

Budget and Performance Committee – 8 January 2015

Transcript of Item 3 – The 2015/16 GLA Group Budget (Transport for London)

John Biggs AM (Chairman): We are now going to do the Greater London Authority (GLA) group budget, this is the second of our sessions, and today we are doing TfL and the London Legacy Development Corporation (LLDC). Welcome, everyone. Our witnesses speak for themselves. Val Shawcross is going to start the questioning. Go get them, Val!

Valerie Shawcross CBE AM: Hello, happy New Year, colleagues, good to see you.

John Biggs AM (Chairman): I forgot that bit!

Valerie Shawcross CBE AM: Can we just start by talking about the usual big political question, which is the issue of income from fares. You have had a change of policy relatively recently and there has been a decision to increase fares by Retail Price Index (RPI) this January and not the RPI plus 1% as was anticipated in the business plan. Do you want to talk us through what the impact of that is and how, if it is needed to be, is that change going to be funded?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes, to answer the last question first, in successive recent years the Government has taken the view with railway fares that their own Government assumption, which goes back to the previous Government, was an increase of more than RPI and, in successive years recently, they have taken the view that they will only do RPI, and this year they announced it is RPI. Therefore, as a consequence, they have decided RPI and there is compensation from the Government.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): At £36 million for 2015/16.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): : OK, which is the difference between RPI and RPI plus 1.

Valerie Shawcross CBE AM: You have had it funded by Government?

John Biggs AM (Chairman): Is it only for one year though?

Valerie Shawcross CBE AM: Yes, that is the next question.

John Biggs AM (Chairman): Sorry.

Valerie Shawcross CBE AM: OK. What about future years? There are two separate questions on that, really. What is the financial impact for future years of that change basically staying in the system? I am assuming there would not be any Government subsidy for the future years for income foregone.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Up to 2021, if fares were just RPI, that will have a financial impact of £457 million to the current TfL business plan.

Valerie Shawcross CBE AM: You have not quite answered the question there.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Sorry. As a matter of fact, the business plan continues to assume RPI plus 1 and if you sat where we did you would continue to assume that in the knowledge that whoever the Government might be and whatever might happen next May, the Government's current assumption continues to be RPI plus 1, therefore it would not be all that bright for us to assume RPI, because if the Government subsequently decided a different policy, we would at least have an argument to return to them for the balance. I would not want to pass up that opportunity and neither, I would hope, would London, because the cumulative effect of all these things on a consequential basis, as Andrew has just said, is very large.

You can take your own view about what the Government might do post-May. However, we would want to preserve our assumptions for as long as we could pending what they said, because if they change theirs before we change ours there will be some compensation for it.

Valerie Shawcross CBE AM: That is your tactical approach to keeping the RPI plus 1 in the future business plan. However, in terms of the final impact of the RPI increase this year, ie if the Government support grant to maintain the RPI, rather than RPI plus 1, is only for one year, is there a contingency plan?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): There will be a Comprehensive Spending Review with whichever Government formed and whichever parties there is and in the course of that submission we would undoubtedly say to them, "The consequences beyond 2015/16 from the previous Government policy is this" and we would argue for it. Without being too obvious about it, the likelihood is - because our experience is like this - that when they finally come to a solution they say, "Here is your grant" for some period of time, and we will say, "Is the compensation for between RPI and RPI plus 1 in this year in it?" Of course they will say yes, because they always do, and we fight, as you would expect, to have an incremental piece of Government policy separately identified, and they are quite clever in rolling it all back together. They will say, "It is all in there somewhere" and we will say, "Where is it?" and they will say, "Well, you sort it out".

However, you would do that, and this is an explanatory point, because in a way you want to make the best of the arguments that you can, both in terms of present Government policy and future Government policy, and it really goes to trying to reduce the burden on RPI for passengers, customers and users, which would be a lot better. On the other hand, we have a lot of investment and revenue spend to have, and a declining overall public subsidy.

Valerie Shawcross CBE AM: Over the last five years, I think for four of those years you have underestimated fare income, and I am looking at the potential passenger growth, which is forecast in your business plan, 6% in bus passenger numbers predicted from 2014 to 2020/21, compared to 11% growth in the Tube and 61% on the Overground and I think 8% in the London population. I think in the past you have tended to underestimate fares income because of perhaps underestimation of passenger numbers and population growth. Why, in this business plan, are you assuming that the bus passenger growth is not going to be as rapid as in the other service areas?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The way that the growth figures are calculated is with respect to the GLA's overall assumptions about population growth and so on. The historic underestimation of overall fares income is not in fact likely to be replicated this year.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, when we look at 2014/15, we would expect our income to be slightly behind our budget, and then again that is due to a number of factors, some of it would be demand-driven in the first half of the year.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The numbers are quite close in the sense that in 2013/14 total fares income was £4.04 billion and £95 million, which was 0.3 or £12 million higher than budget. That is not a bad calculation in terms of accurately trying to forecast revenue for an organisation of this sort. Indeed, when I worked for First Group, they would have been astonished by anything like that. We are quite good at it and it is aided by the fact that the GLA produces decent numbers.

Valerie Shawcross CBE AM: I appreciate these are difficult and complex services to make assessments for for the future. However, the question really is why you are assuming that there is going to be a slower growth in passenger numbers in the buses as opposed to the other services you run? I think the track record in the past it has been more rapid.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): One of the differences, the answers going forward, is because we have capacity increases on the Tube, which enables more people to travel. If you look at the Jubilee line, which is now at 30-plus trains an hour, it is carrying numbers of people, which it would have been physically unable to get on the service three or four years ago, and we have a progressive improvement across all of the Underground lines, therefore you would expect to see that.

Valerie Shawcross CBE AM: Did I not see an announcement of 500 new buses, is there going to be a growth in the bus fleet? There are certainly references here to investment in bus priority.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Over several years, and if you asked us to reconcile those extra vehicles, which is mileage or kilometrage, and translate it into vehicles, you will find that assumption is very close to the revenue assumption, because it ought to be. Therefore there is a chicken and egg question there, is there not? However, undoubtedly, on the Tube, one of the questions is that in past years, certainly before we started doing line modernisations, the peak capacity in the system has been constrained. Now the population is going up, we hit five times in November, we exceeded the Olympic numbers of people, which is about the total capacity of the system to accommodate people. That is what it is about. The Jubilee line does not show any signs of being empty --

Valerie Shawcross CBE AM: People do not get left behind. One of the things that people out there on the streets will tell you, we have this continuing issue about how people feel that the fares are very high and bearing down on them when many people have suffered wage freezes over the last few years and the fare costs are very high. People are saying that petrol prices are plummeting rapidly. As well as there being some reduction, I would have thought, in some of your operating costs, does that not change the economics of the transport choices that people make? Is this something that you have been factoring in?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes, the oil price is in real terms about the same as it was in 2002/03 currently, although how long it will stay there is an interesting question. Of course the real issue with the balance of fares and expenditure is Government policy in relation to the balance between the subsidy and what farepayers pay. It is also a little bit about how many concessions

you have and who you give them to, which is partially a choice of both the last Mayor and this one. The fact remains that it was the last Government, not even this one, who decided firstly that they would change the balance between farepayers and taxpayers and that balance has continued to be changed over more or less the entire life of since Boris [Johnson, Mayor of London] became the Mayor, and the consequence of that is that if you are going to carry on doing what we are doing, since your income is a combination of fares income, of grant income, of borrowing and other sources of revenue, if you want to carry out the sorts of programmes that we are doing, including the increase in bus mileage, the money has to come from somewhere.

You are right in saying that currently, in terms of fuel costs, it has meant that motoring in its broadest sense is no more expensive than it was 10 or 12 years ago, but that does not help us terribly much. It will help us a bit with the fuel costs in the bus service and it will help us pay for those additional 500 buses, however, I would not expect it to last terribly long and I should think - I have not looked it - if you do look at long-term projections of oil prices, I bet they do not stay at this level for long.

Valerie Shawcross CBE AM: However, there is some danger that there could be a moment for a lot of people where the economic decision about modal shift, "Am I going to stick to public transport or run a car?" is going to --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I think we have demonstrated --

Valerie Shawcross CBE AM: Therefore your financial policy is going to conflict with our environment policy.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Some of that is quite a long way off, it is a national Government choice, and presumably we will be invited as citizens to choose in the new election. The evidence since the mayoralty was created and TfL was created is that there has been, in the last 14 years, a 10.5% modal shift from cars to public transport in this city, it is unrivalled throughout the world --

Valerie Shawcross CBE AM: And you do not want to see that change.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): -- and you do not want to see that going backwards. However, there is not much sign of it and I think, if you go back to the first part of your question, it has as much to do with the reliability of the transport service and its ability to absorb people, and that is why you want to run more buses because you do not want to leave people behind in the peak. That is why, when you put 30-odd trains an hour on the Jubilee line, they all fill up, because you can. Nobody likes paying those fares and I do not much like charging, but that is the consequence of general Government policy.

Valerie Shawcross CBE AM: I appreciate the governmental framework here, but just looking for example at the fact that you have managed to perform quite well in terms of things like your net service expenditure has been less than anticipated last year and I think that again, like the fare income, has been a pretty regular pattern.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): It is better than if it was more.

Valerie Shawcross CBE AM: Yes, of course it is.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): You are damned whatever you do.

Valerie Shawcross CBE AM: This is not criticism, Sir Peter, this is noting with pleasure that you have managed to run a tight ship and you have spent less than you said you were going to and I think the line I am looking at, although it gets expressed differently everywhere, it is about £81 million for the net service expenditure. Would it not have been possible, just as a one-off, to freeze the fares this year, if you have the subsidy from the Government for the plus 1%, to take the RPI out once as well? Would that not have been a good positive pro-public transport bonus for passengers?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Two things are worth saying, one of which is that, if, as Andrew [Pollins] said to you, the effect of the difference between RPI and RPI plus 1, which we are compensated for, is £30 million-odd, if you were not to do RPI at all, clearly if RPI is 2-point-something, it is about £80 million. That of course is something that no future Government will compensate you for, so that is a recurring loss every year in the future. The other point is that all this discussion, which can be complex - and needs to be complex - about the marginal forecast differences in operating expenditure and fares income would be much more material if we did not roll it into the budget for future years.

One of the things that I am very concerned about, and you would expect me to be, is that we are not naïve in the sense that we are expecting any future Government - and I have read what the Treasury has paper-trailed in *The Financial Times* several times in the last few weeks - public expenditure in the future as severe as it has been in the last five years, or more severe, and it would be pretty stupid of us not to roll this stuff forward because we do have a lot to do in the context of a city that is moving towards 9 million people, keeping on with keeping this supply of transport up, which is one of the principal determinants of growth and modal shift, is a really important thing to do.

