

TRANSPORT FOR LONDON

TfL BOARD

SUBJECT: SECOND QUARTER FINANCE REPORT

MEETING DATE: 27 OCTOBER 2004

1. PURPOSE

- 1.1 To inform the TfL Board of financial performance for the second quarter of 2004/05 (27 June 2004 to 18 September 2004).
- 1.2 This paper reports results against the revised budget that is being considered elsewhere on the agenda. This revised budget reflects changes arising from significant events that have occurred since the original budget was set. The most significant of these was the announcement of the SR2004 Settlement in July. When the original budget was approved in March 2004, the Board were advised that programmes and operations in 2004/05 would be maintained in such a way that commitments into 2005/06 would not be in excess of baseline (indicative) funding levels. This revised budget has allowed an additional review to determine other significant events. Other significant events leading to the revised budget therefore include improved traffic income trends, further savings being achieved and delays in consultation and planning consents that delay the expenditure. As the budget revision was limited to the impact of the SR2004 settlement and other significant events this paper addresses the remaining budget variances.
- 1.3 This paper comes straight to the Board without passing through the Finance Committee due to short time gap between the Period end and this Board Meeting. The full Finance and Performance report will be presented to the next Board, after the results have been considered by the Finance Committee and the Advisory Panels in the next Board cycle.

2. KEY HIGHLIGHTS

- 2.1 The principal highlights arising from the second quarter of 2004/05 are as follows:
 - Gross income for the period to 18 September 2004 at £1,209m is £41m above budget, with additional income arising from London Underground non traffic income of £11m, Surface Transport of £13m and Corporate Directorates of £17m. Particularly pleasing is that London Underground's patronage appears to be recovering, with forecast passenger journeys stand at 949.7m, up 14.5m (1.6%) against the revised budget.
 - Bus Network income is above budget for all periods to date due primarily to higher than expected patronage, and a slower switch to discounted ticket options than planned. Bus passenger journeys have been increasing strongly year-on-year.
 - Total TfL operating expenditure at £2,025m, was £10m (1%) below budget.

Capital expenditure at £185m was £48m below budget, partially as a result of lower than budgeted expenditure on the externally funded East London Line extension and Channel Tunnel Rail link works at Kings Cross.

- The overall financial position is summarised as follows:

£m	Year to Date		Full Year	
	1 April to 18 Sept	Variance to Budget	Forecast	Variance to Budget
Income	(1,209)	(41)	(2,632)	(27)
Operating Expenditure	2,025	(10)	4,564	29
Cost of Operations	816	(51)	1,931	2
Capital Expenditure	185	(48)	594	37
Capital Receipts	(52)	37	(137)	31
Capital Programme	133	(11)	455	68
TfL Net Expenditure	949	(62)	2,387	70

Income above budget and expenditure below budget is shown by variances in brackets

- 2.2 The detailed financial results are set in **Annex 1** and the variances are discussed in section 3 below.

3 FINANCIAL PERFORMANCE REVIEW

OPERATING BUDGET

Income

- 3.1 Total TfL income for the period to 18 September 2004 totalled £1,209m, which is £41m (5%) above the revised budget. This variance primarily reflects additional Congestion Charging income of £7m; and 'Other' income of £34m, which includes higher than budgeted rental receipts within Corporate Services of £9m and additional property rental receipts and advertising income within London Underground of £11m.

£m	Year to Date		Full Year	
	1 April to 18 Sept	Variance to Budget	Forecast	Variance to Budget
Underground Traffic Income	554		1,202	
Bus Network Income	388		866	
Congestion Charging Income	86	(7)	178	1
Other	181	(34)	386	(28)
Total	1,209	(41)	2,632	(27)

Expenditure below budget is shown by variances in brackets

- 3.2 Traffic income in London Underground at £554m was in line with the revised budget, which is £25m lower than the budget approved by the TfL Board on 24 March 2004. The adjustment downward is based on the latest trend data which show signs of recovery from an earlier part of the year (see Revenue Trends in Section 4), which was previously showing an adverse trend that would have led to a shortfall of some £33m.

- 3.3 Congestion Charging income at £86m was £7m (9%) above budget, largely as a result of higher Penalty Charge Notice (PCN) income.
- 3.4 Full year income is expected to be £2,632m, which is £27m above the revised budget, partially as a result of other income in London Underground forecast to be £13m above budget. This includes receipt of the insurance claim of £5m for the fire at London Underground's Telstar House, advertising income, and additional receipts offset within expenditure.

