in size since the early 2000s. Although Oyster has undoubtedly brought about benefits, it inevitably introduced complications to the system (see section 2.5). In TfL's latest fares structure document there are 23 different tickets listed for making a trip between Zones 1 – 2 (ten of these are single fares and thirteen are different types of travelcard).

2.4.6 As another example of the complexity of London's fares structure, Table 2.1 shows the variability of fares on London Underground for under-18s in 2000 and 2006.

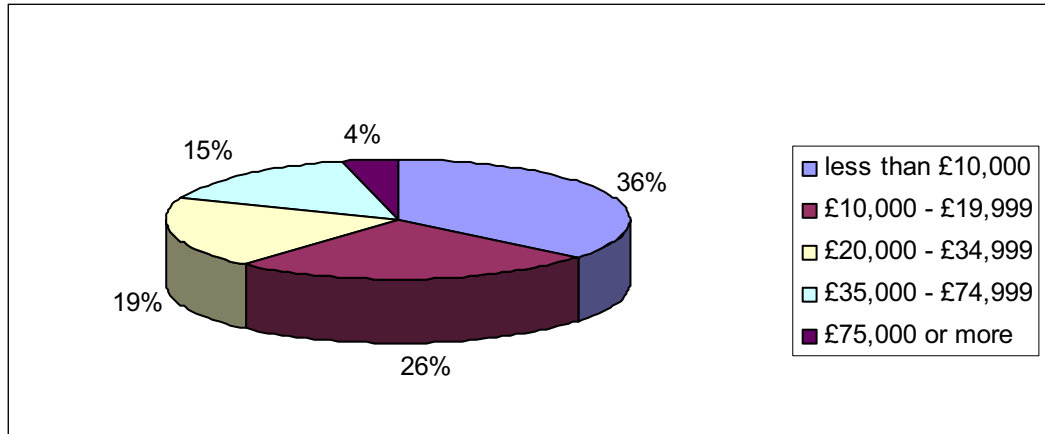
**Table 2.1: London Underground children's fares, 2000 and 2006**

		Oyster – Peak	Oyster – Off-peak (if different)	Cash
<b>2006</b>				
Under 5	All travel	Free if accompanied by an adult		
Under 11	All travel	Free off-peak if accompanied by an adult		
Under 16	Zone 1	£0.70		£1.50
	Zone 1 - 2	£1.00	£0.70	£1.50
	Zone 1 - 3 or 1 - 4	£1.00		£1.50
	Zone 1 - 5 or 1 - 6	£1.00		£2.00
	Zone 2, 3, 4, 5 or 6 only	£0.50		£1.50
	Zones 2 - 3, 3 - 4, 4 - 5 or 5 - 6	£0.50		£1.50
	Zones 2 - 4, 2 - 5, 2 - 6, 3 - 5 or 4 - 6	£0.90	£0.50	£1.50
16 / 17	Zone 1	£0.70		£3.00
	Zone 1 - 2	£1.00	£0.70	£3.00
	Zone 1 - 3 or 1 - 4	£1.20	£1.00	£3.00
	Zone 1 - 5 or 1 - 6	£1.70	£1.00	£3.00
	Zone 2, 3, 4, 5 or 6 only	£0.50		£3.00
	Zones 2 - 3, 3 - 4, 4 - 5 or 5 - 6	£0.50		£3.00
	Zones 2 - 4, 2 - 5, 2 - 6, 3 - 5 or 4 - 6	£0.90		£3.00
<b>2000</b>				
Under 5	All travel			Free if accompanied by an adult
Under 16	One zone - Zone 1			£0.60
	One zone - Zone 2, 3, 4, 5 or 6			£0.40
	Two zones - Zones 1 & 2			£0.80
	Two zones - Zones 2 & 3, 3 & 4, 4 & 5 or 5 & 6			£0.60
	Three zones - Zones 1, 2 and 3			£1.00
	Three zones - Zones 2, 3 & 4 or 3, 4 & 5 or 4, 5 & 6			£1.80
	Four zones - Zones 1, 2, 3 & 4			£1.20
	Four zones - Zones 2, 3, 4 & 5 or 3, 4, 5 & 6			£1.00
	Five zones - Zones 1, 2, 3, 4 & 5			£1.40
	Five zones - Zones 2, 3, 4, 5 & 6			£1.10
	Six zones - Zones 1, 2, 3, 4, 5 & 6			£1.50

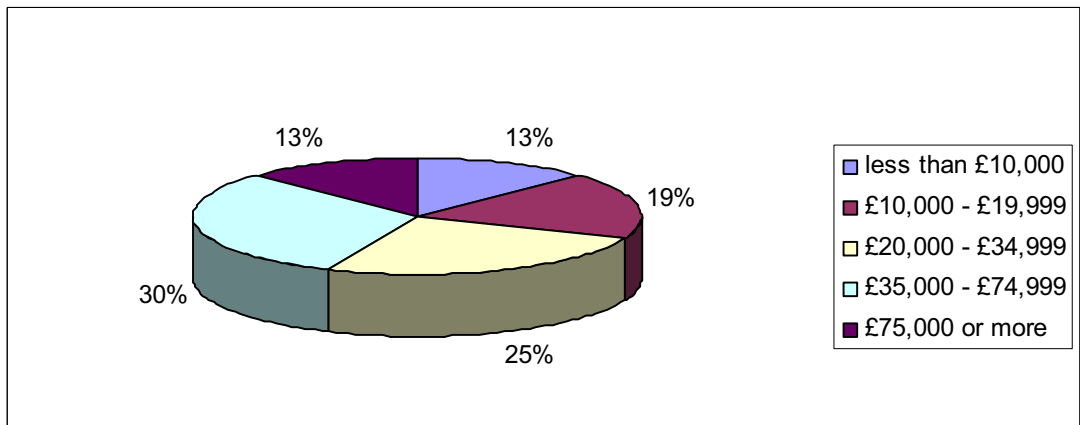
- 2.4.7 So the system in 2000 whereby a single cash fare was applicable to each of the different zonal combinations of travel has been further complicated by the introduction of Oyster peak and off-peak fares as well as different prices (in some cases) for 16 / 17 year olds.
- 2.4.8 The advantage of the Oyster card is that it enables considerable flexibility to be introduced, however, in doing so it also brings complexity. This complexity affects two particular groups; the socially excluded and tourists. The former group is discussed below. One and three day travelcards are the only discounted tickets that are now available that do not require an Oyster card and are therefore most likely to be used by visitors. However, there appears to be limited publicity about the latter.
- 2.4.9 Unlike Paris, London has no ticket aimed principally at tourists or those attending special events in the city. The proposed exception of course is the 2012 Olympics where ticket holders for events will be eligible for free travel.

### ***Inclusion***

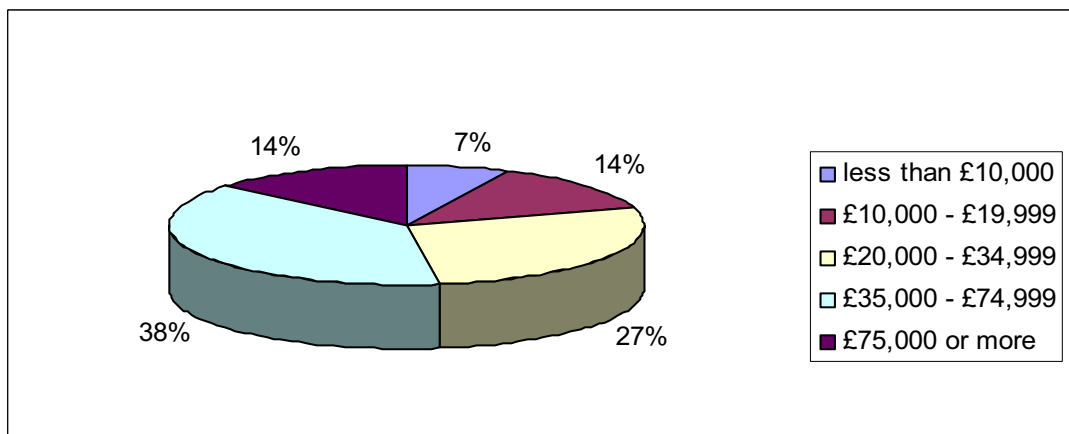
- 2.4.10 Social inclusion is an important area to consider when appraising transport schemes. Not only does the Department for Transport (DfT) require supporting analysis on 'Distribution and Equity' for transport appraisals, but regeneration effects - supporting people who live in deprived areas - form an important part of Wider Economic Impacts within the Economics objective for NATA (New Approach to Appraisal) appraisals.
- 2.4.11 There is no doubt that TfL takes the issue of social inclusion seriously; the Mayor's Transport Strategy recognises that:  
*"High fares also exacerbate social exclusion by disproportionately affecting those with low incomes, reducing their access to the transport system."*
- 2.4.12 The view generally taken by TfL is that by keeping bus fares comparatively low in recent years, inclusion has been promoted as it has been affordable for people from low income groups to use public transport.
- 2.4.13 However this perpetuates the notion of limited travel horizons. That is, an inability or unwillingness to travel for more than a certain time or distance. By increasing the fare differential between bus and underground certain sections of society now travel almost solely by bus which is generally much slower than the underground. This reduces the distance they can travel within a set time and hence reduces opportunities available to them.
- 2.4.14 As an illustration of the difference between bus and the underground (and National Rail as a further comparison) in this respect, Figures 2.3 to 2.5 use data from the London Area Transport Survey (LATS) 2001 survey to show the proportion of trips in London accounted for by different household income groups.



**Figure 2.3: Proportion of bus trips in London made by different household income groups**



**Figure 2.4: Proportion of London underground trips made by different household income groups**



**Figure 2.5: Proportion of national rail trips in London made by different household income groups**

2.4.15 Although the charts above do not tell the whole story on their own, it is clear from the fact that only 13% of LU trips (as opposed to 36% on buses) out of a



population of 30% are made by the lowest income group that the Underground could be made more inclusive.

### **Financial performance**

- 2.4.16 Financial performance is part of the trade-off since the more simplicity there is in the fares structure, the less opportunity there is to develop new types of fares to maximise revenues. The financial performance is important because ultimately the budget set for TfL needs to be met.

## **2.5 Oyster**

- 2.5.1 The introduction of the Oyster smartcard system directly addressed the aims outlined in Policy 4B.2 of the Mayor's Transport Strategy (see section 2.3) by adding greater convenience for passengers, shortening queues and quickening journeys in general. Take-up of Oyster has been high, with 64% of the one billion trips on London Underground each year using Oyster smartcards (*Modern railways*, June 2006). At the March 2006 TfL Board meeting it was mentioned that over 40,000 new customers switch to Oyster pay as you go each week.

- 2.5.2 Oyster has implications on operational efficiency through:

- Shorter dwell times for buses;
- Fewer ticket office staff required at stations.

- 2.5.3 Oyster also offers an advantage in terms of reducing leakages from the system – for instance, it is superior to the old system of directly paying surcharges to a London Underground ticket collector when travelling to zones beyond the validity of one's travelcard. It also reduces the risk of bus drivers being robbed.

- 2.5.4 There are still some issues with Oyster that could be addressed:

### **Inclusion**

- 2.5.5 Overall, low income groups would appear to have benefited less from Oyster than others. Previous research undertaken by CB indicated that a significant proportion of people with low travel horizons do not possess an Oyster card, for a variety of reasons. These include i) not being able to understand how Oyster works; ii) personal privacy issues; and iii) the fact that Oyster cards can be expensive and difficult to obtain. Also, some people simply prefer to use cash and these people are often from socially excluded groups.

- 2.5.6 The Auto top-up system - whereby pre pay users can arrange for extra credit to be added to their Oyster card by direct debit when their balance falls below £5 – also seems likely to be more beneficial to affluent people who are more likely to have a bank account.

- 2.5.7 Evidence on the uptake of Oyster by different socio-economic groups compared to the overall socio-economic profile of London is shown in Table 2.2.

**Table 2.2: Proportion of people from different social groups using Oyster pay as you go**

Socio-Economic Group	Oyster pay as you go users	London population
AB	32%	32%
C1	43%	31%
C2	13%	12%
DE	12%	25%
Total	100%	100%

Source: TfL Omnibus survey of London residents, May 2006; National Readership Survey 2001/02.

- 2.5.8 This indicates that take-up of Oyster has been proportionately lower amongst groups D and E compared with other groups, since group DE accounts for 25% of the population but only 12% of pay as you go journeys. This is despite Freedom passes now all being used on Oyster.

### ***Fraud***

- 2.5.9 Oyster is potentially open to fraud from people who e.g. do not touch out at the end of their journey. However this is being combated by the fact that Oyster users will usually still be charged if they do not touch out with their Oyster card. Also, on some of the existing National Rail routes where Oyster is used, a system of automatically deducting £5 and repaying this upon touching out has been successful in reducing fraud (*Transit*, 26 May 2006).

### ***Tourism***

- 2.5.10 A joint campaign launched in March between Visit London and TfL has looked to attract visitors from the rest of the UK to travel to London for weekend trips, promoting the usage of Oyster in conjunction with this, although it is still only possible for people to obtain an Oyster card in London rather than having one in advance of their journey.
- 2.5.11 The situation for tourists visiting London from abroad is less clear - although Oyster is available to everyone, there must be concerns that a lack of knowledge is leading to tourists paying unnecessarily high cash fares.
- 2.5.12 As noted elsewhere in this report, the system in Paris is more tourist-friendly, with some specific tickets and passes on offer to visitors.

## **2.6 Future Issues**

### ***Fares Policy***

- 2.6.2 As things stand, the level of fares for the medium to long-term has been set out, with fares increases of RPI+1% due until 2011 (RPI+10% for buses for one more year) and real fares constant thereafter. This means fares remain affordable for those who can already afford Underground fares. The issue of affordability for bus users who would prefer to switch to LU will remain, but this seems unlikely to be addressed.
- 2.6.3 To the extent that fares are adjusted on a more ad-hoc, short-term basis, the CSR in 2007, or some other external factor, may raise funding issues that lead to TfL needing to raise fares further.

- 2.6.4 It is expected that Oyster will be enabled on National Rail services in London, although this is not yet set in stone. The Association of Train Operating Companies want further clarification on the wider implications and whether it will improve or worsen revenue protection (*Transit*, 26 May 2006).

### ***Alternative fares structures***

- 2.6.5 There are generally three types of fare structure that can be used for public transport:
- A graduated structure where prices vary for each different origin-destination;
  - A zonal system;
  - A flat fare for all journeys.
- 2.6.6 The existing system in London uses a flat fare for bus journeys, with the underground operating on a zonal basis. A graduated system would be very complex and difficult to implement, particularly on buses since bus users do not touch out their Oyster card and hence a return to cash would be required. On balance, the present system seems likely to stay. Introducing a flat fare on the underground would not be practical as it would raise questions about the level of fare that should be set. If set too low, it would be likely to create more congestion in central London. If set too high, affordability would be reduced even more than at present and this would have implications for inclusion. Flat fares are less of an issue for buses since bus journeys are generally shorter than rail and the present system does not allow interchange on the bus network with a single ticket.
- 2.6.7 The zonal system on the Underground could perhaps be reviewed however, for instance at present there is a premium on fares to zone 1. There could well be a case for extending such a premium to the Canary Wharf area.
- 2.6.8 An area that could be considered is to introduce more variable pricing on the Underground between the peak and off-peak. There is already some element of this with Oyster, with some single fares cheaper for travel before 7am and after 7pm on weekdays (and all day at weekends).
- 2.6.9 Taking this further could involve, for instance, pricing higher on the Underground during the peak hours of 8-9am and 5-6pm with lower off-peak fares, in order to spread demand. It is not clear, however, how much of a willingness there is within TfL for this sort of scheme, particularly as it would involve even higher fares for some groups. In addressing capacity constraints, the view generally taken is that demand is self regulating to an extent, but also that required capacity should be provided rather than using a pricing mechanism to spread demand.