Valerie Shawcross CBE AM: I know other people want to come in, but I think I would just note for the record that there is a congruence with how much you have managed to achieve in underspending on rail running costs and what you have just said to me it would have cost just to have a one-off year freeze rather than RPI increase and in a year of financial stringency we also have to think about the future of passengers.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Every year has been a year of financial stringency since 2008 and I am a veteran of the first Mayor's fares policies, which were a freeze, and the consequence of that in the long term was that they had to go back up because it depressed the overall income so greatly, and that was in a time of relative economic plenty. That is really the issue, which is if you look forward at the same sort of rate of decline of the Department for Transport (DfT) subsidy, we will not have any revenue subsidy by 2019 and I am very, very bothered that in those circumstances we keep enough income going to run the volumes, particularly of bus services, that the passengers that present themselves every morning to get to work and school and hospitals and education need. That is the real issue for me.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): The revenue grant I think for next year is projected to £675 million. The only other thing I would just like to add is regards to net service expenditure in the current year versus budget, you talked about an £80 million upside in that. I think it is just worthy of note that a big chunk of that saving is rephasing of some of future stations implementation costs, which will be --

Valerie Shawcross CBE AM: It was the service expenditure.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, unfortunately it is not a cashable benefit, the majority of that is phased, so it is a phasing thing, therefore it is timing of the future station implementation costs, which will kick in next year as opposed to this year.

Stephen Knight AM (Deputy Chair): I wanted to ask about one area of the fares package where there has been a very, very big increase, and that is the off-peak 1-6 Travelcards, one-day Travelcards, where the adults [Zone] 1-6 Travelcard has gone from £8.90 to £12, it is a 35% increase, and the child off-peak Travelcard has gone from £3.60 to £6, a 67% rise, so a family of four wanting to go up to town for a day on the train has gone from £25 to £36, which is obviously a 44% increase. That is likely to put a lot of people off travelling, is it not, travelling by train? Perhaps they will take the car instead. What is the justification for that increase as part of the package? Secondly, what is the financial impact of that increase? What would it have cost you to make it 2.5%, the average, rather than these punitive increases?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The Mayor was asked - and we went away to work out for the Mayor - how it would be that we better cope with an increasing number of people in London who work part-time or go to different places on different days of the week, and that I would hope to generally claim this fares package has managed to do in equating with weekly, monthly and annual caps in such a way that you are not disadvantaged by working part-time. We have had to find a way of funding that within the total package somehow and we have chosen those fares for a number of reasons, one of which is some of those people can do better on a mixture of pay-as-you-go and contactless than by those Travelcards, and indeed some of the people who buy those are people from outside London.

If you are worried about the numbers of people travelling, I think it is inevitable that you will get some winners or losers, but I would not be concerned in the rate of rapid growth of our passenger numbers that was anything really very significant in terms of the sorts of total numbers that we are seeing. The total numbers that we are seeing are driven by a population that is rising by 70,000 to 80,000 people a year, which is disproportionately comprised of working people, of people of working age and people seeking work, and I would hope that you would agree that trying to fix the fares system so that it was fair to people who work part-time, not just on three consecutive days, and not just going to the same place, was of course a worthwhile aim, and somewhere else in the fares package we would have to do something about it.

Stephen Knight AM (Deputy Chair): I take the point you have robbed Peter to pay Paul, but the Peters that you have robbed are off-peak travellers in outer London and in particular child off-peak travellers in outer London.

I wonder if you can answer the second part of my question, which is these two increases, what was the estimated revenue benefit of those two increases, over and above a standard 2.5% rise?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I have to tell you, I do not bring my entire office with me, but my memory is that the numbers of people affected by these changes are really quite small compared with the number of people who benefit from the equalisation of caps we've done for part-time.

Stephen Knight AM (Deputy Chair): However, if the numbers affected are small, presumably the benefit of those increases is relatively small in revenue terms?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): You should start smiling in a minute because a large number multiplied by a small number of people is equal to a small number multiplied by --

Stephen Knight AM (Deputy Chair): Therefore you are hitting a small number of people very hard in order to get the money out of them?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Every package I have ever seen anywhere in my entire career, if you are trying to get RPI or some other number in total, short of paring fares down to individual pence, you have to have some balance, and we did decide that doing those things with those fares for a relatively small number of people, particularly since from memory quite a lot of those people were from outside London, for various reasons --

Stephen Knight AM (Deputy Chair): There are an awful lot of Londoners that live in Zone 6.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I did not say there were not.

Stephen Knight AM (Deputy Chair): There are Zone 5 people who use these fares.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I did not say that. I said, from memory, the particular set of people who pay those fares at least have some elements of people from outside London. However, you do have to do that somehow, otherwise it would be a blanket increase, and particularly you would be unable to create a fair structure, which did do something for the part-time people, within an open plan.

Stephen Knight AM (Deputy Chair): In the absence of figures now, could you write to me, and the rest of the Committee could be interested to know as well?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Of course we will, yes.

Stephen Knight AM (Deputy Chair): With the figures of what the extra revenue is that you are getting out of those two fare rises in particular and what the cost of --

John Biggs AM (Chairman): I think it would be useful for the Chairman to know what other options were considered, so you talk about blanket increase, but we have discussed it on many occasions, the fact that TfL --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): You have the Mayor's advice now.

John Biggs AM (Chairman): Yes, we have the Mayor's advice, yes, thanks to our endeavours, I think, and we have considered in the past the fact that you have managed healthy surpluses. You cannot spend them more than once of course, but if you are saying it is a relatively small impact on outer London travellers, it is like a kick in the teeth for the suburbs, then that could be a justifiable reason for not implementing such a swingeing increase.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): In particular, the benefits that accrue to the people who work part-time and travel to different places on different days of the week through the equalisation of weekly, monthly and annual caps of course covers the whole of London, as it should. I feel quite robust in defending that because I think, having listened to the arguments, although it is not our decision because it is the Mayor's decision, I think there is some merit in trying to do the right thing for people who work part-time and not just limiting it, for example, to a part-time Travelcard of three consecutive days, but doing something that genuinely means something to people who work variable hours on variable days of the week.

John Biggs AM (Chairman): No, no, no, I think everyone likes that, we all like Christmas presents, do we not, but we do not really like paying for them though.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Absolutely, yes.

Stephen Knight AM (Deputy Chair): I wonder if you could just tell us, what was the rationale for the much bigger increase in the child fare off-peak Travelcard than the adult fare? The adult fare goes up by 35%; the child fare by two-thirds, 66% recurring.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The child fare is smaller to start with. Quite a lot of children's travel in London is free completely, or free on buses. I do not have the figures to hand --

Stephen Knight AM (Deputy Chair): However, if you live in Zone 6, you are not going to travel into central London by bus, are you?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No, but what I am saying is the number of people affected by that is going to be quite small.

John Biggs AM (Chairman): You cannot really have it both ways, can you?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Well neither can you.

John Biggs AM (Chairman): You cannot say, "Hardly anyone is affected by it --"

Stephen Knight AM (Deputy Chair): "--and they're only children --"

John Biggs AM (Chairman): "-- so it does not really matter that people who are affected are going to have to take a big hit". If you think of the number of relatively lower income being forced to live in that --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We will send you the figures if you want to have a look at it, but I remain absolutely sure that the number of beneficiaries of the entire package in terms of this part-time thing, across the whole of London in every fare zone, outstrips immensely the numbers of people affected by this, which is an off-peak fare anyway. If your first priority, which is not the only priority, but if your first priority is to get people to work, an affordable way to get people to work, then we have probably done the right thing.

John Biggs AM (Chairman): Which zone do you live in, Mr Bacon?

Gareth Bacon AM: Five, I think.

John Biggs AM (Chairman): He is angry from Bexley then, go on.

Gareth Bacon AM: I was furious from Bexley. Andrew, you answered in response to Val's [Shawcross] question earlier on about the loss of income to TfL if you stick to RPI rather than RPI plus 1, I think you estimated it to some half a billion between now and the end of the business plan. Is that if the funding sticks to RPI for the remainder of the business plan or is it just for this year, and then the recurring loss amounts to half a billion over the course of the business plan?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Sorry, I did not catch the last part of the question.

Gareth Bacon AM: Sorry, I am mumbling a bit. Your estimate was, I think, £400 million.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): £457 million, yes.

Gareth Bacon AM: Between now and the conclusion of the business plan in 2021.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes.

Gareth Bacon AM: Is that estimate based on RPI being held for the remainder of the business plan or just for this year and the recurring loss over that period of time would amount to it?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): No, it would be RPI for 2015/16, 2016/17 --

Gareth Bacon AM: Therefore RPI from now until the end of the business plan?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, until the end of 2021.

Gareth Bacon AM: Have you estimated what the cost would be if we did a fare freeze?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, to 2021 would be just over £2 billion.

Gareth Bacon AM: That was if there was a fare freeze every single year?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes.

Gareth Bacon AM: If there was a fare freeze in just this year, what would be the impact? A fare freeze this year and then RPI thereafter?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): I do not think I have that to hand. I am pretty sure that I saw if there was a fare freeze for two years it was £1.3 billion. I think we would need to confirm that.

Gareth Bacon AM: I am happy for that to come in the same letter as the other figures.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): If I may, the other question, Gareth, which would follow from that is that Government does not sit idly by if you do those things, so if you read the settlement letters from the successive Secretaries of State right back to 2008, it always has a reference somewhere in some language to reopen the settlement if they do not think the Mayor has taken what they might regard - whether anybody else does - as reasonable decisions. Certainly the civil servants are more robust with us in private than the letter says in public, but the implication of making a decision to freeze fares for a long period of time would I think be, in the current economic circumstances, that what would happen is that we would and the Mayor, whoever the Mayor is at the time, would have a very difficult discussion with the Department about how much money they gave us in light of the Mayor deciding to arbitrarily curtail the amount of income that the Mayor received through fares.

Gareth Bacon AM: Therefore the danger would be then the Government settlement would fall quicker?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes.

Gareth Bacon AM: Thank you.

John Biggs AM (Chairman): Essentially, if the Chancellor tells you to do it then that is fine. If you do it yourselves, then you get punished. The question I was going to ask, and I think it is the right time, is the extent to which you have discretion, and the answer is you have infinite discretion, but in reality you have very little discretion.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes, I think --

John Biggs AM (Chairman): Therefore the Mayor can tell you what to do. However, he does not have much --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): --- successive letters have been influenced by the experience with the Mayor in the first term.

John Biggs AM (Chairman): I think for the record we can remind you that you are the same Peter Hendy - you might have had fewer letters after your name at that stage - who told us that it was reckless to freeze fares or reduce fares or whatever, because of the year-on-year accumulated --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I believe the previous Mayor is on record saying that, not only I, but we all always want to put the fares up, and he is absolutely right, in the sense that we have a lot to do. That is not a comment on their affordability and I am mindful, as all of you are, about the effect on people's personal budgets of increasing fares, but the reality is we have a very old system, it needs to be modernised, and even more powerfully it has to continue to cope with the numbers of people coming to this city, otherwise they will come but they will not be able to create economic wealth and make the place work.

