AGENDA

Meeting	**Budget and Performance Committee**
Date	**Thursday 29 September 2016**
Time	**10.00 am**
Place	**Chamber, City Hall, The Queen's Walk, London, SE1 2AA**

Copies of the reports and any attachments may be found at
www.london.gov.uk/mayor-assembly/london-assembly/budget-performance

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Members of the Committee

Gareth Bacon AM (Chairman)
Len Duvall AM (Deputy Chair)
Sian Berry AM
Leonie Cooper AM
Unmesh Desai AM
Caroline Pidgeon MBE AM
Keith Prince AM

A meeting of the Committee has been called by the Chairman of the Committee to deal with the business listed below.

Mark Roberts, Executive Director of Secretariat
Wednesday 21 September 2016

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Dale Langford, Principal Committee Manager; Telephone: 020 7983 4415; Email: dale.langford@london.gov.uk; Minicom: 020 7983 4458. For media enquiries please contact Ben Walker; Telephone: 020 7983 5769; Email: ben.walker@london.gov.uk. If you have any questions about individual items please contact the author whose details are at the end of the report.

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Certificate Number: FS 80233

Agenda
Budget and Performance Committee
Thursday 29 September 2016

1 Apologies for Absence and Chairman's Announcements

To receive any apologies for absence and any announcements from the Chairman.

2 Declarations of Interests (Pages 1 - 4)

The Committee is recommended to:

(a) Note the list of offices held by Assembly Members, as set out in the table at Agenda Item 2, as disclosable pecuniary interests;

(b) Note the declaration by any Member(s) of any disclosable pecuniary interests in specific items listed on the agenda and the necessary action taken by the Member(s) regarding withdrawal following such declaration(s); and

(c) Note the declaration by any Member(s) of any other interests deemed to be relevant (including any interests arising from gifts and hospitality received which are not at the time of the meeting reflected on the Authority's register of gifts and hospitality, and noting also the advice from the GLA's Monitoring Officer set out at Agenda Item 2) and to note any necessary action taken by the Member(s) following such declaration(s).

3 Minutes (Pages 5 - 50)

The Committee is recommended to confirm the minutes of the meeting of the Budget and Performance Committee held on 14 July 2016 to be signed by the Chairman as a correct record.

The appendices to the minutes set out on pages 9 to 50 are attached for Members and officers only but are available from the following area of the GLA's website:
www.london.gov.uk/mayor-assembly/london-assembly/budget-performance

4 Summary List of Actions (Pages 51 - 60)

Report of the Executive Director of Secretariat
Contact: Dale Langford; dale.langford@london.gov.uk; 020 7983 4415

The Committee is recommended to note the completed and outstanding actions arising from previous meetings of the Committee.

5 Action Taken Under Delegated Authority (Pages 61 - 64)

Report of the Executive Director of Secretariat
Contact: Dale Langford; dale.langford@london.gov.uk; 020 7983 4415

The Committee is recommended to note the action taken by the Chairman under delegated authority, namely to:

(a) Agree the topic, scope and terms of reference for the Committee's meeting on 29 September 2016; and

(b) Write to the Mayor requesting his response to the Committee's March 2016 report on Transport for London's failed re-signalling contract with Bombardier.

6 EU Funding after the EU Exit Vote (Pages 65 - 66)

Report of the Executive Director of Secretariat
Contact: Will King; will.king@london.gov.uk; 020 7983 5596

The Committee is recommended to note the report, put questions to guests on EU funding following the UK's decision to leave the EU to the guests and note the discussion.

7 Transport for London's Financial Challenge (Pages 67 - 118)

Report of the Executive Director of Secretariat
Contact: Dale Langford; dale.langford@london.gov.uk; 020 7983 4415

The Committee is recommended to agree the report on Transport for London's financial challenge, as attached at Appendix 1 to the report.

The appendix to the report set out on pages 71 to 118 is attached for Members and officers only but is available from the following area of the GLA's website: www.london.gov.uk/mayor-assembly/london-assembly/budget-performance

8 Budget and Performance Committee Work Programme (Pages 119 - 126)

Report of the Executive Director of Secretariat
Contact: Will King; will.king@london.gov.uk; 020 7983 5596

The Committee is recommended to:

(a) Agree its work programme for 2016/17, including the proposed topic for the meeting on 18 October 2016;

(b) Delegate authority to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to agree the scope and terms of reference for the Committee's meeting on 18 October 2016;

(c) Note the letter to the Mayor requesting that he publish initial budget submission documents and the templates for efficiencies and savings, adjustments to revenue budgets, adjustments to capital programmes and growth proposals; and

(d) Note the response from the Mayor to the request that he publish initial budget submission documents.

9 Date of Next Meeting

The next meeting of the Committee is scheduled for Tuesday 18 October 2016 at 10.00am in the Chamber.

10 Any Other Business the Chairman Considers Urgent

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GREATERLONDONAUTHORITY LONDONASSEMBLY

Subject: Declarations of Interests	
Report to: Budget and Performance Committee	
Report of: Executive Director of Secretariat	**Date: 29 September 2016**
This report will be considered in public	

1. Summary

1.1 This report sets out details of offices held by Assembly Members for noting as disclosable pecuniary interests and requires additional relevant declarations relating to disclosable pecuniary interests, and gifts and hospitality to be made.

2. Recommendations

2.1 **That the list of offices held by Assembly Members, as set out in the table below, be noted as disclosable pecuniary interests[1];**

2.2 **That the declaration by any Member(s) of any disclosable pecuniary interests in specific items listed on the agenda and the necessary action taken by the Member(s) regarding withdrawal following such declaration(s) be noted; and**

2.3 **That the declaration by any Member(s) of any other interests deemed to be relevant (including any interests arising from gifts and hospitality received which are not at the time of the meeting reflected on the Authority's register of gifts and hospitality, and noting also the advice from the GLA's Monitoring Officer set out at below) and any necessary action taken by the Member(s) following such declaration(s) be noted.**

3. Issues for Consideration

3.1 Relevant offices held by Assembly Members are listed in the table overleaf:

[1] The Monitoring Officer advises that: Paragraph 10 of the Code of Conduct will only preclude a Member from participating in any matter to be considered or being considered at, for example, a meeting of the Assembly, where the Member has a direct Disclosable Pecuniary Interest in that particular matter. The effect of this is that the 'matter to be considered, or being considered' must be about the Member's interest. So, by way of example, if an Assembly Member is also a councillor of London Borough X, that Assembly Member will be precluded from participating in an Assembly meeting where the Assembly is to consider a matter about the Member's role / employment as a councillor of London Borough X; the Member will not be precluded from participating in a meeting where the Assembly is to consider a matter about an activity or decision of London Borough X.

Member	Interest
Tony Arbour AM	Member, LFEPA; Member, LB Richmond
Jennette Arnold OBE AM	Committee of the Regions
Gareth Bacon AM	Member, LFEPA; Member, LB Bexley
Kemi Badenoch AM	
Shaun Bailey AM	
Sian Berry AM	Member, LB Camden
Andrew Boff AM	Congress of Local and Regional Authorities (Council of Europe)
Leonie Cooper AM	Member, LFEPA; Member, LB Wandsworth
Tom Copley AM	
Unmesh Desai AM	Member, LB Newham
Tony Devenish AM	Member, City of Westminster
Andrew Dismore AM	Member, LFEPA
Len Duvall AM	
Florence Eshalomi AM	Member, LFEPA; Member, LB Lambeth
Nicky Gavron AM	
David Kurten AM	Member, LFEPA
Joanne McCartney AM	Deputy Mayor
Steve O'Connell AM	Member, LB Croydon
Caroline Pidgeon MBE AM	
Keith Prince AM	Member, LB Redbridge
Caroline Russell AM	Member, LFEPA; Member, LB Islington
Dr Onkar Sahota AM	
Navin Shah AM	
Fiona Twycross AM	Chair, LFEPA; Chair of the London Local Resilience Forum
Peter Whittle AM	

[Note: LB - London Borough; LFEPA - London Fire and Emergency Planning Authority.
The appointments to LFEPA reflected above take effect as from 17 June 2016.]

3.2 Paragraph 10 of the GLA's Code of Conduct, which reflects the relevant provisions of the Localism Act 2011, provides that:

- where an Assembly Member has a Disclosable Pecuniary Interest in any matter to be considered or being considered or at

  (i) a meeting of the Assembly and any of its committees or sub-committees; or

  (ii) any formal meeting held by the Mayor in connection with the exercise of the Authority's functions

- they must disclose that interest to the meeting (or, if it is a sensitive interest, disclose the fact that they have a sensitive interest to the meeting); and

- must not (i) participate, or participate any further, in any discussion of the matter at the meeting; or (ii) participate in any vote, or further vote, taken on the matter at the meeting

UNLESS

- they have obtained a dispensation from the GLA's Monitoring Officer (in accordance with section 2 of the Procedure for registration and declarations of interests, gifts and hospitality – Appendix 5 to the Code).

3.3 Failure to comply with the above requirements, without reasonable excuse, is a criminal offence; as is knowingly or recklessly providing information about your interests that is false or misleading.

3.4 In addition, the Monitoring Officer has advised Assembly Members to continue to apply the test that was previously applied to help determine whether a pecuniary / prejudicial interest was arising - namely, that Members rely on a reasonable estimation of whether a member of the public, with knowledge of the relevant facts, could, with justification, regard the matter as so significant that it would be likely to prejudice the Member's judgement of the public interest.

3.5 Members should then exercise their judgement as to whether or not, in view of their interests and the interests of others close to them, they should participate in any given discussions and/or decisions business of within and by the GLA. It remains the responsibility of individual Members to make further declarations about their actual or apparent interests at formal meetings noting also that a Member's failure to disclose relevant interest(s) has become a potential criminal offence.

3.6 Members are also required, where considering a matter which relates to or is likely to affect a person from whom they have received a gift or hospitality with an estimated value of at least £25 within the previous three years or from the date of election to the London Assembly, whichever is the later, to disclose the existence and nature of that interest at any meeting of the Authority which they attend at which that business is considered.

3.7 The obligation to declare any gift or hospitality at a meeting is discharged, subject to the proviso set out below, by registering gifts and hospitality received on the Authority's on-line database. The on-line database may be viewed here: http://www.london.gov.uk/mayor-assembly/gifts-and-hospitality.

3.8 If any gift or hospitality received by a Member is not set out on the on-line database at the time of the meeting, and under consideration is a matter which relates to or is likely to affect a person from whom a Member has received a gift or hospitality with an estimated value of at least £25, Members are asked to disclose these at the meeting, either at the declarations of interest agenda item or when the interest becomes apparent.

3.9 It is for Members to decide, in light of the particular circumstances, whether their receipt of a gift or hospitality, could, on a reasonable estimation of a member of the public with knowledge of the relevant facts, with justification, be regarded as so significant that it would be likely to prejudice the Member's judgement of the public interest. Where receipt of a gift or hospitality could be so regarded, the Member must exercise their judgement as to whether or not, they should participate in any given discussions and/or decisions business of within and by the GLA.

4. Legal Implications

4.1 The legal implications are as set out in the body of this report.

5. Financial Implications

5.1 There are no financial implications arising directly from this report.

Local Government (Access to Information) Act 1985	
List of Background Papers: None	
Contact Officer:	Dale Langford, Principal Committee Manager
Telephone:	020 7983 4415
E-mail:	dale.langford@london.gov.uk

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GREATERLONDONAUTHORITY LONDONASSEMBLY

MINUTES

Meeting: Budget and Performance Committee
Date: Thursday 14 July 2016
Time: 2.00 pm
Place: Chamber, City Hall, The Queen's Walk, London, SE1 2AA

Copies of the minutes may be found at:
http://www.london.gov.uk/mayor-assembly/london-assembly/budget-performance

Present:

Gareth Bacon AM (Chairman)
Sian Berry AM
Leonie Cooper AM
Unmesh Desai AM
Len Duvall AM (Deputy Chair)
Caroline Pidgeon MBE AM
Keith Prince AM

1 Apologies for Absence and Chairman's Announcements (Item 1)

1.1 There were no apologies for absence.

2 Declarations of Interests (Item 2)

2.1 The Committee received the report of the Executive Director of Secretariat.

2.2 **Resolved:**

That the list of offices held by Assembly Members, as set out in the table at Agenda Item 2, be noted as disclosable pecuniary interests.

3 Minutes (Item 3)

3.1 **Resolved:**

That the minutes of the meeting held on 28 June 2016 be signed by the Chairman as a correct record.

4 Summary List of Actions (Item 4)

4.1 The Committee received the report of the Executive Director of Secretariat.

4.2 **Resolved:**

That the outstanding actions arising from previous meetings of the Committee be noted.

5 Transport for London's Financial Challenge (Item 5)

5.1 The Committee received the report of the Executive Director of Secretariat as background to putting questions on Transport for London's financial challenge to the following invited guests:

- Nicole Badstuber, Researcher, LSE Cities;
- Stephen Locke, Chair of London TravelWatch; and
- Jonathan Roberts, Transport Planning Adviser.

5.2 A transcript of the discussion is attached as **Appendix 1**.

5.3 **Resolved:**

That the report and discussion be noted.

6 The Mayor's Budget Guidance for 2017-18 (Item 6)

6.1 The Committee received the report of the Executive Director of Secretariat as background to putting questions on the Mayor's Budget Guidance for 2017/18 to the following officers of the Greater London Authority:

- David Bellamy, Chief of Staff;
- Martin Clarke, Executive Director – Resources; and
- David Gallie, Assistant Director – Group Finance.

6.2 A transcript of the discussion is attached as **Appendix 2**.

6.3 **Resolved:**

That the report and discussion be noted.

7 Budget and Performance Committee Work Programme (Item 7)

7.1 The Committee received the report of the Executive Director of Secretariat.

7.2 **Resolved:**

(a) That the work programme for 2016/17 be noted;

(b) That authority be delegated to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to agree the topic, scope and terms of reference for the Committee's meeting on 29 September 2016; and

(c) That authority be delegated to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to write to the Mayor requesting his response to the Committee's March 2016 report on Transport for London's failed re-signalling contract with Bombardier.

8 Date of Next Meeting (Item 8)

8.1 The next meeting of the Committee is scheduled for Thursday 29 September 2016 at 10.00am in the Chamber.

9 Any Other Business the Chairman Considers Urgent (Item 9)

9.1 There were no other items of business.

10 Close of Meeting

10.1 The meeting ended at 4.55pm.

Chairman

Date

Contact Officer: Dale Langford, Principal Committee Manager; Telephone: 020 7983 4415; Email: dale.langford@london.gov.uk; Minicom: 020 7983 4458.

Budget and Performance Committee – 14 July 2016

Transcript of Agenda Item 5 – Transport for London's Financial Challenge

Gareth Bacon AM (Chairman): Item 5, which is the main item of business today, relates to Transport for London's (TfL) financial challenge. I would like to welcome our guests, Stephen Locke, the Chair of London TravelWatch, Nicole Badstuber, who is a researcher from LSE Cities; and Jonathan Roberts, who is a transport planning adviser. Thank you all very much indeed for giving up your time this afternoon. We are looking forward to your contributions immensely.

I am going to start by asking a fairly general and open question and asking each of you to give your thoughts on it. What do you feel TfL's key financial challenges are with the new Mayor taking office?

Jonathan Roberts (Transport Consultant): I see them as four major watersheds to address. The first is having to - and it is already partially signed up to - address the Mayor's fares freeze policies. It has indicated a budget capability for the first two years but, clearly, that leaves a further two years to consider how that can be addressed.

The second is the effect of the revenue grant cap removal, indeed, which is a central Government requirement, and local authorities face not dissimilar pressures from central Government as well.

The third is a slightly later but still very significant effect on capital investment and how they might address it across the surface transport, the bus side, cycling and so forth, but also how the Department for Transport (DfT) and TfL - with their rail hat on - might see things going forward in terms of both the basic Underground/main line relationship and also any potential further rail devolution.

The fourth, perhaps inevitably, is Brexit and what that potentially means for both London and its general finances and its forward forecasts, for which it could have a number of implications, and, secondly, as we have experienced in previous years since the Olympics, a stronger pressure from other regional authorities with their own spending priorities, and potentially finding European funding cuts coming out - the latest *Local Transport Today*, for example, majors on that. There is the Welsh Government and there is Cornwall already talking about how the Government in this country is going to replace possibly missing new grants in the future and, in parentheses, what about London? We need our monies as a priority. There is a fourth whammy there that really has to be understood and addressed, clearly, by all parties down the river at Westminster and Whitehall as well as here at City Hall.

Nicole Badstuber (Researcher, LSE Cities): I would say that the loss of the operational grant is the largest challenge here, mainly because it also sends quite a strong message. There are no other cities, except for Hong Kong and that is a very particular case, where subsidies come through a different means and so there is no subsidy for the operations. If we think about public transport, it is more the means of achieving other social policy objectives. There is quite a strong case to give some public money to do that.

Also, if we think about how most of the tax revenues are centralised here in the UK, unless we devolve powers by which London could raise funds, it seems that that is the largest challenge. Unless we have the powers by which we can replace the subsidisation of operations for TfL, TfL needs to collect a lot of surplus in other areas such as property, which seems to have already been exhausted and ring-fenced for other projects.

I would say that the grant is the main one. Obviously, the fares freeze puts additional pressure on that. If the national Government is not willing to chip in on some of the costs, they would turn to the users and then also some of the business rates, but the users are now also capped.

The challenge really is, if you summarise, dealing with wanting to expand the network, wanting to improve the network and ensuring reliability and maintenance of good service whilst facing a shortfall in the funds to do so.

Stephen Locke (Chair, London TravelWatch): At London TravelWatch, we tend to see this from the other end of the telescope. I agree with the comments that Nicole and Jonathan have made, but we see the challenge as a consumer one as well. Resource pressures were already intense before any additional round of austerity because of London's increasing population, the demand for travel, severe capacity and overcrowding problems and major construction. There are an enormous number of contextual issues there, which are already in place.

The challenge now is to maintain and sharpen the focus on consumer needs at a time when resource pressures are becoming ever more intense. The fact is that there are real risks to bus passengers if route mileages face cuts. There has already been a noticeable shift in the social geography of London in terms of disadvantaged and low-income consumers moving from inner to outer London and needing to travel further. There is a real risk that the tightened environment, whether it is through cuts in spending or raised fares, although there is limited scope for that, will inflict real hardship on many people. No one is against cuts in wastage and unnecessary overheads. On the contrary, the search for those is more urgent than ever, but it does seem particularly important to ensure that the needs of at least the vast majority of - and especially disadvantaged - consumers are properly weighed in the balance.

Gareth Bacon AM (Chairman): I am going to take the final point that Jonathan raised and I will put the question to you, Jonathan, because it is the elephant in the room and so let us get it out of the way straight away: Brexit.

When TfL was in front of us, they told us that they thought that Brexit would have no immediate impact on them at all. From the tone of what you said a moment ago, I take it that you would disagree with that. Is that correct?

Jonathan Roberts (Transport Consultant): In terms of immediate expenditure, it does not have a direct impact; it is more the grant aiding process which is the issue. However, these things have a nature of gathering momentum. Once you start something moving down whichever particular slippery slope you visualise, things can change. This is then a combination of the inevitable political pressures that are already becoming visible about our guaranteed funding - from other points of view, but it applies to London as well - going forward. That is a general issue across the new Chancellor's desk.

Then there is the effect of confidence in London, where trend forecasts are being based on continuing growth. You will be familiar with the London 2050 Infrastructure Plan and some trend planning there. Will this actually be assured going forward in terms of the nature of that and the nature of incomes that you, in effect, are projecting as surpluses if you are TfL? Where does that go in the future? Does it go down? You can have a central view. Is it going up or is it going to lessen? It seems to me as though one is going to be extremely dependent on a very precise analysis, which nobody is in a position to do yet, of where this actually is heading and it is monitoring it almost on a month-by-month or six-month-by-six-month basis. That is my concern. It is going to have to be clearly understood.

Finally, there is the absolute effect in terms of simply the confidence levels: the financial star rating. TfL has a large amount - billions of pounds - out on loans and borrowings from various sources, the European Investment Bank (EIB) not least. Even just a change of a quarter per cent in refinancing some of those loans and bonds could make a significant difference to TfL's bottom line. That will be part of the general view about the status of Britain going forward as an economic entity.

Therefore, yes, TfL has a major challenge. It is, like all of us, starting to wake up to the issues.

Gareth Bacon AM (Chairman): All of the bits and pieces that the three of you have put down as answers to what was an open question we have follow-up questions on and so I am not going to tread on colleagues' toes by exploring those now.

Nicole Badstuber (Researcher, LSE Cities): Can I just add to Jonathan's [Roberts] point about confidence? That will also affect the deals that can be made in property development. If we look at Earls Court, already Brexit has affected the forecasts on how much money will be made there. There was reporting on that. The confidence will make quite a big impact.

I do not know if you had questions specifically but I had a few more comments on the effect of Brexit, but I am happy to wait for that.

Gareth Bacon AM (Chairman): Go ahead.

Nicole Badstuber (Researcher, LSE Cities): Something that TfL did not seem to mention and did not seem to quite have captured is the effect on staffing levels. Quite a lot of TfL staff are European Union (EU) citizens. If we look a few years into the future, if they all require visas and sponsorship, it will be quite an additional cost. It will also mean that they will not be able to get the best staff for certain projects or get staff who have worked abroad on other EU projects or in other European cities.

Also, looking at research, a lot of the universities get a huge chunk of their resources for research from the EU, in particular Horizon 2020. There are a few projects specifically looking at TfL's trajectory and how it has evolved and a lot of projects to do with TfL. If we do not make the concessions to join that funding stream for research, then a lot of the research that is currently being produced by universities here in London and elsewhere will not be available for TfL to benefit from.

Gareth Bacon AM (Chairman): When they were here last time and we put questions to them, they were fairly confident that the EIB arrangements would stay unchanged and were also quite confident that they would still be able to hire the appropriate staff. The thing about visas and things is something that we do not know yet and that will be determined. All of these things are genuine concerns, though.

Keith Prince AM: Clearly, there are a number of challenges for TfL around the capital investment programme and especially with other pressures. Do you think that TfL can deliver the Mayor's manifesto commitments while continuing to invest in the transport network?

Jonathan Roberts (Transport Consultant): If I can reply first on that, the fact is that at present, in broad terms, TfL is spending north of £3 billion annually - about £3.5 billion, I think - and quite a lot of that is to do with big rail projects and, in a sense, Crossrail 1 as the spend tapers off on that. Providing you can be clear about things like continuing with the Community Infrastructure Levy (CIL) and potential additional business rates from that direction, then you can have a degree of confidence about replacing one scheme with another.

By definition, Crossrail 2 is the next very big one in TfL's sights, but that is not until the early 2020s, somewhere downstream.

However, there is a huge issue to do with pressures, as Stephen [Locke] has indicated, on things like quality, where there is a very large spend, in the broadest sense. "Quality" includes things like accessibility, air quality and what you do to mitigate those issues. Inevitably, when you have a large across-the-board spending programme, you will have to review - and I am sure that they have said this - every single programme both at the margin, and in some respects probably much more centrally, as to whether you just axe it by 50% or not.

I lived through the 1960s and 1970s budgetary cuts that were forced on Britain and on spending authorities like the then Greater London Council (GLC) and London Transport. We had major capital spending constraints in the late 1970s and the Fleet line [now Jubilee line] did not get extended for reasons like that. The reality is that those will come around again as pressures, and people have to be absolutely clear on the fundamentals and the right ingredients for London to maintain the sense of a world city, the sense of quality, the sense of capability and margins to absorb expansion. Things like Brexit will not stop the population growing, whether it is internal migration or external migration, frankly.

Network Rail forecast in its 2013 long-term market study for the London and South East area that, although it had various levels of optimism or pessimism about what the British economy would look like by 2043 and had more or less bracketed things like a Brexit impact, even though this was in 2013, in fact it still was expecting that under all circumstances there would be a continued massive increase in housing requirements per annum through to the 2040s. That in turn has a knock-on effect on transport demand and the London economy.

Back to the point about trends, people are going to have to rapidly employ a lot of statisticians who think with wet blankets over their heads. It will not guarantee that all capital investment is achievable. It will have to be prioritisation.

Stephen Locke (Chair, London TravelWatch): If I can just add to that, those statisticians will also have to be very alert because they will have to pick up a whole lot of data trends that are turning and shifting all over the place. Exactly how people respond to major changes in things like the fare structure is quite difficult to tell. We know also that if there is a decline in quality, people will vote with their feet, both in the short term in terms of using substitutes and other forms of transport and in the long term in terms of adapting modes of travel to work and where they choose to work and where they choose to live. There has certainly been some evidence recently that the decline in bus speeds and bus reliability has caused quite a significant fall in the number of people using buses in inner London. That may just be a portent of things to come if we see significant declines in reliability, quality, availability and the like across the board.

Keith Prince AM: Just quickly picking up on that bus question, this is not a question but it is true that on certain routes you can walk quicker than the bus travels.

Stephen Locke (Chair, London TravelWatch): Absolutely, yes.

Keith Prince AM: Revenue does make a contribution to the capital programme and, as we know, the Mayor has chosen to reduce the amount of revenue that we are likely to get going forward. You have mentioned that we will have to review which projects are going forward. Which would you say are the projects that are most at risk due to the cutbacks of, maybe, at least a third going forward?

Jonathan Roberts (Transport Consultant): There are ones that are in general nice to have rather than must-dos. For example, I was at a meeting this morning to do with the London Borough of Lewisham. Think of the Bakerloo line extension; how many times in the last 40 years has there been a scheme for a Bakerloo line extension? Caroline [Pidgeon MBE AM] knows it perfectly well. The reality is that it has always been nice to have but never on an "it must be done next week or next year" basis. That was already put as an "open in circa 2030" objective just as far as Lewisham let alone any further, which has some other complications. That is an immediate example.

There are some rail schemes that just simply have to happen; otherwise, London and those parts of London will stop working. Crossrail 2 is an example. There will be others. As one of the authors of the *Turning South London Orange* report for the Centre for London earlier this year, rail devolution and the delivery of better services, for example, in south London is going to be an absolutely critical thing for a number of fairly obvious reasons, let alone the reality of capacity.

Personally, I am most worried of all about the surface transport side. There is a need for continuing revenue support, whether that comes from operating profits - that is the wrong word - or operating surpluses on the Underground for help funding the bus services or whether it is the quality of the roads. London can be proud of what has been achieved by TfL in the last few years in terms of things like road surfaces, literally the surfacing of the roads. If you go somewhere else, it is "pothole-land". Those sorts of issues are going to be critical. They are dependent on the mix of both capital and revenue support.

I would openly wonder whether at some point in the dialogue that will need to happen between the Mayor and others more broadly with central Government there might need to be thoughts about things like stamp duty and other things that were in the London Finance Commission report of the other year, which you will be familiar with.

Also, London may need to start considering things like local sales taxes. I do not see why not, frankly. In a sense, it is being asked already that London makes a profit, frankly, on its public transport and I do not think anywhere else really achieves that much in Western Europe, let alone anywhere else. That, if you like, is a sales tax. Why can one not look at things like a local sales tax on, say, petrol in the London area? In the United States (US), that is precisely how a load of transit schemes get funded. It might also link directly with issues like air quality if people are incentivised to think really hard about putting that extra gallon of petrol in the car or using the car slightly less. I do not see why we should not explore it. If we are in a radical situation nationally, then people need to respond with possible radical things.

Stephen Locke (Chair, London TravelWatch): Can I just add to that in terms of capital spending? We are well aware of what sorts of things are or might be in the pipeline. It does seem to me that the current environment is going to sharpen the need for very clear and very rigorously applied priorities to spending, so that it really is delivered where it gets the best possible benefit to the largest number of people. That is an easy thing to say, but it is more difficult to do in practice. It means being very firm about things that are nice to have or, still worse, vanity projects and focusing really tightly on the greatest good for the greatest number, if you like, especially with the needs of disadvantaged consumers who have relatively few choices.

Gareth Bacon AM (Chairman): What nice-to-have vanity projects do you believe TfL has in its business plan at the moment?

Stephen Locke (Chair, London TravelWatch): I am not an expert in the full range of things, but an example of something that had been nice to have in the past was the Routemaster bus. That was very expensive and not something that in the current environment would have commanded a priority.

Gareth Bacon AM (Chairman): Thoughts on that? Agreement? The Mayor and TfL have said in public that they are very confident that the estimate for the fares freeze, which they have now put at £640 million, they can achieve through efficiencies and not through anything that knocks on to the investment programme. Do you agree with that?

Jonathan Roberts (Transport Consultant): It is two-thirds of £1 billion, in round numbers. That, I understand, is the cumulative number and so it grows year-on-year as the Retail Prices Index (RPI) changes, as staff costs change and so forth.

