

TRANSPORT FOR LONDON

AGENDA

BOARD MEETING

**TO BE HELD ON WEDNESDAY 23RD JUNE 2004
IN THE CHAMBER, CITY HALL, THE QUEEN'S WALK, LONDON SE1 2AA
COMMENCING AT 10.00AM**

A meeting of the Board will be held to deal with the following business. The public are welcome to attend this meeting, which has disabled access.

Procedural business

- 1.1 Apologies for absence
- 1.2 Minutes of the previous meeting held on 29th April 2004
- 1.3 Matters arising, not covered elsewhere

Business Items

2. Commissioner's Report
3. Finance and Performance Report
4. PPP Contract Performance
5. Best Value Performance Plan
6. Piccadilly Line Extension to Heathrow Terminal 5

Procedural Items

7. Audit Committee Report
8. Finance Committee Report
9. TfL HSE Policy Statement

Items for Noting

10. Documents Sealed on behalf of TfL

Other Items

11. Any Other Business
 - Board Work Programme

Date of next meeting: Wednesday 22 July 2004 at 1000 hours

Transport for London

Minutes of a meeting of the Board
held on Thursday 29 April 2004, commencing at 1500 hours
in the Chamber, City Hall, the Queen's Walk, London, SE1 2AA

Present:

Board Members: Ken Livingstone (in the Chair)
Bob Crow
Stephen Glaister
Kirsten Hearn
Oli Jackson
Susan Kramer
Paul Moore
Sir Gulam Noon
Murziline Parchment
David Quarmby
Tony West
Dave Wetzel

In attendance:

Special Advisors: Lynn Sloman

In Attendance:

TfL Officers: Stephen Allen
Maggie Bellis
Barry Broe
Stephen Critchley
Mary Hardy
Peter Hendy
Tim Jones
Robert Kiley
Tim O'Toole
Fiona Smith
Jay Walder

Secretary: Horatio Chishimba

ACTION

107/04/04 APOLOGIES FOR ABSENCE

Apologies for absence were received from David

Begg, Sir Mike Hodgkinson and Bryan Heiser.

108/04/04 MINUTES OF MEETING HELD ON 24th MARCH 2004

The minutes of the meeting held on 24th March 2004 were **agreed** and signed as a true record.

109/04/04 MATTERS ARISING

Declaration of Interests

The Chair reminded Board Members of the requirement to declare any interests in the matters under discussion. No interests were declared.

Matters Arising

There were no matters arising.

110/04/04 WEST LONDON TRAM

Following a report on the discussions held at the Finance Committee and discussions on the timing of the consultation, traffic management measures, issues associated with the displacement of vehicles, the capital cost of the scheme, its financing and the interaction with Cross Rail the Board:-

- **noted** the contents of the report on the progress of the West London Tram project.
- **noted** that TfL would proceed with a public consultation commencing in June 2004.

111/04/04 PRUDENTIAL BORROWING

In Mike Hodgkinson's absence Jay Walder reported on the discussion at the Finance Committee and reported that they had:

- **noted** the following points in particular:
 - the paper sought approval of a borrowing plan for 2004/05 only.
 - it was likely that the plan would need to be reconsidered once the outcome of the Spending Review was known.
 - further work was being done on the options for borrowing and specific proposals would be presented to the Board at a future meeting.

and commented that:

- it was important that proceeds of prudential borrowing were applied to capital projects for which there was a strong business case.
- Prudential borrowing should be used in the first instance for projects which generate net revenue improvements provided that this did not distort TfL's overall planning priorities.
- in subsequent years, the prudential borrowing plan should be integrated into the business planning cycle. That would enable effective prioritisation of capital and revenue expenditures.
- Government should continue to be involved in discussions of TfL's prudential borrowing plans.

Following this report and discussion on it, the Board:-

- **approved** the contents of the report and the revised prudential indicators set out in annex 3.

112/04/04 ANY OTHER BUSINESS

There being no further business, the meeting closed at 1700 hours.

CHAIR

COMMISSIONER'S REPORT FOR JUNE 2004

1. PURPOSE

This is the Commissioner's written report for June 2004. This report provides an overview of major issues and developments since the last Board meeting and updates the Board on significant projects and initiatives.

2. TFL BUDGET AND BUSINESS PLAN / SPENDING REVIEW 2004

2.1 Budget and Business Plan

As you know, the 2003/04 financial year ended 31 March; the main operational, project and financial highlights for the full year are contained in the 4th quarter Finance and Performance Report included in these papers and will be discussed at the Board meeting.