## **2.7 Conclusions**

- 2.7.1 Overall transport policy in London has a long-term element to it as set out in the 2001 Transport Strategy, but fares themselves would appear to be set on a more short-term basis in response to financing issues. This is affected by political decisions, such as the recent initiatives that allow free travel for children of certain ages on the buses and Underground.
- 2.7.2 London's fares structure was always relatively complex with a zonal system leading to large variations in fares depending on the origin and destination zones of travel. In recent years this has been made even more complex by the introduction of Oyster. In due course there will be some simplification as cash bus fares are abolished.

- 2.7.3 On the issue of inclusion, buses are superior to the Underground, having become more affordable in recent years due to the fares policy implemented. The fact that children under 16 can travel on buses for free, coupled with the Freedom Pass for the elderly and disabled, is also indicative of an inclusive fares policy.
- 2.7.4 Inclusion is less evident on the Underground, with a low proportion of LU trips made by people from low income groups, relative to the structure of the population. This is mainly because the Underground is less affordable and less user friendly to the mobility impaired, hence the relatively small number of Freedom pass holders who use it. As a result, people with low travel horizons are held back, since bus journeys are slower than LU.
- 2.7.5 Oyster has brought about benefits in terms of improving operational efficiency, but again inclusion is an issue, with take-up of Oyster lower amongst people from low income groups for a number of reasons. More evidence is required on the impact on tourists to see if people from outside London understand Oyster and are taking advantage of it.

## 3. Fares Modelling

### 3.1 Introduction

3.1.1 Several areas are covered in this section:

- Summary of TfL's fares modelling process;
- Comparisons of elasticities used by TfL with values provided by other sources;
- Modelling risks and those which are most applicable to TfL;
- Other relevant issues; and,
- Conclusions.

### 3.2 TfL Modelling

3.2.1 The fares modelling process that underpins TfL's revenue forecasts comprises four stages as shown in Figure 3.1. The process is explained in more detail below.

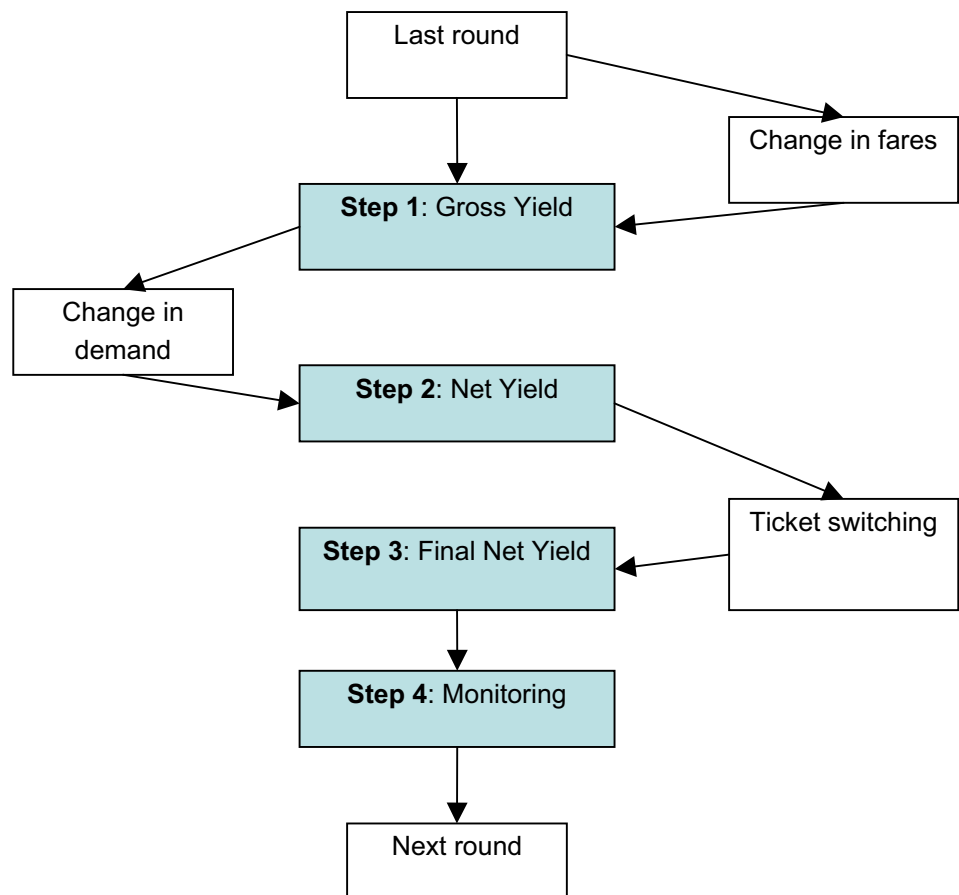


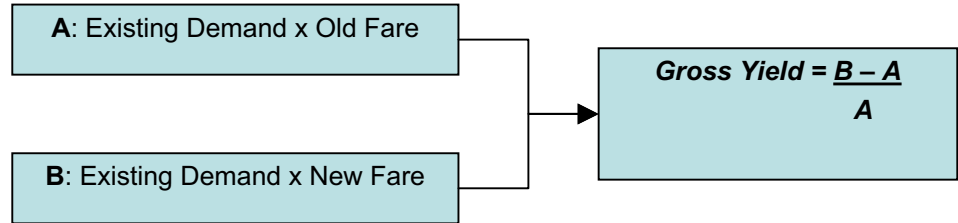
Figure 3.1: Fares modelling process

#### ***Gross Yield calculation***

3.2.2 This is a very simplistic opening step whereby total revenue is calculated under two scenarios:

- i) Old fares for each ticket type;
- ii) The new fares that are being proposed.

3.2.3 This step assumes no change in either overall demand or the pattern of demand. The resulting percentage change in ticket revenue is known as the Gross Yield. This is shown in Figure 3.2.



**Figure 3.2: Gross Yield Calculation**

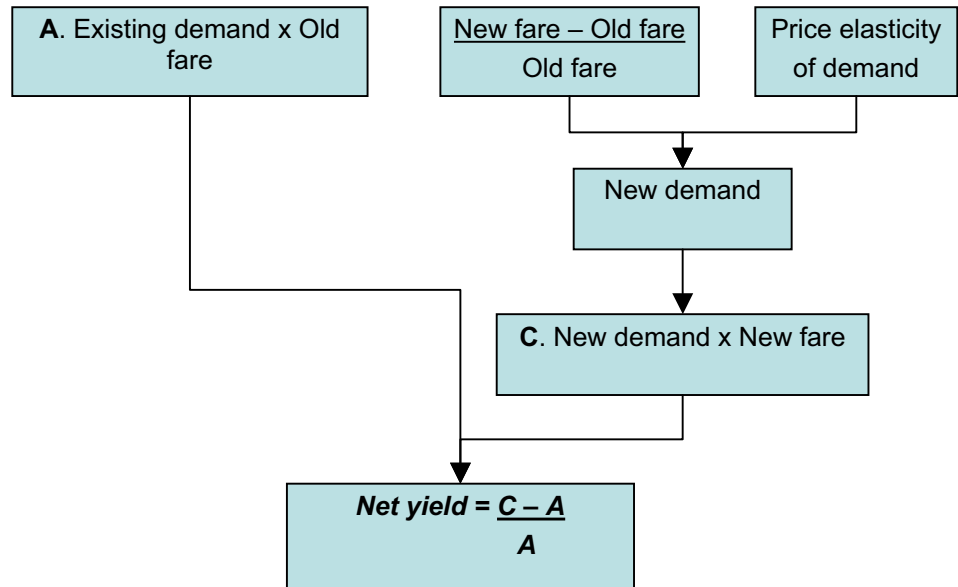
***Net Yield calculation***

3.2.4 This goes a step beyond the gross yield calculation in that changes in demand due to individual fares changes are considered; however at this stage switching between different ticket types is ignored. Simple calculations based on price elasticity of demand are therefore used.

3.2.5 A price elasticity simply reflects the amount by which demand will change in response to a change in price, all other factors being equal. It is therefore (except in unusual circumstances) negative, since increases in price will generally lead to a fall in demand. For instance, if price elasticity of demand is -0.5, then a 10% increase in price will lead to a change in demand of  $-0.5 * 10\% = -5\%$ .

3.2.6 There is a degree of flexibility in the model in that the elasticities change depending on the level of fares. So if fares are comparatively low, demand may be inelastic (i.e. the reaction to a price change is small), but as fares increase it will become more elastic, with further increases in individual fares leading to bigger reductions in demand.

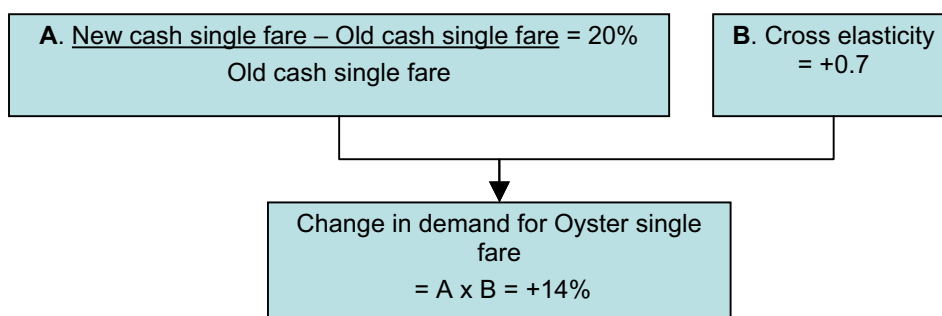
3.2.7 The percentage change in revenue that is calculated at this stage is known as the Net Yield. This stage is shown in Figure 3.3.



**Figure 3.3: Net Yield Calculation**

***Ticket switching***

- 3.2.8 This stage produces a Final Net Yield, taking into account switching between ticket types and modes as a result of individual ticket prices changing differently.
- 3.2.9 This requires a set of cross elasticities of demand. The value of a cross elasticity determines how demand for ticket type X changes in response to a change in the price of ticket type Y.
- 3.2.10 The ticket switching is a more complex part of the process, involving an interaction between the different cross elasticities. An important aspect is the relationship between cash and Oyster fares. In the projections relating to the January 2006 fares changes, most of the reduction in demand for bus cash tickets (due to higher cash fares) was expected to be replaced by an increase in pre-pay journeys.
- 3.2.11 Figure 3.4 gives an example of how the cross elasticities work. The numbers used are purely illustrative. If, for instance, the cross elasticity of demand for Underground Oyster single tickets with respect to the price of Underground cash single tickets is +0.7, then an increase in cash fares of 20% leads to a 14% increase in demand for Oyster tickets.



**Figure 3.4: Example of cross elasticity usage in ticket switching**

***Post implementation***

- 3.2.12 Trends in ticket sales / revenue are monitored on an ongoing basis and reviewed in order to assess whether projections are likely to be met. Where necessary, the model elasticities are refined in the light of new evidence.
- 3.2.13 Further discussion of TfL’s revenue projections compared to actual outcomes is provided in section 3.5.

**3.3 Elasticities**

- 3.3.1 The key element of TfL’s fares modelling is the elasticities that are used, particularly in the ‘ticket switching’ stage described in section 3.2. For the model to work properly, the elasticities must be as accurate as possible.
- 3.3.2 Table 3.1 summarises the results of work that has been done in trying to determine the value of transport-related elasticities in London, as presented in the 2004 TRL report *The demand for public transport: a practical guide*. Much of this research was either undertaken by, or sponsored by TfL and its predecessors. Values of elasticities for rail in London from the Passenger Demand Forecasting Handbook (PDFH) are also included as a comparison.

**Table 3.1: LU and Bus own / cross price elasticities**

Elasticity	Study	Value / range
LU own price	Frerk et al (1981)	-0.41
LU own price (1995 fare levels)	Fairhurst et al (1987)	-0.49
LU own price (2000 fare levels)	London Transport (1993)	-0.41 to -0.48
Bus own price	Frerk et al (1981)	-0.53
Bus own price (1995 fare levels)	Kincaid et al (1997)	-0.64 to -0.71
Bus own price (2000 fare levels)	Mitrani et al (2002)	-0.60 to -0.64
LU with respect to Bus fare (1995 fare levels)	Fairhurst et al (1987)	+0.20 to +0.21
LU with respect to Bus fare (2000 fare levels)	London Transport (1993)	+0.12 to +0.20
Bus with respect to LU fare	Fairhurst et al (1987)	+0.10
Bus with respect to LU fare (1995 fare levels)	Kincaid et al (1997)	+0.13 to +0.16
Bus with respect to LU fare (2000 fare levels)	Mitrani et al (2002)	+0.12 to +0.13
Rail own price - business	PDFH	-0.3
Rail own price - commuting	PDFH	-0.2
Rail own price - leisure	PDFH	+1.0



- 3.3.3 The studies that have been undertaken for elasticities in London have yielded broadly similar results. TfL currently consider the own-price elasticity for LU to be around -0.25, and -0.3 to -0.4 for bus. These are slightly lower (in absolute terms) than the elasticities in Table 3.1, although this can at least in part be explained by fare changes since the studies were undertaken (as noted in section 3.2, the elasticities in TfL's model vary as fares change).
- 3.3.4 On balance it seems likely that the elasticities that TfL uses in its fares model are reasonably accurate; the values were obtained after extensive research and are frequently reviewed to reflect any new findings.
- 3.3.5 However elasticity modelling is best suited to dealing with relatively small changes in price, for example, annual fare increases broadly in line with inflation. It is less accurate in predicting the impact of large scale changes in fares or the introduction of new fare systems.
- 3.3.6 A problem is that there haven't been any major step fare changes since 'Fares Fair' – most changes have been small incremental increases hence there are lots of references back to 1987 (using data from the early 1980s) to assess impacts of major fare changes.
- 3.3.7 Also, there may be less certainty when it comes to the cross elasticities – for instance, upon the introduction of Oyster it will have been more difficult to predict switching between cash and pay-as-you-go tickets as there was little evidence on this available from other sources.

### **3.4 Risks**

- 3.4.1 TfL appears to take into consideration a number of risks to income. For instance, the Board papers of March 2006 refer to the uncertainty caused by the following factors:
- Whether the turnaround in Underground fares evident in 2005/06 following the 7 and 21 July events is sustained;
  - The impact of the January 2006 fares changes and the planned fares rise in January 2007;
  - Fare structure changes such as Oystercard capping and the extent to which the growth of pre pay will shift payments from more expensive cash fares;
  - The impact of free bus travel for under 16s (and under 18s in full-time education); and,
  - The congestion charging 'pay next day' policy.
- 3.4.2 However the extent to which an allowance is made for factors such as these in revenue forecasts is less clear. It would also be hoped that the model could be assumed to be fairly accurate at predicting the effect of the fares changes and changes to the fares structure in place.
- 3.4.3 The main risks associated with the fares model are likely to be as follows:
- Forecast population and employment growth. To the extent that the forecast growth does not occur, this is a potential risk. Another issue is where the growth occurs, since growth will have a different effect on revenues depending on the geographic location.
  - Operational issues: for instance, unforeseen incidents such as the Chancery Lane derailment in 2003 or the 7 July 2005 terrorist attacks will impact on revenue.

- It would appear that the model does not directly account for factors such as fuel prices, the level of traffic congestion, bus priority measures and the congestion charge (as well as changes to it). These impact on switching between car and public transport, therefore a change in any one of the factors could have an effect on TfL's revenues (either positive or negative).

### 3.5 Other Issues

- 3.5.1 The fares modelling undertaken within TfL by the Fares and Ticketing team is only one stage within the process. These forecasts are then sent to the various interested parties (London Buses, London Underground & various heads of departments) for comment. It should also be noted that TfL is not completely free to set the price of Travelcards as these are a joint product between TfL and train operating companies in London. The final revenue forecasts are produced by Corporate Finance.
- 3.5.2 Table 3.2 shows bus and Underground traffic revenue as budgeted at the start of the financial year, compared with actual revenue. For consistency, all values are adjusted to 2004/05 prices.
- 3.5.3 Although there is not a clear trend, actual bus and LU traffic revenue taken together has been above budget over the past three financial years (by 0.8%, 2.0% and 2.3% for years 03/04, 04/05 and 05/06 respectively).

