

**Budget and Performance Committee
17 June 2010**

Transcript of Item 8: Mayor's Budget Guidance 2011/12

John Biggs (Chairman): Welcome Sir Simon Milton. Budget guidelines were issued early this year. We have got a number of questions for you about it and we would like to understand how the new landscape politically will effect the way this place works. I would like to start with a general question which is: can you tell us what the potential indications of the reductions by the coalition Government to this year's MPA, London Development Agency (LDA) and Transport for London (TfL) budgets will be?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I assume you are referring to the Government's £6.4 billion in-year reductions?

John Biggs (Chairman): The question is the question, so we will start with those and then perhaps we might want to talk about things you might anticipate in the next week or so.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Your question refers to the 2010/11 cuts. We have been notified by various Government departments what the London impact of their share in the reduction targets are. Very loosely, for the Metropolitan Police Authority (MPA), I think it was £28 million of revenue funding and £2.4 million of capital; for Transport for London (TfL) it is £108 million; and for the London Development Agency (LDA) - I am not sure if it has been completely confirmed - it was in the order of £40 million. Those are the three main impacts. There was also a reduction in the Homes and Communities Agency (HCA) budget for which there will be a London effect, although clearly that is not something that we are currently responsible for although we have a very clear interest in.

So, in each of those areas, work is going on to identify how those reductions can be achieved. It is too early to give you chapter and verse on that because that work is still continuing, but the picture will become clearer later on towards the end of next month.

John Biggs (Chairman): Well, that is obviously not the most informative answer I have ever heard.

Sir Simon Milton (Deputy Mayor and Chief of Staff): I am afraid it is not.

John Biggs (Chairman): Am I right in thinking that you are the Mayor's key adviser on the budget?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I used to be, John, n [Biggs], but, of course, I no longer am. Nick Griffin [Mayoral Adviser - Budgets and Performance] is and he is,

unfortunately, on leave this week, otherwise he would be sitting in this seat and maybe giving you better answers than the ones I will be able to.

John Biggs (Chairman): I think we are anticipating him coming to the Committee in July 2010.

Sir Simon Milton (Deputy Mayor and Chief of Staff): So, I understand, yes.

John Biggs (Chairman): OK, well let us talk about the shape of what is happening then because we have these cuts which you have outlined in those three core budgets. You are sort of saying it is work in progress as to how we deal with them although, obviously, we all know that those organisations have got a pretty clear idea of how they are going to manage those savings and Members who follow those individual functional bodies will have an even better idea, I suspect, than maybe you have. No earthquakes during this year in their operation, is that a fair position?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I think that is a fair position. We, obviously, will be doing everything we can to ensure that any reductions that do happen do not jeopardise any of the Mayor's key priorities and programmes. That is the message which has gone out to all of those bodies.

John Biggs (Chairman): Would it be a fair starting assumption that those savings can be achieved without any operational cutbacks in the capacity of those functional bodies?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes. Well, I think with the exception of the LDA where, clearly, there will be an impact on some programmes. When you are looking at programmes in the LDA very often it is about re-phasing them and having delays rather than outright stopping any particular activity. The MPA figure in the global context of the MPA budget is, obviously, not very significant. With TfL we had already, in the last two years, started taking many of the efficient measures which were necessary, and there is already a £500 million a year savings target within TfL; so we are, frankly, going to struggle to find more back office efficiency savings that we had not already identified.

John Biggs (Chairman): Members may have other questions on that, but the obvious follow up from me is that next week we will have a budget in Parliament that will announce, one assumes, the fairly deeper cuts in spending which will have an impact on City Hall finances - it would be quite surprising if they did not. We will not know what those cuts are until they have happened, of course,, so there is a very simple answer which is, "We do not know". We are not stupid and we do know there are going to be significant savings in those budgets and that they will almost certainly have an operational impact on services and that we need to start planning for those - or you need to start planning for those. Can you tell us what your capability and thinking is about how you are going to respond to a budget which probability suggests is going to have fairly significant cuts in spending?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Our expectation is that the budget is going to set out the macro-economic position including public expenditure, but by far the

more important piece of Government work that will happen as far as we are concerned will be the Comprehensive Spending Review (CSR) which, actually, only kicks off with the budget. It was only as a result of that process that we will be in the nitty-gritty. Our preparations, as you suggest, are really threefold. First of all there is a major lobbying and advocacy strand of work around making sure the Government understands the things in London that really cannot be affected.

The second strand is inviting the functional bodies to scenario planning, which is what we have done in the Mayor's Budget Guidance when we have asked them to think about different levels of reduction and what they would do following on from each of those levels of reduction.

The third is to really drive forward, as fast as we can, on the whole shared services strand of work so that we do not have separate Human Resources, legal, accounting and other back office functions replicated in all of the different functional bodies, but we look to share as much as we can and, also, jointly procure as much as we can so we can drive down the costs of doing business as organisations. That is very much the focus of the work that Nick Griffin is doing which, no doubt, you can discuss with him in greater detail next month.

John Biggs (Chairman): So, there is a very urgent and intense cross-functional body piece of work to look at the support services and how you can shelter frontline services from cuts by getting greater efficiencies with those. That is one of the strands?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Absolutely. I think Nick has got very ambitious ideas about how that could be achieved.

John Biggs (Chairman): You have 1.5%, 3% and 5% targets within the Budget Guidance; would it be right to think that we are thinking far more of the 5% end than the 1.5% end?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Not necessarily. How we came to those figures was to take the advice of the Institute for Fiscal Studies (IFS) and its Director of Fiscal Studies [Robert Chote] before the election. The IFS you may recall did a lot of work on suggesting that if certain budgets nationally were ring-fenced what would be the order of reduction needed in other budgets. So, really, the figures in the Budget Guidance were derived from that work. Of course you cannot rule out that the situation could be even worse, but I think that it is a fairly safe and appropriate range to ask the functional bodies to be working with.

John Biggs (Chairman): What is the probability you might have to go beyond 5%?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I cannot give you a figure but I would say small.

Richard Tracey (AM): Simon, first of all, let us discuss the relationship between yourself and the Department of Communities and Local Government (CLG) and, obviously, the minister, Eric Pickles, who we all know well. I have heard some comments from some local government leaders, and indeed some of their officers, that possibly the statement that came out of the

Department was not quite straight. when the minister was talking about the overall figure being £1.1 billion and saying that no more than cuts of 2% would be required. It has since been discovered that, actually, it is in-year for a start and that it is particular parts of local government that will be hit especially and that there is a question of what is ring-fenced and what is not ring-fenced. Does that affect the Greater London Authority (GLA) situation at all?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I may need to get assistance from my officer colleagues here but my understanding is that what the CLG did was to say that their reductions should come from specific grants rather than the revenue support grant. The GLA does not receive specific grants from CLG; it only receives revenue support grants. To that extent we were not affected by the CLG reductions this year so the GLA core budget is not one of those that needs to be making in-year reductions. Obviously, for local authorities other than the GLA, for the boroughs, they are affected. One of the other things, of course, that CLG has announced is that it is abolishing the whole Comprehensive Performance Assessment (CPA) and replacing it with the Comprehensive Area Assessment (CAA), process. Now, I know in my own local authority there are 30 members of staff who used to work on that who will no longer be needed. So, there are going to be consequent employment effects because there will be reductions in jobs in boroughs but which will not necessarily be at all visible to the council tax payer.

Richard Tracey (AM): I believe that CAA point applies to the London Fire and Emergency Planning Authority (LFEPA) and, conceivably, to the MPA too; it is the same sort of thing..

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes, because they are all authorities.

Richard Tracey (AM): Quite specifically there simply to deal with the CAA process. The other thing about the Department, of course- is that it has been announced that there is no longer to be a Minister for London Now, I am not sure whether I personally ever valued the position of Minister for London or not to be honest - but the whole business of advocacy, as you called it, lobbying and so on, do you think that you will lose anything in making points about the distribution of grants because there is no Minister for London or not, or are you not bothered?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Well, we do not have a Minister for London but Eric Pickles has designated his Parliamentary Private Secretary (PPS), Stephen Hammond, to be the liaison person for us. I think if we were to be frank, Dick, the Mayor has far more clout within Government than any junior minister would have.

Richard Tracey (AM): I would think that is right, yes. Just a couple of other things. Regarding the loss of £108 million to TfL, initially Peter Hendy [Commissioner of Transport for London], somewhere or other talked about this being a "light covering of snow rather than a deep drift". Is that complacent, do you think, or not? Is he about to be hit by the deep drift later?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I think that we had braced ourselves for a larger figure so, to that extent, it is right. Of course, the problem is the one that I mentioned earlier, that we have already taken the low-hanging fruit in TfL. There is one very quick contribution that we can and will make towards that target, which is, as has been

reported, TfL has been bought out of its lease at The Shard. Now, the figure is commercially confidential so I cannot mention it in this Chamber but it is a useful contribution to that £108 million target.

Richard Tracey (AM): What is the likely position of the LDA? We talked about it in the Chamber yesterday - the Mayor seeking to change the whole role of the LDA. Presumably, any change would be fairly early in legislation in the Government's programme? Will that have any effect, as you see it, on budgeting if it happens in autumn?

Sir Simon Milton (Deputy Mayor and Chief of Staff): It will not have any effect on the in-year reductions that we have been asked to make but obviously, as John Biggs has pointed out, the announcement a couple of weeks ago is not the end but the beginning of the challenges that we will face. One of the by-products of making the decision to fold the LDA into the GLA is that you will be making significant central savings not having the overhead in having two separate organisations. That will all contribute to the targets that we have to achieve.

John Biggs (Chairman): You talked about the Mayor having greater clout than a junior minister! Has the Mayor been appointed to any Cabinet committees or has an instruction been issued that he can command civil servants in Government? This is a serious question; I just want to understand how that works.

Sir Simon Milton (Deputy Mayor and Chief of Staff): There is soft influence and hard influence and the Mayor, because of his position but also the relationships he has with what are now Secretaries of State and senior ministers across Government, and the access he has because of that, is, in my opinion, at least equal to anything that a junior minister in one Government department would have.

John Biggs (Chairman): It was the case that Ken Livingstone [Mayor of London 2000-2008] was a member of at least one Cabinet committee or he attended at least one previously, so it is not a matter of party politics, and I am not making a trivial point. There may have to be protocols to deal with his interface with all manner of ministers in the absence of a Minister of London, I think that was the point I was making.