Operating Expenditure

- 3.5 Total TfL operating expenditure for the period to 18 September 2004 is £2,025m, which is £10m or less than 1% below the revised budget. The additional expenditure compared to budget in London Underground of £9m is more than offset by lower than budgeted expenditure in Surface Transport of £5m, London Rail of £9m and Corporate Directorates of £5m.
- 3.6 London Underground's year to date operating expenditure of £1,025m is over budget by £9m despite savings in PPP costs of £7m and cancellation of TIMIS. These savings were offset by risk covering additional costs relating to derailments and contract claims. TIMIS in particular has resulted in real savings as its functionality is being replaced by a very much cheaper and effective system called Tracker.
- 3.7 Surface operating expenditure is £5m lower than budget mainly due to revised phasing in expenditure on market research, Prestige, road maintenance and signal and data maintenance.
- 3.8 London Rail operating expenditure is £9m lower than budget resulting mainly from a revised phasing in expenditure on fares integration initiatives following some quality issues in respect of the equipment, resulting in a delay in the implementation of Oyster Pre Pay on the North London Line.
- 3.9 Corporate Directorates are £5m below budget which includes Finance and Planning savings of £2m on the budgeted cost of the implementation of the shared services centre and a rephasing of expenditure within Borough Partnerships of £8m, as the Boroughs tend to back end their expenditure. This is offset by a £9m overspend in Corporate Services of which £4m relates to unbudgeted SAP costs.

£m	Year to Date		Full Year	
	1 April to 18 Sept	Variance to Budget	Forecast	Variance to Budget
Underground Network	214	(2)	459	
Total PPP Costs	493	(7)	1,052	(2)
Other	318	18	687	13
London Underground	1,025	9	2,198	11
Bus Network	580		1,313	
Other	275	(5)	676	16
Surface Transport	855	(5)	1,989	16
London Rail	44	(9)	123	2
Corporate Directorates	101	(5)	254	
Total	2,025	(10)	4,564	29

Expenditure below budget is shown by variances in brackets

- 3.10 Total TfL operating expenditure for the full year is forecast to be £4,564m, which is £29m (1%) above budget.
- 3.11 The London Underground variance is concentrated in 2 main areas; an overspend in Corporate Support of £10m (which includes additional costs resulting from the fire at Telstar House which are covered by an insurance claim offset in Other Income) and PFI initiatives of £4m including additional costs on the PFI Power for PPP works that are not covered by the Power PFI contract.
- 3.12 The Surface Transport variance of £16m includes additional spend on road maintenance, refurbishment of 200 Buckingham Palace Road, unbudgeted spend on a TfL integrated telephony system, unbudgeted spend on Centrale Tram stop and brought forward spend on TOCU vehicles.

CAPITAL BUDGET

Capital Expenditure

- 3.13 TfL capital expenditure for the period to 18 September 2004 totalled £185m, which was £48m (21%) below budget. The variance relates partially to lower than budgeted expenditure on London Underground East London Line Extension of £10m and the Channel Tunnel Rail Link work at Kings Cross of £9m. Both these schemes are externally funded with the lower expenditure matched by lower capital receipts and as a result have no net impact on the TfL budget.
- 3.14 Surface Transport is £19m underspent against the capital plan. This includes £4m due to delays by utility companies and local authorities on the safety scheme to replace the two bridges on the A406, £3m as a result of planning delays for the North Acton bus garage, £4m on technology refresh for Bus Radio, £4m on a range of Bus Priority schemes and £8m on TLRN capital maintenance works. These are all forecast to be delivered to budget, but over a longer time period.
- 3.15 London Rail capital expenditure is £4m lower than budget due to the number of DLR railcars that have been refurbished being lower than originally committed to by the contractor. Railcar refurbishment issues continue to be progressed towards an accelerated future programme without adversely affecting passenger service.

£m	Year to Date		Full Year	
	1 April to 18 Sept	Variance to Budget	Forecast	Variance to Budget
London Underground	96	(24)	286	(14)
Surface Transport	78	(19)	261	3
London Rail	4	(4)	14	(4)
Corporate Directorates	8	(1)	32	(3)
Overprogramming*				55
Capital Expenditure	185	(48)	594	37

*Includes contingency

Expenditure below budget is shown by variances in brackets

3.16 The forecast for the end of the year is for total capital expenditure of £594m, £37m (6%) above budget. The variance consists of lower than budget expenditure on London Underground East London Line Extension of £6m, Channel Tunnel Rail Link at Kings Cross of £6m, various Surface Transport programmes of £9m, and Bus Priority of £3m, offset by overprogramming that anticipated a greater level of underspend than this.

