Transport for London

Mike Brown MVO
Commissioner of Transport

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

Phone 0343 222 0000
www.tfl.gov.uk

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

18 January 2017

Dear Gareth

Budget and Performance Committee Meeting – 4 January 2017

Thank you for your letter of 4 January following the Deputy Mayor for Transport's, Ian Nunn's and my appearance before your Committee that day. Our responses to your requests for information are set out below.

As requested, we have also prepared a table outlining changes to capital investment numbers between the March 2016 Budget and Business Plan Update and the December 2016 Business Plan, including delivery milestones.

Details of the assumptions made on inflation rates over the course of TfL's five-year budget, and any further assumptions which have led to the £1.9bn decrease in fares income in the December 2016 Business Plan

The total amount of fares income over the period of any Business Plan will be affected by estimates and assumptions about ridership, inflation and other factors.

The Committee is aware that freezing TfL fares is estimated to reduce our projected fares income by £640m for the Mayor's term and that we have committed to providing the actual reductions as they become available. In addition, the Government's policy for the fares it controls has changed from increasing at a rate of RPI+1 to RPI, which reduces our income from those fares.

Our assumptions about RPI (based a range of independent forecasts) have changed from a long-term increase of 3.5 per cent to 2.3 per cent for 2017 and 3.2 per cent for each year thereafter. As Ian mentioned to the Committee, we have also made some changes to our projected average ticket yield and, as the Business Plan indicates, to our assumptions on journeys.

Explanation of how the Mayor's 21 October 2016 announcement that three times as many journeys have been taken using the Hopper ticket reconciles with TfL's original forecast of £31m of lost revenue in 2016/17; Details of the assumptions and forecasts for the unlimited Hopper ticket

Our estimate of loss of fares revenue of around £30m per year (net) remains valid. Bus journey relationships are complex and our forecast of 100,000 journeys per day refers to journeys which would have previously generated income for us.

As we explained to the Committee on 4 January, this is clearly different to the figures for the total number of times the Hopper has been used because there are some scenarios where the Hopper is used without any effect on our income. Examples of this include:

- Someone choosing to get on another bus rather than walk to continue their journey.
- A person choosing to take two buses rather than waiting for the specific bus that can take them all the way without changing.
- Hopper journeys where a day's travel is subsequently capped (even though the customer benefits from having travelled more before reaching the daily cap).

The introduction of the unlimited Hopper ticket from 2018 will provide additional benefit to more Londoners but at a marginal additional loss of income to us. This is because most journeys will reach the daily cap.

The forecast net reduction in fares revenue from the unlimited Hopper is estimated to be some £6m per year. We expect that around 15,000 journeys currently paid for each day will become free when the unlimited Hopper is introduced.

Details of the capital renewals which have been transferred to capital investments in the December 2016 business plan, which imply a 28 per cent reduction in capital renewals over the next four years. In addition, an explanation as to why the cuts to the renewal budget have been so heavily frontloaded

Our Business Plan will see us using affordable processes, material and technology while ensuring our assets remain in a good state of repair. This has been done in a way that constantly maintains safety and reliability on the network. We are cutting inefficiencies, not maintenance.

The March 2016 Budget and Business Plan Update was completed on a top-down basis in a very short time period with very broad assumptions used to split projects between renewals, as distinct from maintenance, and new capital investment. The overall capital expenditure between the two plans is broadly the same and it is not right to infer that there has been a significant reduction in capital renewals expenditure.

As we explained on 4 January, we have now undertaken a thorough review of all capital programmes and this work has resulted in the reclassification of some capital renewals to capital investment. For example, a large proportion of the cost of the new Tube trains being built for the Piccadilly, Central, Bakerloo and Waterloo & City lines is now captured under new capital investment, not capital renewals. Detailed work has sought to ensure that the classification of capital expenditure is in accordance with applicable Accounting Standards.[1]

As Ian explained to the Committee, in addition to this reclassification and the above there are a number of points to note when comparing the March 2016 Budget and Business Plan Update to our December 2016 Business Plan:

- Naturally, new Mayoral priorities have been set out since March 2016.
- More work has been carried out on the categorisation of capital investment as either renewals or new capital investment in line with accounting standards.
- Payment schedules have been reassessed and in many instances payment has been reprofiled without any impact on delivery.
- Detailed analysis of programmes and projects costs has revealed opportunities to reduce their costs through value engineering.
- The delivery schedules of some programmes and projects have been reassessed and/or reprioritised following detailed review. Such detailed review work was not carried out for the March 2016 Budget and Business Plan Update.

The table below shows the overall capital investment programme change of £615m and the movement for both renewals and new capital investment.

