

RESTRICTED



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

NBRN.

22 April 1986

Dear Nidds,

LONDON REGIONAL TRANSPORT: PERFORMANCE AND CORPORATE REVIEW

Thank you for your letter of 15 April to Nigel Lawson enclosing a note which reviews London Regional Transport's recent performance and their 1985 Corporate Plan.

I agree with you that LRT's recent performance is commendable. The significant reductions they have achieved in unit costs - exceeding their target of a 2½ per cent real reduction in unit costs - are particularly to be welcomed. I hope that British Rail can emulate this performance, particularly given the competition between BR and LRT on some London routes. I welcome the prospect that the industry as a whole will not require any revenue subsidy from 1990-91 onwards.

I agree that the 1986 plan should contain more analysis of the risks facing LRT. I would like also to see some analysis of the effect of lower energy costs on LRT's operations. We will also need, as you suggest, to agree new objectives for LRT, preferably before the end of 1986, given that LRT will be meeting the revenue support target a year early. As well as setting a demanding target for revenue support, I would also favour separate targets for the bus and underground businesses. It is clearly of concern to the prospect of competition with private sector bus operators that LBL remains in receipt of subsidy - particularly revenue subsidy - in 1990-91. The lack of success of LBL in winning competitive tenders referred to in paragraph 20 of the review underlines the need for

RESTRICTED

RESTRICTED

competition with the private sector to further reduce costs. I would be grateful if you could keep me in touch with your thinking on the timing of bus deregulation in London. One factor we will have to take into account in deciding on when buses in London should be deregulated is the likely impact of LBL finances.

I am copying this letter to the Prime Minister, other members of E(NI) and to Sir Robert Armstrong.

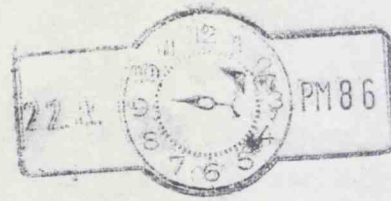
Yours ever,

JM

JOHN MacGREGOR

RESTRICTED

TRANSPORT: LRT 11/83





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

15 April 1986

Dear Nigel

LONDON REGIONAL TRANSPORT: PERFORMANCE AND CORPORATE
PLAN REVIEW

I am enclosing a note which reviews London Regional Transport's recent performance and their 1985 Corporate Plan.

LRT's track record to date fully vindicates our decision to take control of them from the GLC in July 1984. The objectives which I gave Keith Bright (listed in paragraph 2 of the note) included financial targets which were then assessed to be realistic though demanding. LRT's performance has in every respect satisfied or exceeded my expectations. Their achievement in reducing their dependence on revenue support is particularly striking. The GLC had proposed to increase revenue support from £190M in 1984/85 to £245M in 1987/88. My objective was that it should be halved over the same period. In December 1985 the forecast outturn for revenue support for the current financial year was £109M; the latest prediction is £98M. In other words LRT will have virtually delivered my revenue support target two years early. Their plan shows every prospect that this favourable trend will continue.

In reducing revenue deficits LRT have not chosen soft options. Increases in fares have no more than kept pace with inflation and there has been no significant cut in the extent or quality of services; indeed the Underground service is being increased. Patronage has been stable or increasing.

Against that helpful background, LRT have launched a comprehensive attack on costs: eliminating waste, restructuring the business to sharpen management accountability, reducing manpower (already down from

57,400 to 53,100 and forecast to decrease to 44,300 by the end of 1990/91) and exposing activities to competition where practicable. Unit costs are down in real terms by 6.4% for the buses and 3.7% for the Underground this year compared with last and are forecast to fall by a further 5.3% and 3.5% next year. This compares with my target of an overall reduction of 2½% per annum. Above all, LRT have succeeded in delivering these very major improvements without any significant disruption by the workforce.

LRT will remain dependent for the foreseeable future on grant to sustain their investment programme. But the rapid reduction in subsidy will ease the burden on public funds. The Corporate Plan offers the prospect by 1990/91 of the industry, considered as a whole, doing without revenue subsidy. This would represent a saving of perhaps £250M a year to the taxpayer and ratepayer compared with what could have been expected under the GLC.

