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Transport for London's financial challenge

Budget and Performance Committee

September 2016

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

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

Contact

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

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Gareth Bacon AM

Chair of the Budget and Performance Committee

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

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

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

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

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

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

Summary

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

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

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

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

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

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

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

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

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

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

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

Recommendations

Recommendation 1

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

Recommendation 2

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

Recommendation 3

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

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

Recommendation 4

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

Recommendation 5

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

Recommendation 6

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

Recommendation 7

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

Recommendation 8

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

1. Introduction

Key findings

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

Background

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

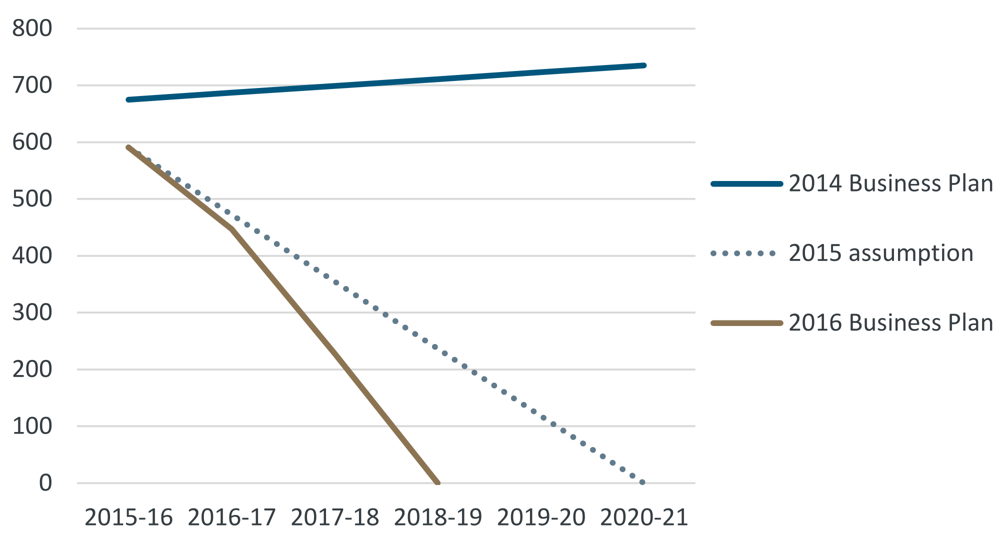
Uncertain revenue streams

Loss of the revenue grant

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

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

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



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

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

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

Reliance on business rates income

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

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

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

Rising costs

Sub-Surface Upgrade Programme

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

The Northern Line extension

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

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

Investment at risk

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

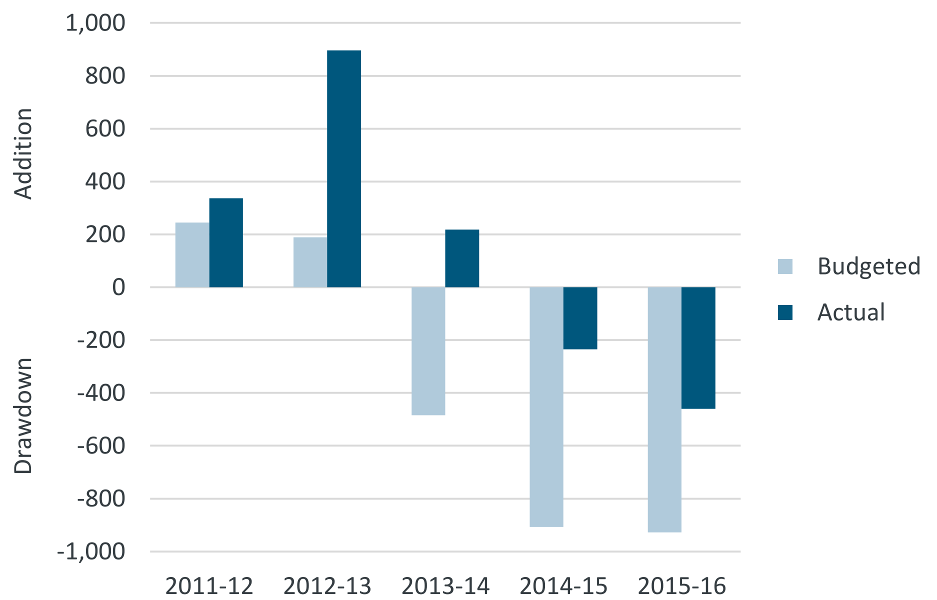
- TfL growth fund – £300 million
- Old Oak Common stations – £250 million
- Cycle hire integration – £105 million
- Cycling infrastructure – £100 million
- Sutton tram extension – £100 million
- Air quality – £100 million
- Station accessibility – £75 million
- Roads and Traffic Policing Command – £25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