Gareth Bacon AM (Chairman): Yes, it is over the four years.

Jonathan Roberts (Transport Consultant): In a sense, you need to be very clear that that is achievable and that, more so, you do not necessarily suddenly change the world at the end of four years. You will have to plan ahead beyond that period or at least somebody has to be thinking through the consequences. You do not just draw a graph and then it changes like that or at least we did not until the 1982 Fares Fair[1] policy and the consequences there --

Stephen Locke (Chair, London TravelWatch): Yes, some of us remember that, too.

Jonathan Roberts (Transport Consultant): I still remember. The reality is that it is a continuum. I was looking when preparing for this yesterday at some of the London Transport situations. I just happened to have in my library the 1983 London Transport reports. I have them all since 1933, actually, but I will not bore you with those. The reality is that here you had a situation where, by 1983, London Transport was hugely dependent on about 40% to 50% grant funding in one form or another as very largely in most cases revenue support because of the nature of the local policies with County Hall in those days. How do you change from that to London Regional Transport and then a much more efficient mandate told to London Regional Transport to go and do and deliver? Actually, the organisation was capable of doing it. There were nasty consequences along the way, though, in terms of changes in priorities and changes in spending and not everybody was comfortable with that. However, I do trust that TfL will be able to respond just in the same way as we found that 30-plus years ago.

What I am concerned about is, however, where we achieve changes at the margin. An interesting one - and I know that this is being considered here and elsewhere - is a greater trading priority. There is all sorts of material in this [1983 report] and other reports about London Transport trying to trade more profitably and do more business in a commercial world outside to draw in more resources. I will just read one paragraph, if I may from here, only a short one, because this is one of these things. London Transport International Services Ltd, ie a consultancy --

Gareth Bacon AM (Chairman): That sounds familiar.

Jonathan Roberts (Transport Consultant):

> *"1983 was another busy year with major projects undertaken all over the world. Gross income for the year amounted to £1.8 million but, despite this level of activity, London Transport International made a loss in 1983 for the first time in its history."*

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[1] A GLC transport fares policy that was ruled to be illegal

This and other means are not a guaranteed pot of gold at the rainbow's end. Having looked at all of these in the last 24 hours, from when it started on 24 August 1976 to when it was wound up on 31 March 1992, it made a net profit cumulatively for the whole period of just over £1.1 million. It was broadly profitable up to 1982 and in the years after that it had swings and roundabouts.

For every item of spend that TfL is looking at, and it has to look at these, it is right that they do and the efficiency point is well taken. We cannot assume anywhere around this table that it is always going to guarantee a strong new revenue stream. The world is not like that. People are also, therefore, going to have to make strong judgements on the commercial worth of doing these things.

That is an example that did not, at the end of the day, make a vast amount of money. It was, I am sure, beneficial to some staff in seeing other experiences elsewhere and bringing those skills and knowledge back from abroad, but it was not something that made a fundamental difference to the bottom line. At the end, the 1991/92 annual report says, "We have decided to wind this up because we need to concentrate on our core business". There we are. Those are the sorts of pressures that are going to have to be judged over the next few months.

Caroline Pidgeon MBE AM: You were talking about "nice to have" schemes and must-do schemes but, actually, given the growth in housing that is needed in London, most of them are must-do schemes. The Bakerloo line and the tram extension into Merton and Sutton and all of these are the only way we are going to then be able to build the homes and for the Mayor to meet those targets. How does that all stack up if virtually every scheme is a must-have?

Jonathan Roberts (Transport Consultant): I would say that amongst the critical schemes are those seedcorn ones such as the TfL Growth Fund where one is trying to ally significant changes to transport quality and transport supply to support population growth factors. That is very important.

On the bus side, I would argue that the buses are now getting too slow. How you suddenly create the relevant prioritisation in road space - because one is not building lots more road space and it is in some ways being allocated more to cyclists - is going to be critical not least because the journey times and the use of bus staff resources had to be improved. It is a no-brainer in principle. They are going to need to be able to move more efficiently on the main road system through the major bottlenecks more than now simply because, otherwise, we will be seeing buses standing in a queue and that is no good. I went past, as it happens, the old County Hall earlier today and there was a queue of buses in the Waterloo area just not getting through major roadworks. There is an example of prioritising something that represents an underlining of maintenance and improvement of quality and making sure that the efficient operation of services is still given a priority.

Keith Prince AM: One of the advantages, of course, of the much-loved new Routemaster is that you can hop on and off it as you are going along. Clearly, at the moment, if you are on a bus and it is stuck in a traffic jam, unless the bus driver wants to break the rules and let you off, you are stuck and you will miss your interconnection. That is the advantage of the Routemaster, which of course is now being destroyed by the Mayor's £11 million cut to the conductors.

Jonathan Roberts (Transport Consultant): As I understand it, it is only six routes which have a customer service assistant. It is not all of them.

Stephen Locke (Chair, London TravelWatch): Could I just pick up on the bus priority point. It does seem to me that a major investment in increasing bus priority is one of the very few things that are possible in the current environment that would both improve services for a lot of customers and save costs. This needs to be considered very seriously indeed and on a major scale. There is, after all, a huge cost problem for TfL in having buses sitting in queued-up traffic, just as there is a loss for passengers spending much more time or having to find other means of travelling. We think that there is really some scope in investing much more widely in bus priority, even if that has some disadvantages for other road users, because the numbers concerned are so enormous and the potential benefits are so large.

Gareth Bacon AM (Chairman): That was interesting.

Caroline Pidgeon MBE AM: In terms of buses, it is an easy way in terms of saving revenue if you can just gradually slice a few buses off each route per hour if you need to. However, it was interesting yesterday when Valerie Shawcross [Deputy Mayor for Transport] before the Transport Committee announced that they are going to be doing a big review of buses, partly linked to Oxford Street, looking at the routes and basically putting a lot more buses into - I am trying to think of what phrase she used - middle and outer London rather than into the centre. Particularly the Hopper ticket - or the "one-hour bus ticket", as I like to call it - enables that to happen.

Can you see that there are huge advantages to that but do you think that there are also ways to save money by reshaping the whole bus network?

Stephen Locke (Chair, London TravelWatch): It could do. I am not an expert on TfL's cost structures. The fact is that most customers do not pay to be on a bus for a long time. They pay to get from A to B. The quicker they can get from A to B the happier they will be and the lower costs there will be for TfL as a result. I am not quite sure how that meshes in with TfL's plans in terms of reconfiguring the route network, but I can see that there are some win-win solutions in there, at least for the vast majority of people concerned.

Nicole Badstuber (Researcher, LSE Cities): Having reliable, frequent bus services could also open up some areas in London that may currently not have very good transport accessibility, which may reduce the need for rail investment schemes and also use up those areas where it is not really feasible to have rail investment schemes. Yes, we should really consider prioritising buses more. It is a quick-win solution to improving accessibility and reliability on key routes.

The bus Hopper ticket, as you said, does enable a whole new side to that and new scope for considering opening up accessibility to, maybe, lower-income groups who, through having a bus Hopper ticket, can now travel further. However, we will need the willingness to prioritise buses as road users and there are many road users demanding space on London's roads and so that, I guess, is quite a political stand to make.

Caroline Pidgeon MBE AM: Thank you.

Sian Berry AM: I just wanted to go back to something that Stephen [Locke] said earlier on when we were asking about the types of projects that might be at risk and which should be prioritised. We have covered some of that in buses. The point I wanted to make and the question I wanted to ask was about projects like the Bakerloo line extension or the Sutton tram extension. They are binary. You go or you do not and you make the whole project or you do not, whereas, with buses, you can invest in them more incrementally. Conversely, things like that can be taken away and cut incrementally as well and potentially are at risk from a salami-slice budget process.

I noticed that the previous Mayor had increased some of the capital spending, including the station accessibility fund, which he doubled in the last part of his last term. It is things like station accessibility and quality improvements that possibly might be at risk. I just wondered whether, Stephen, you had a view on that?

Stephen Locke (Chair, London TravelWatch): It is very difficult, isn't it? Quality is not necessarily just nice to have. It is actually something that has real effects on people's lives. It makes people feel safer when they are using stations, for example. It makes it easier for people who have poor mobility or baby buggies or large amounts of luggage - or whatever the story might be - to get around. Therefore, you cannot say that it is quite as simple as the hard engineering types of things with lots of wheels on tracks are worth paying for and those that involve improving the environment are not. What I am saying is that the need is to be very rigorous about what exactly those benefits are and try to identify which people will be benefited and, indeed, how their behaviour and their lives might change as a result. TfL does have a lot of data and knows very well what people think about things like station environments. It also knows to what extent poor environments will put people off travelling.

On the accessibility fund, we would like to see that developed and expanded as much as possible. In the current circumstances, that is going to be difficult, but we should not underestimate the extent to which the improvements in accessibility that have already been made in a number of places have brought quite serious benefits; nor should we underestimate the extent to which accessibility is something you need both when you get on a mode of transport and when you get off it. It is no good just investing in, for example, one station on the line. You have to be consistent and you have to make the network function properly.

All of those are benefits. Some of them are easier to quantify than others, but they do all need to be included in weighing things up.

In terms of the very big projects, extensions to new train lines and Underground lines and the like, those are clearly either/or, are very expensive and are very long-term. Again, just because something is long-term, it does not mean that it should necessarily be disqualified because there are major areas of capacity shortage around. I do not think that anyone seriously, even if they wound back the clock, would suggest that Crossrail 1 should not have been built because it was so obviously a major need, even though it was going to take a long time to realise the results. We should not discount the possibility that there are other similar projects in other parts of London.

Jonathan Roberts (Transport Consultant): I would add briefly to what Stephen has said. Back to the rail devolution and *Turning South London Orange* and what may happen in sequence, at this stage it is seen as Southeastern being the first priority when that is refranchised around 2018 for the inner services, then maybe South West Trains as a variation on the new franchise, and finally Southern unless that is brought forward and the DfT has choices there. TfL I know has done an indicative scale of what it is going to cost to take the railway service, reinvest in it, improve it and finally get a new suite of trains that are more efficient and easier for people to get on and off.

The reality is that the railways are already fairly asset-rich. They may not be perfect, far from it, but they are fairly asset-rich. There are still significant numbers of staff out there. It is a question of how those can be turned to much better advantage as, if you like, the TfL mantra. West Anglia had its teething difficulties and that was to do with the quality of the trains, which were being run down by the previous national rail operator, but it is sort of all right now. The staffing quality, the cleanliness and the belief in the service becoming better are not actually very expensive changes.

In terms of leasing trains - people apparently do not buy them anymore; they lease them off a train salesman, as it were, through a bank - there is no reason in that sense why that costs new capital. If anything, at the moment the train leasing market is fairly benevolent in terms of costs. Therefore, in the time between TfL taking over West Anglia last year and the new trains running by 2017/18, which is a two-and-a-half or three-year timespan, there is no reason why those things have to cost more on either the capital or the revenue budgets.

I do, therefore, believe that there can still be very significant changes and improvements in service quality around what are the inner suburban services where currently TfL is not allowed by the Government to have that input and that level of control and quality outputs. There are still some significant positives out there to be achieved.

Whether that in parallel will then lead to somebody saying, "If you are improving the Southeastern train service, you need slightly fewer buses on parallel roads", who knows? With Crossrail 1, it will be very interesting to see whether there is a general restructuring of bus operations either in central London or on the relevant western and southeastern suburban corridors. Certainly I can recall the Victoria line opening in stages from September 1968 to March 1969 when it finally got through to Victoria. Bus services were changed around it and became in some respects more of a feeder service and the core trunk route became the railway. That happened with the W buses[2] in Finsbury Park and Walthamstow and so on. It can happen and there are still, therefore, positives to be found in the process.

Nicole Badstuber (Researcher, LSE Cities): I was going to add to your question earlier, Caroline [Pidgeon MBE AM] about housing and how some of the rail projects are considered to be must-haves for that. What we need to look at is better ways of doing land-value capture or property-increase capture. I know that Crossrail 2 is trying to explore retaining some of the property taxes there through stamp duty with a deal with the national Government. If we see transport as a vehicle to increasing the values and if we think we need this and we need to unlock the housing, then we really need to actively explore how that can be done or look at integrating budgets. For instance, I was looking at active transport work. Instead of just getting money from the DfT, maybe TfL would be getting some money from the Department of Health or the Department for Communities and Local Government. Looking at our funding streams is a way that that could be realised if those narratives could be put in place and if the right people are lined up to sign things off.

Gareth Bacon AM (Chairman): The next area we are going to look at is the wider effect on passengers and the economy.

Unmesh Desai AM: In terms of non-TfL fares, how likely is it that the Government will agree to fund a fares freeze and, if this does not happen, what are the implications for passengers?

Nicole Badstuber (Researcher, LSE Cities): I would say that it is quite unlikely that it would fund a fares freeze. I am basing this on its incremental reductions in the budget and then its dismissal of the operational grant. It would be quite unusual if it now decided to fund that fares freeze.

Gareth Bacon AM (Chairman): Just for clarity, it is not the fares freeze on the TfL network; it is the fares freeze on the main line rail and the Oyster cap.

Nicole Badstuber (Researcher, LSE Cities): Exactly, yes.

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[2] Bus routes with a W-prefix in that area of London

Stephen Locke (Chair, London TravelWatch): I endorse that view. Our understanding is that the chances are pretty much nil that the Government will fund a fares freeze for non-TfL fares. The Government already has a policy in this area and it does not include a freeze.

Unfortunately, what it means is that the National Rail-controlled services in the London area, particularly those in south London, will continue to rise and to contrast quite sharply with TfL fares, which means that some of the anomalies and strange features that we have in our fares system will be accentuated. It also increases the risk of a cliff-face at the edge of Greater London where we will have people paying very high fares from towns just beyond the London boundary and where there will be an increasing tendency to engage in what is known as "rail-heading" when people drive their cars across the boundary into a "safe zone" inside the Greater London Authority (GLA) area, park in local areas and take cheaper trains into central London. It will have that undesirable effect as well.

I am afraid that the chances of avoiding that seem absolutely tiny, particularly given the wider concerns about austerity and the likely strains on the DfT's budget.

Jonathan Roberts (Transport Consultant): Yes, the DfT is itself under considerable financial pressures. I would imagine that it is now worrying about the viability of some of the rail franchises that were let only very recently in terms of the forward economic forecasts. Even if the DfT is, if you like, taking the revenue risk - as it is doing so currently on Thameslink and so forth - it will find a difficulty in making sure that its relationship with the Treasury and its internal finances are on a stable basis.

It has certainly been looking for bidders for the new rerun of rail franchises to be much tougher in terms of things like driver-only operation where it does not exist and that is part of the reason for the problems with Southern, if one reads between the headlines. It is certainly seeking more efficient train operations. It is, above all, still sticking to the policy of ensuring that the passenger pays a reasonable market price for the services. I do not know precisely where you would position that. For some services, like South West Trains, the franchise as a whole is contributing a large quantity of net profits from passengers and so people from, say, Kingston are actually - it is a sales tax again at that point - contributing to the wellbeing and funding of services that are making a loss, which may be partly in London but probably also elsewhere around the country.

Those pressures will not ease up. They will get harder. I do not see the DfT giving ground on that. If the Mayor and TfL want, as they explicitly do and for good reasons, a greater say in the rest of the inner suburban services around the London area, there is going to have to be a very pragmatic set of horse-trading that is going to happen around those negotiation tables. Fares are going to be one area where I believe that it will have to be at the DfT's specification about the net impact on DfT finances of changing those franchises. It will not necessarily be an individual station-by-station thing or re-zoning or whatever, but it will have to be a situation where there is no revenue downside for the DfT.

Nicole Badstuber (Researcher, LSE Cities): It is important to mention also that if TfL does take over some of these routes, though, it will have some agreement with the DfT where TfL will possibly have to be contributing to the DfT for running these services because it is expected that these routes are making a profit and they are cross-subsidising some of the routes that are not making a profit. There will not be an easy solution where TfL can just take up the routes and not be making those contributions.

Unmesh Desai AM: Forgetting the ifs and buts, in terms of the fares freeze as it stands right now, how do you see it specifically affecting passenger demand and travel patterns? We touched on some points earlier.

Jonathan Roberts (Transport Consultant): I tend to believe that the model that is called "generalised cost" is a reasonably good indicator. That is the combination of the fares plus the journey times. If you like, rolling it up, what is the value of your time and so forth?

In London, quite often you do not have much choice. The nature of the animal is that the railway in that sense is fairly efficient for your journey time, even if it is not very pleasant in the conditions you experience. The fare you pay plus the value of your time going to and from work particularly is put up with - that would probably be the kindest way of describing it - in that you do it.

In the case of optional travel and in the case of, as Stephen [Locke] has mentioned, buses, the generalised cost is potentially heading the wrong way, not necessarily because of the fares topic but because of the journey times being slower and slower and that is a real cost to people. Therefore, I do believe in generalised cost in that sense.

Going forward, as I have indicated, I see scope for significant further inner suburban rail improvements where TfL can assist matters. To that extent, it may not be critical to the individual users or *en masse* if the fares, unfortunately, have to continue being responsive to the DfT-set policies providing you can maintain and improve the quality and make sure that passenger journey times are not increased but are improved. There is the way forward on the rail side.

On the bus side, it goes back to the point that I think we have all made. There really has to be serious input to improve the quality and not least the journey times.

Nicole Badstuber (Researcher, LSE Cities): Generalised costs, by the way, also includes a measure by which you take into consideration the environment that you are travelling in and there are different factors that are involved: whether it is crowded or uncrowded, whether you are standing and waiting or actually travelling.

Unmesh Desai AM: Talking specifically about the bus Hopper ticket, how do you see that impinging on the demand for bus services?

Nicole Badstuber (Researcher, LSE Cities): It will increase demand for bus services. Cost-wise, it is estimated to be just under £50 million, which is quite small in comparison to the general revenue. It is just over 1% of the revenue. Yes, it will increase use of the network, as it does for, for instance, someone who has a season ticket versus someone who pays for every journey. There are opportunities that having a bus ticket does open up; for instance, rationalising the bus routes along Oxford Street and elsewhere within London or those other centres.

Stephen Locke (Chair, London TravelWatch): I agree with that. It should increase demand not least because it is something new and is something that will be quite heavily marketed and has entered the public domain as a major innovation. There will also be some change in the nature of demand because people may take journeys that are quicker on two buses than on one rather sinuous bus route or they may choose to change buses at a different point in the route in order to take advantage of the second leg of the journey being within an hour.

There will be some changes. It is impossible to forecast in detail. It is very important that at the point the ticket is introduced as much learning is in place to ensure that we know what that means for bus demand and how the system needs to respond. Similarly, when we move from the two-journey Hopper ticket to a multi-journey one, there will be some learnings that will need to be applied. Overall, it is bound to increase demand because it is foreseen as a good thing.

Nicole Badstuber (Researcher, LSE Cities): It may also require some investment in the interchanges for bus routes and allowing those interchanges to happen more easily.

Unmesh Desai AM: Finally, TfL at our last meeting told us that they had not tried to quantify the impact of the Mayor's commitments on London's economy. How do you think the fares freeze will impact on London's economy as a whole? General trends?

Jonathan Roberts (Transport Consultant): In gross spend, it is going to be a transfer payment. A true economist would say, "So what?" The reality is that it will slightly assist the pound in the pocket for people using public transport, which no doubt will increase their willingness to use public transport. That is fine.

The issue is are there any consequent significant changes in demand? If so, what are the services or routes or types of services that are going to be under greater pressure as a consequence? That could have a negative impact on those routes if suddenly more people start waiting for specific services.

I take Stephen's point about the bus interchanges and the bus Hopper ticket; it will be very interesting to see whether people start changing between bus routes at different locations, or more often, and how more readily - or not readily - people can then use bus services as a consequence. I had to go via Elephant and Castle today. I got off by the Bakerloo line station and went around the corner and took a bus up towards London Bridge. Those sorts of practical interchange locations probably need to be looked at very carefully as a reality. What is the supply of bus services going to be like?

In terms of rail travel, over the years since the early 1950s there has been a radical change in how people commute across the central London cordon. In the last year of trams, 1952, there were over 250,000 people commuting across the central London cordon by bus, trolleybus or tram - the figures are fairly fresh in my mind - and the proportion was in the order of about 600,000 for both Tube and rail. We now have a situation where the proportion of people using buses across that central London cordon is lower, I believe, than 80,000 in the morning peak three hours from 7.00am until 10.00am, and the rail number has gone up. This has been helped by Oyster pay-as-you-go and the Travelcard, which finally came in with zonal fares. That has led to a greater short-distance loading on the rail services when comparing those decades then and now.

What will happen with the bus Hopper fare is yet to be seen. It might have some benefits in terms of encouraging some short-distance transfer away from rail journeys. Some rail journeys are literally going one or two stops, changing and going one or two stops. Will the bus be a more effective network? Not necessarily unless the journey times are improved, but it could do and it might bring that balance back to the rail being more used for slightly longer journeys and the buses being more used for slightly shorter journeys. That remains to be seen, but certainly the history is a trend in declining bus use even though one might think that it could be very efficient in getting people across from close-by inner suburbs into the centre.

Sian Berry AM: I would like to ask a few more questions about demand and the effects of the fares freeze and other changes that we might see. I find it really hard to talk about demand for one mode at a time and not think about things in an integrated way because that really does matter.

Not to go back as far as the 1950s, Jonathan, but to go back to the 1980s and the introduction of the Travelcard, the previous attempt at introducing dramatic fare cuts did lead to an enormous increase in demand for buses particularly and a detectable decrease in traffic. In the 2000s we introduced the Oyster card and the

2000s were also characterised by consistent increases in bus services. I lived through that decade and almost every week another one of my buses went 24 hours, it seemed. There were lots more increases in the service. That did lead to a reduction in traffic in London, which is now, worryingly, slightly reversing.

There are a number of things that seem to be behind that which we could combat, potentially, with a reduction in fares. My question is whether you think that might work. If we get new passengers on buses and trains, will they come out of cars, do you think? Is a fares freeze or a fares reduction something you could do to combat the slight competition that there is from Uber cars? If you have four people in the car, you are definitely below the level of public transport costs now. Do you think it might be a way of clearing some traffic off the roads and also creating more space, more reliable bus journeys and getting back into a virtuous circle again? If so, is a fares freeze enough to do that?

Jonathan Roberts (Transport Consultant): The effect of having an integrated Travelcard in the 1983 to 1989 period – when Capital Card, the National Rail version, was merged in 1989 with Travelcard, fares got closer - was that in that period the number of people who more readily changed between the Tube and rail and by extension between bus, Tube and rail went up by about 10% to 15%. I have some figures in a table but I do not have them here.

Oyster and pay-as-you-go had a similar effect and, indeed, it is most evident from the London Underground numbers from 2005 onwards. Up to 2005 from about 2000, they were going up and down with the economy but were roughly fluctuating around a fixed number of passenger journeys on the Tube. There was then a radical change and the graph just kept on going upwards from about 2005 onwards. The economy had had the recession in 2007 and 2008 and so on, but the nature of the demand is that that has grown by about 25% at least from the baseline and consistently so. It is total extra journeys being made because the average number of journeys per station per year has been remarkably constant at about 315 passenger journeys per person per year on the Underground. It is the absolute total number of people travelling that has gone up, which is quite interesting.

What happens with a fares freeze? It should, back to the generalised cost, stimulate more travel. It is hard to believe that it would not, particularly on a rail-based service where journey times are fairly constant. You have reduced the price of travel and the journey times are pretty constant. To the extent that you can still improve service quality, that is another positive and so you would expect more people.

I have to say that I find it more difficult to see how the bus achieves that radical change, which one might want for capacity reasons, unless and until effectively the road delay factors are reduced. To the extent that people change more between buses, it may well be levelling out. Some people will benefit and others will not. However, it is the quality element that is going to make the biggest difference in terms of the effectiveness of any fares freeze on the bus side. That in turn means that in terms of expenditure priority going forward, if you are going to do a fares freeze, then you do not just do a fares freeze. You have to improve the quality on the roads as well. Otherwise, it may well just not achieve all that the Mayor and his team want.

Nicole Badstuber (Researcher, LSE Cities): I emphasise that it is really a combination of improving the reliability of the services and the connectivity along bus routes. As well as the fares freeze, then if you did want to reduce congestion on the roads, you would also have to reduce the attractiveness of private cars or private hire vehicles, which you could do through reducing parking. If you give away some of the parking spaces to loading bays, it may help to tackle the rise of e-commerce vehicles trying to use the roads and slowing down bus lanes because they are often parked in bus lanes. You really need a combined approach. One measure on its own can help.

Stephen Locke (Chair, London TravelWatch): I would endorse what Nicole has just said. It is a combination of stick-and-carrot if you want to move people out of their cars and into buses and other forms of public transport.

Jonathan [Roberts] is absolutely right, though, that simply freezing fares on its own will not achieve that much, especially where you are seeing quite serious declines in bus use in inner London because of slow speeds and poor reliability. Indeed, that decline has happened at a time when fares have not been rising particularly and so that is not really a response to major increases in the cost; it is a response to huge decreases in the convenience and increases in the amount of time spent to get from A to B. The concept of generalised cost is very helpful as something that wraps in the journey time, the fares and the qualitative environment.

Gareth Bacon AM (Chairman): What do you think the objective of the fares freeze is?

Nicole Badstuber (Researcher, LSE Cities): According to the manifesto, it is supposed to help those people who are struggling to pay for transport as well as feed their children. It is intended to target people who are struggling; affordability, basically.

Personally, there were other measures that could have been introduced that would have more effectively targeted that. You could have had concessionary fares for low-income groups and had that staggered so that it was not cut off. That would have more effectively targeted those in most need of assistance with their travel costs with probably a lower price tag than the £640 million we have today.

Stephen Locke (Chair, London TravelWatch): It will have some benefits for lower-income consumers. There is no doubt about it because even small amounts of money per day can mount up to much larger amounts per week or per month.

What would be useful, though, would be to monitor very closely the impact that the fares freeze has over time, to see to what extent it has benefited particular groups and what it has done to travel patterns and to use that information then to influence future fares strategy and thinking about this whole area. At the moment, it is a little bit of an unknown.

Gareth Bacon AM (Chairman): It is very early, isn't it? That is a perfectly fair comment.

Keith Prince AM: This is really aimed at Stephen. The Mayor's partial fares freeze: how fair do you think that is? It does mean that Londoners in the south will not benefit anywhere near as much as us lucky people in the north, doesn't it?

Stephen Locke (Chair, London TravelWatch): There are some people in the north who will lose out as well because there are many parts of northeast and northwest London where people depend on surface rail as well.

In a wider sense, no, it is not fair, but lots of things in this world are not fair because they are not applied equally to all sectors of the population. That does not mean to say that it is a bad thing for those who directly benefit from it. As I made clear in my earlier comments, it will mean that fares will be seen to be rising disproportionately and in a non-uniform way across parts of the capital that are not served by TfL services. It will be seen as slightly unfair, but that does mean to say it is necessarily bad for those who benefit.

Keith Prince AM: On the bus fares, you were saying that you do not think that the partial fares freeze - it is a fares freeze on the buses, to be fair - will have a great impact and you said that a bigger impact would happen if the speed of buses could be increased. Do you think that it may have been better, instead of having a fares freeze on the buses, to use that money to improve bus priority routes?

Stephen Locke (Chair, London TravelWatch): The fares freeze was a political decision and a priority that the current Mayor was keen on. We do not have views on that one way or the other. My comment is that in order to deliver real value to bus users, as well as a fares freeze you need to ensure that the service is good enough and that it gets people where they need to go quickly enough. Without that, the benefits are going to be rather thin.

Keith Prince AM: Thank you.

Caroline Pidgeon MBE AM: I wanted to pick up an area that we have not talked about in terms of fares and whether it is affordable. The previous Mayor brought in the 60-plus London Oyster card, basically giving a Freedom Pass to anyone who is 60-plus for an admin fee a year. In the last year the cost had already doubled to £44 million. By 2019/20 the cost is going to go up to about £100 million a year because the female state pension age is increasing. Do you think it is affordable for TfL in this current climate?

Jonathan Roberts (Transport Consultant): It is a consequence of where social policies are generally. In a sense, if the national Government - the Coalition Government then - had not changed the pensionable ages, the figure would be bigger already. The change that you are describing is that essentially women have been pushed back in the pension queue, as I understand it, and that will eventually come back and have to be paid by the transport authorities. I do not see anything particularly wrong with that; it is simply a natural consequence of, in a way, the combination.

