**Appendix A**

# Transport Committee

# 11 November 2004

**Lynne Featherstone (Chair):** Good morning everybody. Welcome to the Transport Committee.

The main evidence session of the day is TfL's five-year business plan and investment programme, so it gives me great pleasure to welcome Jay Walder (Managing Director of Finance and Planning, TfL), Richard Browning (Director, Group Planning and Performance, TfL), and Barry Broe (Director of Transport Policy and Planning, TfL), who can all state exactly what they do for TfL for the sake of the public – if there are any real public out there.

**Jay Walder, Managing Director of Finance and Planning, TfL:**

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… our board of directors on 27 October, and were approved by the board of directors at that time. We are in the process now of finalising the documents. The final documents are on the web and at the printer. Members of the Assembly should receive the documents around 19 November 2004, just allowing for the printing process, but I would say that the documents that you have already received, while there are tweaks in some of the wording, are substantively the documents that were approved by the board.

The business plan and the capital investment programme follow from what really is an unprecedented agreement that was reached with Government during the Spending Review process. I say 'unprecedented' in part because it is a five-year agreement – it is literally written down on a piece of paper over a five-year period – and because it includes financing techniques that, at least in the last 20 or 30 years, have not been part of local authority arrangements. By that I am talking about the issuance of long-term debt to support capital investments.

It is probably safe to say that that agreement demonstrated a close working relationship with Government, and I hope represented also the quality of the plan that TfL has put forth previously that we did discuss with this committee and with the Budget Committee. I think at the same time, that agreement with Government reconfirmed the process of devolution that was begun five years ago and obviously of which the Assembly is such a large part.

The agreement is not specific, in many ways, with very few exceptions, but really leaves to the discretion of the Mayor and to TfL, given their respective powers, decisions as to how resources would be used and as to how budgets would be balanced and the like. One key component of doing this clearly was the question of delivery, and I think Government made the point about – and you yourself have recognised – the very significant improvements that have been made in delivery within transport over the last four years.

There has been no shortage of discussion with this Committee, obviously, about the changes in the bus network, which have resulted in the highest levels of customer satisfaction in history and a 34% increase in bus patronage over the last five years; the introduction of Congestion Charging, which has significantly reduced traffic in central London; and the new Oyster ticketing systems which are being used to allow us to be able to speed people through and, we hope, to implement efficiencies in regard to cashless bus and the like.

The plans that we have put forth for the next five years seek to build on this record of delivery, and I think there is a confidence that we can actually deliver the plans in a timely fashion. What is very significant about this business plan and the document that you have received is that all of our prior business plans – and I think I have come each year to discuss our prior business plans – have been, by definition or by necessity, aspirational. They have been a path that we were taking to go forward, but they have also been a bidding document to Government, and I think the prior Chair has questioned us quite extensively on the fact that this is a bidding document and that there were significant gaps that existed within those plans.

As legally required by the GLA Act, we have always balanced our budget, so each year on an annual basis, we have balanced our budget, but we have not been able to present to this committee or to the Assembly as a whole a five-year plan that looked out and about which we could say it was balanced over each year of that five-year plan. We are now able for the very first time to do that, that is that recurring income exceeds recurring expenditure on an annual basis. That relationship is absolutely fundamental, because in simple terms, there is no possible way that we could go to the capital markets and seek to borrow £3 billion of long-term debt, if we were not in a position in which we could demonstrate to them that our plan was balanced over at least the five-year term of this agreement that had been reached and can be maintained over that period of time.

Having said that, it is also the case that when you look at the gaps that TfL had been facing previously, which were in excess of £1 billion per year, and you look at the agreement that was reached with Government, it does not fill all of the gaps that were there. The Government has looked to TfL and to the Mayor for what I might describe as self-help in terms of the way that we are going forth and putting this forward. That is, if we were going to have the type of investment programme that was being contemplated here, there was a recognition that resources would have to come from other places other than just the Government as we looked out to closing that gap.

One of those places, and that has already been discussed by the Mayor, is the proposals for fare increases, and I know that is of interest to the committee, and I am sure that we will come back to it. What I will say is that fares are, of course, set by the Mayor and are set on an annual basis. The plan represents an indicative level of increases, but subject, of course, to consideration each year of the impact of prior increases, traffic patterns, and the like that are taking place. Largely, if you just work back through the requirements of our process, the early autumn is a time that one has to set the fares if they are going to be in place for the beginning of January of the subsequent year.

The second thing that Government was clearly looking to us toward, and that I think we have risen to the challenge of, is showing and demonstrating that we are an efficient organisation. TfL has, from its outset, started an efficiency programme which built on some of the changes of bringing together the predecessor organisations, the investment that we have made in new computing systems – and we have fully implemented an SAP system across finance, procurement, and human resources now – and some of the operational savings that could take place in some cases off the backbone of investments that had been made, like the ticketing systems that were there.

We have previously talked to you about our goal for efficiency in 2003-04, which was £18 million. We exceeded that and achieved £42 million of cash savings in 2003-04. In the five-year plans that you have seen before now, we have been looking at an efficiency programme that was approximately £450 million of cash savings over five years. In the programme that has been put before you at this point, we are looking at efficiency savings that are over £1 billion over that same period of time. It reflects our continuing commitment to be able to drive out costs…

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…the clear definition of the projects, the scopes, the schedules and the budgets that we are going forward, it has clear accountability for the delivery of those programmes.

We cannot have a £10 billion, five-year investment programme, if we are not going to have clear accountability that goes throughout the organisation. It starts, of course, with the managing directors, but it goes right through the organisation, and I say that there has to be a project management structure and a delivery structure that will actually be able to bring this forward. We have to have an established process for oversight to make sure that we are actually achieving that. Any one of us can easily look toward investment programmes that have gone awry, and certainly there is some history in the predecessor organisations of some investment programmes that have gone awry, and we are attuned to that and well aware of that.

What the investment programme does represent is a fundamental step change in what London can accomplish: £10 billion over five years, and a thought process that allows us actually to plan for and have confidence in carrying out long-term improvements. If you look back over the period of time in the last 10 or 20 years, even at times when the predecessor organisations had sufficient funding, they never had confidence that they would not be chopped and changed on an annual basis. Indeed that was often the story that was put in front of them, so that the failure of that often was in the transport planning arena, where it was very difficult to go from famine to feast and back to famine in very short periods of time with any confidence about what you were actually going to be able to do.

One of the foundations of our business planning process has been the very strong engagement with stakeholders. We have met with the Assembly, borough chief executives, the London Business Board, trade unions, voluntary organisations, community organisations, and disabled organisations all across London in an effort to bring a cohesive structure and to understand the issues and the concerns that are being faced. I would like to tell you that we have met all of those concerns. We probably have not, but I think we have gone and tried to prioritise along those concerns in a way that is reasonable, and we are prepared and have been engaging back with those groups to try to explain our thinking and to work further with them.

We are now in the position of bringing forth the financing, as well, and we are working with two leading banks – Morgan Stanley and HSBC – to bring out the financing programme, the £3 billion programme that is being established and that is referred to, in technical terms, as a medium-term note programme. We are also working with a leading law firm, Clifford Chance, because of the complexity of what we are doing and the fact that it has not been undertaken at the local authority level. It is critically important to us that we take this forth in a manner that is not only what the market expects, but also one in which we are cognisant of the liabilities that we are creating, as a company, in the information and in the financial liabilities.

I believe we are taking all of that forward in a very, very positive way, and again, we would be happy to talk further about that if you would like.

Before I close, I should also point out that the business plan is not just about moving projects forward. It is a much broader expenditure plan than that, and it looks across the whole range of TfL activities. Over the discussions that have taken place along a number of years, the point has been made and we have taken up the fact that the business plan should be our fundamental document for describing our environmental plan; it should be our fundamental document for describing our plans for equality and inclusion.

You will see the business plan is our plan for that. It puts forth performance measures and the like, all of which are captured within the framework of the business plan, and I would point out to some members of the committee that we are very focused on the fact that we need to be doing things that are encouraging behaviour in a way that we perhaps have not been doing as much or as aggressively as we might do in the past. You will see strong commitments to things like sustainable modes of travel, reducing energy use, and the like that are made within the plan.

Finally, a point that we made to the board of TfL, I would make back to this Committee, as well: the TfL board's decision to approve the business plan and capital investment programme is not a decision to bulldoze through a whole range of projects. These documents will form the basis of the Mayor's consolidated budget submitted to the Assembly, obviously for the Assembly's consideration, and following prior practice, assuming that will hold, the Assembly consideration being in February, we would then return to our board of directors in March to adopt a budget for the upcoming fiscal year.

Even after all of that, individual projects may well be subject to further consultation or statutory processes. Some of the more controversial projects undoubtedly are subject to those processes. If we are going to comply – as we will, of course – with TfL's Standing Orders, then in some cases we will have to come back to our board of directors for further approvals, as well, with more detailed plans, business cases, and the like. Therefore, it is an important point at which we put all this forth, but it is by no means a point at which everything stops; it has to be a continuing process in which we will take it forth. Obviously, this discussion is one part of that continuing process, as well.

**Lynne Featherstone (Chair):** Thank you very much, Jay (Walder). Obviously, it is a huge amount of work, and a plan is a plan. You are obviously very proud of the work you put in, it being a unique plan and an opportunity to have a five-year horizon. Obviously, today we are going to be testing some of the bits that the public or ourselves might not be so won over by, which may seem churlish, but it is our job.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Understood.

**Lynne Featherstone (Chair):** I am going to lead off on the first section, which is really about fares, which I think has been something that the Assembly has been very keen to get an opportunity to question on, both on fare income and perhaps lack of it by evasion, but we will see. I would like to know what advice was given to the Mayor which led him to announce the fare increases?

**Jay Walder, Managing Director of Finance and Planning, TfL:** Okay, I must step back for a second in answering that just to be clear that fares, as we look at them and as we gave advice on fares, were seen as an integral part of being able to put together an entire programme and balanced programme that we were looking for. Again, to repeat, the issuance of bonds was going to require a balanced programme in a way that simply had not been put forth in any time previously.