Darren Johnson (AM): Following on from some of Richard's [Tracey] questions. When do you expect part of the Government Office for London (GOL) funding to come over to the GLA group?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not know the answer to that, Darren, I would have to write to you. I was actually with a civil servant who is in charge of the winding down of GOL two days ago. I know that work has advanced but I cannot tell you exactly what the budgetary implications for this organisation are.

Darren Johnson (AM): Some of it could be quite imminent; I take it, because whilst some of the devolution proposals require very significant legislative change, if it is simply a matter of

transferring over programme budgets for work that is already being duplicated here, that is a fairly simple administrative matter rather than a major constitutional matter.

Sir Simon Milton (Deputy Mayor and Chief of Staff): You are absolutely correct in that but my understanding is that a lot of what GOL does will simply cease rather than be transferred to other organisations.

Darren Johnson (AM): We might not be seeing very much money at all, if any, coming over the GLA group as a result of GOL's abolition.

Sir Simon Milton (Deputy Mayor and Chief of Staff): That would be my expectation because I am not sure there will be a lot of functions of GOL that would come down to us. They would either stop happening because what GOL does is, in a sense, monitor local authorities on behalf of Government departments. I do not think the current Government is that keen to have an extensive or intrusive system of monitoring as the previous Government did.

Darren Johnson (AM): So, there are very few goodies in it directly for us in terms of GOL's abolition.

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, I would not hold your breath..

Mike Tuffrey (Deputy Chairman): In terms of the Comprehensive Spending Review -(CSR) the way the budget process has been set up is to wait to do the 1.5%, 3% and 5% projections and then see what the Comprehensive Spending Review says and then decide; but does the timing allow for that? Have we got any hard and fast dates as to when the Treasury will come out with the results?

David Gallie (Assistant Director of Finance, GLA): In the Treasury's announcement they were unclear on exactly when the CSR would emerge and, therefore, there are no hard facts available to us.. Probably the key date will remain the local government settlement which we would anticipate would be in early December 2010; but again the Government could potentially announce it slightly later than the dates that we have just set out in the Budget Guidance.

Mike Tuffrey (Deputy Chairman): There will, clearly, then logically have to be a local government settlement announcement even if the Comprehensive Spending Review runs on and does not actually get to the final point. So, they will have to do that and our budget statutory timetable presumably would have to tie into that.

David Gallie (Assistant Director of Finance, GLA): There is a requirement that the Government would need to announce a provisional local government settlement before Christmas 2010.

John Biggs (Chairman): The Budget Guidance for future years points to 1.5% for years 2 and 3, but the announcements to date from Government talk about far greater cuts in funding for the main departments that fund activities at City Hall. So, is that 1.5% for years 2 and 3 realistic? Indeed the IFS pointed to a 4.9% cut when it looked at the projections.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Well, 1.5% was the figure we set a year ago and since then we have revised that to ask the functional bodies to plan not just on the 1.5%, which they knew they were going to have to plan for, but to scenario plan for a higher amount. So, I believe that we have covered ourselves in planning terms by putting in those additional figures.

John Biggs (Chairman): You may need to tighten up those guidelines.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Well, this is a moving target I am afraid.

Mike Tuffrey (Deputy Chairman): My question is around the scope for new initiatives but first can I just check on inflation, with Martin [Clarke] or David [Gallie], because the assumption is nothing is being built in for inflation pay or non-pay so, essentially, it is a kind of cash-limited approach. Nonetheless, what are your projections for the likely or possible pay increases and for non-pay inflation given that, actually, that is now starting to be a bit of a worry nationally?

Martin Clarke (Executive Director of Resources, GLA): You are correct. At the moment we are doing it on a cash-limited basis so the implied rate of inflation that we got over the next two years is the IFS's assumption of 4% which is how they got to their 14%: cuts over 2 years at 5% cuts and then taking into account the 4% inflation. In the planning within the GLA, we are not starting the process that people can anticipate any inflation.

Mike Tuffrey (Deputy Chairman): Yes, so in terms of going back to the previous question, the 1.5%, 3% and 5% is on cash amounts so the real terms cut is more like 4.5%, 7% and 9%.

Martin Clarke (Executive Director of Resources, GLA): Yes.

Mike Tuffrey (Deputy Chairman): OK, which leads neatly into the scope for new initiatives, given that in a sense we are going backwards a long way before we can start going forward. Simon please give us a sense of what you are expecting will, nonetheless, come forward by way of new proposals. I am struck, actually, by the irony that this year we now have the strategic plan, obviously because it has been a work in progress following the change of Mayoralty, so we now have the new vision of the best big city and the honest Government and all of that stuff is now there ready to implement at just the point where the Budget Guidance says, "Do not plan any new initiatives." So how do you square that circle?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Everything that you see in the strategic plan is actually within the existing budgets of the GLA and various functional bodies. So, clearly referring to an earlier answer I gave, what we are keen to do in any reductions exercise is to protect those things that are the Mayoral priorities expressed through the strategic plan. Now, of course, the Mayor being the Mayor has lots of ideas for new things he would like to spend money on which are not in this strategic plan and part of my role and colleagues' role is to see where the trade offs will come so that if something emerges that he believes is important and is not currently in the plan or is unbudgeted then we will have to try to see where

we can find the money from. The areas where I think there is a pressure to spend more is in the whole area of Time for Action and programmes that will continue to prevent youth violence and create greater youth opportunities. There may be other areas where we can find that money from but it is not going to come from new money. It is about reallocating existing budgets.

Mike Tuffrey (Deputy Chairman): Those sorts of things one might deem frontline - they certainly have a frontline impact - other things like well promoted destination and those sorts of things under the competitive London heading, might be thought to be something that is important and nice to have but not absolutely essential to have.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Those are exactly the sorts of trade offs that we are in the process of discussing with the LDA about as well as what the balance of spending more on green programmes versus business support or international promotion, for example.

Mike Tuffrey (Deputy Chairman): Well, to create some space for that, because inevitably there are new ideas and new initiatives, what consideration have you given to looking at current activities and perhaps current new activities in the current year? I am thinking of the £500,000 promoting London project which has caused some debate as a new thing. Now, that is funded from the LDA but, if one is viewing the pot as one, should that be paused or cancelled and something I know the Business Management and Administration Committee (BMAC) was very concerned about, completely cross-parties, was the Digital Projects Director post, which is growth on the back of a reorganisation. Again, the question is: is that absolutely essential given that we are looking at up to 9% real term cuts and still wanting to do new things?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes. It is not for me to tell you which programmes will face reduction today but, clearly, some will. So, we will be doing less of certain things which are deemed to have a lower priority than other projects and that is part of the process of the Mayor making his decisions. We are not yet able to give him all the options because that work is still going on. Inevitably, there will be some things that we will be doing less of.

Mike Tuffrey (Deputy Chairman): Well, that is for the future. I am talking about a mid year review.

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, that is what I am talking about as well.

Mike Tuffrey (Deputy Chairman): OK, thank you.

Gareth Bacon (AM): Slightly linked to that - Simon, yesterday we had a very good and interesting discussion about the Mayor's proposals for devolution and there is, obviously, a budgetary link to that. I am sort of thinking about things like the Port of London Authority (PLA), the Royal Parks, less so, perhaps, the commuter lines because that was more about awarding the franchise than anything else. How much work and thought has gone into whether or not we can take those functions on? I think most Members agreed that we should, or the

Mayor should. I am interested in the budgetary allocation of it. Would it be that we would take those on if the budgets transfer in full?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes, I think they are two separate bodies with separate issues. We have made it clear to the Government we would only take the Royal Parks Agency (RPA) on if they completely passport through the existing budgets for the Royal Parks. What we do not want is to have a cost-shunting on to the GLA.

Gareth Bacon (AM): That is exactly where I was going with that.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes. The Port of London Authority, of course, is self-financing because of the revenues through the money-making operations they have but those are not the things that were the reason for us expressing an interest in the Port of London Authority; we are much more interested than the regulatory function within the London stretch of the river. That is currently subsidised by the other parts of the PLA so there would have to be a discussion as to how that was funded. So, again, one thing we will not be prepared to do is to have cost shunting on to London because all that would happen is that the management of the river would suffer.

Gareth Bacon (AM): Yes, absolutely. OK, that is fine. Thank you.

John Biggs (Chairman): If you found that one or more of those agencies were a source of funds, you would not hesitate to use those up, I assume?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes, although I think our neighbours in Essex might query our right to have the revenues from Tilbury.

Joanne McCartney (AM): Your Budget Guidance does not include any specific instructions to the functional bodies to maintain the frontline services, although in Appendix D it says that any effect on service levels, should the savings be implemented, should be considered. I am wondering are you, therefore, expecting effects on frontline services, in particular any reductions in frontline services?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not think that you could ever rule that out because I do not believe that after two years of the current Mayor that there are vast amounts of untapped inefficiency still to be exploited. It would be quite wrong of me to say that you could never have any reduction in our frontline services because we simply do not know what the level of budgets that we are going to be given are.

Joanne McCartney (AM): Earlier on after John's [Biggs] opening question you said that this coming year you did not expect any operational cutbacks in those functional bodies. I want to ask particularly about the Metropolitan Police Service (MPS) because the Mayor has said, in his policing plan, for the next three years there are certain numbers for police numbers in there. Do you envisage them being maintained or are we looking at further cuts?

Sir Simon Milton (Deputy Mayor and Chief of Staff): My understanding is that we do not expect police numbers to be effected by the in-year reductions that the MPA is being asked to make.

Joanne McCartney (AM): OK, but the budget is next week and the Comprehensive Spending Review could, obviously, change that picture.

Sir Simon Milton (Deputy Mayor and Chief of Staff): We clearly do not know. Remember that the Home Office funding for the Metropolitan Police Service is absolutely critical for what they have to spend and the Home Office does not want to see major reductions in police numbers any more than we do because they will share the responsibility.

Joanne McCartney (AM): Nicholas Griffin has been appointed to look at a reduction in costs across the GLA group - you have talked already about looking at the area of shared services. Often to get benefits out of that, you need initial investment to get long-term benefits. Have you factored in anything for that in the Budget Guidance or the budget, or are you looking at any major investment in any of those programmes?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Spend to save is a fairly well-understood technique and it may well be a requirement for that sort of pump-priming in which case we will need to find that but we have not designated a pot specifically for that.

Joanne McCartney (AM): Other than shared services, has he been able to identify any major savings so far?