**Table 3.2: Budgeted v actual bus & underground revenue (£m, 2004/05 prices)**

	Bus			LU		
	Budget	Actual	Difference (Actual – Budget)	Budget	Actual	Difference (Actual – Budget)
2003/04	771	793	2.8%	1204	1198	-0.5%
2004/05	866	869	0.3%	1202	1240	3.2%
2005/06	919	917	-0.2%	1226	1276	4.1%

### 3.6 Conclusions

- 3.6.1 An elasticity-based model with four stages is used by TfL to determine the likely reactions to proposed fare changes. The values of the price elasticities generally seem reasonable, although we do not know as much about the cross elasticities (which relate changes in the price of one ticket type to changes in demand for another ticket type).
- 3.6.2 Over the last three years TfL's budgeting has been robust despite major changes such as the introduction of Oyster. This is undoubtedly due to the extensive research and analysis that has been undertaken by TfL and its predecessors.
- 3.6.3 There are risks to the model, particularly on population / employment growth and operational issues such as derailment and terrorism. TfL identify risks to the model, but it is not clear how much account is taken for this when producing revenue forecasts.

## **4. International Comparisons**

### **4.1 Introduction**

4.1.1 Four areas are covered in this section:

- Fares structure;
- Affordability;
- Financing; and,
- Consultation.

### **4.2 Fares structures**

4.2.1 Table 4.1 compares London, Paris and New York on various fare-related factors.

**Table 4.1: Fares structure – International Comparisons**

Factor	London	Paris	New York
Children's tickets	Under 11 on LU & Under 16 on bus = free; discounts for other child trips.	Under 4 free; discounts for other child trips (including special rates for school trips).	Free travel for children under 44 inches tall.
Single fares	LU varies by zone, flat fare for bus. Oyster cheaper than cash.	Varies by zone on subway. Mainly flat fare on bus, with some exceptions.	Flat fare of \$2 for all buses and subways in NY City.
Carnet of discounted tickets available?	No	Yes	Pay-per-ride Metrocard (card which can be loaded with credit) gives 12 trips for price of 10 depending on how much credit is added.
Travelcards	Day / weekly / monthly etc available, prices vary by zone.	Day / weekly / monthly etc available, prices vary by zone.	Day / weekly / monthly etc available.
Elderly	Freedom Pass, offering free travel on all public transport, available to permanent residents aged 60 or over.	Discounts available for people aged over 60.	Reduced-Fare Metrocard offers half-price or less for people aged 65 and over.
Disabled passes	Freedom Pass also available for people with certain disabilities.	Discounts available.	Reduced-Fare Metrocard also available for people with certain disabilities.
Visitor discounts?	No	Yes, in combination with visiting tourist attractions. Passes also available which combine normal travelcards with transport to airports (not at a discounted price).	No
Discounts for other disadvantaged groups	Various discounts available for 16/17 year olds, students and people on the New Deal. Also discounts over 6 months for people who start a job after being on 'out of work' benefits e.g. job-seeker's allowance.	Discounts for people who are unemployed / on social benefits; 'Imagin R' card with discounts for people aged under 26.	No

4.2.2 The overriding impression is that New York's fares structure is simpler than that of London or Paris, with a single fare generally costing a flat \$2 rather than the large zonal variation that is seen elsewhere.

4.2.3 It is worth noting that Paris has recently developed the 'Navigo' card, which uses smartcard technology in the same way as Oyster. Where it differs is that it does not have a pay as you go system, only being used for weekly, monthly and

annual passes. There is no upfront fee, although users are charged to replace lost cards.

4.2.4 In Paris the rail network is integrated with other modes, so interchange is possible with a single ticket.

4.2.5 In New York, the MetroCard is a magnetic stripe card where credit can be stored for journeys. There have been complaints about it as it can sometimes permanently malfunction or require multiple attempts to successfully pay a fare, which has led to user groups calling for smartcard technology to be used.

4.2.6 In London children are able to travel for free for much longer than in the other two cities. The New York system of free travel for children under 44 inches tall equates approximately to free travel for under 5's, whereas children can travel free on buses up to the age of 16 in London. Free travel is only available for children under 4 in Paris, although there are various other discounts including the Imagin R card offering discounted travel for people up to the age of 26. London is also more generous to elderly users of public transport.

### **4.3 Affordability**

#### ***Introduction***

4.3.2 Although it is important to compare London with other world cities to assess affordability, comparing public transport systems around the world is extremely difficult. Different sizes, structures and demographics of cities make it difficult to determine explanatory factors in the different usage patterns that result. The fact that there are different funding mechanisms, fare structures and transport alternatives further adds to this complexity.

4.3.3 As a result, the approach taken here is to offer a brief survey comparing practical usage. Its purpose is to offer initial indications as to how issues of affordability present themselves for those on average and minimum incomes.

#### ***Methodology***

4.3.4 The focus here is on the cost of moving around by public transport using fares / pricing. To ensure that both the pricing structure and (very) approximate distance are taken into account, the comparison looks at both single fares and monthly passes for the central region of Paris, New York and London (defined as the Département de Paris, NYC Transit Area and TfL Zone 1-2 respectively).

4.3.5 Affordability also depends on differences in income and modal choice. As a result, a brief comparison of the proportion of household expenditure spent on public transport has been undertaken. In addition, public transport fares are contrasted both with the minimum wage and average earnings in order to assess how affordability compares across income groups. Since this may vary by public transport mode, the modal split between metro and buses is assessed. However, due to differences in data collection and availability, it has not been possible to obtain expenditure, income or modal split data for areas that conform to the transportation zones defined above. Where these are obtained, they have been converted to sterling using present exchange rates. As a result, these measures provide only an indication of the relevance of these factors to affordability.

#### ***Results***

4.3.6 Table 4.2 shows a comparison of fares for bus and metro in the three cities. It shows that both single cash fares and monthly season tickets are more expensive in London than in New York or Paris (although single bus fares in

London are a similar price to the other cities if Oyster fares are used as the comparison instead of cash). The difference between the fares appears to be greatest on metro since buses are considerably cheaper than the Underground in London.

**Table 4.2: Fares for public transport**

	Single – Bus	Single – Metro	One month season ticket – Bus	One month season ticket - Metro
London cash (Zone 1-2)	£1.50	£3.00	£51.90	£85.30
London Oyster (Zone 1-2)	£1.00	£1.50	£51.90	£85.30
New York (NYC Transit area)	£1.07	£1.07	£40.51	£40.51
Paris (Département de Paris)	£0.96	£0.96	£35.30	£35.30

4.3.7 Table 4.3 shows modal split, earnings, and expenditure on public transport. It suggests that public transport is most affordable in Paris, where despite the lowest income of the three cities, public transport makes up the lowest proportion of expenditure.

**Table 4.3: Modal split, income and expenditure**

	Mode share – Bus	Mode share - Metro	Annual average earnings	Minimum wage per hour	% expenditure on public transport
London	37%	63%	£24,800	£5.05	3.3%
New York	34%	66%	£31,600	£3.60	2.1%
Paris	47%	53%	£23,700	£5.50	2.1%

4.3.8 Table 4.4 brings this information together, comparing the ratio of bus and metro fares to both average earnings and minimum wage. For simplicity this is presented as an index with London cash fares equal to 100 each time.

**Table 4.4: Comparison of fares relative to income**

	Single				One-month season ticket			
Ratio of:	Bus/avg earnings	Bus/min wage	Subway/avg earnings	Subway/min wage	Bus/avg earnings	Bus/min wage	Subway/avg earnings	Subway/min wage
London – cash	100	100	100	100	100	100	100	100
London – Oyster	67	67	50	50	100	100	100	100
New York	56	100	28	50	61	109	37	67
Paris	67	59	33	29	71	62	43	38

4.3.9 So for instance, looking at the ratio of bus single fares to average earnings (the first column in the table), New York and Paris have an index of 56 and 67 respectively, compared to London. This means that both New York and Paris have relatively cheaper bus fares than London (and New York is relatively cheaper than Paris).

4.3.10 Table 4.4 indicates that, when comparing fares with average earnings, New York is the cheapest of the three cities. This is unsurprising since average earnings are higher in New York than the other two cities. However, the minimum wage is highest in Paris out of the three cities and so Paris may be most affordable to people from low income groups.

## 4.4 Funding Mechanisms

4.4.1 The proportion of the operating costs made up by public subsidy varies between locations. Table 4.5 sets out how funding mechanisms differ between Paris, London and New York.

**Table 4.5: Funding mechanisms**

	Bus	Metro
London	Operating costs financed 85.5% by fares	Operating costs financed 125% by fares (before depreciation and renewals)
New York	Operating costs financed 51% by fares	Operating costs subsidised 85.4% fares
Paris	STIF (Syndicat des Transport en Ile de France) funded 26% by fares	

4.4.2 Table 4.5 shows that public transport in London receives a lesser proportion of revenues through public subsidy than Paris or New York. Although this analysis only provides a cursory attempt at equalising for factors such as distance, and no attempt at equalising for demographics and the proportion of passengers benefiting from free travel, if this is compared with fares and incomes, it would suggest that a considerable part of the difference in price may be due to the funding mechanisms in place.

## **4.5 Consultation**

### ***London***

- 4.5.2 Consultation is relatively open in London, based on voluntary participation of stakeholders and the public. The Greater London Authority Act 1999 provides clear requirements for the GLA with respect to consultation on London's transport policy. The Mayor must consult the London Assembly, the functional bodies, each London borough council, the City of London and any other body or person whom he considers it appropriate to consult.
- 4.5.3 In 2001, a consultation round was organised, in which the public and stakeholder organisations were asked to voice their opinion on the draft transport strategy for London. In 2003, an agreement between the Mayor of London, Transport for London, the London Development Agency and London's voluntary and community sector was published, providing a framework that advises on the involvement and influence of voluntary and community organisations policy development in London. Although it is not legally binding, it does set out the need for consultation.
- 4.5.4 London Travelwatch is the official watchdog for transport users in London. It is funded by and reports to the London Assembly. It assists the London Assembly via the transport committees in its scrutiny of the Mayor's transport strategy.

### ***Paris***

- 4.5.5 Decision-making regarding public transport in Paris is mainly dealt with by the STIF, a local public body. It coordinates the activity of the RATP and SNCF (public bodies that have the exclusive right on supply of transport) and of the 90 private operators, most of which are bus operators.
- 4.5.6 The STIF is under the authority of the President of the Conseil Regional and is composed of:
- Representatives of the Conseil Regional Ile de France (the executive body of the region);
  - Representatives of the seven départements (excluding the city of Paris) that form the region;
  - Conseil de Paris (the executive body of the département of Paris, which is equivalent to Paris within the city walls);
  - Chamber of Commerce and Industry of Paris; and,
  - Presidents of the "établissements publics de coopération intercommunales", which are groupings of communes (boroughs) within Paris.
- 4.5.7 The composition of the STIF highlights the fact that many different public and private bodies (with the chamber of commerce representing the private sector) are officially involved in the decision-making process relating to the fares policy, which is not the case in London.
- 4.5.8 The main transport user group is the FNAUT (Federation Nationale des Associations d'Usagers des Transports). It is divided into regional bodies called the AUTs. The Ile De France AUT regularly discusses issues with politicians and professionals from the transport sector. The AUT acts with other regional associations and user groups to make their thoughts heard on transport issues. Most importantly, the AUT is represented at three official bodies that are consulted regarding transport decisions including fares policy. These are:



- The Commission Transport du Conseil Economique et Social de la Region (CESR) - a consultative body at a regional level.
  - Le Conseil d'Administration du STIF - this includes representatives of user & consumer groups and advises the STIF on decisions relating to the quality and supply of services, fares and ticketing policy, and development of the transport network.
  - Le Conseil d'Administration de la RATP, the RATP executive body.
- 4.5.9 The AUT is only involved in consultative bodies, i.e. it gives opinions that decision makers need not necessarily follow. Consultation on transport policy in Paris is mainly organised through these consultative bodies, which meet up regularly and benefit from a legal status.

### ***New York***

- 4.5.10 The MTA (Metropolitan Transportation Authority) is the main body that decides on transport issues, including fares. It has the responsibility of developing and implementing transport strategy for the city of New York and its seven surrounding counties. The MTA is governed by a Board of 17 members. Members are nominated by the Governor, and four are recommended by the Mayor of New York.
- 4.5.11 Consultation takes place through the Permanent Citizens Advisory Committee (PCAC). The PCAC is the umbrella organisation for three legislatively mandated riders' councils - the New York City Transit Riders Council, the Long Island Rail Road Commuters Council and the Metro North Commuter Council. The state-financed group acts as an independent voice for public transport users. Each of the PCAC constituent councils holds a non-voting seat on the MTA Board, with one seat designated as the primary PCAC representative on a rotating basis. The three councils were created to give users of MTA subway, bus, and commuter rail services a say in the formulation and implementation of MTA policy and to hold the MTA Board and management accountable to users. The PCAC and councils hold regular public meetings and forums, undertake frequent research projects, and maintain a support staff of transportation planning professionals.
- 4.5.12 The PCAC considers itself to have influenced fares policy in two main areas. Firstly, the New York City Transit Riders Council pushed for automated fare collection technology to be introduced. Secondly, the PCAC initiated and championed the CityTicket fare, which offers a discount on commuter railroads at weekends so as to be more competitive with the subway and buses. The PCAC proposed this fare structure and was represented on the MTA Board working group that developed the proposal that went on to be adopted by the Board.
- 4.5.13 The PCAC is now pushing for smart card technology to be introduced in New York, since the magnetic stripe 'MetroCard' currently used by NYC Transit can sometimes permanently malfunction or require multiple attempts to successfully pay a fare.

## **4.6 Conclusions**

- 4.6.1 The fares structures in London and Paris are broadly comparable, with zonal systems and similarities in the various tickets and passes available (although Paris only uses smartcard technology for weekly, monthly and annual passes rather than single tickets or daily capping). New York is simpler, with a flat fare of \$2 for subway and bus journeys in New York City.

- 4.6.2 On the evidence presented in section 4.3, transport in London appears to be less affordable than in New York (where average earnings are higher) or Paris (where the minimum wage is higher and thus transport is more affordable for people in lower income groups). Given that a higher proportion of operating costs are financed from the farebox in London, this may well go some way towards explaining why fares are higher.
- 4.6.3 However it should be noted that London is more generous to children and to elderly people, so transport is more affordable for these groups in London.

## 5. Conclusions

- 5.1.1 This report has investigated TfL's fares on London underground and buses in three areas – fares policy, the modelling process and comparisons with Paris and New York.
- 5.1.2 Social inclusion is an important aspect to consider with fares policy, and could perhaps be improved in London. The affordability of buses has improved in recent years due to a reduction in real fares, and recent initiatives have led to free travel on buses for under 16's (and on the Underground for under 11's), which coupled with the Freedom Pass for the elderly and disabled does promote inclusion.
- 5.1.3 However, take-up of Oyster has been lower amongst social groups D&E compared to other groups. For a number of reasons it seems that low income groups are less willing to use Oyster – in part this relates to the initial charge that is made for buying a pre pay card. Cash fares are now substantially higher than pre-pay, and so low income groups suffer from this.
- 5.1.4 The fact that the Underground is more expensive than buses also means that low income groups are more likely to travel by bus. This limits people's travel horizons and reduces opportunities for people from low income groups.
- 5.1.5 Fare policy is open to short-term interventions for political and financial reasons. For instance, after the period in the early 2000s of bus fares falling in real terms, they were suddenly increased by RPI+10%, seemingly as a result of a financial shortfall.
- 5.1.6 TfL's fare model has limitations in that some important factors such as the congestion charge do not seem to be directly taken into account. This could lead to risks in forecasting revenues. Other risks relate to population and employment growth as well as operational issues.
- 5.1.7 With regards to international comparisons, the analysis undertaken by CB has gone a step further than most other studies of this kind by comparing fares (both for single journeys and monthly passes) with average earnings and the minimum wage in each city. This suggests that London is less affordable than New York and Paris, although the fact that fares finance a higher proportion of operating costs in London goes some way towards explaining the higher fares.