**Lynne Featherstone (Chair):** Okay, but the point, sorry…

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am about to try to answer the question.

**Lynne Featherstone (Chair):** Well, I was just going to point out that because it broke a Mayoral pledge, at some point, about inflation, I was very keen to know what advice you gave him that he felt compelled to do this, or…

**Jay Walder, Managing Director of Finance and Planning, TfL:** Well, I think the advice that we gave was that we needed to have a plan that was balanced over a five-year period. In looking at and leading up to that decision, we gave him professional advice on fares options that was ultimately consistent with the decision to raise fares, and we certainly support the fare package that is here.

In doing that, we looked at the patterns of travel that had taken place over the previous years. We had seen on buses, for example, that we had had a significant increase in bus travel – 34% increase over the years – and up until January 2004, bus fares had been held constant in nominal terms over the prior four years. The price of a weekly bus pass in London today is less than the price of a weekly bus pass in London five years ago. This is not in real terms, but in nominal terms.

In addition, we have seen, in the period since January 2004, which is the period when we did raise fares this year, we have seen that patronage on buses has increased by about 7.5% – it varies a little bit period-on-period – from the patronage that we had in the prior year. Most of that period, to be clear, was outside the period of the Congestion Charging change, because that was a one-time effect that was actually taking place and affected the figures.

Thus, we saw buses as an opportunity, perhaps, to look at more significant fare increases, given the change of travel and given what is the very clear message that appears to be coming through our market research that our bus customers are very concerned about maintaining the quality of the bus services that we are providing. In doing that, we were cognisant of two things. One is that there were very reasonable goals in terms of social inclusion that we could potentially meet through various pricing mechanisms through Oyster that were not easy to meet before.

We have now differentiated the peak period fare in the morning rush from the rest of the fares structure, which has allowed us to maintain an 80p fare throughout most of the day. That provides an opportunity for people who are travelling infrequently, not taking advantage of our period tickets to be able to have a very, very affordable fare for what they are doing. The decision to increase fares more in the peak period also relates to the demand that is clearly being evidenced in the peak period. We have dramatically increased the capacity of the bus system over the last four years, as you know, and in many cases, we are again reaching the limits of capacity during peak period times.

On the Tube, we have a slightly different situation. On the Tube, we have had patronage that has been largely flat over the last few years and is actually below the level of patronage that the Tube experienced five or six years ago. There are a number of reasons why that has occurred. One reason may well have to do with the cross-price elasticity of demand between bus and Tube. The difference for a customer who is in Zone 2, for example, between buying a Zone 1-Zone 2 weekly Travelcard, which costs slightly over £20, and buying a weekly bus pass, which costs £9.50, is actually significant.

For a customer using an Oyster Card in Zone 1, we do have enough parallel routes and the like that you have choice of mode between bus and Tube for many, many journeys. The difference for someone who is travelling on an Oyster Card in Zone 1 is the difference between a £1.60 fare in Zone 1 for Tube and a 70p fare on the bus using an Oyster Card, so you have a difference of more than 100% that is taking place there.

We do believe that some of the impact in regard to those two has to do with the cross-price elasticity. I would also say that the impact of September 11th is felt much more strongly on the Tube than it is on buses. Tourists use the Tube. They find it accessible; they find it easy to see and understand. They buy products like one-day Travelcards and ride all day. They are able to pick up a map, and our staff are very helpful to them when they enter and leave stations, so that they know where they are going. They can ask questions and be directed to tourist attractions and the like. Clearly, the impact on tourism has affected the Tube much more than it has affected the buses.

Also, we have had a lingering impact from Chancery Lane. Remember it was only a couple of years ago that we lost the Central Line for three months. That has a significant lingering impact that is taking place, as well. Therefore, we were conscious of having two fares that did not increase very much that were going to allow the patronage to be rebuilt and that were going to take into account the fact that the Tube would be undergoing a major rebuilding programme at the same time as we were doing this.

**Lynne Featherstone (Chair):** What I am still not clear about in your advice to the Mayor is whether your advice was to do with the fact that you needed the income, or whether it was about modal shift or anything to do with that.

**Jay Walder, Managing Director of Finance and Planning, TfL:** It is a combination. The advice to the Mayor was that you needed to adopt a business plan that was fully balanced.

**Lynne Featherstone (Chair):** Because the business plan is predicated on this amount, that was, in a sense, why the rises had to take place, basically.

**Jay Walder, Managing Director of Finance and Planning, TfL:** No, I think the point that I would make is as we sought to balance the business plan, there are multiple ways – and in fact many of them were done simultaneously. We should be seeking to ensure that we are driving out costs in our structure as much as possible. Every pound that we drive out in doing that is a pound that we do not have to seek some other way. We sought to confirm the priorities of capital investments that were being made and certain projects that had been in our plans were viewed to be unaffordable, and therefore reduced some of the requirements that were there.

We also looked at fares as one of the places for which we could be able to raise resources to be able to do it. There is a clear relationship between increasing fares and the capital investment programme that is being put forth now and being able to support that programme. There is no question about that, and the Mayor has made that point, I think, publicly in his thinking.

**Roger Evans (Deputy Chair):** Mr Walder, last year during the fare increase round that we had, when the Mayor told us it was the package for the next four years, and it would be enough, even given inflation, there was an above-inflation increase for Tube fares in Zone 1, which the Mayor, at the time, justified by saying that there was an increase in the number of travellers and a lack of capacity in the Tube in Zone 1. That seems to conflict with what you have just been saying about the number of tourists going down and there being a reduction in the use of the Tube.

**Jay Walder, Managing Director of Finance and Planning, TfL:** No, I do not think it does. The reality that we all recognise from riding the Tube is that the Tube is a capacity-constrained system. Unlike the bus system, where we have been able to increase capacity to be able to deal with increasing demand, it is very difficult for us to do that on the Tube in the short term.

There are opportunities to do it. The Jubilee Line will have an additional car added to the Jubilee Line trains in early 2006. That will increase capacity by about 16%. The major line upgrades that will take place on the Jubilee Line, the Northern Line, and the Victoria Line will all increase capacity. Nonetheless, for the people like all of us who are trying to get on a Tube train at 8.30am travelling in Zone 1, we will also agree that the Tube is very much capacity-constrained in terms of what it is doing.

We also recognise in what we were doing that the Tube, while it is capacity-constrained at times of day and in locations, has a lot of capacity that could be used more effectively if we are able to use it. We were trying to create a balance in terms of pricing mechanisms that created opportunities in areas where the Tube is less crowded to be able to get more efficient use of the capacity that we had. A lot of that opportunity exists outside of Zone 1, where even trains that have become very crowded as they come into the centre of London have opportunities to take people outside of the centre of London.

I think that the pricing strategy that we had last year and consistently this year reflects that, but it is a series of balances that have to be put forth.

**Roger Evans (Deputy Chair):** Did that decision to put the fares up to remove people from the Tube in Zone 1 actually have the effect that you were aiming for, and where did they go?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The decision to increase the fares in Zone 1, it is not a huge increase that had taken place. We also tried to protect, through Oyster ticketing, the fact that there was a much greater discount that took place within Zone 1, so you had a 20% discount in Zone 1, allowing people to ride for £1.60. We have products such as Carnet that are used in Zone 1, as well by frequent customers, and the price rise that took place across period travel tickets, most of which cover Zone 1 outer zones, was of a much lower magnitude, as well.

It is very difficult to treat the patronage that is taking place on any individual period as seeing it being directly related to the single fare action that took place in January. What we are seeing is that patronage is recovering on the Tube, in general. Patronage is up; that is a very, very good news story, and we are continuing to try to encourage patronage at the times of day and in the places where we have the capacity. To the extent that we can get people at times of day outside the rush, it is a very, very positive thing.

You will note in the package that the Mayor has put forth for January that we are going to try two more things in that regard. We are going to try an early-bird discount for the first time on the Tube, trying to encourage people, perhaps, to make some of their journeys for work trips at an earlier time of day, when, again, it helps to relieve some of the demand that is there, but doing it with a carrot, rather than a stick, one might say. We are also introducing a broader range of evening discounts and weekend discounts, again to try to encourage people at different times of day and on weekends to try to encourage families in the manner in which they can use the Tube. All of those things are in the round, helping and doing what we want.

**Roger Evans (Deputy Chair):** It is not a simple fare structure that is easy for people who use the system to understand, is it? It is highly confusing. Different times cost you different amounts; different locations cost you different amounts. It depends on what type of ticket you have. Do you want a pre-pay; do you want a Travelcard? It looks messy from the point of view of users, and it is difficult to see an overall strategy behind it.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I could not agree more in the sense of your comment that this is not an easy fare structure. It is, by far, the most complicated fare structure that exists anywhere in the world. I, as you know, spent many years working on the transport system in New York, which from the day that system was opened 100 years ago had a simple flat fare that took place. In fact, that 'nickel fare' which held fixed was one of the reasons why that system went bankrupt in the middle part of the prior century.

Let us look at more modern systems using the type of ticketing products that we have today, like Hong Kong, for example. Hong Kong is a much simpler fare structure than we have. They have taken, in many ways, many of the best parts of the Tube and developed it in terms of Hong Kong, but put in there a much less complex fare structure. One of the goals that we have is to try to simplify the fare structure.

I would make several points about that, however. One thing we should not miss in doing this is the multi-modal aspect of our fare structure and the fact that we seek, through various arrangements we have and period tickets and the like, to cover not just the Tube and the bus, but also to cover National Rail, with the belief that we should have a fully integrated ticketing system and pricing strategy there. Given the nature of the relationships that exist, the complexities of that, the commercial arrangements that exist within the National Rail structure as they are now, and the number of operators that exist there, you can begin to see the complexities of dramatic change and how that would play out if you were to, for example, take your point in the extreme to say, 'Let us have one fare,' and just be able to have a simple fare across all of London.