John Biggs AM (Chairman): OK. Next Tuesday, just to remind all Members, we are going to have the Mayor and we can ask some of these more political questions to the Mayor.

Murad Qureshi AM: For your information, I am a Zone 1/Zone 2 traveller, depending on which Tube station I go to. I could walk here, but I think that would be more exhausting than I could reliably --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): That would be ecologically desirable!

Murad Qureshi AM: I am regretting now saying this, but it comes back to one of the points Val [Shawcross] made, and something I asked about in a written Mayor's Question Time (MQT), the amount of expenditure on energy costs for TfL, and I was given a figure of £123 million for 2014/15. In light of the five-year low of petrol prices, which are likely to continue, can you give me an estimate of how much that is likely to come down?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The vast majority of that cost, I suspect, is electricity.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, it is detailed in the subjective analysis on page 61 of the Mayor's Budget. However, the figures are distorted because there is a line under traction current, which shows the forecast for this year to be £101.2 million, and then it shows an increase to £119.9 million, which on the face of it looks very odd, but the fact is that the numbers are not like-for-like. We have recently refranchised with the Docklands Light Railway and previously the traction current was basically accounted for slightly differently. Now we incur the cost direct and therefore show it in our figures. There is no net overall cost, but basically there will be an equal and opposite reduction.

However, your question is do we expect energy costs to increase, and I do not have the exact figures to hand, I know certainly as regards to energy procurement it goes through the Government procurement services contracts, so we are pretty much locked in over the next two or three years, I believe. I do not exactly have the figures to hand.

Murad Qureshi AM: It sounds as though we are talking about probably a £20 million to £25 million potential saving on energy costs. That is the figure you mentioned, £101 million at some point. That suggests to me there is a substantial reduction of a fifth.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): That is an increase. Next year --

Murad Qureshi AM: You are expecting an increase when petrol prices --

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, because it is not like-for-like, because it now includes the Docklands Light Railway traction costs.

Murad Qureshi AM: Taking aside all the procurement changes, because I do not think that helps at all --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Well --

Murad Qureshi AM: Can I just finish? The reality is petrol prices are at a five-year low, households will notice that it is costing them £17 to £20 less to tank up a car, and yet we are seeing public travel costs going up. How do you explain that to the public? Forget what zones they are; that is right across the board.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): You explain it by the fact that we pay for the cost of operation and investment by a combination of Government grant and fares income.

Murad Qureshi AM: Sorry, Peter, I want to be clear about who is getting the benefit of these reductions of energy costs.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We can explain the electricity costs because some of this is accounting rather than anything else, but if you look at fuel costs for buses, we will have to write you a little bit of an essay about it. We will do that, but what you will find is that the companies put fuel costs for buses as part of the total cost of bus operation, and from memory it is something like 6% or 7%, so it is material but it is not that big. However, they also buy fuel in advance, they buy it in a forward market, and we would have to do quite a lot of probing, which we will do, to find out what they expected to buy. Therefore the fuel that they are putting in the tanks of the buses around London tonight is at a price that they have determined variously over the last 6 to 24 or 30 months.

Stephen Knight AM (Deputy Chair): Therefore hedge funds do well out of it.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): It is the way in which everybody buys large quantities of fuel. What I would expect is that the consequence of the current low fuel price, if it lasts for any serious length of time, is that it will be reflected in marginally lower prices for contracts let in the next few months, which will apply over the five years in their operating costs which will be material. None of that answers your point about how you explain it in a personal budget sense, but then you cannot explain it in a personal budget sense because this is a relatively small proportion of our total operating costs and the climate at large is informed by the amount of Government grant and the amount of fares income.

Murad Qureshi AM: If I am allowed to predict into the future, the likelihood is the Organisation of the Petroleum Exporting Countries (OPEC) is going to be in a battle with Shell Oil for some time to be and I think that we are going to be the beneficiaries in a transport sense. I just want to be sure that TfL are looking at the customers and how they can pass that on to the public.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): To the extent to which that affects oil prices for any measurable length of time, it will turn up in the bus contracts sooner or later.

John Biggs AM (Chairman): You will have to write to us about that. Within that, I am sure you can help clarify what proportion of costs is covered by fuel, because it is not the same as a domestic user who will write off the cost of their car.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Absolutely right.--

John Biggs AM (Chairman): However, I do recall some years ago - this is a reminder we have been around, all of us, for a while - that bus companies came howling to TfL because the fuel prices went up and they needed extra money to make the contracts work, so presumably the reverse happens when the cost goes down.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes, and we deal with them when they come up by saying, "When did you last renew your contract and how long does it last?"

John Biggs AM (Chairman): They do not give us money back though?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Right. However, we do not give them any money very easily simply because the reason we forward-hedge is to avoid that notion. What

you will find, in a paper that has either just been or is just coming, is that the taxi fare increase is virtually stationary this year as a consequence of the reduction in fuel costs.

John Biggs AM (Chairman): Year on year, TfL has over-achieved on revenues, so you have ended up with more money sloshing around at the end of the year than you anticipated, and there could be a mix of reasons for that, increase in revenue, underspending on bits of capital, and so some of the money is not as real as it might otherwise be. Are you saying that now we have reached the state with TfL where we are at risk of becoming complacent that every year this happens, it may not be happening this year?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Our current view is that it will not happen.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Again, if you look at the detail on page 61 of the subjective analysis, you will see that the latest forecast as regards to revenues, fares revenue is £4,296.8 million versus a revised budget of £4,331.3 million, so again marginally, probably about a percentage point down.

John Biggs AM (Chairman): Whereas in previous years the gap was --

Andrew Pollins (Interim Chief Finance Officer, Transport for London): It was 0.3% the year before. That is slightly ahead of 0.3%.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Interestingly, that is not necessarily a reflection of declining demand, some of this, from a more detailed analysis, is about people using the ticketing system better in order to get themselves better value for what they do.

John Biggs AM (Chairman): That is interesting, yes. However, previous years, we had a bigger margin between the budget and the outcomes, but one of the points you are making then is that because travellers in London are getting cleverer in the way in which they have managed their ticketing, we are under-achieving on income as a consequence of that?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): If you think that we get as close as we do on a budget of £4 billion, it is very difficult to forecast what individual people will do as a consequence of the mix of fares that you offer them and all of my professional experience is this is an astonishingly close result every year compared to --

John Biggs AM (Chairman): OK. Therefore, thoughtful people who watch TfL's budgets will tell you - semi-thoughtful - that year on year TfL seems to have £400 million or so extra at the end of the year because, for a variety of reasons, it over-achieved income or underspent on various projects. However, this year, it ain't gonna happen?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): As Andrew said, one of the causes of having operational under-expenditure is phasing and not saving money, some of it is saving money, which is good, that is what you want us to do, some of it is phasing where there are a variety of reasons, and in particular you do not pay suppliers in some cases until they have done what they ought to do, it goes into next year. However, it does not amount, as it can be represented, to be some large beneficial sum of money to be spent on something else and it is --

John Biggs AM (Chairman): I am focusing on the revenue side, we will deal with the capital in a few minutes' time.

Valerie Shawcross CBE AM: You just never get a windfall I think is the point.

John Biggs AM (Chairman): There is no Santa Claus, that is what you are telling us?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I have been dealing with this for 35 years or so and I have never found a windfall out of any of this.

Isabel Dedring (Deputy Mayor for Transport): There are four different things going on on the revenue side: two are the fares, people, what product they choose, and the volume of people, whether we have correctly predicted that. On the operating expenditure (OPEX) side, it is good and bad. In other words, the bad OPEX stuff is the rephasing, the good OPEX stuff is over-delivering against efficiencies. We have done some work looking at that over the last five to six years and that number that pops out of the system, what is that comprised of? Because part of the complexity here is that the reason for that number that pops out changes over time. Three or four years ago, the algorithm that predicted basically our assumptions about elasticity relative to the economy were not as accurate as they needed to be, and they were revised a couple of times. Now those are very accurate, which is why the number on the fares revenue side is looking a lot closer, because there were previous years - three or four years ago - it was about £100 million, £150 million out.

Then that number has been going down a lot and last year it was single digits, it was below £10 million which, as Peter says, is astonishing. But the big driver of that was that basically there is a set of assumptions about if the economy is doing like this, people will travel that amount, and that was not proving to be true. Even though the economy was not doing well, people are travelling more. That has all been updated now, so it is kind of a shifting pattern of what is driving that number, and you can see when you look at the breakdown of what is popping out of the system, to use the phrase Val [Shawcross] was using, it is quite instructive because it kind of helps you to see where is that coming from and therefore what can we do about it and what of that is real money and what of it is rephased money, to your point about the windfall for the farepayer, how much of that may even ever theoretically be available.

John Biggs AM (Chairman): That is very helpful and we can cross-examine the real expert, Boris Johnson [Mayor of London], next week on that. That, for the record, was a joke by the way.

Gareth Bacon AM: You have £3.4 billion worth of commercial income planned. How is that progressing?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We set ourselves an ambitious target. The Finance [and Policy] Committee of the Board asked us to set ourselves a more ambitious target; we set ourselves a more ambitious target. We are in the course of doing a number of things to achieve that, one of which is progressing with a whole series of property deals. However, historically, what this organisation and its predecessors did was to dispose of certain freehold properties for capital receipt. Whether or not that was a good thing at the time, they did not have a long-term investment plan, only a general commitment from Government to fund the investment programme over a three or five-year period. Therefore that might have been the right thing to do.

However, it clearly is not the right thing to do now because the real pressure is on operating expenditure. The corollary of trying to get operating income out of our property and not capital disposal, there are two factors there, one of which is much of the good free surplus land is gone, because you can only sell it once, and the

other is that the remainder is quite complex to develop and also requires a lot more discussion and agreement with potential developers, so Earls Court has been through the board, we have a deal with Earls Court.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Now the joint venture is established.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The joint venture is established. We have a projected income stream for that.

Gareth Bacon AM: Of how much? I think it is £1.1 billion, your property operating income, is it not?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): It is around that range, certainly.

Gareth Bacon AM: It is £1.1 billion for property investment is Earls Court?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): No, I think it is about £800 million relates to Earls Court.

Gareth Bacon AM: That is over the life --

Andrew Pollins (Interim Chief Finance Officer, Transport for London): That is over the life of the business plan; it comes later on in the business plan.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Then beyond that, Gareth, there is a whole range of other properties, which we are in the course of taking to the market in batches to see what else we can do with various developers. You are right to ask us about that from time to time. We are making progress and I do not know how much of that is in this document, but if there is not much detail then we can certainly write to you about it.