## **Appendix 4: Transcript of Budget Committee meeting on 22 June 2006**

### **Budget Committee - 22 June 2006 Transcript of Agenda Item 8 – Transport for London (TfL) Fares**

**Sally Hamwee (Chair):** We have had circulated the study, which is marked as a draft but is now at final stage, from Colin Buchanan and Partners. John Siraut, Associate Director of Colin Buchanan Transport Consultancy, is here and will give a short introduction to it before we start to ask questions.

**John Siraut (Associate Director, Colin Buchanan Transport Consultancy):** We were asked to look at, principally, three issues. One is TfL's bus and Underground fares policies; the second was TfL's fare modelling and the third was the affordability of fares on the buses and Underground, looking also at comparisons with New York and Paris and also the degree of consultation that takes place in those three cities: London, New York and Paris.

Looking at the first one, which is TfL's fares policy. One issue is whether there is a long-term policy in place - or are short-term measures being taken which blow it off-course within that long-term strategy or policy? The Mayor's Transport Strategy sets out a long-term strategy in regard to fares and that has certainly guided fares policy in TfL. One of the key aims was the introduction of smart cards and we are now very familiar with the Oyster card system. It also highlighted the need for affordability of fares and social inclusion.

What we have seen over the time since the Mayor's Transport Strategy was produced are a number of issues which have, perhaps, blown off-course TfL's long-term strategy. There have been some short-term financial issues, which have meant TfL has had to raise additional revenues and we have seen some substantial increases in fares taking place on the system.

One thing that was perhaps not as much anticipated, when there was talk of introducing smart cards, was how that would be introduced and what would happen to encourage the take-up of smart cards: large increases in cash fares and a substantial differential now between cash fares and Oyster fares. We have also seen extensions of free travel for children being introduced. All these have costs – and, as such, have implications for TfL.

We now have a very complex fare system in London. The guidance explaining the fare structure is over 50 pages long and we have some very expensive cash fares, especially in relation to Oyster. This has implications because the take-up of Oyster is principally amongst the highest social groups – groups A, B and C. We find the lower-paid individuals and people suffering from social exclusion prefer to pay cash for lots of reasons, often because they do not have bank accounts and the top-up system for pay-as-you-go often needs bank accounts to make it work. The top-up system for pay-as-you-go really needs you to go into an Underground station or local shop to top-up your card. You cannot top-up on the buses, which is a problem for some people. There is also an initial charge of £3 to purchase your pay-as-you-go Oyster card. These factors have meant that the take-up of Oyster Card and pay-as-you-go Oyster card, especially, has been lower among some of the socially excluded groups.

We have also seen quite a big fare differential between the Underground and the bus network, which has implications from a social perspective too. Research shows that people are generally prepared to travel a certain distance to take up job or leisure opportunities and they are prepared to travel a time period of

perhaps 30–45 minutes. The fact that we have a differential between buses and the Underground means that certain individuals, because of the fare costs, travel by bus – and on the bus system generally you cannot travel as far within those 30–45 minutes, or be inclined to travel, as you might by Underground. That means the number of job opportunities that may be available to you are decreased if you use the bus rather than the Underground system. Therefore we see these differentials, between cash and Oyster and between the Underground and buses, as having some social implications, which perhaps have not been fully thought through.

In terms of the modelling that TfL uses to determine its revenues as a result of changes in fares, our view is that the modelling system is fit for purpose. It has been developed over a substantial period of time. It is quite a sophisticated model and the mechanisms of that model are well known within the organisation.

There are, however, two issues that arise in the modelling that is used. The type of model used is certainly extremely good for forecasting small changes in fares, so the annual fare changes and adjustments that are made – it is a good and accurate way of measuring those. It is not so good for measuring major changes in the fares structure and very large fare changes, so that is an implication that needs consideration. The other thing, which is unclear, is what happens to the model's projections, after they are produced by the TfL modelling team? It obviously goes to the buses and Underground teams; it goes to the finance committees within TfL and adjustments are then made to those revenue projections. It is not always clear what those changes are or the reasons for those changes.

Moving on to affordability of fares in London compared to New York and Paris, this is obviously a very complex issue with which many of you will be familiar. There are different zonal systems in operation in the three cities; there are different funding mechanisms in place and, as you are all aware, in London a far higher proportion of the cost of running the Underground and the bus network comes from fares paid by the passengers, whereas in New York and Paris substantial grants are available.

London is also much more generous in terms of providing free travel to those who are elderly, with Freedom Passes, and to children than New York and Paris. Therefore there are differences within the systems and what we have tried to do, in looking at affordability, is to compare the average prices paid for a single cash fare on the bus and Underground network and for a monthly travelcard across the three cities and compare the cost of that to average earnings and the actual minimum wage in those three cities, to give us a slightly different way of looking at affordability.

Across all measures, Paris is by far the most affordable in those terms: the cost of travel is far lower as a proportion of minimum wage and average earnings than in New York and London. New York is much more affordable in terms of average earnings: average earnings are higher in New York than they are in London. The minimum wage in New York is a lot lower than in London but, in terms of affordability, use of the subway system in New York is more affordable than it is in London, although the New York bus network is less affordable. That is because, as I mentioned before, we have this differential – quite a substantial differential – between bus and Underground fares. Therefore the underground system in New York is relatively cheaper, where the bus system is slightly more expensive than it is in London.

In terms of affordability generally, London is, on balance, less affordable compared to New York and Paris when you look at it in the context of earnings and minimum wage levels.

Finally, I would like to turn to consultation in terms of fares and fare setting. In New York and Paris the passenger user groups are actively consulted on fares and have an important influence on the fare discussions. In London, London TravelWatch are advised of fare changes rather than consulted upon the changes, so there is a major difference, in that here we have a reactive situation - having to react to fare proposals - whereas in New York and Paris there is much more discussion about them and the passenger groups are involved in those discussions before fare setting takes place.

**Sally Hamwee (Chair):** Thank you very much. Can I welcome our other visitors: Brian Cooke and Tim Bellenger from London TravelWatch, and Malcolm Fairhurst from TfL. I should also report to the Committee the letter I had from Peter Hendy (Commissioner of Transport for London, TfL) accepting the invitation on Malcolm Fairhurst's behalf but saying: 'Under the GLA Act, TfL's role is to offer advice and modelling to allow the Mayor to make a decision, as well as collecting the fares once they have been set and monitoring the levels of revenue. Given this, Malcolm (Fairhurst) would be happy to attend the meeting to answer technical questions. He will not, however, be able to answer questions on fares policy that are properly a matter for the Mayor.' Therefore Redmond O'Neill (Director Public Affairs and Transport, Mayor's Office, GLA) and Kevin Austin (Head of Transport, Finance and Performance, GLA) are here. So thank you all for coming.

The first question is about policy and indeed it is about strategy. Redmond (O'Neill) - I suppose the short question is: is there a strategy? To flesh that out a bit, when the Mayor published his Transport Strategy in 2001, he was clear about the fares policy aiming to make public transport attractive and affordable. He talked about consistency, simplicity, convenience and the short-term policy was a bus fare freeze and capping Tube fares in real terms over the following three years. Quite a change, I think the public would say more recently, with the fares increasing as we know they have done, differentially in percentage terms between the bus and Tube. So with a strategy which seems to be out of date and, as we understand it, no prospect of a new overall transport strategy coming, what is the Mayor's fares strategy over the medium and long-term?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** It is basically three-fold. One is to encourage the use of public transport and modal shift from the private car onto public transport, which means keeping fares affordable. If you take bus fares for example, in real terms the bus fare today is lower than the bus fare in 2000 when the Mayor was first elected.

Secondly, to fund investment in the transport system because we are the fastest growing major city in Europe and we have to expand the capacity of the transport system and catch up with a backlog of investment in the rehabilitation of the system, which did not take place in the years before the existence of TfL and the GLA.

Thirdly, as far as possible through fares policy, to assist in social inclusion. The way this has gone is that, when the Mayor was elected, he froze bus fares and held the increase in Tube fares in line with the Retail Price Index (RPI). The preceding 15 years, the relative cost of using public transport, as compared to the private car, had been rising dramatically and basically pushing people out of the public transport system. The Mayor reversed the trend for the first three years and this contributed to, as well as increasing capacity and quality of the service, a 40% increase in bus ridership in London, which is far way and away the biggest increase in bus ridership, probably in any major city in Europe.

With the introduction of the smart card, it was decided to create a differential between what people would pay in cash and what people would pay on a smart card in order to encourage people to migrate from cash to a smart card, which has been dramatically successful. The merit of the smart card from the point of view of the operation of the system is that it speeds up the operation of the system, reduces queues, reduces dwell times at bus stops and so forth. It was therefore introduced and we wish to incentivise people to use it.

In the 2004 Election, the Mayor introduced a policy of assisting social inclusion by providing free bus travel for children under 16, which would then be extended to children under 18 in order to assist families with children, to keep the children in education and so on. The Mayor was elected on the basis of that additional commitment to use the fares policy to assist social inclusion.

Following the 2004 Election, as a result, I think, of the effectiveness of TfL in starting to turn around London's transport system, particularly the buses, the Government for the first time agreed to a prudential borrowing regime. They agreed we could borrow money in order to carry out long-term investment, expansion and improvement in the system. That was a change to the regime we were operating in and, in order to help finance that, it was agreed with the Government that there would be carried through a policy of RPI plus 1% fares increase in the Tube and RPI plus 10% for three years on the buses. This was not a response to a financial shortfall. It was a response to the fact that we were enabled to carry out a five-year investment programme in the transport system and, in order to service the debt that we were borrowing, we would contribute to that by raising the fares. That is essentially what has happened.

**Sally Hamwee (Chair):** We now have on the public record what the strategy is. How long a period is that intended to cover and indeed, could the public have found that through any other means?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** It is broadly anticipated in the Transport Strategy, and in subsequent statements when new developments have occurred: the Mayor's Manifesto in 2004 and the statements that were issued in relation to prudential borrowing. In fact, at that point, because that was a significant change in fares policy and a shift to take advantage of the new situation, we carried out a very wide consultation. I think we wrote to 5,000 organisations indicating that this was the situation and we had this very unusual opportunity for an investment programme and it would require some increase in fares to help service the debt and what did people think about it. We received replies and so on.

**Sally Hamwee (Chair):** How far forward should we regard this strategy as applying?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** I think broadly for a horizon of 10 years from the time of writing the Transport Strategy but that is not to say that if something changes dramatically that we will not have the responsibility to adjust our policies to take account of new circumstances, as was the case with the borrowing regime.

**Sally Hamwee (Chair):** Can I ask about the borrowing regime? How robust is the fares policy, as it now stands, if interest rates rise? Are the fares, as currently set, vulnerable to increases in interest rates, given how important the fare box is to funding investment?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Essentially the income of TfL is made up of Government grant, fares and a very, very tiny slice of the Council Tax. If there

is an increase in costs for any reason, whether it be interest charges or whatever, we either have to scale back what we are doing, which is possible, or one or all of the sources of income would need to change in order to take account of the new circumstances. A discussion about fares would be one of the things that would have to be considered in that context. By law, TfL must run a balanced budget so there is no question of financial shortfalls.

**Jenny Jones (AM):** I have two big problems with the Transport Strategy overall. The first is the fares policy and the second is the issue of reducing the need to travel, which I think is not tackled adequately. However, that is outside the scope of today so I will concentrate on the fares policy. It is the first thing you said, Redmond (O'Neill) – condemned from your own mouth, you said that the purpose of the fares policy is to get people out of their cars and onto public transport. I would argue with you, as I have for six years now, that that is an unsustainable thought process because you cannot cope with everybody getting out of their cars and getting onto public transport. What the fare policy does is deter a huge population from walking and cycling. The Mayor admitted that yesterday, and said young people were cycling less and they are probably walking less because of that ridiculous policy of allowing them to go free. Public transport should never be cheaper than walking and cycling except to people like pensioners, of whom I am going to be one soon, so clearly I want to keep that in the fares policy, and the disabled. Therefore, I am asking you how you are going to increase walking and cycling when you are making a fares policy that encourages people not to do that.

**Sally Hamwee (Chair):** Will you forgive me if I turn that round, since this is a scrutiny into fares policy, and ask how those factors figured in the consideration?

**Jenny Jones (AM):** Or how they will figure in the future.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Public transport is not cheaper than walking or cycling – it is a lot more expensive.

**Jenny Jones (AM):** Not if you are under 16.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Not if you are travelling free if you are under 16 – that is true. I do not know the figures for cycling but there has been a dramatic increase – let me introduce Kevin Austin, who is Head of Transport at the GLA, who may help me on figures.

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** In terms of cycling, there has been a 72% increase in cycling.

**Jenny Jones (AM):** What about children? The Mayor said it yesterday at Mayor's Question Time.

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** There is a variety of other measures in place to try to encourage people to walk and cycle. These are the things you have promoted yourself in terms of training, cycle lanes, etc. Certainly at a local level, from analysing some of the schools that have undertaken that training, there has been a substantial shift in cycling for those children – up to 50%, 60% or 70% in certain cases and more than that. Therefore we have to take in the whole but a series of other measures will have a benefit for people to walk and cycle, and that will lead to the increase.



**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** We will get the figures, and analyse them, on what is happening with children under 16. I would be very surprised if, in the context of the 72% overall increase in cycling, a very large part of that is not amongst younger people. However we will dig into that and get the figures. I do not know if you are opposed to simply the policy of cheaper fares for young people or the overall thrust of the fares policy, which is to make public transport affordable and attractive vis-à-vis the private car, which has been successful in resulting in a 4% shift from cars basically to buses, which means there are less vehicles on the road, there is less pollution and the city functions more efficiently.

**Jenny Jones (AM):** I travel on buses a lot and I can tell you that between 7am and 9am it is incredibly difficult to move from the south of the river across to the north of the river, across all the bridges the delays are horrendous. There are still lots and lots of private cars out there.

**John Biggs (AM):** I just wanted to clarify one thing from Redmond's (O'Neill) response on the certainty of fares policies for the future. You asked about interest rates and my understanding is that they will only really be sensitive if the treasury management policies of TfL were very sensitive to interest rates and the borrowings were enormous. I do not think that is the case at present. I think the strategy does not suggest the need to raise fares in order to deal with a short-term rise in interest rates. Is that the case?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** This is an area I am not an expert on. We can certainly get back to you on that, but I suspect you are correct.

**John Biggs (AM):** I think it is relatively *de minimis* – it might be a few millions but in terms of the budget of TfL it is relatively small.

**Anne McMeel (Executive Director of Finance and Performance, GLA):** It goes back to what Redmond (O'Neill) said earlier on. A short-term increase in rates would really not have much impact on an organisation the size of TfL. Clearly if there is an upward trend of interest rates over a longer period, that would have to be taken in the whole as part of their overall financial planning and they would have to look at it against their overall budget position into the longer-term. Then, as Redmond (O'Neill) said, if your expenditure for any reason – interest rates included – is going to be higher than you originally projected, then you would be looking at what are the options. The options are to cut back other areas, a more flexible spend, or you increase your income sources. The main area for income change for TfL would be the fares.

**John Biggs (AM):** Obviously, were we to return to the disastrous interest rate policies of the Tory Government we would have a problem. At present, things look relatively calm. The second part of the question though is about the dependence on grants from Government. I suppose there has to be a health warning on the fares policy, which is that if there was some large scale change in grant funding from Government for transport, that would be the fundamental area where uncertainty about fares policy would come in. Is that right?