Some continuing subsidy for bus operations is forecast over the period of the plan. But LRT's vigorous espousal of competitive tendering is already having the effect of converting London Buses into a business keenly aware of the increasing competitive threats to their operations and prepared to take them on. This bodes well as we move towards full deregulation in London.

The 1985 Corporate Plan document itself is concise and to the point. For the 1986 Plan I shall want to see more emphasis on analysis of the risks attaching to LRT's central strategy. For example we need a better understanding of the causes of the current favourable trends in patronage and how far the promised performance depends on its continuation. We shall need to take a view on the likelihood that LRT can meet their ambitious target in containing the wage bill. More particularly future Plans will have to deal with the role and performance of London Buses as it faces up to the prospect of deregulation, and the objectives for LRT's supporting activities, notably bus and rail engineering.

Keith Bright's current appointment expires in October 1987. That will be the time to give him or his successor a new set of objectives including possibly separate targets for the bus and Underground businesses. We should be able to start formulating these objectives in the light of the 1986 Corporate Plan.

RESTRICTED

I am sending copies of this letter and enclosures to the Prime Minister, other members of E(NI) and to Sir Robert Armstrong.

*Yours are
Nicholas*

NICHOLAS RIDLEY

RESTRICTED

LONDON REGIONAL TRANSPORT: PERFORMANCE AND CORPORATE PLAN REVIEW

Note by Department of Transport

This Note reviews the performance of London Regional Transport (LRT), since their formation in June 1984, and LRT's 1985 Corporate Plan for the 5-year period 1986-87 to 1990-91.

Chairman's Objectives

2. Dr Bright was given the following objectives in July 1984 after the Government took control from the GLC:

- (1) revenue subsidy to be reduced from £190M planned by the GLC for the financial year 1984-85 to £95M by 1987-88;
- (2) unit costs to be cut cumulatively by at least 2½% per year in real terms;
- (3) fares to be held broadly in line with inflation and with those charged on British Rail suburban services;
- (4) investment to be brought forward to reduce future costs and modernise the system;
- (5) separately accountable subsidiaries to be set up to run the main Underground and bus businesses;
- (6) private sector provision of services to be sought where cost-effective;
- (7) special attention to be paid to needs of the disabled.

LRT were also asked to establish effective co-operation with British Rail in planning and providing services; and with the London Regional Passengers' Committee (LRPC) for securing consumer advice.

Financing Arrangements

3. Up to and including 1984-85, the revenue deficits and capital needs of LRT (formerly LTE) were funded by grant from the GLC.

Following the transitional funding of LRT in 1984-85 by the GLC, the Government assumed responsibility for the payment of grant on 1 April 1985. LRT's recent financial performance and forecasts for 1985-86 are as follows:

£M	1980	1981	1982	1983	1984-85*	1985-86
Turnover	479	483	558	578	735	642
Revenue grant	92	82	123	175	186	130
Capital grant	126	135	190	164	152	193
Total grant	218	217	313	339	338	323
Total grant at 1985-86 prices	313	278	369	382	360	323

* 15-month accounting period spanning the transition from calendar to fiscal year accounting.

4. The grant needed for 1986-87 has fallen in total to £295M; the proportion devoted to revenue support will decrease from two-fifths to one-quarter. LRT's plans for investment in 1986-87 amount to £261M of which £216M will be funded from grant, the balance being found from internal resources.

Progress towards Government objectives

5. LRT have concentrated on reducing revenue deficits by a general attack on costs and by better marketing to increase income. The planned deficit for 1985-86 was £130M. LRT, in their Business Plan published in December 1985, forecast an outturn deficit of £109M and plan to reduce the deficit in 1986-87 to £74M, net of £5M provided to fund Dial-a-Ride services for the disabled from 1 April 1986. Thus LRT are set to improve on the Government's revenue support target of £95M in 1987-88 by a substantial margin.

6. The annual reduction in real unit costs is also in excess of the 2½% target. A 6.4% reduction in bus unit costs and 3.7% in Underground unit costs should be achieved in 1985-86, with 5.3% on buses and 3.5% on the Underground to follow in 1986-87. Part of the reduction in total costs results from a tighter fitting of services to demand, bus services having been marginally trimmed in 1985-86. But the general buoyancy of demand means that service levels will now need to be maintained on the buses and increased on the Underground; LRT are pursuing a vigorous policy of matching services to changing patterns of demand.