Gareth Bacon AM: I think that would be helpful for the Committee generally. We have had Graeme Craig [Commercial Development Director, Transport for London] down on a few occasions and I think we are all supportive of the general principle of getting commercial income from TfL and I think some of the plans that he had were quite ambitious. We would like to get progress updates.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We are bound to have to take serious notice of the Finance Committee who say, "Do more faster" against which, if you are going to do these sorts of deals, they are quite complex. The significance of Earls Court is that it has taken quite a lot to persuade property markets of serious developers that we are a public corporation who can be relied on to be dealt with in circumstances where public bodies are slow and difficult to deal with because of the requirements of disclosure and because of the best-value requirement, so I think we have done that. Therefore we are more than happy, I am sure, to let you have details of that.

Gareth Bacon AM: Yes, that will be great. I fully appreciate what you have just said about convincing the market that you are serious, because that is a challenging thing to do. Do you see Earls Court then being a bit of a catalyst, now people have seen it --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): In my view, it is really, really important for us to establish a decent-sized joint venture with a reputable property developer to persuade other people that we are the sort of people who can do those deals and I think it is really important, because if you look out over the next five or ten years, on the assumption that we have made collectively a good case for continued transport investment in London, then the pressure is going to be on the revenue expenditure and deriving an increasing revenue stream out of the remaining properties we have, including retail developments that have grown recently - Andrew [Pollins] can tell you a lot more about that than I can - is really important.

Gareth Bacon AM: Are you confident that the Earls Court scheme is proceeding in such a way that you can generate a confidence in the market?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes.

Gareth Bacon AM: Good. Advertising is a key chunk of the commercial income plan, around about a third, is it not? However, your advertising revenue for next year is due to take a bit of a hit, is it not, it is due to drop significantly around about 40%? What is the reason for that?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): What happened with the advertising, the Underground advertising contract fortuitously was let in 2008 at the height of the boom and it was originally with CBS Outdoor. They made a very strong attempt to try to get out of the contract - it was widely reported - in 2009. I can remember a lot of transatlantic phone calls when they threatened to sue us and I said, "Be my guest" and they did not in the end. We came to an agreement with them about continuing to pay what we believed we were entitled to in 2012. However, the contract expires eventually, and the likelihood is, when it is renewed in 2015/16, it will not be at the same highly-inflated value and we have had to take note of that. We are currently renewing the shelter and stop advertising contract, which will give us a clue about where that market is. We have done as much as we can in talking up the opportunities and talking up the increased population and talking up what technology can be used for all this, so it would be nice to think that we could, while we will never match what we have at the moment, but we could get someone pretty good. However, the reality is that it is right for us to show a short-term drop because that is what the market is likely to give us.

Gareth Bacon AM: You are confident it is going to recover?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): That is up to the general UK and London economy. We are confident at the moment that the numbers we have put in place for 2015/16 are the right sort of numbers for the budget. If we see it recovering some more, and if we manage to get a contract with more value in it, then naturally we will --

Gareth Bacon AM: However, the 2016/17 plan does assume a partial recovery, does it not?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes, up to £123.9 million, yes.

Gareth Bacon AM: You are confident with that?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes.

Gareth Bacon AM: Therefore you see this year as being a bit of a blip and then things will start to trend back up again?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Exactly, yes, as you make the transition to a new contract again.

Gareth Bacon AM: OK. The last thing I want to ask you about is the cycle hire scheme. Some people think it has been a great success; other people are slightly more critical of it. Obviously the new sponsor is due to be in line fairly soon this year at some stage. How close are you to that process being completed?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Not very far away at all.

Gareth Bacon AM: OK. So, in a non-public meeting with no cameras then, you are almost there in announcing this?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We are not far off. I think, as we have said before, and I think the Mayor has said, we are confident that we can replicate the sponsorship value at least from the previous sponsorship.

Gareth Bacon AM: OK, which is good news. Last time it was all about the bottom line, was it not, it was all about how much money somebody put on the table, it was not about value added in terms of other activity expected from the sponsor, and the sponsor put much more money on the table than was originally envisaged in the business plan. This time I know you are looking for a much more value-added sponsor, somebody who is going to do more to enhance the scheme and that sort of thing.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): That would be good, would it not?

Gareth Bacon AM: I appreciate that until the ink is dry on contracts you cannot really talk in too much detail in public about that, but how would the scheme vary in broad strokes to the previous Barclays Hire scheme?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): What you would like out of the sponsor is not only for them to give you colloquially a 'shed-load' of cash, but to actively participate in the marketing and promotion of the scheme in a wider way than we could probably do ourselves. That is what we asked for. Although in the end you have to judge it on cash, because cash is what is the sponsorship, but to our regret, and I think the Mayor said so, it was a shame that the present sponsor had not made more of that connection in the way that they could and we have obviously drawn that to the attention of potential future sponsors.

Isabel Deding (Deputy Mayor for Transport): I think that we can say that all the bids that we received reflected that, the degree to which they reflected it varies and the way they interpret that varies, but all the bids, I think it is fair to say --

John Biggs AM (Chairman): I am a very indulgent Chair, by the way. Yes, go on, carry on.

Gareth Bacon AM: I know, it is New Year, new leaf, it is brilliant. Are you expecting - or can we expect - one sponsor, or are we likely to see more than one sponsor in various different aspects of the scheme?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): This time around for the bike hire I think you can expect to see one sponsor.

Gareth Bacon AM: One sponsor, OK.

John Biggs AM (Chairman): Will it be someone from the Mayor meets in Davos?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Does their name begin with A to C or is D to K?

John Biggs AM (Chairman): We are just wondering whether it was somebody that the Mayor meets in a recreation facility in Davos or went to school with?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The Mayor can meet all of them wherever he wants, but the process is a public procurement process and has to be run like this, otherwise we will get sued.

John Biggs AM (Chairman): I think the words you were missing in your opening question, Gareth, were that it is has the highest subsidy of any form of transport in London. You know those words because you had them deleted from our report.

Gareth Bacon AM: Because they are completely untrue. It is Labour Party spiel.

John Biggs AM (Chairman): Well, it can be a good thing.

Gareth Bacon AM: It can be a bad thing.

John Biggs AM (Chairman): However, it has underperformed.

Richard Tracey AM: Isabel, can we talk about the savings in the budget? The first one is how is TfL's target of £209 million in additional savings set for the coming year?

Isabel Dedring (Deputy Mayor for Transport): I do not recognise the £209 million.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): £209 million is the unsecured efficiencies for the next financial year.

Isabel Dedring (Deputy Mayor for Transport): Yes, OK. The first point I would make is that I think that we need to do some work over the next couple of months to more clearly articulate what we have saved when and all of that kind of stuff, because what one would want to see - and what best practice would be - would be that we would see at least a 3% year on year reduction in terms of, for example, operating expenditure. What has happened is that in effect that has been the aspiration and that has been embedded into the savings programme, but it is very hard to articulate where that is and explain to people that level of saving is reflected in the savings programme. Therefore, one of the things that Peter and Andrew have been discussing recently is how we better explain what is in, in terms of the efficiencies.

My own view is that we can continue to go beyond the current level of efficiencies that are in the business plan and that this business planning round this year will be another opportunity to do so. There have been

additional savings that have been identified in the business plan that has just been approved. Every year we are loading additional savings on to the programme, but I think we can go further if we look at the ten-year period. In particular, if you look at the back-end of the plan, the rate at which we are delivering savings declines, which you might expect because you have not yet identified what those savings might be, but as we look at each business plan, we need to continue to look out towards especially the second half of the plan about what some of those longer-term savings or medium-term savings might be.

Richard Tracey AM: Yes. You will understand that we are perhaps a bit sceptical about TfL savings because in the past, in 2013/14, there were £188 million reported savings against the target that we had been told of £137 million, and that has happened in other years too. It does not sound as though it is very precise.

Isabel Dedring (Deputy Mayor for Transport): I think the issue is that is not the savings number and the way it is reported in the GLA budget documents is it is effectively the incremental unsecured savings or something like that. I do not have that number to hand. What I have is the actual savings in aggregate, which is reported differently in terms of the business plan spreadsheet than it is from the GLA budget. Therefore, I think the best thing to do, what I might suggest is that we send you a full reconciliation of the total number. We usually cite the £16 billion. I think what we need to be able to articulate is how is that made up, when have the different amounts have been identified and when have they materialised, and we can see that over a ten-year period, and then you can see which bit looks like it does not make sense. I remember from last year there was an issue about the published efficiencies in the GLA budget documents, which was quite misleading, and makes TfL's savings level look bad relative to the other functional bodies. However, we still have to check that, how that is defined effectively, which does not tally with what is actually happening behind the scenes.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): It is also unfortunate in the calculation, as I mentioned, that for future stations' implementation costs, moving from one year to the next, again that affects our reported efficiencies number because we will report a net efficiencies number as well, so again that will distort the efficiency reporting for this current financial year as well.

Isabel Dedring (Deputy Mayor for Transport): It is not like-for-like effectively.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): No, which is always a challenge. Just headline numbers, just to be absolutely clear, the overall TfL efficiency programme is £16 billion, of which £12 billion is secured, but again we would still need to make sure that we do not have any creep on the securing of, as we so put it, horizon or any other operational maintenance savings, we do not have creep as regard to what we implemented, so that is £12 million secured. There is £4 billion that is what we class as unsecured, of which the £209 million net for 2015/16 is part of that £4 billion unsecured efficiency, which we have identified. Again, for the year coming up, the majority of that will relate to some back-office savings and maintenance savings driven by some predict and prevent initiatives. That is again just to give you a flavour.

Again, the reconciliation process on this unfortunately is rather torturous because internally we try to report cumulative, so we are clear with regards to what we have achieved and what we have left to achieve, but again the way we report it for Mayor's budgets and stuff like that is in a slightly different currency, which again can cause inadvertently some confusion.

Richard Tracey AM: Yes, I think if you could send us an explanatory note, as Isabel promised, because then we can analyse that. Otherwise we could be here for a very long time.

Isabel Dedring (Deputy Mayor for Transport): Presumably, what we all care about is that there is a substantial number there and that number is continuing to be of the same magnitude or growing every year so that we are at least delivering the rate of savings that we have delivered historically and hopefully more than the rate of savings that we delivered historically. Whatever is reported in various documents, that is the underlying question, then we can worry about reconciling that to what is in the GLA documents.

Richard Tracey AM: Peter, did you want to say something?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Only to say that the other part of this, which we have an explanation of here because we were debating that this week, is that of course, as you would expect, one of the things that we want to show is that the efficiencies as a proportion of either the operating expenditure or the business plan operating expenditure is increasing, which it is, but it is also being used. Therefore, actually some of these numbers are further confused by the fact that over the course of time you have more debt service because we are borrowing more money, and the capital expenditure (CAPEX) is going up, and we are putting more of the savings into CAPEX. Therefore you have to disassemble this.