TfL's net expenditure for 2003/04 was £2,073m, which is £326 lower than anticipated in the budget. This underspend was comprised of net additional income of £14m, deferral of programme delivery and business risks of £271m, cost savings and efficiencies of £56m and increases in scope and cost of £15m. The full amount of the underspend is being carried forward to 2004/05.

2.2 Spending Review 2004 (SR 2004)

The Department for Transport has submitted its bid for funding to the Treasury based on TfL's 2004/05 business plan. A decision is expected from the Treasury in July. However, we are aware that at that point the decision may not yet include the level of grant available for 2005/06 as this will still need to be determined by the DfT.

The support generated by our discussions on SR2004 with a broad range of stakeholders has been very positive. TfL hosted "London's Transport Summit" on 28 April, attended by over 110 stakeholders. The Commissioner was joined on the platform by representatives from Greater London Action on Disability (GLAD), the ALG, CBI and LCCI.

TfL has engaged in only limited activity in recent months due to the restrictions during the pre-election period. We are aware that other stakeholders have been engaged in a variety of activities supporting TfL's funding requirements. An Adjournment debate on 25 May, secured by Martin Linton MP, was extremely well attended (13 MPs in total) and all MPs that spoke referred to their positive relationship with TfL and the need for increased funding for transport in London. Numerous stakeholders have also submitted letters to the Government arguing this case. Regular discussions with the Government are also continuing.

3. TfL OPERATIONS

There are some operational issues to draw to your attention.

3.1 Surface Transport

3.1.1 London Buses

Bus patronage continues to grow; in Period 1 growth in ridership was 8.1% year on year. On Friday 23 April 2004, over 6m passenger journeys were undertaken on London Buses, the highest number in a single day for at least 35 years.

An Invitation to Tender for a replacement state of the art radio / Automatic Vehicle Location and Countdown system was issued on 5th April 2004. The current system is life-expired; we will be assessing the bids to see what the potential improvements are to the system, for example using newer technologies.

Since their introduction into London three Mercedes Benz Citaro buses have caught fire - on 3 December 2003, 7 February 2004 and 20 March 2004. All vehicles were operating on route 436. At the time of the third fire, there were 143 Mercedes Benz Citaro buses (of which 125 are articulated) operating on seven routes. On 24 March 2004, Mercedes Benz took the decision to withdraw all of the London fleet until the replacement and upgrading of the compressor system was complete. The reinstatement of these vehicles was complete on Monday 5 April 2004, and all have now been fitted with engine compartment fire suppression systems. The independent report on the fires is expected shortly.

3.1.2 Congestion charging

The 10-week public consultation on the proposed Western extension ended on 23 April 2004. Over 100,000 responses were received, making this the largest consultation exercise undertaken by TfL so far. TfL's analysis of the responses will be presented to the incoming Mayor in June/July 2004.

3.1.3. Transport Policing and Enforcement

Sunday enforcement of bus lanes was introduced on the 4th of May on 13 bus lanes. These bus lanes were selected for high levels of congestion and delays to bus services caused by illegally parked cars. Over 500 PCNs were issued on the first Sunday for bus lane offences.

Operation Stifle was a London-wide Metropolitan Police (TOCU-led) initiative carried out 5-19 April 2004. The operation focused on criminal damage, specifically graffiti on buses and bus infrastructure at identified hotspots across London. A number of different tactics were used including the deployment of high-visibility and plain-clothes officers, CCTV intelligence, and revenue protection ticket inspections. A total of 54 arrests were made as a result of the operation. Code red call data and MPS data are now being analysed to further evaluate the impact of the operation.

The pilot of the enforcement for moving vehicles violations (e.g., blocking yellow box junctions, banned U turns or right turns, school keep-clear markings) started on the TLRN on 21 June. The public information campaign started on the 16 June. TfL will use

the existing CCTV camera network at 25 locations to identify contraventions and issue PCNs. Six London Boroughs are working with TfL in a pilot that will run from July through August.

3.1.4. Traffic Management

TfL has determined that 15-20 congestion pinch points will be reviewed in depth each year. Focusing on pinch points will enable TfL to deploy scarce resources as effectively as possible. The first set – currently the top 20 pinch points (e.g., Kings Cross and Vauxhall Cross) – has been identified for priority action on signals, bus flow, signage and Metropolitan Police congestion unit deployment. This will be supplemented by Metropolitan Police deployed at these locations in the short term. Any quick wins will be made immediately, while longer-term fixes such as redesigning junctions could take several years and will require additional funding. In parallel with the pinchpoints work, an upgraded, web-accessible management database is in development to allow easy sharing of roads and traffic information among boroughs, utilities, TfL, and other parties.