Caroline Pidgeon MBE AM: It is affordable? In the climate that TfL is in, do you think that this is the sort of thing they should be looking at? The Freedom Pass nowhere else in the country gets; you would get a bus pass. London has always had this and, absolutely, it is a real prize and you would never say that you would get rid of it. However, the 60-plus is a new thing that the previous Mayor brought in. I am just wondering. Is that something that needs to be thrown into the mix? It is not means-tested, of course. It is for everyone.

Nicole Badstuber (Researcher, LSE Cities): It is more than worth considering what the objective of that policy is. The idea behind having free bus passes for senior citizens is that it helps to tackle social exclusion and helps to get them out and about. There is some work by academics that argues that it also does have positive economic impacts because, by them getting out and about, they are contributing to the economy.

However, if you look at the source of those figures, the article looked at who is benefiting and the majority of the people using that pass are actually people who are using it to commute to work. As the pension age goes up, those people are in a category of over 60 but are under the pension age and are also still working. In effect, we are giving a direct free pass to people who are just over an age limit. That does not seem to be a particularly equal policy because those in lower age bands are not getting that free travel even though they are also trying to make ends meet. It is worth questioning what the argument for that is and whether this policy is the right way to meet that policy direction.

Jonathan Roberts (Transport Consultant): I would possibly just take a slightly expanded response to Caroline there. In practice, what one is talking about is, "Here is the revenue or the income that comes in in total that TfL and the Mayor have then to fund whatever gaps there are". The new baseline revenue budget, which comes out of the fares freeze policy, is in effect largely freezing what the present availabilities are. That is the reality of it. Apart from the extra Hopper capability, it is not saying, "Here is the total disposable income. How are we best able to achieve more social benefits and maximise Londoners' ability to get around?"

It will be very interesting to see how this progresses over the next few months when people will have to work through the detail of the trends and demands. It might be that it then opens up a policy debate, let us say, within the next year about, "That is the new envelope for revenues. Should we look more generally at how the fares structure might be revised in order to achieve greater depth of impact in a number of ways?" Whether that can be achieved within a specific level of fares or whether it can be achieved by redisposition of zones or localities or whatever, it may open up a larger debate about the right sort of fares policy going forward. We would have to see how the numbers could be crunched to get greater output and greater social benefit.

Caroline Pidgeon MBE AM: Stephen, do you have any thoughts on the 60-plus card?

Stephen Locke (Chair, London TravelWatch): Yes. It has benefited people who are 60-plus. There is no question about it. It has been well used and it is, no doubt, highly welcome. By exactly the same token, any move to remove it for whatever desirable social policy reasons would, clearly, be deeply resented and extremely difficult, I suspect. Therefore, we cannot do much more than learn from the experience and celebrate what it has achieved, regardless of whether it is affordable or not, which is not something on which London TravelWatch has a view. We do not have a view on what TfL's overall priorities should be within its budgets and certainly not on what is, essentially, a political decision.

Nicole Badstuber (Researcher, LSE Cities): One way of maybe overcoming the resistance would be to phase it out so that people who already enjoy that -- the age at which they can receive that card slowly goes up and so you are not taking away benefits from people but --

Stephen Locke (Chair, London TravelWatch): Yes, that is a bit easier. That is true.

Nicole Badstuber (Researcher, LSE Cities): -- you are delaying when people might receive that benefit.

Caroline Pidgeon MBE AM: Yes, that is a political choice, as you say.

Keith Prince AM: Just on that point, if what you say is correct – and I have no doubt that it is - around the main usage being by commuters, would that not give strength to the argument that perhaps the concession should be restricted, say, to not being used before 9.30am or something? Then it would still have all the social benefits that Nicole pointed out and that I totally agree with, but it would mean that most people who have a job and could afford to pay the fare would pay.

Nicole Badstuber (Researcher, LSE Cities): Yes, it seems like an intermediate solution.

Stephen Locke (Chair, London TravelWatch): Just as a matter of record, you cannot use the pass before 9.30am on National Rail services anyway. It is available before 9.30am only on buses and the Underground. Your point is an interesting one.

Gareth Bacon AM (Chairman): The next section is around funding the Mayor's commitments by reducing costs.

Caroline Pidgeon MBE AM: What I want to really look at is how TfL can become a more efficient transport authority. We had lots of suggestions from TfL. We were told about reviewing management layers, procurement, consolidation of information technology (IT) projects and merging functions such as engineering, but what really can it do in a simple way that would make it more efficient and more cost-effective? Stephen, why don't we go to you first?

Stephen Locke (Chair, London TravelWatch): We do not have views on the internal workings of TfL, I am afraid, and I will have to leave it to the independent experts.

Jonathan Roberts (Transport Consultant): You might be able to change or review some of the accounting policies - those have changed quite radically over various administrations - or whether you can seek better ways of managing things like depreciation and renewal provisions and so on.

Just going through the annual reports recently, there is an amazing variation in how things are reorganised depending on the financial rules and financial requirements, whether from here at City Hall or from the Government. I would give TfL credit for being as innovative as it can in those sorts of circumstances.

With organisations like this you can always keep on asking, I guess, for greater efficiency. At some point, you will find that you have simply gone through all the obvious stuff and so, in a sense, I suspect that you are asking about what is left that is not obvious.

Overheads, as always, appear to be an area that permits productive attack, whether it is instead of owning properties leasing them - and that has been a ready source quite often - or whether it is absolutely being clear about the need for non-duplication. To give a simple example that has already happened, I believe that TfL when it started up in about 2000 had a Director of Integration. All departments ought to be focused on integration; they should not need a directorate to do it. That is a simple example, but you could probably repeat that in various ways. Outsourcing? Yes, they have a list and they have to go through it.

The reality is that the gross turnover of TfL at present is about £10.5 billion a year, of which revenue is about £7 billion and capital is about £3.5 billion. If you are going to need to find economies that are in the order of £750 million in respect of the fares freeze impact over time and if you are looking at other pressures emerging which, so far as I can see when I add up the sums, is heading for another £500 million to £1 billion, you are looking for a major change in how things are administered, and to what extent you can actually be just a lean organisation rather than one with historic, let us say, middle-management layers.

In theory, if I think of Paris, the overarching administration for forward policy planning and so forth has only about 20 or 25 people in it. I do not know how they do it but they do. It is a very tightknit group. The fundamental process has been to put all of the resources into the front line with the necessary operating resources. You can see similar arguments about the National Health Service in this country. How much more can we afford to put in the front line compared to the background administration? Those are choices that TfL has to assess as the responsible executive agency and come back and have a dialogue with you and move from there.

Caroline Pidgeon MBE AM: Do you think that it is capable, though, of making that sort of scale of savings? Over the years, it has been protected. As you said, its accounting practices, on which Gareth [Bacon AM] and others are far more up to speed than I am, are slightly different to how everyone else presents things. They are a master of smoke and mirrors half of the time. Are they really going to be able to make the changes needed and the significant budget savings to meet the challenges going forward?

Jonathan Roberts (Transport Consultant): I have my doubts. I will be candid. Simply, the scale of the pressures coming from central Government as well as the consequences of the fares freeze are going to create huge pressures within the organisation. Nevertheless, as I said earlier, they went through a similar transition period between 1983 and, if you like, the end of the 1980s. With the change in control it effectively became a nationalised industry. We did not like all the outcomes that happened as a consequence in terms of service quality and so forth, but London Regional Transport was able to undertake those things. Here, we have TfL also having to manage the whole surface transport side. There have to be opportunities that historically have not been addressed on the scale that public transport has had, constantly, to try to show that it has improved in administration and efficiency.

Effectively, the road side has been absorbed only since beyond 2000 and more recently. I would certainly be wondering about the scope there for major changes, and as I have said, possibly at the same time as looking at other means of revenue-raising. That is going to be fundamental. Network Rail is under the same sort of pressure; they are reviewing their costs and wondering about asset sales, leasing and other ways of raising revenues. It is going to be a large change in volume of the order, over time, by year four of probably, cumulatively, over £500 million to £1 billion in total volume that may have to be stripped out. Really, that is going to be a massive struggle with the scale of it, but there will be errors.

Caroline Pidgeon CBE AM: I have been pushing it on agency staff, particularly staff who have been there for years and years and are paid through personal service companies, but what do you think are the pros and cons of TfL having all of these consultants and agency staff? Presumably there is some benefit to it rather than having them as employees or do you think it is right that it is going to be getting rid of thousands of these posts?

Jonathan Roberts (Transport Consultant): Back to the frontline issue, people have to be very clear the primary outputs that are going to be required over the next two years. It is essentially about the front line; it is about capacity; it is about policy.

Caroline Pidgeon CBE AM: Do you think a lot of these posts will just go and can just go?

Jonathan Roberts (Transport Consultant): I do not know about that. You look at the outputs and the outcomes you want to achieve and then you work out what the inputs are that you need and they can vary in the consequence. If you do it so that you worry about the inputs and then worry successively about outputs and outcomes, you have the process the wrong way around. [Lord] Heseltine [former Cabinet Minister] was absolutely right and he was being very clear: work out what your outcomes are that you want most of all, as London, as a world city with population growth, the major generator of surplus taxes in the British economy; worry about that. What are the outputs you need in order to achieve and strive and do better in that area? Then you worry about what the inputs are that are going to make the real impact on the outputs and the outcomes. So, in a sense, a lot of the specifics that I have seen in the TfL budget documents and the former business plan are describing the inputs. What I personally cannot fully get my mind around is how that precisely relates to the outputs and the outcomes that London needs. To me, those are the questions I would like to see filled in better.

Gareth Bacon AM (Chairman): TfL's line on that is that about 10% of its staff are what we would call "temps" on daily rates. They argue that there needs to be that number because that number changes. They have lots of specialist project work and things like that, which might last a year or 18 months, and then those people are hired and then released. Members get a bit twitchy when we find that people have been there for three or four years and are working through limited companies, which minimises their tax pay. It does not actually increase the cost to TfL but it does minimise the amount of income tax they would pay to the Treasury. Those are effectively permanent jobs; if you have been there for three or four years, you are effectively a permanent employee, and so the line that TfL uses, the standard defence line, which is that the people are short-term, tends to be watered down a bit.

To what extent do you agree with TfL that it has the balance right in terms of its staffing makeup? Do you accept their argument? Inevitably, they do need a certain number of people on shorter-term contracts for specialist project work, but do you think it is tipping over into having people for too long?

Jonathan Roberts (Transport Consultant): I do not have a strong view about that. Providing the hiring and firing of agency staff is on the basis of being related to specific outputs, as I said, as projects or specific streams of work going forward that have their own timescales, then there is at least a clear balance of relationship between the existence of those people and the existence of those projects, but you have to define what the purpose of those projects is and their importance. It is not much more complicated than that.

Nicole Badstuber (Researcher, LSE Cities): I wanted to add a cautionary note. If you look at a lot of US cities, there is a lot of narrative about, "What we really need to do is efficiencies, efficiencies. That is how we solve all our problems". This seems to be cropping up quite a lot here now and obviously TfL has gone through various iterations of seeking efficiencies. Maybe we could be reaching a point now where we are not really finding efficiencies but we are starting to impact what we can deliver.

Also, there is the resilience of the organisations to shocks or just to things that happen during projects and looking at mega-project management. TfL does huge projects and mega-projects are very prone to budget overruns and time overruns. If you look at projects, say Crossrail that has been managed here, in comparison to elsewhere it has been done quite well.

I am cautious that this narrative around how we have a need to find these efficiencies may be inhibiting our ability to manage things looking forward. Sometimes what we or what an accountant may consider as duplication, say an engineer in both departments, is good because that professional is contributing to a project that is relevant. That is just what I wanted to add.

Stephen Locke (Chair, London TravelWatch): Can I just underline Nicole's point about quality? It does seem to me that whilst the numerical measures of performance are incredibly important, in talking about cutbacks and the like it is absolutely vital to give quality enough weight within the system. If you do not, you end up like Washington DC, which I was going to mention anyway and where I was at Easter, which had a wonderful system 40 years ago - I travelled on it when it first opened - but where progressive efficiency cuts have led to diminution of the quality of the service and even diminution in its safety, because they have had a number of fires on their various trains, to the point where citizens just do not use it. They drive to the centre of the city and cannot be bothered with it, which is a tragedy for a city of that size and that affluence.

Heaven forbid we ever get into that kind of situation, but it is a parable as to what can go wrong if we lose sight of that fundamental issue of quality, which is all the aspects of what consumers experience on their journey: the environment, the reliability, the speed, the frequency, the attitude of the staff. All of those things add up to a very important picture which, on the whole, TfL does very well and of which they need to keep as much as they can.

Nicole Badstuber (Researcher, LSE Cities): Washington is also an example of incremental cuts to maintenance or expanding the time that you would do between maintenance. It has led to now the system basically being shut down. There is hardly any mode share of the usage of the network anymore because it is just not a reliable source of travelling through the city. In many US cities, it is just not a viable option for people. If the aspiration is that we have something like London Transport International or a consultancy where we are going to market how great London is doing with its transport work, then retaining that prestigious reputation is key.

Sian Berry AM: The examples that you give are really good ones, and another one might be to look at bus services in the rest of the UK. They are run down to the point where people would not dream of using them; there is not any kind of service in lots of places. London is not like that and should not get like that.

Gareth Bacon AM (Chairman): As the other side to the coin, efficiencies are one way of paying for a Mayoral commitment. Another is driving up income of course and Assembly Member Duvall is going to lead for us on that.

Len Duvall AM (Deputy Chair): Can we just begin with one of the key issues in terms of the future challenges of TfL, which is about them balancing the need to maximise their revenue streams with other mayoral commitments, such as bringing forward their land for development for affordable housing? How do you think they can do that and what do you think should be the priority in terms of TfL?

Nicole Badstuber (Researcher, LSE Cities): The headline priority should be not just selling off the land but at least retaining the freehold because just selling off land is a one-off boost to the revenues but is not really a long-term solution. If you came up with some original way you could have a reliable income stream that could help subsidise transport, it would be preferable.

Stephen Locke (Chair, London TravelWatch): I will not have a view on non-operational assets and how they are handled in detail, but what is most important is that options should be kept open. We know how much London's accelerating growth has taken many people by surprise over the last 15 or 20 years and there are all sorts of unknowns about the future. It is very important that whatever programme TfL develops for its non-operational assets, it should be developed without compromising potential future passenger needs. It is a matter of keeping eggs in a basket, as it were, so that if, for example, former depots needed to be used again in the future, they could be recycled.

Jonathan Roberts (Transport Consultant): Certainly there is scope to be more innovative with the TfL estate, in essence. That is the roads as well as the bus garages, railway lines, stations and so on. It is a massive square footage or square mileage and there must be opportunities in that way to achieve more.

To give you just a simple example, there is the way in which TfL measures the ability to access public transport, the Public Transport Accessibility Levels (PTAL), which you are probably familiar with. That effectively sets about a kilometre radius around a major railway station and about 600 or 700 metres around a bus stop. The closer you are, the better the service qualities, the greater the density of the service and its quality and the greater the density of the housing that you can justify under the rules here with the GLA.

The very nature of London, the densification which is happening from area to area, particularly at this rate in inner London, is where TfL and the local boroughs ought somehow to be incentivised to work closer together in terms of leveraging greater developments, greater density of developments, in close proximity to major interchanges. Highbury and Islington come to mind because you have the Great Northern Line, you have the North London Line, the Overground and you have the Victoria line. There is not much need there to create lots of capacity for garages, car parking or anything; there could be a lot of zero-car-related, high-density property developments in the area. That is just an example of the sort of thing that could be pushed forward.

No doubt TfL is considering those sorts of opportunities, but it is something where you also then have to engage jointly with local authorities and with interested parties such as developers. That could be a very fruitful area. It may not all come to fruition within a two- or four-year period; with the inevitability of these things, they take time. You need planning permissions and you need to get other permissions. There is an example of a big opportunity, which is the absolute sheer physical scale of the transport estate in the London area.

Keith Prince AM: It was an interesting point you made there, Jonathan, around higher density developments within - let's call it - "transport hubs".

Would you be open to or do you think there would be any mileage in perhaps having two levels of CIL? For instance, if you have a development that requires parking, you pay one level of CIL, but if you are able to maximise the development by not having any parking there should be a greater CIL contribution in order to pay for the extra demand on the infrastructure.

Jonathan Roberts (Transport Consultant): I don't see why not. It came through with the Jubilee line extension: there needs to be a clearer relationship between the transport supply and its capacity, and how developments can be taken forward and some sort of payment scale related to that. You can go through various options, but there has to be some clarity there.

Crossrail 2 is talking of not just potentially replacing the Crossrail 1 CIL with a Crossrail 2 CIL but also some supplementary business rate options. Indeed, I saw the figures the other day. Michèle Dix [Managing Director - Crossrail 2, TfL] has just given a presentation in the House of Commons and she was talking about 17% for one of those and 20% for the other and this is on a project costing £31 billion. The scale of the ability to achieve funding of a substantive large figure basis does exist and it is TfL's belief that that is possible. It is a question of how fast and how readily one can push the case.

Len Duvall AM (Deputy Chair): We met with TfL at our last meeting when we asked them about the capacity to generate income through an operation of a new trading arm to run transport services. It could be described as "lukewarm" or you could describe it as "realistic" in terms of TfL's position.

Can you cite any international examples of where that is the case, particularly since what TfL officers were working towards was probably doing it in partnership with the private sector. What would it yield and how long would it take to build to a business? On both of those questions I have asked you, it is about capacity, isn't it?

We are asking something different from what TfL has had to do in the past; its property services need to be different to realise Crossrail issues and to do some of these deals. The same on the consultancy side: I suspect it has done it small scale. We might be asking it to do something more or require a different approach from TfL officers, maybe new officers. Can you comment on that?

Jonathan Roberts (Transport Consultant): Schemes such as Crossrail are driving a number of new skill areas. TfL is explicit that Crossrail stations must be better developed, frankly. You generally have to, as I say, work through with the support of the local authority and key developers. I was involved in the case for getting a Woolwich station authorised for Crossrail. That was not achieved without a vast amount of political pressure, of which you were aware.

Len Duvall AM (Deputy Chair): Yes, I still remember it. I still feel raw about it. Go on.

Jonathan Roberts (Transport Consultant): Also, it has actively required the Royal Borough of Greenwich and Berkeley Homes, in that case, to engage and Berkeley Homes had to commit to providing the basic infrastructure and they in turn have then been rewarded with an ability for greater development.

These things are possible. You probably need to set up a new unit. Do not tell me whether it is agency staff or not, but the reality is that it has to be pressed forward hard and fast because otherwise each one of these things could take a long while to occur.

What I see is that the financial pressures are going to come in increasingly and remorselessly over the next four years for various causes, as we have discussed. The result is that you need to work out where you want to be and what you think the capacity is with what you have in your knowledge now. Is that enough? No, we need to increase the capacity by that amount in order to achieve back to the outputs and the outcomes. Really, that is the explicit process that has to be engaged in with total commitment by the parties.

Len Duvall AM (Deputy Chair): As a watcher of TfL, then, do you think that is the case? You could say on a broad screen of things where they need to move themselves in terms of facing future challenges, but because they are battling on so many fronts they are delivering a service in their day job and then thinking about those future challenges and delivering the next phase of the future service. Do you think that they really is on top of this?

Jonathan Roberts (Transport Consultant): They are making a good fist of it and more will need to happen. The explicit pressures via Mike Brown [Commissioner, TfL] on the entire organisation and his senior officer team are there. They are there already.

Len Duvall AM (Deputy Chair): It does take time, doesn't it?

Jonathan Roberts (Transport Consultant): It will take time. The usual problem with an oil-tanker, if I can use that simple metaphor, is that you cannot just change course like that; it takes a long while to steer the change of course of the vessel. Here we do not have a lot of time and so TfL and its teams need all the support and encouragement they can get to make those course changes as fast and as radically as is necessary to achieve your expected outcomes.

Len Duvall AM (Deputy Chair): My last question is whether there are any other income-generating opportunities that TfL should be investigating that you do not think it is looking into at the moment. There is an argument about whether they are peripheral or important, but everything counts towards the purse in that sense, doesn't it?

Jonathan Roberts (Transport Consultant): Given that we have public transport fares, which are a sales tax, at whatever level you have it - and we have discussed the potential imbalances in that going forward - it has to be in relation to surface transport, in my view, in terms of new income area opportunities. I have mentioned it. Why do we not think radically about things like, effectively, a petrol sales tax in the London area? It would have to be agreed to an extent with central Government and you cannot just do things without clearing it with Treasury and so on, but I do not see why that could not be looked at.

People always - and you will understand as politicians - shy away from road pricing but in reality, the vehicle excise duty (VED) is no more than a very poor man's version of road pricing. I do not see why there should be a discussion from a London perspective saying, if you have a car in London, you do not necessarily pay for the tax disc but you put it on the petrol price or put it on the diesel price.

One of the reasons why Oyster has been so successful is that you do not go filling up with a new ticket each time; it is a constant, available product that you do not worry about and you are relatively price indifferent. What you need to do, potentially, in that form, is make people, frankly, pay more explicitly - maybe the same amount of money - but pay more explicitly for the road transport side.

Len Duvall AM (Deputy Chair): The international comparison of that to look for is probably the state system in the US, is it not, with the local sales tax?

Jonathan Roberts (Transport Consultant): Local sales taxes are normal in the US and the reality is that those are used to fund a lot of transit schemes. You have to have public polling about it, but it is entirely possible.

Nicole Badstuber (Researcher, LSE Cities): The other controversial and often very difficult tax you get put in place is, for instance, if you look at Boston, which tries to pay for its public transport through a tax on petrol. It is already very low there and there have been huge debates about it. They have actually gone back on themselves and got rid of it.

What you need to look at here is what road users you want to prioritise and which ones you want to make less attractive. Say you want fewer cars on the road, for instance. Putting on a fuel tax may disincentivise them; putting up the Congestion Charge may disincentivise them. I just wanted to add in that, yes, in the US they have sales taxes and gas taxes, as they call it, but they are very difficult to implement. You would have to craft a good narrative around why it is useful.

With the Congestion Charge, one of the reasons why it was eventually successful was that the funds raised through it were ring-fenced for public transport. If you can bring that clear link between how you are going to improve the service so that those people who are currently, for instance, driving into the city could use these better bus services, then that may be a way of getting that through.

Stephen Locke (Chair, London TravelWatch): What this does highlight also is the case for opening up very seriously the debate on road pricing as part of the wider debate on demand management. That has other transport benefits besides the potential for revenue to TfL. We know that congestion is getting worse and the amount of road space is not increasing and there will need to be some means of rationing it out. It is potentially very difficult and no one is going to be overjoyed about the prospect, but the case there from a transport planning as well as from a revenue point of view at least to open up the issues is very strong.

Len Duvall AM (Deputy Chair): As we move towards megacity status - if we are not already there unofficially - and when we reach that target, the number of cars on the road and the economic activity, if we are successful post-Brexit, for those who believe in that, will generate more commercial vehicles on the road. That is when we come into triggering some of that discussion around rationing that space. Is that true?

Stephen Locke (Chair, London TravelWatch): Singapore has already gone a long way down that direction and that is a megacity state, if you like.

Sian Berry AM: I am just trying to tease out some more of these international examples, if I can ask Nicole, because you probably do hear quite a lot of those. One thing we are having is the Ultra Low Emission Zone (ULEZ) being altered; there is a consultation on that at the moment. At the moment it is proposed to be a daily charge that is not distance-based, and so does not fulfil the criteria that Jonathan [Roberts] was talking about there, about how you pay for the impact you have and the distance you drive. Are there any international examples of that?

Secondly, just because workplace parking levies are something that we can do in London under current legislation - we would have to ask to do a petrol sales tax and I cannot think of anything more politically volatile than proposing that; I am not sure any Mayor would - but we could do a workplace parking levy and I know that the current Mayor has said that he is not looking at that. Do you think he should and that it should at least be on the drawing-board at a feasibility stage?

Nicole Badstuber (Researcher, LSE Cities): If you want to really tackle congestion you need to get rid of some road-users and those who are currently transporting the lowest capacity is the number of people driving in cars. You can make a case for minivans that need to bring around services. Yes, you should actively try to tackle "inefficient" road-users, if that term can be used.

Getting rid of parking is very effective at reducing the attractiveness of driving your car. If you have nowhere you can park it, what are you going to do with it once you are in central London? There are many case studies of how getting rid of parking is crucial to reducing the attractiveness of cars. With the ULEZ, I would have to check but off the top of my head I cannot think of any cities that have done a blanket charge just for going into the zone.

If you want to tie what impact you are having from your individual journey to disincentivising making that journey, you would want to have it in some way based around the length of the journey or the frequency of it. That would be preferable, I would say, but that is difficult because you would need to have, as you do with the Congestion Charge zone, points at which you enter or leave; otherwise you would have to have a GPS tracking system about how much you are driving around the zone. I am not sure how palatable that would be.

Jonathan Roberts (Transport Consultant): That does happen, to an extent, in practice with places such as Canary Wharf because there is an 80% to 90% public transport modal split. Fewer than 10% of people enter the Canary Wharf area by car. That is enforced for other reasons as well, but the point is that in terms of the London 2050 Infrastructure Plan, key major jobs clusters are not just central London but also the Supplementary Activity Zones (SAZs) described for Old Oak Common with the Old Oak and Park Royal Development Corporation (OPDC), in the Canary Wharf area and wider than that, and at Stratford. I have not found any SAZ references in south London; maybe there ought to be one.

The reality is that if London continues on the trend of densifying and clustering major job zones, which is where it has been pointed, I see every merit in making sure that such increases in jobs, representing hundreds of thousands of people cumulatively, are ones where there are very clear policies favouring public transport access to those areas and fairly explicit limitations on car access to those areas. It is happening and nobody complains about it at places like Canary Wharf.

Nicole Badstuber (Researcher, LSE Cities): Again, I would just emphasise that it is important to have the combination of the two; so disincentivising one mode and providing an alternative for people to still get there. You cannot just do the one.

Leonie Cooper AM: You will not be surprised to hear that some of these issues that we have just been touching on came up at yesterday's Environment Committee when we were talking about air quality, the expansion of the ULEZ, diesel scrappage and the VED, and we did touch on the concept of paying extra when you fill up and road pricing.

I was going to ask you a bit about how you thought TfL might need to change as an organisation to meet some of the challenges it faces, but you touched on that while you were answering Assembly Member Duvall's questions. I just wondered if you could say anything else at all about whether you think there are specific opportunities that come forward for TfL as it moves forward in terms of meeting the Mayor's commitments?

Jonathan Roberts (Transport Consultant): It is essentially about being pragmatic, as I see it. The financial pressures we have discussed are there. The pragmatic opportunities are around what is in your ability as TfL to control your environment and to control the quality of your outputs. It is fundamentally around that word "quality". We have mentioned this a lot as a word. Whatever else, London has to achieve and maintain its reputation as a city of increasing quality. That, to me, is fundamental and unless it does that then it will not achieve Len's [Duvall AM] point about being a megacity and a world city. It has to be quality. That also comes back to the environmental point. Therefore, what can be done physically with affordable inputs and good value inputs in terms of surface transport - we have discussed buses - and the quality of the roads. Keep those qualities up in terms of ability to walk and ability to use the bus and the streetscape. TfL has policies on place shaping and so forth and those are high-yield outputs that do not necessarily cost a huge amount.

Secondly, as I have indicated on the rail side, if given the right head of steam by the DfT in the discussions - which I know Val [Shawcross, Deputy Mayor for Transport] indicated yesterday are now underway with the DfT about the future shaping of inner suburban rail services - I am clear that TfL can achieve major quality changes in the right timescale that is possible and that will assist London and assist capacity and assist the ability of those areas served by those rail services to feel better off, be better off and be more accessible. That is fundamental. That is an example of how things can be done.

Leonie Cooper AM: I cannot be the only Assembly Member; pretty much everybody is receiving endless tales of woe about the current situation with regard to Southern and you are talking about that. We did talk earlier on about the dates of franchises coming up. I know that that is something that is in the mix.

Earlier on in this session we were talking about the potential costs attached to taking over those franchises. Do you think it is possible for TfL to achieve that rail devolution to come to TfL and improve, even despite the potential costs that might be involved?

Jonathan Roberts (Transport Consultant): Yes, in a word, simply because, as I indicated, the assets are already out there. Most of those are changeable over time, such as new trains, and it does not necessarily cost to do that change; it is simply a change in the leasing arrangements when the new suite of trains comes on. That is what is going to happen in West Anglia in 2017/18.

Secondly, there is the staffing element of that. Again, those stations are, to a greater extent than before, staffed up. There is an immediate cost if you have to staff every station from first train to last train, but in the round more people will travel and, while it is not necessarily a fully revenue-generating process, over time it will be. The Overground itself, the original Overground, is now 400% busier. It is something like that. That will also have a revenue impact over time.