Sir Simon Milton (Deputy Mayor and Chief of Staff): It is work in progress. I do not want to speak for him. I think that one of the things that he believes is that the organisation could benefit from a clearer sense of prioritisation, so that we can be more efficient just by the way we prioritise and, therefore, making sure that the most important frontline services are protected.

Joanne McCartney (AM): In the normal budget calendar there would be consultation in the autumn to early winter. Given that the Government has said it is going to do a public consultation exercise about which areas the public would like to see cuts - although like is probably the wrong word to use - are you envisaging any changes to the normal budget consultation this year?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not know the answer to that. The Government programme is extremely new as a concept and we are waiting to see how that will be carried out. It is a very novel idea and could be something that is incredibly useful and helpful, but we have an obligation to hit certain deadlines for setting budgets and that drives the consultation process. I am not aware that we are planning to change that as yet. Is that correct, Martin [Clarke]?

Martin Clarke (Executive Director of Resources, GLA): Yes, we have not got any plans to change the substance because the timetables do get driven by things like the local government's finance settlements, having to respond to that and the statutory timetable laid

out in the GLA Act. What we are trying to do in setting out this guidance is trying to make the information more comprehensive.

So, if you read through the guidance hoping to have much better, say, developed capital programmes, at the same time as we are going now with the revenue programmes. So, joining up the information.

When we go out to consultation we want to give consultees the full picture rather than, "Here is the revenue budgets and here is a separate process on the capital." We will have to dovetail that with the various statutory requirements and I think just keep an open mind depending what the outcome for certain settlements is in December 2010. Depending on the outcome there might be scenarios where we might want to pose some more specific questions seeking views, but the timetable consultation, mid-December 2010 to mid-January 2011, really has to be met.

Darren Johnson (AM): The Budget Guidance is clear that the Mayor has identified policing, transport and housing as the top priorities against cuts. Where does this leave work on climate change?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Most of the spend on climate change, as you know, takes place through the London Development Agency and we are waiting to see what budgets are available before that from central Government and it is too early to say that. We have a number of programmes that are in train which we believe the Government will want to continue to support, particularly the retrofitting programmes.

Darren Johnson (AM): So, you are making the case to Government to continue funding those. Are you also hoping that the administrative savings from winding up the LDA as a separate body can then be used for completing the climate change programme?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I am sure those savings will be allocated to ensure that we deliver the Mayor's priorities and one of the Mayor's priorities is to achieve the 60% carbon dioxide reduction target. Part of achieving that means driving forward on the big programmes that are in place. The position we are in at the moment on green and environmental programmes is we now have a very clear idea about the direction we are taking. We have the big programmes in place that we believe are going to deliver so now it is about ensuring that those programmes continue to be resourced and continue to work effectively.

Darren Johnson (AM): So, you have a clear idea in terms of the direction of travel but you cannot offer any clear assurances at the moment that the programmes will continue with the same level of funding.

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not think anyone can give you that guarantee at the moment, but we are looking at how to ensure that those programmes will continue with the same level of funding but, perhaps, with that funding drawn from different sources.

Darren Johnson (AM): Given the importance of this, why was this not made one of the key priorities for the Mayor to safeguard against cuts then? Why was this not a fourth priority?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Because I think the Mayor believes that priorities are the most effective when they are small in number.

Darren Johnson (AM): So, it is not that important then?

Sir Simon Milton (Deputy Mayor and Chief of Staff): It is important.

Darren Johnson (AM): Not important enough to get in to the big three?

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, it is important, Darren and a great deal of work is going on behind the scenes to identify the funds which will allow those programmes to be delivered. The truth is that the Government has ambitious carbon reduction targets, as we do, and they will only be hit if we work together.

Darren Johnson (AM): OK.

Mike Tuffrey (Deputy Chairman): Did you say that there were three priority areas that you were protecting?

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, Darren said that.

Mike Tuffrey (Deputy Chairman): Yes, exactly, that is what confused me. The only two areas that seem to me to be protected (in a ring-fencing term) are the Olympics and the elections, which struck me as odd. The Olympics are terribly important and the elections are terribly important, but surely no more important than youth crime or climate change or anything else. So, why ring-fence them away from the strictures of saying, "Find efficiencies"?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not think that is what we have said, with all due respect. Everywhere should be finding efficiencies, including the Olympics' budget which is a constant source of discussion about how we can do things more cheaply and how we can do things more efficiently, but also the elections budget. I know the Chief Executive [Leo Boland] is looking at ways to make sure that we do not keep aside more money than we need to to run an efficient set of elections.

I think language is quite important, if I may; words like ring-fenced and protected will have meanings which I do not think we should be sloppy about. The truth is that in the situation that the country is in and that the Government finds itself - and that we and other public services find ourselves - nothing is ring-fenced and protected; everything has to be examined and everything has to be gone through.

Mike Tuffrey (Deputy Chairman): I share that view and it is interesting that in the national election things like the Health Service was ring-fenced and frontline services would be

protected, and I understand why these things are said and need to be said. The truth is logically nothing should be exempt from savings. It does actually say in paragraph 12.4,

“It is proposed that the direct budgets in respect of the elections and the preparations for the Olympics and Paralympic Games are exempt from these savings requirements.”

It goes on to say,

“However, both these services need to maintain their costs and contain any growth within existing approved budgets.”

So, it does not say, “However, they must still, nonetheless, try to find efficiencies.” So, I hope they are not going to be exempt or ring-fenced or protected.

Sir Simon Milton (Deputy Mayor and Chief of Staff): That is, of course, reference just to the GLA budget which is the smallest budget of all.

Mike Tuffrey (Deputy Chairman): On the Olympics, .

I was not referring to the London Organising Committee for the Olympic and Paralympic Games (LOCOG), the Olympic Delivery Authority (ODA) and all that. I was just meaning the growing amounts that people keep coming and saying, “Ah, but we need this for this and that over and above the £9 billion,” or whatever it is.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Well, I do not think anyone has asked for anything over and above £9.3 billion.

Mike Tuffrey (Deputy Chairman): Neale Coleman [Director of London 2012 and the Mayor’s Advisor on London 2012] came before the Committee last time and I recall there is a great shopping list of things that we need to be spending from here. I am a bit sceptical, as I think all Members are, actually, about extra spending on the Olympics outside of the approved £9.3 billion.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Well, I am afraid I am not sure I can add anything to what I have said.

Mike Tuffrey (Deputy Chairman): OK.

Darren Johnson (AM): I would just like to clarify that I did not talk about ring-fencing; I talked about what the Mayor’s publicly stated priorities were and I was never suggesting that the Mayor said those were ring-fenced; it is just that he was clear about making those priorities.

Sir Simon Milton (Deputy Mayor and Chief of Staff): With respect, those were not your comments I was referring to then.

Mike Tuffrey (Deputy Chairman): That is fine. What view do you have about, effectively resource transfer between functional bodies? I think it was Eric **Ollerenshaw**(MP [Member of Parliament for Lancaster and Fleetwood]), who coined the phrase some years ago - that the LDA was the previous Mayor's either chequebook or credit card!

Gareth Bacon (AM): Piggy bank.

Mike Tuffrey (Deputy Chairman): Piggy bank! Effectively the folding in is that you are talking over the bank.

Sir Simon Milton (Deputy Mayor and Chief of Staff): A smaller bank than has existed.

Mike Tuffrey (Deputy Chairman): Exactly! What is your feeling in terms of Transport for London - who we are about to move on to - if revenues are, because of increased ridership, more buoyant because of fare increases, inflation and so forth. Do you envisage that as a new piggy bank, as a source of bringing money somehow into this place?

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, I do not think we do, but, of course, the cross currents of business that happen between functional bodies is something that already exists and is quite complex, possibly the largest relationship financially is between TfL and the MPA to do with policing on public transport. So, there are these relationships that exist already and, if you like, are ways in which different parts of the organisation do not subsidise each other but collaborate financially to achieve a certain outcome.

Mike Tuffrey (Deputy Chairman): Fine, we will scrutinise that, but you are saying that you do not have a kind of plan to move resources around and so forth over and above what we have now seen?

Sir Simon Milton (Deputy Mayor and Chief of Staff): If TfL had the resources we might do, but unfortunately they are all spoken for.

Mike Tuffrey (Deputy Chairman): OK, well we will no doubt want to scrutinise the flows carefully, which brings me to my final supplementary which is on the process. Because of the budget timetable having been brought forward, you will in October 2010 have a kind of base budget earlier than normal. I think it would be helpful to have some process of seeing what that looks like so that our work can be brought forward. Is there going to be a problem with that?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not think there will be a problem. The reason for starting earlier is not because we think we can finish earlier, it is because we think there is going to be a rockier and more difficult path to follow.

Mike Tuffrey (Deputy Chairman): So with the caveats that it is only a base budget and it is before the spending announcements, I think a process by which we can see what that is saying and what the consequences of that are and how we direct our work in the closing months would be helpful. Thank you.

John Biggs (Chairman): OK, just to tidy up a previous question, implicit in your reply on the question of whether some of the things transferred to City Hall might be cash cows, if you like, your reply suggested that maybe the PLA might be viewed as such a beast.

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, I simply do not think it would. It would be lovely to think that we would be given a surplus-generating service but I simply do not imagine that that is going to happen. I also think that there are different ways in which the Mayor's aspiration for achieving greater influence over the operation of the river could be achieved. We have asked for the big option, which is to have the PLA devolved to the Mayor, but there may well be other solutions short of that which the Government would find easier to do (for example, simply by giving us nomination rights to a certain number of places on the PLA Board).

John Biggs (Chairman): It is not the main business of this Committee but it has a statutory basis which, sort of, ring-fences itself and finances itself, but it also has enormous land holdings and, potentially, is a source of finances if one was to be imaginative.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes, which is why, I think, that part of the ask document may be more ambitious than other elements of that document.

John Biggs (Chairman): When we wrote to each of the functional bodies, and I know you will be acquainted with this correspondence, we asked for examples of innovation in their response to the challenges from the budgets. We had what I think could be described as a nil response, basically. Can you help us with this? Why are they so un-innovative?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Well, I think they are extremely innovative, but, just off the top of my head, I cannot give you an instant list of examples. If you are having difficulty getting the information out of the functional bodies then I will do my best to get them to respond. There are examples of things like tax-increment financing in the LDA and there are various innovations which they are looking at such as things like the green fund. There is a lot of innovatory work going on.

John Biggs (Chairman): Innovation in this instance driven substantially by the budget pressures that we have.

