Appendix 1

London Assembly Budget and Performance Committee – 7 January 2019

Transcript of Agenda Item 5 – The 2019/20 GLA Group Budget – Transport for London

Gareth Bacon AM (Chairman): Item 5 is the main item of business for today. I would like to welcome our guests today. From left to right as I see them, Sarah Bradley, Head of Group Financial Accounting at Transport for London (TfL); Simon Kilonback, Chief Finance Officer at TfL; Mike Brown, Commissioner of TfL; Heidi Alexander, making her debut at this kind of meeting as the Deputy Mayor for Transport; and David Gallie, who always turns up to these meetings, Assistant Director of Group Finance at the Greater London Authority (GLA). Welcome to all of you and thank you for your time.

Mr Kilonback, you requested that you give a presentation[1], the presentation that was given to the Finance Committee at TfL on 13 December [2018], which I have agreed to. I know you are aware that time is going to be pressing today. There is an awful lot to get through and you have agreed to keep it to around about 10 minutes. Edited highlights I suppose is the way you are doing it.

Simon Kilonback (Chief Finance Officer, TfL): Yes, absolutely.

Gareth Bacon AM (Chairman): Over to you.

Simon Kilonback (Chief Finance Officer, TfL): Thank you, Chairman. This presentation is, as you said, the same presentation we shared with the TfL Finance Committee and also with Standard & Poor's, when it resolved its credit watch on us in December, and it was favourably received. As reflected in your own report, this has not been an easy plan to write, but we are confident it is robust to deal with our financial challenges and continue our cost-reduction programmes whilst delivering the capital investment that London needs.

I will just go through a summary of some of the pages here because I know there is a lot in here. Turning first to slide 2, the plan is based in the demonstrated savings performance that we have achieved so far, and in this financial year we are now expecting to beat our budget for our net deficit by some £250 million. You will recall when we last met back in June [2018] that our budget deficit for the year was £968 million. We are currently forecasting it being £722 million, which is largely recurring savings that will carry through and help offset some of the challenges that we all know that TfL faces in the coming years. We can also demonstrate that, adjusting for last year's final elements of revenue grant, we will be substantially ahead of our net deficit for last year as well.

On slide 3, I know the Committee is very well aware of the challenges TfL faces, as discussed in your report *The End of the Line?*, which we were very happy to receive in November. We all know about the loss of Government grant, that passenger income is down, about the Crossrail delay, which I will cover in a little bit more detail shortly and particularly how we will address it, and then roads income as well, which you also demonstrated.

[1] https://www.london.gov.uk/moderngov/documents/b18189/TfL%20Business%20Plan%20-%20Presentation%20Monday%2007-Jan-2019%2014.00%20Budget%20and%20Performance%20Committee.pdf?T=9

Turning to slide 6 of the pack, slide 6 summarises the revenue impact of the delays to the opening of the Elizabeth line that we have assumed in the 2018 business plan. One of the most difficult issues we faced in drafting this business plan was how to make prudent allowances for the impact of the delay to the opening on our revenues with continued uncertainty over the likely opening dates for the Elizabeth line. It is clear that it is going to take longer than we were originally told by Crossrail's management as the new team has discovered in a short space of time that significant parts of the core railway infrastructure are yet to be completed. Our business plan does not assume specific opening dates for the Elizabeth line and, until the new management team led by Mark Wild [Chief Executive, Crossrail] has completed its work to deliver a credible and robust delivery schedule, we have adopted cautious financial planning assumptions that passenger revenues will be approximately £600 million lower over the business plan period. This is based upon the modelling of various scenarios of delays to the remaining stages of up to 18 months. Again, this is not our assumption of the opening date but it is a cautious financial planning assumption so that we can make some assumptions upon which to base this financial plan. These will be offset by our continued savings and revenue growth programmes, allocating a small proportion of our business rate funding to operating expenditure over the next three years, and moving back by one year the date by which we will achieve an operating surplus. We are also exploring with the Department for Transport (DfT) the possibility of beginning to operate the Reading-to-Paddington services ahead of completion of the Elizabeth line.

Turning now to slide 7, the Committee will know from the announcements back in December that we have secured the capital funding to complete the construction of the project by way of a £1.4 billion capital grant from the GLA made up of a £1.3 billion loan from the DfT to the GLA paid back over 10 years against the Business Rates Supplement (BRS) and the Mayoral Community Infrastructure Levy (MCIL) streams and a £100 million cash contribution, which David Gallie will probably talk about a bit more later. We have a range of forecasts for the capital outturn from the independent review by KPMG that set the incremental amount of capital funding at between £1.6 billion and £2 billion, and we have therefore secured a £750 million loan facility from the DfT to provide additional funding, if required, over and above the £1.4 billion. The £1.6 billion to £2 billion already includes the £300 million that TfL and the DfT jointly funded back in July and so there is significant contingency left in here over and above the cautious estimates by KPMG of the money required to complete the project. Of the additional savings of over £200 million we are delivering this financial year, over £100 million of them are recurring and carry through each and every financial year to help offset the revenue impacts. As I mentioned, we are also covering £100 million per year for each of the next three years by increasing the amount of retained business rates allocated to operations and revenue and offsetting the impact on capital investment by working capital and other savings in our capital account. Despite this, when you exclude Crossrail, the overall level of capital expenditure in the plan for the next three years compared to last year's plan is maintained at around £1.4 billion and, as mentioned, cash-wise we are replacing the business rates with working capital improvements, particularly in stock and payables. This means we have been able to maintain our full financial flexibility, which was important to the rating agencies. We did not need to resort to asset sales or any other source of financial structuring in order to meet the additional costs of the project.

Briefly touching on slide 8, as the Committee knows, London receives a negligible amount of Government funding to maintain its roads and the charts here just highlight that Londoners pay £500 million in Vehicle Excise Duty (VED), which does not come back to London. We know and look forward to working with the Assembly ahead of the [Comprehensive] Spending Review (CSR) on jointly making the case to the Government on the need for roads funding.

I am going to turn now to slide 10 very briefly, which just shows the trajectory to our breakeven, which, as we have said, is a year later than previously planned, largely due to both the subdued demand for our services and the delay to the opening of the Elizabeth line. Assembly Members will notice that there is a very large step up between 2020/21 and 2021/22, which is about £600 million. I will go into a bit more detail on this over the coming couple of slides but, broadly, this breaks down as £300 million net operating surplus from the Elizabeth line when it does open, £200 million from the modernisation of the Underground and the increase in its revenues over time, £50 million from our commercial activities and £50 million from the further savings we have announced in our middle and back-office services.

If we now turn to slide 12, I can start to explain in a bit more detail very quickly how we will move from this year's deficit of £722 million to a £144 million surplus in 2022/23. Stepping down the chart, we will start to increase the amount of money that we spend on renewals over the course of the plan to get us back to a steady and sustained level of investment on renewals. We will pay more in terms of financing costs for the £2 billion of incremental planned borrowing to support our capital programme. We will also spend an extra £32 million overall on the bus network in terms of reshaping that bus network, which I will come back to shortly. From there on, the other operations are mainly the Ultra Low Emission Zone (ULEZ) income that comes into effect from April 2019, the additional savings in our back and middle offices, which I have mentioned and will touch on again in a minute, the incremental commercial development savings, which I will talk about at the end, the near £500 million impact of the modernisation of the Underground, and the £500 million net revenue impact of the Elizabeth line over the period of the plan.

I am going to turn now very quickly to slide 18 in the pack, which demonstrates how so far we have managed to reduce our headcount significantly. This is through our organisational change programme, which created over £111 million of recurring organisational savings in each and every year going forward. There was a one-off investment of £87 million in order to achieve this, which was paid back within one financial year. Going forward this gives us the confidence that having transformed our organisation in its vertical professional structures, we are now going to look across the organisation for further savings that we can make in end-to-end processes, starting with bringing together our human resources (HR), financial and commercial services in a new business services directorate.

I am now going to turn to slide 22 of the presentation, which shows how Heidi [Alexander], Mike [Brown MVO] and I measure the organisation. We have set a clear financial target for each part of the organisation. The main surface transport areas, the combined buses and streets area, has to be able to deliver everything it needs to deliver within a combined budget of £850 million net subsidy each and every year. We are going to double the surplus on the Tube over the period of time. Just for context, the current surplus on the Tube will be £700 million this year. We are going to double that to £1.4 billion over the next five years. Just three years ago that surplus was £200 million a year on the Tube network. We are delivering again the same order of magnitude of improvement that we have already seen. We are going to target our other public transport services. We are fully covering their operating costs over the five-year period, as well as increasing the frequency on the London Overground and Docklands Light Railway (DLR) by the rollouts of new rolling stock on both of those areas. We will target an increase in the surplus from our commercial activities and we will also, as I have mentioned, go again with the same order of magnitude of savings across our back and middle office or overhead costs in order to deliver further savings to help offset our new pressures.

I am going to turn now to slide 28, to touch just very briefly on how we have approached the capital programme for this year and before finishing on our commercial activities. On slide 28, we have just set out that we will continue to invest £2 billion a year, split £1.4 billion on new capital investment and £600 million on renewals over the course of the plan. We have adopted a clear categorisation process which prioritises the safety critical and operable investment first and then those things most aligned to the delivery of the Mayor's Transport Strategy (MTS). However, we know that with our current funding settlement from the Government only running until March 2021 we do not have the long-term capital funding strategy that we have enjoyed over the last 18 years to be able to commit to those longer-term series of next upgrades that we have to undertake on the Tube. Our task over the next 12 months going into the CSR is to make the case again for long-term, stable capital funding for London in order to take forward the next series of Tube and rail upgrades. We therefore categorise those sorts of projects as desirable where we know we want to deliver them but have not as yet secured the funding to do so and we have some areas that we have deprioritised, which include our internal tech and data projects, some major station upgrades and some other things that we can write you in the fullness of time to set out.

What we are delivering though is over the page on page 29, starting with our focus on improving air quality and the environment in London, including the implementation of the ULEZ and making the entire bus fleet Euro VI compliant. The ongoing Healthy Streets programme focuses on improving the experience of being in places across London whilst promoting walking, cycling and public transport to ensure we achieve the 80% mode shift. We will complete the Northern Line Extension to Battersea, supporting 25,000 jobs and 20,000 new homes. We will finish the upgrade of signalling on the Circle, District, Hammersmith & City and Metropolitan lines. We will take forward the upgrade of the remaining deep Tube lines, beginning with the introduction of new, longer, more spacious and comfortable walkthrough trains on the Piccadilly line, which Mike [Brown MVO] signed the purchase order for in December. We will deliver the Bank station upgrade and continue to modernize the London Overground and DLR, as I have mentioned. We will work with the 32 London boroughs and the City of London on the TfL Road Network (TLRN) borough roads and assets, and we will unlock land for the development of new homes and actively make smarter use of our assets, for instance through retail units and advertising, to generate long-term revenue.

Turning finally - and thank you for your patience - to section 6, we just highlight that over the course of the last year we have taken both your encouragement and the encouragement of the TfL Board to be more ambitious about our commercial activities and we have noted with interest your insights and research into advertising from your study which we have incorporated into some of our thinking. We now have a very clear direction for our property where we are going to focus on the build-to-rent market, which best fits with the type of land we have around transport hubs and the needs of Londoners that we can deliver and be a good long-term landlord to those people. We are going to transform our advertising estate. We are halfway through investing in the upgrade of our advertising estate to digital assets. We are growing our presence in retail and have identified that providing locations for London's small businesses best fits with our sites that we have and our role in promoting growth in London. We are beginning to set out how we will use our own applied solutions and technologies to take forward our consultancy activities around the world. Thank you all for listening patiently.

Gareth Bacon AM (Chairman): Thank you very much for that. That was a very useful introduction. I am sure you will not be surprised to know that much of that is going to be covered in the various sections we are going to go through now and so I am not going to ask you any questions on the presentation *per se*. They will be covered mostly in the sections that we are following. Members, if there is anything that we do not cover from that presentation that you want to pick up, we can perhaps do that at the end.

The first question, which I probably ought to direct at the Commissioner - although, Simon [Kilonback], you can chip in if you wish to - inevitably is going to be around Crossrail and the Crossrail budget. Is the £2 billion extra that has been provided going to be enough to get Crossrail delivered?

Mike Brown MVO (Commissioner, TfL): I believe it is. One of the things that you will be aware of, Chairman, is that we have commissioned various reviews into where the programme is. There were two reviews looking at both parts of the programme, the bit that completed the construction and the fitout of the tunnel and stations and then the programme when you get into the testing and trial operations phase, which I understand Mark Wild is confident we will be able to do quite soon. Both of those programmes are material in terms of giving us confidence that the programme is robust.

However, you will also know, Chairman, that Mark Wild is on public record as saying that he needs to be assured from his own knowledge and now being directly responsible for the project as the new Chief Executive as to all those bits and how they all fit together going forward.

However, as I said, here at the moment I am confident. The reason that we worked very closely with the DfT and indeed the GLA, to ensure there was the additional amount of facility to borrow directly from the DfT and from TfL was to ensure that we had sufficient contingency for any currently unforeseen, but possible, eventualities going forward. On that basis, yes, Chairman, I am confident.

Gareth Bacon AM (Chairman): Just on the subject of the additional facility, by that I think you mean the £750 million that you could borrow. To get at that, you would need to raise or have raised the TfL borrowing limit, would you not? Who makes the decision to do that or not?

Simon Kilonback (Chief Finance Officer, TfL): The Mayor is responsible for setting the legal limit that TfL is borrowing and we have agreed with Government that it is the Treasury that has traditionally set TfL's borrowing limits through the CSR process. We have agreed with DfT and Treasury, through the settlement for Crossrail, that the additional £750 million is provided by the Government in the event of need.

Gareth Bacon AM (Chairman): There is an agreement between the Mayor/TfL and the Government now?

Simon Kilonback (Chief Finance Officer, TfL): Yes.

Gareth Bacon AM (Chairman): If the decision was taken to draw down that money, that would be a decision just for the Mayor?

Simon Kilonback (Chief Finance Officer, TfL): The work we are doing now with the Government is to set out the terms of that £750 million facility and demonstrate the period over which we would repay it. The urgency was agreeing with them how the GLA would borrow the £1.4 billion that is needed urgently to complete the project and we are working with them over the course of the remainder of this month to complete the terms and conditions for the £750 million facility.

Gareth Bacon AM (Chairman): The £750 million is designed as an additional safety net that you are hoping not to fall into?

Simon Kilonback (Chief Finance Officer, TfL): Absolutely.

Gareth Bacon AM (Chairman): That is fair enough. You have expressed confidence, Commissioner, that the £2 billion will be enough. Of course that £2 billion does include the £750 million and hopefully you will not have to access that. What happens if it is not?

Mike Brown MVO (Commissioner, TfL): First of all, let me just contextualise that. It is really important to recognise that - as Mark Wild, again, has been on record as saying and as I have said, whether it was to this Committee, Chairman, or to the Assembly more broadly - the major cost outstanding in terms of the capital cost of the project is actually around the completion of the construction on stations, in the tunnels, passenger walkways, facilities in the tunnels, ventilation, lighting and that kind of thing. That is where the major cost is because that is where the vast majority of people from the tier-one contractors and their subcontractors comes from. When you get into the trial operation and the testing of the train and the railway systems, that is a product of time and so there would be certainly an imperative to get that bit done as quickly as possible from a revenue perspective so that we get the revenue as quickly as possible, but actually the cost of that phase is significantly less. I just wanted to contextualise that. It really is around the completion of the construction phase that is most important.

The early indications, from what Mark Wild is discovering, as I understand in my conversations with him, is that he is confident. He has had discussions with the tier-one suppliers. He now has a new board governance structure in place and over time will be of course monitoring that very closely. If we do find there is some catastrophic event - and it would have to be some catastrophic event that would mean we would get above even that contingency borrowing requirement from the Government, we would have to go back to the Government and have a further discussion in the context of it being a joint sponsor of this project. It would have to be, Chairman, something quite major and quite catastrophic that is unforeseen at the moment.

Gareth Bacon AM (Chairman): That is fair enough. The thorny question of opening dates of Crossrail cannot be ignored and I noted that you said during the presentation that you have not penned any particular date into the diary, but you have made some assumptions around loss of revenue of £200 million in the next financial year, then £300 million, then £100 million. What are those assumptions based on?

Simon Kilonback (Chief Finance Officer, TfL): They are based on a number of scenarios for opening dates. Whilst we do not know and we will not know until Mark [Wild] and the team provide a new schedule the opening date that the Crossrail team commits to delivering, we, together with the Government and the Crossrail team, have modelled, as we said, a number of scenarios ranging from autumn 2019 to up to 18 months delay to each of the Stages three, four and five opening, together with some additional mitigation such as the possibility of running trains from Reading into Paddington. A combination of those scenarios allowed us to take a more pessimistic end of the range of the £600 million. We have set out, given everything we have experienced over the last 12 months, to take a pessimistic view of our revenues including the Elizabeth line and therefore we have taken one of the more pessimistic ends of the range of forecasts that we have built into our plan for now.

Gareth Bacon AM (Chairman): The £600 million, is it fair to say, is spread over three years but precisely where it falls could change?

Simon Kilonback (Chief Finance Officer, TfL): Yes, it could change.

Gareth Bacon AM (Chairman): We know it is not going to open or is very unlikely to open in 2019 and so it is reasonable to assume that you are on the money with that one, but it might open partway through next year or it might open at the end of next year, which is why the money might move around. Is that fair to say?

Simon Kilonback (Chief Finance Officer, TfL): Absolutely. We modelled a number of scenarios that reflect that there could be different opening dates. Remember that there are three stages. The central tunnel section is the section that was meant to have opened in December [2018], but the real revenues to TfL only come when the full end-to-end railway opens, which was scheduled for December 2019. Therefore, we have modelled delays to each of these stages and their likely impacts on our revenues.