**Anne McMeel (Executive Director of Finance and Performance, GLA):** Clearly Government grant is a large element of the income sources to TfL and if there was a dramatic change in grants, either up or down, it would have a significant impact on their funding process.

**John Biggs (AM):** Why cannot you just say yes?

**Peter Hulme Cross (AM):** I am going to ask you about the Oyster card. You said the Oyster card was dramatically successful. I am not going to quarrel with that but we did hear from John (Siraut) that those people who are lower paid, rather than go for Oyster card, tend to pay cash, which is a great deal more expensive. To go for the Oyster card you have to fork out £3 to start with and you then have to fork out another dollop of cash to top it up. Therefore I put it to you, that as far as the lower paid are concerned, according to John's (Siraut) findings, the Oyster card has not been successful and in fact they prefer to pay cash on Tubes, which is a great deal more expensive. If they do not do that, they go on buses, which are a great deal slower and so, consequently, the job opportunities that open up are less. Therefore, as far as those people at the bottom of the ladder are concerned, the policy has not been a success.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** First of all, if you take into account the Freedom Pass and the children's travel concession, both of which are delivered on Oyster cards, the largest group using Oyster cards are D and Es. That is the factual position, because the analysis done is simply looking at people using pay-as-you-go. A large number of people in the D and E social groups have free travel by Oyster card and it makes travel for those groups much more efficient. Therefore if you look at, A and B: 57% are using Oyster cards; C1: 61%; C2s: 51% and D and E are 65%.

If we look at the question of cash; of the people using single tickets on the Tube, which means a cash payment, 67% are A, B, C1s, which is greater than the proportion of the population. 15% are D, Es, which is much less than the proportion of the population. Therefore, on the Tube, the users of cash are overwhelmingly in the higher social groups, so factually the premise is wrong.

In terms of the Tube, people using cash: 60% are ABC1s, bearing in mind that group uses the bus less, and 27% are D and Es, which is marginally above the percentage in the population, but D and Es use the bus much less. I think those demonstrate the fact that the premise is not as you suggested. In terms of whether or not people are being priced out of the Tube onto the bus by the differential fares, again I do not think you can make a very strong case for this. Take the Freedom Pass. This is available for free travel on both the Tube and the bus but the great majority of journeys are on the bus. The reason for this is the type of journeys being made. The Tube is overwhelmingly used for commuting and the people making journeys in their local area tend to use the bus because that is the most dispersed transport network.

**Sally Hamwee (Chair):** Could I just intervene, if there is any further answer, can you tell us how you know that is not a self-fulfilling prophecy that people who may have been priced out of the Tube and are confined to looking for work, perhaps more locally, because of the costs of commuting.

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** I think you can answer than in the sense that if you look outside Zone 1 the price of the Tube for two zones using Oyster is £1. The price for travel by bus is £1, so there is not a differential price outside central London. Therefore, given that the majority of buses are in outer London, it is much more likely to be other factors rather than the price that make people choose those modes. In central London it is, as Redmond (O'Neill) says, commuting.

**John Siraut (Associate Director, Colin Buchanan Transport Consultancy):** A whole range of facts and figures were thrown in there. Lots of issues are raised. I think the issue is between the take-

up of Oyster and the non-take-up of Oyster and who takes up those two cards. We have a situation where a large number of people do not take up Oyster cards for a variety of reasons and for them the present system is a substantial cost disincentive. The reason why certain people do not use the Underground is more to do with accessibility issues. You do not see many pensioners on the Underground, principally because of accessibility issues, rather than the types of journeys they are making, one could argue.

I think there is a fundamental point that large numbers of people are paying cash because they are used to a cash economy. They either do not understand the Oyster card system or, because they prefer to know how much they are spending at any one time, still prefer to pay cash. For them, there is a major problem. Lots of people who are on low incomes are very savvy and have switched to Oyster card – there is no doubt about that, just as they picked up Saver Tickets and the rest of it. However there is a hard-core grouping, and we did some research for the Crossriver Partnership, looking at travel horizons and people's use of the different ticketing systems and there was this hard-core grouping who want to pay cash because of cash budgeting issues principally and lots of issues such as bank accounts, etc. They are paying higher fares on the buses. They are not using the Underground system because that is even more expensive. There is no differential between using Oyster Card if you are paying cash but there is a differential between the Underground and buses even outside the central area. Therefore there is a hard-core problem group in terms of people not having access to lower priced fares. Given the Mayor's policy on social inclusion I think that is a serious point.

**Brian Cooke (Chair, London TravelWatch):** Outside the area that the Underground serves, principally south London, it is also fairly rare to be able to find a shop that sells Oyster cards. There are not that many and we think there should be many more. We think that is a problem for some people in getting Oyster cards in areas, particularly in areas the Tube does not serve. There is also a widely-held perception, particularly among the Ds and Es, that when they first get the Oyster card not only do they have to spend £3 on getting it but they have to put a substantial amount of money on the card. That in fact is untrue, because they can put as little as 80p to cover one bus journey, but because they have to find the newsagent, for example, I live in Orpington, where, I think, there are only four newsagents covering a huge area. So you have to go a long way to put money on. That is undoubtedly a disincentive, for the lower classes particularly.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Can I respond to those points?

**Sally Hamwee (Chair):** I wonder if I can bring a couple more Members in, Joanne McCartney (AM) and Mike Tuffrey (AM).

**Joanne McCartney (AM):** My question is on that last point – the deposit that has to be paid and whether TfL has looked at doing anything for people seeking work or on a low income to dispense with the deposit for getting the Oyster cards to start with. Also it is about topping up the card as well. We have heard about the paucity of outlets. You can do it online if you have a bank account but often people who do not earn, especially in black and minority ethnic (BME) communities, proportionately have the lowest rate of taking up bank accounts. I would like that issue addressed. Also in my local area, in Enfield, there is only one part of the Borough that has a Tube and for the vast majority of people the issue is buses. I wonder if that had been factored in to some of the figures – these percentages – as well. I think there are parts of outer London that could distort the picture because of the fact that there is no Tube.

**Mike Tuffrey (AM):** Sticking with the overall strategy, and I think I just was not listening carefully enough to Redmond's (O'Neill) opening remarks: there were three strands to your fares strategy: social inclusion, modal shift from private to public and there was a third. Is it your case that the strategy has in essence not changed since the Mayor was first elected?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Broadly that is the strategy but the weight of different elements might change at a particular time. So, in particular, we never had the possibility of borrowing to invest. As that makes sense, in exactly the same way it makes sense to borrow to buy a house rather than live in a hut until you are 65, when that possibility opened up in 2004 we then changed the policy in order to service the debt.

**Mike Tuffrey (AM):** What was the one I missed?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Investment in the system.

**Brian Cooke (Chair, London TravelWatch):** Can I just add something to what Joanne said? It is true that you can top-up Oyster online or over the telephone but clearly only if you have a bank account. Unfortunately, currently – I know they have some plans – if you do, that it is not effective until you have clipped your card at the nominated Tube station, and Tube station only. That means in certain parts of London, it almost means you cannot do it.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Just as a point of information, we do have development work in hand so the system can get extended to buses in the next few months. Obviously we also have agreement between the Mayor and the Secretary of State to extend the Oyster system completely to National Rail in a few years, so those problems, which undoubtedly do exist at the moment, should be resolved.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** On our figures, which are the facts, there is not really a disproportionate use of cash by people in the lowest income groups. It is factually not true. The products which are used disproportionately by the lowest income groups, D and E, are the Freedom Pass, which is 42% as opposed to 25% in the general population; the Bus Pass Season, which is 32% as opposed to 25% in the general population and the Day Bus Pass which is 37% as opposed to 25% in the general population. Therefore there is no doubt about it – people in low income groups are smart about trying to find the cheapest way of doing whatever it is they want to do, which is hardly surprising as they have less resources to do it.

The question of the deposit on the cards – that is something that can be discussed. The basic idea of the deposit on the card is that the card has a cost to manufacture and it is to give people an incentive to hang onto their card. Say they are getting a weekly ticket on the card, they do not throw it in the bin and get another one each week. That is a function of the deposit. It is an operational matter that can be discussed. There may have been further discussion.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Again, for factual clarification – where we are on the bus side is still that take up of the Oyster pay-as-you-go system is really rising very rapidly. If you were to go six or nine months ago you would find there was more use of pay-as-you-go on the Tube than on the bus. Today, partly because we have been carrying out promotional campaigns right

the way across London to explain to a lot of people in outer London what Oyster means, we have really seen a very sustained increase in pay-as-you-go take-up, which is literally ongoing, week by week. Certainly the research that we are doing is saying the main reason why people, if you look logically at their travel patterns, should be taking up Oyster and are not doing it, is information and we are seeking to overcome that. That is just working through at the moment.

If you go back to when the Travelcard season ticket was introduced in the 1980s, it took three or four years before the whole of the London population switched on to what the Travelcard could do for them as opposed to a point-to-point season ticket. We are going through a similar kind of transformation of Londoners' perceptions, which is not to say the issue of a deposit is not something, as Redmond (O'Neill) says, we might need to look at some point in the future to get to particular groups. If that is necessary I am sure we will do it.

**Joanne McCartney (AM):** I wondered if you had looked at using the Post Office network as places to top-up.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Yes, that is one of the options we have under consideration. We have under consideration a series of measures to significantly expand the number of places where you can top-up the Oyster card. We have about 2,000 High Street retailers at the moment and we are looking to extend that over the next few years.

**Andrew Pelling (Deputy Chair):** Redmond O'Neill has said that the change in pricing policy on fares was not some short-term reaction but was part of an understanding with Government. Sorry to go back to basics, but what were the relative contributions to be made from the fare box and Government in terms of additional grant and income? What was the share between Londoners and Government?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** People may have more accurate figures than me. My memory is the Government broadly doubled the transport grant to London after the creation of the GLA. We note that the fares have not been doubled. In real terms fares are lower now than when the Mayor first came into office, taking inflation into account. If you deflate the fares against earnings, which have increased considerably more than RPI, the fares become significantly cheaper in relation to people's earnings over the last period of time, as opposed to the period when London's transport system was controlled by central Government, when the fares rose very rapidly, as the graphs in Colin Buchanan's Transport Consultancy report show, looking at figures 2.1 and 2.2. That was the kind of background. Then the issue was that we were allowed to borrow and to service our own debt. To my knowledge there is no particular contribution of Government to that.

**Andrew Pelling (Deputy Chair):** So really the increase in fares was to allow us to service the debt, so the agreement with Government was we will allow you to have prudential borrowing powers to be exercised and in return for that, so we can fund that debt, we will increase fares.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Essentially it was that we would slightly reduce - we would tighten our belts immediately - in order to be able to invest in the long-term. That was the basic decision with which the Mayor agreed.

**Andrew Pelling (Deputy Chair):** In many ways the fares on the buses are being returned over time back to the 10% line of increase against retail price increases. I understand the point you made about the comparison against earnings.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** I think you will see, if you look at 2.1, the real level of fares is pretty flat.

**Andrew Pelling (Deputy Chair):** I understand the agreement with Government was that bus fares would be increased at RPI plus 10% but just for three years, is it not? Is that right?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** That is the position yes.

**Andrew Pelling (Deputy Chair):** Obviously the borrowing programme goes beyond these three financial years. Is there any need to carry on the increases of 10%? I can phrase it in a different way. This was a short-term decision in terms of these three financial years, in terms of the understanding of Government that the increase would be used to fund and service the debt. Are there any longer-term implications for continuing increases to be able service that debt? After all, the intention is to add to that debt beyond the first three years.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** No, they are not because the additional income stream remains. Say the 10% increase last year raises £60 million and £90 million, each year there is a business plan. The business plan which balances the expenditure over five to six years is based on those levels of fares and then reverts, I think, to RPI.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** RPI plus 1.

**Andrew Pelling (Deputy Chair):** I would not compromise the next questioner in terms of the fares modelling but, in fact, the income that has been secured has been more robust than expected. Admittedly it is only 2% more than expected. To what extent has that been down to fewer people than expected moving away from cash payment to using Oyster or pre-pay of some kind?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** I think the main reason, talking about the Underground revenue last year - this is perhaps getting into part two of the discussion - but one of the issues that London Underground management have been grappling with is trying to assess, as they make their forecasts going forward, what sort of contingency or how far they should allow for negative impact on usage of the system as a result of the Public Private Partnership (PPP) and the renewals work; the ongoing performance of the contractor. As it has turned out, despite all the things that happened last year such as 7/7, in those terms things are turning out rather better than people had feared. One of the things management has had to come to terms with is, what is a realistic view of how they are going to perform, which is the kind of stuff you develop as you work with PPP contractors over a number of years. With hindsight, as always, one can say London Underground Limited (LUL) was slightly too pessimistic last year. That can really be a key factor there.

**Andrew Pelling (Deputy Chair):** What weighting does TfL attach to the risk to fares income and how are those risks factored into the projections?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Our view over the years has always been that while London is still here and people are still needing to travel around and the economy is working, that forecasts can be made in a robust way, taking into account quite established trends like population change, as well as less established trends like employment growth, which is slightly more speculative. Therefore we would start off building our forecasts on those kinds of factors. The more difficult issues, which is particularly the case on the Underground, have been related to the PPP and people saying what impact is there going to be from the structure. Economists can say “oh well, we think population will change in a certain kind of way, employment in another, etc”, we can develop ways of doing those kinds of things. Whereas, people saying these guys are taking over our maintenance activities and how are they going to perform, is one of those things which is much more difficult to assess.

**Andrew Pelling (Deputy Chair):** Therefore there would not have been a calculated equivalent of 2% would there?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Absolutely, so we would have been saying, based on this simple economics, that we would have been doing rather better than that. However, it is fair enough, but management have to take a view about how well their businesses are going to perform given all these other kind of risks.

**Andrew Pelling (Deputy Chair):** Do you think we will continue to see performance run at 2% above estimates in future years? What is the likelihood of that happening?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** I think in general people are coming to terms, as I was saying, people are going eyeball to eyeball with Metronet and so on and getting a more realistic view of what is going to happen there, I think.

**John Biggs (AM):** Andrew (Pelling, Deputy Chair) has opened up aspects of this question. It is a very simple question for Malcolm (Fairhurst), which is perhaps where the Mayor’s vision of a group of spotty youths came in. TfL has a model of fares and how they respond to events, as Andrew Pelling (Deputy Chair) started looking at. However in high-level policy terms, what is the purpose and use of that model? Perhaps Redmond (O’Neill) could answer that. I would like to hear from people at the policy end, how they see the model serving a purpose for them.

**Redmond O’Neill (Director, Public Affairs and Transport, Mayor’s Office, GLA):** The purpose for us is if we are looking at a particular fare, changing fares or a set of fares, we need to know what the outcomes are going to be. That is what it boils down to. What is the outcome likely to be, what social groups would be affected, how people change modes.

**John Biggs (AM):** Obviously the fundamental question on outcome would be how it is going to affect income; are we going to go bust because we abolished fares or whatever? There will be a further grain of questions, which I know my colleagues will be asking in various ways, about the social impact: whether people in lower income groups are disproportionately affected by fare rises. How sensitive do you feel as a decision maker or policy person that this model is in deterring that? Do you think it helps you to make decisions or does it just tell you what you can get away with?

**Redmond O’Neill (Director, Public Affairs and Transport, Mayor’s Office, GLA):** It is very helpful. There are extensive discussions between the Mayor and TfL both on how robust the projections have been

previously - and if they turn out not to have been. There is discussion about that – in terms of the total revenues and effects on particular groups, effects on mode of use and so on and so forth. They are reasonably accurate, as far as we can see, and they allow us to see fairly clearly what the likely effects are of any particular fare decision. They are not infallible.

**John Biggs (AM):** Can you give an instance where you have made an informed policy decision which has been affected by what the model has told you?