The Traffic Management Bill is currently in the House of Lords. TfL continues to work with the Department for Transport through the parliamentary process and is represented on six of the working groups for the Bill. TfL is also contributing to the drafting of guidance and regulations that will accompany the Bill.

TfL hosted a visit by board members to the London Traffic Control Centre on 19 March 2004 to review current operations and future plans for managing the road network.

3.1.5. Blackfriars Bridge cycle accident

On 10th May a cyclist died after being struck by a bus on the northbound carriageway of Blackfriars Bridge. Cycle lanes had been recently installed as part of a bus lane scheme in both directions on the bridge. There was considerable attention from the press and from cyclist groups in the wake of the accident raising concerns about the nature of the cycle lane and the associated consultation process.

TfL had the bus lane and cycle lane removed from the northbound carriageway on 27th May 2004 pending the outcome of an independent review. This review will audit TfL's adherence to appropriate standards and procedures, review consultation undertaken during new cycle scheme designs, review the benefits enabled by cycling measures and review cycling provision on Thames bridges in general and Blackfriars bridge in particular.

3.1.6. Road safety

Casualty figures for 2003 show an 8.5% reduction in the number of people killed or seriously injured in 2003 compared to 2002. This is on-track to meet the 10-year target set by the Government and promulgated via the DfT of a 40% reduction by 2010. There were reductions in all categories except powered two wheelers, where remedial work continues.

3.1.7. A406 schemes review

A review has been completed of the costs and engineering aspects of the schemes inherited from the Highway Agency for the A406, including the A406/Golders Green junction, A406/Regents Park Road junction and the A406 Bounds Green to Green Lanes widening.

The schemes were reviewed against design, traffic, environment and cost criteria, taking into account current standards and legislation as well as the Mayor's strategies. The work included updating the previous cost-benefit analysis. The total capital cost of the three schemes at today's prices would be £519 million. The decision as to which of these schemes to pursue, if any, will turn on the outcome of the 2004 spending review currently underway.

3.1.8. Launch of Jan Gehl report

The Jan Gehl report on Public Spaces & Public Life for London, commissioned by TfL and the Central London Partnership, will be launched on 22nd June 2004 with the Mayor. TfL will work to use the philosophy of the report in making London more people friendly.

3.2 London Underground

3.2.1 Customer service and performance

All but one of LUL's year-end 2003/04 targets were met, the exception being percentage of schedule not operated (6.9% against a target of 6.2%). This was primarily due to the Camden derailment. Infraco availability performance for the year under the PPP has, however, been disappointing, with no clear improving trend. Total passenger journeys for the year were below target (948m against 970m budgeted), with a slight increase over the previous year total journeys of 942m.

In the 4th quarter of 2003/04, customer satisfaction scores of 78 were 3 points higher than in the previous 2 quarters. This is echoed by some improvements in Infraco ambience performance, as measured by the mystery shopping survey.

Operational performance as reflected in the performance-related payments to the Infracos shows total abatements for the year at £9.7m above budget. This does not include the significant amounts in abeyance that are yet to be allocated (840,000 lost customer hours as of the final period of 2003/04).

3.2.2 White City derailment

On 11 May 2004, a westbound Central Line train derailed at White City. There were no injuries and the 150 customers on board were detrained within 5 minutes of the incident. The Central Line was suspended through the area for the rest of the day but service was restored at the start of traffic the following day.

The interim report into the derailment was published 1 June and includes initial conclusions. The investigation is being performed by a joint team led by LUL and including representatives from the trade unions and Metronet – responsible for maintenance and renewal of the Central Line under the PPP. So far, the report has ruled

out driver error, signalling problems, components falling from the train, or vandalism/sabotage. The team is still investigating factors of train speed, train defect, and track defect.

A considerable amount of maintenance work had been done by Metronet at the derailment site just prior to 11 May. The investigation team is examining whether this work was done in compliance with LUL standards, particularly those measures required following the derailment at Camden Town.

3.2.3 Industrial relations

LUL has been holding extensive discussions with the trade unions regarding a long-term agreement. This agreement is intended to cover a range of issues, including the length of the working week, pay, grade structures, later running on Friday and Saturday nights, staffing levels, and the impact of new technology. Discussions have covered the financial constraints that the Underground faces, such that any changes will need to be self-financing as far as possible and should not lead to higher fares.

On 2 June, the RMT announced its intention to hold strike action on 10 June. Following discussions between LUL and the RMT, it was announced on June 4 that the RMT had decided to suspend the proposed strike action.

