

TRANSPORT FOR LONDON

BOARD

SUBJECT: REVISED 2008/09 BUDGET

MEETING DATE: 30 SEPTEMBER 2008

1 PURPOSE AND DECISION REQUIRED

- 1.1 The 2008/09 budget as approved by the TfL Board in March reflected the TfL Group structure as it stood at that time. Since then, there have been some significant additions to the Group following the successful TfL bid for the Metronet undertakings and the purchase of Tramtrack Croydon Limited. Cross London Rail Links Limited, the company responsible for the construction and integration of the Crossrail Project, will also become a fully owned subsidiary of TfL once the various agreements relating to the Crossrail Project are signed.
- 1.2 As advised at the time of the 2008/09 Budget approval, a revised budget has now been prepared and is presented for approval by the TfL Board.

2 RECOMMENDATION

- 2.1 It is recommended that the Board:
- a) NOTE the contents of this report; and
 - b) APPROVE the revised 2008/09 Budget.



TfL Budget
2008/09

Cover Image: The operations of Metronet Rail BCV Ltd and Metronet Rail SSL Ltd and their subsidiaries transferred to new companies within the TfL Group during May 2008. Metronet is responsible for maintaining two-thirds of the London Underground network (including the Waterloo and City Line pictured above) and ensuring the reliability of the service. It is also delivering the line upgrades which will provide additional capacity to meet rising demand.

Transport for London

Budget 2008/09

INTRODUCTION

- 1.1 The 2008/09 budget as approved by the TfL Board in March reflected the TfL group structure as it stood at that time. Since then, there have been some significant additions to the Group following the successful TfL bid for the Metronet undertakings, the purchase of Tramtrack Croydon Limited. The intention is that Cross London Rail Links Limited, the company responsible for the construction and integration of the Crossrail Project, will also become a fully owned subsidiary of TfL once the various agreements relating to the Crossrail Project are signed.

REVISED OPERATING AND CAPITAL FINANCIAL BUDGET 2008/09

- 2.1 Proposed changes since the approval of the original 2008/09 Budget by the TfL Board in March 2008 result from the inclusion of the Metronet companies, Crossrail and the Croydon Tramlink operations. In addition, the opportunity has been taken to reflect reorganisation of the TfL Group, and refined budget assumptions on the classification of expenditure between capital and operating.

Crossrail

- 2.2 In addition to the full cost of funding TfL's contribution to Crossrail, the proposed 2008/09 budget includes the additional Prudential Borrowing that was part of the funding agreement confirmed by Government earlier this year. The level of debt servicing has been increased to reflect the additional borrowing.

Metronet

- 2.3 The two Metronet undertakings transferred to two TfL nominee companies on 27 May 2008. These are being managed on a stand-alone basis while the long-term structure is agreed with the Mayor and Government. The additional Grant to TfL as part of the SR2007 Settlement, which was conditional on the successful transfer of Metronet, has now been included in the proposed 2008/09 Budget along with the current forecast of Metronet expenditure.
- 2.4 The original PPP contract included funding from London Underground to service the debt raised by Metronet to fund the capital investment. Since the TfL nominee companies are debt free, the PPP payment by London Underground has been reduced.

Croydon Tramlink

- 2.5 TfL purchased Tramtrack Croydon Limited, the concession holder that owned the Tramlink network on 27 June 2008 for £98m. The proposed 2008/09 Budget has been revised to reflect the fares income and costs of the operation.

Changes in TfL Group Structure

- 2.6 Prior to the purchase of the Croydon Tramlink, London Trams was part of Surface Transport. This has now been transferred to London Rail as the operational structure has more in common with a light railway network.
- 2.7 The three year IM Strategic Investment Programme (IMSIP) aims to save £200m to £300m by 2014/15. This will be achieved through rationalising desktop services; implementing a data centre and hosting strategy; managing the application portfolio to reduce licence and support costs; and by providing a stable and flexible network. Part of this initiative involved the transfer of the Surface Transport IM teams to Group IM in Finance.

- 2.8 There has been a restructure of Congestion Charging and Transport Policing and Enforcement to create a new Congestion Charging and Traffic Enforcement business unit and a Community Safety, Enforcement and Policing unit in order to improve effectiveness.