Second, we have, in regard to some of the things that we are doing, tried to create very simple products that will respond easily to certain markets. Thus, for example, in January, we will introduce a three-day Travelcard. You will not have to have a picture; you will not have to register; you will not have to buy it overseas, and if you come to London, are going to be there for a few days, and want a simple way to just travel around London, you will be able to buy a three-day Travelcard to be able to do that. It responds in part to that.

Third, despite the fact that the fare brochure is incredibly complex – and it is over 50 pages, and nobody should ever be expected to stand at the ticket window holding a fare brochure and try to make those choices, for all the reasons you are mentioning. I cannot stress it enough. I would say that economists should be proud of Londoners, because economists argue that consumers are rational and will find rational prices for them, and in fact, that is what our consumers do. They may not understand the whole book, but they have, by and large, figured out how to have rational fares for what they are doing.

Having said all that, let me go back to the first point I made. We agree that the fare structure is too complicated. We would like to simplify it. We would like to use technology to be able to do that on a going-forward basis – and I think you will see some efforts that are being made to be able to do that – but it is going to be an incremental process of getting there as we seek to do it. My guess is that it will be the result or the basis, over the next few years, of further discussion with this committee.

**Darren Johnson (AM):** Well, on this whole issue of rational fare structures and passengers making rational choices and then on your point about technology simplifying things, what about the Oyster Card, at the moment, where there is no system of capping for individual fares, so people could be paying many times more than they would for a normal Travelcard? I do not think the vast majority of Londoners understand that and understand that, potentially, they are being ripped off through Oyster Card.

**Jay Walder, Managing Director of Finance and Planning, TfL:** We began to roll out Oyster Card in a soft launch about 18 months ago, and we took the view in doing that that we were introducing a new technology into the system – done, by the way through a Private Finance Initiative (PFI) contract, and the track record of PFIs and new technology is not particularly impressive, as you well know – but we brought real management to that, felt confident that we could bring it out, and did it on a very, very piecemeal basis in order to be able to gain the confidence at each step along the way that what we were doing was working properly and that there were no difficulties.

I am happy to say I think at this point that we have brought out a system whereby over 2 million people in London now have Oyster Cards, including all of the Freedom Pass holders. Unfortunately, I am aware, I believe, that all of the Members of the Assembly do not have Oyster Cards, but I hope we can correct that at some point in the future. People are using Oyster. People are successfully using Oyster, and the system has worked in what it is doing without major problems in doing that.

We have the goal of and will bring out capping. When I say 'capping,' just to explain what we mean by that, in our current ticketing system – this goes exactly to the point that Roger (Evans) was making a moment ago – you have to make a decision before you begin your day as to which ticketing product you want to use. Do I want a return-trip ticket? Do I want a bus pass? Do I want a Travelcard? If you choose wrongly – as we often will do – that is at your expense and your manner of thinking about it. It creates a certain amount of frustration, as any one of us might go up to a ticket window or to a machine and seek to be able to do that.

The idea of capping is to be able to offer customers the ability for the system to calculate the journeys and recognise the journeys that they are making, and to the extent that they come to pre-established thresholds, to charge them no more than that amount. One of the complexities of this, of course, is that not every trip is the same. Therefore, we are talking about multiple zones that are taking place, depending on which zone you travel in; we are talking about multiple modes that are taking place, in terms of whether you are using bus or Tube; we are talking about different times of day – and recall that we currently offer a peak and an off-peak Travelcard that exists within our system as well.

**Lynne Featherstone (Chair):** Jay (Walder), can I just intervene one moment. We are still on question one, and I am slightly concerned about getting through everything. I like your answers to be full, but could they be a little shorter. I do not want to be rude.

**Jay Walder, Managing Director of Finance and Planning, TfL:** No, that is fine. The answer on capping is: I think you will see capping in 2005. It will be in the earlier part of 2005, although I cannot commit to a schedule at this point in time. We will bring the same attention to capping that we have brought to everything else, which is we need to ensure that it will be brought forward in a way that is communicated effectively, that is working appropriately, and that our staff can deal with customers who have concerns or questions about what is happening.

**Darren Johnson (AM):** It is essential that it is introduced as soon as possible, because whereas people can make choices about whether to buy a return ticket, whether to buy a Travelcard, or whatever, if they have Oyster Card, people assume that they are getting the best value for money on their journey, when, quite clearly, at the moment that is not necessarily the case, and that does need to be introduced. Why can it not be introduced now?

**Jay Walder, Managing Director of Finance and Planning, TfL:** Because I do not think we can introduce it today with the confidence that one would need to have to ensure that it will be rolled out effectively. I think we will shortly be able to bring that confidence to it, and we will not roll out a product across London with the complexity of capping without knowing that on a technical basis, on a communications basis, and on a staff and customer basis that we are fully prepared to deal with this product.

**Lynne Featherstone (Chair):** Perhaps you could let this committee know a time frame for that.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think that it will be in the first half of 2005, but I cannot commit to a specific date right now.

**John Biggs (AM):** I was interested in returning to the underlying question. I was intrigued by the idea of an early bird for an underground system. I thought it might be a worm incentive, but anyway, perhaps that will not go down so well in marketing terms. It does not quite work, but you can see where I am coming from on that.

To return to the question, there are two questions in one. As I understand it, London blazed the trail with Travelcards back in the 1970s, or whenever it was – under a previous leader of London called Ken Livingstone, I believe – and they have been copied across the world. It seems to me that there is a positive message to be marketed here, which is that smart-card ticketing will possibly blaze a trail across the world, as well, because if the choice is between spending billions on building new lines and perhaps optimising the use of the existing ones, then I think taxpayers will be just as happy if we can optimise the use of the existing ones. Is that a line of thinking that you are following within TfL?

**Jay Walder, Managing Director of Finance and Planning, TfL:** Generally, yes. We have one of the world's great transportation infrastructures in London, and what we need to seek to do is to get the best value we can out of that transport infrastructure. Where we are operating services, we would like them to be as heavily utilised as they can, and we like to be aware of the constraints and the costs of providing additional services, whether it is operating costs or capital costs in the case of expanding lines or doing the like.

In certain places, clearly, we need that. We need new investment in London. We need new lines. We need to extend to areas that are not well served now.

We need new infrastructure in the heart of London, like Crossrail, so pricing strategy will not change that in any way.

The one difference I would say, John (Biggs), if I can, is that unlike the path of much of the 20th century, where London was the world leader in terms of public transport, by the end of the 20th century, looking at ticketing systems and the like, London was no longer the world leader. If we go around the world, and if we look in places like east Asia, Hong Kong, and Singapore, you see ticketing systems that are well developed, being used and operating with smart cards, so they are way ahead of where we are right now. What they have done is to go with a simple fare structure for what they are doing. They have gone with something that is simple and understandable, and that is what we are seeking to do now: to replicate as much as innovate.

**Lynne Featherstone (Chair):** I think there is probably a lesson there in simplicity.

**John Biggs (AM):** Chair, I was interested also in possibly allowing Jay Walder to correct the impression that was created in his earlier answers that the fare policy was an exercise in social engineering. Is it not more a case of redressing imbalances, encouraging more optimal use of the system, and perhaps reducing the disparity between Tube and bus fares?

**Jay Walder, Managing Director of Finance and Planning, TfL:** That would be fair.

**John Biggs (AM):** Good. Thank you, Jay (Walder). See, that is the shortest answer.

**Lynne Featherstone (Chair):** It was indeed. I am just going back to a theme I was on some time ago, now. The Mayor did say that fare rises were necessary to fund borrowing, but he said that was only necessary… the debt servicing account was only about one-third of the expected increased revenue over two years, so what I do not understand is why the fare rises needed to be so high now, if you are not actually funding it now, or if you are only funding one-third of the debt servicing now.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Borrowing is only possible if we have a balanced programme over the five-year period. That is a necessary condition to be able to undertake borrowing.

**Lynne Featherstone (Chair):** You have to take it up front.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Well, you have to have a plan up front and take actions up front that do that.

**Lynne Featherstone (Chair):** Moving on from there, you know I have been banging on about fare evasion a lot, because basically it is £40 million a year on the buses; it is £45 million a year on the Tube going in fare evasion. Therefore, I think London might regard it as a bit rich, so to speak, if you put the fares up, but you do not have a particularly good record on catching fare evasion.  Are you satisfied you are doing enough?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think we have been increasing our efforts on fare evasion.  There will always be some level of evasion that will be there, because it will be uneconomic to stop it completely.  I will take each piece, Lynne (Featherstone), and again, I think if you take the Tube, one of the very significant changes is the Oyster programme and gating the Tube and the like.

Oyster prevents certain types of fraud that could be done with magnetic tickets, and one of the reasons to go to a more complex medium is to be able to do things of that nature.  Thus, you have opportunities there in terms of the way that we are doing it.  We are using the system, by the way, the data coming out of the Oyster system, to target fare evasion efforts, as well, in a way that it simply was not possible to do before, so I hope we are getting more intelligent about the way that we are doing it.

On buses, we have an overall fare evasion that probably is about 2% of the level of fare income that we are collecting.  The flip side, in part, to the question about the nature of ticketing and the like is the fact that London relies so heavily on a period ticket process means that many of the people who are not necessarily displaying a ticket, touching a card or the like have in fact paid their fare and have the legal right and ability to travel.  Therefore, anyone who is carrying a period ticket – operating and getting on our buses, for example – that is not an Oyster ticket will not be putting it up to the reader in quite that way.

Finally, we have, over the last few years, increased the number of revenue inspectors, and there was a proposal to increase the level of the penalty fare that exists as well, all of which seek to address fare evasion.

**Angie Bray (AM):** Sorry, could I just ask a question.  You say that they may have Oyster Cards, which they are simply not touching.  If an Oyster Card is not being used in that way, then it is not actually being depleted of its…

**Jay Walder, Managing Director of Finance and Planning, TfL:** I did not say that.  I am sorry.  I said they have tickets that are not Oyster Cards that they do not have to be put up in that way.  We still operate a system for which people can buy tickets which are magnetic flash tickets and do not have to be touched in that manner.