7. Reductions in manpower have played a significant part, though no specific target was set. The following table shows progress made and expected:

	1 January 1984	31 March 1985	31 March 1986		31 March 1987
		achieved	planned	expected	planned
Total	57,400	55,800	53,600	53,100	51,150

8. Fares increases in January 1985 and January 1986 matched inflation. The structure of increases has been biased to encourage the pre-purchase of multi-journey passes, with gains in efficiency and patronage. Investment increased in 1985-86 by about £50M above that in the 1984-85 financial year; LRT's plan for 1986-87 allows for a further £30M increase. Most investment is spent on renewing the system or on cost-saving projects like automatic ticketing and the extension of one-person-operation.

9. In reforming the industry's structure LRT have followed two complementary courses. For their main operations, limited liability companies to run the buses (London Buses Ltd - LBL), the Underground (London Underground Limited - LUL) and bus engineering (Bus Engineering Ltd - BEL) were formed on 1 April 1985; the Docklands Light Railway will be established as a further subsidiary company before opening in 1987. Ancillary activities are being formed into separately accountable units within LRT, so that central and operational activities within the group can trade with each other at armslength.

10. Competition is being sought where possible. For example, LRT have initiated a major programme of tendering for bus services, exposing LBL to competition from other operators, and in-house supporting services as bus maintenance are being subjected to external competition to keep prices down.

11. A special unit, reporting to a designated member of the Board, has been set up to meet the needs of disabled passengers. From April 1986 it takes over the funding of the Dial-a-Ride service and will act as the London Boroughs' agent in administering the Taxicard scheme.

Planning Process

12. LRT operate in several different transport markets. The planning process must allow each business sufficient flexibility to respond to its market circumstances while exerting firm corporate control over the implementation of management plans to secure performance in line with Government objectives. LRT give their businesses guidelines, based on the Plan and LRT policy statements, which establish assumptions to be made on external economic factors and set targets for the reduction of unit costs and, where relevant, service levels, quality and fares. The businesses develop plans containing their own wage assumptions and define strategies to meet or beat the targets which have been set. LRT review business plans, securing amendments as necessary before incorporation into the Plan presented to Government. LRT monitor the implementation of business plans but leave to the businesses responsibility for devising divisional or project-based plans as instruments of managerial control. The process is inevitably top-down since LRT, not the businesses, receive Government grant and are under the statutory obligation to oversee the conduct of their businesses. But it firmly attributes financial responsibility, encourages control of management action planning and, within an overall marketing strategy, leaves businesses scope to respond to diverse market conditions.

The 1985 Corporate Plan

13. A summary of the Plan is attached. Fuller details of recent performance and short-term prospects are set out in LRT's Annual Business Plan, also attached. Current Ministerial objectives for LRT expire in 1987-88. The Plan's underlying assumptions are of a broadly stable demand for bus travel, a 5% increase in demand for Underground services by 1990-91 and the provision of a broadly stable quality of service - as measured in average waiting times, vehicle loading and percentage of scheduled services operated. Manpower would be cut by a further 9,865 (or 18%) to 44,335 by March 1991. Efficiency, measured in mileage operated per employee, would have increased by 17% on the buses and by 28% on the Underground. An uneven pattern in the reduction of real unit costs is forecast, as it is influenced by the timing of cost-saving investment, but its weighted average for the 5 years to 1990-91 of 2.8% a year continues to beat the current shorter term target. Fares would be held constant in real terms.

14. The industry will remain dependent on grant, but the amount would be cut by £115M on 1985-86 levels (or broadly halved in real terms). External finance would account for about 19% of total costs (33% in 1985-86) and, through the elimination of the industry's overall operating deficit, would be applied wholly to the funding of capital by 1990-91. The industry's operating ratio of income to total spending improves over the period from 67% to 81%; the Underground's ratio improves more substantially (76% to 93%) than that of the bus business (66% to 72%) which operates more labour-intensively in a more difficult market. The elimination of the industry's operating deficit however relies upon a modest operating profit on the Underground to counter balance a reduced operating loss on the bus service.