The ability simply to maintain quality so that people trust that they can go to, let us say, Tulse Hill station or somewhere like that, that there is a train that will turn up, that the station is maintained to a high quality and trusted safety and so on, those things are possible. The notional timescale, as I have indicated - and these things are probably capable of negotiation to an extent - is quicker on Southern than it is currently foreseen because the Govia franchise is effectively a management contract to the DfT. It is a 2018 discussion on the potential takeover for Southeastern, possibly around 2019/20 for South West Trains and, at present, 2021/22 for Southern. That may be capable of being brought forward; that is all for TfL and the DfT and, indeed, the people here to make a difference on.

Leonie Cooper AM: It is very welcome to hear that you feel that the improvements could be brought in. That is certainly very welcome to a number of customers, although the idea of maintaining quality in the current set of circumstances might be slightly bizarre for the people who feel that there is currently no quality at all to any of their journeys. That is very welcome.

In light of the financial pressures, which are going to be severe for the reasons that we have been outlining, do you think in four years' time - and this will be to each of you individually - TfL's services will be better or worse?

Jonathan Roberts (Transport Consultant): Rail services will be better. This is on an aggregate basis, obviously. Rail services will be better. There will have been the Night Tube started up and that starts next month, doesn't it? It might even have just started the night Overground, possibly, by 2020; why not? The key party to convince on that is Network Rail because it likes its lines either shut for engineering overnight or worse. That is an interesting challenge. The Tube will, I fear, be cubed out. The Victoria line sees its 36-trains-an-hour service either later this year or the next year. There is no more space on the Victoria line until we build Crossrail 2 or whatever.

In terms of service volume, the Tube is going to achieve - and is already on some lines - world standards of frequency. Whether it will hold on to world standards of quality I fear will be under considerable pressure with population growth and economic growth, to the extent that is going to happen. On the bus side, it is utterly dependent on the welly that is given by the Mayor, by his team by City Hall more generally and by TfL in terms of the prioritisation of better journey times on the roads. Cycling, by definition, is carrying on a particular trajectory, but it is the bus services that are the most vulnerable ones at present.

Stephen Locke (Chair, London TravelWatch): I agree with that assessment very much. I hesitate to give a forecast of what will be in four years because I am sure that if I had done it in 2012 I would have got it wrong as of now.

Leonie Cooper AM: I am asking you to gaze into a crystal ball. I am sorry about that.

Stephen Locke (Chair, London TravelWatch): I know, which is very difficult. Four years is not very long in transport planning terms. It is going to depend heavily on TfL's ability to squeeze more out of existing assets. As Jonathan [Roberts] has said, the scope for doing that with the Underground is pretty limited. There are still more lines that are due for modernisation and that might itself produce some dividends. There are some others, like the Bakerloo, which is right at the back of the queue and will not have much of a hope for a while.

With the surface rail, a huge amount depends on whether we are going to get devolution. The case is absolutely overwhelming and indeed recent experience with Govia Thameslink Railway (GTR) and Southern in particular has increased that enormously, but it is not, in any sense, in the bag despite the strategic concord reached between TfL and the DfT earlier this year. There is some evidence, indeed, of the commitments being rather soft and not delivering very much. That would be a very alarming and very retrograde step, but the scope is there.

Over four years, devolution can deliver quite a lot and has proven to do so in relation to, for example, West Anglia and TfL Rail where the benefits have been tangible. Whilst there have been some costs, they have not been that large. In relation to buses, again, as Jonathan [Roberts] said, it is a matter of taking courage by the hands and particularly delivering on bus priorities so that the services can be both cheaper to run and better for consumers.

Nicole Badstuber (Researcher, LSE Cities): They have covered most of it, but I would add that it is highly reliant on what policies are made and what directions are followed. You could see improvements in south

London, potentially turning it into the Overground. In the short-term you would see improvements on the soft measures that Jonathan [Roberts] has mentioned. They do have a real impact. Customers, for instance, would be able to be straight away on the TfL network. It would be a nicer environment, which already reduces the contempt of having to wait, with more information and more awareness of the connectivity. Those soft measures can really make a difference. In 2020 maybe you would already have a plan plotted out of how 'metroisation' - that turn-up-and-go level of service, which is four trains per hour - could start coming on those railway networks, but that would not be the case for the soft measures.

Initially you would start plotting out how that would come on the roads; it is heavily reliant on what road-users we start prioritising and what measures are done there. With Valerie Shawcross announcing yesterday or the day before that there would be a Walking and Cycling Commissioner, you could see progress made there on better public rail and better cycling infrastructure and hopefully more Quietways, which I guess are a less destructive way of bringing more cycling to the capital.

On the Tube, you will quickly see the services maxed out unless we have more railway services and more Underground services, but that is very difficult to achieve now with the high service frequencies already. It is all quite reliant on what policy directions we go to.

I just wanted to note on the Overground, on average that there is 90% revenue coverage. So revenues cover the operational costs at about 90%. Just adding to your question earlier, it is quite plausible that that could be achieved and then you would manage to capture quite a lot of commuters who may not be using the network generally and encourage them to use public transport throughout their life and not just commuting to work. That is how TfL would manage to do that.

Gareth Bacon AM (Chairman): Thank you very much. Can I thank our guests very much indeed for their time and their very informative answers this afternoon? Your contributions are greatly appreciated and so thank you very much.

Appendix 2

Budget and Performance Committee – 14 July 2016

Transcript of Agenda Item 6 – The Mayor's Budget Guidance for 2017-18

Gareth Bacon AM (Chairman): Item 6 relates to the Mayor's Budget Guidance for 2017/18. Our new guests for this section are household names in City Hall, but for the record we have David Bellamy, the new Mayor's Chief of Staff, Martin Clarke, the Executive Director of Resources, and David Gallie, the Assistant Director of Resources.

The briefing is quite detailed in terms of what the Mayor has proposed and our purpose in having this hearing is for the Mayor's office to explain what they are doing and why. What changes has the Mayor decided to make and why has he decided to make them?

David Bellamy (Mayor's Chief of Staff): Good afternoon, everyone. There are two changes that I would pick out. The first is initiating the process earlier than in previous years. That is really to allow functional bodies extra time to prepare their submissions and also, recognising that we have a new Mayor, recognising that more time should be needed to work on the budget in order that they can adjust their plans to meet the new Mayor's priorities.

As part of that, we also see the introduction of an initial budget submission. That is the process that will be gone through, in getting to the point of a formal submission at the end of November 2016, to just be a milestone to allow us to see where the functional bodies are, check their plans as they pull them together, match in the discussions that have taken place to date and give us a view to allow us to see what the areas of focus need to be in the last few weeks before the formal submission.

Gareth Bacon AM (Chairman): Is that designed to be a challenge stage? When I read it, that is what it felt like to me.

David Bellamy (Mayor's Chief of Staff): Some people have used the phrase 'Star Chamber'. It is not a phrase that I am personally trying to use when we are dealing with colleagues here, but very much we want to see a collaborative engagement process throughout and work with colleagues from other functional bodies. They have been working with the Mayor and with mayoral advisors to ensure that they fully understand the new Mayor's priorities and are recasting their activities already. It is very much about saying, "OK, let's work together through the budget to understand the big challenges and the choices", and we will gradually work through that and, through that process we should be able to gain a better understanding and ask the right questions to ensure that ultimately the Mayor is satisfied with what has been proposed to him.

Gareth Bacon AM (Chairman): Is it envisaged that the initial submissions will be made available to the Assembly for the Assembly to scrutinise?

David Bellamy (Mayor's Chief of Staff): The initial submissions we are viewing as private advice to the Mayor and so we are not envisaging that they will be shared. What we are envisaging is that the outcome of the Mayor's deliberations will be announced in November 2016 when he consults the functional bodies on budget proposals.

Gareth Bacon AM (Chairman): You will have the challenge process - or whatever we are going to call it - before that?

David Bellamy (Mayor's Chief of Staff): Yes, before.

Gareth Bacon AM (Chairman): The initial budget guidance would be issued in November. Is that what you are saying?

David Bellamy (Mayor's Chief of Staff): Yes.

Gareth Bacon AM (Chairman): I am looking at the officers. That will then be subjected to the usual scrutiny process through this Committee and the other committees. Is that correct?

Martin Clarke (Executive Director - Resources, Greater London Authority): Yes. For Members who have been here previously, it will follow the usual process.

Gareth Bacon AM (Chairman): That would be budget scrutiny really in January 2017, straight after Christmas?

Martin Clarke (Executive Director - Resources, Greater London Authority): At the end of November you can do a scrutiny and be consulted on emerging proposals to the GLA by the mayoral elements. Then it is anticipated following the publication of the Mayor's budget proposals sometime in December, depending on the Government timetable, etc, you will then have the detailed process of scrutiny before the Mayor formally presents towards the end of January.

Gareth Bacon AM (Chairman): That is as per the usual process?

Martin Clarke (Executive Director - Resources, Greater London Authority): There is no change at all.

Gareth Bacon AM (Chairman): The key change then is simply the initial submission that is internal to the Mayor and his team rather than something the Assembly would have sight of and it would clarify as mayoral advice rather than formal submissions. Correct?

Martin Clarke (Executive Director - Resources, Greater London Authority): Correct.

Keith Prince AM: Could you explain to me please what does the Mayor mean when he says he wants to "decouple" sources of income from the spending needs of the GLA? Which parts of the GLA group are likely to benefit from this decoupling and which are not?

David Bellamy (Mayor's Chief of Staff): The first principle is that the Mayor believes that the spending needs of each member of the GLA group should be determined based on his assessment of the merits of the resources they need and not based either on historic spending allocations nor, alternatively, on the ebb and flow of income levels for any particular tax or general grant. A natural consequence of increased financial devolution to London is that the Mayor becomes the decision-maker about how GLA group income is used - that is the fundamental principle of devolution.

What I would say in terms of the decoupling is that, firstly, I would not see it as some kind of zero-sum game of winners and losers. The idea is to allocate resources based on the actual assessed needs across the GLA group for the benefit of Londoners. This approach is not in any way about prejudicing the allocation that will be made to a functional body. It is about saying, "Let's make it on the merits." Were a particular tax income to fall, it does not necessarily mean that the income due to that functional body should fall. Let's look at the merits of what income it actually needs within the overall available resources.

Keith Prince AM: Effectively, to give an example, you may be saying, for instance, that Transport for London (TfL) had lots of tax benefits but had more money than it needed and so that money could then be spent in another department completely like the Mayor's Office for Policing and Crime (MOPAC)?

David Bellamy (Mayor's Chief of Staff): Yes. If Functional Body X traditionally had received income from a particular tax – let's say business rates - and if the business rates income were to rise, it does not automatically mean that it is the most deserving recipient of that extra income. What we are trying to do in this decoupling is say, "The income we have is the income we have and decisions are made about that as necessary. Where should that be allocated on the merits of where is the greatest need in terms of most priorities to serve Londoners?"

Keith Prince AM: I get that. Of course that might be deemed to be a disincentive to that particular body then, might it not, if it does things in a more efficient way and gets benefits and then is not able to keep those benefits?

David Bellamy (Mayor's Chief of Staff): The Mayor has been very clear in his guidance that we want to see efficiencies and we want to see savings and that the organisations that demonstrate they are efficiently run are going to be more deserving in terms of receiving additional income because they have proved that they can do a good job with taxpayers' funds.

Keith Prince AM: What you said a couple of seconds ago does not quite match with what you are saying now, does it? What you are saying is that this decoupling process means that if an organisation does particularly well or generates extra income, however that might be, if that extra income is deemed to be more worthy somewhere else it would lose that extra income. Where is the incentive?

David Bellamy (Mayor's Chief of Staff): When you talk about income here, we are talking about income that comes to the GLA group, to the Mayor, in terms of council tax, business rates and revenue support grants. It is for the Mayor to decide that and not the automatic property of any group. Each functional body has income streams and those income streams become part of their budget. The incentive for them to look for efficiencies is the more effectively they are run, the more they can deliver and the more they can show to the Mayor that they are worthy of additional income from him; whereas if people are not delivering efficiencies, then they can work within the money they were previously allocated, or indeed less, because there are things they can do to work within that lower income level.

Keith Prince AM: OK. That gives me a better understanding.

Len Duvall AM (Deputy Chair): I have a comment about decoupling. With any decoupling, show me what that income is that we are looking at because I am still not quite clear in terms of what you want to try to achieve. I understand the issue about the Mayor and the direction of the Mayor because it is all the Mayor's money. That has always has been the case in the previous years.

Tell me. Paint me a picture. Give me an example of a bit of the process where the Mayor might shine a torch on that. We are only saying for instance and no one is going to hold you to it and say it is definitely going to happen, but just give me an example.

David Bellamy (Mayor's Chief of Staff): What the process is doing is saying that whereas before there has been a kind of initial proposal about, "This is how much a functional body would get from council tax, this is how much from revenue support grant and this is how much from retained business rates", we are saying to the functional bodies, "You do not need to concern yourself about that. You need to concern yourself about the income level that the Mayor will grant to you". The final decision about saying, "This amount of your income came from council tax or came from business or whatever", is one where there are some technical considerations about how those allocations are made. The essence of the decision is that functional bodies should just think about their total income levels. I am not sure if that is helping in answering the question.

Len Duvall AM (Deputy Chair): Look, it is very simple. You are telling me that I have so much money to spend; I am going to give you the service and the priorities according to your manifesto and other items that you may want in terms of a conversation; I am going to try to deliver that but you are going to have to tell me what that total is. Or do I make that up myself? Do I put a bid in and say, "I will take a punt on this new Mayor and I will say that I want X and all the rest of it. I know I am going to get scaled back to Y, but I am going to protect my core budget"? Or, I am not clear from here, which is nothing wrong but it is very different from what we have had in the past, are you telling those organisations to do a root-and-branch service review about what they are spending money on and the outcome of that money in terms of delivery to justify to the Mayor what their budgets are about. What are we talking about here?

David Bellamy (Mayor's Chief of Staff): What we are talking about is that, given there are a number of uncertainties about income levels for next year as they are set out in the guidance, we are asking for initial planning to be made on the basis of the cash totals that organisations have this year. What we are saying is, "We want you to work on the assumption that that is how much income you will have next year and we want you to show, firstly, what efficiencies and savings you can achieve and how you work out of that and, secondly, again within that overall income total, how you can adjust what you do to deliver the new Mayor's priorities". The third thing we are asking is a separate thing, "Having done that, if there were more money allocated to you, what things could you do in order to deliver additional priorities for the Mayor?"

Len Duvall AM (Deputy Chair): At what stage would that happen? Is that the advice-giving stage before you do the final bit? When does that bit come into the process?

David Bellamy (Mayor's Chief of Staff): That will run through the process into the formal submissions that are made to the Mayor in November. We will be looking at that through the private process as well. The initial focus is going to be about what efficiencies there are there and about the key initial priorities that I am sure functional bodies are already looking at. Then, having got through that, people will then think about the bids for things that they may feel they can do had they more resource available.

Keith Prince AM: This is 2.4 in the briefing for those who want to follow it. "The Mayor has set out a number of steps to try to incentivise savings and efficiencies across the GLA group. Not only has he, initially at least, frozen discretionary revenue income allocations to the GLA functional bodies in cash terms", and then it goes on. I am intrigued to know what a "frozen discretionary revenue income allocation" is.

David Bellamy (Mayor's Chief of Staff): It is the same cash totals as this year.

David Gallie (Assistant Director - Group Finance, Greater London Authority): Is it worth me just trying to clarify that a little more? Essentially, what we have tried to do is to put in number form the commitment that David [Bellamy] has described around ensuring that each functional body has the same cash on a like-for-like basis. That is not wholly possible across the GLA group because there are a number of adjustments that we need to make, one of which is reflecting changes such as TfL capital grants being devolved into business rates. A further change arises on the situation of MOPAC and the need to adjust council tax to avoid potentially triggering a referendum. It is a very complicated exercise to try to get that equivalent commitment, but we hope the guidance has numbers that functional bodies understand and can work with.

Keith Prince AM: A "frozen discretionary revenue income allocation" is giving them the same cash as they had before?

David Gallie (Assistant Director - Group Finance, Greater London Authority): On that like-for-like basis, given that there will be changes that will come through in 2017/18 from 2016/17.

Keith Prince AM: I just wondered what it meant. That was all.

David Bellamy (Mayor's Chief of Staff): I emphasise that that is an interim planning assumption in order to enable us to go through the budget process and do the internal scrutiny.

Keith Prince AM: Yes, I have it. Can I ask then, how much the Mayor will judge whether the GLA and individual functional bodies have identified appropriate amounts of savings and efficiencies?

David Bellamy (Mayor's Chief of Staff): That will be based on the submissions made by the GLA and the functional bodies. The discussions will take place during the next few months and that will involve things like comparing the approaches between different functional bodies. Where Functional Body A identifies a saving we can then ask, "Have the other functional bodies already made that saving? Is it appropriate? Is it something that they have looked at?" It will also keep an eye on progress with collaborative procurement and working together as a group, which is very important to us. It will also recognise that different parts of the GLA group have differential access to generate savings and efficiencies. Clearly, TfL and the Old Oak and Park Royal Development Corporation are in a very different place in terms of scale and what options are available to them. The clear point is that the Mayor expects that areas that are not demonstrating efficiencies through that process will receive a relatively lower level of resourcing compared to better planned areas.

Keith Prince AM: If they make the efficiencies they get the money; if they do not make the efficiencies they do not get the money?

David Bellamy (Mayor's Chief of Staff): If they do not make the efficiencies then they can expect to see relative reduction in income levels in order that they can get on and make the efficiencies.

Gareth Bacon AM (Chairman): Do you have a target for that?

David Bellamy (Mayor's Chief of Staff): No. We are starting with a fairly fundamental review as a new administration and we will look for as much as we can find.

Gareth Bacon AM (Chairman): In fairness to the functional bodies, there would normally be some kind of ballpark figure, say, for example, you might say "You need to find inflation in your budget. We expect you to find, say, inflation of 3%. You need to find 3% efficiency savings across the board and that is your starting point". Is there going to be a starting point?

David Bellamy (Mayor's Chief of Staff): The starting point will come out through working with each functional body as they say, "This is how we see things if we say this is our income level and here are the cost pressures that we face and here are some of the opportunities". If they have particular cost pressures around certain items of inflation, certain items of pre-committed additional expenditure, then you can start saying, "At a minimum to meet that, there is the level of efficiency savings that they need to try to generate".

David Gallie (Assistant Director - Group Finance, Greater London Authority): If I can add to that, implicit in the cash levels set out is the assumption that the previously planned efficiency savings in the budgets going forward would become a starting point for efficiency. There is a judgement we can make on the previously approached level of savings that would be made compared with what functional bodies would ultimately submit. There are some implied savings and efficiencies targets in the cash limits set.

Gareth Bacon AM (Chairman): Those efficiency savings targets were set under the previous administration, weren't they?

David Gallie (Assistant Director - Group Finance, Greater London Authority): Correct.

Gareth Bacon AM (Chairman): That presumably will be subject to variation? That would be understandable one way or the other.

David Gallie (Assistant Director - Group Finance, Greater London Authority): Indeed, depending upon the new Mayor's judgements.

Gareth Bacon AM (Chairman): When is that likely to be known? The functional bodies are being asked to do something different this time. They are going to be working through the summer to come up with their initial submission, which I am assuming would include efficiency savings proposals. Are they going to go through that process first and then the efficiency saving target will be added on top, or are they going to know in advance what sort of number they are looking to hit?

David Bellamy (Mayor's Chief of Staff): This process of engagement with the functional bodies is to look at what efficiency savings either they have identified or working with them we can identify. Therefore, it would be an iterative process working through the period up to the formal submission of the draft budget just to work through. Given that we are talking about taxpayer funds here, there would not be a point at which we would say, "Jolly well done, functional body. That is enough efficiency savings. No need to look at any more". However, clearly, through that process, you start getting a feeling for when you are reaching the bounds of what is realistic to deliver in a 12-month period.

Gareth Bacon AM (Chairman): This will not be the only budget; there will be another three that follow it. Inevitably it will be iterative and that is perfectly fair and understandable, but there will have to be a line in the sand at some point during this process for this year where you say, "That is the number we are looking to hit and you need to go away and do it".

Do you have any idea in terms of timescale when that is going to happen? Will it happen at the first challenge process? There is not an awful lot of time after that before the budget submission is made, is there?

David Bellamy (Mayor's Chief of Staff): Probably after the initial submission in mid-October is the point where we can then start saying that we are starting to get a stronger view. Because we have to go from this planning assumption that each functional body will receive like-for-like the same income as they are doing this year, we will need to move from that to what becomes the actual proposal in the draft budget that is issued in December. November will be the key time when we do that and when we feel able to take a good view on where we are going to end up as much as we can on the income side of things, based on the initial submission that was received, the discussions before and after that, and start taking a view about where the Mayor would like the income level for each functional body to fall.

Gareth Bacon AM (Chairman): Where he would like the income level to fall? Can you clarify what you mean by that?

David Bellamy (Mayor's Chief of Staff): I mean how much income from council tax, business rates and revenue support grant he would be minded to allocate to each functional body.

Gareth Bacon AM (Chairman): This comes back to the whole decoupling question that we had earlier on. I made some notes while you were speaking and I am hoping I have clarified it in my mind, but maybe I have not and I would like you to agree or not.

Essentially, the approach to decoupling is that you want the functional bodies to work out how much they need to spend each year – let's move away from income for a moment - what they need as a budget in order to hit their priorities, having built-in efficiencies in the mayoral priorities, etc, and how that is broken down in terms of how the Mayor funds it. They are not to worry about that for the moment. That will be decided at a consolidated level later on and as part of that then there could be some proposals drawn up as to, "If we gave you more money than you are estimating you need, what would you spend it on?" Is that a fair summary?

David Bellamy (Mayor's Chief of Staff): Yes, pretty much. It is about saying, "Here is a line in the sand as an assumed income level based on what you actually get this year. What efficiencies can you drive? How can you change? What can you do within those available resources? Were more available how would you proceed?"

Keith Prince AM: The Mayor wants each part of the GLA group to focus resources on his priorities, quite rightly so, I would think, and the budget guidance states that he expects there to be a major realignment of resources.

Could you perhaps tell me what his top spending priorities are for 2017/18 and explain why these specific priorities and key deliverables are not explicitly stated in the budget guidance as they have been in previous years?

David Bellamy (Mayor's Chief of Staff): The Mayor's priorities are set out in his manifesto. The budget process is designed to ensure that the budget proposals that the Mayor brings are an accurate reflection of those priority aims and objectives within the available resources. That decision-making process then in November as we start publishing things will become clear.

We took a decision not to include the priority list within the budget guidance document for a couple of reasons. Firstly, we felt that the priorities set out by the previous administration in budget guidance were very high level and did not really inform the detailed budget preparation process. Secondly, functional bodies are already working on delivering the Mayor's priorities as defined in the manifesto. It did not seem necessary to try to define this or limit at this stage what aspects of the manifesto could be delivered next year in what after all is a financial process document and trying to capture all the things that are going on and should be looked at. We just did not feel you could do that properly in a very high-level summary list.

Keith Prince AM: I get the point you make around the manifesto and the point that it is desirable, because he has a mandate, that as many of his priorities are delivered as possible, but surely he should give an indication of which of his priorities are priorities. Should he not say, for instance, "I believe a partial freezing of fares is a priority of mine and that is my biggest priority", rather than leave it to the functional bodies to try to work out what he really does see as his major priorities?

David Bellamy (Mayor's Chief of Staff): I would say that the functional bodies are clear on what the Mayor's priorities are because from week 1 of the administration they have been meeting with him and he has been very clear with them about what the priority areas are. This budget process continues all the time as we look at how to deliver the things that are most important to the Mayor. I would say that the functional bodies are clear on what the Mayor's priorities are.

As I say, we did not want to try to limit the areas that could be achieved in this initial budget. We want to see what they can get to and what we will be going through in the next few months is a collaborative process through which they can talk about, "You made clear that this is your top priority for us. We have implemented that. Now we are starting to look at options about these different areas. Which one of those do you feel is more pressing and we should prioritise looking at next?" That sort of engagement will go on through the summer and into the autumn as we work with functional bodies and start helping them to build those initial proposals.

Keith Prince AM: Of course when we come to do our little bit we will not know what that was, will we?

David Bellamy (Mayor's Chief of Staff): Through all the work of the Assembly, be that the questioning directly of the Mayor, be that through the Committee work, I would say that the Assembly Members should have a very good view of what the Mayor's priorities are and --

Keith Prince AM: Sorry to cut across you, David, but seriously what you are suggesting is that we become mind readers. I am not having a go. It would be really helpful, and in the interest of transparency, that we are informed as a body here to support the Mayor in many ways and also ultimately to vote on the budget that he puts before us, to help him. If we knew in advance what his real key priorities were when these functional bodies come to us when we do our little bit that - because all of the work will have been done in the Star Chamber or challenge section - we are of a similar mind. We may spot that something had been missed. It is not fair to expect us to try to second-guess through questioning the Mayor because we may not ask the right questions and, with all due respect to the Mayor, he is not great at answering questions directly, either. It is not fair to expect us to try to guess and work out what his priorities are. Surely, I would suggest, it would be far more sensible that the Mayor makes it very clear to us and also the public at large in this great city of ours what his core priorities are. Then we can all pat him on the back when he has delivered them.

David Bellamy (Mayor's Chief of Staff): What I would say to that is, firstly, the Mayor was very clear in his manifesto in terms what his priorities were. There was a page. I have the manifesto here. I seem to recall it was page 8, where he set out what his priorities were. I know that at some Plenary sessions there have been explicit questions asking about what the priorities are.

I would say - and I have already commented - that the budget is designed to set out the Mayor's priorities through what is delivered in the budget and I am sure that as you come to scrutinise that you will be looking at the things that you see in the budget and seeing if they are appropriately provided for. You will also be looking and will be scrutinising things that are not there based on both your knowledge of the Mayor and his views, and also your own views about what the city needs that you might view as missing or that should be in the budget.

Gareth Bacon AM (Chairman): In the spirit of being helpful, that is part of the budget process that we go through when we get to scrutinise it in this Committee when the functional bodies come in and also when we go through the two rounds of the entire Assembly. Inevitably some of us may think that he has the wrong priorities, and that is what has happened in the past, and we get the opportunity to set out why we think they are the wrong priorities and what priorities he should have. The challenge process that we are inserting here I do not think is necessarily a matter for deviation from what happened before and we will still have the opportunities to query what the Mayor is doing.

Keith Prince AM: It is not a bad idea having the challenge. It is what we do in Redbridge all the time and it is a good idea. I just feel it would be helpful to have an early heads-up as to where everybody is trying to get to.

Caroline Pidgeon MBE AM: The Assembly is not going through the same process and I understand that, but what is your expectation on the Assembly's budget as a whole? Are you assuming it will stay as it is, grow or be cut?

David Bellamy (Mayor's Chief of Staff): My understanding is that that is a matter for the Assembly to say, not for the Mayor. The Mayor said in his letter to the Chair of the Assembly that he expected the same principles in terms of looking for efficiency and ensuring money is focused on priority areas to apply to the Assembly and your work in the same way as would happen in terms of other areas of the GLA group.

Caroline Pidgeon MBE AM: He was not setting any figure to cut; he was asking us to look at our budgets and be efficient. They are pretty efficient from what I have experienced over the years. We have faced quite a lot of cuts over the last eight years. Given the workload with new strategies coming through, I think --

David Bellamy (Mayor's Chief of Staff): We are both very aware of the fact that the Assembly is a body that in part exists to scrutinise the Mayor and the Mayor wishes to be respectful of that and not try to impose too much on the resources you need to perform that work. Equally, you recognise the environment in which we operate and ultimately it is taxpayers' money and so it is about getting that balance.

Caroline Pidgeon MBE AM: Thank you for that. What I am not clear about is what level of council tax you are looking at. In my memory - and I have not sat on the Budget and Performance Committee before - we had a steer from the previous Mayor that he was going to freeze it over four years or he was going to cut it or whatever. I am not clear here where we are going with council tax. It seems like we are saying to all the functional bodies, "Give us the budget that you think you need to deliver the Mayor's priorities and to deliver your services and then we are going to see how it all adds up". Are we likely to see perhaps an increase in council tax?

David Bellamy (Mayor's Chief of Staff): The approach we have taken is that given the uncertainty, around business rate income in particular, at this stage in the process we are focusing on expenditure plans at current levels, as we have discussed. That is designed to enable reprioritisation as appropriate within current income levels. Then the Mayor will be able to take views about income as some of the uncertainties become a little bit clearer and also then the allocations between the different bodies become clearer. At this stage we are waiting for some of those uncertainties, particularly around business rates, to become clearer and not taking any view in particular about any tax. The Mayor's view on council tax remains as it was in the election and as set out in his manifesto --

Caroline Pidgeon MBE AM: Remind me what that is?