Changes in Capital or Operating Treatment of Expenditure

- 2.9 There has been a change to the application of accounting policy as it relates to the North London Railway Infrastructure Project, which now recognises that the investment in the non-TfL owned infrastructure does result in future economic benefits to TfL and as a result the expenditure which was originally budgeted as operating expenditure has now been reclassified as capital.
- 2.10 Other areas of expenditure have been reviewed to ensure operating and capital expenditure is properly identified, especially in Surface Transport, in respect of project expenditure prior to receipt of the necessary statutory powers for the project.

Changes to Grant Funding

- 2.11 The 10 year grant settlement that was confirmed earlier this year was contingent on two events occurring. These were the successful bid for the Metronet undertakings and the confirmation of the Crossrail Bill receiving Royal Assent. At the time the original 2008/09 Budget was approved, neither of these events had taken place and the additional Grant and Prudential Borrowing relating to these projects was excluded. The full grant and Prudential Borrowing plans are now included in the proposed budget.

Proposed 2008/09 Budget Changes

- 2.12 The proposed changes to the overall budgeted expenditure are as follows:

Table 1: Summary Budget Changes

	£m
Approved Net Budget March 2008	4,110
Net Metronet expenditure	350
Crossrail funding	405
Debt service/Investment income	(10)
Reclassification of third party receipt as grant	3
Additional Trams net expenditure	1
Revised 2008/09 Budget	4,859

- 2.13 TfL's 2008/09 budget incorporating the financial impact of the changes highlighted above is shown below. A detailed breakdown of the proposed revised 2008/09 budget by business unit is provided in Appendix 1.

Table 2: Operating and Capital Budget

£m	Approved Budget Mar 2008	Amendments	Revised Budget Sept 2008
Income			
London Underground	(1,765)		(1,765)
Metronet ¹		(763)	(763)
Surface Transport	(1,572)		(1,572)
London Rail	(108)	(14)	(122)
Group Directorates	(18)		(18)
	(3,463)	(776)	(4,240)
Operating expenditure			
London Underground ¹	2,654	(114)	2,540
Metronet		562	562
Surface Transport	2,647	(4)	2,643
London Rail	325	(30)	295
Group Directorates	426	(2)	424
	6,052	412	6,464
Gross Margin	2,589	(365)	2,224
Capital Expenditure			
London Underground (Direct)	555		555
London Underground (through Metronet)		665	665
Surface Transport	324	(27)	296
London Rail	673	56	730
Crossrail		405	405
Group Directorates	80	22	102
Overprogramming	(68)		(68)
	1,565	1,121	2,686
Capital Receipts & Reimbursements			
London Underground	(117)		(117)
Surface Transport	(17)		(17)
London Rail	(9)	3	(6)
Group Directorates	(30)		(30)
	(173)	3	(170)
Net Capital Expenditure	1,392	1,124	2,516
Capital Income (including property sales)	(49)		(49)
Group Items			
Investment Income	(70)	(15)	(85)
Debt Servicing	185	5	190
Contingency & Group Items	63		63
Net Service Expenditure	4,110	750	4,859
Transport Grant (incl Precept)	2,675	434	3,109
Prudential Borrowing	750	317	1,067
Working Capital and Reserves	685	(2)	683
Total Funding	4,110	750	4,859

¹ This includes £761m paid by London Underground through the PPP payment to Metronet and for other LUL capital works

- 2.14 In 2008/09 TfL intends to borrow £1,067m under the prudential borrowing regime. This includes £500m prudential borrowing for funding Crossrail which has now been included in the 2008/09 Budget.

BALANCE SHEET AND CASH

Table 3: Balance Sheet

£ m	Original Budget 31 March 2009	Amendments	Revised Budget 31 March 2009
Fixed Assets	18,631	796	19,427
Current Assets	1,812	328	2,140
Current Liabilities	(1,453)	(367)	(1,820)
Long Term Liabilities	(15,457)	1,423	(14,034)
Total Net Assets	3,533	2,180	5,713
Earmarked Reserve	622	161	783
Pension Reserve	(948)	341	(607)
General Fund	148	14	162
Other Reserves	3,711	1,664	5,375
Total Capital Employed	3,533	2,180	5,713

Numbers may be subject to rounding

- 3.1 The revised budget has been updated to incorporate the final balance sheet at 31 March 2008. The previously approved budget was based on the P9 2007/08 forecast closing balance sheet. A detailed balance sheet has been included as Appendix 2.