Key Risks and Uncertainties

15. Demand forecasts in the Plan are based on a central estimate of the effects of external economic factors. The underlying assumptions of stability in the population of London, growth of disposable income and buoyancy of tourism have led to forecasts of expanding patronage. These external factors

collectively will of themselves increase demand over the Plan period for Underground services by 4% and hold the decline in demand for bus services to 2½%. Marketing and service initiatives, building on the marketing success of LRT travelcards, are forecast to eliminate that decline in demand for bus travel and raise Underground demand to 5%. The 1986 Plan will update these forecasts and examine upper and lower estimates to give confidence limits.

16. A loss of 1% demand each year from the 1985 forecasts would produce an operating deficit for the industry of £34M by 1990-91 (£14M on the buses and £20M on the Underground), compared with the Plan's break-even estimate. The most volatile element of demand results from tourism, of which 60% is foreign and 40% domestic. LRT's estimate of 2% annual growth in tourism is modest in comparison with the last 5 years' experience of 8-10% annual growth. LRT assess that a 10% increase in tourism yields a 1½% increase in demand for their services.

17. External factors differ in their effect upon bus and Underground demand. Growth in disposable income encourages car use which has a greater effect on bus than Underground patronage; likewise increased unemployment erodes bus patronage but has less effect on Underground demand. On the Underground, which in 1985-86 had its busiest year ever, the risk to increasing patronage comes more from pressure on the capacity of parts of the system, where severe overcrowding in normal service conditions may deter optional custom. The scope for accommodating changes in demand will be reported in the 1986 Plan.

18. Marketing Directors have been appointed to the bus and Underground companies to revise and consolidate LRT's marketing strategy which will be reported in the 1986 Plan. A key element is the continued transformation of a market of passengers paying individual fares into one where pre-purchased tickets and passes predominate. That will facilitate the introduction of automatic ticketing and further extensions of one-person-operation so reducing manpower and opportunities for fraud.

19. The second main area of risk is LRT's ability to deliver ambitious targets to contain the wagebill. LRT's aim is to contain or reduce real wages and to cut manpower significantly so retaining in full the benefit of increased productivity. So far LRT have been very successful on both counts. Much now depends on the industry's ability to avoid real wage increases for Underground workers and secure a 1% annual cut in busmen's wages. The markets for these skills are different. On the Underground automation will save manpower but there is little external pressure to contain skilled wages. On the buses there is a distinction between the inner and outer London labour markets; in the latter LRT are exploiting the competitive pressures of tendering to lower wage expectations in LBL.

20. The third area of uncertainty is the impact on LBL of the major changes which will be brought about by bus deregulation. The Plan does not allow for the effects of deregulation for which no date has yet been set. LRT have been putting out to tender tranches of mainly suburban bus routes and LBL's performance has so far fallen well short of retaining 50% as the Plan assumes. Tendering is yielding significant savings to LRT and is exposing LBL to competition from operators with lower wage rates and less restrictive practices. The implications for LBL of full deregulation and its timing will have to be addressed in future Plans.

21. The last area of uncertainty is the contribution to be expected from LRT's supporting activities. Collectively they contribute about £30M to an expected turnover in 1985-86 of around £650M; but some make losses. The business structure and investment needs of the bus engineering subsidiary BEL are being rethought following the decentralisation of bus overhauls to LBL's garages; a new business plan will address problems of poor productivity and overcapacity and the prospects for external sales. In property development LRT, in accordance with Ministerial guidelines, are pursuing a policy of more vigorous and profitable disposal, backed by better exploitation of assets which remain essential for operational reasons. The 1986 Plan will report progress on ancillary activities in more detail.

Investment

22. The bus purchase programme is designed to secure future operational savings through further extensions of one-person-operation and the introduction of automatic ticketing. The pace of this programme will need to be reviewed in the light of deregulation. A major and continuing element of the Underground programme is the renewal and replacement of assets; the major priority otherwise is to secure the rapid introduction of cost-saving investment. On both systems particular attention will be given to fraud prevention, passenger security and, as part of the marketing effort, improving the customer environment. The Plan assumes investment continuing at well over £200M a year throughout the period. Beyond the Plan period the comprehensive re-equipment of the Central Line in the early 1990s represents the largest project in prospect. The capital programme will be updated in detail in the 1986 Plan.