David Bellamy (Mayor's Chief of Staff): -- namely that he wants council tax to be as low as possible consistent with the safety of Londoners.

Caroline Pidgeon MBE AM: That means it could go up if he felt it was needed. David [Gallie], remind me. We have about £7 or so to come off the council tax with the rest of the Olympic precept?

David Gallie (Assistant Director - Group Finance, Greater London Authority): The 2017/18 budget assumes the £8 present Olympic precept - about £22 million - would then become available to the new Mayor.

Caroline Pidgeon MBE AM: There is that money in there that could go to other services?

David Gallie (Assistant Director - Group Finance, Greater London Authority): It is presently being held in the Mayor's resilience reserve.

Len Duvall AM (Deputy Chair): That is on top of the figure that you identify from end programmes in the previous Mayor's regime; was it circa £11 million?

Martin Clarke (Executive Director - Resources, Greater London Authority): The GLA's own budget plans, which is the cash limit it is based on, if they continued unchanged there is £11.5 million a year coming available next year.

Len Duvall AM (Deputy Chair): Thank you.

Caroline Pidgeon MBE AM: You have £11.5 million and then you said - was it - £22 million? That is in the Mayor's resilience reserves but is money that could be spent on the new Mayor's priorities or --

Keith Prince AM: Just reducing people's council tax.

Caroline Pidgeon MBE AM: -- reducing council tax, well, yes. That was interesting. Thank you for that. Are you looking in this at issues around Brexit and the issues that the Mayor is having and the work on that? Are you looking to budget some specific funds maybe even for London & Partners for London promotion around the consequences of Brexit?

David Bellamy (Mayor's Chief of Staff): London & Partners had plans in place in the event of the vote that took place and so it is executing those plans. Activities are taking place this year within this year's budget in terms of things like the "London is Open" campaign. Through the budget process, one of the things that we need to do is to assess what the impact would be. Clearly, through the 2017/18 year, we will remain members of the EU --

Caroline Pidgeon MBE AM: Of course.

David Bellamy (Mayor's Chief of Staff): -- and so the question is what, if any, impact the referendum result and the ongoing negotiation process will have on group incomes and group expenditure requirements. I guess that would be a natural part of the budget discussions.

Leonie Cooper AM: Caroline has covered what I was going to ask about council tax and I had wondered about Brexit, but I am still intrigued by this early introduction and much lengthier period over the summer and up to October. Coming back to what Keith [Prince AM] was saying earlier on, I am still slightly unclear as to how effectively we can scrutinise a process that has started so much earlier - now, effectively - and is going to go on over July, August, September and up to 14 October and then we are going to come in in November to look at something. It strikes me that an awful lot of work will have been done that we will not be party to in terms of decisions or discussions.

I just wondered whether you are really suggesting that we as the Budget and Performance Committee can effectively scrutinise the way that the budget has been put together given that there is going to be that very lengthy period before we are actually involved.

David Bellamy (Mayor's Chief of Staff): You clearly will be able to provide scrutiny on the proposed budget in the same way as in previous years because the process at that point remains as it has been in previous years. What we are saying is that the Mayor and the administration want to take longer getting to the point where that scrutiny begins because of the fact that it is a new administration and, therefore, yes, there is more work to do in terms of ensuring that functional bodies are adjusting their budgets and their plans to meet his priorities.

Leonie Cooper AM: You would not anticipate quite that length of time being taken over it in future years, but it is just in this year because it is the first year of the new mayoralty?

David Bellamy (Mayor's Chief of Staff): There is value in getting the budget guidance out early in any case just because it gives people more certainty. Just even on an administrative level and in any discussions that we will need to take, getting alignment between the budget process and the governance systems within each of the functional bodies, it is administratively helpful to get it out sooner. Clearly, as it is the first year of the administration of a new Mayor, I would imagine that, yes, this will be a more fundamental look than may be necessary in future years.

However, of course, we are going to learn through this budget process and will ensure that budget processes in future years learn from that and, hopefully, be as effective as we can be.

Gareth Bacon AM (Chairman): In fairness to the Mayor and his team, the scrutiny aspect has not been diminished for the Assembly; it is just that they have added an extra level to the beginning of the budget--setting process, which at the moment is being looked at internally rather than giving us the option to look at it. I do not think that they have tried to skirt around the Assembly in that, personally, but we need to keep an eye on that and how it goes forward. Whether this happens in future years is a very pertinent question.

Sian Berry AM: Going back to something from earlier and also the process of when we get to see things as an Assembly, I am trying to get a handle on the differences between "efficiencies" and "savings" because you have also been talking about "efficiency savings" as well and this initial cash envelope in this year's budget that you are expecting people to put in a bid for.

If I understand it correctly, you are going to have inflationary pressures on most of your budget and so making efficiencies is going to go somewhere. However, if I am right - and I know that the word "savings" has been abused and means "cuts" nowadays, generally - you are expecting some of the bodies to put forward cuts to the delivery of some things that are not the Mayor's priorities. Is that correct?

David Bellamy (Mayor's Chief of Staff): Potentially.

Sian Berry AM: All right. Because you are saying that the manifesto is the only guide to those, I agree with Keith here on this that that does leave things a little bit woolly for interpretation. I wrote a manifesto; Caroline [Pidgeon MBE AM] next to me wrote a manifesto. You cannot put everything that you want to keep the same into a manifesto. Just because you have not mentioned it, it does not mean you want it to be cut.

It worries me that some of the bodies may come forward with cuts and things that you do not want to make and there is going to be a little bit more wrangling between 14 October and 1 November when we are supposed to first see this budget, than there might be if you were putting out more guidance on what ought to be cut and what ought not to be. Does that make sense?

Keith Prince AM: You will know if they have got it wrong because it will be sorted out in the challenge process, will it not?

Sian Berry AM: There is only 14 days for that in the timetable from the submission of their first guess.

David Bellamy (Mayor's Chief of Staff): No, the timetable gives more time because the formal submission date is 30 November. Let me just get Annex A on page 16. Yes, as I said, 14 October is not the start of the challenge process. 14 October is a milestone at which we ensure the information is written down in a consistent form, which should reflect the discussions that have taken place between now and 14 October. Then from there to early November is when the Mayor can review that and then into November can issue preliminary draft budget proposals and consult with functional bodies. Then the formal responses come back in at the end of November. Throughout all of that time period, there can be discussion. However, clearly, part of the point about starting earlier is to give more time to discuss the choices and to review what activities functional bodies undertake and whether they are priorities for the Mayor.

Sian Berry AM: The timetable says that on 1 November there will be a consultation with the Assembly beginning then before 30 November.

Martin Clarke (Executive Director -Resources, Greater London Authority): Yes. What happens is that at the beginning of November the Mayor will write to all of the functional bodies with his emerging budget proposals seeking comments. Those letters have always been public and so, whatever the functional bodies get, you get. At the same time, in the GLA, we prepare a detailed GLA budget, which we seek this Committee's views on at the end of November. That bit will be reported to this Committee and so that report will be out in advance of that. The letters to the functional bodies are public and we will be asking them to respond with a submission. It is slightly different for the GLA. In a way, you are getting the draft submission to scrutinise because you also have a specific role as a consultee on the GLA's own budget as well as scrutinising the whole of the GLA group budget process. In November there will be an awful lot of information that will all be public.

Sian Berry AM: That we will all be able to scrutinise?

Martin Clarke (Executive Director -Resources, Greater London Authority): Yes. It is up to the Committee if you want to do any scrutiny on those letters or question the functional bodies to think about it in advance of those submissions. That is the situation with this Committee. However, for the GLA itself, you will get a full suite of papers on what is being planned to spend next year and forecasts for the future years and what is being planned to spend it on.

Gareth Bacon AM (Chairman): In the Mayor's Budget Guidance, there are amongst the annexes, in Annex B, templates for efficiencies and savings, templates for adjustments to the revenue budgets to deliver the Mayor's policy priorities, etc. Will these templates be available to the Assembly for scrutiny purposes?

Keith Prince AM: Completed ones, I assume, Chairman?

Gareth Bacon AM (Chairman): Yes, obviously. It is a desert out there at the moment.

Leonie Cooper AM: We have a blank one, anyway.

David Gallie (Assistant Director - Group Finance, Greater London Authority): The intention is that the initial budget submissions would not be public; they would be private submissions to the Mayor. The intention would be that the annexes you are quoting in Annex B of the guidance would not be available publicly, but the detail would emerge in --

Gareth Bacon AM (Chairman): It is rather a pity that you have said that because I have been a little bit defensive of the Mayor's line, actually, up until the point you said that because it is a legitimate line of inquiry that the Assembly might want to question why the Mayor was rejecting efficiency savings A, B, C or D or whatever and proceeding with others. If that information is going to be provided to the Mayor and the Assembly cannot see that, then the Assembly might have some questions to ask about that.

David Gallie (Assistant Director - Group Finance, Greater London Authority): If I could just continue, the intention would be that the public submission from functional bodies on 30 November would be public and that would reflect the outcome of the deliberations during October and November. The detail would be as you have had it previously in terms of details on efficiencies and savings.

Gareth Bacon AM (Chairman): The problem from an Assembly Member's point of view is that there would have been written submissions made to the Mayor about different ways of doing things and different options that the Mayor has, and the Mayor would have taken whichever path he has taken. The Assembly will not be privy to that and so the Assembly will not know what informed that decision and will be presented with a *fait accompli* to a degree. That might cause some Members some concern.

Sian Berry AM: I agree with that. Arguably, our one power is the power to set an alternative budget. If we cannot see the options available to us, it is a real problem.

Leonie Cooper AM: This extends my point about effective scrutiny if we cannot see those documents.

Caroline Pidgeon MBE AM: Yes, exactly.

David Bellamy (Mayor's Chief of Staff): What we are discussing here is the balance between transparency and effective scrutiny, versus the ability of the Mayor to receive frank, private advice and to take decisions, which is a classic trade-off that is not always easy to balance.

It is my first time around this budget process and the templates that are set out there are different from practice in previous years and so I would not want to sit here and say, "Yes, absolutely, definitely, it would be helpful for us to share those and for you to use them", but it is certainly something that we can consider as we start seeing how they are used and we can look at that balance. As you know, the Mayor does believe in transparency and does see the value of effective scrutiny and so we are happy to look at that when we get to that point.

Gareth Bacon AM (Chairman): One final question from me. It was a fairly torturous process to establish it, but there is a whole suite of key performance indicators that are set to measure the delivery of mayoral priorities. They run over the course of the whole mayoral term. When can we expect those to be revised and provided to the Assembly?

David Bellamy (Mayor's Chief of Staff): We are going to be looking at the governance processes. Performance indicators and outcomes are going to be a key part of that. Yes, that is work that I would like to start soon. It may be that we start looking at that in August. I do not want to commit to when that will be there in a public sense, but I do see it as an important thing and so we will be working through that. That, to answer earlier questions, should also give more of a view about mayoral priorities and so it will be helpful.

Gareth Bacon AM (Chairman): Can I thank our guests for their time and particularly for their patience? I do realise that you sat in the gallery for quite some time, much longer than originally intended.

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# Subject: Summary List of Actions	
Report to: Budget and Performance Committee	
Report of: Executive Director of Secretariat	**Date: 29 September 2016**
This report will be considered in public	

1. Summary

1.1 This report sets out details of actions arising from previous meetings of the Budget and Performance Committee.

2. Recommendation

2.1 **That the Committee notes the completed and outstanding actions arising from previous meetings of the Committee.**

Actions Arising from the Meeting of 14 July 2016

Agenda Item	Topic	Status	For action by
7.	**Budget and Performance Committee Work Programme** Authority was delegated to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to agree the topic, scope and terms of reference for the Committee's meeting on 29 September 2016.	Completed. Details are set out in the report on action taken under delegated authority at Agenda Item 5.	Scrutiny Manager
	Authority was delegated to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to write to the Mayor requesting his response to the Committee's March 2016 report on Transport for London's failed re-signalling contract with Bombardier.	Completed. Details of the letter are set out in the report on action taken under delegated authority at Agenda Item 5.	Scrutiny Manager

City Hall, The Queen's Walk, London SE1 2AA
Enquiries: 020 7983 4100 minicom: 020 7983 4458 www.london.gov.uk

Actions Arising from the Meeting of 28 June 2016

Agenda Item	Topic	Status	For action by
9.	**Transport for London's Financial Challenge** During the course of the discussion, the Committee requested the following information: • Details of how Transport for London (TfL) benchmarks itself against other organisations in relation to its borrowing costs; • Details of which fares are covered by the fares freeze and which are not; • Details of how the income from travelcards and other fares not set by TfL is distributed between train operating companies and TfL; • A follow-up, when available, to provide the Committee with actual costs to TfL of the fares freeze; • The range of savings expected, once the Business Plan is complete in autumn 2016, from merging engineering functions and other organisational reforms; • The expected increased income from ending free travel for nominees of staff earning over £100,000 per year and the methodology for calculating that increased income; • Revenue estimates for the Ultra Low Emission Zone; and • An estimate of the advertising income in 2015/16 for advertisements that would now not be permitted under the ban on advertisements depicting an unhealthy body image.	Completed. A letter from the Chief Finance Officer is attached at **Appendix 1**. TfL has clarified that the estimated £200 per year saving for the average Londoner reported to the Committee at its 28 June meeting relates to the estimated average household saving from the TfL fares freeze over the Mayor's four-year term. TfL estimates that the Hopper ticket will save bus passengers £31 million a year.	Chief Finance Officer, TfL

3. Legal Implications

3.1 The Committee has the power to do what is recommended in this report.

4. Financial Implications

4.1 There are no financial implications to the GLA arising from this report.

List of appendices to this report:
Appendix 1 – Letter from Chief Finance Officer, TfL, following up meeting on 28 June 2016

Local Government (Access to Information) Act 1985 List of Background Papers: None	
Contact Officer:	Dale Langford, Principal Committee Manager
Telephone:	020 7983 4415
E-mail:	dale.langford@london.gov.uk

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Transport for London

Gareth Bacon AM
Chairman of the Budget and Performance Committee
London Assembly
City Hall
The Queen's Walk
London SE1 2AA

Ian Nunn
Chief Finance Officer

Transport for London
Windsor House
42-50 Victoria Street
London SW1H 0TL

Phone 020 3054 8941
Email iannunn@tfl.gov.uk

28 July 2016

Dear Gareth

Budget and Performance Committee – 28 June 2016

Thank you for your letter of 30 June following my attendance alongside Graeme Craig at your meeting last month. Our responses to the Committee's requests are set out below.

As I said at the meeting, I will be very happy to update the Committee with the cost of the TfL fares freeze as soon as 'actuals' are available. I will also update the Committee on the range of savings we expect to achieve over the course of our next business plan following its publication later this year.

Details of how TfL benchmarks itself against other organisations in relation to its borrowing costs

Our borrowing rates are quite low and compare favourably with others. We borrow from a range of sources including capital markets, the Public Works Loan Board (PWLB) and the European Investment Bank (EIB). From these main sources of borrowing, only capital markets, where we issue bonds and commercial paper, can offer benchmarking opportunities, as the pricing information is publicly available on the market. The terms of the EIB borrowing are confidential. The cost of borrowing from the PWLB is largely the same for all borrowers, mostly local authorities, irrespective of credit rating or risk profile, and therefore is not useful for benchmarking purposes.

Our strong credit rating, currently within one notch of the UK's sovereign rating, allows us to borrow from institutional investors, such as pension funds and insurance companies, by issuing bonds. Since 2012, we have issued bonds worth over £3bn, all at rates lower than those offered by the PWLB by up to 30 basis points (0.3 per cent). For these capital market transactions, we benchmark ourselves against the trading levels of outstanding TfL bonds and also other highly-rated bond issuers with a similar risk profile.

The scope for benchmarking is limited by the size and the liquidity of the sterling bond market, as we can (currently) only borrow in sterling and our borrowing costs can only be meaningfully compared with other sterling issuers. The factors that drive the differences in borrowing costs between us and closest comparable issuers include, but are not limited to, credit rating, the ability of other entities to issue in other currencies, availability of Government guarantee or other forms of security, the volume of existing borrowing, the size and length of the transaction and market conditions at the time of transaction.

I enclose an example of a benchmarking table which shows a number of comparable sterling bonds and their current trading levels against UK government gilts (Attachment 1). The column showing current spread to reference gilt represents the relative premium for risk that investors expect to receive on top of the government gilts of comparable maturity. These spreads, or premiums, could therefore be used to compare the relative costs of borrowing among companies at a point in time. For example, our 1.250 per cent bond due in 2017 is currently trading at a comparable level to that of the 1.375 per cent bond due in 2017 issued by the German transport and logistics company Deutsche Bahn. Our bond is trading at 53 basis points (0.53 per cent) above the level of the government gilt due in 2017 compared with Deutsche Bahns's at 49 basis points (or 0.49 per cent).

This benchmarking exercise is useful when establishing a fair relative price for a new bond at the time of the issue. It is less relevant when comparing the actual costs of borrowing, as these would largely be driven by the level of interest rates at the time of the transaction in addition to factors described above. Please let me know if the Committee would like a briefing from my team on our approach to borrowing and I will be happy to arrange this.

Details of which fares are covered by the fares freeze and which are not

The Mayor's TfL fares freeze covers:

- All London bus and tram fares, including bus and tram passes and pay as you go caps;
- Emirates Air Line fares;
- All Tube and DLR pay as you go and cash single fares;
- All single fares on London Overground and TfL Rail services where Tube fares apply; and
- All single fares on train operating company (TOC) run services in London where Tube fares apply (i.e. services that run parallel – or provide a clear substitute – to the Tube, such as the C2C service between Upminster and Fenchurch Street).

The freeze does not apply to fares which are set by the Department for Transport's franchised TOCs. Attachment 2 provides this information as a table and I would be happy to provide further details should this be required by the Committee.

Details of how the income from Travelcards and other fares not set by TfL is distributed between train operating companies and TfL

The income from Travelcards and other fares that are not set by the Mayor is shared between the TOCs and TfL based on long-standing contractual agreements. In general, revenue is shared based on the use ticket holders make of our services and TOC services that accept the tickets.

For many years, market research surveys have been the primary source used to determine Travelcard usage. However, work is underway to base revenue sharing on actual Oyster and contactless trips. This new methodology will be available next year, but it is unlikely to be used practically in revenue sharing calculations until current rail franchises are renewed.

Overall, just under 60 per cent share of the revenue from Travelcards is allocated to TfL services, with the remaining 40 per cent allocated to National Rail services.

The expected increased income from ending free travel for nominees of staff earning over £100,000 per year and the methodology for calculating that increased income

As the Mayor mentioned to the Assembly recently, while the financial savings to us would be relatively modest, it is right that we look at the benefits received by those earning a base salary of more than £100,000 per year. This is just one aspect of the wider root and branch review we are undertaking to reduce our costs to deliver a better and more efficient organisation.

One hundred and fifty six nominee Oyster cards are linked to staff earning a base salary of more than £100,000 per year. We estimate that these nominees would pay fares of around £30,000 per year – or around £200 each – if their passes were withdrawn. This estimate is based on average results and assumes less travel if free journeys were withdrawn. Where staff commute from outside of London, their nominees tend to make minimal use of their passes. Where staff live in inner London, usage tends to be higher than average.

Revenue estimates for the Ultra Low Emission Zone

The Mayor launched his Clean Air Consultation earlier this month, including proposals to bring forward and expand the Ultra Low Emission Zone (ULEZ). As the final design, scope and parameters of the scheme are still being considered and are subject to consultation, we are not yet in a position to provide revenue estimates for the ULEZ. I will provide a further written update to the Committee as soon as these estimates are available.

An estimate of the advertising income in 2015/16 for advertisements that would now not be permitted under the ban on advertisements depicting an unhealthy body image

From an overall advertising income of £169m in 2015/16, we estimate that around £75,000 would have been impacted by the new policy. However, we do not expect future revenues to be affected. This is because we will work with advertisers and agencies to ensure they meet our requirements.

Advertising on our network is unique in that it is a closed environment where customers cannot simply turn a page or change the channel. Our new advertising policy ensures that advertisements meet the expectations of our customers, including on issues of body image.

If you would like any further information please let me know. I also look forward to providing the Committee with an update on the progress of the root and branch review of the organisation, the improvements we are making to our financial reporting and to answer any other questions you may have at the session we have scheduled on Monday 17 October 2016.

Yours sincerely

Ian Nunn
Chief Finance Officer

cc: Dale Langford, Principal Budget and Performance Committee Manager

Attachment 1: Transport for London and comparable sterling bonds and current trading levels against UK government gilts

Company	Credit Rating	Bond (coupon, final repayment year)	Date Issued	Size	Current spread to reference gilt (trading level), basis points
Transport for London	Aa2 / AA	1.250% due 2017	Nov-12	£300m	53
Deutsche Bahn	Aa1 / AA-	1.375% due 2017	Oct-12	£300m	49
Transport for London	Aa2 / AA	2.250% due 2022	Jul-12	£500m	75
Deutsche Bahn	Aa1 / AA-	2.750% due 2022	Jun-12	£400m	63
Network Rail	Aa1 / AA	4.750% due 2024	Jan-05	£750m	27
Transport for London	Aa2 / AA	1.250% due 2025	Apr-15	£400m	74
Deutsche Bahn	Aa1 / AA-	3.125% due 2026	Jul-13	£425m	59
London & Quadrant	A1 / AA-	2.625% due 2026	Apr-16	£300m	91
Network Rail	Aa1 / AA	4.375% due 2030	Dec-05	£875m	42
Transport for London	Aa2 / AA	4.000% due 2033	Sep-13	£300m	71
London & Quadrant	A1 / AA-	4.625% due 2033	Mar-12	£250m	118
Community Finance (GLA)	NR / AA	5.017% due 2034	Jul-11	£600m	78
Transport for London	Aa2 / AA	3.875% due 2042	Jul-12	£500m	72
Transport for London	Aa2 / AA	3.625% due 2045	May-13	£400m	72
Cardiff University	Aa2	3.000% due 2050	Feb-16	£300m	71
University of Leeds	Aa2	3.125% due 2050	Feb-16	£250m	68
University of Cambridge	Aaa	3.750% due 2052	Oct-12	£350m	46
University of Manchester	Aa1	4.250% due 2053	Jul-13	£300m	64
Transport for London	Aa2 / AA	4.000% due 2064	Mar-14	£500m	72

Source: Bloomberg, 19 July 2016

Attachment 2: Fares included and not included in the Mayor's fares freeze

Table 1 - Bus and Tram fares included in the Mayor's freeze

Fare	Types
PAYG single fare	Adult Half price concession for jobseekers and Income Support/ESA/JSA recipients
One Day Cap	Adult Half price concessions as above
Monday to Sunday Bus cap	Adult (contactless only)
Bus Pass season – weekly, monthly and annual	Adult Students and apprentices (1/3 off) Half price concessions as above

Table 2 – Tube and DLR fares included in the Mayor's freeze
These fares are also frozen on TOC services where Tube fares are accepted, on London Overground and on TfL Rail

Fare	Types
PAYG single fares	Adult Child fares for 11-15 year olds Half price concession for 16/17 year olds, jobseekers Off-peak concession for railcard holders
Cash single fares	Adult Child

Table 3 – Fares not included in the Mayor's freeze

Fare	Types
TOC cash fares, PAYG single fares and rail season tickets	All
Travelcard season – weekly, monthly and annual	Adult Students and apprentices (1/3 off) Half price concession for under 16s and 16-17 year olds
Day Travelcard	Adult, child and Railcard concession
Multi-modal PAYG Daily Caps	Adult Child cap for 11-15 year olds Half price cap for 16/17 year olds, jobseekers Off-peak concession for railcard holders
Monday to Sunday Travelcard cap	Adult (contactless only)

GREATERLONDONAUTHORITY LONDONASSEMBLY

Subject: Action Taken Under Delegated Authority

Report to: Budget and Performance Committee	
Report of: Executive Director of Secretariat	**Date: 29 September 2016**
This report will be considered in public	

1. Summary

1.1 This report sets out action taken by the Chairman under delegated authority.

2. Recommendations

2.1 **That the Committee notes the action taken by the Chairman, Gareth Bacon AM, under delegated authority, namely to:**

(a) Agree the topic, scope and terms of reference for the Committee's meeting on 29 September 2016; and

(b) Write to the Mayor requesting his response to the Committee's March 2016 report on Transport for London's failed re-signalling contract with Bombardier.

3. Background

3.1 Under Standing Orders and the Assembly's Scheme of Delegation, certain decisions by Members can be taken under delegated authority. This report details those actions.

4. Issues for Consideration

4.1 At its meeting on 14 July 2016, the Committee resolved:

> *That authority be delegated to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to agree the topic, scope and terms of reference for the Committee's meeting on 29 September 2016.*

4.2 Following consultation with party Group Lead Members, the Chairman agreed the topic for the 29 September meeting would be European Union (EU) funding, including what impact the UK's exit from the EU might have on EU funding, both for the GLA group and more widely across London. Further details are set out in the report at Agenda Item 6.

City Hall, The Queen's Walk, London SE1 2AA
Enquiries: 020 7983 4100 minicom: 020 7983 4458 www.london.gov.uk

4.3 At its meeting on 14 July 2016, the Committee resolved:

> *That Authority be delegated to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to write to the Mayor requesting his response to the Committee's March 2016 report on Transport for London's failed re-signalling contract with Bombardier.*

4.4 Following consultation with party Group Lead Members, the Chairman agreed a letter to the Mayor requesting his response to the Committee's March 2016 report on Transport for London's failed re-signalling contract with Bombardier. The letter is attached for noting at **Appendix 1**.

5. Legal Implications

5.1 The Committee has the power to do what is recommended in the report.

6. Financial Implications

6.1 There are no direct financial implications to the GLA arising from this report.

List of appendices to this report:

Appendix 1 – Letter to the Mayor re report on Transport for London's failed re-signalling contract

Local Government (Access to Information) Act 1985

List of Background Papers:

Member's Delegated Authority forms 719 (September meeting topic) and 720 (Letter re re-signalling contract report)

Contact Officer: Dale Langford, Principal Committee Manager
Telephone: 020 7983 4415
E-mail: dale.langford@london.gov.uk

LONDONASSEMBLY

Appendix 1

Gareth Bacon AM
Chairman of the Budget and Performance Committee

Sadiq Khan
Mayor of London
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA

City Hall
The Queen's Walk
London SE1 2AA
Switchboard: 020 7983 4000
Minicom: 020 7983 4458
Web: www.london.gov.uk

18 July 2016

Dear Mr. Mayor,

Transport for London's Signal Failure

Earlier this year, the Committee published Transport for London's Signal Failure, its report into Transport for London's (TfL's) decision to cancel its contract with Bombardier Transport on the Sub-Surface Upgrade Programme (SSUP). The report noted that as a result of TfL's mismanagement of the Bombardier contract, the SSUP is now five years behind schedule and TfL has £900 million less to spend on capital projects than it previously had.

I attach our report, which includes two recommendations for your consideration. The previous Mayor and the Transport Commissioner have responded, and I have attached copies of their replies.

I would be grateful for your response to the report's recommendations by 18 October 2016. Please send a copy of your reply to Lucy Pickering, Scrutiny Manager at lucy.pickering@london.gov.uk.

Yours sincerely,

Gareth Bacon AM
Chairman of the Budget and Performance Committee

Contact: Lucy Pickering, Scrutiny Manager, City Hall, Queen's Walk, London SE1 2AA
Tel: 020 7983 5770; email: lucy.pickering@london.gov.uk

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Subject: EU Funding after the EU Exit Vote	
Report to: Budget and Performance Committee	
Report of: Executive Director of Secretariat	**Date: 29 September 2016**
This report will be considered in public	

1. Summary

1.1 This report provides information on the Committee's consideration of European Union (EU) funding in the context of the UK's decision to leave the European Union.

2. Recommendation

2.1 **That the Committee notes the report, puts questions to guests on EU funding following the UK's decision to leave the EU and notes the subsequent discussion.**

3. Background

3.1 Following the vote to leave the EU on 23 June 2016, the future of the UK's access to EU funding became uncertain. While Article 50 has yet to be invoked, organisations across the capital, both public and private, are taking stock of what the consequences may be and how they can adapt to a future outside of the EU. The GLA is no exception.