**Lynne Featherstone (Chair):** I think there is a whole range of issues to do with fare evasion that are perhaps even too complicated.  It would take the whole meeting to go into them right here.  The only thing I would just pick up in what you said is that my understanding, now I am becoming an expert on fare dodging, is that one of the ways they do it on the Tube is to press up close behind and go through on one ticket.

Now, that must be exactly the same for Oyster Card. There could be no differential on that. That is the key way of dodging. There is not really an answer. This is an observation that, actually, what you are saying does not hold water in that sense of that particular shadowing, whether they 'ghost' through, or whatever it is called.

The second point that you might not be aware of that, in my studies, I thought may benefit you, is that given that is a major way of people dodging on the fares, it does not happen so much to women, because women are very aware of anyone pressing up close behind them, but it seems to be targeted on men of all ages. A bit of advice there.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am trying to think about how I can interpret the advice, but perhaps you can explain that to me after.

**Roger Evans (Deputy Chair):** Just looking at the increase on the buses this year, how is your increase in fares for buses expected to affect bus ridership? The Mayor was saying he wanted to reduce it when the capacity was not there.

**Jay Walder, Managing Director of Finance and Planning, TfL:** The greatest increase takes place in the peak period, which of course, is the area when capacity is lowest. We have seen patronage increase by over 7% in the current fiscal year, despite the increase that took place in January. I expect that we will still see, following the increase that takes place in January 2005, a healthy rise in bus patronage. I think bus patronage is, at this point, much more related to the service quality that is being put forth than to the elasticity of demand, but clearly there is an impact with elasticity of demand that will take place over time.

**Roger Evans (Deputy Chair):** The fare increase, then, is not really there to affect the use of the bus service, as the Mayor suggested. It is there to raise money.

**Jay Walder, Managing Director of Finance and Planning, TfL:** There will be an impact. Undoubtedly, for all products in a capitalist society, there is an impact from elasticity of demand. What I would say is that in regard to the services that we are providing at the fare levels at which we are providing them right now, the single most significant element to our customers is the quality of the service that we are putting forth.

I think you see that in a different way, as well, which is that the bus used to be the domain of the poor, and what you are seeing now is that the As and Bs have returned to a bus network which they consider to be clean, reliable, and safe. What our passengers want, across all income spectrums, are exactly those qualities.

**Roger Evans (Deputy Chair):** Of course, if the fares continue to rise at that rate, they certainly will not be the domain of the poor any more.

If people actually cease to use the service and the amount that you raise in fares comes down, what effect is that going to have on your future plans? Will you have to, in the future, raise fares by more than you had to promised to make up the difference, or will you reduce the amount of borrowing overall.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Each year, based on the effects of the prior year's increase, we will look at the impacts, in terms of overall patronage, that are taking place, the impacts that are happening at times of day and in areas. We will give the Mayor professional advice each year in regard to the upcoming fare increase. It is a little early, as we sit here in November 2004, to tell you exactly what that impact will be in 2005. We will do that; we just cannot do that with certainty as we sit here today.

**Lynne Featherstone (Chair):** Can I just ask one further question – very insignificant. When the Mayor met… is it Standard Fitch & Poors? I am sorry; I am not very good at…

**Jay Walder, Managing Director of Finance and Planning, TfL:** Standard and Poors and Fitch were the two rating agencies from that.

**Lynne Featherstone (Chair):** Given they are very interested in financial planning, did you have to give any sort of commitment as to what fare rises might be in future years? If you are planning, that would imply they would want to know what you are planning.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Standard & Poors and Fitch (Ratings) have been presented with TfL's plans and the business plan in the same manner that you have been presented with that.

**Lynne Featherstone (Chair):** They did not ask?

**Jay Walder, Managing Director of Finance and Planning, TfL:** We have discussed with them the fare proposals that are contained within there – or the level of fare income, I should say, that is contained in there. They noted that, clearly, when you look at things on a five-year basis, actions taken in the first year are incredibly important to delivering that plan, because simply put, they get multiplied by five as you go across. I think that one of the things that we went through with the rating agencies was to look at both the level of fares and levels of patronage, because, in fact, revenue, of course, is a combination of the two.

They were also, I think, cognisant of the fact that we have tried to make very realistic assumptions about patronage, in particular in regard to the Tube, where we will be undertaking an increased level of renewal activity over the next few years, trying to recognise that that will have some impact upon patronage and revenue.

**Lynne Featherstone (Chair):** Okay, so they did not have anything outside of the business plan, then?

**Jay Walder, Managing Director of Finance and Planning, TfL:** No.

**Angie Bray (AM):** Can we just briefly move on to the mooted rise in the Congestion Charge. I think people are talking about an extra £1, making that £6. Can you tell us what work has been done on that in terms of identifying the impact it would have on car journeys into central London?

**Jay Walder, Managing Director of Finance and Planning, TfL:** We are currently looking at that. Obviously, any change in the Congestion Charge would be a decision taken by the Mayor, but of course, as you know, subject to a consultation process. Therefore, we are not in the same place with the Congestion Charge as we are with the proposals that are being put forth and are being implemented for January 2005 on fares.

The point that followed from price and elasticity of demand follows for the Congestion Charge as well, that an increase in the Congestion Charge will have some impact on the traffic that is entering central London.

**Angie Bray (AM):** You cannot tell us, then, that it will be £1 or less than £1? Are you anywhere near to identifying what you think would be the right figure?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think you will have to wait for the Mayor to identify that for you.

**Angie Bray (AM):** Are you assuming that would push more people back onto public transport?

**Jay Walder, Managing Director of Finance and Planning, TfL:** One of the impacts that we have seen from the Congestion Charging system, which is a very positive impact, is that many of the trips that had previously been made by automobile are being made by public transport. To the extent that car trips go down, some portion of those car trips are likely to come onto public transport.

**Angie Bray (AM):** Can I ask you whether, in preparation for the consultation, work is being done on impact of a higher Congestion Charge on business in the area? Is that part of what you will be doing, your analysis?

**Jay Walder, Managing Director of Finance and Planning, TfL:** We are doing a broad range of analysis to be able to give the Mayor the information that he would need in order to be able to put forth his proposal.

**Angie Bray (AM):** Will a higher Congestion Charge affect the balance, do you think, in terms of the balance in that revenue between people paying their £5 or £6 or whatever it might be and penalty charge notices (PCNs)?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am not sure why it necessarily should, but I had not thought about it in quite that way. I think the Mayor has also made a commitment to try to continue to improve, as we have been trying to do, to ensure that the payment mechanisms are as easy and as efficient as possible for all people.

**Angie Bray (AM):** The problem is you keep saying it has got to be delayed and delayed and delayed, and I think one feels that that is partly because it is the PCNs that are propping up the revenues to such a significant extent. Could you tell us what the balance is between PCN revenue and actual payments of the charge?

**Jay Walder, Managing Director of Finance and Planning, TfL:** Not offhand.

**Angie Bray (AM):** Could you find me that?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I do not have that. I would say that the reality of the Congestion Charging system is that we have brought in a very, very complicated system. It has worked literally from day one, as we all know – 17 February 2003 – and people have accepted it and been able to deal with it.

That is not to say that there are not some parts of that process that could not be improved, and we have been working to do that.

**Angie Bray (AM):** It is a simple question: could you get me that information on the balance in the revenue?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I will attempt to get you that information.

**Angie Bray (AM):** Thank you very much.

**Lynne Featherstone (Chair):** I remember what it used to be. I do not know if it still is.

**Angie Bray (AM):** It is about 45%.

**Murad Qureshi (AM):** Thank you. Whilst we are on Congestion Charging, I ought to declare an interest as a Zone 1 Councillor here. On the changes caused by Congestion Charging, it is quite clear to a lot of local residents the business day in the week now on the Marylebone Road and Edgware Road is actually Sunday. We have a double whammy of huge volumes of traffic coming into London on a weekend, plus a free fall in parking, and residents have ended up with a double whammy. I am just wondering whether TfL have done any work to look into that situation and whether there is anything the Congestion Charging regime could do to alleviate that.

**Richard Barnes (AM):** Move it to the weekend? I am more than happy to quote that.

**Murad Qureshi (AM):** I am just telling people about a reality, and thinking…

**Lynne Featherstone (Chair):** TfL, would you care to answer?

**Jay Walder, Managing Director of Finance and Planning, TfL:** TfL is certainly not responding to a proposal to extend the Congestion Charge to weekends, to be clear. We have been, as you know, looking at the impacts of the Congestion Charge in a very comprehensive way. I am not familiar with the specifics of the area that you are describing, but we will be happy to look into it.

**Lynne Featherstone (Chair):** He said he will be happy to look into it. There you go.

**Jay Walder, Managing Director of Finance and Planning, TfL:** We will take a look at what is happening. Clearly, there is no question that the overall transportation system that we operate is very, very complicated, and any changes made in any way over different times of the day have impacts that occur. I am not familiar with this specific impact.

**John Biggs (AM):** Am I right in thinking though, Chair, that within the business plan there are no proposals whatsoever to extend the hours of operation of the Congestion Charge.

**Jay Walder, Managing Director of Finance and Planning, TfL:** There are no proposals to extend the hours of the Congestion Charge or to extend the days of the Congestion Charge. I tried to make that clear up front.

**Angie Bray (AM):** Nonetheless, you are happy to look at it.

**Jay Walder, Managing Director of Finance and Planning, TfL:** No, that is not what I said. Let me be clear. I said we would look at the traffic impacts that were occurring in a particular location, as we were requested to do, and we will do that.

**Lynne Featherstone (Chair):** I think that is fine. If something has gone up, because the week has become… Anyway, I want to move on to the next section.

**Peter Hulme Cross (AM):** Are you going to look at reducing the hours of the Congestion Charge, say by half an hour, ending it at, say, 6.00pm, instead of 6.30pm?

**John Biggs (AM):** Does the business plan say anything about that?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The Mayor will look, I think, broadly, at a number of things related to Congestion Charge in regard to this, but there are no proposals that are on the table of any kind right now.