3.2.4 Underground capital renewal works

One of the first major capital renewal programmes on the Underground began in May with a series of weekend closures on the District and Circle Lines. These works include replacement of track, ballast and sleepers. An additional weekend closure had to be added to this schedule due to a partially-collapsed drain at Victoria which required emergency repair works. Affected stations remained open for ticket sales and to redirect passengers, including onto existing bus services.

Recent months have seen significant problems with engineering overruns by the PPP infrastructure companies. The Infracos have also struggled to complete the amount of work planned during nighttime track renewal works. LUL has invested significant time and attention in working with the Infracos to get overruns under control and disruption from overruns has improved significantly as a result.

The Mayor of London and Tim O'Toole opened two new entrances at the east end of Canary Wharf on 19 April. This improvement in station access has been supplemented by a one-hour extension of the peak service levels on the Jubilee line for both the morning and evening peak.

Other capital renewal projects are being progressed but visibility of PPP projects is still poor due to the limited information that is being provided by the Infracos. LUL continues to put pressure on the Infracos to provide the project information required.

3.3 Docklands Light Railway (DLR)

All DLR performance targets were exceeded in the last period other than departures at 97.4% (compared to a target of 98%). The primary cause for this was intermittent signalling problems; these are being investigated by the franchisee. Customer satisfaction results for the quarter to March 2004 included the highest ever scores for

overall performance and service information. However, the cleanliness score of 91.9% narrowly failed to achieve target of 92.1%; a specific programme of work is underway to improve performance in this area.

Following a change in the management team at Alstom and with additional specialist resource at DLR we are now working closely to agree a revised delivery programme for the DLR railcar refurbishment. This will ensure at least one railcar will be completed per week.

3.4 National Rail network

London Rail has made a detailed submission to the SRA's proposals on the Integrated Kent Franchise, expressing serious concerns on the lack of growth provision for London.

London Rail's investment programme for South West Trains, Silverlink and Great Northern improvements at stations and on-train CCTV continues. A new station and control centre investment programme for Southern is being taken forward totalling £4.2m with TfL contributing £2.6m.

On fares, the North London Line and the West London Line, plus West Anglia routes to Seven Sisters, Tottenham Hale and Walthamstow Central were integrated into the LUL zonal system in May. A bespoke zonal system for Southern was also introduced in May.

4. MAJOR PROJECTS AND INITIATIVES

4.1 Crossrail

We are still awaiting the Government's response to the Montague Report on Crossrail which was passed to Secretary of State on 7 February. We do not currently have any indication as to when the decision will be made by the Government. The earliest possible timescale for lodging a hybrid Bill is now March 2005 and this date is now also in danger of slipping to November 2005.

The base reference case scheme has been adjusted following agreement between TfL and SRA in three areas.

- The scheme now includes the route from Paddington to Heathrow and also the London Suburban service to Maidenhead.
- At Custom House, the SRA's requirement to run freight trains and North London Line trains on Crossrail has been withdrawn.
- The site for the maintenance depot, which is a significant planning issue, has been agreed as Romford.

4.2 East London Line

Government has indicated that it is unlikely to be in a position to fund the full East London Line scheme and it has concerns about the proposed funding process using DBFT. The Mayor has written to the DfT proposing that TfL take over the project, funding it partly by Prudential Borrowing and implementing it in a phased way leading to the full project. The timings of these phases remain to be agreed.

The first phase has been subject to an agreement between the SRA and TfL in the form of a national rail service running from Dalston (with the bus interchange) to West Croydon and Crystal Palace. The routes to Clapham Junction and integration with the North London Line at Highbury and Islington would be completed in a later stage.

Regarding health and safety concerns and standards at Wapping and Rotherhithe, further work has resulted in an agreement to add Wapping back into the base case, which obviates the need to apply for closure of this station. Rotherhithe station is still subject to a closure proposal.

4.3 North London Line

We have been anxious to ensure that proper transport links are in place for the Olympics. However, we have not yet secured agreement from the SRA to convert the North London Line to DLR operation south of Canning Town, which would serve the international station at Stratford and the intermediate regeneration sites. Following a submission to the Minister, the DfT is setting up a working group to evaluate these proposals in place of the SRA.

4.4 DLR Capacity Upgrades and Extensions

The City Airport extension is one-third complete and on time and on budget for opening on 15 December 2005.

Following receipt of the TWA on 12 March, DLR and TfL have commenced with the concession competition for the Woolwich Arsenal extension. Four bidders have pre-qualified for the invitation to tender stage and are currently preparing tenders to be submitted to DLR on 1 September. The current programme assumes that a preferred bidder will be selected by Christmas with financial close by April 2005. This means that construction could start by summer 2005 and completed by end of 2008.