Sir Simon Milton (Deputy Mayor and Chief of Staff): We are all going to have to think quite imaginatively about how we achieve the kinds of reductions that are needed. I think, as far as the GLA is concerned, some of that imagination needs to be directed towards how we work with the boroughs.

John Biggs (Chairman): That is helpful and that is perhaps another area for work in the future. For the record by the way, there seemed to be a hint - because no one interrupted - of a consensus that we have some sort of economic catastrophe which we are responding to. Not all of us take the view we are in a manageable position, as was the case before 6 May 2010 and as remains the case now. There is a certain amount of shroud waving for political purposes and I think we all recognise that that is the case.

I think you know implicitly that is the case and perhaps elsewhere we can discuss these matters but I just wanted to put that down; that there is not a settled consensus at this Committee across all the parties that we have some economic catastrophe that suddenly appeared on 7 May 2010 and did not exist before 6 May 2010.

Gareth Bacon (AM): It appeared about 13 years ago and carried on.

John Biggs (Chairman): You should be careful you do not believe your own rhetoric, Gareth.

Andrew Boff (AM): Could you tell me under what conditions the Mayor would consider a rise in the council tax precept?

Sir Simon Milton (Deputy Mayor and Chief of Staff): It is too early to talk about the Mayor's plans for the council tax precept. In previous years he has been in a position to make public announcements in the autumn but I suspect that that is going to be delayed this year. You know that the Mayor's preference is to bear down on council tax and to do whatever he can to ensure that Londoners are protected from that tax, whilst sadly they may not be protected from increases in other taxes. In order to do that we are going to have to work extremely hard and I just think it is going to go right down to the wire to know what the tax implications are.

Andrew Boff (AM): Do you, or the Mayor, have any established tests to apply to the budget situation which would then trigger a decision then to increase the precept?

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, I do not think politicians make decisions around a set of technical tests when it comes to tax policy because a lot of this is about what you feel is the right thing to do given the set of circumstances. The Mayor is not somebody who will want to see frontline services crash in order to artificially maintain a low council tax. So, in any decision around tax it is a balance between making sure that London is able to receive the services it needs, that it is able to stay competitive and to stay safe to achieve his objectives but to do so in a low-tax environment. The issue of where you draw the line in achieving that balance is ultimately the biggest test for any politician who is in a decision-making position.

Andrew Boff (AM): In terms of the Mayor's preferences you are saying that he has a preference not to resort to increasing the precept - I do not want to put words in your mouth - but looking at all other factors before addressing that. Is that the last thing he is going to look at in order to fund the frontline services?

Sir Simon Milton (Deputy Mayor and Chief of Staff): He wants to make sure that London has the frontline services it needs to maintain a good quality of life and to stay competitive, but to do so within a low-tax environment. I am not going to be drawn any further down that line because that is the biggest decision that the Mayor has got to make and he has got to come to that view in his own mind.

Andrew Boff (AM): I entirely understand that and I entirely understand you cannot give me figures and you cannot give me concrete answers such as, "Oh, he wants to put it up; he wants

to put it down; he wants to keep it the same," but it is the factors that he is going to be considering at the time. What I am trying to get an idea of is how he will apply the tests? You say that we cannot perhaps write down the tests but we all apply them in our own minds whenever we make a decision.

Sir Simon Milton (Deputy Mayor and Chief of Staff): What might be helpful for your Committee is if I simply say that the Mayor has not ruled out the possibility that council tax precept may need to go up.

John Biggs (Chairman): Is there not a clear direction from Government that council tax will be frozen across the land this year?

Mike Tuffrey (Deputy Chairman): The Coalition agreement, which is the point I was about to make, includes a commitment to freeze this year and an aim for one next year. I was amused to see that it immediately followed the commitment to let councils have more freedom over their own decision making. Leaving that aside, the crucial thing, therefore, is to ensure that the Government's funding grants are based on that assumption rather than assuming somehow that council tax is going to go up and then tell them they cannot put it up.

Andrew Boff (AM): Also one is assuming that that applies to a precept rather than an actual raising of tax.

John Biggs (Chairman): Well, one assumes that it does.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Mike, all I can say is that the Mayor would be delighted to accede to the Coalition's wish for there to be no council tax increase but it will very much depend on the things you have said.

Mike Tuffrey (Deputy Chairman): On the money.

John Biggs (Chairman): He may have to be directed by the Government to do that then.

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not believe that the Government is trying to direct. It is simply, as I understand it, saying that the funding will be on the assumption there will be no increase.

Andrew Boff (AM): I would also like to ask to what extent fares, or the level of fares, on TfL are going to be significant in trying to keep the budget under control for TfL?

Sir Simon Milton (Deputy Mayor and Chief of Staff): The Mayor has published his strategy for fares which is Retail Prices Index (RPI) +2% for the next two or three years. He certainly has no intention of going above that.

Andrew Boff (AM): RPI +2% is a limit or a target?

Sir Simon Milton (Deputy Mayor and Chief of Staff): It is a limit.

John Biggs (Chairman): Could you clarify this Government grant relationship with precept?

Sir Simon Milton (Deputy Mayor and Chief of Staff): No, I cannot because the Government has not clarified it. We are a body that is 95% funded by Government grant.

John Biggs (Chairman): But the Coalition agreement was that there would be a presumption that there would be no increase.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Yes, before the election, because I remember at the time having some discussions with the Conservative front bench when I was still local government, the presumption then was that there would be a 0% increase and that would be as a result of funding that had been identified that would allow that to happen. I do not believe that we could necessarily rely on that given the new financial circumstances we find ourselves in.

Andrew Boff (AM): Mike touched on the Olympics earlier; there are a lot of schemes that are not within the Olympic budget that are optional such as the London Media Centre. To what extent will they be looked at, not just in terms of reducing their cost but with the possibility of deciding not to go ahead with such schemes on the basis of the financial pressures? I am talking about schemes that are not about the delivery of the Olympics but are the icing on the cake.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Everything that is not contractually committed through the agreement with the International Olympic Committee (IOC) is, in a sense, discretionary and, therefore, has to be tested against the criterion to whether it is (a) good value for money and (b) is it a priority when measured against other priorities that the Mayor might have.

Andrew Boff (AM): That exercise, to any extent, has already been done otherwise we would not have the schemes in place. Are we going to, at any point, be looking again at those schemes bearing in mind the last time the London Media Centre was looked at, for example, and there are other schemes as well, was well before the Coalition's decision to reduce funding?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I think the London Media Centre has been looked at and it has been judged to be something which, whilst discretionary, is extremely important to ensuring that London has a successful Games but also that will contribute to the future competitiveness of London. So, premises have been looked for and I believe that there is a preferred premises that has been identified and I think that is likely to go ahead.

Andrew Boff (AM): You are not going to look at these schemes again?

John Biggs (Chairman): We do not want to wander from the Budget and Performance Committee's remit too far.

Andrew Boff (AM): Yes. I am just saying, are you going to be refreshing your look at all these schemes for which you have previously made a decision, bearing in mind the Coalition has now delivered its strictures to us?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I think there is a constant process and I think that that particular project has come through it and been deemed to be something that we need to carry on with.

John Biggs (Chairman): For the record, I see it more as a hostage arrangement than a coalition!

Murad Qureshi (AM): Whilst Andrew has mentioned the Olympic precept, I thought it was just worth asking Simon and you may not know the answer - apart from the Olympic precept from the council taxpayer,s we are also reliant on the lottery funds. I am just wondering if that is coming in-stream as anticipated ?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I am afraid I do not know. Can I write to you about that?

Murad Qureshi (AM): Yes, that is what I suspected. I suspect it probably has, given how addicted some people are to lottery tickets. There was no scope of making revenue claims on that?

Sir Simon Milton (Deputy Mayor and Chief of Staff): I do not believe that we could because there are some very clear memoranda that were signed around the financing as to where surpluses go and who gets preference. I do not think that we could look to that as a rescue fund.

Murad Qureshi (AM): It would also be quite useful if the lottery people were asked to attend the Budget and Performance Committee at some point in the future Chairman. I think they form a critical element of the Olympic funding.

John Biggs (Chairman): I suppose there is a wrap up question on it, which is, Sir Simon, whether there are any other areas of revenue risk that worry you in the budget-position that we are in, outside of Government grants ?.

Sir Simon Milton (Deputy Mayor and Chief of Staff): The biggest revenue risk, of course, is income from bus and Tube ridership and you will be able to find out how that is going with your next session, but that is the other major source of income.

John Biggs (Chairman): Business rates income?

Sir Simon Milton (Deputy Mayor and Chief of Staff): Well we, of course, do not collect the business rates. The Government --

John Biggs (Chairman): Well, but we give guarantees to the Crossrail funding agreement.

Sir Simon Milton (Deputy Mayor and Chief of Staff): Oh, I beg your pardon, yes, you are absolutely right. The supplementary business rate which we have calculated when we were

setting it up on the basis that there will be a recession impact – that is within the margins of tolerance of the figures. There is one other issue which I think the Committee should keep an eye on, and that is the Coalition’s desire to see the business rate growth retained locally for a period of years. In London my understanding is that they believe that business rate growth should be shared between the boroughs and regional government. There is no mechanism as yet for how that is going to happen but that is a direction and that is something which would be, in due course, another stream of revenue, although I suspect it would be counteracted by a reduction in central government grant.

John Biggs (Chairman): I would like to thank you very much, Sir Simon, for coming.

**Budget and Performance Committee
17 June 2010**

Transcript of Item 9: Public Transport Demand, Revenue and the Fares Decision

Murad Qureshi (AM): Just looking at the figures, there is clearly a strong demand still for public transport, so could I ask you both where did the strong demand for public transport come from which resulted in higher than anticipated income through the fare box?

Shashi Verma (Director of Fares and Ticketing, TfL): I do not think I would agree with you that there is a very strong demand. What has happened is that there is stronger demand compared to what we were projecting six months ago. It is not a happy situation in terms of strong demand. We have been through a period successively over the last few years where we have had to reduce our forecasts on demand every time we have done a re-forecast. What we are seeing more recently is that there seems to be some respite from that downward trend in demand. There is a bit of an increase in year-on-year growth in demand now but you have to keep in mind that this time last year demand was looking incredibly soft. So, this is year-on-year increase from a point where demand was almost as low for many, many years.

