

**TRANSPORT FOR LONDON**

**BOARD**

**SUBJECT: REVISED 2010/11 BUDGET**

**DATE: 8 DECEMBER 2010**

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**1 PURPOSE AND DECISION REQUIRED**

- 1.1 The 2010/11 budget as approved by the TfL Board in March reflected the TfL Group structure as it stood then. Since then TfL has acquired the Tube Lines group of companies.
- 1.2 A revised budget has now been prepared and is presented for approval.
- 1.3 The Finance and Policy Committee considered a similar paper at its meeting on 24 November 2010 and endorsed the recommendation.

**2 RECOMMENDATION**

- 2.1 The Board is asked to approve the revised TfL 2010/11 budget.

**3 CONTACT**

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TfL Budget  
2010/11



Cover Image: Refurbished escalator at Swiss Cottage station

# Transport for London

## Budget 2010/11

### INTRODUCTION

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- 1.1 The 2010/11 budget as approved by the TfL Board in March 2010 reflected the TfL group structure as it stood at that time. Since then, TfL has acquired Tube Lines Limited (Tube Lines). This paper proposes a revised 2010/11 budget which reflects the impact of the acquisition. This revised Budget will be used for quarterly performance reporting at Q2 2010/11 and beyond.

### REVISED OPERATING AND CAPITAL FINANCIAL BUDGET

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- 2.1 It is TfL's policy to revise the current year budget only as a consequence of significant organisational change, and not because of changing external factors (which are reported as a forecast variance to budget.) Since the approval of the original 2010/11 Budget by the TfL Board in March 2010, the largest such change results from the acquisition of Tube Lines and the associated debt restructuring. In addition, certain other more minor reallocations across the TfL Group are reflected in this revised Budget.

#### Acquisition of Tube Lines

- 2.2 The agreement to purchase the shares of Tube Lines from its shareholders Bechtel and Amey (Ferrovial) was concluded on 27 June 2010. Tube Lines is now a wholly owned subsidiary of TfL.
- 2.3 The acquisition provides TfL with greater flexibility to manage the vital programme of Tube upgrades alongside the other improvements being delivered across the transport network. The new arrangements will enable TfL to deliver substantial cost savings.

#### Acquisition Cost

- 2.4 The cost to TfL of acquiring Tube Lines' shares is reflected in TfL's balance sheet and cash position, but has no impact on the operating and capital expenditure budgets.

#### Basis of Revised Budget

- 2.5 In the Budget that was approved by the TfL Board in March 2010, Tube Lines' expenditure was funded by London Underground (LU) through the Infrastructure Service Charge (ISC). Post acquisition, the ISC has been removed in its entirety from LU's operating expenditure budget (a reduction of £698m), and has been replaced in the consolidated TfL Budget by:
- Tube Lines' directly incurred operating (£316m) and capital expenditure (£252m);
  - Tube Lines' direct (non-ISC) income (£43m); and
  - an addition to TfL's debt service (£69m), reflecting the assumption by TfL of the cost of Tube Lines' A and B notes (which are in any case guaranteed by TfL), and the restructuring of Tube Lines' C and D notes and their replacement with TfL-issued debt.
- 2.6 The above changes generate a saving to TfL of £105m, which represents the cost elements of the ISC that are no longer incurred post acquisition, namely the equity fixed amounts (payments to Ferrovial and Bechtel) and tax fixed amounts. This £105m saving partially offsets the upfront cost of acquiring the Tube Lines shares (the remainder of the cost is recovered in future years). Since these savings are reflected in the revised Budget, they will not be reported as forecast variances going forward.

- 2.7 For internal management purposes, funding for the Tube Lines' directly incurred capital and operating expenditure will continue to flow through LU, reflecting the continued supplier – customer relationship between Tube Lines and LU; however, this will not be visible in TfL's budgets or financial reporting.

### Proposed 2010/11 Budget Changes

- 2.8 The proposed changes to the overall budgeted expenditure following the acquisition of Tube Lines are show in Table 1. These are also shown in the 'Tube Lines Amendments' column in Table 2.

