

From: Hendy Peter (TfL)  
To: Everitt Vernon; Allen Stephen (MD Finance); O'Toole Tim  
Sent: Tue Oct 30 18:48:13 2007  
Subject: Re: Mayor's Press Conference

No idea how this gels with RPI+1 for Crossrail?! P

From: Allen Stephen (MD Finance)  
To: Hendy Peter (TfL); Everitt Vernon; O'Toole Tim  
Sent: Tue Oct 30 20:26:51 2007  
Subject: Re: Mayor's Press Conference

Quite. I think we've been very clear that our assumption in the Business Plan is RPI+1/RPI+2 for Jan 09 and Jan 10 and that we've assumed 1% to those numbers and assumed RPI+1 long term in the context of the Spending Review, Metronet and Crossrail. I am sure Ken understood this.

I am thus somewhat bemused by his statements and concerned that he may have boxed himself into a tighter fares policy than we thought we had agreed. If fares are to be pegged to RPI, we will have a big hole in the Business Plan both to 2010 and beyond and we would need to review budgets accordingly.

Should clarification be sought at Monday's meeting?

Steve

-----Original Message-----  
From: Hendy Peter (TfL)  
Sent: 19 November 2007 11:00  
To: Allen Stephen (MD Finance)  
Cc: Everitt Vernon  
Subject: Other Issues

On Fares, Ken has been adding stories. In three successive press conferences he's been at RPI + 1, dependent on Crossrail interest rates, and RPI. Ask Vernon to show you the various drafts of the public line to be taken on fares for the business plan - and the final line. I think it's bearable, but you need to make sure. John Ross told me that he 'wouldn't insist' on RPI next year, so that's useful (!). The event I've just been watching has finished, so got to go.  
More later.  
Peter

From: Allen Stephen (MD Finance)  
To: Hendy Peter (TfL)  
Cc: Everitt Vernon  
Sent: Mon Nov 19 12:51:08 2007  
Subject: RE: Other Issues

I am concerned that the Mayor's statements on fares are not compatible with the assumptions we have made in our plans and we will only get ourselves (and him) into trouble if we try to gloss over that. This is what I am told he said last week:

"I am happy to say now there should'nt be any reason why fares need to rise more than in line with inflation over the next 4 years either. Now if the Government comes along to me in a few years time and says to me you can borrow another £1bn more to invest I'll have to have a debate about whether we do that. At the moment we've got a £10bn investment programme that runs to 2010 its fully funded, Crossrail is fully funded without any fare increase, so I can't anticipate such a decision arising until virtually the 2012 Mayoral election"

As you know, the Business Plan assumption is RPI+1 for Tube; RPI+2 for buses in Jan 09 and 10. The modelling we did in the Spending Review assumed an additional +1% on these numbers in those years and then RPI+1% for all fares thereafter. All of that has been discussed with Ken. Of course, it is the net revenue that matters for the Business Plan, so if patronage exceeds our assumptions, fares would not need to rise by so much. However, I think the Plan assumptions (approved by the Board and the Mayor) are materially different from the Mayor's most recent statements and he will be asked awkward questions once that becomes clear.

The most immediate issue is meetings we have with the rating agencies this week and next. We will need to be explicit with them on fares assumptions to support the anticipated level of borrowing. However, they are usually quite sensitive to the handling of such issues and allow us to comment on their reports in draft so we should be able to avoid any press comment from this source (although I think we need defensive lines just in case).

We will also come under questioning from the Assembly: at the Budget Committee on 3 January at the very latest. Again, I understand we have previously been explicit in the Business Plan assumptions on fares so it will be difficult to give them less information than they've had previously. We could probably duck the longer-term assumption at this stage though.

I think it would be prudent to agree in advance with Redmond and John what we say to the rating agencies. Do you agree?

Steve

- 4.1 TfL's Business Plan is financed from six main sources:
- Fares and ticket income
  - Charges under the Congestion Charging scheme
  - Secondary revenue (such as advertising and property rentals)
  - Third party funding for specific projects, such as the extension of the Piccadilly line to Heathrow Terminal 5
  - Government grant, for which TfL has a settlement for the period 2005/06 to 2009/10 with the DfT
  - Prudential borrowing
- 4.2 The overall financial summary is shown in table 7. The Plan continues to have financial balance in that income from fares and charges, together with Government grants, secondary income and borrowing fully meet the costs of operations and the Investment Programme.
- 4.3 The relationship between the Business Plan and the Investment Programme is shown in table 8.

## Financing projects supporting the 2012 Games

- 4.4 TfL has agreed with the ODA to deliver a series of transport improvements in support of the Olympic Transport Plan. Contained in a Memorandum of Understanding, these consist of

schemes that were pre-existing at the time London was awarded the 2012 Games (such as DLR extensions to London City Airport/Woolwich Arsenal), additional ODA-funded capital schemes (for example, walking routes in the vicinity of the Olympic Park and increased station capacity at Prince Regent) and operations for the Games. The ODA funding contribution is £190m to 2009/10 and a total of £331m overall (an extra £141m after March 2010). Full details of schemes can be found in the TfL Investment Programme document.

## Maximising income

- 4.5 The Business Plan is predicated on real terms increases in the level of income from fares and charges over the period 2005/06 to 2009/10 to ensure that the Investment Programme can be financed<sup>42</sup>. The fares structure is designed to increase the percentage of bus, tram, Underground and DLR journeys made using Oyster, thereby reducing ticket purchase and overall travelling time, and speeding up the transport network. Oyster pay as you go fares are in some cases lower than the fare payable for a single journey in 2000. For example, the bus pay as you go fare has been 90p since September 2007, whereas in 2000 a bus fare into or out of Zone 1 was £1. By May 2007, three-quarters of bus and more than

42. See announcement as to the funding of the Plan made by the Mayor on 12 October 2004: [www.london.gov.uk/view\\_press\\_release.jsp?releaseid=4470](http://www.london.gov.uk/view_press_release.jsp?releaseid=4470)