Capital Receipts

3.17 TfL capital receipts for the period to 18 September 2004 totalled £52m, which is £37m below budget, mainly as a result of lower capital receipts for the London Underground fully funded Channel Tunnel Rail Link works at Kings Cross of £10m and the Extension of the East London Line of £12m and lower than budgeted property receipts following the deferral of the disposal of surplus properties connected with the A406 improvements at Bounds Green by £18m.

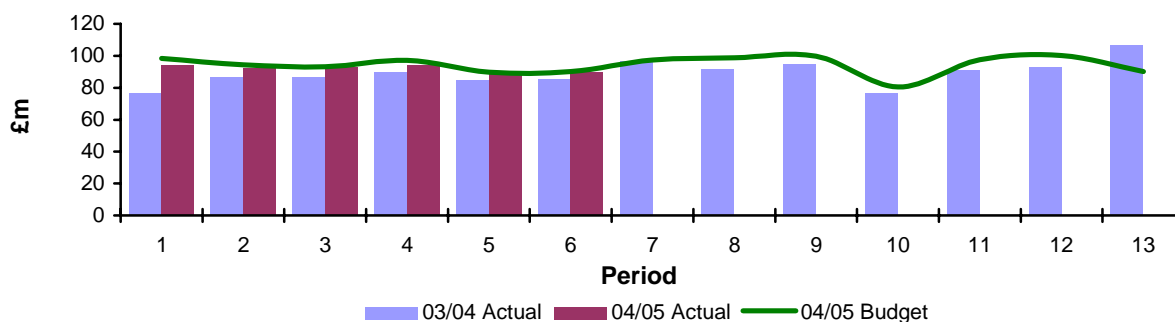
£m	Year to Date		Full Year	
	1 April to 18 Sept	Variance to Budget	Forecast	Variance to Budget
London Underground	48	20	124	15
Surface Transport	4	(2)	8	(2)
Corporate Directorates		19	6	18
Total	52	37	138	31

Receipts above budget are shown by variances in brackets

3.18 The forecast for the end of the year is for total capital receipts of £138m, £31m below budget, mainly as a result of the previously highlighted property receipts of £18m and the lower capital receipts for the East London Line Extension by £12m.

4 REVENUE TRENDS

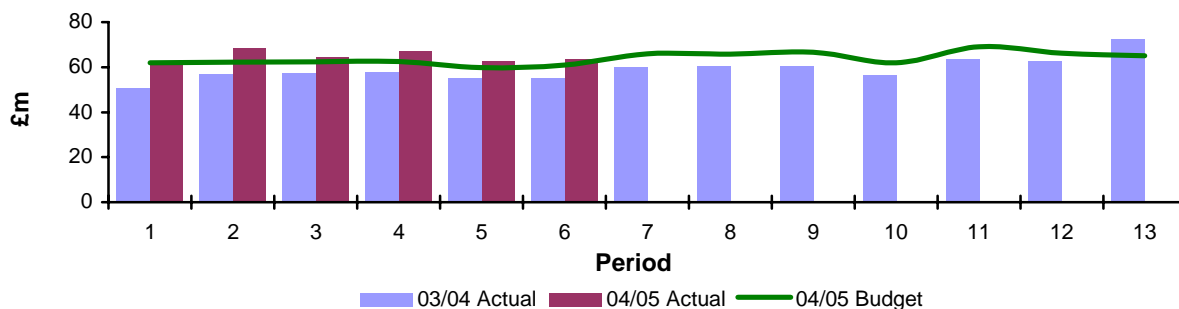
Figure 1: London Underground - Traffic Income



*The Central Line was fully open from the third week of P1 2003/04 but operating to a reduced timetable. P13 2003/04 was 4 days longer than a standard period

4.1 For London Underground, increases in reported passenger journeys continue to exceed revenue growth. For the first six periods the average journey has cost £1.24 against budget expectations of £1.26. This reflects shifting from Ordinary tickets to Travelcards which may ultimately dilute 'Passenger Journey per valid Travelcard' factors but survey results are not yet in. At present forecast passenger journeys stand at 949.7m, up 14.5m (1.6%) against the revised budget.

Figure 2: Bus Network Income



* P13 2003/04 was 4 days longer than a standard period

4.2 Bus network income is above the original budget for all periods to date due primarily to higher than expected patronage. Bus passenger journeys have been increasing strongly year-on-year due to the combination of higher Bus Pass use and improved quality of the service, including the impact of congestion charging, QIC contracts and better supervision.