Actually, we only sorted this out yesterday, but we have the table in front of us, which is seeking to demonstrate that over the plan period since 2009/10, and out until 2020/21, you get an increasing amount of efficiencies as a proportion of our operating expenditure and of the business plan OPEX. Indeed, there is a further table that demonstrates that if you look at it in terms of the division of the numbers of passenger journeys between OPEX net of inflation, you get a decreasing cost of passenger, all of which are the right things to do. None of that is in the GLA budget, but you can have all of that if you want it because those do demonstrate those points. Of course, the operating base itself is increasing because we are doing more and taking on more.

Richard Tracey AM: If I was a cynic, I would say that the decreasing operating cost per passenger, in other words, is overcrowding.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No, no, but we are running more service as well. That is the point. The trick is only --

Richard Tracey AM: You run more services at lower cost?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes.

Isabel Dedring (Deputy Mayor for Transport): The simple answer to that is if we send you that information that we are just looking at here - suitably cleansed, I would say - and we can add in there what the overcrowding protections are --

Richard Tracey AM: If all you do --

Isabel Dedring (Deputy Mayor for Transport): Let me just finish. Because then you can see the OPEX per passenger going down, but the overcrowding staying the same or improving or whatever it is, and there will be protections for that that we have institutionally, but that will answer that question.

John Biggs AM: Several years ago, I got a bucket of salt in my room for when I read this part of the TfL budget, because it is so difficult to work out which money is going where, I must say, so we welcome a further clarification on this.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I think part of it is --

Richard Tracey AM: We always feel like that.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Which is why the business plan is an attempt on our behalf to sort it out, because you are dealing with a very large budget, but operating within a dynamic environment. I would hope it would be much easier, and actually your presumption of packing people in would be correct if the volume of service operated is the same, but it is not. We are taking on more things. Our budget for next year takes on West Anglia, which is more capital, it is more passengers, it is more railway and it is more costs. Therefore, you have to be able to compare that on a like-for-like basis and that is the difficulty.

John Biggs AM: All right. But, Isabel, you could have hit them harder than this on the savings targets, we think

Isabel Dedring (Deputy Mayor for Transport): On the savings side?

John Biggs AM: Yes.

Isabel Dedring (Deputy Mayor for Transport): But I think that is the purpose of this exercise. The complexity here is that we have this 3% year on year programme. One of the problems with that programme is that you can end up just salami-slicing all the little things and you miss the big things, because there might be a single programme that could deliver you 3%, but you tend to kind of just slice off, "Here is a team of ten people. Let's make it a team of nine people". What we decided to do was to lump up the £3 billion that that programme represented and look at it in the round and deliver the savings in a different way, but therefore it becomes less transparent because it is not necessarily 3% every year. I think if we do the table which explains it in a simple way, outwith any of the budget documents, we can have a further discussion about whether that number is adequate or not. As I said earlier, John [Biggs], to your point, yes, I think we can go beyond this. Every year we are going beyond what we have the year before. Therefore it is a matter of continuing that in this year.

Richard Tracey AM: OK. Are you going to be able to let us have that before next Tuesday, when we have the Mayor answering questions?

Isabel Dedring (Deputy Mayor for Transport): I feel like the answer might be no, but we can try to do that.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): What about the stuff you have in front of you?

Isabel Dedring (Deputy Mayor for Transport): I am not sure it is totally self-explanatory, but --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): If you want to point out the difficulties with it, there is another set of difficulties with efficiencies, which is the extent to which you do

the same thing more efficiently or you stop doing some things, and they are not the same things either. We are doing our best to explain it both for ourselves and for you because we are conscious of this, and I am very conscious that people are expecting us in a difficult time to show that we are running the business more effectively.

Richard Tracey AM: The next question I was going to ask you is really the comparison between the TfL budget and the rest of the GLA group, in particular the Metropolitan Police Service (MPS). We have heard from them that they are under really heavy pressure in their budget, in their savings. Therefore, haven't you got off rather lightly compared to the MPS?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Part of this is a comparison with the numbers in this document, I think, but we have operating expenditure growth because we are doing more things. They do not have anything like the capital programme that we have; nothing like it. This is one of the largest single capital expenditure programmes of any body, public or private, in Britain. As you know, it is ramping up and increasing because we have more to do, and in particular we are building Crossrail.

In terms of the operating efficiencies, my response to that is to say that a lot of their costs are staffing costs, as ours are, and it could not have been clearer this year of the management's determination, back then and there, and hopefully by you as well, to reduce the number of people we employ to do the same job on the Underground in jobs that we do not think are necessary any more, in circumstances where if you compared us, for example, with the national railway network, you have not seen any serious reduction in the number of staff over nearly 20 years. That is my subjective answer to that, and in fact the Mayor pointed out to the Secretary of State when he met him a few months ago that our contractor has taken guards off - seven people - most of the trains on the Overground in circumstances where the trains on South West have been equipped for one-person operation for just over 20 years now, and nobody has taken a guard off at all.

Richard Tracey AM: Is that right?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Andrew [Pollins], in his previous job, with Mike [Brown, Managing Director, London Underground and London Rail, Transport for London] and his predecessor, have taken 2,000 jobs out of the Underground, which is not for celebration for the people who occupied them, and there are various views about whether we should have done it or not, but we have done it because actually we are able to run more mileage with less people, and that is efficiency.

Richard Tracey AM: Can you give us the latest estimate for the savings on the ticket office closures? This one has been around for quite a while, and we had one figure given to us either here or in the Transport Committee by Mike Brown, but perhaps you can give us the up-to-date one.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Again, I do not think the numbers should have changed at all, certainly over the last six to nine months, but basically, over the TfL business plan to 2021/22, it is £270 million. Certainly by the end of the plan we will be saving on average about £50 million per annum. That is based on approximately 900 job reductions within the stations, offset by some additional headcount relating to additional capacity and Night Tube, etc. Therefore, the net is around 750 to 700 job reductions net.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): To which you can add the value in retail space of selling the space.

Richard Tracey AM: You have already started the work on it; I think there is one station certainly in my constituency, South Wimbledon, where works started on this, and of course we were given a timeframe of work starting in January.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes. If you have evidence it started, well, it started.

Richard Tracey AM: I am told, sir. I have not personally seen it, but I was told the other day.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes I have a list of the places progressively, and it is a progressive change. It is a progressive change because it takes time physically, it takes time in managerial terms and for the benefit of the employees that we have, in terms of sorting out their destiny and their training, and it is a progressive process.

Richard Tracey AM: All right. The last question, which I have some views on, but I know other colleagues do, is the extra cost and revenue implications of introducing the 24-hour Tube services. Last night I was at the Wandsworth Passenger Transport Committee, and people were asking the questions about extra bus service costs because clearly, if you are going to run the Tubes 24 hours, people will need to be able to get from the Underground station to home, either by bus or by taxi. What about the implications of that?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We are in the process of assembling a plan. You are absolutely right, Richard, which is that on the two nights a week when the lines are going to run 24 hours, we have to recast the night bus service in order that people are able to travel from the stations that are open all night. What have you got on that, Andrew?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): We are working through the detail in terms of our operating models as we speak, things like staffing rosters, etc. being agreed with British Transport Police (BTP) as a good example. I know that is ongoing. I think the Rail and Underground are confident that, over time, revenues versus cost will break even. They are certainly working on that basis, although in the short term there will be implementation costs and probably some over-staffing. There is also increased staffing in the initial stages so that we get the operating model right in the current year. Within these numbers, within our 2015/16 numbers, we have incremental revenues of £9 million for revenues, and slightly more of that on costs, including implementation costs of about £19 million. Again, that over time will reduce because again there are some significant implementation costs in that first year of rollout.

Murad Qureshi AM: On the 24-hour Tube service. Could you just outline to me which lines are they on again and which are they not? I think it is a bit of a misnomer that it is 24-hour.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): It is on the Jubilee, it is on the Northern, it is on the Central line. I am running out of lines. Are there any others?

Murad Qureshi AM: Which are the others? It cannot be the Piccadilly.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): It is on the Piccadilly, I am sure.

Murad Qureshi AM: Is it? Just starting my point, I think. That is three of the 13 lines, and I daresay there is going to be a lot more to manage people off the other bits so for example in Oxford Circus, how are you going to stop people getting on the Bakerloo, or the Central line?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): When you shut the gates to the platforms, they cannot get on the --

Murad Qureshi AM: Sure. You will get a lot of people going down there, wandering around thinking they can on the basis that it is a 24-hour service.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes. I think our customers, our passengers, are more informed than that. What we have done is we have chosen the lines --

Murad Qureshi AM: Not the tourists.

John Biggs AM: They will just have to wait down there.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): People will not be waiting on the platform for the first train at 5.30am because we will not let them on the platform. The point of it is you can only do this when the infrastructure is sufficiently robust to be able to be maintained five nights a week out of seven. What has allowed this to happen is the replacement of the track signalling and the trains on things like the Victoria line, the Northern line and the Jubilee line, and then you can do it. That map will increase, but you would not want to say, "Well, actually, because we cannot operate the whole lot now, we will not do any of it at all". This is going to be a massive improvement for large numbers of Londoners on the lines where we can do it, and in due course we will try to do it along the rest of them.

Murad Qureshi AM: I do know, but we also have the word "performance". I am struck by that. My real concern is actually operationally the performances, that it does not affect the night economy of London, and that it is dealing with the outer spokes, so to speak, in and out, and not necessarily the middle. It is a bit like if you take the comparison of New York, where they do have a 24-hour tube system, there is a lot more circulation in Manhattan on the 24-hour thing than actually going out on the lines into Queens and the Bronx and what have you.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We have got night bus --

Murad Qureshi AM: I am sure you have the figures on this.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We have night bus routes that go a very long way out from central London, precisely because so many people travel a very long way at night. One of the benefits of this is that you are not just serving central London. You are giving people the real opportunity to get --

Murad Qureshi AM: The final point. Here is an example. The City of Westminster are busy extending the West End into Paddington, and I am not sure you have that on your map on the 24-hour service, because that is one of the --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I have it on the radar, but signalling on the Bakerloo line is 50 to 60 years old.

Murad Qureshi AM: That is precisely why it should have been done some time ago, in my view, and also the subsequent stuff, but that is another argument.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): That was the benefit of Public-Private Partnership (PPP), if you think it is a benefit. At least it established the long-term funding for infrastructure investment.

John Biggs AM: Absolutely.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Regrettably it set the whole modernisation programme back by several years.

John Biggs AM (Chairman): Thank Gordon Brown [former Chancellor of the Exchequer at the time the PPP contracts were agreed]!