European Structural and Investment Funds

3.2 The GLA is both a distributor and recipient of EU funding in London. The European Structural and Investment Funds (ESIF) are comprised of two funds - the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The GLA has full Intermediate Body status for the 2014-2020 funding cycle for both of these funds, meaning that both are managed by the GLA itself, via the in-house European Programmes Management Unit. Strategic oversight over both funds is provided by the London Enterprise Panel (LEP).

3.3 London as a whole has been allocated a total of £584 million from the ERDF and ESF across the 2014-2020 funding cycle: £159 million in ERDF and £425 million in ESF. Funding can be issued as grants, but also as a financial instrument such as a loan. The GLA distributes this funding, but may also be a direct recipient. The GLA has already been formally allocated £9.1 million of direct ESIF funding and over the course of the 2014-2020 funding cycle is set to receive £22.8 million more for projects not yet fully procured.

Other sources of funding

3.4 As well as receiving funding distributed through the GLA, organisations may also apply directly to the EU for funds, via a variety of schemes. Horizon 2020, which supports research and innovation programmes, is one such example.

3.5 Another source of EU funding is the European Investment Bank (EIB). The EIB provides financing to sustainable investment projects which contribute to furthering EU policy objectives. It is the largest multilateral borrower and lender in the EU, lending over €62 billion in 2015.

4. Issues for Consideration

4.1 This is the first time that this Committee has considered this issue specifically. The Budget Monitoring Sub-Committee previously considered the European Structural and Investment Funds programme on 16 December 2015.

4.2 This meeting provides an opportunity to discuss EU funding in the context of the UK's decision to leave the EU. The following expert guests have been invited to attend the meeting:

- Alex Conway, European Programmes Director, GLA;
- Naomi Weir, Deputy Director of the Campaign for Science and Engineering; and
- Madeleine Williams, Director of Access Europe Network and observer on the London Enterprise Panel's ESIF Committee.

5. Legal Implications

5.1 The Committee has the power to do what is recommended in this report.

6. Financial Implications

6.1 There are no direct financial implications of this report.

List of appendices to this report:
None

Local Government (Access to Information) Act 1985
List of Background Papers: None

Contact Officer:	Will King, Budget and Performance Adviser
Telephone:	020 7983 5770
Email:	will.king@london.gov.uk

Subject: Transport for London's Financial Challenge	
Report to: Budget and Performance Committee	
Report of: Executive Director of Secretariat	**Date: 29 September 2016**
This report will be considered in public	

1. Summary

1.1 This report sets out for the Committee's agreement the report on Transport for London's financial challenge.

2. Recommendation

2.1 **That the Committee agrees the report on Transport for London's financial challenge, as attached at Appendix 1.**

3. Background

3.1 On 28 June 2016, the Budget and Performance Committee agreed to conduct an investigation into Transport for London's (TfL) financial challenge. The terms of reference were:

- To define TfL's financial challenge at day one of the Mayor's term.
- To assess the implications of the Mayor's transport commitments on TfL and on passengers.
- To examine and influence TfL's early plans for managing its financial position and implementing the Mayor's transport commitments.

3.2 On 28 June 2016, the Committee put questions to:

- Ian Nunn, Chief Finance Officer, TfL; and
- Graeme Craig, Director of Commercial Development, TfL.

3.3 On 14 July 2016, the Committee put questions to:

- Nicole Badstuber, Researcher, LSE Cities;
- Stephen Locke, Chair of London TravelWatch; and
- Jonathan Roberts, Transport Planning Adviser.

4. Issues for Consideration

4.1 The Committee's report, *Transport for London's financial challenge*, was published on 8 September 2016, and is attached at **Appendix 1**.

4.2 The report recommendations, which fall within the agreed terms of reference, are as follows:

Recommendation 1
Six months before the next Mayoral election, TfL should publish a set of highly transparent, basic fare income data and assumptions, on which candidates can base manifesto commitments, and inform the public's understanding of any proposed changes.

Recommendation 2
TfL should publish the full costs of the fares freeze, the hopper ticket, and concessionary fares in its subsequent annual reports.

Recommendation 3
In its next business plan, TfL should set out its best estimate of the impact of the UK's exit from the EU on TfL. This should include an assessment of the impact on:

- Passenger growth and fares income
- Borrowing costs
- Commercial plans
- Staff recruitment and retention
- EU grants and EU-funded transport research.

Recommendation 4
The Mayor should instruct TfL to review its concessionary fares system to ensure it meets the objectives of his forthcoming Transport Strategy.

Recommendation 5
The next TfL Business Plan should clearly set out the investment priorities compared to the previous business plan so observers can easily see what has changed, and how delivery milestones have been affected.

Recommendation 6
The TfL Board must rigorously scrutinise any proposal for TfL to take over any suburban rail service— including the transfer of liabilities—to ensure that robust plans and financial arrangements are in place to make devolution a success.

Recommendation 7
In response to this report, TfL should set out clear plans for achieving the savings and efficiencies set out in its press release of 8 June 2016.

Recommendation 8
In all future Operational and Financial Performance reports, TfL should set out what savings and efficiencies it has made in each business area, what further reductions are planned, and the impact of these changes on the organisation.

5. Legal Implications

5.1 The Committee has the power to do what is recommended in this report.

6. Financial Implications

6.1 There are no direct financial implications of this report.

List of appendices to this report:

Appendix 1 – *Transport for London's financial challenge*.

Local Government (Access to Information) Act 1985

List of Background Papers: None

Contact Officer:	Dale Langford, Principal Committee Manager
Telephone:	020 7983 4415
E-mail:	dale.langford@london.gov.uk

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Appendix 1

LONDONASSEMBLY

Transport for London's financial challenge

Budget and Performance Committee

September 2016

Holding the Mayor to account and investigating issues that matter to Londoners

LONDONASSEMBLY

Budget and Performance Committee Members

Gareth Bacon AM
(Chairman)
Conservative

Unmesh Desai AM
Labour

Len Duvall AM
(Deputy Chair)
Labour

Caroline Pidgeon MBE AM
Liberal Democrat

Sian Berry AM
Green

Keith Prince AM
Conservative

Leonie Cooper AM
Labour

The Budget and Performance Committee holds the Mayor to account for his financial decisions and performance across the Greater London Authority. It is responsible for scrutinising the Mayor's budget proposals for the next year, and carrying out investigations across the Mayor's various policy areas, such as transport, police, fire, housing, and regeneration.

Contact

Lucy Pickering, Scrutiny Manager
Email: Lucy.Pickering@london.gov.uk
Contact: 020 7983 5770

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Contents

Gareth Bacon AM

Chair of the Budget and Performance Committee

For many Londoners, public transport is a necessary evil. Transport for London (TfL) provides a range of transport options to help people get around this fantastic city. Its performance ratings are good and its service is the envy of most major world cities. But, as many Londoners know, the buses can be slow and unreliable, tube trains are often hot and overcrowded, and the roads can be congested and dangerous.

Major capital investment in the transport network is needed to keep London moving as its population continues to grow. But the funding to support capital investment is now at risk. Government funding will fall faster than TfL had previously expected. And the Mayor's fares freeze will cut TfL's income even further.

What will the Mayor's commitments mean for TfL, and by implication, Londoners? This summer we put these questions to TfL and asked how it intends to do more with less. Perhaps unsurprisingly, TfL hasn't worked out a solution yet. But some of what we heard hasn't exactly filled us with confidence. TfL says it has plans to save money through better procurement, but it could not give us any examples of current contracts that are not delivering value for money. It hopes to generate more commercial income, but this could be at odds with the Mayor's desire to build more affordable housing on TfL land. And TfL is undergoing a "root and branch" review long before the Mayor publishes his Transport Strategy: will TfL be able to deliver the Mayor's transport priorities?

> "Will TfL be able to deliver the Mayor's transport priorities?"

It's obviously not all doom and gloom though. The fares freeze and hopper ticket will benefit millions of passengers; TfL will still be expanding and improving the transport network; and the opening of the Elizabeth Line is still on track for 2018. And TfL could extend its Overground network across some of the suburban rail lines, such as Southern, which are currently causing misery for passengers.

This report presents our initial analysis of TfL's financial challenge. It identifies many issues that we expect to return to throughout the Mayor's term. We look forward to scrutinising the Mayor's and TfL's plans to improve our transport network and provide the necessary services to keep London moving.

Summary

Whoever had been elected as London's new Mayor in May would have been faced with a major financial challenge at TfL. It had just published a Business Plan based on £2.8 billion less revenue funding than in its previous 2014 Business Plan. And, as this Committee reported earlier this year, TfL's failed contract with Bombardier on the Sub-Surface Upgrade Programme left it with £900 million of extra cost and £270 million of lost fare income.

The Mayor's commitments on fares—while undoubtedly welcome to passengers—have made TfL's financial position even more strained.

On top of this, the Mayor's commitments on fares—while undoubtedly welcome to passengers—have made TfL's financial position even more strained. After some dispute, the cost of the fares freeze has been agreed at £640 million (confusion over this figure was not helpful to voters and we hope TfL will take steps to ensure it doesn't happen in future elections). And the bus hopper ticket will cost TfL a further £30-£50 million a year.

TfL's financial situation became even more uncertain on 23 June when the UK voted to leave the European Union. TfL appears to have no plans about how it will manage any loss of funding, research, or staff from the EU. We expect TfL to explain how it will manage the risks and consequences of the referendum result in its next Business Plan.

In the Business Plan, due in December, TfL will set out how it plans to deal with its financial challenges. We expect it to contain more carefully-costed savings plans than we have seen so far. For example, the Mayor's announcement on the savings to fund the first two years of the fares freeze contained a number of arbitrary figures and are currently unsupported by any firm delivery plans; we are yet to be convinced that these savings will actually be delivered.

As well as making savings, TfL is also seeking to increase its income. Most of TfL's income comes from fares revenue, and this will continue to grow as London's population increases and the Elizabeth Line opens. But fare growth can't be taken for granted. TfL is currently seeing its bus fares income fall as reliability deteriorates across London's congested road network. TfL must maintain quality standards, or it risks losing passengers and the fare revenue they generate. Furthermore, TfL is now hamstrung by the Mayor's promise to freeze fares and protect the existing concessionary fares structure. Concessions may offer a potential source of savings. Nobody wants to take concessions away, but, at a time of such financial constraint, the Mayor needs to ensure that existing concessions are the most cost-effective way of supporting his policy objectives. There may be better ways of supporting certain groups to travel around London.

TfL continues to implement its ambitious commercial plans, but its property development initiatives now have to accommodate the Mayor's wish to increase the share of affordable housing. This will inevitably reduce TfL's financial return on these sites. We share TfL's own concerns about the Mayor's plan to create a new trading arm to run transport services outside of London. There is no guarantee that this will be profitable, and we do not want TfL to be distracted from its vital role in London at such a challenging time.

While much of the focus has been on cuts to TfL's revenue funding, we are particularly concerned at the risks to TfL's capital investment programme. Indeed, the two are inextricably linked. Not only has TfL's revenue funding been used to directly support its capital investment, any cuts or delays to capital projects are likely to have a negative effect on TfL's fares income. The delay to the Sub-Surface Upgrade Programme is a case in point. The previous Mayor's budget for 2016-17 set out a list of TfL projects that were under threat because of the Spending Review announcement. Despite the Mayor's assurances that TfL's capital programme is safe, all of TfL's projects are seemingly at some risk as TfL conducts its root-and-branch review. If TfL cannot meet its funding gap by cutting costs and increasing income, then capital projects may have to be scaled back, delayed or cancelled.

> We are particularly concerned about the risks to TfL's capital investment programme.

Financial constraints also apply to any ambition the Mayor and TfL might have to take over suburban rail services. While in principle we completely support the arguments in favour of rail devolution, TfL's current Business Plan has no funding earmarked for this, and the Mayor should only agree to take on further services with a suitable funding package in place.

All of these changes are risky, and TfL must ensure it has the right people and the right structures to implement them successfully. We are concerned that TfL is going through such a period of change in the year before the publication of the Mayor's Transport Strategy, where he will set out his priorities and objectives for TfL to deliver. While we fully support TfL's efforts to become a more efficient organisation, it must ensure it remains appropriately resourced and organised for its main purpose, which is to keep London moving.

Recommendations

Recommendation 1

Six months before the next Mayoral election, TfL should publish a set of highly transparent, basic fare income data and assumptions, on which candidates can base manifesto commitments, and inform the public's understanding of any proposed changes.

Recommendation 2

TfL should publish the full costs of the fares freeze, the hopper ticket, and concessionary fares in its subsequent annual reports.

Recommendation 3

In its next business plan, TfL should set out its best estimate of the impact of the UK's exit from the EU on TfL. This should include an assessment of the impact on:

- Passenger growth and fares income
- Borrowing costs
- Commercial plans
- Staff recruitment and retention
- EU grants and EU-funded transport research.

Recommendation 4

The Mayor should instruct TfL to review its concessionary fares system to ensure it meets the objectives of his forthcoming Transport Strategy.

Recommendation 5

The next TfL Business Plan should clearly set out the investment priorities compared to the previous business plan so observers can easily see what has changed, and how delivery milestones have been affected.

Recommendation 6

The TfL Board must rigorously scrutinise any proposal for TfL to take over any suburban rail service— including the transfer of liabilities—to ensure that robust plans and financial arrangements are in place to make devolution a success.

Recommendation 7

In response to this report, TfL should set out clear plans for achieving the savings and efficiencies set out in its press release of 8 June 2016.

Recommendation 8

In all future Operational and Financial Performance reports, TfL should set out what savings and efficiencies it has made in each business area, what further reductions are planned, and the impact of these changes on the organisation.

1. Introduction

Key findings

- Transport for London (TfL) was facing a number of significant financial challenges, even before the 2016 Mayoral election.
- TfL’s annual revenue funding from Government will be cut from £700 million to zero two years earlier than expected.
- TfL was facing £900 million of extra cost and £270 million of total lost fares revenue from the failure of a key tube upgrade contract.
- We will have to wait until TfL publishes its revised business plan in December 2016 to assess what areas TfL will prioritise and what the consequences will be for London’s transport network.

Background

1.1 Even before the May 2016 London Mayoral Election, TfL was under financial strain. It knew it was facing cuts to some major revenue streams and cost increases on key projects, and had already started a major review of its finances. The former Mayor's budget for 2016-17 identified a funding gap for TfL. It had not identified additional funding sources to address its deficit, which meant that projects within its investment programme were at risk.

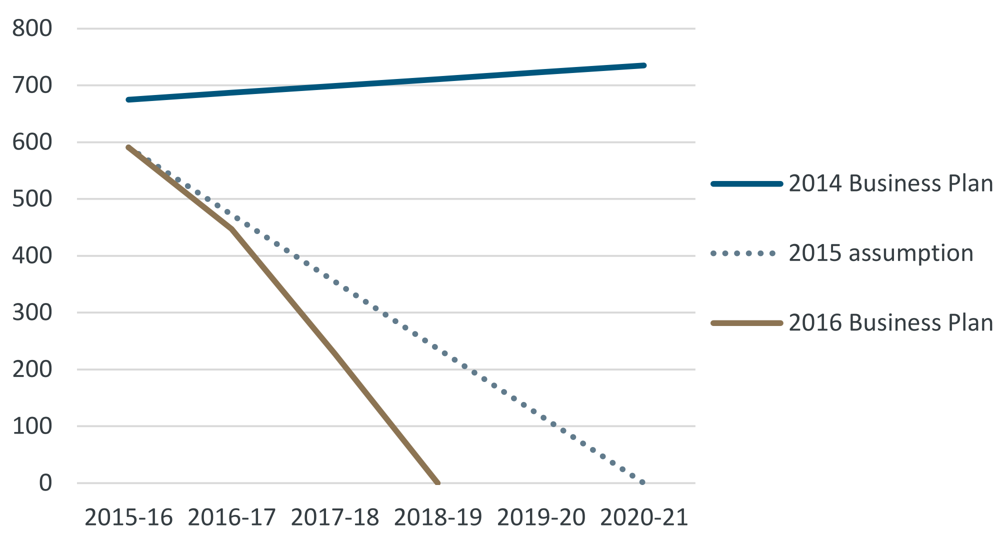
Uncertain revenue streams

Loss of the revenue grant

1.2 In the 2015 Spending Review, the Government accelerated how fast it was cutting its revenue grant to TfL to zero. TfL's previous business plan (published in 2014) had not assumed significant cuts to its revenue grant. And while TfL told this Committee in January that it had been expecting the Government to stop providing revenue funding by 2020-21, the Government brought forward this cut-off point by two years to 2018-19. According to TfL, the Government had cut its grant funding by a total of £2.8 billion from 2015-16 to 2020-21.[1] As Mike Brown, Transport Commissioner, told this Committee

> "It is no mistake and no misleading statement to say that we are very disappointed with where this leaves us. This is a challenge. We have some major cost savings to achieve."[2]

TfL's revenue grant from Government is being cut much faster than previously expected (£ millions)



Sources: [TfL Business Plan 2014] (page 82) and [TfL Business Plan 2016] (pages 62 and 68).

Note: our 2015 assumption is based on a regular cut in grant from 2015-16 to 2020-21.

1.3 The scale and speed of the cuts to TfL's revenue grant are the most significant elements of TfL's current financial difficulties. TfL had been hoping for some recompense in terms of an increase to its capital grant, but was not able to secure this from Government. And, because TfL has traditionally used part of its revenue grant to fund capital projects, this cut will have an impact on TfL's investment programme. In January, TfL told us this would equate to approximately £300 million less to spend on capital projects a year than previously planned.[3]

Reliance on business rates income

1.4 As the Government reduces TfL's revenue grant, TfL will become more dependent on other sources of income, such as business rates. TfL's current Business Plan, published in March 2016, states that TfL expects to receive £854 million in retained business rates in 2016-17, increasing steadily to £934 million in 2020-21. And, in the previous Mayor's March 2016 Budget, the Government also announced its intention to replace TfL's £960 million capital investment grant with retained business rates income from 2017-18.

1.5 But business rates income can be volatile. For example, the GLA's projections for income from retained business rates for 2014-15 changed from a £40 million surplus in January 2014 to a £38 million deficit by September 2015. Furthermore, the Mayor has limited scope to increase the GLA's business rates income, and is heavily dependent on both the boroughs' ability to collect business rates and Government policy on issues such as revaluations. The Mayor, the GLA and London Councils are lobbying Government to make the new system work better for London.

1.6 TfL might also see its business rates income cut if the Mayor decides to prioritise other parts of the GLA Group. TfL currently receives the vast majority of the business rates income the GLA retains in London. But the Mayor has indicated that he might vary the allocation of this income between the GLA and its functional bodies – something the previous Mayor tended not to do.[4] TfL is unlikely to see its share increase at the expense of smaller organisations in the GLA Group; it is more likely to see it cut – for example if the Mayor chose to use this income to support the London Fire and Emergency Planning Authority. While this change in approach gives the Mayor greater flexibility across the GLA Group, it adds more uncertainty for TfL as it puts its budget together.

Rising costs

Sub-Surface Upgrade Programme

1.7 TfL's poor management of the Sub-Surface Upgrade Programme (SSUP) has left it with almost £900 million of unexpected cost, with knock-on effects for its capital investment programme and fares income. The SSUP was a key part of TfL's plans to increase capacity on the tube network by upgrading the overcrowded District, Circle, Metropolitan and Hammersmith & City lines. As highlighted in the committee's March 2016 report, *TfL's Signal Failure*, the delay and majority of the cost increase to the SSUP is a result of TfL's failed contract with Bombardier Transport.[5] TfL terminated Bombardier's contract in December 2013 and has since appointed Thales to take over the programme. The SSUP is now not expected to be completed until 2023 – five years late. As well as the £900 million of unexpected capital cost, TfL will lose out on approximately £270 million of fares income during these five years. The failure of this contract will therefore have far-reaching consequences for TfL and for passengers across the network.

The Northern Line extension

1.8 The £1 billion Northern Line extension, which is due to open in 2020, is another potential pressure on TfL's finances. TfL's current Business Plan includes plans to extend the tube line southwards and build a new station at Nine Elms. The GLA is primarily financing the investment by borrowing against the expected increase in business rate receipts resulting from the Nine Elms development scheme.

1.9 The cost of the extension has recently increased and it is not yet clear how much of this additional cost will need to be met by TfL. Changes to the design of the tube station at Battersea Power Station are estimated to require an extra £240 million of budget. TfL is attempting to recover these extra costs from the development company, but if it fails to receive the full amount for the additional work, TfL will have to fund it out of its existing budget.

Investment at risk

1.10 In the face of declining revenue and rising costs, TfL's existing capital investment plan is at risk. The former Mayor's 2016-17 budget listed a number of TfL activities and projects that are now under review in light of the Government's November 2015 Spending Review:

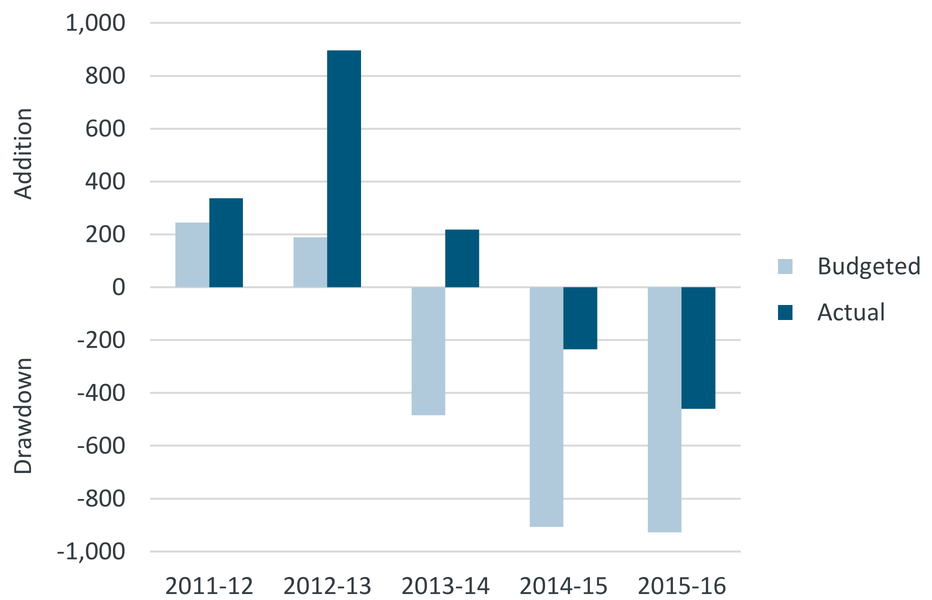
- TfL growth fund – £300 million
- Old Oak Common stations – £250 million
- Cycle hire integration – £105 million
- Cycling infrastructure – £100 million
- Sutton tram extension – £100 million
- Air quality – £100 million
- Station accessibility – £75 million
- Roads and Traffic Policing Command – £25 million
- Road safety – £20 million

Only when TfL publishes its next Business Plan in December 2016 will we know what the implications are for these priorities, and what the wider consequences will be for London's transport network.

1.11 In recent years, TfL has supported some of its capital investment through revenue contributions. This means it has budgeted to collect more income from day-to-day services than it spends running them, and has used this surplus to contribute to the cost of new infrastructure. As the committee noted in its 2015 Pre-Budget Report, TfL had planned to use £800 million of revenue funding to fund capital projects from 2019-20.[6] But given TfL's revenue grant is declining at an accelerated pace, and its income from business rates is not guaranteed, TfL may find it harder to supplement its capital budget in this way in the future. This might mean TfL needs to cut or delay capital projects currently in the pipeline.

1.12 TfL might choose to draw down more of its reserves to fund its capital programme. As of 31 March 2016, TfL had £3.2 billion of usable reserves, of which £1.3 billion were earmarked reserves.[7] As the chart below shows, TfL has consistently drawn down less from its reserves than it had budgeted in each of the last five years.

In each of the last five years, TfL has drawn down less from its reserves than planned (£ millions)



Source: TfL Annual Report and Statement of Accounts years 2011-12 to 2014-15 and TfL Budget and Business Plan years 2011-12 to 2015-16.

1.13 That said, if TfL was to replicate its drawdown of £460 million in 2015-16 in the next few years, it would find its reserves level becoming precarious by 2018-19. While using reserves to meet short-term budget needs is reasonable, we would be extremely concerned if there was any indication that TfL intended to draw its reserves down to the bare minimum in an attempt to address its financial problems. TfL will not be financially sustainable if it relies on its reserves in the long-term.

2. The challenge ahead

Key findings

- On top of existing financial pressures, TfL now has to deal with the implications of implementing the Mayor's manifesto commitments and the outcome of the EU referendum.
- The fares freeze will cost TfL some £640 million over the next four years. The confusion over the scope and cost of the fares freeze was not helpful to voters during the election campaign, and TfL should take steps to prevent this happening before the next election.
- The implications of the EU referendum result for TfL are uncertain. In its next Business Plan, TfL must set out how it expects the result and future EU exit to affect its business.

The challenge ahead

2.1 Since the publication of its last Business Plan, in March 2016, two major events have occurred that will significantly affect TfL: the election of a new Mayor with a new set of priorities and policies, and the outcome of the EU referendum.

Costing the Mayor's manifesto commitments

2.2 Following the election of Mayor Sadiq Khan in May 2016, TfL had a set of new transport manifesto commitments to implement, adding to the challenging situation it already faced. Among these were three significant fares commitments:

- Freezing all TfL fares (and charges for the Mayor's cycle scheme) for four years.
- Introducing 'The Hopper' bus ticket, allowing passengers to change buses within an hour of the start of their first journey.
- Guaranteeing the Freedom Pass and the over-60s Oyster card, along with all other existing concessionary fare schemes.[8]

The fares freeze

2.3 There has been a lot of discussion and confusion over what the Mayor's fares freeze commitment actually means. In January 2016, Sadiq Khan said it would cost £450 million, yet the following month TfL told the Assembly that it would actually cost some £1.9 billion.[9] Despite this being such a crucial part of the election campaign, there was no agreed figure that voters could take confidence in.

2.4 TfL published a new figure of £640 million after the election, and we have obtained an explanation from TfL for the huge change in its estimate.[10] The key reasons the revised estimate is almost £1.3 billion lower are that:

- The new estimate only covers fares set by TfL. The £1.9 billion figure assumed TfL would fund the cost of freezing National Rail fares in London, which are set by the Government.
- It is based on a four-year period (the Mayor's term), rather than a five-year period (the period covered in TfL's Business Plan).
- It uses more recent inflation assumptions, which are lower than before.

The table below provides more detail.

The estimated cost of the fares freeze has changed (£ millions)	
Original TfL estimate (February 2016)	1,910
Removing the cost of freezing fares not within the Mayor's direct control (such as Travelcards)	-666
Costing the freeze over four years, rather than five	-460
Reduction in inflation forecast from July 2016 (from 3.5% to 1.9%) and changes in traffic forecasts	-108
Reduction in inflation forecast for July 2015 (from 1.9% to 1.3%)	-64
Slight increase in forecast Tube/rail demand and decrease in forecast bus demand	28
Revised TfL estimate (June 2016)	640
Source: Letter from Mike Brown (Transport Commissioner) to Chair of the committee, 20 June 2016	

2.5 From this information, we think TfL's estimate of £1.9 billion was unrealistically high:

- Including the cost of fares outside the Mayor's control was unusual, although this could have been avoided if the Mayor had explained the scope of his fares freeze more clearly during his election campaign.[11]
- TfL should have calculated a figure covering the Mayoral term, rather than its own business planning period which is irrelevant to voters.
- TfL used inflation assumptions dating from early 2015 even though more recent inflation forecasts were available.[12]

2.6 The Mayor has since clarified that the fares freeze is limited to TfL fares only, and he does not expect TfL to fund the cost of freezing fares set by the Government. In June, he told the Assembly:

> "My promise to freeze TfL fares is there, but obviously I cannot make the Government do what I am doing. As far as the train operating companies are concerned, it is for the Department of Transport to make sure they fulfil a promise that I made for Londoners."

He added he would continue to lobby the Government to freeze the fares it sets in London, but he has not succeeded. In August, the Government announced that regulated rail fares would rise by 1.9 per cent from January

2017, in line with July's RPI inflation figure.[13] So while passengers who only use TfL services will benefit from no increase to their fares, those using National Rail services (and passengers buying travelcards) will see their fares increase.