**Redmond O’Neill (Director, Public Affairs and Transport, Mayor’s Office, GLA):** Every decision on fares is made in the light of the advice we get from TfL about what the likely effects are going to be. For example, when we were discussing under-16 fares, there were huge discussions on what the impact of that was going to be; what the impact would be on revenue, the impact on bus drivers, even what the impact will be in terms of antisocial behaviour on buses.

**John Biggs (AM):** Perhaps I should ask Mr Fairhurst then - can he give an instance of an unexpected outcome from his model, say where his prediction is not borne out by experience?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Certainly in the evaluations that we provide for Redmond (O’Neill) and the Mayor one example would be where we extended the student concession from an LT Card, which it used to be years ago, and turned that into a travelcard. That was one of those cases where we did quite a lot of work to estimate how much we thought that would cost us and it ended up costing us somewhat less, mainly because we did not sell as many discounted tickets as we were anticipating. We had gone through all the technical work as far as we could see to compare the number of Zone 1 and 2 tickets, Zone 1 and 2 weekly tickets, that the train operating companies (TOCs) sold in places like Clapham Junction and compared that with the number of Zone 1 and 2 travelcards that we sell at Camden Town and made an inference as to how it would go. That inference did not quite work.

**John Biggs (AM):** That would be an instance where the obscurantism of the train operating companies helped TfL. Is that fair?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Who knows?

**Redmond O’Neill (Director, Public Affairs and Transport, Mayor’s Office, GLA):** To answer your question more broadly, you can put it like this. TfL is a monopoly provider of transport services in London. Left to itself, as was the case before we had an elected Mayor, it probably solved most of its financial problems by putting up fares. The Mayor is elected by the citizens of London and they wish to have an affordable transport policy, an affordable transport system. Therefore the Mayor has a strong incentive to ensure that TfL has a management which extracts efficiencies and so on and so forth and minimises the cost to passengers. In advising the Mayor, TfL will prudently tend to err on the upper side of how much this, that or the other costs because they have to take account of all the risks.

I can give you another example and again Malcolm (Fairhurst) may be able to elaborate. We did try an initiative to make it more affordable for people who had just taken up employment to get to work with a travel concession. However we did not get it right and it was only taken up by 1%. So there are things like that where we are fiddling around at the edges, trying out experiments and pilots but really you can only put your foot into the water and see whether it will work or be effective. What was the concession? 25%?



**Kevin Austin (Head of Transport, Finance and Performance, GLA):** 15%. I think in general the trends that are established for changes among standard tickets etc, because they have gone on for such a long time, are more accurate. When you do new things, obviously it is more speculative because it has not been done before and you are not quite sure about the accuracy. However as they go over time they become more and more robust.

**John Biggs (AM):** We have this very exciting set of diagrams, graphs and arrows in our briefing note about how your model works. Do you do comparative work with other cities like New York and Paris to understand and develop your models so they are sharper?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Not really.

**John Biggs (AM):** Okay. The other question, which I think Andrew (Pelling, Deputy Chairman) explored, although I may not have been totally awake through all his questions as they went on for quite a while, of course, is about the macro-economic sensitivity of your model. An assumption I have always had is that although we have over-performed for a couple of years in getting greater income than the model suggested, the downside of that is that if there was a macro-economic downturn of some kind, it could very rapidly turn into an underperformance on fares revenue. Can you give us a thumbnail of how that model works?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** As you say, models are only as good as your assumptions that go into them.

**John Biggs (AM):** Does it work? Can you say: if unemployment rises by x ?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Oh yes, you can put that assumption in but the difficulty, obviously, is once you have fixed your budget, say in November the previous year, you can only make a decision at that time based on how you think the economy will perform the next year. Clearly if the economy starts performing much worse than people anticipated, you would certainly get a downturn in revenue. We would then be revising our numbers to come to a revised view of the following year. We are fortunate, I suppose, that we do get very fast numbers – week by week, month by month – so we can track emerging trends. The way of business that we try to allow for that is to watch those emerging trends very closely.

**John Biggs (AM):** The right way of dealing with macro-economic change is through greater fiscal management rather than having sudden knee-jerk fare increases. Is that right?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Yes.

**Mike Tuffrey (AM):** I have a question on how individual fare initiatives fit within an overall strategy. Redmond (O'Neill) has explained how priorities within the elements of the strategy are flexible, so perhaps I could ask John (Siraut), because I think the research you did for us raised questions about individual initiatives like abolishing the Zone 1 travelcard, the initial abolition of the family travelcard before protests caused a rethink and indeed the free bus and Tube travel for children. Have those individual initiatives seemed to you to fit the overall strategy as Redmond (O'Neill) gave it to us?

**John Siraut (Associate Director, Colin Buchanan Transport Consultancy):** I think some of the examples are provided in evidence by other parties in terms of abolition of the weekend and family travelcards, etc. I think there is a core range of products that TfL provides where it is quite easy to model their impacts. What happens is, with some particular fares that we have heard examples of, they do not work for one reason or another. I think there were broad issues taking place with some of those products, which was the reason why they were withdrawn and change was then made introducing free travel for children. In any policy that any business has, if a product is not working for whatever reason, it is appropriate to revise that product, look at why it is not working and see if you can introduce a slightly different product. I think that is what happened with those particular issues. I do not think they are part of a wider change of strategy; I think they are reactions to particular problems. I am sure TfL and the GLA are aware of this.

**Mike Tuffrey (AM):** Do you have a point on this or should I pursue my questions? Do you understand the concern we have?

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** I think I have to agree with John (Siraut), particularly with the family travelcard, where it was actually cheaper for an adult to travel with a family travelcard on their own than buy a standard travelcard, which was open to fraud. So there were reasons as to why that was withdrawn.

**Mike Tuffrey (AM):** That was just an adjustment to something that was not quite right?

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** Yes, and obviously linked with that is free travel for under-16s on buses and trains, which gave a great incentive for children to travel anyway.

**Mike Tuffrey (AM):** I want to come back to children, but take the Zone 1 travelcard which Tony Travers (Director of the Greater London Group, the London School of Economics) has described as having a logical outcome of forcing Zone 1 residents back into their cars to take advantage of the 90% congestion charge discount. How does that decision square with the three elements: increasing investment, modal shift and social inclusion?

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** We certainly have not seen any evidence about that encouraging residents to go back into their cars in Zone 1. I can talk to the Congestion Charging Team. I have not seen any evidence.

**Mike Tuffrey (AM):** The maths would point in that direction. I think I am right in saying the £3 minimum is cheaper than the minimum taxi fare now, so if you were going for a very short journey?

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** It would be about 100 yards in a taxi now.

**Mike Tuffrey (AM):** Yes, but it is about the psychology as well as the pure mathematics. The impression is that it is very expensive to do a single cash journey in central London and what we are trying to understand is how these individual initiatives fit with the overall strategy and whether there is indeed an overall, coherent strategy.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Zone 1 is the most congested part of the system, obviously, because we are moving more than one million people every day to come and work in the centre of London. As you know, London Bridge is like a modern Manchester factory district, with a vast movement of people. Therefore having the highest prices in Zone 1 makes some sense because we want to ease overcrowding. I have no evidence that this has resulted in a shift of people from the public transport system to the car. The structure of travel into Zone 1 in the morning, if I remember correctly, is only about 10% or 11% of people coming by car at all anyway and people are not going to be coming in by car because the cost within Zone 1 has changed.

**Mike Tuffrey (AM):** They are there already, yes.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Therefore their car will not be physically present unless they are going to pop home to Essex or somewhere, get the car and come in, in order to save themselves £3. That does not happen. I think there has been some shift of people from the Tube to the bus in Zone 1, which I think is beneficial because of the congestion problems within the Tube system in Zone 1. I think there is also some evidence of a shift in people walking round the corner instead of jumping on the Tube, which I am sure Jenny (Jones AM) will be pleased about. However, we will get you the figures on that.

**Mike Tuffrey (AM):** Just quickly, because I am conscious of time, without provoking Jenny (Jones, AM) again, but pursuing the point I think you are trying to make, are you seeing the free child fares as social inclusion?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Yes.

**Mike Tuffrey (AM):** Therefore that is the justification for that, without any kind of income test, you are simply assuming that young people fulfil a social inclusion need?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** No, we are saying that two groups of people for whom social inclusion is a significant problem due to income are older people who no longer work and families with children, because the latter have more mouths to feed and a lower proportion of them are working than a family without children. That is the basic rationale. The biggest problem of social inclusion in London is people not having the educational skills to participate in the most competitive parts of London's economy, therefore we are encouraging people to stay on in education; making it more affordable for families to keep people in education also corresponds to our wider economic development goals for the city.

**Brian Cooke (Chair, London TravelWatch):** It was not just the Zone 1 travelcard which was abolished - it was any single zone travelcard. In fact the biggest area of our postbag in January and February was complaining about it. In fact, the effects were greater. For instance, if you had a Zone 2 travelcard previously, the travelcard price more than doubled and we had correspondence from people who regularly travel, from say, Herne Hill to Vauxhall, who have clearly moved to the car and who have told us they have moved to the car. Therefore it is not congestion just in the centre, it is one single zone of travel, particularly if they use two modes of transport in that zone. I cannot imagine millions of people driving from Herne Hill to Vauxhall but that is something about using National Rail and the Underground where the price rose hugely as a result of the abolition of a single zone travelcard.

**Jenny Jones (AM):** Well, you are a bunch of creative people so how do you encourage take-up of Oyster card?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Above all by the price differential. It is very, very effective.

**Jenny Jones (AM):** Any other really good ideas?

**Brian Cooke (Chair, London TravelWatch):** I think the price differential has worked to a huge degree amongst London residents but I think there is still a huge potential amongst tourists to London. I do not just include overseas tourists to London; I include people who are coming to London for a short period. I think TfL could have done far more to market Oyster cards to hotels. The £3 deposit is a bit of a disincentive but I think in that case not a huge disincentive. In overseas countries they have the equivalent of a paper smart card in some places that are marketed through the hotels and are much more readily available.

Going back to the Tube, the £3 minimum fare - £3 might not pay for a long way in a cab but if there are three or four of you, £9 or £12 goes an awful long way in a cab. I also think a huge amount could be done to market Oyster to visitors.

**Jenny Jones (AM):** Is anything being done on the issue of transfer tickets, so if you move in the same direction within a fairly short space of time you only pay once instead of paying twice if you change buses?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Our main priority at the moment I think, as far as developing Oyster is concerned, is to get the Oyster card onto all National Rail services in London, and I think there is a very clear demand from customers and Brian (Cooke) and co. to get that done. We have carried out market research on some of these transport issues and I have sat behind the screen while groups of people have debated whether they are a good idea or not. The evidence is really that people are very divided – it is just not clear that customers would welcome a system like that.

**Jenny Jones (AM):** Why on earth not? Of course they would. It would be cheaper for them.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Well, I suppose it comes back to all these nasty money issues. If you say to customers 'somebody will have to pay for that'? Clearly if we can provide another £50 or £100 million to reduce fares, to provide free transfers, then no-one will say no to that, but if we are going to have to say that means the basic per ride fare would have to increase, customers are very sceptical. I think they are also concerned that if you have a system with a one-hour limit, you are potentially into difficulties when buses are delayed in traffic and so on. I certainly would not rule out a system like that for the future but I think our priority for the moment is very much to get the system up and running on National Rail and advertise it.

**Jenny Jones (AM):** What about using Oyster Card in taxis?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** That is something that is not quite in my area.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** That is something I do not think has been considered.

**Jenny Jones (AM):** I am offering you new ideas.

**John Siraut (Associate Director, Colin Buchanan Transport Consultancy):** In terms of take-up of Oyster, TfL has been quite conservative, and that might be for financial reasons, in promoting Oyster. If you think about mobile phones, when they came out in terms of pay-as-you-go, the incentives provided were much more generous, almost to the extent of giving free phones to people. I do not know how much those pieces of plastic cost but it would seem to me that there are opportunities to identify where Oyster take-up is low and give people free Oyster cards with a nominal amount of money on them, which is probably far cheaper than some of the other benefits of social inclusion, like giving free travel to certain groups. It is giving people the trial to use public transport and to use Oyster, so people get familiar with the system and then, as you have seen with pay-as-you-go on telephones, people will stick with that product and continue to use it.

Now that we have got to the stage where something like three million Oyster cards are in use, we need to identify areas where they are not being used and trial a free programme, like in the States where there is free take-up. Just blitz it and say here is a free Oyster Card with £5 on it, with a road show to explain how it works etc. and away you go. I think that is worth trying out.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** I think where we are today is that we have been carrying out sustained advertising campaigns that identify the bus routes with the highest cash use in London – the 100 routes with the highest cash use. We have been carrying out advertising campaigns related to those routes on bus sides and so on and as I was saying earlier, what we are seeing at the moment is a very, very strong, sustained growth in Oyster take-up, which is ongoing. If that starts dying away and we are still not getting there, I would not disagree with some of those initiatives that have been described as something we could look at.

**John Siraut (Associate Director, Colin Buchanan Transport Consultancy):** I think the other point, and I think there is evidence produced by Tower Hamlets, is the concern – and I do not know if you have any figures on this – of the take-up of the Oyster card among BMEs. It comes back to this point we were talking about before, which is information. It is fine to advertise but a lot of people do not understand the adverts. It is getting into certain communities where people prefer to obtain knowledge by word of mouth and where it is better to have people going into communities to explain Oyster and give out free Oyster cards as a better and more efficient way than blanket advertising. We have now reached the stage where there is wide take-up among certain areas of the community and you need to target particular groups where take-up is still low and understand why take-up is still low in those groups.

**Jenny Jones (AM):** I noticed there was a transport conference here at which all the delegates were given a free Oyster card and it struck me at the time that they were not necessarily the best people to give free Oyster cards to.

**John Biggs (AM):** I was interested in following this up in a couple of ways. Clearly the Oyster card does not work particularly well where people use very short journeys, the incentive to use it is not great, but let us rest on that one. Two follow-ups to Jenny's (Jones, AM) question about incentivising and improving Oyster's take-up. The first is the possible use for tourism and business tourism.

I suppose one could argue it does not have a direct revenue impact and we are straying outside the remit of the Budget Committee in looking at it but there is a potential to develop that as a product. The other, which may be a bit more relevant – and I know there was an initiative in Newham, of combining the Oyster card with a chip that gave you access to the local library service. I think the alternative might be access to local leisure services as well. There might be a way in which you could combine revenue risks and streams of different authorities and have a product that would be very attractive to people, particularly in those inner London areas where people will use those public services and maybe their take-up of Oyster cards is not as great. Have you looked at that issue and are there further initiatives in that area?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Yes, and certainly in TfL we have an Oyster card directorate at the moment and that team is working with a number of Boroughs to try to move those initiatives forward. However for various reasons, that I am not terribly expert on, some of them have not prospered in the way we were hoping they would.

**John Biggs (AM):** It has just been brought to my attention that I am straying onto Tony's (Arbour, AM) question but the Newham initiative – has that been evaluated and did that improve take-up?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Unfortunately, that is slightly out of my area. I think for various reasons, which, again, I am not expert on, I do not think that has achieved great levels of take-up. We have been ready to do that.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Originally, that was one of the things we discussed - I mean, we discuss all these things. We discussed putting an Oyster card in every issue of *The Londoner*; if we could take the Newham thing and generalise it across London as a way to incentivise people, and so on. None have really worked out. Maybe Malcolm (Fairhurst) could give us some indicators. I think the roll-out of Oyster has been completely extraordinary. About two-thirds of journeys are now made on Oyster cards. I think it is a myth, this idea that certain excluded groups are not using Oyster cards because the situation is that 30% of all Oyster users are DEs, 20% are ABs, 38% are C1s. There is a higher proportional use of Oysters among DEs and that is because the figures in the report are just dealing with pay-as-you-go, but that is not all that Oyster Cards do. It also does child fares, Freedom Pass, season tickets and so on and the other point is, on DEs there is a disproportionate use on the last ticketing methods, season type tickets, which are not on the Oyster card, which are the buses. They are not on the Oyster cards yet, are they?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** You can choose to have it if you if you want.