Mike Brown MVO (Commissioner, TfL): Chairman, it is worth saying if I may - sorry, not meaning to cut across you because I know there is a lot to cover - that the 5A Stage is quite important to just have in your minds because 5A in effect would mean services being operated by what we currently call TfL Rail from Reading, from the west, into the high-level station at Paddington, not through into the tunnel, but that could come as early as the end of this calendar year. Clearly, that is a revenue significant upside for this and so it could be part of the mitigation that Simon [Kilonback] is describing in those revenue projections. It is not just one thing we are looking at here. I know you understand that.

Gareth Bacon AM (Chairman): That is fine and you have been very helpful there because you have gone exactly where I was about to go because it is contained within your presentation. Part of your mitigation of the impact of the Crossrail delay is pursuing the implementation of the Reading-to-Paddington services ahead of completion of the Elizabeth line. What barriers need to be removed in order to make that happen?

Mike Brown MVO (Commissioner, TfL): It is fair to say that there have been quite encouraging discussions both with the DfT and between the DfT and Great Western, which is the current operator of those routes. Bear in mind of course that Great Western was not in its own franchise plan expecting to be operating those services beyond December this year in any event and, therefore, there is a kind of reality from that perspective that it faces here. One of the things in my discussions with Andrew Haines, the new Chief Executive of Network Rail, has been around how there is certainty around timetabling. There will be no surprise that he is very keen to ensure that that is taken care of, as of course am I, to make sure there are appropriate paths available, particularly in the neck running into Paddington itself to ensure that it is operable as a service. Those discussions are going very well, Chairman, and in the last few weeks it has been quite encouraging both, as I say, with the Department and with Network Rail and the current operator.

Gareth Bacon AM (Chairman): There was an article in *City AM* before Christmas that talked about the potential for TfL and Crossrail having to pay £15 million per annum to the Canary Wharf Group if Canary Wharf Station - and you mentioned earlier about stations being completed - is not completed by 31 December 2021. Is that a number that you recognise and is that included in your loss calculations?

Simon Kilonback (Chief Finance Officer, TfL): It is.

Gareth Bacon AM (Chairman): Are you assuming that you are going to have to pay that?

Simon Kilonback (Chief Finance Officer, TfL): No.

Gareth Bacon AM (Chairman): You think it will be open by then?

Simon Kilonback (Chief Finance Officer, TfL): Yes.

Gareth Bacon AM (Chairman): Are there any other stations in the same boat or is that just a unique arrangement you have at Canary Wharf?

Simon Kilonback (Chief Finance Officer, TfL): That was a unique one.

Mike Brown MVO (Commissioner, TfL): Yes. They actually constructed that station for us and so it was a different model of construct. They constructed that for Crossrail.

Gareth Bacon AM (Chairman): One of the things you have also talked about is repurposing business rates. Can you explain what you mean by that?

Simon Kilonback (Chief Finance Officer, TfL): Yes. Through the devolution process since 2013, the Committee will recall that TfL's funding used to be by transport grant from the DfT through the GLA and on to TfL. Half of the revenue element was devolved into retained business rates in 2013 and then the capital grant was devolved into retained business rates in 2017. That gives us a total pot of business rates of about £1.8 billion per annum. In legal form and under the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidelines, that money can be used for either revenue or capital purposes. We have agreed with the Government as part of the funding arrangement that, given the delay to Crossrail and given the choices that the Mayor has as the devolved London government about how he spends the business rates, up to £100 million per annum over the next three years would be, first of all, used to help mitigate the revenue impact rather than continuing to be spent on capital investment, in part because it is easier for TfL and for London to raise capital sums of money than revenue sums of money and therefore we are offsetting the cash impact through, as I mentioned, stock and working capital and capital items. We are still delivering the same level of overall capital delivery.

Gareth Bacon AM (Chairman): Just on that point, it is £100 million a year for the next three years is being diverted from capital programmes into supporting the revenue loss as a result of the delay with Crossrail, and you said it is easier for you to raise capital than it is revenue. In ordinary circumstances that would be perfectly true, but you are maxed out on your capital borrowing, are you not, and so that is actually not true?

Simon Kilonback (Chief Finance Officer, TfL): To be clear, Chairman, I am not talking about borrowing more money. We are talking about, as part of our modernisation practices, which I am sure we will talk about later on, things like the amount of stock that we hold, capital items such as track and various other things. We are becoming much more efficient in terms of how we deliver those programmes and therefore we are thinking about how we can be more efficient with our capital delivery rather than borrowing more money or disposing of assets. We are not talking about releasing monies from selling something. We are just talking about how we manage our capital programmes to release a bit more savings.

Len Duvall AM (Deputy Chair): Can we just be very clear on the redirecting of the business rates? When you say "we", you are talking about that we as the GLA Group's business rates or do you believe that that was TfL money anyway and the £100 million was going to come to you and to be spent on transport expenditure? You are just saying, "We are not going to spend it on other transport expenditure. We are going to spend it on Crossrail because of the situation we are in"?

Simon Kilonback (Chief Finance Officer, TfL): It was money that was identified for TfL, not part of the wider GLA business rates pot. It was as agreed with central Government in the 2015 and 2017 CSRs and we are just simply switching it between funding the operating accounts and funding the capital account.

Len Duvall AM (Deputy Chair): Is it fair to say, when we come on to some later detailed individual projects, that £100 million would have been spent on some of those projects?

Simon Kilonback (Chief Finance Officer, TfL): It could have been, yes.

Len Duvall AM (Deputy Chair): OK. You might want to be clearer about that when you come back and we ask specific questions.

Gareth Bacon AM (Chairman): Just to clarify another point as well, that is money not being spent on Crossrail; it is mitigating the loss of Crossrail being delayed. Is that correct?

Simon Kilonback (Chief Finance Officer, TfL): It is mitigating the impact of the revenue delays on TfL, yes.

Gareth Bacon AM (Chairman): It is minimising the revenue loss.

Simon Kilonback (Chief Finance Officer, TfL): Yes.

Len Duvall AM (Deputy Chair): Just going back, I know it might have been covered in other places but given there is such an impact from Crossrail on your revenue budgets,. do you think the CSR, whenever it was -- let me just go back. You start off in 2007 with a budget and then in the October 2010 CSR that budget is cut in Crossrail. Then we come back and Crossrail asks for additional money.

Do you think some of the problems that may well be caused from asking for additional money at this late stage or that stage could have been a different outcome if we had stuck with the original funding envelope of Crossrail?

Heidi Alexander (Deputy Mayor for Transport): That is a very good point. Essentially, in the CSR the Coalition Government did in 2010, it took in essence £1 billion out of the budget for Crossrail and of course we are going to probably end up at a figure that is much closer to the original budget than the amended one. It goes to demonstrate that when you are talking about investment in big infrastructure projects, you cannot cut corners on it.

The other point I would like to make though - and it may be something that we come to at the Transport Committee on Wednesday when we are discussing this - I have been in this job for six months and I find it frankly astonishing that when I started in this role in June [2018] the then Chair of Crossrail was telling me that it would not cost a penny more than an extra £211 million to complete Crossrail and, within the space of four or five months, that figure is no longer £211 million but is £2 billion. That is a multiple of 10. There is work that has been underway to put the new leadership team in place and do the review of governance and the commercial and financial practices within Crossrail and we are expecting that report shortly, as I understand it. It is absolutely essential.

Yes, going back to your first point, taking out that £1 billion from the budget back in 2010 in hindsight does not look like such a good idea.

Len Duvall AM (Deputy Chair): OK. Maybe others will follow that up as lessons learned for the future.

Gareth Bacon AM (Chairman): We are going to move on to talk about the GLA contribution to Crossrail, the new £100 million one, and that is Assembly Member Pidgeon.

Caroline Pidgeon MBE AM: Obviously the GLA and TfL are having to pick up the bulk of this additional expenditure. I recall when you were before us, Commissioner, on 21 December [2018] that you made reference to the agreement for the £300 million that was signed in July. You had signed it off and that was shared with the DfT and then any additional expenditure would have to be paid for through TfL, through London, and obviously at that time you did not know it was going to end up.

Is it because of what you signed then that we are now in a position that your negotiations with the Government have ended up with Londoners having to pick up the bulk of this additional cost of Crossrail?

Mike Brown MVO (Commissioner, TfL): No. First of all, you are right in the way that you report what I said in December. That was the position and of course that is in the context of what the Deputy Mayor has just said around us assuming that £300 million was more than adequate to cover the £211 million, which was the number before us at that time. Even then, we had built in some contingency jointly with us and the DfT.

However, that arrangement did not materially affect the discussion with the Government going forward. It is fair to say that there was a recognition - and the Deputy Mayor will correct me if I am wrong - from the Mayor as well as from everyone else that it was right that London in the broadest sense was seen to be paying for the completion of the Crossrail programme given that overarchingly it did support the London economy and London. Clearly, there was a desire at a wider political level not to be seen to be or not to be taking money from other worthy transport projects anywhere else in the country. That was an important point

However, I do not think it fettered the discussion. The discussion that Simon [Kilonback] led with Heidi [Alexander] and others with the Government was an extraordinary deal that was done eventually to ensure that we got this funding through the GLA, with tremendous support from David [Gallie] and the team, to allow us to continue the project. The last thing any of us would want - and I know you would agree with this - is any sense where we stopped, choked the project off and did not fund it going forward.

Caroline Pidgeon MBE AM: Going into those negotiations, London is paying everything here. There was no way you were going to get anything from the DfT. Did they use the fact that you had signed that?

Mike Brown MVO (Commissioner, TfL): No.

Caroline Pidgeon MBE AM: They did not at all? That was not an issue?

Mike Brown MVO (Commissioner, TfL): No, this was a whole new set of discussions.

Caroline Pidgeon MBE AM: OK. I just thought it was interesting from December that you had mentioned that.

Mike Brown MVO (Commissioner, TfL): Yes. I am sorry. I should have been clearer in the answer.

Simon Kilonback (Chief Finance Officer, TfL): It is just worth adding as well that the other element of the Crossrail project that the DfT remains the funder for is the Network Rail element in the summer --

Caroline Pidgeon MBE AM: Yes, that is right. As I learned in December, that is on top of this additional funding --

Simon Kilonback (Chief Finance Officer, TfL): Yes, it is.

Caroline Pidgeon MBE AM: -- but the Network Rail side needs funding.

Mike Brown MVO (Commissioner, TfL): Yes, absolutely.

Caroline Pidgeon MBE AM: Yes, we will cover that on Wednesday as well at the Transport Committee.

David [Gallie], because this is the GLA's contribution, where have you found this £100 million for our direct cash injection? It seems like a big sum of money to be sitting around.

David Gallie (Assistant Director - Group Finance, GLA): You have to see it in the context of the overall BRS. You probably recall that the GLA paid originally £4.1 billion to TfL for Crossrail funded by the BRS. We have organised our financing of that particular loan very carefully, but the BRS is subject to the impact of revaluation changes. It is sensible and prudent that we have always held a contingency on the possibility that revaluations would change and therefore our tight financing of the existing debt would need to be rescheduled in some form. The £100 million was not lying around. It was essentially a prudent provision reserve being held for that eventuality. Obviously, with the circumstances of the Crossrail cost overrun now, we are looking to deploy that money to best effect to make the original payment of the additional £1.4 billion, but we look to rebuild that BRS reserve as we emerge with BRS over the next few years.

Caroline Pidgeon MBE AM: That was money that you have collected for some time but because of the revaluation you had more money than you had planned and so you kept that as a reserve for such --

David Gallie (Assistant Director - Group Finance, GLA): It was a reserve to meet the eventualities of revaluations coming through.

Caroline Pidgeon MBE AM: It has not actually been taken from another project? It was a reserve you had?

Then in terms of the borrowing, the GLA is borrowing over £1 billion extra, which we are then passing on to TfL. Is that really sustainable?

David Gallie (Assistant Director - Group Finance, GLA): Yes. The two funding sources are ones that are specifically hypothecated to Crossrail. With the BRS we are just extending the BRS for perhaps a couple of years. As part of the deal with the Government, we have the unique ability to borrow against the MCIL as a new income source to the GLA to support borrowing. We are looking very carefully at how we will ultimately borrow that sum of money and act prudently, but those two new income sources are ones that mean we have a very sustainable basis for borrowing the £1.3 billion as part of the £1.4 billion payment to TfL.

Caroline Pidgeon MBE AM: It is sustainable because you are able to borrow now against the MCIL?

David Gallie (Assistant Director - Group Finance, GLA): Yes. We are aiming to borrow against the MCIL from 2019/20. That is subject to the Government changing the MCIL regulations in July. There is also, as I said earlier, then the extension of the BRS for a couple of years as well.

Heidi Alexander (Deputy Mayor for Transport): It is also worth saying at that point that the Government has explicitly said to us as well that changing regulations is dependent upon getting something through Parliament and, were they not able and to make regulatory changes with regard to borrowing against MCIL, they would work with us to work out a new mechanism by which that amount of money could be raised.

Caroline Pidgeon MBE AM: It is guaranteed and one way or another you will be able to borrow that money. For the ordinary person, it is hard to understand why the GLA is taking out this loan rather than TfL. Do you want to explain, David [Gallie], why that is the case?

David Gallie (Assistant Director - Group Finance, GLA): As part of the negotiations, we felt when talking with TfL and Simon [Kilonback] in particular who could best bear the burden of that additional very large borrowing element, as you described. The GLA is better placed to take that borrowing out. The BRS we were already borrowing against and so it would be natural for the GLA to continue that. The debate was really about MCIL and really turned upon ensuring that both the GLA and TfL's credit ratings could be maintained. I am pleased to say, as Simon [Kilonback] said earlier, that TfL's credit rating has been maintained and the GLA's credit rating has also been maintained at AA following the agreement with the Government. It is a way of maximising, I guess, all our financial positions.

Caroline Pidgeon MBE AM: If TfL had done the borrowing rather than the GLA, TfL's credit rating would have been affected?

David Gallie (Assistant Director - Group Finance, GLA): It would have put on more pressure.

Simon Kilonback (Chief Finance Officer, TfL): It would have put pressure on it, yes.

Caroline Pidgeon MBE AM: What is your credit rating at the moment?

Simon Kilonback (Chief Finance Officer, TfL): AA-.

Caroline Pidgeon MBE AM: What is the GLA's?

David Gallie (Assistant Director - Group Finance, GLA): AA.

Caroline Pidgeon MBE AM: It is really to do with the credit rating of TfL?

David Gallie (Assistant Director - Group Finance, GLA): For my mind, that is probably the principal reason. There is an element, as I said, about the existing BRS facility being rolled forward with the GLA. It would have been odd to move some of the borrowing against BRS to TfL given the GLA was borrowing for it.

Caroline Pidgeon MBE AM: You are borrowing this money and then you are granting it to TfL. How much interest is going to have to be paid on this loan?

David Gallie (Assistant Director - Group Finance, GLA): We are still negotiating the exact terms with the Government, as Simon [Kilonback] indicated, but broadly speaking, of the £1.3 billion we are borrowing, we are looking at 0.2 of £1 billion of interest to be paid over the 10-year duration of the debt, and so overall a total bill to the GLA of £1.6 million made up of a £1.4 million payment to TfL and £200,000 of interest.

Caroline Pidgeon MBE AM: How many years will it take to pay back the loan from the BRS and the MCIL?

David Gallie (Assistant Director - Group Finance, GLA): We are negotiating with the Government but the Government is looking for us to repay that sum over 10 years.

Caroline Pidgeon MBE AM: Ten years is what you are looking at. OK. Was this money actually meant to pay for Crossrail 2 and does that put Crossrail 2 in a difficult position? Maybe that is one for Heidi.

Heidi Alexander (Deputy Mayor for Transport): In the work that is been done about how you might finance Crossrail 2, the basis of the discussions between the Mayor of London and the Secretary of State has been about how you would share those costs and MCIL and BRS would be a proportion of the funding that would go into financing Crossrail, along with other things such as the overall net operating surplus and the oversite development that may take place around the line as well. For a limited period of time we will be using some of what would have gone into the Crossrail 2 pot to pay for the remaining work that needs to be done on Crossrail 1. Clearly, the priority is to get Crossrail 1 finished. No one is going to want to have a situation where you have a tunnel under London that is 97% complete, you have trains over at the depot at Old Oak Common and yet you have an inability to actually get those brand-new trains running through the tunnels and providing the benefits to Londoners that this new railway will provide. It was an obvious and sensible and reasonable thing to do to say that for a limited period of time we would use that income stream to complete the work on Crossrail 1.

Caroline Pidgeon MBE AM: Does it affect Crossrail 2 or would it just, if it got the green light, delay it by a few years?

Heidi Alexander (Deputy Mayor for Transport): One of the things that we need to do in advance of the CSR is have a discussion with the Government about the overall funding and financing of Crossrail 2. I do not think anyone sitting in this room would deny that there is a strategic imperative for Crossrail 2 in terms of relieving some of the overcrowding on the rail routes into central London and relieving overcrowding at stations such as Euston, King's Cross, Waterloo and Clapham Junction. Of course, you will know that Crossrail 2 could deliver up to 200,000 new homes. I think it is a strategically important project for the national economy. Therefore, the discussion that, alongside the Mayor, I would want to be having with the Government is about how we can continue to make this vitally important piece of infrastructure happen as quickly as possible, bearing in mind the decisions that have been taken in relation to completing Crossrail 1.

Caroline Pidgeon MBE AM: Thank you.

Keith Prince AM: David, we are going to have to borrow £1.4 billion as the GLA, but we do have reserves, do we not? What level of reserves do we have on the GLA?

David Gallie (Assistant Director - Group Finance, GLA): The overall GLA reserves, beyond a very small general reserve of £10 million, are earmarked for other GLA-specific purposes. There are not spare GLA-earmarked reserves that could be redeployed without there being consequences on lots of other GLA programmes such as environment or housing.