The hopper ticket

2.7 The bus hopper ticket will add further pressure to TfL's finances. TfL has said it is expecting to roll out its hopper ticket in two stages: the first stage—which will go live in September 2016—will allow bus passengers to make one transfer within an hour of starting their first journey, and a second stage in 2018 with unlimited transfers within an hour. Offering passengers free interchanges between bus journeys has many benefits – as well as reducing costs for passengers, it should encourage some people to switch from cars to buses and may also allow TfL to reform and rationalise its bus network. However, there is a cost implication for TfL, since it will lose the additional revenue it used to receive when charging for each individual trip. While TfL told us that the hopper would save Londoners £31 million a year, it will cost TfL the same in lost revenues. We would welcome further detail from TfL on the costs and benefits of this new ticket, including how it intends to handle 'asymmetric journeys' or delayed journeys.[14]

Concessionary fares

2.8 The Mayor's commitment to protect existing concessionary fares— in line with the policy of previous Mayors Livingstone and Johnson—provides certainty to a large number of passengers in London, but comes at a cost to TfL in terms of lost revenue. TfL offers a range of concessions based on:

- Age (such as the 5-10, 11-15, and 16+ Zip Oyster photocards, the 18+ Student Oyster photocard, the 60+ London Oyster photocard, and the Freedom Pass).[15]
- Employment (such as the Apprentice Oyster photocard, the Bus & Tram Discount photocard, the Jobcentre Plus Travel Discount, and the Veterans Oyster photocard).

2.9 TfL lost almost £300 million of fares revenue in 2015-16 as a result of these concessions.[16] Some of these concessions are more costly than others. The 60+ London Oyster photocard, for example, was introduced by the previous Mayor and provides Londoners over the age of 60 with free travel on public transport in London until they reach state pension age and qualify for a Freedom Pass. But as the state pension age steadily increases, more and more people are becoming eligible for this concession, reducing TfL's fares income by more every year. It has been reported that the cost to TfL was £22 million in 2013-14[17] and it has more than doubled to £55 million in 2016-17.[18] By 2019-20 it is forecast to reach around £100 million a year.[19]

2.10 As we discuss in chapter 4, we make no judgment on individual concession schemes, nor are we recommending the withdrawal of any specific scheme, but the costs of these schemes need to be considered when discussing TfL's financial situation so an informed debate can be had.

Costing manifesto commitments

2.11 The confusion over the fares freeze highlights the broader issue of the need to carefully explain and cost manifesto commitments. The huge discrepancy between the figures presented by Sadiq Khan and TfL for the fares freeze created confusion for Londoners in the run-up to the election. Further time and effort was spent explaining and then defending the figure of £640 million and what it really meant.

2.12 To support evidence-based policy making and help the public make informed decisions before the next Mayoral election, manifesto commitments should be properly costed and more carefully explained. We already know that TfL fares are likely to be a key issue in future Mayoral campaigns. We therefore think that TfL should publish a set of simple and robust assumptions regarding revenue from fares in advance of the next election for all candidates and the public to use, and to allow more informed challenge and discussion. This data should be as transparent and irreducible as possible.

Recommendation 1

Six months before the next Mayoral election, TfL should publish a set of highly transparent, basic fare income data and assumptions, on which candidates can base manifesto commitments, and inform the public's understanding of any proposed changes.

Recommendation 2

TfL should publish the full costs of the fares freeze, the hopper ticket, and concessionary fares in its subsequent annual reports.

Costing the implications of the UK's exit from the EU

2.13 In addition to the financial pressures of delivering the Mayor's manifesto commitments, TfL also has to manage the implications of the UK's exit from the EU. While it is difficult to predict the nature, scale and timing of these implications, we are yet to be convinced that TfL is considering its risks properly. TfL therefore needs to carry out a proper review of the risks and opportunities associated with EU exit, including:

- Passenger demand falling below forecasts. There is a clear correlation between economic activity and demand for transport services. Should the referendum result and/or eventual EU exit reduce economic growth (as many forecasts predict), TfL's passenger growth assumptions may have to be revised downwards. Combined with a fares freeze, TfL's fare income would fall below current forecasts. However, at our June meeting, TfL's Chief Finance Officer told us he does "not see any significant impact on the demand for TfL's services."
- Increased borrowing costs. There is a risk that TfL's credit rating could be downgraded, which may have implications for future borrowing costs. One of our external experts, transport consultant Jonathan Roberts, told us in July that "even just a change of a quarter per cent in refinancing some of those loans and bonds could make a significant difference to TfL's bottom line." However, TfL's Chief Finance Officer told us in June that any such changes may be "self-balancing" if interest rates fell at the same time.
- Fall in property prices. TfL's commercial property plans are vulnerable to downturns and uncertainty in London's property market, both in terms of value and timing. TfL has noted that a "reduction in commercial and residential property value would have a negative impact on TfL's Commercial Development Programme."
- Difficulties attracting and retaining specialist staff from outside the UK. Just over 10 per cent of TfL staff are non-UK nationals, although TfL does not know how many of these are from other EU countries. As Nicole Badstuber from LSE Cities told us, "If we look a few years into the future, if they all require visas and sponsorship, it will be quite an additional cost. It will also mean that they will not be able to get the best staff for certain projects or get staff who have worked abroad on other EU projects or in other European cities."
- Loss of EU funding. TfL benefits from a number of grants from the EU, which are said to be relatively low in value but high in policy priority – for example those relating to air quality and environmental projects. Wider changes with EU university grant funding may mean that TfL may lose access to certain research projects. At present there are several Horizon 2020 projects which are examining TfL's development. If TfL loses access to EU research funding, it may lose access to evidence for its investment projects.
- Access to loans from the European Investment Bank (EIB): In the past decade, the EIB has supported a range of projects in London worth a total of £7.3 billion.[20] Loans from the EIB have often proved cheaper than alternatives such as the Public Works Loan Board. While TfL's existing loans will remain in place, it remains to be seen whether TfL will be able to continue to secure loans on the same terms from the EIB after the UK leaves the EU.

2.14 TfL has yet to publish any assessment of the impact of the referendum on its business. Its Finance and Policy Committee has considered the impact of the UK's vote to leave the EU on TfL's borrowing programme, but has reserved this particular paper from publication. While we recognise the referendum result is still only a few months old, we would have expected TfL to have done more work to assess its impact. We suggest it provides a brief assessment of the impact of the referendum result and the future EU exit in its next Business Plan.

Recommendation 3

In its next business plan, TfL should set out its best estimate of the impact of the UK's exit from the EU on TfL. This should include an assessment of the impact on:

- Passenger growth and fares income
- Borrowing costs
- Commercial plans
- Staff recruitment and retention
- EU grants and EU-funded transport research.

3. Reducing costs

Key findings

- TfL has announced plans to save £117 million to meet the cost of the fares freeze over the next two years. But these savings are optimistic and only make up a fifth of the total £640 million needed to fund the fares freeze over four years.
- Some of the specific savings targets – such as a 50 per cent cut in agency staff costs – appear to be arbitrary and unsupported by evidence.
- While we recognise the need to make short-term savings, TfL needs to ensure it is still in a position to implement the Mayor’s Transport Strategy once it is agreed in 2017.

Reducing costs

3.1 As this Committee noted in its 2015 Pre-Budget Report

> "While historically TfL has managed to achieve its required savings, it is now under pressure to find further operational efficiencies to cover its revenue funding cuts. With the majority of TfL's services already running close to capacity and the easier efficiency plans already having been implemented, finding genuine new efficiencies that do not affect service levels will become increasingly difficult."[21]

Implementing the Mayor's manifesto commitments—in particular the fares freeze—was therefore going to place even further pressure on TfL's finances. Doing it without affecting TfL's investment programme would make it even more challenging.

3.2 In June 2016, the Mayor and TfL announced that they had identified savings to cover the first two years of the fares freeze pledge:

> "A fundamental review of TfL's organisational structure to review management layers and eliminate wasteful duplication across all its functions, including bringing together engineering operations and IT departments (estimated saving – £20-25 million).
>
> Improved procurement and renegotiation of contracts from suppliers and other third-party spending which accounts for over two thirds of TfL's total budget (estimated saving – £50-60 million).
>
> The reprioritisation and consolidation of IT projects which delivered relatively low benefits (estimated saving – £20-30 million).
>
> Freezing recruitment for all but the most essential roles and significantly cutting the most expensive of the existing circa 3,000 agency contractors currently engaged by TfL. A reduction of over 100 IT contractors alone will save around £2 million."[22]

3.3 Taking TfL's highest estimates, this equates to £117 million of savings and efficiencies in the next two years above those already planned by TfL (which is less than a fifth of the total cost of the four-year fares freeze). The Mayor has said that TfL's revised business plan (the 'Transport Plan for London') which will be published by the end of 2016, will provide more detail about how TfL will fund its investment programme. It is unclear how TfL intends to fund the first two years of the £640 million fares freeze with these savings set out above.

3.4 TfL is currently undertaking a 'Business and Finance Review' to examine its business practices to identify potential efficiencies. In June, TfL's Chief Finance Officer told us that "given our eclectic growth path, it would be surprising if we did not have duplication [in different businesses]. The job really is to take out that duplication, take out extra layers of management where they exist

[and] make ourselves fit to serve London in the way we should." He suggested that opportunities to find savings are helped by the fact that TfL is a "relatively young" organisation.[23]

Merging engineering functions

3.5 The Mayor's plan to merge TfL's surface and underground engineering functions aims to deliver up to £25 million of efficiency savings by bringing together their procurement and office functions, but this is a fairly insignificant contribution towards the £640 million fares freeze. TfL has been keen to stress that it is not just looking to reform its engineering departments, and that its Business and Finance Review is going much further to identify savings across the organisation. In June, TfL's Chief Finance Officer told us:

> "I would not just want to focus on engineering. Yes, it was a subject in the mayoral campaign, but this is much broader. This is TfL as a whole… There will be no stone left unturned in the complete root-and-branch review… It is not just looking at the engineering function."[24]

3.6 The Mayor and TfL have spoken generally about making these savings, but no announcements have been made about how TfL will deliver them or what merging engineering functions would mean in practice for TfL staff or for service delivery. It is likely that TfL will seek to make savings by reducing the size and cost of the workforce, and that these changes might happen quite quickly: the Transport Commissioner stated that savings will start coming in before the end of this financial year, and TfL's Chief Finance Officer said it has a plan for the next 15 months.[25] We await the outcome of the Business and Finance Review to see how TfL intends to reform the organisation and assess the size and timing of any savings this may generate.

Better procurement

3.7 Although TfL is optimistic about saving money from better procurement (£60 million over the next two years), we have not seen any details to give us confidence that this will be achieved. TfL spends 75-80 per cent of its budget on third-party spending, so this is clearly a crucial area of expenditure to focus on.[26] Yet when TfL attended our meeting in June it was not able to identify which—if any—of its existing contracts are not currently delivering value for money.[27]

3.8 A recent announcement about savings on tube maintenance work is a sign of progress, but the sums involved are small and will still need to be realised. The announcement concerned the decision to bring maintenance work on the Jubilee, Northern and Piccadilly lines in-house in order to save £80 million in management fees and efficiencies. This figure, however, relates to savings expected over 10 years from 2018, so will make only a small contribution to TfL's overall savings plans.[28]

3.9 TfL is also exploring outsourcing in an effort to save money, but there are risks to this approach. In our September 2015 report, *To Protect and Save*, we raised concerns that the Metropolitan Police Service's rush to make quick savings through outsourcing its back-office functions could affect the quality of services delivered and might not generate the level of savings expected. TfL has not ruled out outsourcing, stating "if we believe that it can drive costs out of the organisation, we will explore that very thoroughly."[29]

Reducing staff

3.10 The Mayor and TfL have made a number of announcements regarding plans to reduce staffing costs:

- Consultancy and agency staff. The Mayor has stated that TfL will halve the £383 million it spent on these staff in 2015-16.[30] However, he has not provided any evidence that the current level of spend is excessive, or why a 50 per cent reduction is the right amount – it appears to be a purely arbitrary figure. As TfL has told us before, agency and consultancy staff are useful for an organisation which needs to resource individual projects for specific time periods. Cutting these staff costs so dramatically risks losing important skilled workers and damaging TfL's investment programme. TfL could meet the Mayor's commitment by making these staff permanent within TfL, but this would lose the flexibility TfL has previously argued in favour of – and not bring about any real cost savings. We are therefore yet to be convinced that TfL will actually be able to halve its expenditure on consultants and agency staff, or that this is necessarily a good idea in every case.
- Senior management. TfL has canvassed all of its directors and senior managers for voluntary redundancy. In July, the BBC reported that TfL had sent a letter to these staff which stated that "TfL faces unprecedented financial challenge and we do not have enough money to continue as we are."[31] Redundancies at these senior levels will require TfL to make some significant payments in the short term in order to make longer-term staff cost savings. However, we are concerned that TfL may ending up paying experienced staff to leave before it has completed its business planning process or before the Mayor's Transport Strategy has been agreed. It would be a costly error if TfL then needed to recruit senior staff again.
- New Routemaster conductors. In a further move to reduce staff costs, TfL is phasing out the use of conductors on its New Routemaster Buses (NRMs). TfL estimates that removing conductors from six routes will save it around £10 million a year. [32] These conductors were an important part of TfL's business case for purchasing NRMs in the first place. Removing them will save money, but TfL estimates that passenger satisfaction will fall as a result – from 88.4 per cent to 86.7 per cent. As we discuss in chapter 5, it is important that TfL maintains service quality despite the financial pressure it is under.

- Personal service companies. TfL has also committed to revising the arrangements for temporary staff that work for the organisation for over a year, and for engaging temporary agency staff that use their own personal service companies to reduce taxable income. We support TfL taking action to reduce any tax loopholes that it might currently allow. The Government has proposed changing the tax system for contractors working for the public sector from April 2017, so TfL will have to ensure it complies with any new rules.[33]

Reducing investment

3.11 Another way for TfL to reduce costs in the short term is to cut or delay capital investment, but the Mayor has ruled out this option. In his manifesto, he states that the fares freeze will be funded by “making TfL a more efficient and profitable operation, not by cuts to spending on better services and more capacity.”[34] As TfL’s Business Plan already includes several investment projects which are at risk, the Mayor will have to ensure that TfL successfully achieves all of the cost savings set out above if he is to ensure that the fares freeze is delivered “without impacting vital investment on the transport network.”[35]

4. Increasing income

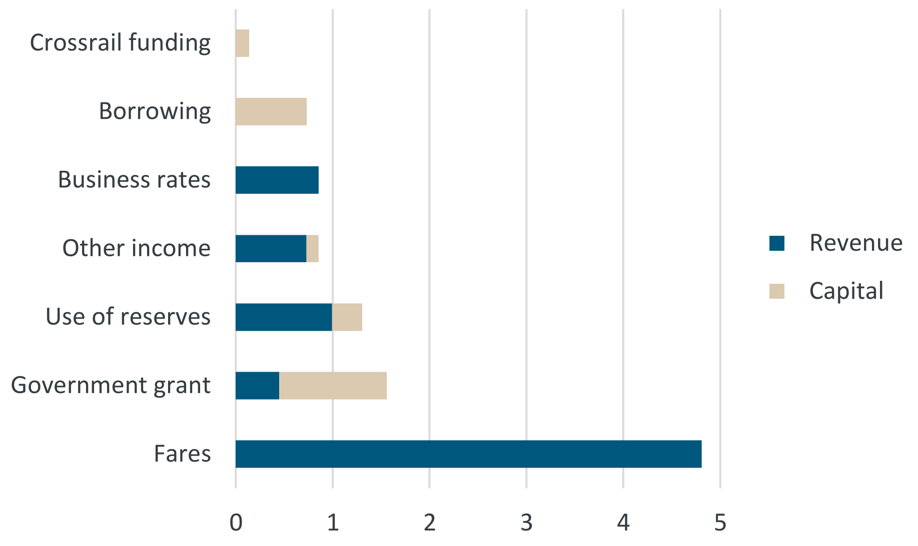
Key findings

- Income from fares is set to increase significantly over the next five years as London continues to grow and the Elizabeth line opens.
- Demand for bus services is in decline. Unless TfL tackles the worsening problem of road congestion, income from bus fares may continue to fall.
- While fare concessions are valued by those who benefit from them, the Mayor should ask TfL to assess whether they are meeting his policy objectives in the most cost-effective manner.
- TfL's ability to increase its commercial income will depend on London's economic success as well as the soundness of its own commercial plans.
- TfL's plans to generate income from property development may be at odds with the Mayor's desire to maximise affordable housing on surplus GLA Group sites.

Increasing income from fares

4.1 Almost half of TfL's total income is from fares revenue. As the chart below shows, it dominates TfL's key income streams:

Almost half of TfL's income in 2016-17 will come from fares (£ billions)

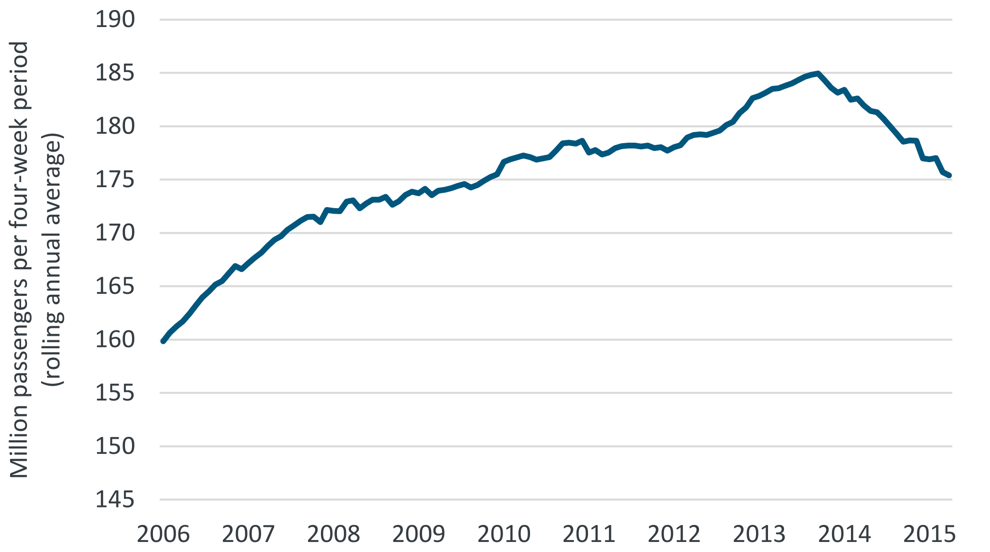


Source: TfL 2016-17 Budget and Business Plan, March 2016, page 61.

4.2 TfL's fares income will continue to rise over the next four years despite the fares freeze. From 2018, TfL will benefit from the additional fares income generated by the new Elizabeth Line. And, as London's population and economy grow, more and more passengers will pay to use TfL's services. According to TfL's March 2016 Business Plan, TfL was expecting its income to increase from £4.8 billion in 2016-17 to some £6.6 billion in 2020-21. The fares freeze could reduce this 2020-21 figure to nearer £6.4 billion.

4.3 TfL will have to ensure that it maximises the fares income available to it during this period. One risk to this income is the recent fall in bus passenger numbers. As the chart below shows, demand for bus services in London has fallen for the last 18 months after years of steady growth.

After a prolonged period of growth, bus passenger numbers have been falling since 2014



Source: GLA Economics analysis of TfL bus passenger data

4.4 Bus fares are important; in 2016-17, they will be worth some £1.6 billion – a third of TfL's total fare income.[36] Tackling the decline in bus demand is therefore crucial for TfL, and tackling the congestion on London's roads is a key part of this. Congestion makes journey times longer and less predictable, and puts people off using buses. The average excess waiting time in 2015-16 is also getting worse.[37] The Transport Committee is currently examining road congestion and what can be done to reduce journey times and improve reliability for all road users.[38]

4.5 TfL cannot afford to continue losing this revenue. It must invest in the bus network and improve services if it wishes Londoners to view TfL's buses as a viable form of transport. We welcome TfL's commitment to "introduce measures to improve reliability and reduce the short-term construction impacts from our Road Modernisation Plan, and expect reliability to see improvement from the second half of 2016-17."[39] TfL must succeed in improving reliability across the bus network if it is to increase its revenue in this area. As we discuss in chapter 5, TfL should ensure it maintains its focus on the quality of its service if it is to increase passenger numbers and drive the growth it needs in fares income.

Concessionary fares

4.6 In view of TfL's financial position, now may be a good opportunity for the Mayor to ask it to assess the cost-effectiveness of its various concessionary fare schemes. As we set out in chapter 2, passengers in London benefit from a number of concession schemes, which are set by TfL, the train operating companies and London Councils.

4.7 The Mayor has a responsibility to ensure that these concessions are well-targeted and are effectively achieving his policy objectives. After all, fare revenue that is foregone because of these concessions could be used to improve the transport network for all passengers. While we recognise that it is politically difficult to change or cut an existing concession, we risk sleepwalking into a situation where existing concessions are no longer fit for purpose, and more deserving passenger groups are missing out.

4.8 The 60+ London Oyster Photocard is one example of a concessionary fare that may not be the best solution to a given problem. It has been reported that the cost of this scheme to TfL will rise from £22 million in 2013-14 to some £100 million a year by 2019-20 as the state pension age increases.[40] In our July meeting, we heard that:

> "The majority of the people using it are actually people who are using it to commute to work… It is worth questioning what the argument for that is and whether this policy is the right way to meet that policy direction."[41]

4.9 We are not arguing for this particular scheme to be scrapped, but it illustrates the point that concession schemes need to be periodically assessed to ensure they are meeting policy objectives in a cost-effective way. This would be consistent with the instructions the Mayor gave in his recent budget guidance for 2016-17: "GLA and its functional bodies should be under no illusion that I expect that this process is a fundamental review of all of the GLA Group's expenditure."[42] A truly fundamental review should include some consideration of whether TfL's existing concessions are the best way of achieving the desired outcomes.

4.10 The Mayor is taking steps to review TfL's concessionary fares for its own staff, and has requested a review of TfL's free travel arrangements for the nominees of staff earning a base salary of £100,000 or more. This is to tie-in with a wider review of future appointments of staff with a base salary over £100,000, and a base-pay freeze for the Transport Commissioner and other senior staff.[43] While these are highly-visible measures, they are not going to make a significant impact on TfL's finances.

Recommendation 4

The Mayor should instruct TfL to review its concessionary fares system to ensure it meets the objectives of his forthcoming Transport Strategy.

Increasing income from commercial activity

4.11 Much has been made of TfL's plans to generate more commercial income, but this will only make a marginal contribution to TfL's revenue streams. According to its latest Business Plan, TfL expects to generate £3.4 billion in non-fares commercial revenue between 2013 and 2023.[44] This is an increase of approximately 30 per cent on the previous 10 year business plan in cash terms. However, in October 2015, TfL confirmed to this committee that £1.1 billion (approximately a third) of the £3.4 billion of projected income is in fact, one-off capital receipts. This means that commercial income is only expected to generate £2.3 billion of revenue income over the next ten years – £230 million a year on average.[45] Even if TfL was able to increase this by as much as 25 per cent, it would only provide an additional £60 million a year of income.

Advertising

4.12 TfL's ability to increase its commercial income will be determined by its own efforts and London's wider economic fortunes. For example, in March 2016, TfL entered into an eight-year partnership with Exterion Media for advertising on the London Underground, Overground, Tramlink and Docklands Light Railway. TfL estimates this will generate £1.1 billion by 2020.[46] Unlike the previous deal, costs and revenues will be split between TfL and Exterion, meaning TfL will be exposed to fluctuations in the advertising market.[47] TfL also plans to make better use of its 1,000 retail units, which it claims have not fully realised their potential."[48] The success of both these strands will depend on London's economic fortunes and TfL's ability to increase passenger numbers.

Property development

4.13 Another major element of TfL's commercial strategy is property development, but its efforts to generate ongoing income may be at odds with the Mayor's wish to maximise affordable housing. TfL is a large landowner, with 5,700 acres of land and more than 400 sites with potential for development. And, as we have previously heard, TfL had planned to retain and develop these assets to generate an ongoing revenue stream – in contrast to the Metropolitan Police Service, which sold off its surplus assets to fund its capital investment programme.[49] However, the Mayor's wish to maximise affordable housing from surplus GLA Group land creates a tension with TfL's need to maximise its income from commercial development. The Mayor's recent decision to insist on the construction of 50 per cent affordable housing on TfL land at Kidbrooke is perhaps an early indication of how this will play out.[50] It is not yet clear what impact this tension could have on TfL's finances.

New trading arm

4.14 On the basis of the evidence received by the committee, we are not convinced the Mayor's proposal for TfL to establish a new trading arm will generate a level of profit worth the investment. The Mayor's manifesto included plans for

TfL to set up a trading arm to provide transport and consultancy services in other cities. But we are concerned that this could be a distraction for TfL at a time when it is already under pressure to cut costs and reorganise itself. Even TfL does not seem convinced by the idea: its Director of Commercial Development told us in June that he was “personally uncomfortable with any immediate setting up or seeking to set up from scratch a worldwide consultancy arm for TfL. That would require significant investment and would require significant risk.”[51]

5. Risks and opportunities

Key findings

- While the fares freeze and hopper ticket will save millions of passengers money, they will put further pressure on the funding available for capital investment across London’s transport network.
- Despite the financial constraints, TfL must ensure that it maintains, if not improves, its existing performance levels. Quality and performance are essential factors in maintaining passenger demand that generates the fares income TfL depends on.
- While we support the principle of rail devolution, it is vital that TfL has robust plans in place for funding and investing in the network before it takes on more rail services.
- We also support TfL’s efforts to become a more efficient and focused organisation. However, TfL needs to be careful that its reforms do not inhibit its ability to meet the objectives to be set out next year in the Mayor’s Transport Strategy.

Risks and opportunities

5.1 TfL is undoubtedly going through a period of change and challenge. As well as dealing with the cuts to Government revenue funding, the Mayor has asked TfL to implement the fares freeze without adversely affecting its capital investment programme. London's population continues to grow and put more pressure on the transport network. Yet this period may also present TfL with new opportunities. We hope that TfL's organisational changes will create a more efficient and sustainable organisation. The fares freeze and hopper fare may increase demand, which could bring in additional revenue for TfL to invest across the network. And commercial developments should diversify TfL's income streams and make better use of its unique property and land portfolio. In this chapter we highlight the key risks and opportunities facing TfL over the next few years.

The impact on TfL's capital investment programme

5.2 TfL will have to reconsider its capital investment plan, currently set at approximately £1 billion per year in capital renewals and £1.2 billion per year in capital enhancements.[52] As we set out in Chapter 1, the Mayor's 2016-17 Budget listed various projects within TfL's Business Plan which were under review, and this was *before* TfL had to deal with the consequences of the fares freeze.[53]

5.3 The new Business Plan, scheduled to be published before the end of 2016, will set out the results of this process and provide clarity as to which projects are being taken forward. In June, TfL's Chief Finance Officer told us that it was seeking to "come up with a balanced budget and Business Plan that delivers not only the fares freeze and other manifesto pledges but also a full capital and investment programme. That [will] depend on our ability to take cost out of this both on an operational side but also on the capital side."[54]

5.4 It appears inevitable that TfL will not be able to afford all the capital investment schemes that appeared in previous business plans. It will rightly have to prioritise those projects and programmes that contribute most towards meeting the Mayor's objectives. Some projects will have to be scaled down, deferred, or cancelled. We expect TfL to set out clearly how its investment programme has changed since the last Business Plan.

Recommendation 5

The next TfL Business Plan should clearly set out the investment priorities compared to the previous business plan so observers can easily see what has changed, and how delivery milestones have been affected.

Impact on passengers and the wider economy

5.5 If TfL is forced to cut or delay investment in the transport network because of its financial position, passengers will feel the effects. As we have seen with the mismanagement of the SSUP programme, passengers on the sub-surface lines are missing out on the capacity and journey time improvements that they had been promised. Any project that is cancelled, delayed or scaled back in the next Business Plan will inevitably have consequences for passengers and for London more generally.

5.6 The fares freeze has a number of specific implications for passengers:

- The freeze may have a small positive effect on demand for services. If this increased demand is not matched by TfL in terms of greater supply, then overcrowding is likely to worsen and passenger satisfaction could fall.
- The Mayor was unable to convince the Government to fund a fares freeze on National Rail services in London, and these will therefore increase by 1.9 per cent in January 2017. There is a fairness issue to consider, since some passengers will see their fares increase while others have theirs frozen. This is an issue, for example, for passengers in south London who are poorly served by tube services and rely more on National Rail services (suburban rail devolution could be one solution to this issue, as rail fares would be brought under the Mayor's control).
- The disparity between the costs of TfL versus government-controlled fares may also have unfavourable effects on travel patterns. As the Chair of London TravelWatch warned

  "[It] increases the risk of a cliff-face at the edge of Greater London where we will have people paying very high fares from towns just beyond the London boundary and where there will be an increasing tendency to engage in what is known as "rail-heading" when people drive their cars across the boundary into a "safe zone" inside the Greater London Authority area, park in local areas and take cheaper trains into central London."[55]

  This undesirable effect may reverse the progress London has made in recent years in getting people to choose public transport over their cars.