Table 4: Cash Summary

£ m	2008/09 Original Budget	Amendments	2008/09 Revised Budget
Net Revenue Expenditure	(2,767)	375	(2,392)
Working Capital Movements	126	89	215
Cash Spend on Operating Activities	(2,641)	464	(2,177)
Net Capital Expenditure	(1,516)	(1,121)	(2,637)
Working Capital Movements	71	107	178
Cash Spend on Capital Activities	(1,445)	(1,014)	(2,459)
Funded by:			
Transport Grant	2,663	434	3,097
Precept Funding	12	-	12
Prudential Borrowing	750	317	1,067
Third Party Contributions	173	(3)	170
Total Funding	3,598	748	4,346
Net Movement in Cash	(488)	198	(290)

Numbers may be subject to rounding

STAFF

- 4.1 TfL's overall staff budget is shown in table 5 below. A detailed breakdown of the proposed revised 2008/09 budget by business unit is provided in Appendix 3.
- 4.2 The main change to staff numbers relates to the Metronet staff transferring to the two TfL nominee companies on 27 May 2008. The remaining changes mainly relate to TfL Group restructures. This includes the move of London Trams from Surface Transport to London Rail and Surface IM to Group IM in Finance.

Table 5: Total Staff

	Original Budget		Revised Budget
Full Time Equivalent (FTE) staff	31 March 2009	Amendments	31 March 2009
London Underground	14,601		14,601
Metronet		6,770	6,770
Surface Transport	4,761	(219)	4,542
London Rail	215	23	238
Group Directorates	2,552	196	2,748
Total Staff Employed (FTE)	22,129	6,770	28,899

SUBJECTIVE ANALYSIS

- 5.1 A revised subjective analysis has been included as Appendix 4. This reflects the proposed changes as detailed above. In addition the opportunity has been taken to review and amend the categorisation of operating expenditure.

Appendix 1: Operating and Capital Budget by business unit

£ m	Operating Budget		Capital Budget		
	Income	Operating Expenditure	Capital Expenditure	Receipts & Reimbursements	Net Capital Expenditure
London Underground					
Traffic Revenue	(1,621)				
Secondary Revenue	(135)	5			
Operations	(2)	674			
Programmes	(1)	1,534			
Central Services	(6)	278			
Risk		50			
Property Sales				(45)	(45)
Capital Projects			615	(117)	498
Overprogramming			(60)		(60)
	(1,765)	2,540	555	(162)	394
Metronet	(763)	562	665		665
Surface Transport					
London Buses	(1,087)	1,778	89	(13)	76
London Streets	(3)	337	198	(4)	195
Concession Charging & Traffic Enforcement	(423)	256	39		39
Community Safety, Enforcement & Policing	(21)	111			
Public Carriage Office	(19)	19	1		1
East Thames Buses					
Dial a Ride		30	1		1
London River Services	(2)	11			
Victoria Coach Station	(18)	17	1		1
Management, Support & Strategy		67	9		9
Assisted Transport		17			
Overprogramming			(43)		(43)
	(1,572)	2,643	296	(17)	280
London Rail					
Docklands Light Rail	(68)	107	250	(1)	248
Rail for London	(54)	188	480	(4)	476
	(122)	295	730	(6)	724
Crossrail			405		405
Group Directorates					
Office of the Commissioner		2			
General Counsel		10			
Group Marketing and Communications	(2)	40	6		6
LT Museum	(4)	10			
Finance	(5)	185	70	(24)	45
LT Insurance	(4)				
Planning		102	2		2
Smarter Travel Unit		28			
Group Services	(3)	46	25	(10)	15
	(18)	424	102	(34)	68
Net service expenditure before group items	(4,240)	6,464	2,754	(219)	2,535
Group Items	(85)	253	(68)		(68)
Net Service Expenditure	(4,325)	6,717	2,686	(219)	2,467