Three route options have been defined for Barking Reach and evaluated in terms of the full range of costs and benefits. A briefing with stakeholders has taken place and comments are being fed through into the evaluation process. The preferred route is a tunnel option that has the greatest transport/regeneration benefits and avoids any conflict with Port of London Authority requirements. Further engineering refinement of this option is underway.

Regarding the 3-car upgrade, LUL has approved the operational strategy for Bank Station and has commenced the master planning work for the long-term physical improvements to the station. LUL has met with the Corporation of London and is due to confirm to them the strategy that has been agreed for managing demand at Bank Station. DLR is progressing with the TWA submission (which has been agreed by the TfL Board) which will be submitted at the end of June.

4.5 Thames Gateway Bridge (TGB)

The TfL Board approved the TGB project in March 2004, which allows TfL to apply for Powers under the Highway orders and planning process. It is planned to submit the application documentation on 23 July 2004. This process would lead to the bridge opening for traffic in 2013.

4.6 West London Tram (WLT)

A paper on WLT was presented to the TfL Board on 29 April 2004. This noted that TfL would proceed with public consultation beginning in June 2004.

4.7 DfT Rail Review

TfL has made a submission to the DfT as part of its review of the rail industry. Discussions are continuing with the DfT regarding TfL's input. We are aware that the DfT will be issuing a white paper containing the results of its review; this is anticipated to be ready for publication in mid-July 2004.

Robert R. Kiley
Commissioner for Transport
June 2004

TRANSPORT FOR LONDON

TfL BOARD

SUBJECT: 4th QUARTER FINANCE AND PERFORMANCE REPORT

MEETING DATE: 23 JUNE 2004

1. PURPOSE

1.1 To inform the TfL Board of progress on operational and financial performance against budget and target for the fourth quarter of 2003/04 (7 December 2003 to 31 March 2004) and highlight the main achievements of the full year. London Underground became part of TfL with effect from 15 July 2003. The full year performance from 1 April 2003 for London Underground is included in this report.

2. KEY HIGHLIGHTS

2.1 The principal operational themes arising from the final quarter of 2003/04 are as follows:

- London Underground patronage in the final quarter of 2003/04 has increased by 4% compared with the equivalent period of 2002/03, which was affected by the Chancery Lane derailment, but was 2% below target contributing to a shortfall in traffic income for the year of £51m.
- Bus patronage continued to grow and was 12% higher in the final quarter of 2003/04 than for the equivalent quarter in the previous year. Total bus patronage for the year at 1.7bn represents an increase of 11% on 2002/03. This includes some transfers of short distance traffic from the Underground and transfers from cars as a result of the introduction of Congestion Charging, as well as increased patronage as a result of improved reliability, service levels and despite the fares increase of 5.4% in January.
- London Underground were included within the TfL workforce composition figures for the first time in the final quarter. This had the effect of increasing the overall number of Black and Minority Ethnic staff from 26% (excluding London Underground) in the third quarter of 2003/04, to 31% (including London Underground) at the end of 2003/04. It also reduced the percentage of women within the workforce from 29% in the third quarter, to 21% at the year end. TfL is developing a resourcing strategy to address the lack of diversity within the current workforce.