Keith Prince AM: What was that figure you gave as our general reserve?

David Gallie (Assistant Director - Group Finance, GLA): The general reserve is now only £10 million in the GLA.

Keith Prince AM: Has that been reducing over a period of time?

David Gallie (Assistant Director - Group Finance, GLA): Yes. As part of this year's budget process, it was £35 million and £25 million has been taken and deployed for other purposes, as set out in the budget consultation document the Mayor issued before Christmas.

Keith Prince AM: What figure of reserves is deemed to be prudent, David?

David Gallie (Assistant Director - Group Finance, GLA): Normally the advice would be broadly about 2.5% of your net revenue spend.

Keith Prince AM: What would that figure be, then?

David Gallie (Assistant Director - Group Finance, GLA): It is broadly the £10 million.

Sian Berry AM: I just wanted to ask a little bit more about the MCIL. I am looking at David [Gallie] because he is probably the best person to explain where this appears in the budget and how much there is of it. As I understand it, the MCIL is supposed to in April, in terms of what people pay, change from the first iteration of it to the second iteration of it and that is what is going to pay for Crossrail 2 as opposed to Crossrail 1. That was all agreed via quite a long process of public consultation, viability testing and examination. When you say that we have to change the MCIL regulations in order to do what we want to do, that is overturning that process where it was agreed that it would be used to pay for Crossrail and changing it to go back to the old scheme. Will it be different rates? Can you just explain a bit more about what the change is being made?

David Gallie (Assistant Director - Group Finance, GLA): At the moment the MCIL regulations prevent authorities from servicing repaying debt. The proposal we agreed with the Government is that we would be able to service and repay debt from MCIL. It is not connected with the whole process of MCIL 2 and the Examination-in-Public (EIP) process that has been gone through. The two things, as Heidi [Alexander] says, are completely separate.

Sian Berry AM: My question stands, in that case, then. In order to change what you are spending MCIL 2 on, which is what you will be collecting from April, you are overturning what went through a consultation process in terms of what we were going to spend that money on. Do you have to go out to consultation in order to do this and change it again?

David Gallie (Assistant Director - Group Finance, GLA): I am probably not the best person to say whether we need to go out to consultation. My understanding is that, as we have explained, the intention was that it was to be used for Crossrail 2 but now has to be used for Crossrail 1, as Heidi [Alexander] has explained. I can see, I guess, there may be some sort of challenge process that could come through on that, but I feel confident that we would be able to deploy the new MCIL 2 for Crossrail 1, as we have explained.

Sian Berry AM: OK. The other thing that you are doing is extending the BRS for Crossrail and that is extra money that will be coming in on top because that was due to end, I believe, at the same time. Is that correct? That was due to end in April because it came along with the first --

David Gallie (Assistant Director - Group Finance, GLA): The original BRS prospectus in 2010 set out that the BRS would continue until 2037/38. Because of interest rates being more favourable over this decade and the BRS coming in stronger than we had anticipated, before the Crossrail cost overrun occurred, we were looking to be able to move the BRS to Crossrail 2 in 2033, some four years earlier than set out in the prospectus. What we are now all looking to do is to effectively push back that 2033 date by a couple of years so that in, say, 2036, it would then become available for Crossrail 2.

The important thing to say though is that no large business will be looking to pay more than was originally envisaged in the 2010 prospectus.

Sian Berry AM: Yes. It just carries on for longer.

David Gallie (Assistant Director - Group Finance, GLA): We are going to extend it for a couple of years more than would otherwise have been the case if the Crossrail cost overrun had not occurred.

Sian Berry AM: Yes, the BRS is not changing. I am looking at the budget document at page 56, which is the GLA subjective analysis, which is the only place I can find a budget line that names the BRS and MCIL with numbers. There is a line on that where it is £117.4 million in 2018/19, in 2019/20 it increases to £141.5 million and then it is £148 million and £140 million.

Are those projected amounts that are going to be raised? I am a bit confused about why those match exactly the financing costs for Crossrail. Can you explain? Does that represent how much you are raising through the BRS or is it just how much you need to put into that table to balance the financing costs?

David Gallie (Assistant Director - Group Finance, GLA): Those are effectively the interest charges only for Crossrail that we are looking to take out against BRS and MCIL. You can see the increase in the interest rate charges we are making on that line.

Sian Berry AM: Yes. It is being drawn out of that and that is why it appears in the table. That line does not represent how much you are raising through this.

David Gallie (Assistant Director - Group Finance, GLA): No, it is just the interest charge.

Sian Berry AM: Is there anywhere where it is laid out how much is being raised by the BRS and MCIL and forecasts for when it changes to MCIL 2, too? I just cannot find that in any of the documentation to do with this.

David Gallie (Assistant Director - Group Finance, GLA): There is a Mayoral Decision (MD) that will be published shortly setting out the new BRS regime for 2019/20. There is an annual MD we need to make on business rates, which sets it all out. As part of the budget that we will issue at the end of this month there is also an account we set out for the BRS as a separate item. It is a ringfenced account rather than something that is part of the GLA budget.

Sian Berry AM: There is a separate account. Is that the same for the MCIL as well?

David Gallie (Assistant Director - Group Finance, GLA): Yes. We would just essentially look to roll MCIL in. We would look to maintain the GLA's contribution to Crossrail as this ringfenced account because both the BRS and MCIL are hypothecated for that purpose.

Leonie Cooper AM: I just wanted to come back to the impact of Crossrail 1 on Crossrail 2 and the points that Assembly Member Pidgeon was just touching on. My understanding was that originally the Hybrid Bill was due to be placed before Parliament in 2019, which is this year. There has not been so much talk about that coming forward recently and, with the delays to Crossrail 1 potentially being throughout 2019 and you said possibly up to 18 months and so that could be potentially going into 2020, as the Deputy Mayor just said, it is a very obvious thing to do to make sure that an almost completed project is completed.

Are the financial changes going to cause a delay on what is going to be going forward in Parliament? Do we have any knowledge at all about that? The second round of consultation with the public has been delayed. That has not come out. Is there any chance of the hybrid Bill going before Parliament in 2019 so that, even though the financials have changed at this point, the project might still start on time for Crossrail 2? Originally it was meant to be starting about 2022 or 2023. Is that still likely to happen?

Mike Brown MVO (Commissioner, TfL): I will answer your question directly in a second but the assumptions within this business plan are still that we would submit an updated strategic outline business case at the end of April. There would be safeguarding consultation at the end of May. That is important because there are a number of people who are quite understandably concerned as to where their businesses are or where their residences are. That would lead us to the start of a Hybrid Bill stage and route-wide consultation in January 2020 and so just beyond the 2019 date that you referred to. Those are the assumptions within our business plan at the moment.

Clearly, a lot of this is dependent on the discussions leading into the CSR, as the Deputy Mayor [for Transport] alluded to, and that is something I know we will continue to count on the support of the Assembly Members of this Committee and more generally, I have no doubt, on that.

It is worth saying just to add to what the Deputy Mayor [for Transport] already said that we should remind ourselves that the National Infrastructure Commission (NIC) has said that this is a project of strategic importance for the UK and that it is imperative if London is going to be able to continue to meet the needs of the population growth. The specific stations that need relief and the journeys that need relief, as the Deputy Mayor highlighted, are absolute imperatives, but the wider economic benefit is huge. Therefore, we continue to have the discussions on Crossrail 2 notwithstanding the reality of where we are on potential funding. It is really important we continue to be upbeat about those discussions going forward because this project has to happen if London is going to be able to support its growth.

Leonie Cooper AM: Is there anything you want to add to that at all, Heidi [Alexander]?

Heidi Alexander (Deputy Mayor for Transport): One of your specific questions was: is it likely that a Hybrid Bill will be presented to Parliament in 2019? The honest answer to that question has to be no. The clear priority is to agree a route between the Mayor of London and the Secretary of State, agree whether that route is completed in full or in phases or stages, and what the funding and financing package would be. Getting any legislation through Parliament at the moment, it is probably an understatement to say, is something of a challenge given that Parliament is somewhat paralysed by Brexit at the current time. It is unlikely that you will see a Hybrid Bill in front of Parliament in 2019.

Gareth Bacon AM (Chairman): I have just a couple of tidying-up points before we move on to the rest of the capital programme. Because we finished on Crossrail 1 I want to ask about Crossrail 2 and it is probably to Mike [Brown MVO] and Simon [Kilonback]. I cannot remember how far back we are going here but I recall having a conversation and I was trying to tempt Simon into expressing percentage degrees of confidence around the funding of Crossrail 2 because the Government guidelines around that changed. Instead of funding it throughout the lifetime of the asset, which I believe was 25 to 30 years, it was for the lifetime of the build, which was going to impose very great pressures in terms of finding a funding source and there were going to be a multitude of different sources. I asked you to give me a percentage of confidence that you would be able to come up with that and you evaded the question, which I do not entirely blame you for.

We were promised that by around about now we would know more. That was before we had the problems with Crossrail. The reason why I am asking the question in the way that I am asking it is because the BRS and the MCIL money was a core part of how you were going to fund the changed way of funding Crossrail 2. What implication has the extended delay to Crossrail 1 had on that?

Simon Kilonback (Chief Finance Officer, TfL): Just to go back to Heidi's [Alexander] point, the important bit is that at the moment there is not an agreed route or phasing or staging of the delivery of that route between central Government and London's government. In order to come up with a funding agreement, we need to get to the point at which we have an agreed first stage of the route. That work is ongoing with the DfT again as joint sponsor of the project. When that work has been completed, we will know what the quantum of money is that London will need to contribute and we can then, on that basis, relook at how it will be funded given the need to make sure that we first of all can fund the completion of Crossrail 1.

Gareth Bacon AM (Chairman): When are you expecting that work to be completed?

Simon Kilonback (Chief Finance Officer, TfL): We are aiming to have that work completed in advance of the CSR in the summer.

Gareth Bacon AM (Chairman): That is fine. The other question I was going to ask is going back to Crossrail 1. One of the things that many of the boroughs in the east end of London, including one of the boroughs that I represent, have been pushing for is an extension of Crossrail beyond Abbey Wood to Ebbsfleet. This is probably for you, Commissioner, or perhaps to the Deputy Mayor. What does the delay to the opening of Crossrail 1 do to the ambitions to achieve that?

Mike Brown MVO (Commissioner, TfL): It is fair to say, if I may, Chairman, that the entire focus of the team at the moment is on delivering the Crossrail project as is. Therefore, if I may, that is a discussion we should have at a future date. It is not where anyone is talking at the moment. It is not in the discussion. It is not in any meeting that I have had in the last four or five months. It is just not on the agenda at this moment in time.

Gareth Bacon AM (Chairman): It is potentially dead but revivable at some point in the future?

Heidi Alexander (Deputy Mayor for Transport): Having said that, if I might just add something, I spent two hours with the Leader of Bexley Council, Councillor Teresa O'Neill, last week and discussed the aspirations for an extension down to Ebbsfleet. Clearly, as Mike says, completing the central section from Abbey Wood to Paddington is the key overriding imperative at the moment. Making sure that we can run the services from and Paddington to Reading is, I would say, the second priority. Then the third one is getting the whole line running through from Reading to Shenfield and down to Abbey Wood. Therefore, there are three steps, to be honest, that I see as coming before a discussion about extending Crossrail out to Ebbsfleet.

However, as someone who relies upon Southeastern trains in a very congested network myself to get into central London, I know how important additional mass transit public transport services are in southeast London. There are lots of schemes across London that we would want to do where we have to identify and secure significant amounts of capital funding in order to deliver them. Whether it is the extension of Crossrail 1 to Ebbsfleet, whether it is the Bakerloo Line Extension, whether it is the extension of the DLR to Thamesmead, you would expect TfL to look at all of those sorts of extensions of the public transport network in the round and look at how those solutions actually address the transport challenges we face and also contribute to economic growth and the delivery of housing. I would want to look at that sort of issue in the round.

Gareth Bacon AM (Chairman): Sure. The key thing about what you have just said there is that all of those schemes that you put on the same playing field as the extension of Crossrail to Ebbsfleet are TfL-conceived schemes: the extension of the Bakerloo line, etc. The extension to Ebbsfleet was almost invented outside TfL, if I can put it that way. It was very much an idea initially of Bexley Council that now has the support of more boroughs in the east end of London. Is it being regarded in the same way as, say, an extension of the Bakerloo line to Lewisham?

Mike Brown MVO (Commissioner, TfL): Yes, absolutely. I would never, I hope the Committee would know, be so arrogant to assume that we have the monopoly on all good ideas on transport networks.

Gareth Bacon AM (Chairman): Perish the thought.

Mike Brown MVO (Commissioner, TfL): Absolutely, if there is one with a greater imperative, no matter who comes up with it, we of course will give it the right consideration.

Gareth Bacon AM (Chairman): To summarise your remarks, then, Deputy Mayor, the priority at the moment is the completion of the three stages of Crossrail 1. Where would you place, say, the extension of it to Ebbsfleet vis-à-vis Crossrail 2?

Heidi Alexander (Deputy Mayor for Transport): What do you mean, where would I place it, sorry?

Gareth Bacon AM (Chairman): I do not think anyone in the room would disagree that you have to complete Crossrail 1 before you can do anything else and so the priority is the three different stages of Crossrail 1 and that is perfectly fine. Then there is a whole range of other schemes that are being looked at including the extension of the Bakerloo line and the extension to Ebbsfleet, and of course there is Crossrail 2 as well, for which the case is being made and conversations are ongoing.

I am being a bit parochial because this is about my constituency. Len [Duvall AM] is laughing. It is his constituency as well. Where does the extension to Ebbsfleet fit among the scheme of things that you are looking at?

Heidi Alexander (Deputy Mayor for Transport): That is an overly simplistic question to be asking, to be honest. I am not sitting here with a list of projects numbered one to 10 that I want to see completed across London.

Gareth Bacon AM (Chairman): We will now move on and talk about other capital projects and Assembly Member Cooper is going to lead off on that.

Leonie Cooper AM: Talking about the extension to Ebbsfleet, we now have the slide pack that Simon very kindly went through, which now includes this new categorisation on slide 28. We now have a new category, which is 'critical', 'central', 'desirable' or 'deprioritise'. I am also looking at the paperwork that went to the 13 December [2018] TfL Board meeting, which talks about a need, which Simon [Kilonback] also referred to, of £4 billion per annum and yet this is showing £1.4 billion as the average annual new capital investment over the business plan plus £600 million for renewals, which is £2 billion, which is 50% of £4 billion and so that is a huge gap.

It seems pretty obvious to me why you are cancelling or postponing projects, but I just wondered how you had decided on that categorisation. How have you decided what goes into 'critical' or 'central' or 'desirable'? How have you decided what goes into 'deprioritise'? That might be one for Mike [Brown MVO] or it might be one for Simon or Heidi [Alexander] to come in on.

Simon Kilonback (Chief Finance Officer, TfL): I will start and perhaps Mike or Heidi will jump in.

First of all, the CIPFA guidance about capital projects gave some clear guidelines about prioritising the investment in existing assets first. For Mike [Brown] and me, prioritising the safety and reliability of our existing assets has to be our first priority because, if we do not do that, then people will not be able to travel safely on our network. The very first 'critical' box is the one about what we do with the internal management team and the Board and with Heidi [Alexander] and the Mayor around prioritising what we need to spend just to maintain the current levels of safety and reliability on the network.

The next box - and again, this categorisation was agreed with the TfL Board and the Mayor - is the 'central' box with those projects most aligned to delivery of the MTS. In the 'desirable' box were also some very important projects but mainly, because we do not have any certainty over our capital funding beyond 2020/21, the next series of major Tube and rail upgrades are long-term projects and we cannot commit to procuring major projects, such as the signalling upgrade on the Piccadilly line, until we have certainty over the funding in order to honour those commitments. Those were the main boxes in terms of what we have done here.

In terms of 'deprioritise', the majority of projects in 'deprioritise' were things internally such as information technology (IT) projects. For some of the projects in earlier years we had more money and higher levels of demand and therefore the business cases for them looked stronger at that period of time than they do today. This was all gone through in detail with the TfL Board and Heidi [Alexander] and the Mayor's team.

Leonie Cooper AM: OK. Now I want you to go through it in that amount of detail with us because what we would like to know is about all the projects that have gone into the 'deprioritise' box. I would also like to know about some of the ones that have gone into 'desirable' as well.

We were just talking about some of the things that potentially have been moved backwards but, for example, the Camden Town station improvements have been cancelled. Why has that gone into being cancelled? Surely that would go into the category of safety and reliability and that sort of area.

Mike Brown MVO (Commissioner, TfL): Sorry, if I may, Simon [Kilonback], let me just give you some examples and maybe talk about some examples. You have mentioned Camden Town and I will touch on that in a second.

Simon [Kilonback] mentioned the Piccadilly line signalling. That is of the order of £350 million. That was a contract that we were not in a position to sign up to because there was no certainty of capital funding going forward that would allow confidence within the supply chain and within the market that we were going to be able to pay for that. That requires further discussion in the lead-up to the CSR and I am hopeful that we will have a proper discussion around that when people recognise the age of the signalling system on the Piccadilly line.

Incidentally, the Piccadilly line train contract, which we have already signed up to with Siemens, is still progressing. As you will be aware, that involves, amongst other things, a facility being created in the north of England, very usefully, and actually that in itself gives an uplift of capacity on the Piccadilly line from the current 24 trains an hour up to 27 trains an hour and so it gives you some of the benefits of increased capacity as well as what you get from the new trains themselves but does not give the full whack that you would get akin to the Northern line or the Jubilee line as you would have got with a decent modern signalling system. That is one example.