Murad Qureshi (AM): I am just looking at the figures here and it shows that in Quarter 4 of 2009/10 on the Tube revenues they actually went up by £26 million, on the buses they went up by £23 million and overall there has been a 3% growth on the back of 3.4% increase on fares across Tubes and buses. So, that is the context on which I made that comment at the beginning of the question. Do you at least know where the substitution is happening? Is it at the expense of black cabs, for example, or is it people transferring from private vehicles into public transport?

Shashi Verma (Director of Fares and Ticketing, TfL): It is not clear that this is substitution. What we were facing last year, and what we have been facing for the last few years, is a gross reduction in demand because of a reduction in employment in central London which drives the Tube to a very large extent and we have seen a slight reversal in that trend over the last few months. It is not a trend that is well-established right now and those numbers are recorded having had a fares increase in January 2010 - it is not a very large number. So, there is no clear evidence yet that what we are seeing is a result of substitution. It is probably more to do with just a gross increase in demand.

Murad Qureshi (AM): Just anecdotally, I think there are longer and longer queues for black cabs in stations so I think there may be some of that happening but I do not have any figures to substantiate that claim. Just looking at it, broadly speaking, when you were advising the Mayor last time you got the direction wrong, you were suggesting demand would go down rather than go up. So, I would suggest that actually things are very price inelastic - we have got a cash cow here, basically.

Steve Allen (Managing Director of Finance, TfL): I do not think it is right to say the direction was wrong. Demand did go down last year; it is the recovery from the very low point that has been slightly stronger than we had anticipated at the time we set the business plan last year. The Tube patronage was down 2.3% on the previous year so it was an aggregate reduction in demand. It is very slightly down now compared to the previous years. It is certainly not the direction that is wrong. It might be the recovery back from the very trough of the low-demand point, which was in the early part of the summer last year, which has been slightly stronger than we anticipated at the time we set the business plan.

Murad Qureshi (AM): We can now come to what we you are anticipating in 2010/11 on the back of the budget in November 2010?

Shashi Verma (Director of Fares and Ticketing, TfL): The numbers are all in the business plan. We are expecting a little bit of a growth this year. We were expecting a small decline in bus demand following the fare increase in January 2010 and instead what we have seen is the decrease in demand that has not been quite as large as we thought. So, I would take the point that you made about the fares elasticity. It is not clear that you can compute fares elasticity based on just three months' of data, but having said that we are expecting small amounts of growth in both the Underground and bus demand this year. They are very small amounts and we have to keep in mind that they are very small increases from a very low base last year.

Murad Qureshi (AM): I only make that comment, pricing elastic, because I do recollect in a previous term a similar thing happening under the previous Mayor. My final comment here is that this is, essentially, looking like quite a good cash cow and that is why I think some of my other colleagues were suggesting to Sir Simon Milton [Deputy Mayor and Chief of Staff] that it may be a possible source of subsidising other things across the GLA activities. How conscious are you that you may have reached the point at which you have milked it as much as you can? It sounds to me what we have got is accountants looking at it rather than economists at TfL.

Steve Allen (Managing Director of Finance, TfL): I am not sure I would recognise the description of it being a cash cow that we are seeking to milk. Particularly if you look at the bus network which runs at an operating loss; so that does not seem to me to fit the description of a cash cow. The more passengers we have, particularly in the morning peak, the more service we have to run and the higher our costs. So, actually from a purely financial point of view, having extra patronage on buses is not necessarily a good thing. The Underground is slightly more complicated because a lot of the funding is going towards the upgrade and its fixed costs of operations are rather more fixed than the bus network's. Overall, TfL runs with substantial amounts of public subsidy so it is not quite the cash cow that you perhaps present it as.

John Biggs (Chairman): If we look at last year's forecast and the outturn, we achieve something like £60 million more in fares revenue than we had anticipated. You are saying you are not yet at a stage where you can anticipate any such trend this year.

Shashi Verma (Director of Fares and Ticketing, TfL): It depends on which forecast you are looking at. Compared to the budget last year we did not do too well because through the year demand was softening. If you look at the forecasts that we made in mid-year last year, so

around the time that we did the business plan in September 2009, compared to that the outturn was a bit higher.

I think, Chairman, you will recall that we have said at previous hearings here that in the current uncertain economic environment, forecasting demand is an art more than a science. We rely upon external forecasts of Gross Domestic Product (GDP) and employment which I think you would all recognise have been bouncing around all over the place. Now, those are external inputs which are not within our control and we are not in the business of trying to forecast what is going to happen with the economy or with employment in London. So, as long as those external forecasts remain uncertain there will be a degree of uncertainty on our revenue forecasts.

John Biggs (Chairman): What were your budget figures at the beginning of last year then in your opening budget for bus and Underground revenue?

Shashi Verma (Director of Fares and Ticketing, TfL): I can provide those numbers to you separately; I do not have them to hand right now.

John Biggs (Chairman): You are saying then that although you were £60 million up on your business plan, you were actually down over the year?

Shashi Verma (Director of Fares and Ticketing, TfL): Yes.

I can provide you with those numbers. I think we have to look at the budget that was approved in February 2009 and the outturn for 2009/10 and we were under the budget number.

John Biggs (Chairman): So, it is a fair assumption that your business plan is a pretty floppy document then, really?

Steve Allen (Managing Director of Finance, TfL): No, there was a fairly major revision during the course of the year in response to the very steep decline in patronage that we had in the early part of last summer. That was adopted in the business plan. We did not formally change the budget that had been adopted the previous March. So, if you compare back to the annual budget our revenue numbers were below what had originally been budgeted but they were slightly stronger, as I think has been identified, than our assumptions at the time of revising the business plan. Obviously, the fares increases were factored into the business plan assumption.

John Biggs (Chairman): In this very room yesterday people were suggesting that TfL was not the most transparent organisation in the world. The budget that you are talking about, is that the one that came in front of the Assembly or the one that was then agreed by the Board of TfL, which are two different documents?

Steve Allen (Managing Director of Finance, TfL): I am talking about the budget that was agreed by the Board of TfL.

John Biggs (Chairman): Right, so there was a budget presented to the Assembly which was not the budget adopted by the TfL Board which was then found to be overly pessimistic, and was revised in the business plan.

Steve Allen (Managing Director of Finance, TfL): No, the other way round. Demand during the course of the financial year 2009/10 - so compared to the budget that the Board adopted in March 2009 - showed a very steep decline in patronage in the early part of last summer. Although the Board did not formally revise the budget, they did, in adopting a business plan in the autumn which is the normal cycle, look at forecast outturn on revenues in light of those demand reductions and the Mayor at that time agreed to the fares increases that were implemented in January 2010. The result of those were slightly stronger performance on the revenue side than we had anticipated at the time those revisions to the business plan were adopted.

John Biggs (Chairman): Still down.

Steve Allen (Managing Director of Finance, TfL): Still down compared to the original budget, yes.

John Biggs (Chairman): So, your budget for this year started on those rather shaky foundations. Am I right that this year there are two different budgets: one that was agreed by the Mayor and the Assembly and another which was then agreed by the TfL Board?

Shashi Verma (Director of Fares and Ticketing, TfL): Between September 2009 when the forecasts for the business plan were done and February 2010 when the forecasts for the budget were done, we took into account the slight increase in patronage that we saw between August 2009 and January 2010. The budget is based upon those forecasts. Now, I will repeat myself by saying that it is a very uncertain time when our patronage changes day by day for factors that are not within our control. There will be a degree of uncertainty in the forecasts that we put together on patronage.

Steve Allen (Managing Director of Finance, TfL): I think if you look at anybody's economic forecasts over the last 12 months or so you will be hard pressed to find anybody who has been particularly accurate. The other point I would make just on the financial impact of these changes is that we are talking about the upside on the revenue compared to the business plan that we adopted in the autumn of last year. There has been an impact on inflation. Inflation has been much higher than anybody was forecasting around autumn last year, so we had assumed for this financial year inflation would be slightly negative - I think about -0.5% - it is actually, as you know, running much higher than that and that clearly has an impact on our cost base because a lot of our costs are related to inflation. The net financial position on TfL will be much lower.

John Biggs (Chairman): So, you will understand my confusion, perhaps, that TfL seems to have four or five different budgets during any one year!

Steve Allen (Managing Director of Finance, TfL): No, we only have one budget. We have one published budget

John Biggs (Chairman): Well, no you do not because you have one that is published as part of the Mayor's consultation on budget making which is close to but not the same as the budget that is then adopted by TfL and which some Members of the Assembly feel is an abuse of the process, if you like. Although we are happy that there may be technical reasons but we are not happy with the process by which we end up in that position.

Steve Allen (Managing Director of Finance, TfL): Well, we submit our numbers to the Mayor's budget process in October/November of the prior year when the TfL Board comes to formally adopt its annual budget which is in the March before the year in question. It seems appropriate to me, notwithstanding comments about the process, that they should do so on the basis of the latest information about the general economy and what impact that is likely to have on revenues. To simply ignore changes that have occurred in the last five or six months would seem a very strange thing for a board to do.

John Biggs (Chairman): Although it is good enough for the Assembly and the Mayor.

Steve Allen (Managing Director of Finance, TfL): I believe the numbers are rather different in respect of TfL as you have been identifying.

John Biggs (Chairman): To absolutely summarise this section then, we had a recession that came along, we looked at previous recessions, at starting; assumption was that this might be like previous ones, we then made predictions on revenues and fares and behaviour but, like all recessions, they are not the same as the previous one and we have been trying to catch up and understand people's behaviour and the effects on revenue. Is that fair?

Shashi Verma (Director of Fares and Ticketing, TfL): Well, that is not the only thing that we do. We obviously look at what has happened to patronage during previous incidents, whether that is recession or other incidents of this kind. Our forecasts for future revenue are based on forecasts from the Bank of England about the future of the economy and the future of inflation and forecasts from GLA Economics and the Office for National Statistics on employment. So, it is not simply a question of looking at the last recession and forecasting on that basis. It is also taking into account the future projections of population, employment and the economy coming from independent sources.

John Biggs (Chairman): We are still not very good at it though.

Shashi Verma (Director of Fares and Ticketing, TfL): I do not think anyone has been good at forecasting what is happening with the economy.

John Biggs (Chairman): I will take that as a yes.

Mike Tuffrey (Deputy Chairman): So, still looking at current rather than future figures, could you just list, and then we might dig into a couple of them, the other factors affecting TfL

finances in the current environment other than fares in terms of currently this year? I have my little checklist but I was intrigued as to what you would say rather than me asking you about the ones we have thought of. I am looking at big ticket things not the price of paper clips, obviously.