Valerie Shawcross CBE AM: I will get back on the budget point here, John, because if I can just make a comparison with the discipline and stringency with which you calculate and enforce your fares policy with what looks like a process of decision-making about expenditure on this project, which does not seem to have had a proper cost-benefit analysis done on it. You have talked about assembling the data now. Actually, do you have some clear figures that show how much this is going to cost every year, how much income you are going to get, and at what point it will start to make the same financial sense as it does to run the daytime service?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes. We certainly do. Yes.

Valerie Shawcross CBE AM: Have you done all of that? If so, why are we not having it? Every time we ask for this data, we are told that the data is still being assembled.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): What Andrew [Pollins] is saying is this, which is that the basic costs of operation and the forecasted revenue are clear in this plan. We have some other affected people. One of them is the bus service. What do you do about the bus service? You want to think your way through what provision you make, both in additional services in the suburbs on two days a week, and what you can reduce off the trunk night bus services as a consequence on those two days a week, and they are working through that because that is quite a specialised, long process.

The other thing that Andrew referred to was some of the other costs related to things like the BTP and so on, where you cannot really establish what they are until you have had a discussion with them, having formulated the proposals. We can write to you and be very clear about the operating costs, about the start-up costs, about the long-term break-even.

Valerie Shawcross CBE AM: That would be good, Sir Peter, because only recently I have been told that we would not be given any information until the spring. What I am testing here is the process by which you have made a decision to go ahead with this. I would imagine that you have some sort of gateway procedure where you do a cost-benefit analysis and you look at the ratios, as you might do on a capital project - I appreciate this is a revenue one - where you would actually work out who is going to use it, how much it is going to cost and how much you are going to bring in, and what cuts you might have to make to the bus services, etc. to help make the whole thing work, before the decision is taken to go ahead with it. What you seem to be saying

to us is that you are gathering this information now, rather than having applied some sort of test before the decision was taken to go ahead with it.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): This budget has in it those basic costs and revenues, based on a forecast. You do not actually know what is going to happen until -- that might be a subject for next year when you see the revenue more or less in full.

Valerie Shawcross CBE AM: OK. When we write to you and say, "Could you extend the 63 bus by two stops?" and the computer comes back and says, "No, it is going to cost £660,000" there is a clear financial decision-making process that is gone through, but it seems that the computer has not even been turned on for this decision.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I am not making cuts in the bus service to pay for this. Our expectation is that the volume of people travelling at night will be seen in the longer term to cover the costs of it. If we were cutting other services to achieve this, then you would be thinking very closely about it. One of the difficulties in working through the effect on the bus service is actually trying to make a forecast of what might happen without it occurring.

Valerie Shawcross CBE AM: Do you have a stringent process of financial calculation before you agree these projects? We have this, where the working through seems to be retrospective; I might be wrong. We have had the Garden Bridge, we have had the Bounceway, we have had the cable car, where there seems to be quite a loose attitude to farepayers' and taxpayers' money. We have been told that this might lose £90 million in its first year.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): No, it is £10 million.

Valerie Shawcross CBE AM: Actually, when we talk about small issues of fares, for example, you could probably, I would guess, fund back the off-peak ticket increases from the £19 million that is going to be put onto this. That might not be a reasonable thing to do, but if there is not some kind of discipline and methodology being applied to making these financial decisions, it is very difficult to scrutinise.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The answer is there is a vigorous financial analysis of all of these things, and if the impression is somehow that somebody has wantonly said, "Let us run the trains at night and we will find out what the result is" that is not right.

John Biggs AM (Chairman): We would love to see that modelling. I think what Val has highlighted though is that these things do have something in common, which is quite a proper thing to have in common, which is that they are all priorities of the Executive Mayor, and therefore they have a slightly different gateway process to being, "Let's replace this piece of metal track because it is 12 years old". It is a policy priority which is mapped onto the work programme at TfL. Necessarily then, because the Mayor says, "It is in my manifesto; I want it done by 2016" you have a driver there which is a bit different from, "The Underground train is worn out; we need to buy a new one". I think, if we are being grown up, we need to admit that that is part of the decision-making, and it would be true whoever the Mayor was.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): John, that must be right. The only thing I would say is that actually I think all of us regard trying to run a 24-hour service on the Tube is something that Londoners really, really want. Our ability to do it has been constrained until now by the fact that we do not have enough mileage to put out coherent service on lines that are sufficiently rebuilt to be

robust for that process, and now we have. There is some risk associated with it, because actually it seems to us to be vanishingly unlikely that this might not be terribly, terribly popular, especially on Friday and Saturday nights, but the fare revenue estimate is an estimate, because it is quite different getting a bus over to Heathrow compared with getting a Tube at 3.00am. I suspect it is all a bit undershot in the great scheme of things, but how do you make that judgment? The answer is it is quite difficult to do. The fact that we have been able to do it is, I think, the right thing.

If we were withdrawing services to achieve that, then I think that that would be quite a serious issue. Certainly, running the Tube on a marginal cost basis at night, with an ability to run it reliably, is a wholly good thing. We have not lost £19 million. What Andrew was describing is the once-off cost of starting up compared with the long-term effect of continuing it, and actually that does seem on the whole to be quite an easy thing.

You are right about some of the other things, which is that if a mayor - any mayor, and this Mayor - puts in their manifesto, "I am going to do this" then it would be sensible of us to put that in our business plan, so far as we can understand what the cost of it might be, seek to minimise it by various means, like the cable car, which is mostly paid for by sponsorship, and then the result of it is a decision of the Mayor.

John Biggs AM (Chairman): OK.

Valerie Shawcross CBE AM: The Mayor could put a one-off fare freeze in his pot if he wanted to, as a policy priority.

John Biggs AM (Chairman): Or a Garden Bridge or something. Yes.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): He could. Absolutely. I am not saying he cannot. All we are describing with the fares policy are the consequences of doing it. The difference with some of the other things that you have described is that they are in fact once-off capital costs, and not continuing revenue costs.

Valerie Shawcross CBE AM: Could we see all the figures then, Chairman, for this? I have actually asked for this information.

John Biggs AM (Chairman): We are going to move onto the figures on this. Definitely to ask the Mayor next week as well.

Valerie Shawcross CBE AM: Yes.

John Biggs AM (Chairman): The joy of mayordom.

Isabel Deding (Deputy Mayor for Transport): It is the difference between what was the original case.

John Biggs AM (Chairman): OK. I tell you what, I do not know.

Isabel Deding (Deputy Mayor for Transport): I know it is important, I think, for Val [Shawcross] to get what she --

John Biggs AM (Chairman): My policy is to always allow interruptions from Isabel. Yes.

Isabel Dedring (Deputy Mayor for Transport): I like that policy. No, but I think there is the difference between what is being worked through now, which is the operational detail, and therefore what the precise operational cost will be, versus the in-principle business case. The in-principle business cases should be easy to do, and if there has been some muddling up between that and, now we are going through the operational detail, what the precise cost is going to be. Presumably that is the thing you cannot have because it is not finalised.

Darren Johnson AM: On the capital programme, what are you going to do to minimise delays and underspends?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Work hard at it.

John Biggs AM (Chairman): OK. Next question!

Darren Johnson AM: This seems to be a common answer we get each year. I remember you, this time last year, saying that the underspends on the cycling budget, for example, were a major embarrassment. Are you getting more of a grip on this? I come from the perspective of not just wanting to see these underspends used to subsidise the new budget and so on. I actually want to see the things being done and see the transport projects being completed.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We should be clear. To the extent to which the cycling programme underspends, our commitment and the Mayor's commitment - everybody's commitment here - is to spend that money on cycling and do it as quickly as we can. The truth of it is that some of these proposals, not least some of the proposals, the cycle superhighways, have been very controversial, they have been quite difficult to design, they require negotiation with a number of local authorities, and the Cycling Commissioner [Andrew Gilligan] is very robust in his aspiration for them to be the best they possibly can. We have to try to make it work with the rest of the road network, and I think that you will be able to see - and you can see in terms of the things that we are putting out for consultation - that there is (a) a firm intent to do a lot, and in particular benefit cyclists, pedestrians and road safety and all of that, and (b) get on with it. But it is not very easy to do, and to the extent to which we underspend in one year, our absolute resolve is to spend the money, but spend it as soon as we can.

I was not being facetious about working hard. I think we do have to work hard at it. I have people toiling away on some of these schemes, which are phenomenally difficult to adapt to traffic, which is in excess of the capacity of the road, where you are taking out road space, dedicating it to a cycle lane, and you can see with the public comments about the original proposals - there used to be a cycle superhighway - that there is some real controversy generated by these things, which we have to address properly.

Darren Johnson AM: I know all the things about complications and so on, and you do want things being done properly. Is there enough capacity to actually deliver these projects quickly enough?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): To the extent to which there is not, it is not just our problem. We have some of the best traffic engineers in Western Europe doing this stuff, in circumstances where actually it is a lot harder to do it on our road network than it is on a Dutch or the French road network, which were built largely for invasion purposes and certain defence purposes, and therefore have several lanes on them. If we could find in some cases significantly more resource from consultancies or anywhere else, we would use it.

We can go through - not here, but on other occasions - the list of things that we are doing. It is far bigger than the list we have ever had before, and we are making progress on it. I am very keen that we do as much as we can, because I said to you last year that it is an embarrassment and I still regard it as an embarrassment, because, apart from anything else, the Mayor and Cycling Commissioner want more, quicker, faster, as you do. The fact is that actually doing this properly - as Isabel knows, because she has been through some of the detail, and indeed so have you - some of the options and some of these junctions in terms of protecting cyclists are really quite difficult to design, and all of them have to be analysed for traffic circulation and for safety audit purposes, and you cannot avoid that. We are dead serious --

Darren Johnson AM: Yes. Given that everything does, for all those reasons, seem to take longer than you have maybe initially envisaged, do you actually have enough projects worked up and on the go, bearing in mind that each project is actually going to take longer than you originally --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I think we have. I think --

Isabel Deding (Deputy Mayor for Transport): Yes. I get what you are describing, that you would basically widen the pipe because things take longer to get through the pipe, but I do not think that is the problem. Theoretically you are right, but that does not necessarily reduce the volume of work. It just gives you a different type of work because you end up doing all the design work, rather than the execution work.

I think one thing I would say is Peter is right, we have increased capacity quite significantly. I think there are 100 additional people that have been brought in just on the roads programme. But certainly I underestimated the political difficulty at a quite local level of getting a lot of these schemes through, the level of detail that needs to be discussed. Therefore, in the last business plan, the December business plan that has just gone, we have readjusted a lot of the timescales in order to try to reflect that, which in some cases has led to shorter, sometimes longer. We have tried to make it more realistic or more aligned to what the likely outcome is going to be now, having spent 18 months, two years, trying to deliver it.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes. When we are all here next year, I think one of the things you are going to likely say to us is, "How astonishing, and what difficulty might be caused by the volume of this work on the streets at the same time?" The adverse problem to it having taken so long to do. We have not stinted on that because there is a real determination to get this done, and you will have seen we are going to start some quite widespread work in terms of trying to get freight deliveries redistributed, because actually doing all this work at once is going to be quite challenging in terms of general traffic circulation. Nevertheless, we are determined to do it, and you have already seen a significant change in the number of schemes out to consultation. Then this next financial year, you are going to see a real difference in those going out on the highway.