Camden Town, since you touched on it, and Holborn I will talk about as well. Holborn has been slightly delayed but is still in the plan. There still is a proposal for Holborn to take us to the delivery of Holborn --

Leonie Cooper AM: In 2023/24?

Mike Brown MVO (Commissioner, TfL): Yes, exactly, 2023/24, with the Transport and Works [Act] order submitted the previous year or two years before that. That still is in there.

Camden is deferred beyond the plan at the moment, again because we do not have the certainty of funding. That is not to say it is killed stone dead. Again, I would just not use that terminology because the very reason we have an annual business plan and the very reason it changes every year is because the financial context changes every year. I am optimistic - because I have to be - that in the discussion leading up to the CSR we will have greater certainty of access to capital going forward that will allow us to put Camden Town back.

However, Camden Town does not sit within the same level of those really critical pieces of work that Simon [Kilonback] was referring to, which are around the underpinning safe and reliable operation of the network and that includes the element of the £600 million on capital renewals. I am long enough in the tooth to remember the days under the private-public partnership (PPP) when I got a daily fax to tell me from one of the PPP contractors whether it was safe to run a train every morning on the District line because of the state of the asset. We are not going to go back to that situation. That is why capital renewals, as well as on the revenue side and maintenance, is so important to preserve. Camden, while a very important scheme and something we really want to do going forward and we absolutely still want to do it, just cannot fit within the 'critical' or 'central' box at this time.

Leonie Cooper AM: Taking the tram extension or the changes to transport towards Sutton - I understand it has been retitled now because it may not be a tram extension and other things potentially are being considered - and the Northern Line Extension and then also the Bakerloo Line Extension, which we have just touched on, are all of those being pushed back in the same way that you have just said that the Camden Town station improvement is deferred rather than cancelled?

Mike Brown MVO (Commissioner, TfL): On the tram extension there was always a funding shortfall, which this Committee will be aware of before, and that has been subject to some very useful discussions at political and officer level with the Boroughs of Sutton and Merton to look at closing that gap in terms of continuing with that scheme. The reason it is being looked at in the broader sense is because of the difference between what has conventionally been described as an 'on-road' tram system and, if you like, an 'off-road' system on a dedicated routeway. Anything other than by a pure tram system is much more marginal than it was before and so that has just been alluded to within the document.

The Northern Line Extension is progressing well. Indeed, the Deputy Mayor and I visited the Northern line. We walked in the tunnel the other day. The rails are down. The tracks are down. The crossover box just at Battersea Power Station is about to be installed. We have been running engineering trains on those rails already. The step-plate junction at Kennington is complete. A huge amount of work on the stations is now happening to get them fitted out. The base of where the escalators are going to be fitted is going to be installed.

The reason in terms of the opening date for the Northern line, just to be absolutely clear, is that the developer is not in a position to have let some of its major facilities at a time that requires the Northern line to be delivered when it is. This is actually almost the exact opposite of Crossrail, I should say. This is about us doing things correctly, considering the demand as is the position known right now on the demand and also because we have to do, just over the river, a major closure on the Bank branch of the Northern line to allow the significant capacity enhancement that is going on in that project as well. There is no stopping of the Northern Line Extension. That continues and that continues apace, as indeed does the work to outline the line of route and the work around the Bakerloo Line Extension, too.

Leonie Cooper AM: Bakerloo [Line Extension] is now being referred to as a 'project' that can happen only with Government support rather than something that we are going to push ahead with soon?

Mike Brown MVO (Commissioner, TfL): Yes. In effect, all of these projects need Government support because the support to get access to the capital funding is an imperative dialogue within the CSR.

The thing I am very determined not to do is to get back into the annual cycle that we had up until the late 1990s or early 2000s when, literally, we did not know on a year-by-year basis how much capital spend we had to deliver. Some of these projects of course cover, as you know, many years and it is an absolute imperative that we get that certainty, a bit like we have for the Piccadilly line trains and we have had for the four lines that are being upgraded at the moment on the Underground network, and that we have that certainty going forward for all these capital programmes.

It is worth saying though, just in terms of the quantum, that this £2 billion that we are talking about in terms of overall spend on our capital programme is the same figure almost exactly as we had in the plan last year.

Leonie Cooper AM: Yes, but you are also pitching according to the document that you were considering at the meeting on 13 December [2018]. On page 59, it is clearly saying that we would require on average £3.3 billion of capital investment plus more to bring it up to the level that you would prefer to have.

Mike Brown MVO (Commissioner, TfL): Yes, and it is fair to say that I am absolutely determined that we are actually spending more, £2.3 billion over the plan years compared to £2.2 billion on Healthy Streets, for example. That is an absolute increase in spend on that very important area and I know we have had huge support from Assembly Members in that element of the plan. It is absolutely true that I would want to finish on the rail side the modernisation of the Tube upgrades. Of course I would. The big outlier actually remains the Piccadilly line after we have completed the Circle, District, Metropolitan and Hammersmith & City lines. Of course we want to do that. That is why we will lobby extraordinarily hard over the coming weeks and months for the imperative for the Piccadilly line going forward.

Heidi Alexander (Deputy Mayor for Transport): Chairman, might I add something to this whole discussion? It is important for you as Committee Members to understand the overall framework in which we took these decisions. It is true that this has been a very difficult business plan to write, not least because we are dealing with a number of pretty challenging factors. The withdrawal of an average of £700 million in direct operating grant from the Government is significant. We have had the Crossrail challenges that we have already talked about. We have the subdued economy. If you look at the assumptions that we made about fare income back in the 2016 business plan for a five-year period compared to the assumptions that we are making now, we are going to see over five years £2 billion less coming into TfL. Therefore, of course, we have to deal with the financial realities that we are confronting. Some of those are not circumstances of our own making. It is to do with the subdued national economy, etc, as I say.

However, the Mayor has set a series of priorities in the MTS about providing all Londoners with a good public transport experience, creating Healthy Streets for healthy people, and ensuring that our public transport system protects growth and delivers sustainable growth in London. Look at the range of things that are going on with the Tube network to improve reliability and the passenger experience - as Mike [Brown MVO] says, the upgrades to the District, Circle, Metropolitan and Hammersmith & City lines and the Northern Line Extension - and look at what we have been able to protect in terms of the extension of the London Overground out to Barking Riverside, which will support the delivery of nearly 12,000 new homes there. We have managed to protect and in fact enhance the amount of money that is going into walking and cycling projects and things such as the Liveable Neighbourhood Fund that is supported by the boroughs and the Safer Junctions programmes.

There were a series of decisions that we had to take that in an ideal world if we had unlimited funds we would not be taking, but we have had to take a rational approach to this. In what are very difficult circumstances, we have made a reasonably good fist of it.

Leonie Cooper AM: I wanted to come on to Healthy Streets - thank you for that - which both you and Mike [Brown] have just been mentioning. My understanding is that you have reprioritised some of the money that will not now be used on the Oxford Street project, for which we can definitely use the word 'cancelled' and not 'moved backwards'. Then there is £43 million from that going into Healthy Streets. It is a shame that Oxford Street is still going to be somewhere I will not go shopping because it is dangerous, if you ask me.

How is that money going to be best used? Is £43 million enough in terms of Healthy Streets? I am sure Assembly Member Berry is going to ask some more about Healthy Streets in a minute as well.

Mike Brown MVO (Commissioner, TfL): As I say, it is worth saying that the overall spend on Healthy Streets has gone up from a £2.2 billion to £2.3 billion and so the numbers you talked about are in the context of that overall quantum of spend, as Heidi has just said.

Yes, it is true that the allocation of around £43 million is going to be used for accelerating our future cycle routes. Those are in particular in Hackney and Greenwich and I have the detail of those if you want me to go through those. That is a direct allocation across from what would have been spent on Oxford Street had the disappointing unilateral decision not been made by Westminster Council to stop working with us on that. That is a very real benefit that the people of Greenwich and Hackney will get as a result of that.

Leonie Cooper AM: In terms of the money that has been withdrawn by the Government in terms of roads and road upkeep, is there any chance of that decision by the Government being reversed? I do not understand why that decision has been made in that way.

Mike Brown MVO (Commissioner, TfL): The only thing I would say to you is that after the budget when the Chancellor explicitly excluded London from the 'pothole fund', I did get a letter a couple of weeks later from a DfT Minister to say that we have been allocated £2.5 million for potholes in London, which was a turnaround from the previously made decision. Also, as I understand it, London boroughs were, for their roads, also subject to some additional provision and so they were no longer excluded either from that fund.

I suppose I would cling to that glimmer of hope, as it were, perhaps and Simon's [Kilonback] chart is pretty stark in terms of the reality of roads funding and where it sits in terms of London compared to anywhere else.

I live in hope that we will continue to be able to make the argument that London should not be treated more specially than anywhere else in England and Wales but should be at least treated the same.

Leonie Cooper AM: As far as I understand it, Londoners pay VED. Highways England has a budget that it allocates out to local authorities across the rest of the country. I for one do not understand why we would be excluded from that in London. It makes literally no sense at all to me. That is the end of my questions for now. Thank you very much. I am going to pass on.

Gareth Bacon AM (Chairman): Before I pass that to Assembly Member Berry, just for clarification, the Government has not withdrawn any money from roads, has it? It has refused so far to devolve VED to TfL. Is that correct?

Simon Kilonback (Chief Finance Officer, TfL): If you go back in history to the general grant that has been withdrawn by the Government, that was largely to pay for roads and the subsidy on buses.

Gareth Bacon AM (Chairman): That is a matter for you, is it not, but no specific roads funding has been withdrawn by the Government?

Mike Brown MVO (Commissioner, TfL): Not specifically allocated from there. That is technically true, Chairman. I would not want the Committee to be misled, but, as Simon says, given the amount of spend compared to income we get for the bus network and the road network, a large proportion of the operating grant that we historically always have had from the Government was being spent on those non-income-generating --

Gareth Bacon AM (Chairman): The shortfall on roads was around about £300 million, is it not, according to your business plan presentation?

Simon Kilonback (Chief Finance Officer, TfL): On roads, yes.

Mike Brown MVO (Commissioner, TfL): On average, yes.

Gareth Bacon AM (Chairman): That is fine. I think we would all agree - and we do - that VED should be devolved down to London. That was one of the key recommendations of London Finance Commissions 1 and 2. I do not think there is any dissent in the room that that should happen.

Sian Berry AM: I have a few more questions about the Healthy Streets spending. I wanted to look at the long-term spending on the Healthy Streets side of the capital plan because that appears in the budget for the first time going forwards up to 2037 with estimates of what might be needed. I am looking at page 51 of the draft budget. I am also looking at slide 30 in the pack, if that is helpful. Slide 30 in the pack talked about the long-term commitments and the need to invest to achieve the MTS goals and one of the main MTS goals is the mode shift to 80% sustainable modes. At the bottom of slide 30 it says you are going to need "£3.3 billion of annual investments through to the late 2030s of enhancements plus renewals". That is interesting. Then also there was the presentation to the Board on the update on the MTS in May [2018] that said the same figure again, "£3.3 billion a year over the next two decades" and it is greater than your anticipated income. That is what we have just been talking about and that goes right forward to 2037.

The only problem I have with the budget here is that I cannot find £3.3 billion a year out of any of the budget lines. I have tried combining enhancements with renewals, as per the slide, and that is not adding up to

£3.3 billion a year. What are we talking about here? It is not the major projects like Crossrail, is it? It is the other things.

Simon Kilonback (Chief Finance Officer, TfL): The £4 billion or the £3.3 billion here is the total amount that the MTS assumes needs to be spent in each year in order to deliver the MTS outcomes. That was reflected in the National Infrastructure Commission's National Infrastructure Assessment within the fiscal envelope of 1.2% of gross domestic product (GDP). It is always therefore assumed that additional funding for the totality of that £4 billion over and above the amount of £1.8 billion that is devolved to the Mayor in the form of retained business rates would be sourced from that national fiscal envelope rather than TfL's budget. TfL's budget reflects the business rates that the Mayor has devolved to him.

Sian Berry AM: I totally understand that. I am just wondering where the £3.3 billion itself comes from when it comes to breaking down lines in the capital strategy.

Simon Kilonback (Chief Finance Officer, TfL): It is in both the MTS and the National Infrastructure Assessment. It is not in the budget document because we do not have that amount of funding. We can only reflect the amount of funding.

Sian Berry AM: All right. The budget document is what you can spend, but then the next page, page 52, of the budget has spending need versus shortfall. It is setting out that same calculation. That is why I am wondering about why I cannot reconcile the numbers. It is the same argument and I agree with the argument. It is just that the numbers do not quite match. I am trying to work out what the shortfall is in Healthy Streets. That is really what I am talking about. That is why I was focusing on the £3.3 billion because that describes enhancements plus renewals, which is excluding the big line extensions and things that would presumably include the Healthy Streets.

Simon Kilonback (Chief Finance Officer, TfL): Yes. There is a difference as well. The budget document is stated in outturn prices and so they are inflated from today and there is, therefore, a very large element of inflation in those numbers by the time you get to the outer years of that longer-term strategy.

Sian Berry AM: Is it the £100.5 billion number without inflation? That resolves to £6.6 billion a year if you divide that by the 15 years that are in this.

Simon Kilonback (Chief Finance Officer, TfL): We will have this checked and come back to you on that one.

Sian Berry AM: OK. Is it possible to ask you for the amount needed for Healthy Streets? A lot of achieving mode shift is getting people walking and cycling and that is the Healthy Streets funding. Is it possible to get the need for Healthy Streets versus what you are going to spend? We already know what you are going to spend on Healthy Streets. Can we get that shortfall? We are looking to try to discuss what might be involved in fulfilling that and you do not get extra business rates or fares from Healthy Streets and so there are other --

Simon Kilonback (Chief Finance Officer, TfL): The total mode share is driven by walking, cycling and buses in particular. That is actually the modernisation of the bus fleet in outer London that will help drive that mode shift. We have priced that only in the five years of the business plan. I will look into what we have beyond that in more detail on Healthy Streets.

The nature of Healthy Streets investments compared to the nature of the big rail and Underground project investments is very different and therefore we are able to model those longer-term big rail projects and what they are going to cost, but we will certainly take away and come back to you with what we have in future years in terms of Healthy Streets.

Sian Berry AM: That would be fantastic. Within Healthy Streets I would love to see it broken down into cycling and walking if that is possible to do, and buses, actually. If Healthy Streets has buses, that would be great because it is about knowing what is needed to achieve the goal.

Simon Kilonback (Chief Finance Officer, TfL): Yes. We will do as much as we can. Of course some of the investment in Healthy Streets - for example, Safer Junctions - is walking, cycling and public transport and so it is very difficult to disaggregate it entirely into the walking, cycling and public transport. Again, cycling is more discrete to identify and, again, we will provide that detail to you inasmuch as we have it.

Sian Berry AM: That sounds absolutely brilliant. Thank you very much. Just finally in terms of the prioritisation, did you use the benefit-cost ratio and transport appraisal to do that or do you have your own way of doing it? Is it different to the Treasury's normal transport appraisal scheme?

Simon Kilonback (Chief Finance Officer, TfL): We use the benefit-cost ratio and then we use other criteria on top of that. For example, there might be schemes that have a poor benefit-cost ratio but a very good level of additional external benefits in terms of health or other benefits and we put those all into the prioritisation. The boxes are not done purely on benefit-cost ratios. It fits with the MTS deliverables.

Mike Brown MVO (Commissioner, TfL): Sorry, Simon, if I may, if we were to use just a conventional benefit-cost ratio, it would not necessarily give the proper recognition of the importance of the Healthy Streets agenda, for example, or even things like air quality. It is important that we have a proper perspective of overlay beyond just the pure benefit-cost ratio process, which of course was created in a different era.

Sian Berry AM: Yes, I completely agree. Do you have a methodology summary of that to show how you are taking into account these wider things?

Simon Kilonback (Chief Finance Officer, TfL): Yes, we can share that with you, sure.

Mike Brown MVO (Commissioner, TfL): We can share with you what we use, certainly, by all means. There is no problem with that.

Sian Berry AM: I was intending to imply that I agreed with the transport appraisal process. I was just wondering if you were using it.

Back to some further questions on other projects. We talked a little bit last year about your innovative sale-and-leaseback deal for the rolling stock on the Elizabeth line. How has the delay affected this project?

Simon Kilonback (Chief Finance Officer, TfL): It has not. Because we have received many of the rolling stock units and are working with Bombardier, it has not affected it. We have had huge interest from global participants in the rolling stock market and we are going into a final round to secure the best possible value for the financing transaction. We are very confident that we will secure a very well-priced deal for the sale-and-leaseback over the course of the next few weeks.

Sian Berry AM: Finally, back to streets and renewals, capital renewals overall are down compared with last year's business plan. Can you break that down a little bit? Is that mainly streets that have been cut back? It seemed a little bit not from what Mike was just saying about getting extra money for potholes. If so, what impact will the renewals have on people using the streets or the buses or the Tube?

Mike Brown MVO (Commissioner, TfL): We have always said that we will maintain the roads to a safe standard. The comment I used last year at this equivalent session was that whereas it might make sense if you had unlimited access to funds to sometimes go deeper, dig up the road surface a bit more and do some more heavy maintenance and renewal on the asset, actually what we are being put into a position to do is having to do more patch and mend.

However, the real caveat that I want to emphasise here is that that is to ensure the safety and integrity of the road network, particularly for more vulnerable road users such as cyclists to ensure that, for example, potholes in dedicated cycle routes or on nearside parts of the road network where potholes sometimes do emerge are taken care of. We are absolutely determined to do that.