1986 Plan

23. The key business risks and uncertainties have been noted above. Risk analysis will therefore be a major feature of the 1986 planning process, already under way. The development of the central strategy outlined in the 1985 Plan will focus, in particular, upon: the marketing strategies of the main businesses and their responsiveness to market risks; more detailed analyses, by activity, of the scope for manpower and cost reductions; plans for ancillary businesses and activities and their relationship to corporate objectives; implications of bus route tendering and de-regulation; and the updating of investment programmes.

Summary

24. The 1985 Plan accords with Ministers' objectives for LRT. It aims to secure continued cost reductions without reducing the volume or quality of services provided. Major savings in manpower through a continuing and substantial programme of investment in new technology, backed by the ending of restrictive practices and tighter managerial control, are central to this

strategy. On this basis the Plan points to the elimination of the industry's overall need for revenue support in 5 years. Fares are to be held constant in real terms and demand will remain stable or slightly increase. The areas of uncertainty concern the ability of LRT to respond effectively to adverse developments in their business markets or in the general economy. The quantification and containment of risk will be addressed in the 1986 Plan.

Department of Transport
April 1986.

LONDON REGIONAL TRANSPORT
CORPORATE PLAN 1985

SUMMARY

The Plan puts forward a tough programme of cost savings, so that the steadily reducing revenue support can be accommodated whilst keeping a policy of stable real fares and services. The major features are achievement of a break-even revenue budget at the end of the period, a reduction in the call on total public funds from £325 million in 1986/7 to £210 million in 1990/91, a growth in demand and a small increase in Underground service levels.

Efficiency

The Plan includes unit cost reductions of 2.5% p.a. over the full five year period, thus exceeding the targets of the 1984 Plan and meeting the Secretary of State objectives. A major contribution to greater efficiency will be made through better cost identification, control and accountability but competitive tendering in all practical areas will also be a significant element. For Bus services, it is planned that tendered services will increase steadily, matching the capacity of the private sector. A third critical factor is the capital expenditure programme for modern ticketing systems, improved infrastructure and new buses on which a large part of the proposed cost reductions depend.

Travel

Demand has now shown a steady upward trend for some two years. This is believed to be due to the improved ticketing system, stable fares and better quality service. The Plan targets for limited further growth in demand, matched by stable bus services and slightly better train services, are based on these assumptions. The completion of station modernisation programmes and the provision of better passenger information are expected to contribute to the growth in demand.

Co-ordination

The integrated Travelcard has made a significant impact on demand by allowing the system to be used easily and flexibly by passengers: it has also given LRT the opportunity to match services to demand and eliminate wasteful duplication. The introduction of the Capitalcard has proved a further successful step in this process and therefore the Plan proposes both a wider range of integrated ticket facilities and a programme of interchange improvements affecting both BR and LRT.

The Disabled

The Plan includes changes in design which can, at little extra cost, be included in new buses, in ticket offices and signing plans to aid the passenger with disabilities. However, more major changes, such as provision of lifts at "core" stations would require more substantial funding and this is not included in the Plan.

Management

The changes in structure put in place in 1984/5 will be consolidated during the period of the Plan and the principles of separate accountable units will be extended wherever practicable. Managing change with its implications for staff attitudes and levels will be pursued with a firm and consistent approach to industrial relations but recognising the contribution made by individuals who have often given years of committed service.

The Plan deals first with the framework for LRT's strategy, then the passenger then cost reduction. The assumptions and uncertainties are set out separately, including the assumed levels of funding on which the Plan is based. The following table summarises the key elements in figures.