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

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

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

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



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

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

2. The challenge ahead

Key findings

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

The challenge ahead

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

Costing the Mayor's manifesto commitments

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

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

The fares freeze

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

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

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

The table below provides more detail.

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

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

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

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

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

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

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

The hopper ticket

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

Concessionary fares

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

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

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

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

Costing manifesto commitments

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

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

Recommendation 1

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

Recommendation 2

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

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

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

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

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

Recommendation 3

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

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

3. Reducing costs

Key findings

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

Reducing costs

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

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

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

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

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

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

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

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

Merging engineering functions

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

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

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

Better procurement

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

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

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

Reducing staff

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

- Consultancy and agency staff. The Mayor has stated that TfL will halve the £383 million it spent on these staff in 2015-16.[30] However, he has not provided any evidence that the current level of spend is excessive, or why a 50 per cent reduction is the right amount – it appears to be a purely arbitrary figure. As TfL has told us before, agency and consultancy staff are useful for an organisation which needs to resource individual projects for specific time periods. Cutting these staff costs so dramatically risks losing important skilled workers and damaging TfL's investment programme. TfL could meet the Mayor's commitment by making these staff permanent within TfL, but this would lose the flexibility TfL has previously argued in favour of – and not bring about any real cost savings. We are therefore yet to be convinced that TfL will actually be able to halve its expenditure on consultants and agency staff, or that this is necessarily a good idea in every case.

- Senior management. TfL has canvassed all of its directors and senior managers for voluntary redundancy. In July, the BBC reported that TfL had sent a letter to these staff which stated that "TfL faces unprecedented financial challenge and we do not have enough money to continue as we are."[31] Redundancies at these senior levels will require TfL to make some significant payments in the short term in order to make longer-term staff cost savings. However, we are concerned that TfL may ending up paying experienced staff to leave before it has completed its business planning process or before the Mayor's Transport Strategy has been agreed. It would be a costly error if TfL then needed to recruit senior staff again.

- New Routemaster conductors. In a further move to reduce staff costs, TfL is phasing out the use of conductors on its New Routemaster Buses (NRMs). TfL estimates that removing conductors from six routes will save it around £10 million a year. [32] These conductors were an important part of TfL's business case for purchasing NRMs in the first place. Removing them will save money, but TfL estimates that passenger satisfaction will fall as a result – from 88.4 per cent to 86.7 per cent. As we discuss in chapter 5, it is important that TfL maintains service quality despite the financial pressure it is under.