5.7 Yet, having set out a number of negative consequences for TfL's finances, it is clear that the fares freeze and the hopper ticket will undoubtedly save passengers money. The Mayor has stated that the average household will save around £200 over the four years of the fares freeze.[56] And TfL believes that 96 per cent of passengers (11 million people) will benefit from the fares freeze "some of the time" and seven million will benefit "all of the time."[57] The new hopper fare may also save Londoners money: in 2015-16 there were two and a half billion bus journeys in the capital, including 600 million pay-as-you-go fares.[58] 86 million people were estimated to have made more than one bus trip per hour, and those individuals may benefit from the hopper ticket which will charge a single fare for multiple journeys.[59]

5.8 The Mayor's commitments could boost demand for bus and Tube services and encourage modal shift, which could stimulate other economic activity in London. If demand for bus and Tube services increases because of the fares freeze, this will generate extra income for TfL. TfL could put this revenue to use to support its capital investment programme.

Protecting quality

5.9 TfL has worked hard to acquire its reputation as a world-class transport authority, and it needs to retain a focus on quality despite the financial challenge it is under. Service performance and customer satisfaction levels have improved over recent years, in part because of the significant levels of investment that have been made.[60] But, while TfL told us that "maintaining and improving on the current levels of operational performance is pretty much sacrosanct for us", it may be difficult for TfL to improve or even maintain its current performance levels over the next few years, given the need to cut costs. [61]

5.10 A loss of service quality could result in a drop in passenger demand, with consequences for TfL's fare income. As we described in chapter 4, we could say that this might be happening to TfL's bus service as bus performance is affected by congestion and passengers choose other options. Just as TfL's investment has generated a virtuous circle of passenger growth in recent years, a noticeable drop in quality could cause the opposite to happen. Passenger demand could fall, reducing income and making further investment unaffordable. We heard of a dramatic example in Washington DC where a lack of investment by the Washington Metropolitan Area Transit Authority (WMATA) eventually reached a tipping point where performance and quality could not be sustained. This ultimately led to people largely abandoning the public transport network in favour of the car. As the Chair of London TravelWatch told us in July

> "Heaven forbid we ever get into that kind of situation, but it is a parable as to what can go wrong if we lose sight of that fundamental issue of quality, which is all the aspects of what consumers experience on their journey: the environment, the reliability, the speed, the frequency, the attitude of the staff. All of those things add up to a very important picture which, on the whole, TfL does very well and of which they need to keep as much as they can."[62]

As was shown when TfL took over the Greater Anglia inner suburban lines, investment is needed to improve service quality, and that generates the passenger demand which makes further investment possible.

Rail devolution

5.11 While we are in favour of the devolution of suburban rail services, TfL must have plans in place to fund the investment needed to make it a success. The Mayor and TfL are in favour of bringing additional suburban rail lines (particularly the South Eastern and Southern franchises) into the London Overground network, and we fully support the idea in principle. But TfL's current Business Plan does not set aside any funding for further devolution, and its financial position has clearly worsened since then.

5.12 The next opportunities for devolution are likely to be when existing franchises expire, but there have recently been calls for TfL to take over services on the Southern franchise sooner in light of its poor performance. However, without further investment on the routes, it is difficult to see how TfL could make significant improvements to those services. And we are sceptical of the Mayor's claim that TfL is ready to take over from Southern at short notice; we therefore urge the Mayor and TfL to continue lobbying the Government for further rail devolution, but not to rush into arrangements that might damage TfL's reputation and finances, and lead to no improvement for passengers.[63]

Recommendation 6

The TfL Board must rigorously scrutinise any proposal for TfL to take over suburban rail services—including the transfer of liabilities—to ensure that robust plans and financial arrangements are in place to make devolution a success.

Linking resources to outcomes

5.13 In an effort to address its financial difficulties, TfL is carrying out major organisational changes before it knows what it is trying to deliver, or how such changes may affect its operations. The Transport Commissioner initiated a review of TfL's business operations upon his appointment in September 2015. Following the Mayoral election in 2016, this review has now been expanded to a comprehensive "root-and-branch" review to find savings and efficiencies across TfL and improve the transport network.[64] This review, referred to as the 'Business and Finance Review', will inform TfL's revised Business Plan, which is due to be published in December 2016. And in spring 2017, the Mayor is expected to publish his own Transport Strategy.

5.14 We are concerned that TfL has started such a fundamental review of its finances and structures and begun shedding staff before the Business and Finance Review is complete, and long before the publication of the Mayor's Transport Strategy. We have seen similar situations before – notably with the commercial strategy of the Mayor's Office for Policing and Crime and the Met. In our 2015 report, *To Protect and Save*, we warned that a clear, strategic approach was needed before any key decisions were taken.

5.15 In an ideal world, the Mayor's Transport Strategy would be agreed first, and that would inform the shape and direction of TfL. We recognise that the urgency of TfL's financial position is such that it chose to initiate a fundamental review before a new Mayor took office, but we are concerned that TfL should not make any radical changes now that could limit its ability to implement the Mayor's Transport Strategy and keep London moving.

Monitoring performance

5.16 We have long argued against the complexity of TfL's financial reporting, and we are pleased to see that progress is being made to improve it – for example by accepting our recommendation to reset its savings counter to zero.[65] As TfL embarks on such major changes, it must make sure it has robust systems in place to manage its savings and efficiencies plans, monitor their effect on performance, and ensure that quality is maintained across the transport network. This will allow us—and others—to monitor progress and help TfL remain a highly effective transport authority during such a period of financial constraint.

Recommendation 7

In response to this report, TfL should set out clear plans for achieving the savings and efficiencies set out in its press release of 8 June 2016.

Recommendation 8

In all future Operational and Financial Performance reports, TfL should set out what savings and efficiencies it has made in each business area, what further reductions are planned, and the impact of these changes on the organisation.

Appendix: Concessionary fares

As discussed in chapter 2, TfL provides a range of travel concessions. The table below provides TfL's estimate of the cost of these concessions in lost fares revenue in 2015-16.

Concession	Description	Estimated cost to TfL in 2015-16
Zip Oyster photocards for under 16s	Free bus travel; free travel on rail for under 11s; many fares for 11 to 15 year olds on rail charged at less than half the adult rate.	£85m
16+ Zip Oyster photocard	Free bus travel for London residents; half rate Travelcard seasons, Bus Pass seasons and pay as you go on all modes for all 16 to 18 year olds.	£75m
18+ Student and Apprentice Oyster photocards	30 per cent off Travelcard and Bus Pass seasons for London students and apprentices.	£30m
Bus & Tram Discount photocard	Half rate Bus Passes and bus pay as you go fares for Londoners receiving Income Support, or Employment and Support Allowance.	£25m
Jobcentre Plus	Half fares on any mode for those claiming Jobseeker's Allowance.	£5m

Freedom Pass[66]	Free travel at all times on all TfL services. TfL funds travel in the morning peak. The London Boroughs compensate TfL at other times.	£20m
60+ Oyster photocard[67]	Free travel on TfL services 24/7, and on National Rail services after 09:30 on weekdays, for Londoners aged over 60 but below the Freedom Pass eligibility age.	£55m
Other schemes	School party free travel; Olympic elite athletes; injured veterans; armed forces personnel in uniform; some National Rail-operated Railcard holders; assistance dog trainers.	£1m
Source: Correspondence between TfL and committee officials, 6 September 2016.		

Our approach

The Budget and Performance Committee agreed the following terms and conditions for this investigation:

- To define TfL's financial challenge at day one of the Mayor's term.
- To assess the implications of the Mayor's transport commitments on TfL and on passengers.
- To examine and influence TfL's early plans for managing its financial position and implementing the Mayor's transport commitments.

At its public evidence sessions, we took oral evidence from the following guests:

- Ian Nunn, Chief Finance Officer, TfL.
- Graeme Craig, Director of Commercial Development, TfL.
- Nicole Badstuber, Researcher in Metropolitan Transport Governance, LSE Cities.
- Jonathan Roberts, transport consultant.
- Stephen Locke, Chair of London TravelWatch.

We have also considered information from other sources, including:

- Evidence provided by TfL at other meetings, such as meetings of the London Assembly and the Transport Committee.
- TfL's quarterly finance, investment and operational performance reports.
- TfL's Business Budget and Business Plans.
- TfL's Annual Reports and Statement of Accounts.

References

[1] https://www.london.gov.uk/press-releases/mayoral/mayor-welcomes-chancellors-pledge

[2] The Transport Commissioner, Mike Brown MVO, speaking to the Budget and Performance Committee on 7 January 2016.

[3] TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 7 January 2016.

[4] Mayor's Budget Guidance for 2017-18, July 2016, page 4

[5] Transport for London's Signal Failure, March 2016.

[6] Budget and Performance Committee, Pre-Budget Report 2015, December 2015, Page 22.

[7] TfL's reserves policy states that minimum cash balance of £250 million must be held at all times to protect the organisation against any unforeseen expenditure. As at 31 March 2016, TfL's reserves were made up of a £1.7 billion of Capital Grants Unapplied, £1.3 billion of Earmarked Reserves, General Fund of £150 million, and £14 million in a Street Works Reserve. TfL's reserves policy states that minimum cash balance of £250 million must be held at all times to protect the organisation against any unforeseen expenditure.

[8] Sadiq Khan for London: A Manifesto for all Londoners, Page 30.

[9] Sadiq Khan: I'll fund four-year fare freeze by scrapping vanity projects, Evening Standard, 4 January 2016. Mike Brown; London Assembly (Plenary) Meeting, 10 February 2016.

[10] First savings found to fund Mayor's fares freeze on TfL services, Mayoral Press Release, 8 June 2016.

[11] Fares that are beyond the Mayor's control include those that are set by the Department for Transport's franchised train operating companies (TOCs). TOCs cash fares, pay-as-you-go (PAYG) single fares and rail season tickets, Travelcards (weekly, monthly and annual), day Travelcards, caps for daily multi-modal PAYG fares, and adult Monday to Sunday Travelcard caps are all determined by the Government. Letter from Ian Nunn, Chief Finance Officer at Transport to London, to the Chairman of the Budget and Performance Committee, Gareth Bacon. 28 July 2016.

[12] TfL states that it calculated the £1.9 billion estimate in "early 2015." TfL assumed fares would increase by the Retail Price Index (RPI) plus one per cent. From July 2017, it assumed inflation would be 3.5 per cent; the Mayor assumed inflation would stay at current levels of around one percent. TfL said its RPI assumptions were informed by indicators from the Office of Budget Responsibility, the GLA and the Bank of England. TfL states that it calculated the £1.9 billion estimate in "early 2015."

[13] BBC, Regulated rail fares to rise by 1.9%, 16 August 2016.

[14] An example of 'asymmetric journey' would be where, to a get to a location, an individual takes one long bus journey followed by a shorter bus journey. If the first journey took an hour or more, the individual would have to pay for two fares to get to the location, but on the way back would only pay for one journey. This is because they would be taking the shorter journey is first, so they could transfer to the second bus for free using the hopper fare.

[15] Although the Freedom Pass is managed and co-funded by London Councils, there is a cost to TfL for this scheme.

[16] Information provided by TfL to officials, 6 September 2016.

[17] City Metric, Here's why London's new mayor should scrap the £100m free travel bung for older workers, 11 May 2016.

[18] Information provided by TfL to officials, 6 September 2016. The 60+ London Oyster Photocard estimate takes into account TfL's reimbursement to National Rail for the concession.

[19] City Metric, Here's why London's new mayor should scrap the £100m free travel bung for older workers, 11 May 2016.

[20] Mayor's Question Time, Question 2016/0558, 22 February 2016.

[21] Budget and Performance Committee, Pre-Budget Report 2015, December 2015, Page 23.

[22] Mayoral press release, First savings found to fund Mayor's fares freeze on TfL services, 8 June 2016.

[23] TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 28 June 2016.

[24] TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 28 June 2016.

[25] The Transport Commissioner, Mike Brown MVO, speaking at the Assembly Plenary on 8 June 2016, and TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 28 June 2016

[26] TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 28 June 2016.

[27] Mayoral press release, First savings found to fund Mayor's fares freeze on TfL services, 8 June 2016.

[28] Mayoral press release, Moving Tube maintenance in-house to save £80m, as Mayor targets waste, 24 August 2016.

[29] TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 28 June 2016.

[30] Sadiq Khan for London: A Manifesto for all Londoners, Page 31.

[31] BBC, TfL fares freeze fall-out begins, 8 July 2016.

[32] ITV, New Routemaster bus conductors abolished in £10 million cut by Transport for London, 11 July 2016.

[33] HM Revenue & Customs, Off-payroll working in the public sector: reforming the intermediaries legislation, 16 March 2016.

[34] Sadiq Khan for London: A Manifesto for all Londoners, Page 31.

[35] Mayoral press release, First savings found to fund Mayor's fares freeze on TfL services, 8 June 2016.

[36] TfL 2016-17 Budget and Business Plan, March 2016, Page 67.

[37] TfL, TfL's quarterly finance, investment and operational performance reports: Quarter 4, 2015/16, Page 5.

[38] The Transport Committee, London's congested roads, 1 July 2016.

[39] TfL, TfL's quarterly finance, investment and operational performance reports: Quarter 4, 2015/16, Pages 1-11.

[40] City Metric, Here's why London's new mayor should scrap the £100m free travel bung for older workers, 11 May 2016.

[41] Nicole Badstuber, LSE Cities, speaking to the Budget and Performance Committee on 14 July 2016.

[42] Mayor's Budget Guidance for 2017-18, July 2016, Page 4

[43] Mayoral press release, First savings found to fund Mayor's fares freeze on TfL services, 8 June 2016.

[44] TfL 2016-17 Budget and Business Plan, March 2016, Page 54.

[45] TfL's Commercial Director, Graeme Craig, speaking to the Budget and Performance Committee on 15 October 2015.

[46] TfL press release, TfL selects Exterion Media as its media partner for the world's largest rail advertising contract, 17 March 2016.

[47] TfL has not disclosed its revenue sharing agreement with Exterion Media, but the Financial Times are reported that the advertising contract is expected to generate an estimated £2bn, with Exterion earning 45 per cent of the

revenues generated and TfL owning the remainder. Financial Times, Exterion wins £2bn advertising contract for London Underground, 17 March 2016.

[48] TfL 2016-17 Budget and Business Plan, March 2016, Page 56.

[49] TfL's Commercial Director, Graeme Craig, speaking to the Budget and Performance Committee on 15 October 2015.

[50] MD 2022 Direction to TfL concerning the disposal of land at Kidbrooke, 17 August 2016.

[51] TfL's Commercial Director, Graeme Craig, speaking to the Budget and Performance Committee on 28 June 2016.

[52] TfL 2016-17 Budget and Business Plan, March 2016, Page 58.

[53] The Transport Commissioner, Mike Brown MVO, speaking to the Budget and Performance Committee on 7 January 2016.

[54] TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 28 June 2016.

[55] Stephen Locke, Chair of London TravelWatch' speaking to the Budget and Performance Committee on 14 July 2016.

[56] Mayoral Press Release, First savings found to fund Mayor's fares freeze on TfL services, 8 June 2016.

[57] Mayor's Question Time, Mayoral response to MQ2016/2285, 22 June 2016.

[58] Mayoral Press Release, Mayor announces one hour 'Hopper' fare, 10 May 2016.

[59] London bus hopper-fare to start in September, BBC, 10 May 2016.

[60] Information provided to London Assembly Members at TfL welcome event.

[61] TfL's Chief Finance Officer, Ian Nunn, speaking to the Budget and Performance Committee on 28 June 2016.

[62] Stephen Locke, Chair of London TravelWatch' speaking to the Budget and Performance Committee on 14 July 2016.

[63] Mayoral press release, Mayor calls for TFL to take immediate control of Southern Rail service, 20 July 2016.

[64] Mayoral Press Release, First savings found to fund Mayor's fares freeze on TfL services, 8 June 2016.

[65] Budget and Performance Committee, Pre-Budget Report 2015, December 2015, Page 23.

[66] Although the Freedom Pass is managed and co-funded by London Councils, there is a cost to TfL for this scheme.

[67] The 60+ London Oyster Photocard estimate takes into account TfL's reimbursement to National Rail for the concession.

Other formats and languages

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Chinese

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Hindi

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

Vietnamese

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

Bengali

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

Greek

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

Urdu

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

Turkish

Bu belgenin kendi dilinize çevrilmiş bir özetini okumak isterseniz, lütfen yukarıdaki telefon numarasını arayın, veya posta ya da e-posta adresi aracılığıyla bizimle temasa geçin.

Arabic

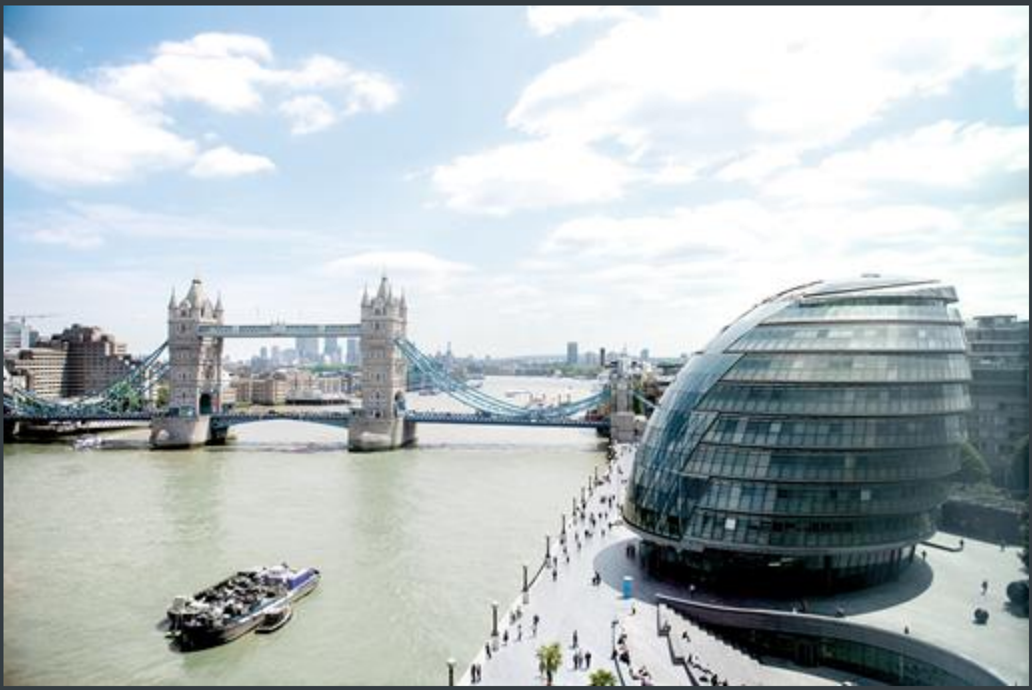
الحصول على ملخص لهذا المستند بلغتك،
فرجاء الاتصال برقم الهاتف أو الاتصال على
العنوان البريدي العادي أو عنوان البريد
الإلكتروني أعلاه.

Punjabi

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

Gujarati

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



Greater London Authority

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

Enquiries 020 7983 4100
Minicom 020 7983 4458

www.london.gov.uk

Front cover photo: Metropolitan Police Service media library

Subject: Budget and Performance Committee Work Programme

Report to: Budget and Performance Committee	
Report of: Executive Director of Secretariat	**Date: 29 September 2016**
This report will be considered in public	

1. Summary

1.1 This report sets out the Budget and Performance Committee's work programme for 2016/17.

2. Recommendations

2.1 **The Committee is recommended to:**

(a) Agree its work programme for 2016/17, including the proposed topic for the meeting on 18 October 2016;

(b) Delegate authority to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to agree the scope and terms of reference for the Committee's meeting on 18 October 2016;

(c) Note the letter to the Mayor requesting that he publish initial budget submission documents and the templates for efficiencies and savings, adjustments to revenue budgets, adjustments to capital programmes and growth proposals; and

(d) Note the response from the Mayor to the request that he publish initial budget submission documents.

3. Background

3.1 The Committee receives a report monitoring the progress of its work programme at each meeting.

4 Issues for Consideration

2017/18 Budget

4.1 During 2016/17 the Committee will scrutinise the Mayor's 2017/18 budget proposals for the Greater London Authority (GLA) Group on behalf of the London Assembly, as well as examine specific budget and performance issues across the GLA Group. The Committee will scrutinise the Mayor's budget proposals at its meetings in November and January.

4.2 Following the meeting on 14 July 2016, when the Committee discussed the Mayor's Budget Guidance for 2017/18 with the Mayor's Chief of Staff and GLA officers, the Chairman consulted party Group Lead Members and Caroline Pidgeon MBE AM about concerns raised during the meeting by Committee Members that the Assembly and the public would be excluded from a key new stage of the process.

4.3 Following the consultation with party Group Lead Members and Caroline Pidgeon MBE AM, the Chairman wrote to the Mayor requesting that he publish initial budget submission documents and the templates for efficiencies and savings, adjustments to revenue budgets, adjustments to capital programmes and growth proposals on the GLA website before he is due to publish the draft consultation budget in mid-December. The letter is attached for noting at **Appendix 1**.

4.4 The Mayor's response to the request that he publish initial budget submission documents is attached for noting at **Appendix 2**.

Metropolitan Police Service commercial, IT and estates strategies

4.5 It is proposed that the Committee's next meeting be used to examine progress made by the Metropolitan Police Service (MPS) in implementing its commercial, IT and estates strategies. The Committee reported on the MPS's use of technology in August 2013[1], and on the MPS's commercial strategy in September 2015[2]. The Committee is recommended to delegate authority to the Chairman, in consultation with party Group Lead Members and Caroline Pidgeon MBE AM, to agree the scope and terms of reference for this review.

Proposed meeting timetable

4.6 The table below sets out scheduled future meetings of the Committee in 2016/17. The Committee can agree further topics as the year progresses. Items are subject to change to enable the Committee to respond to matters at short notice.

Meeting date	Proposed topic
Thursday 29 September 2016	EU Funding after the EU Exit
Tuesday 18 October 2016	MPS: Commercial, IT and Estates Strategy
Thursday 24 November 2016	Core GLA Budget 2017/18
Wednesday 4 January 2016	2017/18 budget: GLA functional bodies
Thursday 5 January 2016	2017/18 budget: GLA functional bodies
Tuesday 10 January 2016	2017/18 budget: the Mayor
Tuesday 7 March 2016	Topic to be confirmed

[1] Police Technology: Smart Policing, Budget & Performance Committee, 12 September 2013, Item 6
[2] Police Outsourcing, Budget & Performance Committee, 1 July 2015, Item 8

Budget Monitoring Sub-Committee

4.7 The Budget Monitoring Sub-Committee monitors GLA Group spending and performance and informs the work of the Budget and Performance Committee. The Sub-Committee has three meetings scheduled during the remainder of 2016/17:

- Thursday 3 November 2016;
- Wednesday 14 December 2016; and
- Thursday 23 March 2017.

4.8 As well as examining the GLA Group quarterly monitoring reports, the Sub-Committee will explore topical issues or specific areas contributing to the full Committee's investigations or reports, where appropriate, and examine Mayoral Decisions.

4.9 The Sub-Committee can agree topics as the year progresses. Items are subject to change to enable the Sub-Committee to respond to matters at short notice. The Sub-Committee will examine the GLA Group quarterly monitoring reports and invite functional bodies to appear as necessary.

5 Legal Implications

5.1 The Committee has the power to do what is recommended in this report.

6 Financial Implications

6.1 There are no direct financial implications to the GLA arising from this report.

List of appendices to this report:

Appendix 1 – Letter to the Mayor re publishing initial budget submission documents

Appendix 2 – Response from the Mayor re publishing initial budget submission documents

Local Government (Access to Information) Act 1985 List of Background Papers: None	
Contact Officer:	Will King, Budget and Performance Adviser
Telephone:	020 7983 5596
Email:	will.king@london.gov.uk

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Appendix 1

LONDONASSEMBLY

Gareth Bacon AM
Chairman of the Budget and Performance Committee

Sadiq Khan
Mayor of London
Greater London Authority
City Hall
The Queen's Walk
London SE1 2AA

City Hall
The Queen's Walk
London SE1 2AA
Switchboard: 020 7983 4000
Minicom: 020 7983 4458
Web: www.london.gov.uk

18 July 2016

Dear Mr. Mayor,

The Mayor's Budget Guidance for 2017-18

On 14 July, the Budget and Performance Committee held a meeting with your Chief of Staff and GLA officers to discuss the Mayor's Budget Guidance for 2017-18, which was published on 1 July. The Committee welcomes the rigorous approach you are taking to identify savings and efficiencies across the GLA Group in order to free up resources to spend on London's priorities.

At the meeting, however, there was some concern among Committee Members that the Assembly and the public will be excluded from a key new stage of the process. The budget guidance states "initial budget submissions" due by 14 October will not be public documents and will be issued as "private advice" to the Mayor.[1] While we understand that functional bodies need to be able to offer you frank advice in private meetings, we do not feel it is appropriate to withhold these documents – in particular, the templates for efficiencies and savings, adjustments to revenue budgets, adjustments to capital programmes and growth proposals laid out in Annex B of the guidance. In order to scrutinise your decisions, we must be clear what choices you had to make during the budget process, especially given that you expect to see a "major re-alignment of resources" in the 2017-18 budget.[2] Without access to the initial budget submissions, we will not be in a position to undertake our role as fully as Londoners would expect.

The Committee requests that you publish initial budget submission documents – along with the templates set out in Annex B of the budget guidance – on the GLA website before you publish the draft consultation budget in mid-December, redacted only where necessary.

There is already a precedent for publishing information such as this. In the previous Mayoralty, the Committee repeatedly requested that the previous Mayor published the advice he received from TfL prior to making his fares decision. In the end, the Committee appealed to the Information

[1] http://www.london.gov.uk/sites/default/files/mayor_budget_guidance_2017-18.pdf page 7, para 3.2.
[2] http://www.london.gov.uk/sites/default/files/mayor_budget_guidance_2017-18.pdf page 5.

Commissioner who provisionally ruled that the public interest in favour of disclosing the information outweighed the public interest from maintaining the FOI exemption.[3]

I would be grateful if you could respond to this letter by 15 August 2016. Please copy your response to Lucy Pickering, Scrutiny Manager (Lucy.Pickering@london.gov.uk).

Yours sincerely

Gareth Bacon AM
Chairman of the Budget and Performance Committee

Cc. Tony Arbour AM, Chairman of the London Assembly

[3] Letter from Information Commissioner to John Biggs AM, former Chairman of the Budget and Performance Committee, 4 April 2014, ICO Complaint Ref: FS50511917

Appendix 2

MAYOR OF LONDON

Gareth Bacon AM
Chairman
Budget and Performance Committee
City Hall
The Queen's Walk
More London
London SE1 2AA

Our ref: MGLA210716-8848

Date: 27 JUL 2016

Dear Assembly Member Bacon,

Budget Guidance 2017-18

Thank you for your letter of 18 July and your request that I commit to publishing initial budget submissions before I publish the Consultation Budget.

As you know, the legal process is for me to develop and consult on Budget proposals and for the Assembly to consider and amend them. The introduction of the initial budget submission does not reduce the quantity or quality of information that will be made available to the Assembly to scrutinise my Budget in comparison to earlier years.

As my Chief of Staff explained at your Committee meeting, there is a balance to be struck between transparency and my need for private advice which is not inhibited. As you know, I am committed to being as transparent as I can, but at the same time I do require the best possible advice from officers. I am concerned that the request you make may inadvertently inhibit the information I need to consider in making my Budget proposals.

I would also add that the precedent you cite of Transport for London's (TfL's) advice on fares being made available, does seem to me to prove the difficulty of your request. The advice the Assembly received from TfL did not set out fares options but simply set out the basis for the one fares option that was agreed by my predecessor. This precedent seems to show that the expectation of private advice being made publicly available can inhibit its production and either reduces the quality and thoroughness of the advice provided to the Mayor, or leads to it being supplied by other means.

So, my provisional view remains that the initial budget submission and the detailed templates should remain as private advice to me. However, I am prepared to further consider your request once I have reviewed the content of the submissions.

City Hall, London, SE1 2AA ♦ mayor@london.gov.uk ♦ london.gov.uk ♦ 020 7983 4000

Thank you again for writing.

Yours sincerely,

Sadiq Khan
Mayor of London

Cc: Tony Arbour AM, Chairman of the London Assembly
David Bellamy, Chief of Staff
Martin Clarke, Executive Director of Resources, GLA
David Gallie, Assistant Director – Group Finance, GLA
Lucy Pickering, Scrutiny Manager, Assembly

City Hall, London, SE1 2AA ♦ mayor@london.gov.uk ♦ london.gov.uk ♦ 020 7983 4000