	1985/6	1986/7	1987/8	1988/9	1989/90	1990/1
<u>Real Fares Index</u>	100	100	100	100	100	100
<u>Cash Fares Index</u>	100	106	111	117	123	129
<u>Service Levels</u> (million miles operated)						
- Bus *	173	173	173	173	173	173
- Underground	29.7	30.6	31.2	31.3	31.4	31.9
- Docklands Light Rail	-	-	0.6	0.8	0.8	0.8
<u>Demand</u> (million passenger miles)	5970	6030	6110	6155	6175	6185
<u>Revenue Deficit (£m)</u>	117	93	70	58	26	0
<u>Capital Expenditure (£m)</u>	230	266	251	237	217	223
<u>Grants (£m)</u>						
- Revenue	130	93	70	58	26	0
- Capital	195	234	237	224	204	210
<u>External Finance (£m)</u>	323	325	305	280	228	208
<u>Staff</u>						
- Total (fiscal year end)	53615	51530	49770	47910	45610	44335

* Consisting of London Buses and tendered services, and also contracted and Section 3(2) Agreement services.

IV THE PLAN IN FIGURES

87. Table 3 sets out the financing details of the preferred Plan, with Tables 4 and 5 setting out the financial, staffing and performance details of the 1985 Corporate Plan. The cost of bus services has been presented in two parts. First the cost if all routes continued to be operated by London Buses, and secondly a negative provision to reflect the expected further savings from bus route tendering - either in the greater cost savings required for London Buses to win all tenders or from lower costs with external suppliers.

TABLE 3 FINANCING THE PLAN

OUT-TURN (CASH) PRICES (£m) 1985/6 1986/7 1987/8 1988/9 1989/90 1990/91

REVENUE DEFICIT	117	93	70	58	26	0
TOTAL CAPITAL INVESTMENT	230	266	251	237	217	223
TOTAL FUNDING REQUIRED (Internal plus External)	347	359	321	295	243	223

INTERNAL RESOURCES

Surplus B/F	81	13	1	1	1	1
Working Capital	-4	2	1	1	1	1
Asset sales/property	12	12	12	12	12	12
LDDC and Leasing Fund Income	16	7	3	2	2	2
Externally Funded	5	-	-	-	-	-
Total Internal Resources	37	34	16	15	15	15

EXTERNAL FINANCE

Revenue Grants	130	93	70	58	26	0
Capital Grants	195	234	237	224	204	210
GRANTS REQUIRED	325	327	307	282	230	210
Cost of Leasing	-2	-2	-2	-2	-2	-2
TOTAL EXTERNAL FINANCE	323	325 ⁺	305	280	228	208

SURPLUS	13	n/a	n/a	n/a	n/a	n/a
---------	----	-----	-----	-----	-----	-----

1984 CORPORATE PLAN
(19 October 1984)

Revenue Deficit	144	119	95	87	79	n/a
External Finance	342	345	333	n/a	n/a	n/a

From 1986/7 externally funded works are omitted from both the capital programme and funding.

+ Assuming 1985/6 surplus of £13m applied in 1986/7.

TABLE 4 : THE PLAN IN FIGURES - FINANCIAL AND STAFFING

OUT-TURN (CASH) PRICES £m.	1985/6	1986/7	1987/8	1988/9	1989/90	1990/91
REAL FARES INDEX (1985/6 = 100)	100	100	100	100	100	100
CASH FARES INDEX	100	106	111	117	123	129
INCOME						
London Buses and Tendered						
- Fares	230	243	255	269	284	300
- OAP & Concessions	62	67	70	73	77	81
- Other	2	3	3	3	4	4
- Total	294	313	328	345	365	385
Underground						
- Fares	317	343	367	389	411	433
- OAP & Concessions	8	9	9	9	10	10
- Other	16	17	20	21	23	25
- Total	341	369	396	419	444	468
Total Income	635	682	724	764	809	854
REVENUE EXPENDITURE (excl. D&R)						
London Buses and Tendered Routes	398	410	425	444	447	461
Savings from Bus Route Tendering	-	-4	-5	-6	-7	-8
Underground	321	334	346	359	370	376
BEL (net)	4	3	1	-2	-3	-3
Centre	17	17	18	18	19	19
Bus Service Support	3	3	3	3	3	3
Provision for Service Initiatives	-	2	2	2	2	2
Provision for Surplus Staff	9	10	4	4	4	4
Total	752	775	794	822	835	854
REVENUE DEFICIT	117	93	70	58	26	0
INCOME AS % OF REVENUE EXPENDITURE (1984/5 Fiscal = 78)	84	88	91	93	97	100
CAPITAL EXPENDITURE						
Bus	43	52	64	68	70	77
Underground	128	174	163	151	129	129
BEL	5	13	5	1	1	-
Centre	8	8	8	8	8	8
Docklands	32	10	2	-	-	-
Property	9	9	9	9	9	9
Externally funded	5	-	-	-	-	-
Total	230	266	251	237	217	223
Retail Price Index (1985/6 = 100)	100	106	111	117	123	129
STAFF NUMBERS (fiscal year end)						
London Buses	25400	24800	24400	23700	22800	22200
Contingency for Tendering	-100	-400	-800	-1000	-1300	-1500
Underground	21875	21050	20500	19800	18850	18500
BEL	1850	1700	1400	1250	1200	1175
Other	4490	4380	4270	4160	4060	3960
Total LRT	53615	51530	49770	47910	45610	44335
Total (Average for year)	54500	52400	50550	48800	46500	44900