**John Biggs (AM):** Perhaps there is a risk of us straying away from pure budgetary but there is a budget-related implication in this area. Perhaps we could recommend to our colleagues on the Transport Committee that they look at such initiatives.

One final question is about commercial uses. I remember speaking to some people from New York, where the Easy Pass – which is not a travelcard, it is a similar technology for getting through the toll tunnel and bridges around Manhattan – you can use that to buy burgers, for example, in a drive-through MacDonald's. That sets your mind thinking as to whether there are ways in which you could blend commercial uses with public service uses and whether there have been any thoughts on that.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** We have been attempting to set up an e-money project. We went through the European process and sought financial partners. In the end, that has not enabled us to take that project forward but there are still hopes that we might be able, for example, to combine debit card and Oyster card, so we are still looking for financial partners in that area. As often with these things, in practice it proves to be much more like hard work that you might think.

**John Biggs (AM):** Such an application might have revenue benefits as well for TfL, although, looking around at Jenny (Jones, AM), I want to emphasise that we would not want it to incentivise people to buy burgers.

**John Siraut (Associate Director, Colin Buchanan Transport Consultancy):** In Hong Kong the Octopus card is used as e-cash. With lots of small transactions, if you try to pay by cash in a newsagent they look at you askance. You are expected to use an Octopus card, which is the same as an Oyster Card here. Therefore, it has been done elsewhere.

**Sally Hamwee (Chair):** The myth about the social inclusion issue appears in my recollection to have been one that concerns the Mayor. He also indicated a while ago that any date for moving to cashless buses was now moved forward to some indefinite point in the future. I wonder if anyone has any up-to-date information on this, as to whether there is a target date now for moving to cashless buses.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** No, there is not. There is an issue here, which is the use of cash on the Tube, or the single and return tickets, which basically means cash, has halved. The use of cash on the bus is down to 5.5% of the journeys. In terms of reducing cash use over the last couple of years, it has been fantastically effective, this differential pricing policy with the Oyster card. The question is, of that 5.5%, which is disproportionately A, B, C1s, I stress, makes a much larger contribution than 5.5% to the revenue because they are paying a much higher fare. Therefore, there is a question of if you administratively say you cannot use cash on the bus, then you would experience a disproportionate fall in revenue unless you had got cash use down much lower to the 1%, 2% or 3% area. Secondly, there will be some people who want to jump on a bus and put their hand in their pocket - no matter how much it costs - from a convenience point of view. The latter is not the most important. The key question is: there is a cost. So that is what is continually being weighed and knocked around in the discussions between the Mayor and the Transport Commission.

**Tony Arbour (AM):** We have not heard from Malcolm (Fairhurst) how he is going to deal with the tourist question which was raised by Brian (Cooke). The thing that has always foxed me about fares is that TfL always underestimate the amount of income they are going to get in. Year on year you tell us how much you think you are going to get in on fares, but we are getting very much more. Can you tell us why it is that you underestimate so frequently?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** I think last year, for example, on the bus side, the total amount was over £900 million and we were within £2 million. That was despite the fact that we were making very large fare increases during that year and changing the relativity between the different fares.

On the Underground, as I have said before, I think we have had a problem that Underground management have been very nervous about the impact of the PPP on demand and on revenue. Again, with hindsight, one could take the view that maybe we have been too cautious, but with hindsight 40:40 vision always comes in, does it not?

**Tony Arbour (AM):** What was the margin of error?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** Well, I think last year, even on the Underground side, we were only 2% or 3% and 0.2% on the buses.

**Tony Arbour (AM):** I think the figures that have been provided to us are that, on the Underground you were 4.1% out.

**Sally Hamwee (Chair):** Indeed, 0.2% on buses.

**Tony Arbour (AM):** It is all very well to talk about tiny percentages but in terms of cash, in the perception of the person who travels by public transport, we are talking very large money indeed. The figure is very many millions.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** That is one of the problems that a big business has.

**Tony Arbour (AM):** What about the original point? How are you dealing with the question of tourists?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** We are talking to Visit Britain at the moment and we are going to be starting to retail pre-loaded Oyster cards overseas with Visit Britain quite soon. We are looking to scale-up that initiative. At the moment we have a large number of overseas outlets where you can buy travelcards of various kinds before you arrive in the UK. So we would be looking to extend that initiative to all of them over the next 12 months, I guess. We would also be looking, I think, to start sales in the UK if that proves possible. Therefore, we are exploring all those kinds of things at the moment.

**Tony Arbour (AM):** Those of us who walk down Tooley Street, people are always being badgered by the Big Bus Company or something of that kind. They seem to have been extremely successful at attracting tourists to something that is much more expensive than the Oyster card. Maybe you should hire 'chuggers'.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** If it was available at the London Dungeon I am sure.

**Jenny Jones (AM):** Just something you mentioned, Malcolm (Fairhurst) - that you are planning to sell cards outside London and looking for the shires to come in. Will they be available at railway stations? It is unlikely there will be a big enough demand to be in post offices or local shops.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** That is something we would have to discuss with the Association of Train Operating Companies. One of the things we are endeavouring to get agreed at the moment is that if you arrive at Birmingham or somewhere, you can buy a one-day travelcard for London on the spot if you are coming in for the day. We are seeking to get that



extended so you can also buy one-day bus passes as well. Clearly what we want to do, as far as possible, is that when people arrive at the gateway stations, they have their tickets in their pockets.

**Tony Arbour (AM):** We heard earlier that in Paris and New York, effectively, fares are cheaper and I think that was in terms of a proportion of a person's income. Are there any lessons can be learned from Paris and New York relating to subsidy? As I understood it, what Buchanan was saying is that we rely more on the fare box than they do in those two cities. Although politically I think fare box is the way to go, I think we are very often compared unfavourably to what happens abroad. Is there any way that TfL is thinking of changing that balance?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** No.

**Tony Arbour (AM):** Politically I am sympathetic.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** The public transport systems are funded differently. In New York 30% of the funding comes from local tax revenues, the equivalent of the Council Tax. In London less than 1% - I do not know what percentage it is but it is about £3 million out of the £6 billion that comes from the Council Tax; so basically zero. In Paris 22% comes from local tax revenue and another 9% comes from employers, as well as a direct subsidy. Therefore, if we wanted to align our fare structures with those cities, we would have to put a few hundred quid on the Council Tax to fund it and we do not intend to do that.

**Bob Blackman (AM):** We touched on the area of cash and its importance to overall revenue and you talked about it being pushed a bit into the long grass, moving away from cash. Can we just clarify the amount of proportions of cash to fares that is coming in?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Of passengers' trips, 5.5% are paid for by cash on the bus and on the Tube I think it is 11% or 12% of the income.

**Bob Blackman (AM):** At what point does it become totally uneconomic to continue to take cash, as opposed to getting to a point where it becomes more costly for people to be collecting the cash, than going over completely to cashless fares?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** That is a calculation which we continue to discuss because there are obvious benefits - shorter dwell time, less personal handling of cash, less crime. I do not know at what point it becomes cost neutral, I would guess at about 2% cash or something like that. Probably at that point the benefits totally outweigh the cost. We are not pushing it into the long grass. We are saying it is continually under discussion. The use of cash is coming down very fast.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** It is not that many years ago that it was 25% of usage in cash so it has come down a long, long way. I guess the policy is still to move that along with Oyster cards.

**Bob Blackman (AM):** At the current rate of progress, what is the projection for when that point will be reached?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** The problem is, this is not a simple kind of curve. You may well get to a point where there is 4% or 5% of the population that just does not care - either they are not organised to do anything else or because it is just convenience. I suspect you will get an operation of a law of diminishing returns; so it has come down very, very rapidly but getting that last 5.5% out of the system may turn out to be a lot more difficult. We already think that there is little revenue effect from putting up the cash fare.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** If we did do that we would be moving people from cash into other tickets but we would not be making very much money.

**Bob Blackman (AM):** Are we saying cash is always going to be taken?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** No.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** I think it is very much a work in progress.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** All we are saying is that if it cost us £50 million to move the cash from the bus in the next round of fare adjustments, that is probably a price not worth paying. If we were to get the cost down to something much lower, I think at that point we would take a decision. I stress that this is a matter under constant review from the Mayor and he will make his decision in due course.

**Bob Blackman (AM):** With a revised target date for cashless buses?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** I do not think so.

**Bob Blackman (AM):** One of the issues raised is, of course, the complexity of the fare structure. I think the TfL booklet on fares now runs to 58 pages. Most people in London find it horrendously complicated in terms of the fare structure and what is involved. What can be done to simplify the fare structure, as well as maintaining the revenue flow?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** From a technical point of view, I would still say the thing that people are most confused about at the moment is the fact that pay-as-you-go is not valid on National Rail. I travel through Vauxhall Station every day and constantly at the barrier there are people being turned away, clutching their Oyster card, trying to get on the system and not being able to do that. Linked to the absence of pay-as-you-go not being available on National Rail, I think there is a whole series of other complexities. Therefore, for example, we have a one-day cap on pay-as-you-go which is similar to a one-day travelcard but which is not quite the same as a one-day travelcard. It is not a cap that applies on rail services. To me, that is the big issue we need to get resolved and which will hopefully unlock quite a number of other issues.

**Brian Cooke (Chair, London TravelWatch):** I know we are going to come onto consultation later but we have already had some preliminary discussions with TfL about our thoughts about the future. One way in which we thought that simplification could be made is to make Oyster price a straight percentage of the cash price. At the moment, the discount from Oyster pay-as-you-go varies between 12% and 15%. If that was a standardisation, and across all modes, it would be a huge simplification to the 58 pages. That is just one way. There are other ways, where child fares exist - and they still exist

on the Tube and DLR – again, they should be a straight percentage. In the main they are 50% of the adult fare but not every time. There are exceptions. An awful lot of these little exceptions could be taken out. Some of them I agree are to do with the complications with National Rail and not just with their refusal so far to use Oyster, although I do believe that is now working through, but the differences. There are different sets of rules at Wimbledon because the barriers are different and there are a few exceptions like that. I think if some serious work was done with TfL and some of the train companies, some of those little anomalies could be removed to make the whole thing simpler.

**Bob Blackman (AM):** Has there been any consideration, for example, of examining the zone structure?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** On the bus side, of course, we have eliminated zones. I entirely accept what you say about the booklet, for example, but it is still the case that two-thirds of TfL users are bus users. The bus fare structure today is far simpler than it was four or five years ago, when you had to work out, if you had a travelcard, where Zone 1 finished on a bus and all those kinds of things. All those kind of things have been swept away. We have a simple, flat-fare arrangement, so we have been making progress in those areas. There is more to do, and as Brian (Cooke) says, things we could look at.

**Bob Blackman (AM):** Finally, given the various different Tube and bus fare arrangements, is there a risk that people do not benefit from the best possible financial package?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** There is always a risk but the migration of people from cash to Oyster has been on such a scale, so rapidly, that I think people are showing extraordinary good sense in finding the best value ticket. I also say this about the complexity issue. I do not even read the 58 pages and I do not think most other people do. I think the Oyster card – and a lot of this additional complexity is these differential fares with respect to the Oyster – but from the point of view of the commuter, the person using the system, to be able to have a card and use it anywhere and know that it will automatically cap you at the cheapest fare for the day, I think is an incredible simplification of the system. Even though it has probably doubled the length of the fares booklet, in reality, from the point of view of the travel experience of the person using the system, it has made it extraordinarily cheaper.

**Sally Hamwee (Chair):** Let us move on, or further on, to consultation.

**Peter Hulme Cross (AM):** Redmond O'Neill, you said earlier that TfL does quite sophisticated modelling and this is the advice the Mayor receives and the Mayor sets the fares. That is his prerogative. Does he take into account any of the views of the travelling public – the passengers?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** He also does market research to test opinion on various issues. If you take the issue of free travel for under-16s, he has found that 61% of people strongly support it, 21% of people tend to support it and 6% tend to oppose and 6% strongly oppose. The reason they gave the power to set the fares to the Mayor rather than TfL, independently of the Mayor, is because the Mayor is accountable to the electorate through the ballot box and he pays very careful attention to what people in London think.

**Peter Hulme Cross (AM):** However, he does it through opinion polls and market research?

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** There is also continuous correspondence to the Mayor and to TfL. That is another way in which individuals can and do make their views known.

**Peter Hulme Cross (AM):** I see, letters and correspondents writing in?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Letters, People's Question Time, the State of London Debate – the Mayor is in constant contact with the population, who can bring their views to his attention with great force – and do so, if they do not agree with what he is doing.

**Peter Hulme Cross (AM):** What you are saying is that he keeps his political antennae?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** Obviously fares is a major issue. It is 50% of the funding of the transport system. It is one of the major decisions the Mayor makes and it is constantly changing, being adjusted, taking account of the shifts in the situation within a broadly set policy framework. The policy framework is consulted on a grand scale. In fact, some people are rather critical of the scale of consultation that we had on the Mayor's Transport Strategy, but given its importance it had to be a major consultation. Obviously, the fares policy is an important part of the Transport Strategy and when there was a significant change from what had been envisaged in the Transport Strategy – as a result of the ability to borrow – there was consultation around that. There is no obligation to go through a consultation exercise every year when the Mayor sets the fares for the following January.

**Peter Hulme Cross (AM):** What about the TfL Board? Do they have any say in this? Does he listen? Do they offer their advice and does he listen to anybody on the TfL Board?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** He listens to everybody on the TfL Board.

**Peter Hulme Cross (AM):** He listens to everybody?

**Jenny Jones (AM):** Then rejects their advice.

**Peter Hulme Cross (AM):** Then makes up his own mind, I guess.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** That is what he was elected to do.

**Sally Hamwee (Chair):** Could you help us on the interface between decisions about fares and about the budget and the Council Tax implications, because, I think it was Tony Travers who pointed out, but it is a pretty obvious thing, for many people the fares increase may have a greater impact – certainly perhaps something they are aware of – than an increase in precept. What one has is a decision being taken, as you say, for January, that is a bit out of sync with the budget process, which is a consultation where decisions are being taken with new fares coming into effect in the middle of all that. How does this process work in terms of thinking and opportunities for extended consultation?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** The decision on fares is always made within the context of the horizon of the TfL business plan. Let me give you an

example: because no person would wish to be in the position of jerking around the fares policy, whatever you want to say, there was a policy for three years of freezing the fares; there was then a policy of three years of increasing the fares to sustain the borrowing programme. This has not been deviated from. There have been adjustments at the margin of this or that, and that is as it should be. One would not wish to be in a position of taking 10% off the fares this year and then finding we have to put the fares up by 25% in January 2008.

**Brian Cooke (Chair, London TravelWatch):** First of all, something Redmond (O'Neill) said earlier. I wholly agree with him that the fares in London are not as complicated as the 58 pages imply they are. Other than people around this table and in London TravelWatch elsewhere, not many people look at this book.

I would however challenge him a little bit on the research. Not the details of it because I wholly accept they are accurate, but it is how you ask the questions on things like research on free travel for children. If you go out and ask people: do you welcome children being free on buses, we would get the response that the research gave you. However, if you had said do you welcome bus fares for adults going up hugely by a total of £43 million in one year, just to pay for free children on buses, I think you would have had a somewhat different answer.

**Tony Arbour (AM):** We like that question.

**Brian Cooke (Chair, London TravelWatch):** Consultation in the past, even with us, has been extremely poor, to the point that last year it was almost non-existent. We were told in advance what the plans were but at no stage could we really influence them. After a lot of lobbying we do have a commitment from both the Mayor's Office and TfL to have greater consultation this year. With that in mind, we had our first meeting with Malcolm (Fairhurst) and some of his team last week, when we put our feelings about the 2007 fares reviews; and they are coming back to us quite shortly as a result of those discussions. We do hope to have a greater input. One of our aims is, whilst recognising that there have to be some increases, we do believe the differential between Oyster pre-pay and cash is too large, currently, and we believe that further simplification of fares could easily be achieved to make things easier.