John Biggs AM (Chairman): I think we need to broaden this out a little bit. I think you implicitly - I doubt you will ever do it explicitly - recognised there was a mixture of optimism biases in terms in some of this in terms of capacity and goodwill.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I do not think it was bias. It was actually optimism, a proper optimism.

John Biggs AM (Chairman): Optimism bias, which is a technical term, but as --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Optimism bias is where people under-forecast the cost of doing these things. Optimism is where you hope to do them quicker. We were optimistic and I think most people wanted us to be more optimistic about it.

John Biggs AM (Chairman): I think optimism bias includes a range of things; I think it can do. But the question is also about other delays and underspends in the capital programme, not just the cycle network. I know that Darren is at risk of being typecast on this, but go on.

Darren Johnson AM: We must widen it out, so just generally in terms of the financial position on underspends.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes. I think if you look at page 63 on the Mayor's Budget, you will see the detail of, for example, rail and Underground draft capital plan. You will see there is a line under there entitled, "Central Re-phasing provision". Over the last couple of years, we have become much more scientific to how we forecast at a group level as regards to our capital expenditure. One of the things that we have picked up is that as projects go through approval, some things take longer than we expected and therefore basically there is a whole science and a methodology as regards to ascertaining where we think there will be financial slippage driven by some optimism. Project managers want to deliver as fast as possible and they always say, "I will spend that £100 million next month" but realistically, we know that they may spend £60 million, then £30 million and then £10 million to get to the £100 million. Again, we have become much more scientific.

You will see the plan for the current year 2015/16 there is what we call an over-programming provision of £122 million. Certainly over the last two years, rail and Underground have been very, very close to their financial forecasts as regards to capital expenditure, in part due to this more realistic methodology. Now, it is slightly distorted by some of the sub-surface upgrade movements as well, but generally that is a much more accurate measure. When you look at the Q2 operational and financial report for capital expenditure, I think we are within 1% of our expenditure for the current year versus budget as well for 2014/15, so it is becoming much more accurate.

Darren Johnson AM: What is the current position on the signalling for the sub-surface upgrades?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Mike's [Brown] people are working through a very rigorous discussion with the contractor about route procurement and we will get to a conclusion shortly, I would say.

Darren Johnson AM: How much has the collapse of the contract with Bombardier cost TfL?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The figure that we had at the time was £80 million to £100 million. In fact, I am not sure whether we have ever said this before, but we took Bombardier to task over this failure and we have got a pretty significant amount of money back from them in terms of the contribution to the trains in what will be provided when we let the new contract. I am pretty keen to tell you what that is when we get that, because I personally took the whole thing very badly in terms of their failure to deliver the contract as it was let and we have had some prolonged discussions with them about what value they can give us, bearing in mind that these trains still need to be provided with signalling, but somebody else's system. I do not think we can tell you that today, but when we get to the end of the process with the contractor we are with now, we should tell you that, because it is significant. It is in the tens of millions.

Darren Johnson AM: In terms of the timetable now, when can we expect a new contract to be signed and what will be the likely completion date for the work?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): I am trying to think of the latest where they have said that they will do it. As regards to the retender process?

Darren Johnson AM: Yes.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Let me have a look at what they have said. Sorry.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I am counting it in weeks rather than months for the finishing of the tender.

John Biggs AM (Chairman): At this time this happened, I recall the media was that it was a terrible problem that they had to be sacked from the contract, but that they done lots of preparatory work, there will no delay and there will be no cost to us and that seemed a bit surreal.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Our specific concern, I think, is that if you look at the whole of the Metropolitan, District, Hammersmith and City, and Circle lines, the piece of this signalling contract that brings by far the greatest benefit is the resignalling of the Circle, which affects the other three lines. Mike [Brown] is very clear that actually that is the major priority for this, because that is what gives you more trains through central London. It gives you, for the first time, in many decades, more Circle line trains and it is pursuing that to the original timetable, bearing in mind that the original timetable started - I think, from memory - at the outer end of the Metropolitan line, which was convenient in installation terms, but virtually no benefit in passenger terms. That is the philosophy that we are adopting in the discussion with the contractor.

John Biggs AM (Chairman): You are working to same timetable?

Darren Johnson AM: The same timetable, but you have rescheduled the order of the works?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No. The same timetable or as near as we can achieve it with the work in central London, which brings the most benefit.

John Biggs AM (Chairman): Initially the whole lot was to be done by 2018, now only part of by 2018?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): That is right, yes. There are clearly issues.

John Biggs AM (Chairman): Initially the media said although they had had to hand back the key, they had done such a lot of preparatory work there was no financial loss, but you are now saying there is a financial loss and they are compensating you for that?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No, we said at the time actually we had to pay them for work that they had done on the contract, some of which was valuable and some which was not. My concern is that that part of it that was not valuable, I spoke sort of non-contractually

and said, "I want some of this back" which is what you would expect me to say, because I think we obviously take responsibility for our actions, but I think they should do so too. They sold us something they could not deliver.

John Biggs AM (Chairman): A lot of people have been interested in doing some lessons learnt on this - and this is not the place to do that at the Budget [and Performance] Committee - at the Mayor's annual budget-making. It is quite a technical exercise and it has not been exactly transparent up until now, so we have an undertaking from you that --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We published the PricewaterhouseCoopers (PwC) report.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): KPMG produced a lessons learnt report, so --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): We published it.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): I think that was published.

John Biggs AM (Chairman): OK, but in terms of the public procurement and the way you do things in future, I was not clear from that. Insofar as I understood it, it is pretty technical stuff. It was not clear --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): You see, John, I am not sure that it is, actually. I went to the Public Accounts Committee to answer for it. Margaret Hodge [Chair of the Public Accounts Committee] was ill, much to her irritation, I think, but if you are a large public body presented with a reasonable offer by a large international company to do something that at that stage they claim to be doing in Madrid and somewhere else, Buenos Aires --

John Biggs AM (Chairman): They have a reputation for doing this sort of stuff as well.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes. Then I think if we had gone to Biggsy's Signalling Co --

John Biggs AM (Chairman): That is actually a superb company, but under wraps!

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I am sure, but with limited experience. Or Hendy's Signalling Co, but you would have clearly have said, "What a stupid thing to do" and I think we are entitled to regard the bids from serious international companies as something that they can deliver, which is why actually I think there is a case - which I said to them - they should answer for their failure to deliver it. At the time that we did that - if you remember, this is late 2010, early 2011 - we are in the middle of that farrago with the Jubilee line, with 109 weekend closures, if we had said, "Do you know what, we are going to give this job to Thalys" you would have thought we were bonkers, because at that stage it looked very unlikely that they were ever going to finish that job to a reasonable timescale.

If you turn the clock on now, the Northern line signal has gone in under a different environment, without the PPP and relatively few closures, relatively easily, and is delivering like clockwork and it is fantastic. Actually, that is just the benefit of experience, and what I do think is what we are subject to, sadly, is the ups and downs of the investment cycle in the rail industry. It is a great shame that there are not British companies to do this,

but because we never bought any signalling at all for nearly 30 years; we were in a very limited market. I return to the point that we were entitled to believe that Bombardier, who is an international company with a reputation of doing this in the rest of the world, could have done it for us and they did not and they did not show any aptitude. Now, if you look at Thalys and you say, "Could they do this?" and they have managed to resignal the Northern line, which was a very complicated operation with flat junctions and all that sort of stuff --

John Biggs AM (Chairman): That is a semi-reasonable answer. I suppose the response I would have to that is that I trusted my high street banks as well, but --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Absolutely, to which the longer-term answer may be - and you can ask Mike [Brown] and David Waboso [Capital Programmes Director, London Underground] at some different time, "Actually, wouldn't it be better if we and other metros around the world were able to have a bigger selection of people to choose from with proprietary equipment?" and the answer to that is undoubtedly yes, but then if you look at the national railway network, where there is a whole strategy which relies on European Railway Traffic Management System (ERTMS), which is currently in operation on the single-track Cambrian Coast railway, with four trains and three locomotives, and the next application is going to be on the Great Western Main Line, you can see that the risks that we are taking on the sub-surface are not half what they might be on the national railway network. That, too, is a consequence of this investment famine. We have learnt some lessons and I am chastened by it, and so is Mike and David and others, but we would like to show you at the end of it that we have learnt from it and also got some --

John Biggs AM (Chairman): OK, that is very helpful. I hijacked the question, for which I need to apologise to myself as Chair. Back to Darren.

Darren Johnson AM: No, that is fine. If I can just wrap up on the wider point in terms of approach to transport investment overall, you have generally always argued that you wanted to prioritise those projects that had obvious transport benefits but that also had wider economic benefits as well. But now that the London Development Agency (LDA) has disappeared and there is less access to funding for non-transport projects now, are you starting to get concerned that TfL money is being used for things like the Garden Bridge, which has fairly minimal, to be generous, transport benefits, regardless of whatever wider economic benefits are argued for it? Is it starting to become frustrating for you as Commissioner?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Nothing frustrates me.

Darren Johnson AM: Spoken like a true professional!

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I have a sunny disposition. I will tell you what is good. What is good is we are lot more joined up with the rest of the GLA about using transport funding as a means of developing jobs --

John Biggs AM (Chairman): Clever answer, I must say!

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): -- than we have ever been before.

Darren Johnson AM: But is it so joined up now that they are not even transport projects?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): They are all transport projects to some degree, but I think you --

Darren Johnson AM: Just because you are paying for them.

Isabel Dedring (Deputy Mayor for Transport): To some degree.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): I think you ought to expect us to want to contribute to London's growth in an effective way. I think in fact, looking back, we were rather more separatist than we should have been in the past, because if you look now at what we are trying to do, and we are trying to justify it on a wider economic and social basis, because that is how you get the political argument for the money, but if you look at connecting Barking Riverside, if you look at Elephant & Castle, if you look at the stuff that we are putting a bit of transport --

John Biggs AM (Chairman): These are obviously transport projects. We are talking about the Mayor's piggybank problem, which the previous mayor, in fairness to the current Mayor, was accused of as well, but he had an LDA --

Darren Johnson AM: He had the LDA piggyback and now this Mayor has got the TfL piggybank, but they do not seem to have much direct relevance in terms of the transport agenda. I think with the Garden Bridge, we are talking about increasing the pedestrian journey times by an average of 25 seconds. Surely in terms of any transport analysis, you might have said, as Commissioner, there is possibly more important transport projects within TfL that you were funding.