**Lynne Featherstone (Chair):** Right, we are moving on to borrowing, which will be a new point, but only for a moment, though.

**Graham Tope (AM):** Thank you, Chair, for calming us all down. I thought if I started talking about the Public Works Loan Board (PWLB), it would really calm everybody down. Can you tell us why your board has decided to borrow on the capital market, rather than through the PWLB, which is cheaper?

**Jay Walder, Managing Director of Finance and Planning, TfL:** Sure. The board of directors of TfL on 27 October took a decision that for the first issuance of debt, we would go to the capital markets. We believe that the benefits of market scrutiny and the external discipline that will come from that in establishing that programme up front are worth the small premium that is paid over the cost of borrowing from the PWLB.

Establishing that programme up front means that we have that as an avenue that we can go down. It means that we are taking the decisions up front in such a way that the capital markets believe that our programme is, in fact, able to be financed, which is critically important to us. The decisions on the first issue – which will be a relatively small portion of the overall programme of about £3 billion of debt – on the appropriate source of debt for each borrowing will be made at the time of each borrowing…

Again, to be clear, I think the point that is being made is that the PWLB is an alternative source of borrowing. We have chosen to go to the capital markets for the first issuance in order to be able to establish that process. We will consider whether or not a capital markets issue, the PWLB, or perhaps other avenues that might be available, such as the EIB (European Investment Bank) would be the most efficient manner in which we should take things forward in the future.

That will be made on a case-by-case basis as borrowing is contemplated. The establishment of the medium-term notes programme up front will give us the opportunity to make that decision on a case-by-case basis.

**Graham Tope (AM):** For the record, the EIB is the European Investment Bank.

**Jay Walder, Managing Director of Finance and Planning, TfL:** That is correct.

**Graham Tope (AM):** Have you calculated what the additional cost is actually going to be of going through this route, as compared to the PWLB?

**Jay Walder, Managing Director of Finance and Planning, TfL:** It will depend on the spread, at the time, between Gilts and the issuance. Since we do not have a rating confirmed yet from the rating agencies, it would be impossible to give you an absolute value on that.

**Graham Tope (AM):** You said, I think, in the report to your Finance Committee it was £270,000 per £100 million borrowed.

**Jay Walder, Managing Director of Finance and Planning, TfL:** We gave a value that was in a report to the Finance Committee, upon which we gave a caveat by saying exactly what I just said to you, which is that we do not yet have a rating from the rating agencies, which does impact on whatever the spread would be between the Gilts and any borrowing that TfL were to undertake.

**Graham Tope (AM):** You also said in the business plan you have not yet talked to the credit rating agencies. When do you expect to do so?

**Jay Walder, Managing Director of Finance and Planning, TfL:** We have begun that. We have now begun the discussions with the credit rating agencies. I think the Chair has mentioned that before. We could only do that in the context of having put together the business plan, because the fundamental starting point for that discussion was the business plan. It is a process – not surprisingly, since this is the first time that TfL will be looking to issue long-term debt – that they are going through rigorously, as I would expect them to do, and neither one of the rating agencies has completed their process at this time.

**Graham Tope (AM):** Do you have any idea when they will?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I can only hope it will be in the not too distant future.

**Graham Tope (AM):** What is your aspiration?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The aspiration or hope is in the not too distant future, but I cannot speak for them.

**Murad Qureshi (AM):** If we had another Mayor in place, let us say in 2008, lo and behold, and if he or she had different priorities for the transport system, to what extent is he or she tied down by the borrowing undertaken right now?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am trying to think about the first part of the question that if we had a different Mayor, but…

**Murad Qureshi (AM):** The question is about different priorities.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Clearly, there is a Mayoral election which takes place every four years, without doubt, so I can say that. Clearly, as you undertake this type of programme, whether we were to engage in borrowing or not, projects that are actively under construction are projects that would be contemplated to be completed. Obviously, projects that have not been started yet will not have incurred the same costs in terms of being able to do that.

If we were to go through the entire five-year period, I expect that the level of debt-service commitment that would flow from this, again, subject to the same caveats that I noted a moment ago – which is we do not have a rating, and we are not trying to predict future interest rates with any certainty and are not in a position to do that – but I expect that the level of the debt-service burden that would fall from doing all of the borrowing that is contemplated in this programme would be about 4% of TfL's revenues, and therefore, would not constitute a major factor in terms of the overall TfL budget.

**Murad Qureshi (AM):** Just moving on, the borrowing actually entails new challenges for TfL altogether, and there are risks in terms of future fare income and future Government grants possibly not coming in as makes up this pot at the moment. Therefore, what contingencies have TfL got in the background?

**Jay Walder, Managing Director of Finance and Planning, TfL:** As we have put the programme together, we have tried to do it in a manner in which we can demonstrate through the starting set of assumptions that the programme is clearly balanced. We have also made the point that, if events were to change in a way that is unexpected from what is there, and if they were to affect the income side of the equation, for example, that would have a necessary impact, if we are going to maintain balance, on the expenditure side of the equation, as well.

There are flexibilities that exist within spending. Clearly, we have the flexibility not to undertake every project that we plan to undertake. They will not all be undertaken on day one. There are flexibilities in terms of the level of operating expenditure that we will undertake over the time, as well. Given the relatively small portion of TfL's budget that debt service will represent, we believe that there is sufficient flexibility to be able to deal with the debt service with this as part of the overall programme that we are putting forth.

In terms more generally, to the point you were making about risks related to doing something new, we have engaged a professional team internally, and I think TfL has perhaps the strongest corporate finance team that you will find anywhere in Government. We are very proud of it. We have engaged a professional team internally, with people who have come from a number of leading banks and institutions. We have also engaged two world-recognised leaders in regard to the Sterling marketplace – HSBC and Morgan Stanley – and we have engaged a leading legal firm, Clifford Chance, to assist us in doing this.

The board of directors of TfL has also established that the Finance Committee should go through, as you would expect, everything in great detail, and we have been doing that with the Finance Committee of the board for months leading up to this and now, as we are going through the process in the last stages, with that as well.

**John Biggs (AM):** In order for banks to underwrite or agree to issue a loan like this, they would normally need guarantees about the income, and on the face of it, to a lay person, given that the repayments will only ever be roughly 4% of the income of TfL, it seems pretty obvious that you will always be able to repay this.  Nonetheless, is it proving very onerous to demonstrate those guarantees to the banks and the issuers?

**Jay Walder, Managing Director of Finance and Planning, TfL:** 'Guarantee' is the word that probably does not fit with the issuance that we are talking about.  TfL is not issuing the debt with a Government guarantee.  If we were doing that, we would effectively have a sovereign rating that was being applied to the debt that we are going for.  The key reason why we are going forth and undertaking this process with the rating agencies is to establish the rating that exists for TfL, recognising the income levels that we have, the ability that we have to be able to generate money from patronage, the level of dependence we have on Government grant, and frankly, the level of dependence that we have on precept that may come through the Assembly, as well.

That is, in the round, what the rating agency looks at as they are putting forth the rating that they are doing.  This is not a programme that is contemplated on the basis of a Government guarantee, but under the basis of the prudential borrowing legislation that was adopted by Government, which says that TfL must be able to demonstrate that it is prudential.

**John Biggs (AM):** On the face of it, there is zero risk that these loans would not be repaid and the interest would not be paid by TfL on them, but if I were a cautious banker, I would ask all sorts of idiotic questions, at the end of which TfL might be expected to give guarantees.  We do not have securitisation in the UK, but are you being required to give guarantees as to your ability to make those payments, or is it being given on faith?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am not sure I understand exactly what guarantee we could be giving in the manner that you are describing.  We would be undertaking a debt instrument, which means that the repayment of the debt has certain legal basis in regard to the flow of funds that comes into TfL.  To the extent that we have funds, it would be a primary basis in terms of the payment that would be made.

You would have to believe, of course, that we will continue to operate the transport system, and that it would not be in the interests of any party to see the overall transport system in London cease.  Now, I believe that the marketplace will come to that conclusion, because it seems self-evident on its face, but you have to come to that conclusion, rather than a formal guarantee that is being given.  There is no guarantee that we can give in the sense of a Government guarantee in the way that Government may have guaranteed other issuance that will take place.

**Richard Barnes (AM):** The only comfort you can give, rather than a guarantee, is on your income stream, but we have examined that, and to be sure, there is information that, if I were a borrower or a lender, I would want to know.

What I actually want to examine just a little bit closer is the decision to go to the capital market over the PWLB. You have in your board paper said it is going to cost more, with the caveats, and the figure that have put with all the caveats is £270,000 per £100 million, but you say that the costs will be offset by the enhanced discipline that will fall on TfL.

I am curious about the weaknesses in TfL and its financial structures that it needs £270,000 worth of discipline for £100 million worth of capital investment. I wonder what they are.

**Jay Walder, Managing Director of Finance and Planning, TfL:** If you look at what we are discussing today, you are seeing a business plan that has been put forth in a very different manner from business plans that you have seen that have been put forth before. You are seeing questions as to prioritisation being clearly explained. You are seeing questions as to the projected increases in fares being laid out over a five-year period of time. You are seeing an efficiency programme that is over 100% larger than you have seen previously, all reflecting the work that we have been doing in terms of putting this together and building this programme in the manner in which it is there.

Part of the question of scrutiny and discipline that is going forth is that the judges of that, as to whether or not we have actually put together a programme that will allow TfL to maintain the rating that it currently enjoys, will be the market. We are testing that, in effect, by going through the process with the rating agencies right now, by going through the debt issuance that is there. That is providing a very important check and balance in the process to TfL.

We would hate to be in the position of presuming that we had access to the capital markets without having established the access to the capital markets. That is the situation that could, in fact, lead us to a position in which we would be having a real difficulty, but if we establish the access to the capital markets up front, then we establish choice. Then we establish the opportunity to be able to finance in multiple places, and that has to be a long-term benefit to us. We have adopted the view that this is a programme, that this is a five-year effort that we are undertaking, not just a single effort that is taking place. I think, over the long term, the benefits are very clear.