On the rail side and on the Underground side in particular, we have had a new management team put in place looking at capital renewals. The numbers change over time in recognition of the capital programme. If you are replacing a lot of the rails and tracks as you are, for example, on the four [sub-surface Tube] lines that the Deputy Mayor referred to, then the need to renew those assets on as frequent a basis in the immediate years after that major replacement is significantly reduced and so you do not have to do as much of that. Given that those four lines account for some 40% of the Underground network, that is where you see some of the changes. However, it is fair to say - and again, Simon alluded to this earlier - that we get into more of a steady state, if there is such a term, of capital renewals going forward. It is something we have had a really close look at with our engineering professionals, looking across the estate to ensure that, as I say, we do not get back into daily faxes telling us that either the road or the rail network is safe to operate.

Sian Berry AM: On the road condition, as I understand it, you have cut the action level from 90% to 87.5% of the road network being on target, if that is accepted, an acceptable route. That is an increase in the amount of road that is not safe to ride on.

Mike Brown MVO (Commissioner, TfL): No. You are making an assumption in terms of what that differential makes. There is a difference between a part of the road network being safe to be used, which, as I say, will always be our absolute priority. If we have to allocate funding from anything else to ensure that safety is preserved, we will always do that. Let me be absolutely clear about that. There is a difference between that and doing the renewals as efficiently as you might do in the medium and long term, had you got immediate access to all the funding required on an annual basis. It is quite a different issue.

Sian Berry AM: This is about roads in good repair. You have not reduced your target from 90% to 87.5%, which is what --

Mike Brown MVO (Commissioner, TfL): We have, but all I am trying to say - I am being a bit clumsy in my description of it - is that "good repair" does not equate to there being a defined safety risk, particularly for vulnerable road users. However, we always did make it clear that there will be parts of the strategic road network, the TLRN, where there will be less than effective surfaces for motor vehicles, and that is a reality of where we have got to because of some of the funding challenges that we talked about, particularly in the removal of operating grant. That is not the same as not ensuring that cyclists in particular are not properly looked after in terms of safety.

Sian Berry AM: I think I follow that. Although you are going to allow more of the road surface to be not in good repair, like you say, down near the kerb or on a cycle route, that would be a higher priority and not acceptable?

Mike Brown MVO (Commissioner, TfL): Absolutely. That is an absolute priority. Indeed, I was walking parts of the road network on Friday afternoon, having exactly that discussion with the team.

Sian Berry AM: OK, that is useful to know. What about other cuts to the capital? You said some of it was savings that you do not need to make because things are new and do not need as much maintenance. Are you cutting down on things like bus renewals? Presumably, you are accelerating bus replacements.

Simon Kilonback (Chief Finance Officer, TfL): There are a couple of things as well. We were required by the auditors to reclassify all of the emissions improvements to the buses as operating spend. They had previously been in this category.

Sian Berry AM: Some of that has moved there?

Simon Kilonback (Chief Finance Officer, TfL): There is a technical accounting reclassification between capital and operating spend. We are still spending all of the money to deliver the full retrofit of the nitrous oxide emissions equipment on all of our buses, but it is now taking place in the operating spend rather than the capital spend. There are some items like that where the money is still being spent but technically it has been reclassified.

Sian Berry AM: Can you give us an account of that, what has been moved for each year, from where to where? That would be useful.

Simon Kilonback (Chief Finance Officer, TfL): We can do that, yes. We will give you that.

Mike Brown MVO (Commissioner, TfL): Again, this is outwith the focus on safety, and we will say that at every eventuality because it is absolutely true that we are focusing on safety. It is also true that there has been a bit of a reassessment during the course of this year and some of the practical deliverability of some of the capital renewals work that we need to do. When you are doing the scale of work we are doing on safer junctions, on other Healthy Streets schemes, or you are doing the scale of work that we have been doing on the Underground network, the ability to get in and do some of the other work, just from a practical point of view, there are not enough hours in the day to be able to do some of that. There are some deliverability issues around this as well. We can give you the split of that, if it would be helpful, to look at the difference between the reallocation of spend, as well as some of the practical delivery issues as well, and give you the reassurance on the safety issues.

Sian Berry AM: That would be really useful. I know we have been asking questions about the underspend on the cycling budget, for example, which I guess is an example of that, getting things through, getting on to the roads.

Mike Brown MVO (Commissioner, TfL): Yes. The capital spend on cycling: there is always a gearing-up phase to be able to deliver some of the major schemes that happen. These inevitably go in some cycles. The key thing is, in the overall plan, we are increasing the amount we are spending on cycling schemes. The work that you have to do with the boroughs - because many of the roads and the schemes impact directly on borough roads and borough estate - requires a huge amount of collaborative work with them. I do think, if I may - it is really fit for the Deputy Mayor for Transport more than me - working with some of you as Assembly Members in supporting those discussions that we have, most of them very positive, with boroughs would be very useful going forward.

Caroline Pidgeon MBE AM: I just wanted to pick up a couple of capital programme schemes. Rotherhithe to Canary Wharf Bridge is one of them. It is now listed as ongoing, but it was hoped it would open around 2024. Is this no longer the case?

Simon Kilonback (Chief Finance Officer, TfL): I cannot remember the exact opening day in the business plan, but you will recall in last year's plan that we provided money from the Growth Fund to help the development of the bridge. We have fully provided for the bridge to be funded in this year's business plan and so it is very much on.

Heidi Alexander (Deputy Mayor for Transport): My recollection of a completion date of 2024 that you allude to, Assembly Member Pidgeon, is that that is still broadly the same and that we have not changed the provision in the business plan with respect to the Canary Wharf to Rotherhithe Bridge from one year to the next. I am sure we could provide confirmation of that in writing to you.

Caroline Pidgeon MBE AM: That would be helpful. Thank you. Then the Northern Line Extension, which we have touched on today. I know there were some issues over private land that must have been around Battersea, and there were some potentially additional capital costs. Can you update us on that? Is the dispute still ongoing or is that resolved?

Mike Brown MVO (Commissioner, TfL): It is not fully resolved, but it is fair to say we are in a very much more collaborative, both with our own contractor, Ferrovial Laing O'Rourke, and with the developer of the power station site. We are making good progress towards resolution, and none of those issues are having any impact on the programme progressing.

Caroline Pidgeon MBE AM: Also the programme is delayed by about nine months, and you have explained that, but is there an additional capital cost as a result?

Mike Brown MVO (Commissioner, TfL): It is fully budgeted within the business plan. Cost projections are broadly in line with the original budget set in 2014. There have been some ups and downs within the detail, but broadly we are aligned.

Caroline Pidgeon MBE AM: OK. I want something on revenue there, but I will ask that when we come on to revenue.

The Bank [station upgrade] closure, you mentioned earlier, linked to the Northern Line Extension. How long is that, and is that going to have any implications for the budget, if it is a lengthy closure?

Mike Brown MVO (Commissioner, TfL): No. That was always planned that we would have to do it as part of the Bank Station upgrade. It is probably one more for the Transport Committee, but --

Caroline Pidgeon MBE AM: Sorry. I am sneaking in.

Mike Brown MVO (Commissioner, TfL): Just to give you a bit of detail, it is similar to the work that we did a few years ago on Angel, where you basically create a brand new, wide platform, and realign the track. That is currently scheduled for the summer of 2021. The idea is you do it in that period of time that there is a slight easing of demand because of holiday times, etc.

Caroline Pidgeon MBE AM: How long is that block closure and is there any budget implication?

Mike Brown MVO (Commissioner, TfL): It is in the budget. It is fully budgeted for.

Simon Kilonback (Chief Finance Officer, TfL): It is fully budgeted for.

Caroline Pidgeon MBE AM: OK. Can you give us what the figure is?

Simon Kilonback (Chief Finance Officer, TfL): Not off the top of my head, I am afraid.

Mike Brown MVO (Commissioner, TfL): We will.

Caroline Pidgeon MBE AM: How long is the closure?

Mike Brown MVO (Commissioner, TfL): It is for three months in the summer.

Caroline Pidgeon MBE AM: Thank you.

Len Duvall AM (Deputy Chair): Can I take you back earlier to what I thought was a rather robust defence by the Deputy Mayor for Transport about how you have come to this plan? I get the financial envelope and I get the need to prioritise projects and the word 'do-ability' comes in, but in terms of 'critical', 'central', 'desirable' and 'deprioritise', but then I come across your 10-year plan. Mike [Brown], you said in answer to a question from one of my colleagues about the Bakerloo line, "It is very much on and very much there". Do we need a new category of projects that are very much ready to go but there is no money for it? I have next to Bakerloo Line Extension, "Now referred to as a project that can only happen with central Government funding". Therefore, it is not really happening, it is not ready to go. It is in abeyance. It is not even a twinkle in someone's eye in terms of what earlier my colleague was talking about, the extension to Ebbsfleet. Where are we on some of these issues?

Gareth Bacon AM (Chairman): Let me help with that. One of the things which was in your presentation at page 28 was that you have categorised your capital programme, you have prioritised it. There are four categories: critical; central; desirable, which would fall into the category that Assembly Member Duvall is talking about, which is projects contingent on funding availability; and deprioritised, which are projects that could be deprioritised and are more discretionary in nature.

One of the things that it would be very helpful for this Committee to have is a breakdown project by project of how you have classified every single category of project you are considering.

Mike Brown MVO (Commissioner, TfL): Yes, we are happy to do that. Just to answer your question then if I may, it is fair to say that we have used this categorisation process for the first time this year. We have never presented this to you before in this way. We never presented it to the Board in this way before. That is not the way that we had done things historically. One of the things is - it is a twinkle, certainly, in my eye - to ensure that there is a certainty of the pathway to get to funding, which is really important. It is dependent on getting a certainty of funding going forward to deliver the Bakerloo Line Extension. When we talked about it last year, we were not as explicit in making that point, albeit the reality may well have still been there.

Len Duvall AM (Deputy Chair): I thought we were, Mike. Last year we got to a stage where - another category - this could only happen if local authorities empty their wallets. I distinctly remember the Mayor saying last year and previous years, "The Bakerloo line can only happen - a bit like the tram extension - if we can get the funding approaches of whatever".

What was not mentioned last year is that this can only happen with Government money or Government support. I welcome the approach that you are taking because I think it is good, it is straightforward and it is where we ought to be. What we want is the transparency and to see where projects are, because that Bakerloo line is probably quite far advanced. We want to keep it alive. In reality, it is not going to be a year late or two years late. It is stopped. That is where we should put it. It may be ready to go, but it is not live at this moment in time. It is ready to come off the shelf and ready to be done.

What is going to be interesting about this is, depending on how long it stays on the shelf, there may well be other priorities that will come before it when you come back to look at it in a number of years' time. This is a project in my path, and I support Gareth [Bacon AM] in the other projects. Priorities change and there will be different gradings as it goes. Well done for reprioritising, where you have got to in a very quick space of time, when you are being shoved into an area from Crossrail. I give that to you, but in terms of transparency and openness, I know you want to be nice to me and everyone is a winner, but sometimes you cannot. You cannot be a winner when you are prioritising in this way, and we ought to be honest about what is put to one side, and what is ready and waiting, and what is required for it to be taken off the shelf in terms of reality. I just think we ought to have a bit more of an honest debate.

Mike Brown MVO (Commissioner, TfL): That is a very reasonable way to describe it. The difference between this year's plan and last year's plan in that regard is that the reality of us being much closer to a forthcoming CSR is there. Where last year we were able to say, "There is the full expectation this will proceed on that basis", this year we recognise we are right up against it in terms of the timing.

Heidi Alexander (Deputy Mayor for Transport): That is fair. I also have a unique perspective on this particular project, for example. Before I came into this job, I was aware that there is incredible development opportunity around the proposed extension of the Bakerloo line, which could yield developer contribution. Of course there is the question of the fares that may start to come to TfL in the future, as opposed to being paid to Southeastern.

It always seemed to me - from an outsider's perspective, I would say, a year ago - that a scheme such as the Bakerloo Line Extension, which may cost a couple of billion pounds to do, is likely to require a contribution from central Government to get it off the ground. If you look at things like the Four Lines Modernisation Project, if you look at the Northern Line Extension, all of these big capital investments have required some money from central Government. We know how important London's economy is to the country's economy, and that is the crux of the conversation that needs to happen with Government over the next six months in the lead-up to the CSR.

I agree with you about having some realism and honesty about where different projects are. We have not changed the amount of money that is allocated to the Bakerloo Line Extension from last year's plan to this year's plan. We are still as committed to doing it as we were last year. We just need to have a frank and open conversation about how you put the funding package together to do the work.

Len Duvall AM (Deputy Chair): It is to put a timescale next to it, is it not? You are not able to. I am looking at slide 29, and your ongoing, apart from Liveable Neighbourhoods, was the trashcan: projects that are not going to go anywhere at the moment. You are telling me that is not the case. OK, I accept that, but Silvertown Tunnel, in terms of that, is it delayed because of the financial situation we are in, or is it delayed because of the technical issues? Is it still going ahead? I only found that out because I read that from a local blogger. I did not get it from your TfL information of where you are in some of these projects. That is why I say, is there another category here when you take projects out?

Camden Town Station is in the category of the Bakerloo line at the moment. Mike, you are telling me it is live, but it is not really live because, on the information that we have gleaned from the various bits of papers, you have cancelled it. The reason why I raise this particular issue is because Andrew Dismore [AM] has been in contact with me and no doubt will be contacting you shortly in giving you that warning. This was a station that came on the scene not just as an opportunity issue but about dangerous overcrowding. It was largely going to be funded by a commercial opportunity in terms of building houses. We have had this discussion before, whether the social housing and affordable housing element made that less costly or not. What is the issue? One of the issues my colleague will deal with - and it goes back to the issue that the Chairman raised - is about, in taking that decision that you did, there was nothing wrong in taking that decision, but have I got it wrong? Was it not going to be funded extensively or largely to do with overdevelopment around the site?

Mike Brown MVO (Commissioner, TfL): It was. You are quite right.

Len Duvall AM (Deputy Chair): It was. Is it live and is this being delayed, or is this now put on the shelf to come back at a future opportunity? That is the bit that I cannot quite get my mind around.

Mike Brown MVO (Commissioner, TfL): I have no doubt. In terms of Camden, there is work still going on - you are quite right - with third party funders to see what contribution of funding can be allocated by them to this project. It is a very important project. However, it still required quite a significant contribution from us. At this moment in time, you are right, it is not where we would want it to be in an ideal world. That again is one of those projects, using the example of the Bakerloo line, where we want to continue to keep it simmering but not make a commitment to entering into the next phase of its development and delivery until we see where the CSR plays out.

Len Duvall AM (Deputy Chair): In the coming years - I raised this question before - I want more affordable and more social rented within that affordable category. If it becomes a barrier to providing this improvement and enhancement in terms of public transport, where is TfL on that and in those conversations with the Mayoralty about the desirability of saying all your housing over TfL sites has to increase in terms of some of that affordability/social renting?

Mike Brown MVO (Commissioner, TfL): I think we have worked extraordinarily well with the Mayor and the Mayor's Housing team on this to ensure, as you will well know, that the remit that the Mayor has very firmly given me - and I sit on his Homes for Londoners Board, as you are probably aware, in this context as well - is that our overall estate has to be 50% affordable. That continues to allow me and my team the flexibility to ensure that on a particular site-by-site basis, where there is greater overall value to be extracted from so-called market rate developments, that is able to make a net contribution overall to TfL finances going forward, but also allows us to concentrate on other sites and having them over 50% affordable so that the overall portfolio is 50%.

At this moment - and I would tell you if I thought this was a problem - I really do not think that is an impediment to us with those dual lanes of ensuring funding comes into our finances but also to allow us to deliver, very importantly, decent affordable housing for Londoners.

Len Duvall AM (Deputy Chair): Thank you.

Keith Prince AM: I was not going to ask, but it is a perfect segue into what Assembly Member Duvall was saying because I will have to go forward.

On this, Mike, you were saying that you can, on a particular project, not have 50% affordable; ergo, you will have to have more than 50% affordable on other projects. Surely the demand for this 50% is either going to affect the capital receipt or the revenue receipt.

Mike Brown MVO (Commissioner, TfL): Perhaps Simon [Kilonback] is better placed to answer that.

Simon Kilonback (Chief Finance Officer, TfL): Yes. Overall, it does have some effect in terms of the capital receipt, but we are moving away from what we have done historically, which is to build for development and build for sale and to build to rent. We do not want to sell these properties. We want to retain them for the long term to get the revenues from renting and to use our position as a public body, with the Mayor, to be a good long-term landlord and get the capital appreciation.

For example, we are out to market at the moment to find a partner to build 3,000 of these homes as build-to-rent homes, and that will give us the opportunity to retain value for us through long-term revenue through the rentable value, rather than trying to sell them for a capital value, where there would sometimes have been an impact if there was more than 50% affordable.

Keith Prince AM: That is the sensible approach because you can only set it once. You only get one capital receipt, whereas with revenue that is ongoing. I believe that to be a sensible approach, I have to say. Even there, if so many have to be at affordable rents, that must impede the amount of revenue you receive on an ongoing basis.

Simon Kilonback (Chief Finance Officer, TfL): It clearly will impede the amount of revenue we receive on an ongoing basis, but part of our remit as a public body is to help discharge the overall strategy, not just to look to optimise the full financial benefit of the sites we have, otherwise we might take a different approach.

Keith Prince AM: Just as an aside, the Mayor's Office for Policing and Crime (MOPAC) is not taking that position. MOPAC is saying it does not have that commitment.

Mike Brown MVO (Commissioner, TfL): I cannot talk for other functional bodies, but I would just say that our approach generally - and I am glad you endorse it in the overall strategic approach - is not to enter into a so-called "fire sale" of our asset base, but to ensure that there is an ongoing income stream certainty from our asset base, whatever the quantum of that income stream is. As I say, one of the early things we discussed with the Mayor when he was elected was - and it was a very good and positive discussion with the Mayor and the Deputy Mayor for Housing, once he was appointed - to say, "Look, we need to look at our significant estate from terms of development, site by site, to ensure we optimise the revenue stream but equally maximise the opportunity for truly affordable homes, whether by rental or by build and going to market more generally".