**Table 1: Summary Budget Changes**

£m		
<b>Approved Net Budget March 2010</b>		<b>5,500</b>
Elimination of the LU ISC for Tube Lines Costs	(524)	
LU ISC savings post acquisition	(174)	
<b>Total Reduction in LU ISC</b>		<b>(698)</b>
Tube Lines Income	(43)	
Tube Line Capital Expenditure	252	
Tube Line Operating Expenditure	316	
<b>Tube Lines Net Budget</b>		<b>524</b>
Additional debt servicing		69
<b>Revised 2010/11 Budget</b>		<b>5,397</b>

### Other Budget Changes

- 2.9 In addition to the Tube Lines changes outlined above, a number of more minor reallocations of expenditure from the operating modes to Group Items have been made, for management reporting purposes, since the original TfL Budget was approved in March 2010. These are shown in the 'reallocations' column of Table 2, where Group Items increased by £180m, and do not involve any change to TfL's total budgeted expenditure. These are set out below:

- a risk provision of £50m was included in the approved 2010/11 budget, held specifically for the inherent uncertainties around the Public Private Partnership (PPP) arrangement with Tube Lines. Following the acquisition, this amount is no longer needed for this purpose, and therefore has been reallocated from LU to the existing TfL Group contingency;
- a reallocation of £105m for capital expenditure for the Piccadilly line rolling stock, which had previously been allocated to the Group. The expenditure was re-allocated as a result of doubt around whether the expenditure would take place; and
- the original budget also included a 35 per cent employer pension contribution rate within the modes. Following agreement with the Pension Fund Trustees, the actual rate agreed was 31 per cent; as a result, the difference between the budgeted cost and the actual cost has been reallocated to contingency within Group Items, where it is earmarked for future lump sum payments due. This transfer amounted to £32m across all modes.

### Changes to Grant Funding

- 2.10 In this revised budget, the budgeted level of transport grant remains at the level set out in the 2007 Spending Review settlement. Following the emergency budget on 24 June 2010, the grant was cut by £108m in 2010/11. The impact of this cut will appear as a

budget variance in the quarterly performance reporting, in line with TfL's policy not to adjust the Budget for external factors.

2.11 A detailed breakdown of the proposed revised 2010/11 budget by business unit is provided in Table 2.

**Table 2: Operating and Capital Budget**

£m	Approved Budget Mar 2010	Tube Lines Amendments	Reallocations	Revised Budget Nov 2010
<b>Income</b>				
London Underground	-1,792			-1,792
Tube Lines		-43		-43
Surface Transport	-1,592			-1,592
London Rail	-167			-167
Group Directorates	-51		14	-37
<b>Operating expenditure</b>				
London Underground	2,905	-698	-70	2,137
Tube Lines		316		316
Surface Transport	2,619		-7	2,612
London Rail	338		-1	337
Group Directorates	301		-10	291
<b>Gross Margin</b>	<b>2,561</b>	<b>-425</b>	<b>-74</b>	<b>2,061</b>
<b>Capital Expenditure</b>				
London Underground	1,430			1,430
Tube Lines		252		252
Surface Transport	297			297
London Rail	252			252
Group Directorates	158		-105	53
Crossrail	734			734
Overprogramming	-117			-117
<b>Capital Receipts and Reimbursements</b>				
London Underground	-69			-69
Surface Transport	-15			-15
London Rail	-9			-9
<b>Net Capital Expenditure</b>	<b>2,661</b>	<b>252</b>	<b>-105</b>	<b>2,808</b>
Group Items	111		180	291
Capital Income (including property sales)	-29			-29
Debt Servicing	201	69		270
Interest Income	-5			-5
<b>Net Service Expenditure</b>	<b>5,500</b>	<b>-105</b>	<b>-</b>	<b>5,397</b>
Transport Grant (incl Precept)	-3,413			-3,413
Prudential Borrowing	-696			-696
Crossrail Funding Sources	-1,237			-1,237
Working Capital and Reserves	-155	105	-	49
<b>Total Funding</b>	<b>-5,500</b>	<b>105</b>	<b>-</b>	<b>-5,397</b>