**Richard Barnes (AM):** You still have not answered my question.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I have.

**Richard Barnes (AM):** Interesting though your response was, I wondered what are the weaknesses that you actually need £270,000 worth of strength to, in your own words, 'enhance discipline.' Going to the capital market is not a new thing. It has been happening since the year dot almost. You flog bus tickets and Tube tickets. That is no different to Cadbury selling chocolate. They all go to the capital market. The only way it is going to be delivered is if your financial control systems are good enough to do it. That is all the capital markets will look at, being year one or year two. What are your weaknesses?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The key thing that the capital markets will be looking for when you go beyond year one will be to ensure that the basis of recurring income exceeding recurring expenditure is maintained as we go forth. That is not to say that every element of the business plan that is there will come in exactly as it is anticipated as we sit here today. It is impossible for us to give that…

**Richard Barnes (AM):** They are not interested in your prioritisation. That is an internal business decision.

**Jay Walder, Managing Director of Finance and Planning, TfL:** The prioritisation is an internal business decision. The do look, of course, to understand the basis of it and the relationship of it to the London Plan and the like in the way that one goes forth, but they are looking to see that we are creating a matched book between income and expenditure and recognise that over time, as changes will occur in each element of that, that we have to maintain that matched book, that equation in balance, over that time.

**Richard Barnes (AM):** What additional comfort have you given? You have a fare stream projection, but your operating costs increase by some 29% over the same period, which would seem to be an imbalance, unless you have given people comfort that the income stream is going to match that operating cost increase.

**Jay Walder, Managing Director of Finance and Planning, TfL:** We have discussed with them, as we have discussed with you, the nature of the fare increases that are contemplated over the period of time. They have met with the Mayor and discussed that with the Mayor, since those are solely the prerogative of the Mayor for the period between now and 2008. We have discussed with them the nature of the patronage forecast that we have made and the conservative nature of the patronage forecast.

As I mentioned, we have discussed with them issues, in particular, related to Tube patronage, where we do have concerns about the impact of the rebuilding upon Tube patronage. We have discussed with them our expenditure profile on a going-forward basis, and how we put it together, taking both the projects that are there and the operating expenditures that are there and the reasonableness of the assumptions that underpin that.

All of that is the basis of the comfort that I think you are describing. I think your analysis, in the sense of saying that the rating agencies are looking to make a judgment and to have comfort that TfL is handling this in a way that will maintain balance and fiscal discipline over a long time, is correct. We have to make that case to them; there is no question about that.

**Lynne Featherstone (Chair):** Okay, thank you. As you raised operating costs, we are now moving on to the section on operating costs.

**Peter Hulme Cross (AM):** Mr Walder, I would like to read a quote here: "The growth in operating costs could not be sustained. We also needed to improve the efficiency of our costs". Have you really got a grip on the unsustainable trend in operating costs?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think we do. I think we do. If you look at, for example, the past four years in terms of bus service, we should all be very proud about what has happened in regard to bus service in London. It has improved dramatically. People have come back to the buses. This committee has discussed that over a long period of time, so we should be very proud of that.

We have also, as this committee has discussed over a period of time, recognised that our plans had contemplated continuing large increases in the bus service out over a period of time. One of the points that we have made in our business plan is that we have adopted in this business plan a bus model that seeks to solidify and build off the improvements that we have made so far, and by the end of this fiscal year, all of the bus routes in London will have been brought to our standards, which has been a five-year process of doing that.

We seek to solidify that to put capital investment on buses to be able to achieve objectives across all of London, like CCTV and disabled access to the bus system, but rely on broader efforts in regard to traffic management, efforts in regard to bus priority, efforts in regard to automatic vehicle location (AVL) and the bus radio system, which are severely outmoded and hamper the ability to be able to run an efficient bus system as it is there, and efforts in terms of cashless bus, which will speed boarding times and allow buses to move more effectively, to allow us to carry more people with the fleet of buses that we have now – approximately 8,000 buses.

That is a plan in doing that that clearly puts challenges on us. We have to deliver, not just by adding buses and doing other things, but also by tackling issues of traffic management, bus priority enforcement, and putting in a new, current technology of AVL system – the one we have now counts tyre rotations, rather than using Global Positioning System (GPS). There are challenges there in doing that, but we believe as we take each of these steps that we can go forth, get more out of systems in the way that we are doing that.

We have gone forth and done that across all elements of TfL, but I believe the bus strategy, in particular, stands out as something that we look for to be able to continue high-quality service and promote the use of the bus system at lower cost.

**Angie Bray (AM):** I am sorry; I really do not think that necessarily one can say that everything about the handling of buses has been absolutely wonderful. I mean, clearly, not everything is rosey in the garden there. Not only is it absolutely hugely expensive, the money you have chucked at these bus services in what seems to be an entirely untargeted way, so that in the middle of the day, we have simply got Oxford Street and other parts of central London absolutely chock-a-block with empty buses, all of which are costing money.

I know that Westminster City Council has actually raised the issue of concern about the congestion now being created by buses, most of them empty in the middle of the day. My question is can you really say that we think it is a wonderful thing that bus companies are gleefully announcing a 40% increase in their profits as a result of seeing you guys coming a mile off and being able to charge anything they like for all your requests just to throw more buses on the road – anything to look good? I do not think that is what I call a well-managed bus system at all.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think you have the most significant positive change in surface transportation that has taken place anywhere in the world over the last five years.

**Angie Bray (AM):** At a cost.

**Jay Walder, Managing Director of Finance and Planning, TfL:** The ability to be able to carry now 6 million people a day on every weekday is a number that nobody sitting around this table would have thought was possible the day that this Assembly started. We were carrying roughly 4 million people at that time. It is a stunning achievement in terms of what has been done.

It has relied on innovation, like Congestion Charging. It has relied on bringing discipline into bus priority and putting film in cameras and having enforcement mechanisms and the like to prove that it is real, that it works, and the like, and taking back some of London's streets for the many people who were on buses, so that they can have efficient and quick travel.

**Lynne Featherstone (Chair):** I am sorry to interrupt again, but I think we know that. Angie's (Bray) question was about…

**John Biggs (AM):** Angie (Bray) does not know that.

**Lynne Featherstone (Chair):** Well, it not just that. We are short of time, and it is sort of…

**Angie Bray (AM):** We do not want to just have a kind of 'Is life not wonderful?'. There is a serious issue about this deficit on bus operating costs, and the fact is we were treated to some very gleeful results from bus companies, who are all saying that as a result of the Mayor's massive expenditure on buses, their profits were up by, on the average, about 40%.

**Jay Walder, Managing Director of Finance and Planning, TfL:** The response that I was trying to give you is the first…

**Angie Bray (AM):** Is to say, 'Hey, everything is wonderful out there.'

**Jay Walder, Managing Director of Finance and Planning, TfL:** No, I did not tell you everything was wonderful. What I said was that as you look across London, you were seeing a dramatic change in what has happened across surface transportation. It is very, very…

**Angie Bray (AM):** What about the bill that is going on there?

**Jay Walder, Managing Director of Finance and Planning, TfL:** It is very, very positive across London. You raised a specific issue about one place, issues about times of day, or issues about bus companies. I will tell you that the cost of the bus system that we are putting forth for London, which is continuing to be projected to carry additional people and provide mobility to London is fully included within a plan that is fully balanced over a five-year period.

**Lynne Featherstone (Chair):** We will see.

**Roger Evans (Deputy Chair):** Mr Walder, you are an expert, and we must take your word for it about some things. Can you really put your hand on your heart and tell us that we are getting value for money from the bus contracts, and they could not be any better than they are?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I can certainly tell you that we are getting value for money from our bus contracts. I can certainly tell you that the emphasis in the bus contracts on the service that is being delivered has been very, very positive in the way that we are going forth. I can certainly tell you that as you look through the business plan, you will see what the business plan projects is that over the five-year period, we believe we can get even more out of what we are doing and improve the value for money that is there through the bus systems.

We are not standing back. We are not trying to say that everything is perfect right now, and a you look through there, you see that we continue to project that there can be improvement in what we are doing. We can carry more people and use the bus system more intensively, even, than we are using it right now.

**Angie Bray (AM):** That would be difficult.

**Roger Evans (Deputy Chair):** The savings that you have identified in the business plan we are looking at today are very ambitious. Can you explain how you have identified them, and how confident you are of actually delivering them?

**Jay Walder, Managing Director of Finance and Planning, TfL:** Sure. The savings in terms of efficiencies are broken into two categories, and I am going to just take them separately. You have back-office functions, particularly around areas like finance, human resources, procurement, marketing, and the like. You will recall two points. One is that TfL engaged almost immediately in the fact of bringing together 15 predecessor organisations into one organisation which did not, by itself, promote efficiency in the way that things were being done. There were many things that were happening five times over; there were other things that were not happening at all.

We have gone through, and in a very careful way, tried to rationalise the organisation that is there, and there are certainly savings that are coming out of that. We also invested in a common architecture and infrastructure of computing systems, SAP, which is a world leader in enterprise resource package systems and which has now been put forth across all of TfL, and actually it was undertaken over the course of a couple of years. That has involved re-doing virtually every single back-office process in TfL, and it is a continuing process.

We are continuing it now and have yet another effort with Capgemini in terms of going through and trying to work through that effort and the like. It is a very painstaking effort. The phrase that is often used – 'low-hanging fruit' – is a misnomer. There is no low-hanging fruit; you work like hell to get each of these savings that are in there.

That accounts for roughly £700 million of the £1 billion of savings that we have put forth. The remaining savings are operational savings. Some of those have already been achieved. We have, for example, decided not to progress the train information management system which the prior management of London Underground had sought to progress at substantial savings, because we believe that through other systems, we will be able to provide the information on trains that customers want and the operational staff need, as I said, with substantial savings.

We have refinanced the debt related to the Public Private Partnership (PPP) for Tube Lines. That has already been completed with substantial savings. We are looking at cashless bus and have a commitment in here to implement cashless bus in early 2006. That provides operational savings and that provides savings of cash handling, which you know in any organisation is a difficult element in terms of what is happening and is subject to leakage, as we know.