5 EFFICIENCIES

5.1 TfL is on course to deliver the 2004/5 gross efficiencies target of £71m which is fully integrated into the budget and split by mode. This target is composed of recurring savings from 2003/4 and new planned savings in 2004/5, the majority of which are to be delivered through better procurement and headcount reduction exploiting the benefits of integration with LUL and SAP. Key developments in the last quarter have been

- The Finance Shared Services (FSC) was fully implemented in September 2004 on schedule and remains on target to deliver the planned headcount reductions and related premises and facilities savings.
- The Human Resources Shared Service (HRSC) has developed detailed cut over plans and is planned to be implemented in January 2005, with the targeted savings of £1.5m for 2004/05 to be delivered.
- Business Procurement Efficiencies Programme (BPEP) savings included in the 2004/05 Budget remains at £38m across the Group. In total £44m has been identified against the target of £38m which represents a positive variance of 17% (experience from last year shows that initiatives identified should be approximately 15% above target in order for the target to be achieved). Of the £24m in the 'acceptance' process, £20m has been 'signed off' as delivered.

Income and Gross Expenditure Summary by Mode

	Year to Date		Full Year	
	1 April to 18 Sept £m	Variance to Budget £m	Forecast £m	Variance to Budget £m
INCOME				
London Underground				
Traffic Revenue	(554)		(1,202)	
Operations	(30)	(2)	(63)	(2)
Programmes	(4)	(4)	(2)	(2)
Central Services	(22)	(5)	(49)	(9)
	(610)	(11)	(1,316)	(13)
Surface Transport				
Bus Network	(388)		(866)	
Other London Buses	(11)	(5)	(21)	(6)
Congestion Charging	(86)	(7)	(178)	1
Road Network Operations	(6)	(1)	(12)	(1)
Transport Policing & Enforcement	(8)	(2)	(24)	(1)
Other Surface Transport	(17)	2	(47)	(1)
	(516)	(13)	(1,148)	(8)
London Rail				
Docklands Light Railway	(19)	1	(42)	2
London Rail Core	(2)	(1)	(4)	(1)
	(21)		(46)	1
Corporate Directorates	(62)	(17)	(122)	(7)
TOTAL INCOME	(1,209)	(41)	(2,632)	(27)
GROSS EXPENDITURE*				
London Underground				
Operations	283	(10)	641	
Programmes	667	(12)	1464	(8)
Central Services	122	26	255	20
	1,072	5	2,360	12
Surface Transport				
Bus Network	580		1,313	
Other London Buses	60	(5)	153	16
Congestion Charging	49	(3)	123	(4)
Road Network Operations	127	(11)	339	1
Transport Policing & Enforcement	41	(2)	110	1
Other	72	(5)	204	3
	929	(26)	2,242	17
London Rail				
Docklands Light Railway	34	(5)	94	(4)
London Rail Core	14	(7)	43	1
	48	(12)	137	(2)
Corporate Directorates	109	12	280	14
Overprogramming/Contingency				55
TOTAL GROSS EXPENDITURE	2,158	(21)	5,019	97
TOTAL NET EXPENDITURE	949	(62)	2,387	70

* net of capital receipts

Income above budget and expenditure below budget is shown by variances in brackets.

Gross Expenditure Summary by Mode

	Year to Date		Full Year	
	1 April to 18 Sept £m	Variance to Budget £m	Forecast £m	Variance to Budget £m
OPERATING EXPENDITURE				
London Underground				
Operations	268	(17)	608	
Programmes	623	1	1,327	(3)
Central Services	134	24	272	14
	1,025	9	2,198	11
Surface Transport				
Bus Network	580		1,313	
Other London Buses	49		115	6
Congestion Charging	47	(3)	114	(3)
Road Network Operations	88		209	5
Transport Policing & Enforcement	40	(2)	108	1
Other	51		130	7
	855	(5)	1,989	16
London Rail				
Docklands Light Railway	30	(2)	80	1
London Rail Core	14	(7)	43	1
	44	(9)	123	2
Corporate Directorates	101	(5)	254	
TOTAL OPERATING EXPENDITURE	2,025	(10)	4,564	29
CAPITAL EXPENDITURE*				
London Underground				
Operations	16	7	33	
Programmes	43	(13)	146	(5)
Central Services	(12)	2	(17)	6
	47	(4)	162	1
Surface Transport				
London Buses	11	(5)	39	10
Congestion Charging	2		10	(1)
Road Network Operations	39	(11)	130	(4)
Transport Policing & Enforcement	1		2	
Other	21	(4)	70	(4)
	74	(20)	251	1
London Rail				
Docklands Light Railway	4	(4)	14	(4)
Corporate Directorates	8	17	28	15
Overprogramming/Contingency				55
CAPITAL EXPENDITURE*	133	(11)	455	68
GROSS EXPENDITURE	2,158	(21)	5,019	97

* Net of Capital Receipts

Expenditure below budget is shown by variances in brackets.