TABLE 5 : THE PLAN IN FIGURES - SERVICE AND PERFORMANCE

	1985/6	1986/7	1987/8	1988/9	1989/90	1990/91
SCHEDULED SERVICES (m miles)						
Greater London Local Bus Services						
- London Buses and Tendered	166	165	165	165	165	165
- Contracted	6	6	6	6	6	6
- Section 3(2) Agreement	3	3	3	3	3	3
- Total	175	174	174	174	174	174
London Buses Out-County Services	4	4	4	4	4	4
London Buses Commercial and Other	2	2	2	2	2	2
Underground Target						
- Run over LRT lines	29.7	30.6	31.3	31.3	31.4	31.9
- Run over BR lines	0.6	0.6	0.6	0.6	0.6	0.6
ONE-PERSON OPERATION (% year average)						
- London Buses	64	72	77	82	87	91
- Underground	21	34	50	63	64	64
ESTIMATED OPERATED MILEAGE (m miles)						
- London Buses and Tendered	164	164	164	164	164	164
- Underground Target	29.7	30.6	31.2	31.3	31.4	31.9
- Docklands Light Rail	-	-	0.6	0.8	0.8	0.8
DEMAND Passenger Miles (m)						
London Buses and Tendered	2610	2600	2600	2610	2630	2630
Underground	3360	3430	3490	3520	3520	3530
Docklands Light Rail	-	-	20	25	25	25
PERFORMANCE INDICATORS						
REVENUE COSTS (excl D&R) (£ cash)						
Per Bus Mile Operated (London Buses and Tendered)						
- £ cash	2.43	2.48	2.56	2.67	2.66	2.76
- % real change	-7.7	-3.7	-1.7	-0.7	-4.	-1.9
Per Train Mile						
- £ cash	10.81	10.92	11.09	11.47	11.76	-
- % real change	-3.3	-4.7	-3.3	-1.5	-2.2	-
MILES OPERATED PER EMPLOYEE						
London Buses*	6260	6560	6690	6830	7130	7320
Underground	1560	1660	1750	1810	1900	2000
MILES OPERATED AS PERCENTAGE OF SCHEDULE						
London Buses	95.2	95.7	95.7	95.7	95.7	95.7
Underground	98	98	98	98	98	98
VEHICLE LOADINGS						
London Buses and Tendered	15.9	15.9	15.9	15.9	15.9	15.8
Underground	113	112	112	112	112	111
AVERAGE WAITING TIMES						
London Buses and Tendered (mins)	6.9	6.8	6.8	6.8	6.8	6.8
Underground (mins)	3.2	3.2	3.2	3.2	3.2	3.2

Excluding non-revenue staff. * Assuming all route tenders won by London Buses.

VI PLAN ASSUMPTIONS AND UNCERTAINTIES

Industrial Action

93. During 1985 LRT has faced industrial action in both bus and rail operations, concerning pay increases and the extension of OPO, respectively. In both instances major disruption of services was averted.
94. It is expected that any short-term total closure of services through industrial action would have a broadly neutral effect on LRT's finances. However, in the event of any losses of net revenue caused by selective disruption LRT would take appropriate action to offset as far as possible these effects and to attempt to ensure that the financial targets detailed in this Plan would still be achieved.