We are also looking to build upon the investment that has been made in the Tube in regard to ticketing systems to be able to see if we can move more transactions away from the Tube and away from the ticket office windows that we have – using the internet, using auto-reload, using telephone transactions, using machines, and the like, which allows us to have a much more efficient process of doing that and releases our staff from being behind protective glass to places where they can more effectively interact with and assist customers, which is really what the goal and objective is.

**Roger Evans (Deputy Chair):** How much are you going to save from cashless bus?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The figures are in the business plan. I do not have that number exactly in front of me, but I am sure we can look it up for you.

**Roger Evans (Deputy Chair):** I have some numbers here in front of me which suggest that it is going to increase incrementally over the coming years, but I am just wondering how much of that is cashable savings and how much of it is non-cashable.

**Jay Walder, Managing Director of Finance and Planning, TfL:** The full amount that we have in the business plan is cashable savings. It increases from £11 million starting in 2006-07 to about £42 million that will take place in 2009-10. A lot of that has to do with being able to operate the bus system more efficiently on the road. The difference in time it takes for somebody to put an Oyster Card against the reader versus the time it takes for a bus driver to be able to count out change to a customer is quite significant.

In this case, we are no different from a lot of other companies. McDonald's has the same challenge that we have: getting people through the till more quickly to be able to serve people and create efficiency in the operation that they are doing. We are not any different than that. Cash handling is also an expensive process for any business. If we can take cash off buses, we move away from having that process at all in any of our operation.

**Roger Evans (Deputy Chair):** Is not quite a lot of that saving you are quoting saving that is not going to come off the bottom line, because it will be seen as an improvement in quality of service, which is desirable, rather than as a change to the amount of money this is costing you?

**Jay Walder, Managing Director of Finance and Planning, TfL:** No, I think this is a saving that is the costs that we would otherwise incur would we to be increasing services that we would now not have to increase, because we are running a more efficient system.

**Roger Evans (Deputy Chair):** Therefore, we will get all of that £42 million?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think we will.

**Peter Hulme Cross (AM):** Has that all been recycled into the business plan?

**Jay Walder, Managing Director of Finance and Planning, TfL:** It has, and all of the savings that we make in the back-office savings, and indeed, in the operational improvements, as well, become money that we are investing back into front-line service delivery for our customers.

**Peter Hulme Cross (AM):** Thus, you are talking about it including the savings that are cashable and also the efficiency ones, which are non-cashable.

**Jay Walder, Managing Director of Finance and Planning, TfL:** In every place where we have indicated a saving, what we have done in the costing within the plan is reduce the amounts that we are expending by the amount that is shown on the table you have there. We brought it together in terms of a table of efficiency so that people can see what we have done. The individual line items that we hold our managers accountable to will be reduced by the amounts that we are showing you here, so that they have to achieve those levels.

**Peter Hulme Cross (AM):** You are satisfied that that is an accurate way of doing it?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am satisfied that it is accurate. We do a report to the Finance Committee of the TfL board every single month that goes through this. We have a person on Richard's (Browning) staff whose full-time effort is around the efficiency programme and ensuring that we are carrying it forth, identifying places where he has concerns that we may not be achieving what is happening. Then management action by Richard (Browning), by myself, or by others in the organisation is taken to ensure that we do achieve those savings.

**Richard Barnes (AM):** These are absolute figures included in the business plan?

**Jay Walder, Managing Director of Finance and Planning, TfL:** These are absolute figures included in our business plan. Clearly, as you look out over a five-year period, there are actions that have to be taken to achieve them. Therefore, as we sit here today, we have not implemented cashless bus, but we have within there the goal to implement cashless bus and to achieve the savings that are put forth. That is what we are putting forth and that is we have to achieve if we are going to be able to achieve this.

**Richard Barnes (AM):** Every other business plan that I have seen has got within it a high and low envelope – overachievement and under achievement. Is this the absolute that people hang by if they do not achieve it?

**Jay Walder, Managing Director of Finance and Planning, TfL:** You will note that TfL started a programme of efficiencies two years ago. Much of the work that you are seeing here is a carrying forth of that efficiency programme over several years. It has been very, very hard work in terms of doing it. As you look to the out years of this programme, we have put a stretch target in here as well in the out years of the programme reflecting exactly the point that you are making. We do not want to become stale. We do not want to become level. We have identified that stress target explicitly in the business plan by calling it additional efficiencies. It is the one element of what we are talking about for which we could not sit here today and identify exactly what we are going to do to be able to achieve it.

**Richard Barnes (AM):** Do you hang if you do not achieve this?

**Jay Walder, Managing Director of Finance and Planning, TfL:** Do I hang if I do not achieve this? It is our collective responsibility in the organisation to achieve these efficiency savings, and we have overachieved in the first year.

**Lynne Featherstone (Chair):** The cashless bus will come just in time, because it is so much harder giving change for £1.20 than it was for £1. Anyway, we are moving on to the last section, which is capital investment.

**Angie Bray (AM):** Can you tell us briefly how these capital projects were prioritised for funding, and can we assume that those projects that are funded to progress design will be implemented through further borrowing outside the five-year period?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The capital projects that are contained within the investment programme are generally those that were included in the business plan that we produced last year and discussed with this committee. You will recall in that discussion – and it is still holding – that one of the key elements that we had was to be able to deliver the transport investment that would make the London Plan a reality and that would accommodate the growth in London that was projected in that Plan and, in particular, the growth in the East End of London that was projected within that Plan.

The value for money of the overall programme and each of the projects has been independently verified. In most cases, the business case shows a benefit-cost ratio that is more than 2.5 to 1.

**Angie Bray (AM):** I am sorry. I actually asked how we got the priorities we have in this order.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I just tried to explain it.

**Angie Bray (AM):** Well, I think we want to know exactly why they are where they are.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Your starting basis of looking at the capital priorities is to say, 'What is the objective that you are seeking to achieve?' The basis that TfL works from begins with the London Plan, because that has been adopted as a formal Plan by the GLA or by the Mayor, and we look at what it will take on a transportation basis to be able to support the London Plan.

In doing that, we also go through and evaluate each one of the proposed projects independently in regard to an established methodology put forth by the Department for Transport (DfT) and the Treasury in regard to benefit-cost ratios. These seek to establish what the social benefits of projects are against costs of those projects, recognising, of course, that part of the social costs of that project is met through taxation and public monies.

You also asked about projects for which we are unable to progress within the funding that is here, but for which we have indicated that we will continue to progress through the design stage in trying to move through the planning processes that are in effect. I believe that those projects will be the subject, as they progress, of future bids that can be made to Government for funding. They do not necessarily imply that future borrowing would be undertaken to be able to do them. Some of those projects are projects that might be contemplated on a PFI basis, given the nature of the project that is being taken forth.

The agreement with Government that was reached established and recognised that TfL would be progressing other projects and would come back for discussion with Government. Many of those projects, I would point out, are tram projects, and you will note in the Secretary of State's comments before Parliament that he made broader comments about tram systems and the manner in which they are being put forth. We are participating in further work in regard to trams with the DfT and with other potential tram parties throughout the UK in an effort to try to reduce some of the costs related to tram projects.

**Angie Bray (AM):** Okay. It does seem that, right out of the top, there is an awful lot going on in east London. I just wonder if that has anything to do with a need that we have now to impress the International Olympic Committee (IOC) in the Olympic bid, and I wondered, if we did not win the bid, whether those priorities would still remain exactly where they are.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think, actually, the interesting thing is that TfL established virtually all of those priorities in advance of the Olympic bid. They really flow from the London Plan. Let us talk about the projects that we are talking about that are in east London.

The extension of the East London Line has been talked about probably for decades, if not longer. Its inclusion within TfL's plan is a reflection of the fact that the Strategic Rail Authority (SRA) did not get the project done and did not carry it out. It is a London project, and we have taken the vote to take it forth and not let institutional barriers get in the way of achieving that.

The extensions of the Docklands Light Railway (DLR), for example to Woolwich, were always contemplated when the City Airport extension, which is under construction, was being done. The extension of the DLR up the Lea Valley to Stratford Regional and Stratford International taking over the North London Line, currently operating, has been talked about for many years, as well, and perhaps provides a model of something we may be able to do more broadly, which is to take ineffectively-used heavy-rail infrastructure and turn them into light rail lines, which would be a positive thing for London, rather than having 15 or 30 minute headways on heavy-rail infrastructure, which does not work very well.

The increase in the DLR from a two-car to a three-car railway has been discussed, again, for many years and is reflective of the growth that has taken place in the use of the DLR, which has grown dramatically over a period of time. Two ‘busway’ projects, one in east London and one in Greenwich waterfront, have been projects that began, I think, in the early 1990s as part of a study that was being undertaken then.

**Angie Bray (AM):** Okay, so really what you are saying is these plans will stay where they are, regardless of the Olympic bid. My final question is it is a big puzzle to me that there was no mention of the Congestion Charge Extension. Is it just an error or what?

**Lynne Featherstone (Chair):** Yes, I saw that. Has the Mayor dropped it?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The Congestion Charge Extension is mentioned in the plan.

**Angie Bray (AM):** It is not here in any of your prioritised…

**Lynne Featherstone (Chair):** Well, that is our list, and...

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am sure it is there.

**Angie Bray (AM):** It is our mistake, is it?

**Lynne Featherstone (Chair):** It might well be.

**Jay Walder, Managing Director of Finance and Planning, TfL:** The Congestion Charge Extension is included within this plan. It is there, and it is subject, of course, to further actions to be taken in regard to consultation, Mayoral actions and the like. It is there.

**Lynne Featherstone (Chair):** That is being checked, at the moment.

**Angie Bray (AM):** I have to say that otherwise, I think it is surprising that it is not on the list that we are here to discuss this morning.