Steve Allen (Managing Director of Finance, TfL): OK, well clearly I suppose the two biggest ticket items are what is happening and what might happen prospectively around Government support through the process of the Comprehensive Spending Review (CSR). The second biggest ticket item would be around Tube investment and particularly the impact of the proposed acquisition of Tube Lines and future plans for investment after that acquisition. Inflation, as I have already mentioned, is a big impact on us because a large proportion of our costs are directly or indirectly inflation linked. I could go on, there are then the usual business pressures around particular projects and how you manage those and so forth.

Mike Tuffrey (Deputy Chairman): Well, the good news is that accords pretty much with my list so let us just dig in to the Government grant situation. We were talking earlier about the £108 million - I am not sure whether you had arrived here at the point that we had spoken about that - and the feeling that that could be accommodated within your overall billions, particularly since some reduction was anticipated. So, would it be fair to say that you are not losing a lot of sleep over the £108 million that you have been asked to do in this year?

Steve Allen (Managing Director of Finance, TfL): Yes, that would be fair. Clearly, we already have a substantial efficiencies programme, as you know, and we have a target this year of driving out more than half a billion of efficiencies. So, finding another £100 million or so is clearly an additional challenge. If you consider that in isolation as a one-off thing, in a budget of £9 billion that is not necessarily too difficult; more significant is what might come prospectively through the Spending Review.

Mike Tuffrey (Deputy Chairman): In relation to the £108 million, the Mayor was careful to tell us a couple of weeks ago that he did not see that as a cut in effective services. It clearly is a cut but he seemed at that point to be happy that the £108 million, as it were, could be accommodated without, certainly, travelling Londoners noticing.

Steve Allen (Managing Director of Finance, TfL): He has been very clear that he does not believe that it should lead to any cut in frontline services or that there should be any impact on fares as a result of that.

Mike Tuffrey (Deputy Chairman): So, let us take your next point, which is what is coming down the tracks, obviously the processes are unfolding, Comprehensive Spending Review, The Institute for Fiscal Studies (IFS) predictions etc. Tell us what the scenarios are you are looking at - from a light dusting of snow type scenario through to the full arctic winter.

Steve Allen (Managing Director of Finance, TfL): I do not think I have any particular great insight into that. To be clear, we have not been consulted by the Department for Transport (DfT) or the Treasury on any specific numbers at this point. We have seen the framework that the Treasury has published for the Spending Review but we have not seen anymore detail than

that. I think we anticipate there might be a bit more to come next week in the budget. So, effectively we are looking at the same numbers, for example the IFS projections that you mention that everybody else is looking at and planning around those scenarios. They talk around transport in general and there is a separate question as to whether Transport for London's grant is in line with the Department for Transport's impact on their settlement. They certainly talk about 15% to 20% a year reduction on annual spends.

Mike Tuffrey (Deputy Chairman): That 15% or 20% translated into the TfL grant is how much in cash terms?

Steve Allen (Managing Director of Finance, TfL): Well they are talking £500 million to £600 million on the year.

Mike Tuffrey (Deputy Chairman): So, the thermal underwear is being taken down off the top shelf - to mix my metaphors wildly. In other words it will be a lot more than the light dusting of snow that Peter Hendy was talking about.

Steve Allen (Managing Director of Finance, TfL): Well, clearly I do not think anybody could undertake that, or we could absorb that sort of level of cut without an impact on services and investment, or something of that nature.

Richard Tracey (AM): Are you actually optimistic about the acquisition of Tube Lines and what effect that will have on the Tube upgrades and the cost of it? Also, of course, Crossrail which had been much talked about and possible changes both ways, both a reduction and even, of course, we have been suggesting that there should be greater contributions from those towns outside the Greater London area.

Steve Allen (Managing Director of Finance, TfL): On Tube Lines, clearly I am optimistic about what that means in terms of managing the cost of the investment in the upgrades because that is the very reason why we are proceeding with the acquisition, in order to give us more direct control over the delivery of those upgrades, flexibility to manage the works more directly and we have demonstrated to our Board that over the course of our business plan we expect to save money following that acquisition compared to if Tube Lines had continued in the present form.

On Crossrail we are very much heartened by the strong support that the Secretary of State has given to the project. Clearly, that comes with a commitment to look at value engineering and other ways to continue to deliver the whole project, but perhaps to look for scope for cost reductions in certain aspects of it. That is something that Crossrail Company are obviously working very closely with ourselves and with the Department for Transport on. I think we would support the general principle that you mentioned; that those communities that are outside the London boundary that will benefit from the building of Crossrail should also contribute to its funding. That is clearly not something we at TfL have any control over because it is outside the London boundary.

Richard Tracey (AM): You can lobby for it the same as we are.

Steve Allen (Managing Director of Finance, TfL): Yes. If you were to extend the supplementary business rate regime that the Mayor has introduced within London, the amount of funding that you would get in the relevant parts of the project outside the London boundary are quite small, so it would not have a dramatic impact on the funding. It is probably more a question of principle than anything that is going to fundamentally change the funding model for Crossrail.

John Biggs (Chairman): As I understand Crossrail is everyone's favourite political priority, which is fine; I think it is a great scheme; it certainly helps my constituents among others. We are keen for Crossrail to be built, and we are, if you like, putting a very firm fence around the funding arrangements for Crossrail - that is my sort of assumption.

Steve Allen (Managing Director of Finance, TfL): For practical reasons, a lot of the funding for Crossrail is ring-fenced anyway. For example, the supplementary business rate that you were talking to Simon about, is very specifically being raised for Crossrail. If you do not build Crossrail it is not clear that you would get the business for it.

John Biggs (Chairman): I suppose I was thinking more of the £29 billion or whatever it was that was agreed in a funding settlement some time ago.

Steve Allen (Managing Director of Finance, TfL): £39 billion.

John Biggs (Chairman): As part of that there is the funding for Crossrail which is £3 billion, £4 billion or £5 billion.

Steve Allen (Managing Director of Finance, TfL): Yes, actually the £39 billion is the Government settlement with TfL so I do not think that number includes the direct Government contribution of about £5 billion into Crossrail.

It includes the borrowing that TfL will raise for Crossrail off future fare income. It also does not include the GLA borrowing against the supplementary business rate.

John Biggs (Chairman): Right, which I think sort of feeds, in my confused mind, into the beginning of Mike's [Tuffrey] question to you about Tube Lines and the Public Private Partnership (PPP). It suggests that there might be greater pressure on those budgets as a consequence of ring-fencing or protecting funding for Crossrail. Mike you can ask it better than me.

Mike Tuffrey (Deputy Chairman): Well, I will add my question to that one and see what your answer is. I was concerned to understand the extent of cost to TfL of taking this in-house now the £310 million is essentially purchasing the shares. Can you just confirm on the record that there are no borrowings that TfL would not have otherwise had to pick up that you are taking over as part of the purchase? Often these deals are structured to be a certain amount plus the taking of the debt onto your own books.

Steve Allen (Managing Director of Finance, TfL): Tube Lines' debt was already on our own books; it is an on balance sheet PPP project, so it is recognised in a slightly complicated way. It is recognised in London Underground's accounts as a finance lease creditor, but in broad terms it is picked up on the public sector net debt already. So, we will assume the Tube Lines' debt as a direct TfL obligation, but the overall impact on our balance sheet and on public sector borrowing as a whole is neutral because it was already recorded.

Mike Tuffrey (Deputy Chairman): The servicing of that debt?

Steve Allen (Managing Director of Finance, TfL): Yes, effectively that comes direct to TfL debt service as opposed to one of the constituent parts of the infrastructure service charge that London Underground would otherwise have paid back to Tube Lines.

Mike Tuffrey (Deputy Chairman): OK, I just want to be absolutely clear that the £310 million cost is the only cost.

Steve Allen (Managing Director of Finance, TfL): Yes.

Mike Tuffrey (Deputy Chairman): OK, thank you. So, then the concept is obviously that is cost out now but, because of the synergies of bringing it altogether, you hope to make savings in years to come and that will have been paid back and then you will go into credit.

Steve Allen (Managing Director of Finance, TfL): Most significantly Tube Lines will no longer have to pay dividends to its shareholders. So, in one sense the £310 million is a prepayment of the dividend flows that the shareholders will otherwise have received over the remaining life of the contract.

Mike Tuffrey (Deputy Chairman): From their point of view it seems to me quite a good deal, they get to walk away from a nightmare and £310 million richer, but no doubt the accountants pored all over it.

John Biggs (Chairman): Do you anticipate significant savings through refinancing of those loans as a part of that?

Steve Allen (Managing Director of Finance, TfL): We anticipate some savings. As compared, for example, to Metronet [public/private partnership with the London Underground group that was responsible for the maintenance, renewal and upgrade of the infrastructure of nine London Underground lines], Tube Lines' financing is relatively efficient and they had already tranching it so that 95% of the debt looked straight through to TfL's AA rating and was priced accordingly. I think there will be some benefit from refinancing the lower tranches of the debt but they will not be anything like as significant, as would have been obtained with Metronet, for example.

John Biggs (Chairman): OK then, the bit of my question then which you did not get to there is you have the £39 billion - I stand corrected - some of that is pre-empted for Crossrail, a significant slug of it funds other things as well, but a big chunk is to fund what were the Infracore

[Infrastructure company] service charges and will now be the cost of fixing the Tube under whatever we now call the PPP or the post PPP. Is that an area that is going to face significant cuts and pressures then? This is a question that is being examined at the Transport Committee, but from a budgetary point of view is that an area that is under pressure because of other things being protected?

Steve Allen (Managing Director of Finance, TfL): I do not think there was ever a deal on the table from either this Government or from the previous Government that they completely underwrote the cost of the PPP. So, there was always the risk that the cost pressures on the PPP, which were relatively inflexible and difficult through the contractual mechanism to manage, had a disproportionate effect on the rest of TfL's estate. Because we have sort of stripped away all of that contractual complexity, we now have the ability to look at flexibility across the whole of TfL's estate in a sort of reasonably even-handed way with the possible exception, as you mention, of Crossrail which is slightly different. From a point of view of financial flexibility that is clearly a good thing. It is a moot point as to whether or not that leaves us politically more or less exposed, if we were in the situation for a given level of cut, we now have more flexibility into how we might apply it across the range of our activities.

John Biggs (Chairman): So, we have inherited, if you like, a phantom seven-and-a-half year review because the PPP is now folding, and as part of that the PPP Arbiter [Chris Bolt] was telling us that we face tough decisions and there were rumours that the Piccadilly line might be the kid who gets it, or whatever the terminology is, and those decisions will roll out in the next year.