2.2 TfL has built upon its impressive record of delivery in 2003/04 through the delivery of schemes including:

- **The introduction of Oyster** – In total more than £1bn has been committed on introducing a new ticketing system including the introduction of Oyster. There are currently more than 2m Oyster cards in circulation. The new smartcard based ticketing system is reducing queues at London Underground stations and will help the cashless operation of buses London wide in the future.
- **Road Safety Plan** - TfL has made significant progress in cutting the number of Killed and Seriously Injured (KSI) on London's roads. Total KSI in 2003 of 5,164 represented a 9% improvement compared with 2002. This was achieved through a programme of targeted engineering measures and 20 mph zones, targeted road safety campaigns, and the installation and management of London's network of speed and red light cameras. Overall, the number of KSI Londonwide has now been reduced by more than 25%, compared with the late 1990s, putting TfL on course to meet the Government target for a 40% reduction in adult KSI by 2010.
- **Overground Network** - In September 2003, London Rail launched a pilot scheme for Metro-style rail services on four key South London routes. These services form part of the newly marketed Overground Network (ON). The ON aims to encourage passengers to make more use of London's off-peak train services and promotes consistent standards for service frequency, passenger information and station security.
- **World Squares** - The first phase of the "World Squares for All" project at Trafalgar Square opened in July 2003. The £25m scheme created a new pedestrian area between the square itself and the National Gallery, linked by a new central staircase.
- **Bus Priority** – A total of 71 new bus lanes were installed during 2003/04. In addition, pilot projects are being developed in conjunction with London Boroughs on two bus corridors (routes 38 and 149) to establish their feasibility for future enhanced bus priority programmes. Route 149 is primarily on the Transport for London Road Network (TLRN), and Route 38 is primarily on roads controlled by London's Boroughs (the Borough Principal Road Network – BPRN). These projects will combine higher levels of bus priority with enhanced features such as further selective vehicle detection at signals and measures such as inset loading bays with increased enforcement (which allow for better use of low-floor buses).
- **Visible policing of the transport system** – The joint TfL/Metropolitan Police Service (MPS) Transport Operational Command Unit (TOCU) has almost completed its second phase of growth. At the end of March 2004 there were over 840 police and Transport Police Community Support Officers deployed to work on TfL's priority bus corridors, congestion hot spots and anti-taxi-touting programme. TfL and MPS have established a joint transport intelligence unit which analyses all crime, disorder and disruption data from London Buses, the London Traffic Control Centre as well as Metropolitan Police and British Transport Police systems. This underpins a joint daily and weekly tasking process to ensure TOCU is deployed to TfL's priority areas. To date TOCU has been responsible for over 5,000 arrests and 145,000 traffic tickets. TfL has also delivered an additional 100 British Transport Police Officers on to London

Underground and is rolling out the Reassurance Policing Programme to increase the visible policing of the network.

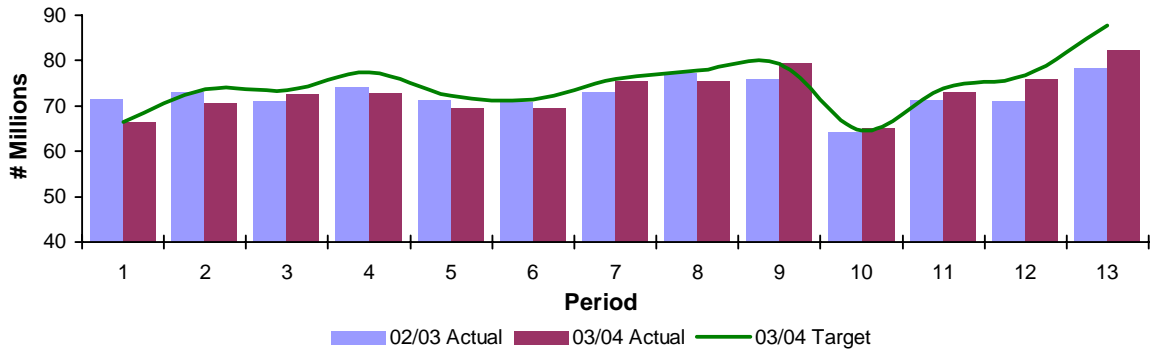
- **Taxi and Private Hire Licensing** – a total of 9,175 private hire licence applications were processed and 4,621 licences issued in London's first ever year of private hire driver licensing. The target for March 2006 is to license some 40,000 drivers (who can in the interim work on temporary permits). Private hire vehicle licensing is being delivered by external service provider SGS United Kingdom Limited (part of the world's largest inspection and certification organisation) who geared up in the fourth quarter for a successful launch of vehicle licensing at four operating centres around London in April 2004.
- **Directorate of Traffic Management** - The DTM was launched in May 2003 and has the objective to optimise traffic operations on London's most important roads through real time traffic management, enhanced traffic signal review and response capability. It also has a network co-ordination role, whereby it has developed and piloted a permit system to regulate street and road works, and it also assesses the permanent implications of new schemes upon capacity and temporary impacts of road and street works.
- **Business Improvement Programme** - In 2003 TfL implemented a SAP Enterprise Resource Planning (ERP) IT platform to provide common systems and processes across finance, procurement and human resource functions. A continuing part of the implementation consists of fully revisiting the processes operated across TfL and re-engineering them to take advantage of the benefits afforded by the technology, including automation and elimination of duplication.
- **Efficiencies** - As a result of initiatives in procurement, marketing and BIP, TfL delivered £42m in efficiency savings, which exceeded the 2003/04 budget by £24m (130%). For 2004/05 efficiency savings of £72m have been agreed and built into business unit budgets.
- **E-Government Initiatives** – During 2003/04 TfL made substantial progress across a range of range of e-government initiatives, the most important of which is the central government target of 100% of services on-line by the end of 2005. During 2003/04 the share of TfL's on-line interactions increased to 80%, up from 48% a year ago.