Numbers may be subject to rounding

Appendix 2: Balance Sheet

£ m	Original Budget 31 March 2009	Amendments	Revised Budget 31 March 2009
Fixed Assets			
Tangible Assets	18,631	796	19,427
Current Assets			
Stocks	4	15	19
Debtors	221	32	253
Capital Debtors	13	-	13
Payments in Advance	206	36	242
Cash at Bank and in Hand	1,368	245	1,613
Current Liabilities			
Revenue Creditors	(817)	(376)	(1,193)
Receipts in Advance	(250)	8	(242)
Capital Creditors	(386)	1	(385)
Long Term Liabilities			
Balances with Infracos	(3,508)	1,857	(1,651)
Prudential Loans	(2,700)	(317)	(3,017)
Creditors Due after One Year	(636)	26	(610)
Capital Grants	(7,467)	(399)	(7,866)
Pension Provision	(948)	341	(607)
Other Provisions	(198)	(85)	(283)
Total Net Assets	3,533	2180	5,713
Capital and Reserves			
Earmarked Reserve	622	161	783
Pension Reserve	(948)	341	(607)
General Fund	148	14	162
Other Reserves	3,711	1,664	5,375
Total Capital Employed	3,533	2,180	5,713

Appendix 3: Staff

Full Time Equivalent Staff	Original Budget		Revised Budget
	31 March 2009	Amendments	31 March 2009
London Underground			
Operations	12,714	(56)	12,659
Programmes	682	7	689
Central Services	1,205	48	1,253
	14,601	0	14,601
Metronet	0	6,770	6,770
Surface Transport			
London Buses	810	(39)	771
London Streets	1,092	(29)	1,063
Congestion Charging & Traffic Enforcement	206	214	420
Community Safety, Enforcement & Policing	699	(240)	459
Public Carriage Office	182		182
East Thames Buses	415		415
Dial a Ride	618		618
London River Services	18		18
Victoria Coach Station	95		95
Management, Support & Strategy	624	(126)	498
Assisted Transport	3		3
	4,761	(220)	4,542
London Rail			
Docklands Light Rail	56		56
Other London Rail	159	23	182
	215	23	238
Group Directorates			
Office of the Commissioner	13		13
General Counsel	136	1	137
Group Marketing and Communications	826	(118)	708
LT Museum		101	101
Finance	579	214	793
Planning	244		244
Smarter Travel Unit	34		34
Group Services	720	(1)	719
	2,552	196	2,748
Total Staff Employed (FTE)	22,129	6,770	28,899

Appendix 4: Subjective Analysis

£m	Original Budget 2008/09	Amendments	Revised Budget 2008/09
Income			
Fares Revenue	(2,796)	(13)	(2,809)
Metronet		(763)	(763)
Congestion Charging	(201)		(201)
Enforcement Income	(235)		(235)
PCO & VCS Fees	(35)		(35)
Advertising Income	(84)		(84)
Rental Income	(55)		(55)
Other Income	(57)	(1)	(58)
	(3,463)	(777)	(4,240)
Operating Expenditure			
Employee Expenses	1,265	4	1,269
Premises	167	9	176
PPP Payments	1,381	(114)	1,267
Metronet		562	562
PFI Payments	315		315
Bus Contract Payments	1,592		1,592
CCS & Other Road Contracted Services	117	5	122
Asset Maintenance	122	14	136
Local Authority Payments	188	5	193
Professional Fees and Management Consultancy	80	(8)	72
Engineering Project Management & Other Technical Consultancy	113	(9)	104
Ticket Commissions	45	(1)	44
National Rail Payments	11	(3)	8
Franchise Payments	166	7	173
Marketing, Advertising & Communications	63	6	69
Insurance	32		32
Computing Costs	142	(45)	97
Traction Current	66		66
Other Expenses	85	(4)	81
Bad Debt Provision	102	(16)	86
	6,052	412	6,464
Net Operating Expenditure	2,589	(365)	2,224
Capital Expenditure	1,565	1,416	2,981
Receipts & Reimbursements			
Third Party Contributions	(49)		(49)
Capital Receipts	(173)	3	(170)
	(222)	3	(219)
Group Items			
Investment Income	(70)	(15)	(85)
Debt Servicing	185	5	190
General Contingency & Group Items	63		63
	178	(10)	168
TOTAL NET SERVICE EXPENDITURE	4,110	844	4,954