Steve Allen (Managing Director of Finance, TfL): The Periodic Review process continues until the acquisition is actually complete. So, this sort of strange parallel world carries on and London Underground had said if we were to meet the numbers that the Arbiter had delivered then we would have to postpone the Piccadilly line upgrade. The gap was such that that was the only measure that was available to us to bridge it. Clearly, we hope with the flexibility that I have talked about we would be able to manage the finances in a way that does not see that long-term postponement of the Piccadilly line upgrade.

Mike Tuffrey (Deputy Chairman): The Chairman reminds me that I should have asked a summation question. Therefore, in the light of all of that, would we be right to conclude that the pressure on TfL's finances for 2010/11 is now less than anticipated?

Steve Allen (Managing Director of Finance, TfL): Less than anticipated at which point?

Mike Tuffrey (Deputy Chairman): Are you happier because you have got all this flexibility over Tube Lines, the £100 million cuts are less than Peter Hendy was expecting, there is good mood music coming from the Government over Crossrail and so forth? So, are you sleeping easier or less easy?

Steve Allen (Managing Director of Finance, TfL): I think, principally, we are sleeping easier on Tube Lines because we think this will be a better model for delivery of the upgrades and there is more certainty that we will actually get those upgrades delivered and get them delivered

in a way that will minimise the disruption to the travelling public whilst they are put in place. Overall financially, I think in the normal course of business we feel in a reasonably comfortable position. Of course, we are not in the normal course of business; we are facing a £100 million cut this year and unknown potential cuts in future years. So, you cannot entirely sleep easy when you have got that in prospect; but we are in a better position, as I say, with flexibility across the whole estate to manage whatever comes our way, I suppose.

John Biggs (Chairman): I think if the PPP had still been in place we would have had a tough public decision about how you would meet the gap between what they were asking for and what you had available and there might have been a very public de-scoping. I suppose post-PPP the same sort of arguments have to happen but they can be managed or massaged in a way that might, from a scrutiny point of view, be viewed as somewhat opaque. So, you might say, “Yes, we are still going to re-signal and restock the Piccadilly line but we are going to do it over the next 20 years rather than over the next 8 years.” One assumes that as part of the financial presentation of your plans for the next year you will be giving a very clear demonstration of those decisions.

Steve Allen (Managing Director of Finance, TfL): Yes.. We are retaining Tube Lines as a separate budget and a separate company within the TfL Group and there will be a very clear presentation of, effectively what London Underground as the client for the upgrades that Tube Lines is delivering is specifying and what Tube Lines is costing those works at. So, that will be very clear and transparent.

Joanne McCartney (AM): I just had a quick follow up on the Piccadilly line. At the Transport Committee just a few weeks ago we were talking about this. The information we had there was that the timeline might slip slightly but it was not envisaged to be that great. You have just used the phrase long-term with regards to it, so I am just wondering what timeline you are looking at.

Steve Allen (Managing Director of Finance, TfL): We had said as part of the Periodic Review process had the PPP continued - and clearly we had some other routes that had not been exhausted through the Periodic Review process, and there was talk about whether there were any grounds for legal challenge of some of the Arbitrator's views - in the way that the Arbitrator saw it, the only way we could meet within the Tube Lines estate the size of funding gap that had been identified was a deferral of the Piccadilly line upgrade until beyond the end of the second review period of the contract. One of the flexibilities that we have in unwinding all those PPP arrangements is to bring it back forward to a more reasonable timetable. I do not think we can today commit to what that timetable would be because we have to get in there and actually understand how things are once we take them over.

Joanne McCartney (AM): That active work is going on with the intention of not delaying it too much.

Steve Allen (Managing Director of Finance, TfL): Yes, absolutely.

Darren Johnson (AM): My question is on the PPP and retaining Tube Lines as a separate company within TfL. Can you explain the rationale for maintaining what many people would see as a fiction in terms of being a client and contractor relationship when they are both part of the same organisation?

Steve Allen (Managing Director of Finance, TfL): Well, what I am describing is an interim position. At the moment we are saying we are open to considering the long-term options for the structure of delivering the line upgrades. As an initial position we will keep Tube Lines as a separate company, maintaining and delivering the upgrades on those respective lines. That is partly because I think we actually want to think through what are the best delivery models for those works and partly because in discussion with Government, and their potential discussions with the European Commission, it helps to maintain that transparency to demonstrate that this transaction does not represent state aid.

Darren Johnson (AM): What is the timetable for looking at the options and then deciding on a permanent model?

Steve Allen (Managing Director of Finance, TfL): I do not think there is a fixed timetable. I think it is something we would expect to take a few months after acquisition.

Roger Evans (AM): Given the increase in ridership, or the less worse ridership that you have had, is the RPI +2% increase that you envisage in the business plan for January 2011 still required?

Steve Allen (Managing Director of Finance, TfL): As we have been discussing, there are many uncertainties around TfL's business plan as we sit today. I think our starting position would be, because as I say the slightly better than anticipated revenues have to a large extent been offset by increased costs because of the higher level of RPI, that the fares policy would be consistent with the RPI +2% assumption that was in the business plan, that was agreed in the autumn last year. Clearly, as you know, it is a matter for the Mayor but our starting proposition would be that that remains a sensible assumption.

Roger Evans (AM): So, your recommendation to the Mayor is going to be to continue with the increases?

Steve Allen (Managing Director of Finance, TfL): I think our recommendation to the Mayor is going to look at all the factors in the round but on the basis of TfL finances, as I say, with all these uncertainties and various countervailing effects, the business plan we adopted in the autumn of last year still looks like a sensible place to start which would assume an RPI +2%.

Roger Evans (AM): You talk about a lot of uncertainties we face there. When does the Mayor actually have to make the announcement? Is the fares announcement possibly going to be delayed this year because of the Comprehensive Spending Review and the other problems?

Steve Allen (Managing Director of Finance, TfL): Well, clearly one of the uncertainties is the process of the Spending Review and at what date we will actually have a determination of

that. I would be very surprised if we have that in a time frame that allows an input into the January 2011 fares revision because there is a lead time technicality - and Shashi [Verma] can talk much more about this than I can - as to when that needs to be implemented but, more significantly, because of Travelcards there has to be a negotiation with the train operators. Effectively, that has to be September 2010 or October 2010 at the very latest, which I doubt we will have sufficient clarity for the Spending Review at that point.

Roger Evans (AM): So, Londoners will feel the effects of the Spending Review as far as it attaches to fares, not the next year but the year after?

Steve Allen (Managing Director of Finance, TfL): I think the basic point there is the point that Simon [Milton] made that I do not think the Mayor has any intention of increasing fares above the RPI +2% assumption that is in TfL's business plan and I think that is the basis on which he will be going into the Spending Review.

Roger Evans (AM): Yes. What about bus passengers because, of course, bus users bore the brunt of the increases this year? Is there going to be any move to protect them next year, perhaps by attaching the increases to other fares products instead?

Steve Allen (Managing Director of Finance, TfL): I do not think we have got into any detail within an overall policy of RPI +2% what the differentiation between different fare products and different modes might be. Because of the Travelcard agreement and the linkage through to National Rail there is quite a significant impact on what is happening on National Rail fares policy, which is clearly a matter for DfT. So, I think it is too early to speculate on that. I would observe that bus fares in London remain very competitive with bus fares outside London.

Roger Evans (AM): Obviously, the agreement on Travelcard's and the RPI restricted what you were able to do with Travelcard last time round. You have a bit more freedom possibly this time round. Does that allow you to be more imaginative?

Steve Allen (Managing Director of Finance, TfL): That very depends on two things. Firstly, where DfT is setting its policy in respect of National Rail fares. They are currently on a policy of RPI +1%. One might speculate whether or not they are going to change that policy. They have clearly got cost pressures from the National Rail franchises. Secondly, negotiations with the individual train operators themselves.

John Biggs (Chairman): I would just like to clarify one thing. The previous Mayor did an RPI +1% agreement which has changed to an RPI +2%.

Steve Allen (Managing Director of Finance, TfL): The business plan assumption changed from RPI +1% to RPI +2%.

John Biggs (Chairman): Right, and that was in the past year.

Steve Allen (Managing Director of Finance, TfL): Yes.

John Biggs (Chairman): That is fair enough; that is ancient history. The other bit then is, because we are tied into train operating companies, although there is a big advantage in being able to operate your Oyster seamlessly across London's transport, it means that if the Government says RPI +1% for Travelcards on the National Rail network, your discretion to increase them by more than that on zonal Travelcards across London is quite severely restrained, is it not?

Steve Allen (Managing Director of Finance, TfL): It is a constraint, because the way fares regulation works is a basket. So, the Travelcard is one of the products that goes into the basket. So, it is possible for elements of that basket to increase at different levels with an overall RPI +1% policy. Part of the reason why it was even more of a constraint last year is DfT had a policy of not allowing rebalancing of elements between the basket. They said every fare had to be literally RPI +1%, although there was a slight carve out for Travelcard. It is clearly a constraint but it is not an absolute constraint; but over a period of time you would get all sort of boundary issues between different fare levels if they move out of line.

John Biggs (Chairman): OK, but there is clearly a boundary issue between TfL having a business plan assumption of RPI +2% and National Rail having an RPI +1% policy in the past. What that would mean is that you would have to pile the fare increases, to a significant degree, on non-rail passenger traffic in London, which means buses essentially. Where is the flaw in my argument?

Steve Allen (Managing Director of Finance, TfL): There is a distinction between Travelcard and non-Travelcard rather than between rail and bus. First of all, 1% is not necessarily that significant; it clearly builds up if it is over a long period of time but in any one year it is probably within the bounds of error on the actual cash prices that you fix.

John Biggs (Chairman): I will make up the numbers but it must be something like this, if, say, one year Tube fares of up by RPI +1% and the overall policy is RPI +2% then bus fares will go up by RPI +2.3% or something.

Shashi Verma (Director of Fares and Ticketing, TfL): That is not the way it works. The link between TfL and National Rail is only in regard to the Travelcard, which is just under half of London Underground's revenue. So, if the Travelcard goes up at RPI +1% the other Underground revenues would have to go up by RPI +3% to give the Underground an increase of RPI +2%. We do not try to do that rebalancing between buses and the Tube.

John Biggs (Chairman): So, as a policy you do not cross-subsidise between buses and Tube?