Numbers may be subject to rounding

## BALANCE SHEET AND CASH

**Table 3: Balance Sheet**

£m	Original Budget 31 March 2011	Amendments	Revised Budget 31 March 2011
Fixed Assets			
Tangible Assets	23,229	659	23,888
Current Assets			
Stocks	23	-5	18
Debtors	316	-69	247
Cash at Bank and in Hand	1,306	326	1,632
Current Liabilities			
Creditors	-1,761	180	-1,581
Long Term Liabilities			
Balances with Infracos	-1,885	-68	-1,953
Prudential Loans	-4,814	0	-4,814
Creditors Due after One Year	-578	-492	-1,070
Capital Grants	-10,445	-216	-10,661
Provisions	-1,816	-976	-2,792
<b>Total Net Assets</b>	<b>3,577</b>	<b>-661</b>	<b>2,914</b>
Capital and Reserves			
Earmarked Reserve	-1,397	18	-1,379
General Fund	-155	1	-154
Other Reserves	-2,025	644	-1,381
<b>Total Capital Employed</b>	<b>-3,577</b>	<b>661</b>	<b>-2,914</b>

- 3.1 The revised budget has been updated to incorporate the final balance sheet at 31 March 2010. At the time the original budget was approved, the opening balances were based on the period 9 2009/10 forecast.
- 3.2 It should be noted that the balance sheet shown in this report is a consolidated position for TfL and its subsidiaries, excluding the Tube Lines subsidiaries.



**Table 4: Cash Summary**

£ m	2010/11 Original Budget	Amendments	2010/11 Revised Budget
Net Revenue Expenditure	2,868	-251	2,618
Net Capital Expenditure	2,632	147	2,779
Working Capital Movements	-105	239	134
Cash Spend	<b>5,395</b>	<b>136</b>	5,531
Funded by:			
Transport Grant	3,401		3,401
Precept Funding	12		12
Prudential Borrowing	696		696
Crossrail Funding Sources	1,237		1,237
Third Party Contributions	83		83
Total Funding	<b>5,429</b>	<b>0</b>	<b>5,429</b>
Net Movement in Cash	<b>35</b>	<b>-136</b>	<b>-102</b>

Numbers may be subject to rounding

## STAFF

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- 4.1 TfL's overall staff budget is shown in Table 5.
- 4.2 Staff numbers have mainly changed as a consequence of the acquisition of Tube Lines on 27 June 2010. The other minor change relates to Crossrail.

**Table 5: Total Staff**

Full Time Equivalent (FTE) staff	Original Budget 31 March 2011	Amendments	Revised Budget 31 March 2011
London Underground	20,876		20,876
Tube Lines		2,621	2,621
Surface Transport	3,792		3,792
London Rail	209		209
Corporate Directorates	2,494		2,494
Crossrail	315	17	332
Total Staff Employed (FTE)	27,686	2,638	30,324

## SUBJECTIVE ANALYSIS

5.1 A revised subjective analysis is shown in Table 6. This reflects the proposed changes as detailed above.

**Table 6: Revised Subjective Analysis**

£m	Original Budget 2010/11	Amendments	Revised Budget 2010/11
<b>Income</b>			
Fares Revenue	-3,018		-3,018
Congestion Charging	-174		-174
Enforcement Income	-154		-154
PCO and VCS Fees	-33		-33
Advertising Income	-91		-91
Rental Income	-51		-51
Other Income	-81	-29	-110
	<b>-3,602</b>	<b>-29</b>	<b>-3,631</b>
<b>Operating Expenditure</b>			
Employee Expenses	1,784	49	1,833
Premises	252	-8	244
PPP Payments	913	-756	157
PFI Payments	193	46	239
Bus Contract Payments	1,653		1,653
CCS and Other Road Contracted Services	69	-14	55
Asset Maintenance and Local Authority Payments	380	231	611
Professional and Consultancy fees	74	-26	48
Management Consultancy Development Fees	158	42	200
Ticket Commissions	46		46
Customer Information	52		52
National Rail Payments	9		9
Franchise Payments	203		203
Information and Communication Technology	133		133
Insurance	47	2	49
Traction Current	85		85
Bad Debt Provision	70		70
Other Expenses	45	-42	3
	<b>6,164</b>	<b>-476</b>	<b>5,691</b>
<b>Net Operating Expenditure</b>	<b>2,561</b>	<b>-505</b>	<b>2,061</b>
Capital Expenditure	2,754	147	2,901
Third Party Contributions	-93		-93
Interest and Other Group Items	279	249	528
<b>TOTAL NET SERVICE EXPENDITURE</b>	<b>5,500</b>	<b>-105</b>	<b>5,397</b>

Numbers may be subject to rounding