3. OPERATIONAL PERFORMANCE REVIEW

- 3.1 The operational scorecard reporting the performance against target for the key indicators approved by the TfL Board on 20 March 2003, and adjusted where necessary by the subsequent budget revision in July 2003, is attached to this report as **Annex 1**. Additional measures used for evaluating the performance of London Underground have been included within the performance scorecard.
- 3.2 Operational performance in the final quarter of 2003/04 in a number of areas has surpassed expectation and as a result the performance targets for 2004/05, which were approved by the TfL Board on 24 March 2004 are currently under review. This exercise could result in an increase in the performance targets for 2004/05.

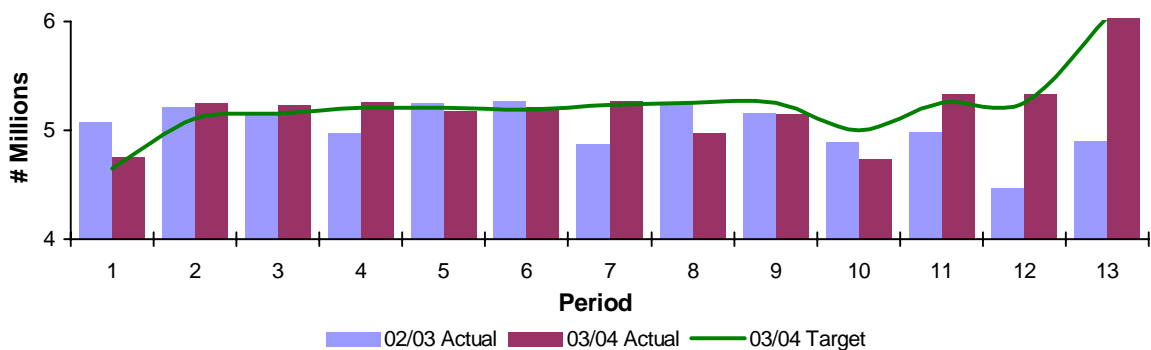
3.3 **London Underground** - Passenger journeys on the London Underground in the final quarter of 2003/04 were ahead of the same quarter of 2002/03 by 4% but below target by 2%. Total passenger numbers for 2003/04 at 947.5m were marginally above those for 2002/03 of 942.2m.

Figure 1: London Underground - Passenger Journeys



Kilometres operated in the final quarter of 2003/04 were just sufficient to raise the annual total in line with the target set by Government. The target was achieved despite the loss of some 560,000 kilometres as a result of the Camden Town derailment and the reduced service that was operated on the Northern Line for several weeks afterwards, as this was offset by engineering possessions being overestimated in the budget. The calculation of the percentage of schedule is based on timetabled kilometres adjusted for engineering works and as a result of losses attributable to the Camden derailment the target for percentage of schedule was not achieved. Actual performance for the year at 93.1% fell 0.7% short of the target.

Figure 2: London Underground - Kilometres Operated



Note: Kilometres rise sharply in period 13 due to 4 extra days in the period.

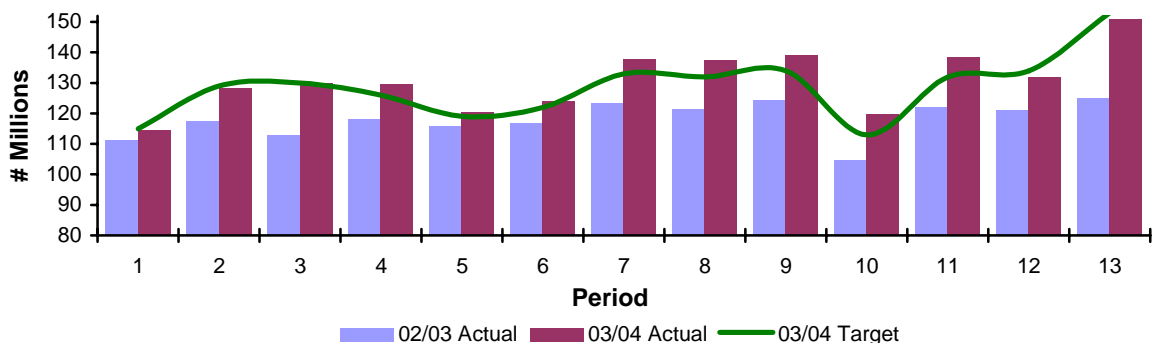
Overall customer satisfaction increased from 75 in the third quarter of 2003/04 to 78 in the final quarter. Customer satisfaction scores for personal safety and security, and crowding improved on the third quarter. Excess journey time and peak hour trains cancelled decreased significantly during the final quarter following the recovery from the Camden Town derailment.