Shashi Verma (Director of Fares and Ticketing, TfL): That is not what we have attempted to do in the past.

John Biggs (Chairman): So, it is not a policy it is just custom and practice in the past has not been to increase the bus fares one year and keep the Tube fares down that year, and maybe the next year, do it the other way around?

Shashi Verma (Director of Fares and Ticketing, TfL): No.

John Biggs (Chairman): Are there other questions on the fares decision? Do you anticipate when that decision is going to be made?

Steve Allen (Managing Director of Finance, TfL): Not beyond the timetable that I have already outlined.

John Biggs (Chairman): Last year it was quite earlier, was it not?

Shashi Verma (Director of Fares and Ticketing, TfL): Last year the fares announcement was made around 10 October 2009, which is about the time that the fares announcement has to be made every year.

John Biggs (Chairman): To summarise the position that we are in is that TfL under previous management entered into a lease agreement to take space at The Shard, popping up by London Bridge station. In the past week that has been surrendered or sold, if you like, and the newspaper stories are that it is a win-win: TfL get some money back for this, perhaps, or does not have to enter into rent obligations in the future and in return The Shard people can rent it out at far higher rent to someone else.

So, has it been a profit in real terms to TfL regarding what has happened in the past week? What can you share with us? What can you tell us publicly?

Steve Allen (Managing Director of Finance, TfL): I suppose in the sense that we received a cash premium which we had not budgeted for, yes, that is a profit to TfL. It is not a profit in the accounting sense of the word but it is a premium that we had not budgeted to receive.

John Biggs (Chairman): Are you going to tell us how much it is?

Steve Allen (Managing Director of Finance, TfL): The amount is, under the agreement with the developer, confidential.

John Biggs (Chairman): There is a competition between that confidentiality and public interest, is there not? So, it is a legitimate question of public interest as we had entered into a lease for 30-something square feet and clever people say if they can rent it out for a sum of 50 for example, then you can split the difference in some formula.

Steve Allen (Managing Director of Finance, TfL): I was going to say that, as you say, clever people could estimate it and probably would not be far off.

Mike Tuffrey (Deputy Chairman): How long was the lease term?

Steve Allen (Managing Director of Finance, TfL): It was 20 years.

Mike Tuffrey (Deputy Chairman): This not very clever person is about to ask you to confirm or deny the following number.

Steve Allen (Managing Director of Finance, TfL): No, as I understand it, we are bound by the terms of the agreement with the developer not to comment publicly on the premium that they expect.

John Biggs (Chairman): OK, but it is a single-cash payment and you walk away?

Steve Allen (Managing Director of Finance, TfL): Yes.

Mike Tuffrey (Deputy Chairman): If it was £20 per square foot difference, it was 200,000 square foot and if it was 25 years that is £75 million that they can rent it out now. It is the premium that they can now rent it out for.

John Biggs (Chairman): So, if they can make an additional £75 million over that period you will have received something less than £75 million from them one would assume. OK, that has narrowed it down a bit. It could be several tens of millions I would think. That is not an unreasonable assumption.

Steve Allen (Managing Director of Finance, TfL): I think I would prefer not to play a guessing game. It is a significant sum.

John Biggs (Chairman): So, several tens of millions then.

Steve Allen (Managing Director of Finance, TfL): I would not agree with the statement "several tens of millions".

John Biggs (Chairman): You would not disagree with it either.

Mike Tuffrey (Deputy Chairman): Right, we get the message. Should you go into property speculation instead of running trains then?

Steve Allen (Managing Director of Finance, TfL): I think it is a fairly unique set of circumstances.

John Biggs (Chairman): Well, this is just a window open on this possibility and if someone approached someone else they possibly came to you?

Steve Allen (Managing Director of Finance, TfL): Yes, they came to us and said, effectively, the property market is improving, they now believe that they can rent out the entire building at a higher rent than they had agreed with us and they would like us to surrender the lease and then we discussed the premium at which we would be prepared to do that.

John Biggs (Chairman): The normal process would be to employ valuers, lawyers and stuff, and then certify it to your Board, presumably.

Steve Allen (Managing Director of Finance, TfL): Absolutely and we followed all of that process.

John Biggs (Chairman): OK, so you are up on the deal but presumably there are abortive costs involved.

Steve Allen (Managing Director of Finance, TfL): There were some in that we had started to do some of the initial work on designing the fit-out of the building but I do not think they are significant.

John Biggs (Chairman): In terms of managing your property portfolio, are there other areas where we should be more concerned about your exposure? So, you are still in Windsor House [registered office of Transport for London in Victoria Street, London], for example. That is a fairly grotty old building, is it not, and you are there for a 1,000 years or so?

Steve Allen (Managing Director of Finance, TfL): That is a 25-year lease.

Darren Johnson (AM): Can I try another line of questioning in the hope that I will get some information there? Can you just confirm that the money you have spent on this entire project is less than the money you gained from the agreement you signed?

Steve Allen (Managing Director of Finance, TfL): Yes.

Darren Johnson (AM): So, you have made an absolute profit on it.

Steve Allen (Managing Director of Finance, TfL): Yes.

Roger Evans (AM): If the office space is no longer required does that mean that you will not need to find space elsewhere to house what was going to go into The Shard, or are you out there back in the property market looking for some space elsewhere?

Steve Allen (Managing Director of Finance, TfL): The latter; we will still need to find alternative accommodation.

Roger Evans (AM): Going back to the total sum of profit or non-loss that has been made, is that factored into that as well?

Steve Allen (Managing Director of Finance, TfL): Yes, we clearly evaluated the transaction based on what we thought we could obtain as a market rent elsewhere, but clearly we now have the opportunity to look across London at opportunities for that accommodation.

Roger Evans (AM): Do you think you would be able to find space in the existing TfL properties and save yourselves a cost of seeking somewhere new?

Steve Allen (Managing Director of Finance, TfL): No, TfL's overall needs will still require some additional space. The overall accommodation strategy effectively is progressively getting rid of the most expensive buildings and replacing them with larger cheaper buildings, such as Palestra [Transport for London office hub] and Pier Walk [Transport for London office hub] which are the two major spaces that we have occupied recently.

Roger Evans (AM): Of course, there may be some more space in Palestra as the LDA moves.

Steve Allen (Managing Director of Finance, TfL): There may well be and so there may be opportunity for us to concentrate more people within that building since we have the head lease on that building.

John Biggs (Chairman): That is a fairly expensive building even so.

Steve Allen (Managing Director of Finance, TfL): It is not our cheapest but I do not think it was significantly more than The Shard; it is of that sort of order.

Richard Tracey (AM): I think we do have to ask you slightly about what your policy is for changing offices and what exactly you are seeking because you moved into Palestra in 2008 and in Pier Walk in North Greenwich in 2009. Are we not also expecting some reduction in the staffing levels of TfL?

Steve Allen (Managing Director of Finance, TfL): Yes.

Richard Tracey (AM): That is one thing that the Mayor was after. So, one wonders how many more new office blocks you are seeking and, indeed, I think somebody said when you moved into one of them that you were significantly reducing operating costs and providing greener working environments in locations well-served by transport links. Is that specifically the policy?

Steve Allen (Managing Director of Finance, TfL): Yes, that sounds like a good policy to me.

Richard Tracey (AM): Can you just give us a bit more insight into this apparent constant seeking of new office blocks even though you have made a profit on The Shard?

Steve Allen (Managing Director of Finance, TfL): TfL was created from a number of previous entities and inherited a quite disparate office accommodation portfolio as a result. That was more recently compounded by taking over Metronet and, again, we acquired a number of relatively expensive buildings as a result of that transaction. So, our overall policy is to reduce the number of buildings by concentrating activities in to a smaller number of larger buildings and then disposing when we get to the end of lease terms the more expensive buildings that we have acquired historically.

Andrew Boff (AM): Could you tell me the particular functions of TfL that are requiring office space or is this across the organisation, or is there a particular department that is requiring moving from spaces?

Steve Allen (Managing Director of Finance, TfL): No, it is really a question of looking at the total demand in terms of TfL staff numbers and, as somebody already said, those decline over the period of the business plan. Then looking at the supply of buildings and seeking to consolidate from the smaller more expensive buildings into a smaller number of larger leasehold properties.

Andrew Boff (AM): I gather one of your key factors is to reduce the cost of such buildings.

Steve Allen (Managing Director of Finance, TfL): Yes, absolutely.

Andrew Boff (AM): You said earlier that you would be looking across London for accommodation. Would it, therefore, mean that you would be considering outer London locations for your office accommodation rather than just the inner London locations?

Steve Allen (Managing Director of Finance, TfL): I think, yes. I think, clearly depending on who exactly is going to occupy it, we have to look at a number of criteria. If you have got a lot of flow to and from a building then you need accessibility to transport interchanges and so forth. That is one of the criteria, but broadly speaking we have the whole of London that we can look at.

Andrew Boff (AM): Basically, the whole source of my questioning is: do those departments need to be where they are and could they actually be in outer London locations which will probably be a lot cheaper?

Steve Allen (Managing Director of Finance, TfL): Yes, and clearly it varies by department. There are some who have good reasons to be in particular locations, then there are others who need to be located reasonably close by them and there are others that are much more flexible. So, the current occupation of Pier Walk, for example, is very much filled with back office staff fulfilling; IT and HR support functions and other similar functions. North Greenwich is a very competitively-priced office environment for those kinds of functions.

John Biggs (Chairman): While you are here then there is one little tidy up thing which is, there are a number of shared functions across the GLA family, and TfL is providing some of those. Presumably, your accommodation strategy is taking account - I am sure the answer is yes - of the need to provide those efficiently for the rest of the organisation.

Steve Allen (Managing Director of Finance, TfL): Yes. The actual number of staff who have transferred from other bodies has been relatively small to date, so it is not something that is a major driver of the accommodation strategy.

John Biggs (Chairman): I think we did come across a problem where City Hall invoices had to be couriered to Greenwich, and this is not strictly an accommodation question, but it does beg

the question whether when we design a shared service thing we create inadvertent problems for ourselves.

Steve Allen (Managing Director of Finance, TfL): I am not aware of that specific issue and perhaps we would look into it.

John Biggs (Chairman): You do not need to look into it; Mr Clarke [Executive Director of Resources, GLA] will look into it I am sure. I would like to thank you very much for coming today and for being so polite and generally well-behaved, but thank you.

Steve Allen (Managing Director of Finance, TfL): Thank you.