**Sally Hamwee (Chair):** I should perhaps have asked this earlier, Redmond (O'Neill), but when you were talking to us about the research which the Mayor undertakes on pretty much a rolling basis, does that include questions to people who use cars on the whole, or exclusively, rather than public transport?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** We could break it down like that. It can be quite surprising. To give you an example, we asked the question about creating a single fare across London on the buses and if you remember previously it had been 70p in outer London. We made the Oyster fare 70p but the cash fare the same across London. When we asked people in advance if they would support an increase in the fare in outer London, which is where about two-thirds of the population live, to a single £1 fare across London, to my astonishment people were in favour of that. We can break out the polls to show us all kinds of different groups, including people who primarily use their car.

**Sally Hamwee (Chair):** I am interested to know whether it is in your consciousness that if you are endeavouring to persuade people out of cars and onto public transport, how much research there is, or

should be, with that group of people. I do not get a sense that it is high up in your thinking, if you say it is something you could break down. Am I misinterpreting?

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** No, it is very high up in my thinking but not primarily related to fares but such things as: Why do you use a car? Is a car more convenient? Are there safety issues? Do you have childcare issues? Different groups of the population sometimes, quite surprisingly, have different relations to the car and we have done focus groups and so on to explore particular variables.

**Kevin Austin (Head of Transport, Finance and Performance, GLA):** As part of our travel management work they really did a huge amount of work to look at the different groups who would or would not shift from cars to other modes, whether it is walking, cycling or public transport, and what the drivers are of that. We can identify those groups who would shift and those who would stay in their cars forever. There is extensive work done on that.

**Sally Hamwee (Chair):** Can I ask whether there are other questions?

**Mike Tuffrey (AM):** Without reopening the social inclusion point, because I think as a Committee we are probably focused on the Oyster and social inclusion issue, are the figures available to show the take-up among people of working age? If you take out pensioners, who presumably are disproportionately C2, D and Es, and maybe some trends on the young side, I would be interested to know what the proportion is for people of working age in terms of cash versus Oyster, because that, I suspect, is rather narrower.

**Redmond O'Neill (Director, Public Affairs and Transport, Mayor's Office, GLA):** I am sure it is. It is greatly affected by the figures.

**Mike Tuffrey (AM):** I was seeking conclusion in terms of work, access to work and so forth. I think we should focus on the working age population and see what the barriers are to the take-up of Oyster there.

**Malcolm Fairhurst (Head of Fares and Ticketing, TfL):** On that we share your concerns and we will certainly get you the figures.

**Sally Hamwee (Chair):** Does anyone else have any questions? Geoff (Pope, AM), you have been silent and thoughtful but is there anything you want to pursue?

**Geoff Pope (AM):** Not really, no. I found it very interesting. Thank you.

**Sally Hamwee (Chair):** Does anyone want to add any comments? Perhaps at the very end I should come back to John (Siraut) and ask if he has comments he would like to make, but do the rest of you want to add anything? John (Siraut), is there anything you would like to conclude with? It is not compulsory.

**John Siraut (Associate Director, Colin Buchanan Transport Consultancy):** The final question raised is the critical point, I think. Oyster is used by Freedom Pass holders and that is obviously free travel for people. If you want to take that out, I think there still is a major social inclusion issue. Glancing over my colleagues' shoulders here, a quarter percent of cash fares are paid by Ds and Es

which represents the same proportion of the population so there is still an issue there. That represents 150,000 people in those groups still paying cash every day. That is a large number of people and we still need to get into that group and understand why they are not changing over to Oyster.

**Sally Hamwee (Chair):** Thank you. It has been very interesting. If there are questions which we need to pursue, and you have offered some further information, perhaps we might do so. We will obviously review what we have heard and come back with a proposed report on the subject when we have been able to do that follow-up work. Thank you all very much indeed.

## Appendix 5: TfL's written submission, 29 August 2006

### Response to issues arising from Budget Committee meeting on 22 June 2006

Date: 29 August 2006

1) *Can you provide, for each month between October 2005 and June 2006, the average number of total Tube and Bus users per day and, of the average numbers of total Tube and Bus users, how many used:*

- a) *the Freedom Pass;*
- b) *free travel for under 11s or free travel for under 16s;*
- c) *Oyster pay-as-you go; and*
- d) *cash?*

The requested information is not available by calendar month. The following tables give Tube and bus journeys by 4-week accounting period since last October. Percent changes year-on-year are included to show the effects of seasonality on the level of travel in each period.

#### Tube Journeys per day (000)

4 weeks to	All passengers		Freedom Pass	Free <11s	Oyster PAYG	Cash single/retn
	per day	yr-on-yr				
15-Oct-05	3705	-1%	93	-	198	373
12-Nov-05	3777	-2%	93	-	228	364
10-Dec-05	3897	0%	93	-	249	376
07-Jan-06	3171	-1%	93	-	208	279
04-Feb-06	3703	-1%	93	-	355	195
04-Mar-06	3835	0%	93	-	401	187
31-Mar-06*	3893	0%***	93	-	425	185
29-Apr-06**	3686	0%***	95	9	434	169
27-May-06	3862	1%	99	9	484	174
24-Jun-06	3793	1%	99	9	478	171

\* 27 days

\*\* 29 days

\*\*\* corrected for Easter timing

#### Bus Journeys per day (000)

4 weeks to	All passengers		Freedom Pass	Free <16s	Oyster PAYG	Cash single
	per day	yr-on-yr				
15-Oct-05	5235	-1%	715	480	162	505
12-Nov-05	5287	1%	714	508	183	485
10-Dec-05	5456	5%	714	545	195	472
07-Jan-06	4633	2%	714	523	183	444
04-Feb-06	5036	1%	714	668	313	349
04-Mar-06	5101	2%	714	626	375	328
31-Mar-06*	4936	2%***	713	639	403	301
29-Apr-06**	4941	0%***	712	580	463	321
27-May-06	5040	1%	712	615	504	303
24-Jun-06	4911	1%	712	595	519	297

\*27 days

\*\*29 days

\*\*\* corrected for Easter timing





- 3) ***Can you provide details, for each month between October 2005 and June 2006, of the take up of Oyster pay-as-you go amongst people of working age in socio-economic groups C2, D and E? How many people in these socio-economic groups used cash each month?***

See the tables under Question 2. The non-Freedom Pass journeys will be mostly by people of working age.

- 4) ***What is the annual cost of running each of the following fares initiatives and what is the anticipated annual revenue loss:***  
a) ***free travel for under 11s; and***  
b) ***free travel for under 16s?***

The cost in lost fares revenue from off peak Tube journeys being made free by accompanied 5-10s is estimated at no more than £1m pa. The cost of running the scheme is minimal.

The cost of free bus travel for the under 16s is estimated at up to £50m pa. The cost of providing and publicising the photocard scheme is broadly covered by the £5 application fee.

- 5) ***At the meeting it was reported that there had been some shift of people from the Tube to the bus in Zone 1 following the fares changes in January. Please can you provide details of the shift in Zone 1 from the Tube to a) bus b) cycling c) walking and d) car including the take up of the residents' discount for the congestion charge pre and post January 2006?***

There is no evidence of any significant transfers from the Tube arising from the January fares revision. This picture of general stability is borne out by the journey figures already quoted.

On car use, the number of residents obtaining a congestion charge discount after the January 2006 fares revision was around 1100 (5%) lower than the year previously. Some increase has occurred since then, but the level is still around 1% down on last year.

- 6) ***What would be the specific revenue and operational implications of implementing free transfer between buses and the bus and Tube (for both cash and Oyster pay-as-you-go) so that if someone switched modes within one hour of starting a journey they only had to pay once for the journey?***

If overall revenue was to be maintained, free transfers could only be offered if fares for single ride journeys or the one day caps were increased significantly.

Preliminary market research already carried out for Transport for London indicates that passengers have limited enthusiasm for such a change.

As a result, a detailed analysis of the specific revenue and operational implications of free transfers has not been carried out.

TfL's development priority at the moment is to see the Oyster pay as you go system established on National Rail services in London. This will be a major challenge, with many detailed issues with the Train Operators still to be resolved.

**7) *What is the scope for introducing Oyster use in taxis?***

The scope for extending Oystercards to taxis appears limited at the present time. However, TfL will keep the position under review as Oystercards become more generally accepted for use by all travellers in London and additional applications become available.

There would be a need to comply with Financial Services Authority e-money regulations if independent traders such as taxi drivers were brought into the Oyster scheme. It is estimated that this would cost in excess of £10m. This would be in addition to the cost of providing the 25,000 card readers required, which could be as much as £10m since some modification of existing designs would probably be needed. Under the current arrangements, taxi fares would need to increase to pay for this, which few passengers would find acceptable.

Take-up seems likely to be small. The average taxi cash fare is now around £10, and few drivers would be prepared to offer any discount for using an Oystercard. The average amount carried on Oystercards for pay as you go use is less than £10, so only a minority would be in a position to use their card to pay for a taxi journey. Credit cards can already provide an alternative means of payment without this limitation for those carrying insufficient cash for the fare. Potential benefits to taxi users from Oyster availability therefore appear limited.

**8) *How much does each Oyster card cost to produce?***

TfL does not have access to precise information as the cost of card production is not identified separately under the Prestige PFI contract. However, industry sources suggest a cost per card of £1.00 to £1.50. This includes the cost of the raw card, the application of external imagery, the loading of Oyster software and card testing.

What research, if any, has TfL undertaken into the uptake of Oyster amongst London's Black and Minority Ethnic (BME) population? What are the findings?

The following tables, derived from customer surveys, show the proportions of passenger journeys on the Tube and bus made using the different ticket types before and after last January's fares revision. It gives separate figures for white and Black, Asian and Minority Ethnic (BAME) passengers.

**Tube Journeys by ticket type and ethnicity, September – December 2005**

	<b>Freedom Pass</b>	<b>Travelcard</b>	<b>Oyster PAYG</b>	<b>Cash single</b>	<b>All journeys</b>
White	2%	74%	11%	13%	100%
BAME	2%	81%	6%	11%	100%
All	2%	76%	10%	12%	100%

**Tube Journeys by ticket type and ethnicity, January – April 2006**

	<b>Freedom Pass</b>	<b>Travelcard</b>	<b>Oyster PAYG</b>	<b>Cash single</b>	<b>All journeys</b>
White	4%	69%	19%	8%	100%
BAME	2%	80%	15%	3%	100%
All	3%	72%	18%	7%	100%

**Bus Journeys by ticket type and ethnicity, October – December 2005**

	<b>Freedom Pass</b>	<b>Travelcard</b>	<b>Bus Pass</b>	<b>Oyster PAYG</b>	<b>Cash single</b>	<b>All journeys</b>
White	17%	19%	37%	4%	10%	100%
BAME	5%	21%	59%	4%	6%	100%
All	14%	19%	42%	4%	9%	100%

'All journeys' includes free under 16s and other minor ticket types not separately identified.

**Bus Journeys by ticket type and ethnicity, January – March 2006**

	<b>Freedom Pass</b>	<b>Travelcard</b>	<b>Bus Pass</b>	<b>Oyster PAYG</b>	<b>Cash single</b>	<b>All journeys</b>
White	18%	21%	33%	7%	7%	100%
BAME	5%	24%	53%	8%	5%	100%
All	14%	22%	37%	7%	6%	100%

'All journeys' includes free under 16s and other minor ticket types not separately identified.

- 9) *At the meeting, it was reported that TfL had an Oyster card directorate and that team was working with a number of boroughs to take forward various initiatives to improve Oyster take up. Can you provide details of these initiatives and their outcomes to date?***

TfL has worked with the London Borough of Newham to provide Oyster to Borough residents as one application on the Borough's multi-application "Connects" card. About 20,000 cards have been issued with an Oyster chip incorporated but arrangements for activating its functionality have not yet been agreed with the Borough. The cost of the basic cards was met by Newham although TfL contributed to the additional cost of the Oyster functionality.

A similar application has been agreed with the "SEaLeGS" consortium (South East London e-Government Services), comprising the Boroughs of Croydon, Greenwich and Lewisham. About 10,000 cards have been issued with Oyster software activated. Usage of the Oyster application by card holders is low with only about 13% of the issued cards being used for travel.

The TfL Oyster team remains in touch with London Boroughs and with London Connects on this subject, and remains ready to work with Boroughs to support any proposed future schemes.

**10) What was the proportion of bus trips and revenues that were attributable to cash fares for each month between October 2005 and June 2006?**

The proportions of bus journeys and fares revenue paid as single cash fares since October have been as follows:

4 weeks to	Cash as proportion of all bus journeys	
	Journeys*	Revenue*
15-Oct-05	9.6%	23.7%
12-Nov-05	9.2%	22.7%
10-Dec-05	8.7%	21.2%
07-Jan-06	9.6%	23.8%
04-Feb-06	6.9%	20.3%
04-Mar-06	6.4%	18.1%
31-Mar-06*	6.1%	18.1%
29-Apr-06**	6.5%	18.2%
27-May-06	6.0%	16.9%
24-Jun-06	6.1%	16.9%

\* includes Freedom Pass

**11a) At what proportion does it become cost effective to remove cash from buses?**

It is impossible to give a definite answer to this question. London Buses are currently reviewing the business case. Removing cash from buses produces significant cost savings and passenger benefits. These must be weighed against potential inconvenience to the cash paying minority and the potential loss in revenue and patronage if cash is withdrawn.

**11) At the meeting it was suggested that one way to make fares simpler would be to make the Oyster discount a fixed percentage of the cash price across all modes. Has TfL examined this option and what are the revenue implications?**

TfL accepts Oyster discounts should be simple to explain and transparent. However, it believes there is little case for a constant percentage discount *per se*. If such a policy were adopted, the revenue implications would depend on the percentage discount figure chosen.

**12) At the meeting it was reported that there had been a 72% increase in cycling. Over what period of time was this increase recorded and what proportion of this increase is made up of children under 16?**

The 72% relates to the increase in the number of cycle journeys between 2000 and 2005/6, as measured by automatic counters on selected streets in the TLRN

network. No information is available from this source on the cyclists making those journeys.

**13) *What steps are being taken to increase the number of outlets where Oyster cards can be purchased and 'topped up', especially in the Outer London boroughs and places not served by the Tube?***

TfL is working with its private sector partner to develop a pre-loaded version of the Oyster card that could be sold by retailers without any specialist equipment. Work is also proceeding to develop a simple pay as you go top-up device for ticket retailers with relatively low sales and currently without any Oyster capability.

## **Appendix 6: Principles of Assembly scrutiny**

The powers of the London Assembly include power to investigate and report on decisions and actions of the Mayor, or on matters relating to the principal purposes of the Greater London Authority, and on any other matters that the Assembly considers to be of importance to Londoners. In the conduct of scrutiny and investigation the Assembly abides by a number of principles.

Scrutinies:

- Aim to recommend action to achieve improvements;
- Are conducted with objectivity and independence;
- Examine all aspects of the Mayor's strategies;
- Consult widely, having regard to issues of timeliness and cost;
- Are conducted in a constructive and positive manner; and
- Are conducted with an awareness of the need to spend taxpayers money wisely and well.

More information about scrutiny work of the London Assembly, including published reports, details of committee meetings and contact information, can be found on the London Assembly web page at [www.london.gov.uk/assembly](http://www.london.gov.uk/assembly)

## Appendix 7: Orders and Translations

### How to order

For further information on this report or to order a copy, please contact Laura Warren, Scrutiny Manager, on 020 7983 4507 or email at [laura.warren@london.gov.uk](mailto:laura.warren@london.gov.uk)

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