**Darren Johnson (AM):** In terms of evaluating and appraising projects, there has been concern that there is an inbuilt bias against smaller projects that favours bigger projects, and there is some work on this by Professor (Phil) Goodwin (Centre for Transport Studies, University College London) with various recommendations. Have you acted on any of those?

**Jay Walder, Managing Director of Finance and Planning, TfL:** If you will excuse me just one second, if you would refer to page 22 in the business plan, section 2.68, you will find the Congestion Charging Western Extension is included therein.

**Angie Bray (AM):** Under which bit? Under ‘Funded’ or ‘Project Design’?

**Jay Walder, Managing Director of Finance and Planning, TfL:** No, under ‘New Services and Extension,’ page 22, section 2.68. The statement is there about the Congestion Charge Western Extension.

**John Biggs (AM):** It is page 25 of our…

**Jay Walder, Managing Director of Finance and Planning, TfL:** I am sorry. You were looking at a different page number?

**Lynne Featherstone (Chair):** Page 25.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Page 25. I apologise.

**Angie Bray (AM):** It was our mistake.

**Jay Walder, Managing Director of Finance and Planning, TfL:** Your question, I think, was about appraisal methods. We utilise an appraisal methodology which is the approved methodology that is put forth by Government through DfT and through the Treasury. I would be hard-pressed to say that it is perfect, nor is any appraisal methodology perfect. I have actually spent many years working on appraisal methodologies.

Within the academic literature, for example, you will find questions as to the value of small time-savings versus large time-savings; non-transportation benefits that may occur, as opposed to just transportation benefits that may occur; and which things should be captured on a quantitative basis and which things should be captured on a qualitative basis.

I believe that Professor Goodwin, in his work, was looking at established processes and notes, probably appropriately, that you spend more time on the evaluation methodology on the very large projects than you do on the smaller ones, largely because of the value, the risk, and the like that are associated with those projects. There is a balance to be given, but we follow the same methodology for all of the projects that we are putting forth.

The other point I would make about this is that when TfL was started, the appraisal methodology was much more developed for public transport schemes than it was for other types of work. Now, we have had to extend it to the basis of evaluating highway projects, and as the Chair will know, we spend a lot of time trying to evaluate other projects that fall outside of the normal realm of public transport schemes, as well. I think what you see in this plan is a reflection of that in the very sharp increases that are being given into other types of projects that are taking place here, reflecting the types of goals that are there.

**Darren Johnson (AM):** Is this a continuing process?

**Jay Walder, Managing Director of Finance and Planning, TfL:** It is a continuing process. It is an absolutely continuing process. It will not stop at any point, and I expect, by the way, that DfT and Treasury, as they are considering this, are reconsidering some of the things that they are putting forth as well.

**Lynne Featherstone (Chair):** Just to clarify, in a presentation given by Stephen Critchley (Chief Financial Officer, TfL) his list, which is where we have our list from, actually does omit the Western Extension of the Congestion Charge. Therefore, it is in the business plan; it is not in Stephen Critchley's presentation. I am sure it is in there.

**Angie Bray (AM):** It should be given due prominence.

**Richard Barnes (AM):** I do not think that would be a fatal flaw to the proposal, Chair. You plan to invest some £10 billion over five years in capital projects. I have been doing some informal work, looking at the capacity of the building industry and the engineering industry not just in London, but in the southeast as well, and a lot of it, particularly the building industry, is working at overcapacity. The engineering industry is almost at the same level.

I wonder whether you can actually deliver £10 billion worth of investment over five years, and how robust your investigation into it has been. Do you have another piece of paper which has the impact of slippage on your business plan and, indeed, your financial projections? If you have – and I doubt whether you would tell me whether you have or not – I was going to say, 'Can I have a copy of it?'

**Jay Walder, Managing Director of Finance and Planning, TfL:** Actually, I think we have published it, so I would be happy for you to see it. I think you raise a very important question, clearly, which is that we are not undertaking this by ourselves, but we are undertaking this in conjunction with other parties, which will have to carry out much of the work that we are discussing here.

A related point to that point that you are making is also our internal capacity to be able to manage that, as well, which I think is all fair.

**Richard Barnes (AM):** That was going to be my supplementary question.

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think it is all fair in the way that this is being phrased. I will take it out and put it all right on the table. I think what you are seeing in terms of the construction industry, one of the things that the construction industry does respond to is certainty. One of the difficulties the construction industry has had in transport in the UK and in regard to London is the chopping and changing of plans that have been taking place – not necessarily TfL in its early days, but think about the rail industry, for example, and what has happened over a period of time.

To use just one example on the DLR Extension to Woolwich, which we have bid out now as a PFI, we have seen robust competition in that and actually some very hungry contractors in terms of the way that work is taking place. We are doing a lot of work on the largest project that is in our programme – the East London Line Extension, which is close to a £900 million project and larger than anything else we have contemplated before – and again, I think we are seeing an awful lot of interest in the way that project is being done, and I do not think we will have any difficulty about that. The firms that are coming in, by the way, are international firms who are talking about moving resources to London to be able to carry this out.

Finally, a large segment of the work that we are talking about in this £10 billion, given the contracting methodology that TfL – I should say, has put together, but I think has been delivered to TfL for the Tube in regard to the PPP and PFI contracts means that much of the resource that is needed to be able to do that is already contracted for. Again, in those cases, given the size and nature of the firms that we are taking about, one of the things that they have been doing is bringing in additional resources to be able to meet the commitments that they have under the PPP and PFI contracts.

Having said all that, this is a complicated programme, and it is entirely possible in certain disciplines that we are going to run into conflict about simply the number of people who will be able to deliver the work we are doing. Areas like railway signal engineers, for example, do not grow on trees, and they are very hard to bring into this. Network Rail has a lot of plans, as well, and both of these are going forth. As you know, Network Rail is putting forth a £20 billion borrowing programme, which dwarfs anything that we are talking about right here.

We are working with Network Rail so that each of us understand the plans to try to work co-operatively on that. Also, we are trying to build up some of the internal programmes we have at TfL – some of the recruiting programmes, graduate training programmes, and the like – to be able to build greater and stronger intakes of people into the company. Traditionally, when you look at the old London Transport (LT), that was one of the ways in which they did very, very well. It was a real badge of honour to have gone through the graduate training programme at LT at one time.

In the plan, you will see the issue of over-programming. We have literally hundreds, if not thousands, of individual pieces of work that have to take place to make this happen. We would be foolish to sit here and tell you with absolute certainty that every one of those things is going to happen on exactly the schedule that we have put forth. We have made an allowance and an assumption of over-programming to allow us to recognise that some of those things – for reasons that are going to be very difficult to say right now – are simply going to slip, but to ensure that we are able to go forth and utilise the resources that are available to us. Some of that slippage, of course, may occur through planning processes and other things that need to take place.

Therefore, all of this, on the whole, is bringing us into that. TfL will also be strengthening all of its internal processes, board oversight, and the like, recognising that you do not just scale up from the type of programme that we have had to a £10 billion programme with the same institutional structure that you have had there, as well.

**John Biggs (AM):** I thought Richard (Barnes) asked probably the most important question today, and I am interested in the question of risk. Risk could be a rather academic sort of question, if you are not careful. Nonetheless, would you say the biggest risk to the business plan is about build-cost inflation and inflation in general, or what would you say is the greatest risk?

**Jay Walder, Managing Director of Finance and Planning, TfL:** I think at this point the greatest risk to the business plan is actually the point that Richard (Barnes) was making, both the internal and external point. I think it is the internal capability to be able to deliver the programme, and the external delivery mechanisms and whether or not they exist to be able to do that.

That has a knock-on effect to create the point that you are making, the knock-on effect obviously being that to the extent that you are competing for scarce resources, that will have a knock-on effect in terms of costing that is taking place.

**Richard Barnes (AM):** If you take your priority funded projects and just simply work out roughly how many project managers you will need to do these new things, in addition to what you are already doing, simply put, you do not have the bodies.

**Jay Walder, Managing Director of Finance and Planning, TfL:** If you look at the projects in a slightly different way, I would argue differently about that. If you look at the top of some of the list – for example, some of the DLR projects – I think you have an organisation that has an absolutely stellar track record of bringing forth the types of relatively small-scale improvements to their system that have taken place, in terms of being able to do that.

If you look toward the East London Line Extension, you are not talking about a project that is beyond the boundary of anything we have done so far, and we are dealing with that and strengthening the project management team that is associated with the East London Line Extension and looking toward an external programme manager who will be involved in assisting with that process.

I would actually say that I think we do need to strengthen what we are doing, and there is no question about that, but I also would not miss the fact that many of the things we are talking about on this system, you can literally point to responsible parties who are well-qualified right now who are dealing with that. Another example is AVL countdown, which is a very complex project. We made a decision a year and a half ago to bring a well-qualified person into our team to be able to run that project. That is paying dividends right now. We did not just do it because of this book. We did it a year and a half ago.

**Murad Qureshi (AM):** Thank you. Just before I say that, I actually do feel very reassured that I have a fellow economist in Mr Walder running the business plan. I think that is quite rare, because more often than not, we have the lawyers running these kinds of things, which really winds me up.

**Richard Barnes (AM):** As an economist, we never reach a conclusion.

**Murad Qureshi (AM):** I thought that was about fellow colleagues. Anyway, the more serious point to be made here is: in a scenario that revenues are much higher than expected, what would TfL's preferred option be – pull another project off the shelf, reduce fare levels, or reduce borrowing?

**Jay Walder, Managing Director of Finance and Planning, TfL:** The simple answer is that if we get to that situation in the manner that you describe, we will have a welcome problem to consider at that point in time. It is a little early before the ink is dry on the plans that we have to necessarily come to that conclusion.

**Lynne Featherstone (Chair):** We thought we would finish on a high note.

**Murad Qureshi (AM):** Yes, a high note, and it is unquestionably dependent on the elasticities at the moment.

**Lynne Featherstone (Chair):** Okay, I would like to thank you all for coming. Jay (Walder), you talked at length, and it has been very useful. Thank you very much.

**Jay Walder, Managing Director of Finance and Planning, TfL:** You are welcome.