John Biggs AM (Chairman): Do not forget though that you lose those 25 seconds when there is a private party on and the bridge is closed.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): There is a very elegant justification written about the relatively small proportion of the investment in the Garden Bridge.

John Biggs AM (Chairman): You see, we could describe this carpet as a transport project on the basis you can walk on it.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): It probably is. That is the sort of interpretation I like.

Stephen Knight AM (Deputy Chair): My question was not on the Garden Bridge, but it was on the fact that your capital budget is £154 million less than it would otherwise be because you are using £154 million of capital to prop up what is effectively a deficit revenue position. I just wonder if you can talk a little bit about that and what is it --

John Biggs AM (Chairman): This is page 36 of the Mayor's Budget.

Stephen Knight AM (Deputy Chair): Various other pages as well, but clearly if you were a local council, you would not be able to just prop up your revenue position by nicking a bit of capital. You can with certain amounts of capitalising revenue, but not quite in this way, but obviously TfL is a different beast.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): You are talking page 36, you are talking this £154 million revenue and resources used to support capital investment.

Stephen Knight AM (Deputy Chair): It is a negative though, isn't it, so it is capital resources used to support revenue?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): It is. This is a sort of numerical outcome. This is the first year that you really see - just below - the GLA transport grant starts to reduce. Effectively, this is a timing issue, because you will then see that actually it moves back into surplus. Again, this is a numerical outcome --

Stephen Knight AM (Deputy Chair): So you are borrowing capital reserves, effectively, to prop up the revenue position in the short term?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Not explicitly. Again, this is a numerical outcome. We are not --

Stephen Knight AM (Deputy Chair): Implicitly rather than explicitly?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, but over time, that goes back to surplus as you see revenues grow, commercial income grow and stuff like that. Again, this is a timing issue related to the first of real tranches with regard to the GLA transport grant reducing. Again, we will go back into surplus within a year, so again, it is temporary.

Stephen Knight AM (Deputy Chair): But my assertion that the capital budget is £154 million less than it would otherwise be because this money is being used for revenue is right, isn't it? £120 million is about what TfL is spending on Crossrail next year, for instance, so it is not insignificant from out of capital.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Except we have not necessarily constrained our expenditure by £154 million for 2015/16 though. If it had constrained expenditure, then you could probably argue that, but --

Stephen Knight AM (Deputy Chair): So your capital budget is as big as you like it to be, it is not constrained by your resources at all?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): No, it is not. It is driven by again the overall TfL business plan and the prioritisation process that the TfL leadership team go through in conjunction with the TfL board.

John Biggs AM (Chairman): But if you were a local authority doing this, you would have the auditors in the next day, wouldn't you? But you are not a local authority.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Well, we are and we aren't.

Stephen Knight AM (Deputy Chair): You could find that £154 million from the capital programme tomorrow for something else, presumably, could you?

Isabel Dedring (Deputy Mayor for Transport): This is money that's not in the programme like the Crossrail funding.

Stephen Knight AM (Deputy Chair): If it is not constrained in any way --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Yes, it comes back. It is not a one-off change that is permanent.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Yes, exactly. Again, it is a timing issue. Again, as I said, it is a numerical outcome as opposed to a specific, "We are not going to --"

Stephen Knight AM (Deputy Chair): It is being borrowed and you are going to pay it back.

Andrew Pollins (Interim Chief Finance Officer, Transport for London): No, we are not. It is not --

John Biggs AM (Chairman): This is the Boris Johnson equivalent of Islington selling their parking meters to pay the wages of social workers, isn't it? It is that sort of thing.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No.

Isabel Dedring (Deputy Mayor for Transport): No.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No, because it comes and goes.

Stephen Knight AM (Deputy Chair): It is using your capital resources to pay for your ongoing revenue costs.

Isabel Dedring (Deputy Mayor for Transport): Correct me if I am wrong, but if you look at the Crossrail capital funding that we are holding at the moment, we are holding £2.3 billion of Crossrail capital investment that cannot be spent until next year and the year after, therefore it is just sitting there not doing anything. It is not our fault, because the way the whole Crossrail arrangement has been worked out, so that £2.3 billion might --

Stephen Knight AM (Deputy Chair): I can see you are sitting on vast amounts of capital cash flow.

Isabel Dedring (Deputy Mayor for Transport): No, that is relating to the agreement about the Crossrail funding position and therefore that £2.3 billion unfortunately needs to just be sitting there and it can be used in this sort of way. That is just one example.

John Biggs AM (Chairman): It is a cash flow exercise.

Isabel Dedring (Deputy Mayor for Transport): Effectively, yes.

John Biggs AM (Chairman): It is. OK, I could try one of those.

Isabel Dedring (Deputy Mayor for Transport): It is not something that is not happening because sadly that money is just sitting in the accounts.

Stephen Knight AM (Deputy Chair): Does TfL have separate revenue reserves and capital reserves or are they effectively one?

Andrew Pollins (Interim Chief Finance Officer, Transport for London): Again, there are some details in the Mayor's Budget that talk about earmarked reserves and general reserves, but again, they are largely misleading. Basically, current cash balances, which are invested, is circa about £5 billion - £5.2 billion I think it was last night - of which 50% is currently specifically related to either Crossrail rolling stock or Crossrail construction. The balance of that, certainly over the next 18 months to two years we will be spending that on sub-surface upgrade, Victoria Station upgrade and so on. We are quite clear on our analysis over the next 18 months what that £5 billion we are currently holding is for.

Again, the question is why are we holding so much money? That partly relates to the sponsored funding account for Crossrail, but also related to our debt management process and the fact that we are forced to raise finance in-year, when we, as a separate type of organisation, would not necessarily want to.

John Biggs AM (Chairman): That sounds like a splendidly technical answer. I think --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No, no, no. I think it is quite practical, because there is a lot --

John Biggs AM (Chairman): OK. I was going to ask a practical question of you, actually, which is outside the meeting. Are you prepared to lend me next year's wages, because I could do with --

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): No, because they are unreliable.

John Biggs AM (Chairman): No, OK. It's the same sort of exercise. You are not going to do that. OK, I just thought I would ask. It seems like TfL --

Stephen Knight AM (Deputy Chair): But if you are a private company, you would be reporting £150 million operating loss for next year, wouldn't you, effectively?

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): But we are not a private company.

Stephen Knight AM (Deputy Chair): I know.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): But you also would not raise money and have money given to you in this way. This huge cash balance is a consequence of Crossrail, the money coming in deliberately from Government that goes out, and the borrowing restrictions, which mean that if you do not borrow it in the year that you are allocated it, you cannot have it at all. Now, that is really crazy.

Stephen Knight AM (Deputy Chair): On the whole, the money you were given from Crossrail is for spending on Crossrail, not for propping up your operating budget for the next year, is it? That is not really what it is for.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): But we are paying it back, because actually we have got this large cash --

John Biggs AM (Chairman): That is what I was offering with my wages for next year, actually.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): If you were not able to pay it back, if it was a once-off payment to do something that you otherwise have no funding for, it would be clearly be wholly irresponsible. But if anything is crazy, it is this prospect that you have to borrow in the year the borrowing is allocated, whether you want to spend the money in this year or some other year.

Stephen Knight AM (Deputy Chair): OK, thank you for that clarification.

John Biggs AM (Chairman): I think there is something in writing which Mr Wright [Scrutiny Manager, GLA] shared with me. OK, so we have almost finished. We can do most of the next question in writing, but it is about transparency. I thought while Isabel Deding was here, we could ask her why you think TfL needs a transparency strategy. I think most of the Members, regardless of party, would probably conclude that it probably does after today's session.

Isabel Deding (Deputy Mayor for Transport): I think it is worth saying we repeatedly try collectively to find better ways of reflecting it. If we take the financial information that TfL puts out, the financial information is constrained by some of the reporting requirements that we have, where you have to report things in certain ways. I think I am certainly very interested in continuing to improve how we get financial information - apart from everything else, other information, but we are here to talk about financial information - out in a way that people can understand clearly. We have restructured some of the financial reporting to the board with a view to doing that. I think it is better, but it still does not really do what it needs to do, so all I would say is if anyone has got any specific thoughts on how we do that, Andrew [Pollins] and Peter [Hendy CBE] will continue to work on that. But if people have got views about what is not clear and what needs to change, if they could please let us know, because sometimes what maybe I would think would be transparent somebody else would not.

John Biggs AM (Chairman): No, I agree.

Isabel Deding (Deputy Mayor for Transport): I think open door. Vernon [Everitt, Managing Director, Customer Experience, Marketing and Communications, TfL] has obviously got this exercise going on, transparency, I am not sure, which is looking at the whole question. It is just a wider consultation on how we can be more transparent, so I think that is a vehicle for doing it more formally, but obviously any thoughts the Assembly want to put together or this Committee want to put together, this is the information we would like to see and how we would like it presented. It is difficult, because you do something and you think that is going to make it clearer, and actually it makes it less clear.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): The thing I hope we drew to your attention is that we have put quite a lot of effort into the quarterly reports of the Board, both in operational and investment, in a way that seeks to explain what is going on on a periodic basis, because the other bodies that you are dealing with are at least on the whole sufficiently small to have the base much the same from year to year, whereas in our case we are taking on new activity, we are changing activity. Those things are quite material, so what we are attempting to do in those quarterly reports to the board is to put some flavour to that, because if you look at the GLA level report in front of you, it has got some variations which in fact exceed the size of the budget for the GLA itself, which is a consequence of changes to the

operating and capital environment which cannot ever be explained in your 90 pages, but we should seek to explain. I am very keen that those periodic reports to the board are widely used, because they are public documents, because they do try to explain what is really going on and also relate the performance of the place to the money that we are spending. Whatever you can say about these group budget proposals, which again, as Isabel says, have a presentational constraint about local government, they are really balancing the outputs of an organisation like ours, which is why we are trying as hard as we can in the business plan and the quarterly reports to do that.

Isabel Dedring (Deputy Mayor for Transport): Yes, and I think the quarterly reports are much better than they were. One of the things that continues to be difficult, this issue about how you track things over time, and how do efficiencies move over time --

John Biggs AM (Chairman): Yes. Hang on, this is useful, but we need to move on to our next section. I think, yes, we can have a longer conversation about this outside the meeting and I am very grateful for your contribution to us. Thank you very much for coming today and for your translucency.

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): Thank you for your good humour. It must be the year of good humour.

Isabel Dedring (Deputy Mayor for Transport): Oh no, it is the week of good humour.

John Biggs AM (Chairman): It's only January!

Sir Peter Hendy CBE (Commissioner for Transport, Transport for London): It was the year of the bus last year, so --

Andrew Pollins (Interim Chief Finance Officer, Transport for London): It is the year of optimism.