This is never a pure science, as you know. I do take the point and I know that is the point you are trying to make, but I would just say, on balance, we have this pretty well *in situ* now. We are delivering. The first package of over 3,000 homes is currently being marketed. That has strong interest due to the scale and location of those sites. I am very confident we will continue to deliver our 10,000 homes by 2021, as we have committed to do.

Keith Prince AM: I am going to leave it there, Chair.

Gareth Bacon AM (Chairman): OK. Assembly Member Berry.

Sian Berry AM: Just very quickly, thank you for asking for the detailed breakdown of the projects and the colour-coding. That will be really useful. I think what Assembly Member Duvall was getting at was that, within the 'desirable', we could do with a bit more information about where you are at with the funding package. I know in the budget document, sections 9.20 and 9.21 describe that you are putting together funding packages for schemes, and it says you might use Government funding, tax increment financing and local sources such as workplace parking levies, which is very interesting.

Would it be possible for each of the schemes to say roughly the state of the funding package, what the gap is, and also what funding sources you are looking at? I am sure that must have been part of your decision-making. If you can put that into the summary you give us, that would be really useful.

Mike Brown MVO (Commissioner, TfL): Yes, I am sure we could give you as much as we have on that. Yes, by all means.

Sian Berry AM: Thanks.

Gareth Bacon AM (Chairman): We are going to move on and talk about the revenue position now. Assembly Member Prince is leading on that.

Keith Prince AM: Thank you, Chairman. Passenger numbers are always a challenge, and I know you have different ways of guesstimating and estimating passenger numbers. Based on that, of course, you project your income. Unfortunately, over the last few years, you have not been that accurate in your passenger number forecast. How confident can you be about your revenue income as a result of that?

Simon Kilonback (Chief Finance Officer, TfL): This year we are exactly on our revenue forecasts. We took a more pessimistic approach to our forecast last year, and for the first time departed from the mid-case forecast to take the worst-case forecast Treasury, and we have been proven exactly right because we are absolutely bang-on year-to-date in terms of our revenue forecasts. We are in fact seeing some signs of optimism in terms our performance. In the run-up to Christmas we had our busiest-ever day on the Tube network on Friday, 7 December 2018, with 5.03 million journeys, and indeed that week was the highest ever on record. Given it is far too early to be feeling any more optimism about the London economy from that data, we have not reflected any upside in our fares forecast and we have maintained a pretty pessimistic range of forecasts for the next year.

That said, clearly we are not in the business of being economic forecasters, and we take the forecasts we get from GLA Economics and from the Treasury and run them through our statistical models, which are statistically accurate, and we set out in business plan the factors and the ranges of variants around those factors. It is entirely reasonable for a business to come in within 2% to 3% of its revenue forecasts, particularly when it is subject to external factors it cannot control.

Keith Prince AM: I would not disagree that it is not unreasonable to have a good guess. It is just that, as you acknowledged, historically it has been under-guesstimated, and now you are taking a more realistic approach to it. That is a good thing.

What I am interested in is that you have done for the first time - I cannot find it in my papers at the moment - a best-case and a worst-case scenario or guesstimate.

Gareth Bacon AM (Chairman):TfL): It is the stress test, I think.

Keith Prince AM: On page 37. That, for the people who cannot see it, shows a green line above the line that you are guesstimating and then a yellow line below. The yellow line is a lot thicker than the green line, just to explain for the people who cannot see it what I am talking about. If that is the case, why is it that the potential upside is far less than the potential downside?

Simon Kilonback (Chief Finance Officer, TfL): Just to be very clear, this is reflecting our strategic risk modelling. It is not just about revenue. It is about things like the impact of Brexit potentially on TfL and various other strategic risk scenarios that we talked about with our board, including a further financial crisis in London at some point in the future. This is a range of extreme risk scenarios over and above the 2% to 3% variants we allow for in our business plan. What this shows is that at all times the downside risks remain within the cash balances that we choose to hold again with our board for this very purpose.

Keith Prince AM: . Now let us just be a little bit more provocative. If the Mayor came to you and asked for you to provide another four years of fares freeze, how would that sit?

Mike Brown MVO (Commissioner, TfL): We would have to consider where we were in the economic cycle or in the reality of where we were as we approached a mayoral election or the immediate aftermath of it. The great advantage we have of doing an annual budget and an annual business plan, in common with the other businesses, is that you construct that plan based on the prevailing circumstances at the time.
Simon [Kilonback] alluded to the fact that we have had some recent positive days or indeed weeks of demand on the Tube network. There are some different challenges in the bus network. Notwithstanding its highest-ever levels of reliability and customer satisfaction, which it has, the reality is we believe there are fewer people in the 18 to 25-year-old bracket now in London than there were previously and are projected to be, for whatever reason. That creates some uncertainty in that demographic in the demand projections on the bus network. We would have to determine any such discussion with any future Mayor on the basis of the prevailing situation at the time.

I would just say, though, that the benefit we have seen for the average household in London of the fares freeze in terms of the overall additional disposable income that is created for people to spend on the wider London economy is quite significant. The reality is that the fares freeze that has prevailed in this mayoral term, notwithstanding what may or may not happen in the future, is one that lasts forever. If you think about it, any increase that were hypothetically to happen going forward would be of course against a lower threshold of fares, of where they are.

The other thing that is worth commenting on is that there is some evidence still remaining that the demand falls we have seen, or the less-robust demand we have seen on the Underground in particular, has been cushioned somewhat compared to the train operating companies (TOCs) serving London, who have seen above-inflation fare increases and where demand fall-off has been much more pronounced than on the Underground or TfL services.

Keith Prince AM: The first part of your spiel was very interesting. I am not quite sure how much you believe that, to be honest, because most people --

Mike Brown MVO (Commissioner, TfL): I rarely say anything I do not believe, Mr Prince.

Keith Prince AM: Most Londoners who use your wonderful services on a regular basis of course do that via Travelcards, and as you well know, Mike, the Travelcard has not been frozen. I will leave you with that one. The only thing to say, of course, is that --

Leonie Cooper AM: Do you want them to model that?

Gareth Bacon AM (Chairman): Shall we move on? We are running out of time. This is all very interesting but let us get on with it.

Keith Prince AM: The only other thing I was going to say is that, clearly, with the elections coming up, there will be Mayors making promises. Will you be working with all the political parties on that?

Mike Brown MVO (Commissioner, TfL): Of course. That is my statutory job to do, and I have always done it and will continue to do it.

Keith Prince AM: Good. I would be interested to see that advice, but anyway. You mentioned earlier about the Reading to Paddington line, and you half-answered the question I was going to ask anyway. You were saying that the contract that the existing TOC has will be expiring. How near are we to getting that to work? Will you be taking it over at the point when the existing TOC releases it, or will you be hoping to take it over a bit earlier?

Mike Brown MVO (Commissioner, TfL): No. Depending on how the discussions go - and I would caveat what I am saying on the basis that we have had some positive discussions with the Department and Network Rail, as I have said - the view would be we would take it over when the original plan to open Stage 5 had been, which was at the end of this calendar year, when Stage 5 should have opened through the tunnel section from the west. If we could do it coincident with that timeline, that would be important. As I again alluded to earlier on - I think it was in answer to Caroline's [Pidgeon AM] question around the timetabling issues - Network Rail wants to make sure it gets that all squared away and correct. We are not there yet, but it is extraordinarily positive in the discussion we have been having with the Department.

Keith Prince AM: Yes. My only concern is that if it is not a clean takeover there will be revenue benefits and revenue costs either way. Someone has to be compensated for things not happening in the right time.

Mike Brown MVO (Commissioner, TfL): There would be, but it is fair to say we have had those discussions - the scenarios that Simon [Kilonback] alluded to earlier on - in terms of the revenue assumptions around the Elizabeth line opening and have taken account of all those various scenarios.

Sian Berry AM: Did we get the revenue? We wanted to know how much money the potential taking over of the line might raise.

Heidi Alexander (Deputy Mayor for Transport): £190 million over three years.

Gareth Bacon AM (Chairman): How much would it cost to run? Is that a net figure or is that --

Simon Kilonback (Chief Finance Officer, TfL): That is the net figure.

Gareth Bacon AM (Chairman): That is a net figure and so it is £190 million in the pocket. OK, understood.

We are going to move on and talk about turning a deficit into a surplus, which is another key part of your presentation. We need to start with you, Mike. How likely is it that you will reach a surplus in 2022/23? Give me a percentage figure.

Mike Brown MVO (Commissioner, TfL): We are on track to do that.

Gareth Bacon AM (Chairman): 100%? You are definitely going to do it?

Mike Brown MVO (Commissioner, TfL): Yes. I take my own team's confidence in this. I look at the figures myself in detail. We take the input from our board. Most importantly, we take the opinion of the credit rating agencies. Standard & Poor's just before Christmas did make an assessment that it thought our plan was credible in delivering to that date.

Gareth Bacon AM (Chairman): The plan assumes Retail Price Index (RPI) plus 1% on a fares increase, does it not? To pick up Assembly Member Prince's question to you earlier on, the truth is that you cannot hit the business plan if you impose a fares freeze into the second term, is it not?

Mike Brown MVO (Commissioner, TfL): At this moment in time, that is the assumption we have put in the plan, yes.

Gareth Bacon AM (Chairman): The truth would be that you cannot achieve surplus --

Mike Brown MVO (Commissioner, TfL): From the next term, the next full year of the next mayoral term, just to emphasise your point.

Gareth Bacon AM (Chairman): Yes, of course, but your plan assumes achieving surplus of £144 million by 2022/23. If you have a fares freeze from the beginning of the next mayoral term, ie 2021, you could not possibly hit that number, could you?

Mike Brown MVO (Commissioner, TfL): We could possibly hit it if the revenue numbers that we have been seeing in the period before Christmas were to be maintained going forward.

Gareth Bacon AM (Chairman): OK, so why are you not forecasting a bigger surplus, then?

Mike Brown MVO (Commissioner, TfL): We are being very pessimistic at the moment and prudent, as Assembly Member Prince rightly said, when in good faith we had projected what turned out to be a slightly optimistic revenue projection a couple of years ago, Simon [Kilonback] and I quite rightly directed the team to be much more prudent in our approach. That prudent approach has held up in terms of our accuracy of forecasting versus reality this year.

Gareth Bacon AM (Chairman): The next question is not meant to be antagonistic, but a year ago we were assured that you would hit surplus in 2021/22. We grudgingly accepted that. Now it is another year late. Why should we believe the assurance this year, when last year was proved to be wrong?

Mike Brown MVO (Commissioner, TfL): The one big thing that hit us this year, of course, was the Elizabeth line delay. That was not foreseen last year. That was the one big thing that hit us. If it had not been for the Elizabeth line, if you look at our steady state financial performance, it is incredible. It is remarkable, the cost that we have extracted from this organisation in terms of ongoing operational spend. We are ahead again this year of our budget in operating cost cuts across the organisation. That is with the clear caveat that we continue the safe and reliable delivery of our services. As Simon [Kilonback] said earlier on, having now looked at the individual parts of the business and how they can effectively save money now looking across the organisation more holistically, I am very confident we can deliver those continued savings going forward.

Gareth Bacon AM (Chairman): Sure, but savings of course are only one part of the solution, are they not?

Mike Brown MVO (Commissioner, TfL): Yes.

Gareth Bacon AM (Chairman): The real game-changer is the Elizabeth line, as you have just said, and a year ago it was on time and on budget, and now we do not have an opening date. Why should we sit here and be confident in what you are saying to us about hitting surplus in 2022/23?

Mike Brown MVO (Commissioner, TfL): As I said earlier on at the very outset of this discussion, Chair, the reports that we have had into the Elizabeth line by independent reviews we have commissioned and have reported back into the Elizabeth line give us confidence that it was in the range of delivery dates of those independent reviews, that the dates are deliverable and, therefore, the revenue stream should be forthcoming.

By the way, also the forecasting of the revenue for the Elizabeth line is something we have historically had a very good track record of. For the East London line, for example, the forecasts were 33 million passengers for the route between West Croydon, Crystal Palace to Dalston Junction, that opened. It increased to 39 million when the route was extended to Havering and Islington. We saw 32.3 million coming in originally, so it is well within the range of variation, and I am very confident that our revenue forecasting for these new openings of lines is holding up very strongly from our historical record.

Gareth Bacon AM (Chairman): Much of it will hinge on when the Elizabeth line opens, and you are not confident enough in this meeting today to give us a date.

Mike Brown MVO (Commissioner, TfL): No, but, as Simon [Kilonback] said earlier on, we have worked out our revenue predictions based on the 12 to 18-month window in a number of scenarios that I believe cover all eventualities, other than a significant catastrophic event, which I referred to earlier on, which is very difficult to put in a budget or business plan.

Gareth Bacon AM (Chairman): In the absence of a catastrophic event, then, the earliest opening date of Crossrail is when, and the latest date is when?

Mike Brown MVO (Commissioner, TfL): I am not going to talk about the earliest opening date. Clearly, the autumn date was mentioned by the previous management. It is up to the current management, the new chief executive, to determine the dates going forward. We have made a set of prudent assumptions, notwithstanding anything that the management of Crossrail has told us, and I have told Simon, I have directed Simon, to be extraordinarily prudent in those revenue assumptions so that there was some flexibility with the dates when Mark Wild has done his work and delivered a robust plan, which no doubt he will come to the Committees of the Assembly in due course to talk about.

Gareth Bacon AM (Chairman): Simon, in this pivotal development in your business plan, what was the prudent latest date assumption that you had for the opening of the Elizabeth line?

Simon Kilonback (Chief Finance Officer, TfL): As we said, we have modelled dates up to 18 months beyond the opening dates.

Gareth Bacon AM (Chairman): Eighteen months beyond the opening date? Do you mean beyond December 2018?

Simon Kilonback (Chief Finance Officer, TfL): Beyond the original stated opening dates, yes.

Gareth Bacon AM (Chairman): OK. That would be August of 2020?

Simon Kilonback (Chief Finance Officer, TfL): June.

Gareth Bacon AM (Chairman): June 2020?

Simon Kilonback (Chief Finance Officer, TfL): Yes.

Gareth Bacon AM (Chairman): So June 2020, then, we are saying is probably the latest date in order for your business plan to be realised?

Simon Kilonback (Chief Finance Officer, TfL): Those are the scenarios we have modelled, yes.

Gareth Bacon AM (Chairman): OK, that is fine. How much flexibility do you have in the plan? For example, if it starts to deviate, if it is looking like you are not going to get to it, have you identified areas of expenditure that could be reduced or reprofiled in order to get you back on track?

Mike Brown MVO (Commissioner, TfL): The formal process of submission of a business plan and a budget is in an annual cycle that we do to meet the GLA requirements and to meet the statutory requirements that the Mayor has, and that the Assembly has. I would just like to assure you, though, Chairman, that we have an ongoing discussion based on current revenue forecasts, current spend against capital programmes, how that spend profile is looking. The very reason that I set up, when I took over this job, a single capital programmes function across the whole of TfL was to have it in one place, all the major projects sitting together so that we could properly ascertain the spend profiles of those individual projects, sub-element by sub-element. We have a continual discussion internally within the team as to what flex we might need to apply, whether we might need to be having discussions with our supply chain, some of which will inevitably be commercially sensitive, around payment profiles, around everything else you would expect from a multimillion-pound capital programme.

Gareth Bacon AM (Chairman): I am talking specifically about your revenue line, rather than your capital line. If passenger numbers continue to drop, particularly if bus numbers continue to drop, you have identified ways that you could counteract that in order to keep the business plan on track to deliver the surplus when you say you will.

Simon Kilonback (Chief Finance Officer, TfL): To cover the bus point, we have assumed that bus passenger numbers will fall between 1% and 2% each year of the five years of the plan. As we demonstrated last year when we found an additional £200 million in-year savings, we work on ways in which we can mitigate any further downside as we need to.

Gareth Bacon AM (Chairman): The summary, then, is that you are confident that the business plan is robust, that you have sufficient flexibility within it to withstand unexpected shocks, short of the catastrophic one that we talked about earlier that might prevent Crossrail from being open by June 2020.

Heidi Alexander (Deputy Mayor for Transport): One of the things that is the elephant in the room in this discussion that we have not talked about is the fact that in a couple of weeks' time we are expecting some sort of decision out of Parliament on what is going to happen at the end of March [2019]. The biggest risk to TfL's business planning is a catastrophic no-deal Brexit. I can sit here and say that as a result of my six months in this position, the work that has been done and demonstrated to me in TfL in making savings gives me confidence about the ability of the organisation to reduce costs and still deliver a high-quality, reliable public transport service to people. I can also sit here and look at the forecasts and projections that were made last year and see that they have been shown to be correct over the last 12 months in terms of passenger numbers and fare revenue. If you want a summary of the situation, the summary is that there is a lot of confidence in the ability of the organisation to deliver within the robustness of the assumptions and projections and estimates it is making. There are a whole range of external factors that could impact upon TfL's financial health.

Gareth Bacon AM (Chairman): Yes, but we were assured earlier on that those have already been --

Heidi Alexander (Deputy Mayor for Transport): The strength of the economy is London is probably the biggest --

Gareth Bacon AM (Chairman): No. I have to refer you to comments that were made earlier on in the presentation, where we were assured that those have been taken into account. I appreciate what you are saying, but we have already been told that those have been taken into account in the business plan. Is that now not the case?

Mike Brown MVO (Commissioner, TfL): What Simon [Kilonback] said was a financial downturn has been taken into account in the business plan. That is something short, though, of a catastrophic downturn. I hesitate to use the same word that I used for a failure of the capital programme on Crossrail scenario, but I think it is fair to say that we are entering unknown territory here. I just do not know where we are going to end up macroeconomically. I have huge intelligence data every hour of every day of the number of people entering and leaving every single station on the Underground network and entering and leaving every single bus on the bus network. In many ways we have a tremendous amount of data available to us. Clearly, there will be some issues that could possibly emerge as a result of some macroeconomic factors far beyond our consciousness at the moment. That is the point.