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

Reducing investment

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

4. Increasing income

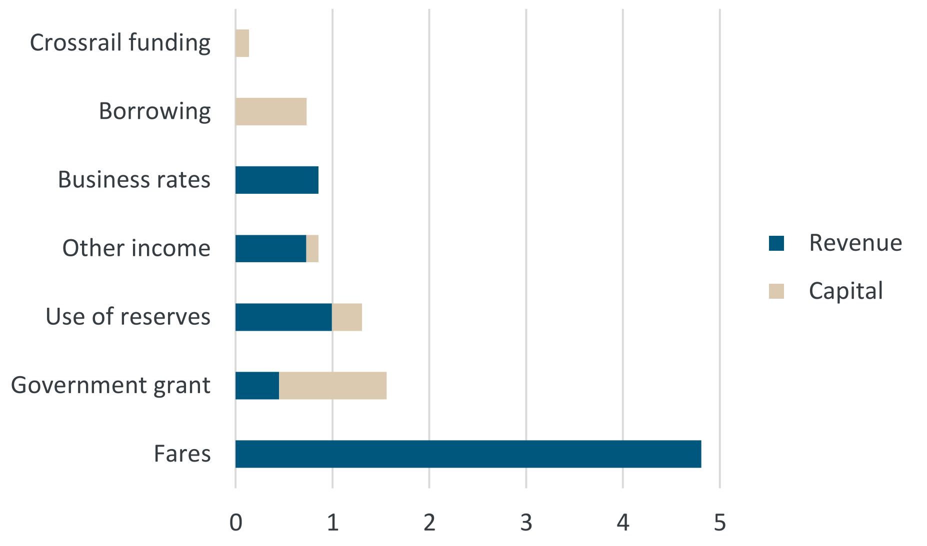
Key findings

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

Increasing income from fares

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

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

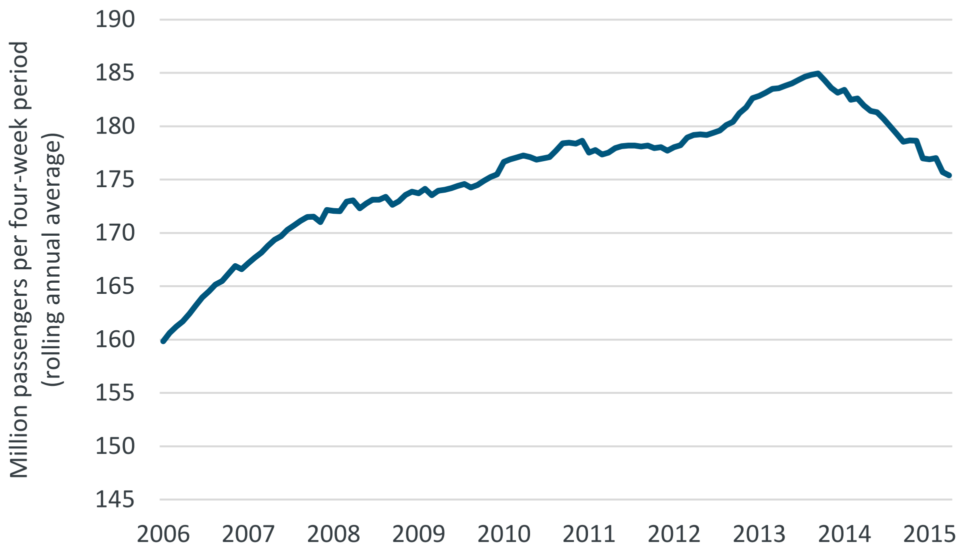


Source: TfL 2016-17 Budget and Business Plan, March 2016, page 61.

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

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

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



Source: GLA Economics analysis of TfL bus passenger data

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

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

Concessionary fares

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

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

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

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

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

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

Recommendation 4

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

Increasing income from commercial activity

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

Advertising

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

Property development

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

New trading arm

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

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

5. Risks and opportunities

Key findings

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

Risks and opportunities

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

The impact on TfL's capital investment programme

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

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

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

Recommendation 5

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

Impact on passengers and the wider economy

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

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

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

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

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

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

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

Protecting quality

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

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

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

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

Rail devolution

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

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

Recommendation 6

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

Linking resources to outcomes

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

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

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

Monitoring performance

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

Recommendation 7

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

Recommendation 8

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

Appendix: Concessionary fares

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

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

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

Our approach

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

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

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

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

We have also considered information from other sources, including:

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

References

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other formats and languages

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Chinese

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Vietnamese

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

Greek

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

Turkish

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

Punjabi

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

Hindi

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

Bengali

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

Urdu

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

Arabic

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

Gujarati

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

Greater London Authority

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

Enquiries 020 7983 4100
Minicom 020 7983 4458

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