Inflation

95. The Plan assumes an inflation rate of 6% between 1985/6 and 1986/7 and 5% thereafter. These assumptions lie somewhere between the Government's lower figure and most external forecasters' higher figures. Any variation from this level of inflation will directly affect the level of costs. If fares levels are adjusted in line with the variation in inflation then demand and, in real terms, receipts will be unchanged. In this situation all the cash forecasts, including the support requirements, would increase or decrease in line with the change in inflation rate. Hence a 1% pa higher rate of inflation would increase external financing requirements in 1990/91 by some £10m.

Pay Levels

96. The assumption that pay rates can be held below external settlements is critical to the achievement of the financial targets, and may prove a formidable task. Were wages to keep pace with outside earnings, which may be growing in real terms at 1% per annum, then in 1990/91 LRT's deficit would be £40 million higher. An increase in real fares of the order of 6% and reduction in bus services of 3% would be necessary to retain support at the Plan level.

Deregulation

97. The Plan has been framed on the assumption that the legislation which requires fares and service co-ordination and obliges LRT 'to have due regard to transport needs' will continue in force over the life of the Plan. Nevertheless planning must have regard to the government's intention to deregulate within London. LRT has taken a number of initiatives which are consistent with deregulation - action to reduce costs will assist LBL and LUL in facing competition. Bus service tendering is also being expanded and this too can be operated in a regulated or deregulated environment. By contrast some initiatives will be much more difficult, if not impossible. Co-ordination with BR, interchange improvement and the elimination of "wasteful duplication" are all policies which are only likely to be effective in a regulatory environment.

98. Whilst the Transport Bill now before Parliament would abolish all quantity regulations outside London, conditions inside London warrant a different approach. The rail network is much more comprehensive, traffic conditions are considerably worse and travel to Central London is dependent on the efficient use of the entire bus and rail network. If London were deregulated then companies would compete for passengers in a way which would undermine a co-ordinated approach, transferring passengers from rail to bus and adding to London's congestion problems. While fully recognising the benefits of competition in keeping costs down, LRT believes its present policy of bus service tendering maximises the benefits to passengers.

99. Although full deregulation will not initially apply in London, LRT will nevertheless be affected to a degree by the changes which it is intended the 1985 Transport Bill will bring about. LRT will respond to the legalisation of taxi sharing at separate fares by seeing what scope there is for linking taxis to the bus network. In addition, all services requiring financial support from the Shire County Councils will have been tendered by October 1986. Finally, services carrying passengers more than fifteen miles in London will also, when deregulated, be a source of competition to LRT. However the only reform that will have a significant impact on LRT is cross boundary tendering. The requirement for this is incorporated into the Plan forecasts.

ANNEX A. ECONOMIC FORECASTS

FUTURE TRENDS IN DEMAND

Experience over the past year and changes in external factors have led to a fairly radical re-assessment of future market prospects. Increased economic activity, the cessation of population decline in London and high levels of tourism, together with the continuing success of Travelcards, have produced more optimistic forecasts. On bus, no significant change in overall levels of demand is forecast over the next five years. Underground demand is expected to continue to grow over the period of the Plan, but at a declining rate of increase. The figures for each year are;

	<u>86/7</u>	<u>87/8</u>	<u>88/9</u>	<u>89/90</u>	<u>90/91</u>
Underground Demand	+2.0%	+1.5%	+0.7%	+0.2%	+0.2%

Hence by 1990/91 Underground demand will have increased by some 5% compared to current levels.

Although these forecasts should be achieved, assuming modest growth in consumer expenditure and tourism compared to recent years, this is an area of uncertainty which could undermine the overall plan. The following table shows the basis of the overall demand forecasts.

Demand Effects 1985/6 to 1990/91

	<u>Bus</u>	<u>Underground</u>
Consumer Spending (+1% p.a.)	+1.0%	+3.0%
Greater London Area Population (no change)	-	-
Employment (+0.75% p.a.)	+1.5%	+1.0%
Car Ownership (+1½% p.a.)	-6.0%	-2.0%
Tourism (+2% p.a.)	+1.0%	+2.0%
External Factors	-2.5%	+4%
Fares and Service Planning Initiatives	+2.5%	+1%
Total Trend	<u>Nil</u>	<u>+5%</u>