Gareth Bacon AM (Chairman): Yes, but the question that I am asking, Commissioner, is how much this has been factored into the assumptions you have made. You tell me you have taken a pessimistic approach, which I think is prudent.

Mike Brown MVO (Commissioner, TfL): I cannot factor in something that is not able to be envisaged because it has never happened or never played out in history before.

Gareth Bacon AM (Chairman): Of course not, but I am trying to get to the point of understanding exactly what assumptions you have made in this business plan because --

Mike Brown MVO (Commissioner, TfL): If you are asking --

Gareth Bacon AM (Chairman): Let me finish my point. This is the third business plan that I have seen in five years and the previous two have been wrong. It is not an unreasonable question coming from this side of the room to understand exactly how robust and prudent your assumptions have been.

Mike Brown MVO (Commissioner, TfL): All I would say is, if you look at any *Financial Times* Stock Exchange (FTSE) 100 company, they would give their eyeteeth to have the accuracy of our revenue demands and our cost-saving programmes, where we have invested, for example, some £87 million in one-off severance costs for our senior management to deliver an immediate £111 million return.

Gareth Bacon AM (Chairman): Yes. I am sorry, you are straying away from the question, Commissioner. Commissioner, the question I am asking --

Mike Brown MVO (Commissioner, TfL): I can tell you most FTSE 100 companies would be delighted with such a performance.

Gareth Bacon AM (Chairman): I am sure they would, Commissioner, but the question that I am asking of you is exactly how much confidence this Committee can have in the robustness of the assumptions that you have made. I am not asking you to give me a sales pitch about TfL. We all know TfL is marvellous. We want to know how robust your plan is and what assumptions you have made.

Mike Brown MVO (Commissioner, TfL): The demand budget we put in place for this year has proven to be absolutely valid. It is pretty much spot-on in terms of the actual performance. As ever, including with our cost-saving programme, our track record speaks for itself.

Gareth Bacon AM (Chairman): You were forecasting surplus next year, and it is now not going to happen until 2023/24.

Mike Brown MVO (Commissioner, TfL): Yes, because we did not know about the Elizabeth line. That is one significant factor. Everything else puts it in a much better place.

Gareth Bacon AM (Chairman): The trouble is, Commissioner, you have not been able to give us an opening date. This is the real elephant in the room. Without understanding when it [the Elizabeth Line] is going to open, so much of your business plan is up in the air, is it not?

Mike Brown MVO (Commissioner, TfL): No, because we have made some reasonable assumptions. If I can refer back to what I said earlier on about the major spend going forward for the Elizabeth line in terms of the capital spend, it is around what Mark Wild refers to as 'big orange armies' of people building the stations, finishing the construction of the tunnel. On the testing side, the cost is much less. Clearly, it is in a time imperative to get the systems then up and running to allow us to open, first of all, the central tunnel section.

All the work that we have been doing on this so-called stage 5A of running trains from Reading into Paddington at high level is all part of the plan. I am very confident we have crawled all over this - believe me, Simon [Kilonback] and I do not allow our team off the hook in this at all - in terms of a pessimistic, prudent approach to our plan. I am very confident that that has been reflected in the writing of this plan.

Gareth Bacon AM (Chairman): Yes. The trouble is - and I do not want to be unduly cynical - that we have heard that before and it has been proven to be wrong.

Mike Brown MVO (Commissioner, TfL): What you have heard before is that we have a savings plan out there that we have overdelivered against.

Gareth Bacon AM (Chairman): No. We have heard that the plan would be on time.

Mike Brown MVO (Commissioner, TfL): We have overdelivered our savings plan. Every year since I have been Commissioner, we have --

Gareth Bacon AM (Chairman): We are comparing apples and oranges here, Mike.

Mike Brown MVO (Commissioner, TfL): Every year since I have been Commissioner, every month of this mayoralty, we have spent less on operational spend than the previous months, following 16 years of spending more.

Gareth Bacon AM (Chairman): Yes, but we are talking about the totality of your business plan, Mike. We are not talking about your savings programme. We are talking about the totality of your business plan. We were presented with the business plan last year, which we have had to revise because it was wrong.

Heidi Alexander (Deputy Mayor for Transport): Even if you look at this year, for example, we are projecting to finish the end of this year £200 million ahead of where we predicted to be. We have had to deal with something that is very, very challenging in terms of the news that has come out of Crossrail Ltd in the last six months. The scale of that challenge - which, in the short period of time that I have been in post, has mushroomed, to be honest - is something that no one sitting around this table could have predicted, whether it was 12 months ago or six months ago.

What we have done is look at those challenges that we are facing and make some cautious and reasonable assumptions, which go beyond what the management of Crossrail are saying at the moment, given that they are having to do some more work to define a schedule, and I think it is the responsibility of the Commissioner and the Chief Finance Officer to take a prudent approach to this. I feel reassured that they have done that with respect to Crossrail.

Let us just go back to some of the basic points, Chairman. Crossrail is one of the challenges. The other one is the subdued economy and the uncertainty that is associated with Brexit. If you read *The Times* this morning, you would have seen that a third -- you can raise your eyebrows, but the truth is --

Gareth Bacon AM (Chairman): No, I will not, because the point of this --

Heidi Alexander (Deputy Mayor for Transport): You did.

Gareth Bacon AM (Chairman): -- is not to get into a party-political exchange. The point is to give us confidence that your business plan is accurate.

Heidi Alexander (Deputy Mayor for Transport): This is not a party-political exchange.

Gareth Bacon AM (Chairman): It is a party-political exchange.

Heidi Alexander (Deputy Mayor for Transport): It is a fact that if you look at the business plan that was produced in 2016 and the fair assumptions that were made for a five-year period at that point in time, we are looking now over the next five-year period at £2 billion less in income. If you look at the section in the business plan that looks at forecasting, whether it is about London's population or whether it is about lifestyle trends, whether it is about the strength of the economy, then you can see that all of those things play into the financial reality that TfL exists in.

You and I know - and as I said at my confirmation hearing back in June [2018]- that public transport in London and its usage does not exist in a vacuum. The caveat that I would place on the confidence that we have around this business plan is about what happens if the absolute unexpected happens in the next couple of months, and that is that there is not some sort of deal between the Government and the European Union (EU) with respect to Brexit, and the worst comes to pass. It is a reasonable point to make in this forum that that is a very significant challenge that London is dealing with and that TfL is dealing with.

Gareth Bacon AM (Chairman): Fine. In the absence of the economy falling apart because of a no-deal Brexit, you are 100% confident that this business plan will be delivered as it is written?

Heidi Alexander (Deputy Mayor for Transport): I am confident, in the absence of those big, external shocks that we have talked about.

Gareth Bacon AM (Chairman): That is what we have just agreed.

Caroline Pidgeon MBE AM: The Northern Line Extension: I had asked the Mayor about the potential loss of fares revenue as a result of the delay back in December. He could not give me an answer. Could you tell me what you are estimating the budget to be for that loss of revenue because you have delayed the Northern Line Extension?

Simon Kilonback (Chief Finance Officer, TfL): I do not have it specifically for the Northern Line Extension, no.

Caroline Pidgeon MBE AM: Are you able to put that in writing?

Simon Kilonback (Chief Finance Officer, TfL): We will provide it, yes.

Heidi Alexander (Deputy Mayor for Transport): There is a wider point around that as well. This is a subject that I have discussed with TfL officers recently, which is of course the projected revenue from the Northern Line Extension really kicks in when you have the new commercial leases occupied and the residents moving into the development. The whole point about when the Northern Line Extension opens is that it makes sense to align the opening of that new piece of infrastructure with when large numbers of people are going to be in the new Battersea Power Station development. A lot of people that live around that development at the moment will be using other TfL services to get to work at the moment anyway, so the revenue impact is in no way similar to the Crossrail predicament that we find ourselves in.

Caroline Pidgeon MBE AM: There would be some because you would have assumed at this point that you would have had the commercial lettings done and so on. I am interested to know, because you must have had some assumptions and that will have changed with the nine-month delay.

Mike Brown MVO (Commissioner, TfL): We will get you the detail.

Caroline Pidgeon MBE AM: Also, in terms of looking at fares revenue in the next few years, are you looking at running Boxing Day services on the Overground and have you factored in a figure for that? If you could let me know that. You probably do not have that to hand.

Simon Kilonback (Chief Finance Officer, TfL): We will let you know that as well.

Caroline Pidgeon MBE AM: Then the wider thing in terms of income and looking at your revenue budget is the business plan talks of next-generation road user charging beyond 2021. Is this something you are seriously starting to look at as a real long-term funding solution for the roads in London?

Heidi Alexander (Deputy Mayor for Transport): I might take that one to start off with. I have been quite clear with TfL that the priority at the moment is to successfully get the next phase of ULEZ introduced, the first phase in April of this year [2019], and then the expansion out to the North and South Circular in October 2021. Clearly, it is important that we make sure that that scheme is operating properly and that we have done all the requisite planning that is needed to make sure that works smoothly. There are some changes that we have consulted on and said that we would go ahead with. For example, removing the exemption for private hire vehicles from the Congestion Charging Zone. We have a number of different individual projects that are happening in this broader area, which I think we need to be reassured that the team at TfL are all over those and that we deliver those as smoothly as possible.

You will be aware that what it talks about in the MTS is over time looking at a way in which you can come up with a more sophisticated way of charging people for using the roads, one which may be based upon things such as distance travelled, the time of day that you are travelling and the emissions of the vehicle that you are travelling in. Given that we are doing something quite radical and bold and very new in April of this year and then we will be extending it beyond that in 2021, that needs to be where our primary focus is at the moment.

Caroline Pidgeon MBE AM: Following that, it is something you will be looking at as a way to generate income to get that modal shift?

Heidi Alexander (Deputy Mayor for Transport): You will be aware of what the MTS says, and you will be aware about what the Mayor himself has said previously in exchanges on this subject. It is not something that we are going to be able to crack on with in a big way in the next couple of years, given those other priorities, but certainly it is something that we would want to be looking at in the future.

Caroline Pidgeon MBE AM: Moving into commercial income the Committee did some work. You reference this at the start, Simon. We have done some research with YouGov [polling company], and Londoners were generally supportive of more electronic advertising screens, potential sponsoring of stations or Tube lines, and potentially advertising around cycle lanes. What do you make of that, and is that something you might consider taking forward?

Simon Kilonback (Chief Finance Officer, TfL): We absolutely welcome that research, and we will commit to taking forward to review what we can do to enhance all of our advertising revenues.

Caroline Pidgeon MBE AM: There has been concern in the past that some of this sort of advertising could cheapen the brand, and TfL in the round is a very strong brand. Is that part of your consideration of this, and do you have an agency or someone looking at this for you?

Mike Brown MVO (Commissioner, TfL): We are very conscious of that. Some of the recent examples where we have temporarily, on a daily basis or on a short-term basis, rebranded some of our stations for a particular commercial return: we have had no pushback from people that that has somehow compromised the integrity of us providing decent, clear signage or information process for our passengers, which would always be our number one consideration. There is a huge opportunity here. We still, in terms of the out-of-home advertising market, command one of the largest estates in the world.

There is a proposal which is in the final stages of various approvals for the Exterion company to taken over by Global Media quite soon, and Simon [Kilonback] and I will be meeting the Global Chief Executive at some convenient point to discuss further opportunities to enhance the digital estate particularly in terms of advertising. These areas are now hugely sophisticated, as you will know. You can basically do some target advertising based on the demography of people's journeys. Of course, it is truly anonymised data, individual by individual, but nonetheless people know where people flow from in the flows of peak demand or off-peak demand and, therefore, can on a digital platform be much more imaginative in how those advertisements are put in front of people. Given TV advertising in particular is a falling market as people tend to fast-forward - unless they are watching a live event - through adverts, our estate is still one of the areas where there is still a potential opportunity.

That is also true on the retail side. I know you had not come on to that yet, but on retail you will be noticing that there are more retail units emerging across our estate. I am very keen that we continue to explore small businesses, small traders, to ensure that we do not just become like another part of the oversaturated high street, to some extent, with retail coffee shops or whatever, that there are more locally allied to the local communities that our stations and other facilities serve. That is really important as well.

To that end, we have recently transferred the responsibility for the retail estate from within Simon's [Kilonback] team - although he still has key core oversight of it - into LU *per se* because they have the largest estate for this. It is important that those operating the LU feel that it is their incentive operationally to deliver a decent retail environment that enhances the delivery for their passengers.

Caroline Pidgeon MBE AM: In terms of advertising, we have heard previously at the Committee that advertising generally is a slower market, but you want to maximise the advertising you have on the Tube. I went through Charing Cross Station over Christmas and there was not one advert at all. All the slots going down the escalator were empty. I took a photo and I sent it in. Why would that be? Are they being converted to electronic?

Mike Brown MVO (Commissioner, TfL): There was a major upgrade of Charing Cross quite recently, where there was some modernisation work done on that station. I say "major" but it was just an enhancement of some of the systems. At Charing Cross specifically, it was a phasing issue of just not being certain that it was going to be ready for market at the time. Overall, there was quite significant advertising over Christmas across our estate. Again, we will have a better sense of this when we have the discussion with the new owners of

Exterion going forward, but I am optimistic that them becoming part of a wider media group - and the clue is in the term 'media', the wider Global group who operates several radio stations and other things - joining up their marketing expertise for advertisers is very helpful in that regard.

Caroline Pidgeon MBE AM: The Mayor has made a decision about the junk food advertising ban. There are mixed views on whether that is a good thing or not on the Committee, but how much revenue will you forego as part of that? What do you put in the budget?

Simon Kilonback (Chief Finance Officer, TfL): The first thing we should say is, as we did with the previous ban on the images, we will work very hard with the advertising agencies to actually help change the behaviour and not lose any advertising income. It is the right thing to do to support the policies.

Caroline Pidgeon MBE AM: As I say, we have different views on this Committee. I just wanted to know what the revenue --

Heidi Alexander (Deputy Mayor for Transport): It is estimated to be in the region of £13 million per year, but there have been quite a lot of discussions that have taken place, as I understand it, with some quite major brands about switching their advertisements to advertise healthier products. It will not necessarily be that that is the outcome because the decision lies with the advertisers themselves about whether to switch.

Caroline Pidgeon MBE AM: Thank you. Then you have some arrangements for brand placements. I have a lovely picture here of some Adidas trainers with the Metropolitan and Circle lines on the back. I do not know if any of you own a pair of these yet. Is this something we are going to see more of in the future? What are the plans in this area?

Mike Brown MVO (Commissioner, TfL): It is relatively small value, we should just say that, but in terms of brand placement, it is useful. Having those strategic partnerships with someone like Adidas is quite important and so we will continue to explore opportunities when they exist. If any Members of the Committee wish to know how to buy - as I have bought - some of these, then I can of course let you know offline.

Caroline Pidgeon MBE AM: Do you have some?

Mike Brown MVO (Commissioner, TfL): I bought some.

Caroline Pidgeon MBE AM: Fabulous. Fantastic. I also want --

Gareth Bacon AM (Chairman): Perhaps you would put that writing when we write.

Mike Brown MVO (Commissioner, TfL): I did not say a gift, Chairman.

Caroline Pidgeon MBE AM: No, quite right. No, I was not assuming that it would be. I just --

Gareth Bacon AM (Chairman): We can buy them. I do not want to deprive TfL of any more money. Carry on.

Caroline Pidgeon MBE AM: My other question is that there is a real issue in terms of how we have all changed our lifestyles and we all shop a lot more online and we have those parcel deliveries. The previous work of the Transport Committee recommended more click-and-collect at stations and not just thinking about regular stations. At bus stations you can have good interchange; Canada Water; you have the Overground; Underground; you have a bus station. You could have a click-and-collect container above with one of these sorts of companies. What work are you doing there? That would not only hopefully get you more revenue in, but it would help tackle this issue of congestion, and so it meets more than one of TfL's objectives.

Simon Kilonback (Chief Finance Officer, TfL): We are doing work there. We have had trials of click-and-collect in stations, but also as part of our work we are doing with the freight industry more generally we are looking at how we can maximise opportunities to use our network and our land and our resources to help with that last mile delivery because that will also help with congestion, but it will also allow us to work with the industry to do everything we can to generate as much commercial revenue as we can.

Mike Brown MVO (Commissioner, TfL): I can give you one example on that, Chairman, if I may, just if you will bear with me. A company called DPD, a freight delivery company, has been working quite closely with us, looking at the potential for sites. They have already got one site near St James's Park Station, which was one of our sites. That was a largely disused old garage that they now use and have fully populated with electric vehicles for delivery of packages from a central hub into that hub and then dispersal from that hub as well to proximate locations. It is not quite the same example, but nonetheless it is entirely in keeping with the MTS. I am very keen to work with companies like that that are really showing imagination as to how they can respond to the imperatives of London's air quality issues and help to tackle it.

Caroline Pidgeon MBE AM: That is using the land, which is great, and where my Committee is going to visit in the next few weeks, but using your retail space or thinking creatively, like a container. I remember one of the companies Florence [Eshalomi AM] and I went to visit talked about the container they had had at Liverpool Street Station. This was a couple of Christmases ago. How much they had churned through there, the convenience --

Simon Kilonback (Chief Finance Officer, TfL): We have done that in some, yes.

Caroline Pidgeon MBE AM: Looking at that as a way that you can, without having to build much, you could generate income. I would like to see you pursuing that.

Mike Brown MVO (Commissioner, TfL): Yes, I agree.

Gareth Bacon AM (Chairman): We are going to move on to the final section, which is around cost-cutting, which you will be quite relieved to finish on. Assembly Member Berry is leading on that for us.