December 2016 Business Plan (excluding Crossrail) (£m)*	2016/17 forecast	2017/18	2018/19	2019/20	2020/21
Capital renewals	857	659	737	728	767
New capital investment	1,100	1,322	1,344	1,284	1,584
Total	**1,957**	**1,981**	**2,081**	**2,012**	**2,351**
March 2016 Budget and Business Plan Update (excluding Crossrail) (£m)*	**2016/17 forecast**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Capital renewals	1,086	1,021	1,059	930	996
New capital investment	1,020	1,299	1,262	1,077	1,396
Total	**2,106**	**2,320**	**2,321**	**2,007**	**2,392**
Movement (excluding Crossrail) (£m)*	**2016/17 forecast**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Capital renewals	(229)	(362)	(322)	(202)	(229)
New capital investment	80	23	82	207	188
Total	**(149)**	**(339)**	**(240)**	**5**	**(41)**

*Figures have been rounded to the nearest £'s million

[1] We are subject to International Accounting Standards (IAS) and the relevant standard is IAS16. We apply this to our Capital Investment Programme using our best professional judgement.

A table of cycling scheme proposals

Our Business Plan provides £2.5bn for the Healthy Streets programme, which includes £770m of funding for cycling schemes. This commits an average of £154m per year for cycling over the next five years, nearly double the amount spent by the previous Mayor. This represents an average of £17 per head per annum, on par with Denmark and the Netherlands.

The Deputy Mayor for Transport committed to providing you a list during the 4 January meeting of the cycling schemes included in the £770m package:

- The completion of the North-South Cycle Superhighway from Farringdon to Kings Cross, which will begin construction next year.
- The extension of the East-West Cycle Superhighway from Lancaster Gate.
- Work to deliver Cycle Superhighway 11 from Swiss Cottage to the West End.
- Two new Cycle Superhighways, on which consultation will begin next year - Cycle Superhighway 4 from Tower Bridge to Greenwich and Cycle Superhighway 9 from Olympia towards Hounslow.
- A new pedestrian and cycle bridge to connect Rotherhithe and Canary Wharf.
- The three Mini Hollands in Enfield, Kingston and Waltham Forest.
- At least 20 more Quietway routes to be planned or rolled-out, making cycling safer and easier in different parts of London including Hammersmith, Finsbury Park, Croydon and Barking.

Further schemes will be developed over the course of the Business Plan period which will take a more integrated approach to cycling, walking, public transport use and traffic reduction. In addition, the Mayor's decision to freeze the cost of using Santander Cycles will further increase the Cycle Hire Scheme's popularity.

Additional request: Further information regarding TfL's £500m deal with civil engineering contractors

During your meeting with the Mayor and his Chief of Staff on 10 January, you requested further information about our deal with three engineering contractors – Costain, Morgan Sindall and Skanska – to deliver complex projects, tunnels and highways projects.

This is a four-year framework agreement, which enables us to tender future projects more efficiently. The framework does not commit TfL to include every civil engineering project in this arrangement and all projects will be authorised by our financial governance processes in the usual way. Importantly, the deal allows us access to a select pool of major providers who will compete for projects in a way that will drive down costs to us as part of a faster and more simple procurement process.

The new framework will see these contractors work with us to design and build some of London's most high profile and complex road improvement projects such as the proposed Fiveways scheme in Croydon and the removal of the Vauxhall gyratory, as well as major asset renewal and upgrades like the A40 Westway structure.

Additional request: TfL cost reduction programme targets to 2020/21 (as set out in paragraph 6.11 of the Mayor's Consultation budget)

During your 10 January meeting with the Mayor, you also requested a breakdown of our cost reduction programme targets to 2020/21, using the categories in the Mayor's Consultation Budget. The below table provides this information.

TfL cost reduction programme targets to 2020/21 (Operating expenditure only)*	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
London Underground**	64.7	182.1	248.2	350.1
Surface Transport	87.8	80.9	100.1	102.4
Planning and Commercial	75.1	292.3	342.0	301.4
Total (including secured savings from the previous financial year) * **	**227.6**	**555.3**	**690.3**	**753.9**

Incremental in-year savings (as per page 31 of Mayor's Consultation Budget)	**227.6**	**327.7**	**135.0**	**63.6**

* Figures have been rounded
** TfL Rail is included in London Underground
*** These are cumulative

I welcome the Committee's scrutiny of our finances and performance and am committed to continuing to improve the transparency of our financial reporting.

Yours sincerely

Mike Brown MVO

Cc: Lucy Pickering, Scrutiny Manager, Budget and Performance Committee

Enc: Financial Plan to Plan Movement Table