Sian Berry AM: You went into a little bit of detail about this earlier and I know there are quite a few useful slides on your presentation about this, but essentially, we want to know how you are coming £246 million under budget in the current year [2018-19]. What have you cut?

Simon Kilonback (Chief Finance Officer, TfL): As we have said, we have been looking at modernising the whole of our organisation and this is the third year in which we will have reduced our like for like operating costs. Over £140 million includes an element of staff-related costs, where we have effectively looked at the people we need and frozen some vacancies in some areas; we are making big strides in terms of the beginnings of modernising our maintenance practices, which Mike [Brown MVO] talked about earlier on. There are some operational savings from the delays to the Elizabeth line. We made about £20 million of savings from across our contracted services by working with our service providers to get the same for less. Those together add up to about £100 million of recurring savings over the plan.

We have also secured in-year £35 million of lower financing costs. This is about partially the timings of borrowings and how we have borrowed and made availability of borrowing for much lower interest rates than we had previously assumed, which will also carry forward. This is about £175 million of the £240 million there that are from those areas. There is £70 million from capital renewals, which is mainly around timing, which we discussed earlier, which we have now looked at in terms of being more realistic about the level of renewals that we can deliver going forward and bake that into our renewals budget going forward. That gets us to the £240 million.

Sian Berry AM: That is this year's underspend. Presumably that carries forward in almost all cases into next year, leaving you with around £700 million to go. Your target in slide 20 is to save £958 million in operating costs. How much of the £712 million - whatever it is - have you identified to save?

Simon Kilonback (Chief Finance Officer, TfL): By going into next year, we will have secured about £820 million of recurring savings from what we have budgeted and put in place. We are working very hard and have put into the plan here the very largest aspect of our savings going forward is in the modernisation of the Underground, particularly in terms of the maintenance practices, which we have talked about in some detail, but there are significant further savings, which is demonstrated from that the Underground surplus going from £700 million to £1.4 billion. This is about the wholesale modernisation of the Underground and also the revenue impact from the investment we have made in additional capacity on the subsurface lines. Then there will be about £90 million to £100 million a year of recurring benefits from the further savings we have put into the plan for the further savings in terms of a 30% reduction in our overheads in our back and middle offices going forward.

Part of the savings are actually further expectations of revenue increases that we have set out. They all come from the areas I have set out in the presentation, first of all on slide 12, which showed, as I said, £74 million of savings or net operating improvements from other operations, which is mainly the impact of the ULEZ; £97 million, which is savings from our back office and head office estate, including over £128 million of savings across our accommodation portfolio over the period of this plan; £169 million of improvement in our commercial revenues; £500 million through the modernisation of all aspects of how we run the Underground and then the net operating surplus from the ULEZ.

Sian Berry AM: Sorry, I am trying to focus on where you are cutting spending rather than changing the net position, if that makes sense, because you are describing lots of gains in income there that are going to contribute to the net position. Sorry, just to stick to the question that I am supposed to be asking, which is about actual cuts in what you are doing.

Simon Kilonback (Chief Finance Officer, TfL): As I said, over £90 million a year we are saying will come from cutting expenditure on our overhead costs in our back and middle offices. That includes our accommodation portfolio, where we will have banked over £128 million of savings over the course of the plan. The majority of the improvement in the Underground is by saving money on how we maintain the Underground, which Mike [Brown MVO] has talked about in some detail earlier on. There are further savings across all areas of our business, but we do express these in terms of net operating savings because there is both the aspect of if revenues improve substantially, then you do not necessarily have to make all of the savings. We really are focused, as we have set out on slide 22, on having a net operating target for each division, whether that is a deficit or a surplus.

Sian Berry AM: No, that is really useful. I am just trying to focus on the bits where you might be cutting back. Can I ask what reductions will impact negatively on frontline services? Are there any or is that a bottom line for you?

Mike Brown MVO (Commissioner, TfL): No. It is not my intention for that to happen. Again, going back to the Underground, the reality is that the last part of the PPP arrangements disappeared just a couple of years ago. That has allowed us now to look holistically across the way that we maintain trains and signalling and track consistently across the whole Underground for the first time since the late 1990s. We have now a much more modern asset base with computer-based digital technology in place that allows us to maintain those in a different way, allows actually - very importantly - different relationships with the supply chain, who still have some role to play in some of our processes around the maintenance of the Underground.

It is quite right that we apply best practice to ensure we do things consistently. For example, just to give you one very specific example to illustrate the point, there have been still some fleets of trains on individual lines in the Underground that maintain trains based on number of days between the previous maintenance cycle, rather than the number of kilometres operated. Clearly that is not the way that, for example, if you were to own a car - and I know I am talking to the wrong person - actually that is not the way that any other vehicle in the world, an airline or a bus or any other vehicle, is maintained, so why would you do it with a Tube train? Historically you did do it with some trains and that is just an example of where you would do things differently. There are some really significant areas of savings.

There is also - and I know it touches on the capital point that was made earlier on by Simon [Kilonback] - the amount of inventory that you hold because different lines happen to have been operated by different companies historically and had different levels of inventory and stockholding. When we have dug into that, we found a huge amount of value that can be released from a more rational approach to stockholding based on actual usage rather than just having valuable stock sitting around not really used. There is a huge amount there, but there is not an intention to impact on frontline delivery.

Simon Kilonback (Chief Finance Officer, TfL): To put it in context, of the £7 billion we spend annually on our operating costs, only £2 billion is on the total cost of staffing and over £5 billion is with the global supply chain. The main focus of cost savings is working with the supply chain to get the same things for better value for money. Some of that is working with our new engineering division in terms of how we design standards and how we procure things safely for better value for money and that is where the bulk of the savings will come from.

Sian Berry AM: OK, just to drill into two sides, I have a suspicion there might be an impact on frontline services or at least a perception of it, one is the cutbacks in what you are calling back and middle office. What is a middle office staff member for the first thing and is this cutting back on your capacity? Cutting staff does seem to me to be something that is a cutback as opposed to an invest-to-save type project.

Mike Brown MVO (Commissioner, TfL): Again, let us just put this in context. First of all, let me just say what a great job our staff do every day and that is all staff, both within our back-office areas as well as in our frontline delivery area. There are some fantastic people working in this organisation. It is fair to say that as part of my quest - and I have been very upfront with this Committee and with the Assembly generally since I took this job of running a single TfL rather than multiple discrete "separate TfLs" - there is a real opportunity not just to do things in a slightly more efficient way in terms of value for money, but also to do things in a more effective way by only having one of everything in place. The Mayor has been very clear from the outset that, for example, one single engineering team has been a clear imperative and we now have one single engineering team across the whole of TfL and we now have one single major projects division across the whole of TfL. Those did not happen before. When you do that, you create one single set of structures and processes and support areas to interface against those, so whether it is a HR support team or a finance support team, you do not need multiple people doing multiple pieces of work because you have one touchpoint with the professional services that support those types of areas.

Your question on the middle office, it does risk sounding like jargon, I do accept that and I am not terribly comfortable with the term myself, but in effect it is those people who do not sit within our professional service areas, HR or finance or procurement or press office or whatever, but those who sit within the individual delivery businesses and provide non-frontline services. Again, as an example, we have just brought together for the first time in the last 18 months bus planning, rail planning and transport planning into one key area. Geoff Hobbs [Director of Public Service Transport Planning, TfL], whom some of you will be familiar with, now runs that team. That used to be three different teams, there used to be one for the rail, one for the underground bit and one for the bus bit, and it was not a bit of wonder that when we, for example, a few years ago extended the East London line, we did not change a single bus route around the East London line because the two teams not only did not talk but were in pure conflict with each other.

Sian Berry AM: You are talking about middle office staff? That sounds more like back office.

Mike Brown MVO (Commissioner, TfL): No, that is what we define as middle office. The term 'middle office' is simply to distinguish between those in the professional services who sit outwith the delivery businesses and those who sit functionally within the delivery businesses and ultimately report into Nigel Holmes's [Managing Director, LU, TfL] world or Gareth Powell's [Managing Director, Surface Transport, TfL] world, in effect.

Sian Berry AM: There are no cuts already carried out or planned to frontline staff at TfL?

Mike Brown MVO (Commissioner, TfL): The only thing, with a caveat that maintenance activity is not frontline but supports the frontline very heavily, is that again the focus is not, I have to emphasise, on staff cuts here. The focus is on cost control and cost cuts and that is a very important distinction because a lot of our spend still remains with external companies and external organisations. The focus is not really around headcount, although there will inevitably be some headcount issues that emerge. It really is predominantly around the overall cost of supporting our delivery and delivering itself.

Sian Berry AM: The second thing I wanted to ask about was bus services. I am not on the Transport Committee, just to be clear, and so if this has been discussed there let me know, but essentially, as I understood it from a budget point of view, there were not going to be any cuts overall to bus services. This is from discussions we had a year ago with the previous Deputy Mayor [for Transport]. They were going to be moved from inner London and central London routes that were going to be not so necessary because of things like Crossrail and other improvements in central London and moved to outer London where they would be needed. That fitted in with mayoral priorities. We said, "OK, fine, keep an eye on that", but also with the worry that we had this time last year that bus passenger numbers were falling and therefore revenues were going.

These are numbers that we do not have in our presentation. It just says "right sizing" in the presentation; it does not say how many miles of bus services might be cut. It seems to me that the British Broadcasting Corporation has managed to estimate that the mileage will be reduced by 7% in buses and that seems to me like the opposite of investing to raise money. It seems to me like attrition and potentially putting at risk more people getting on the buses.

Can you tell us about that, basically? Are you cutting back on buses? What is the mileage reduction? If so, what money are you saving on the buses and what impact do you think that is going to have on revenue?

Heidi Alexander (Deputy Mayor for Transport): Figure 23 in the business plan does set out and define by inner and outer London. This is in the main business plan document in figure 23 on page 81. What you will see there is a reduction in mileage in central London over the period of the business plan - 'inner London' I think it is referred to in that table - and an increase in mileage in outer London. Whilst the increase in mileage in outer London is smaller than the reduction in inner London, what we need to do is find a way where we can get buses to areas of growth in outer London; we all know that developments are happening in lots of outer London Boroughs. We need to get people that are living in those new homes to public transport interchanges, to underground, over ground, train stations, we need to think about improving the orbital links between town centres in outer London is something that I know Assembly Member Pidgeon is quite interested in as well; things like express services.

What we have seen in the last three years is a 12% reduction in bus usage in central London and that informs some of the work that we have been doing through the central London bus consultation at the end of last year. I am very clear that the way to increase bus usage in London is not simply to put more and more buses on historic routes, but to introduce bus services in the places and at the times that people need them. So, what we have done here is look at what some of the trends are and think about how we can, in an incremental fashion, step by step, start to put buses into the places where we see demand increasing. When you look at the map across London you see places like Croydon that have seen a 9% increase in bus usage and yet you see in central London reductions. We have a choice here. We could put our head in the sand and not do anything about it and try to preserve the bus network in aspic or we could say let us run our bus service in an efficient way and get the right number of buses in the right place at the right time.

Sian Berry AM: It is just that we talked about the philosophy behind this and the overall principles in some detail when we started out. I am just trying to get hold of how much money you have taken out of the service, how much you plan to take out, what the reduction in mileage is, what it will be in the future and whether it will that affect passenger numbers. You are explaining the principles behind it, but I am just wanting to get the numbers.

Heidi Alexander (Deputy Mayor for Transport): I can quite happily share that information with you. The increases in the outer London bus network over a five-year period would cost about £40 million; on a net basis over the next five years the reduction in inner London would save approximately £180 million. One of the other things that it is really important to keep in mind about this is that the subsidy we put into running the bus service will, during the course of this business plan, hit £700 million and so, when you look at the difference between the income and expenditure on buses, we are subsidising our bus network to the tune of £700 million. That is a historic high. TfL has never subsidised the bus network by that amount of money before. If you ask me whether that is the right thing to do, I say in an integrated public transport authority yes because buses can reach the parts of London that other forms of public transport cannot reach, but that is not to say we should be preserving that bus network exactly as it is and that is going to require some difficult decisions but I think in terms of providing a properly integrated public transport system in London it is the right thing to do.

Sian Berry AM: Yes, now I completely understand that. I do worry that you are calling it a subsidy even though that is the frame that it is not just like investment because you are talking about, in terms of you are saying reducing the subsidy, you are saying taking money out of the buses and that is a thing and you are calling it a subsidy but it is still a reduced investment.

Heidi Alexander (Deputy Mayor for Transport): We can talk about language, but it is the fact that when you look at the fares that come in from the buses compared to the amount of money that it costs to run it, the difference during the course of this Business Plan will hit £700 million. Now I think you and I would probably agree that we have a responsibility as TfL to make sure that we use that money to best effect that we are putting in. You and I also agree that we should be investing in bus services and subsidising the bus network and essentially what we do, the only part of TfL at the moment, which makes a surplus, is the Underground. We want to increase the amount of surplus that LU makes and we will be using that surplus and hopefully a surplus from other things such as the DLR, London Overground, Santander Cycles or whatever it is, in order to make sure that the things that we need to invest in, in order to achieve the targets set out in the MTS, getting more people walking, cycling and buses that I know you and I agree on. That is the flow of money that exists in TfL and what we are doing is a rational and measured approach to this to make sure that we do not straight away start putting on loads of buses in areas where the demand is not there for it. It will be an incremental approach. That is why there is a difference between the amount that is coming out of central London and the amount that is going into outer London. We are exploring things such as demand-responsive buses as well and a huge number of different things that are going on. This is one area where we are trying to do something that is quite ambitious about reshaping the bus network for the benefit of Londoners.

Sian Berry AM: Have the changes you are going to make been assessed to have any impact on the passenger revenues and numbers? Will overall passenger numbers go back up as a result of what you are doing by putting buses into places of higher demand as you said?

Heidi Alexander (Deputy Mayor for Transport): Ultimately, yes, but if you look at the figures set out on the top line of figure 2.3, passenger journeys over the course of this business plan are projected to go down. That is actually reflective --

Sian Berry AM: Are they going down less because of this change?

Mike Brown MVO (Commissioner, TfL): Yes. Sorry, if I may, Heidi, they are and also of course, as you will be well aware because of your national role as well, the picture in London is much more positive than it is anywhere else in the country.

Sian Berry AM: That is why I am worried we are going in that direction.

Mike Brown MVO (Commissioner, TfL): No, we are not, and the point here is that it is putting the buses in those areas of London where there is the potential for growth or for maintenance of the current ridership. Within central London, if you were to put alongside this the demand on tube services where you are increasing capacity hugely, so it is not just on the Elizabeth Line, which you rightly recognise, but also of course on the Circle line, District line and Metropolitan line, which we mentioned earlier on. There is this huge increase in capacity on those lines, some 33% increase in capacity, and historically we never would have adjusted a single bus route as a result, giving my example of the East London line. The reality is these modes of transport do have to operate together and alongside each other to ensure the effective movement of the city.

This is something we have to continue to keep under review and we have made some assumptions, we have also made, just for the avoidance of doubt, the assumptions that the level of concessionary fares continues to the extent that they are, which of course are a much more comprehensive set of concessions than exist anywhere else in the country as well. I am really determined that we preserve that as well because buses are very often the difference between people being able to get out and about and around the city or not being able to get out and around the city. For all of those reasons this has to be kept under very careful review and I know that both this Committee and I know certainly the Transport Committee will be doing just that.

Sian Berry AM: You mentioned in the budget that there is going to be a charge for the over-60s photo card. Presumably that is a one-off and then you pay for a replacement. How much will that be and how much do you plan to raise with that?

The second question: I know we talked about mileage there. Are there any changes to improve or reduce the quality of bus journeys in any way? I am thinking about things like when you have removed the countdown timers, for example, and we have discussed why that was, but that arguably reduces the quality of bus travel. Are there any improvements you may be putting in those little recharges that you get on buses when you go back home to Gloucestershire for Christmas?

Simon Kilonback (Chief Finance Officer, TfL): On the 60-plus, it is just the 60-plus and is not the statutory Freedom Pass. We are charging £20 per annum for that photo card and that will enable people to travel for free, which is worth between £250 and £300 on average to each person.

Sian Berry AM: That will need to be renewed every year? Is that something people currently have to do, or do they just get one that lasts them the five years?

Heidi Alexander (Deputy Mayor for Transport): They have to pay a one-off charge.

Simon Kilonback (Chief Finance Officer, TfL): They have to pay a one-off charge currently, but the cost of this concession grows to us every year as the proportion of London's population that are over 60 increases and therefore this is just covering our admin costs for that increasing population every year.

Heidi Alexander (Deputy Mayor for Transport): Just to re-emphasise, this is not the Freedom Pass we are talking about; it is distinct from that.

Sian Berry AM: How much do you plan to raise with that, do you know?

Heidi Alexander (Deputy Mayor for Transport): We should probably write to you. We know what the figure is, but I do not have it in front of me at the moment.

Gareth Bacon AM (Chairman): That is fine. That level of detail is a bit granular and so we can sweep that up in a letter.

Mike Brown MVO (Commissioner, TfL): Just on the enhancements to the services, which I would not want any other part of the country to be better than us on this, I would just say that we are, for example, looking at bus designs where there not only is a mobile charging point at every seat but also a cradle where you can put your mobile phone and watch your Netflix or whatever else you want to watch as you travel as well, so we have a prototype where we are looking at just that. That will be moving on quite soon so, as well as the most important technology developments in terms of cleaner and greener buses, enhancing the passenger experience with additional disabled spaces to ensure that everyone can access the bus network that is really important to us as well.

Gareth Bacon AM (Chairman): OK, we have reached the end of the session. Members, on your behalf, I would like to thank our guests for giving up so much of their time this afternoon. We will write to you afterwards and then on the way there will be some further information that we request on the basis of today's session.