Major injuries and fatalities on London Underground in the final quarter at 48 (including 2 fatalities) were 37% higher than the equivalent period of 2002/03 mainly as a result of falls on stairs and escalators. While this figure remains high it does represent an

improvement from the figure recorded in the third quarter. This improvement has continued into 2004/05 with the recorded number of major injuries and fatalities in period 1 falling to 6. Total major injuries for 2003/04 were, however, 27% higher than 2002/03.

3.4 Bus Network - Bus patronage continued to grow, as can be seen in the following chart, and was 12% higher in the final quarter of 2003/04 than for the equivalent quarter in the previous year. Total passenger numbers for 2003/04 at 1.7bn were 11% above 2002/03 levels. London's bus service is now the most reliable since performance figures were first collated in 1977. The ongoing roll-out of Quality Incentive Contracts (QICs), combined with the impact of Congestion Charging, were the main factors leading to marked improvements in nearly all aspects of service reliability this quarter. The ongoing expansion of policing and enforcement initiatives is also having an increasing impact. Whilst some improvement is to be expected following the traditionally difficult autumn quarter, latest results were also significantly better than the same quarter a year ago. Excess Wait Time on high frequency routes at 1.2 minutes for the final quarter of 2003/04 is an improvement on the same quarter last year of 29%. The percentage of schedule operated at 97.5% for the final quarter of 2003/04 was 0.5 percentage points below target despite being 1.3 percentage points above the equivalent quarter for 2002/03.

Figure 3: London Buses - Passenger Journeys



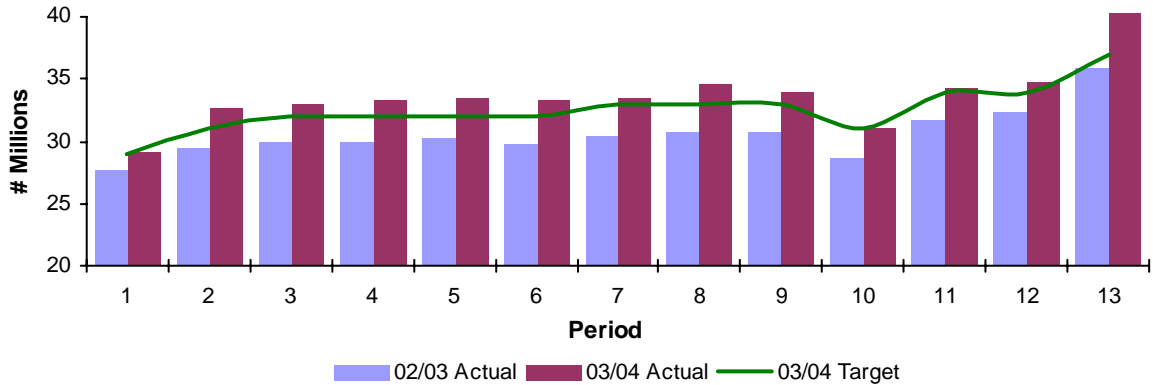
Following an investigation into the cause of a third fire on an articulated bus on 20 March, Evobus withdrew all Citaro buses from service on 24 March. This meant the withdrawal of all the buses serving the five bendy bus routes, and two other single deck services. All buses were returned to service by 6 April the impact on 2003/04 was a loss of 0.1% of the kilometres operated.

The bus network continues to increase, as can be seen from the chart below, with kilometres operated for the final quarter of 2003/04 at 140m. This represents an increase of 9% on the equivalent quarter in 2002/03 and is 3% higher than the target for 2003/04. Despite this increase above target the final gross cost of the bus network for the year was within £10m (1%) of budget. Total kilometres operated during 2003/04 at 437m represents an increase of 10% compared with 2002/03.

Despite the increase in the size of the bus network, the number of major injuries and fatalities has fallen. The total for the final quarter of 2003/4 of 288 was 9% lower (equivalent to 16% lower when adjusting for the increase in kilometres operated) than the equivalent period in 2002/03. This contributed to a reduction in the full year figure of 28% compared with 2002/03.

The on time performance of night buses was 3 percentage points above target at 79% for quarter 4 2003/04 and the number of low frequency routes departing on time was improved from 71% in the third quarter of 2003/04 to 74%, which is 1 percentage point above target.

Figure 4: London Buses - Kilometres Operated



3.5 **London Trams** - The percentage of schedule operated during the final quarter was 1 percentage point above target. The overall satisfaction score improved to 89 from 87 in the previous quarter, which is 1 point above target and the same period of 2002/03.

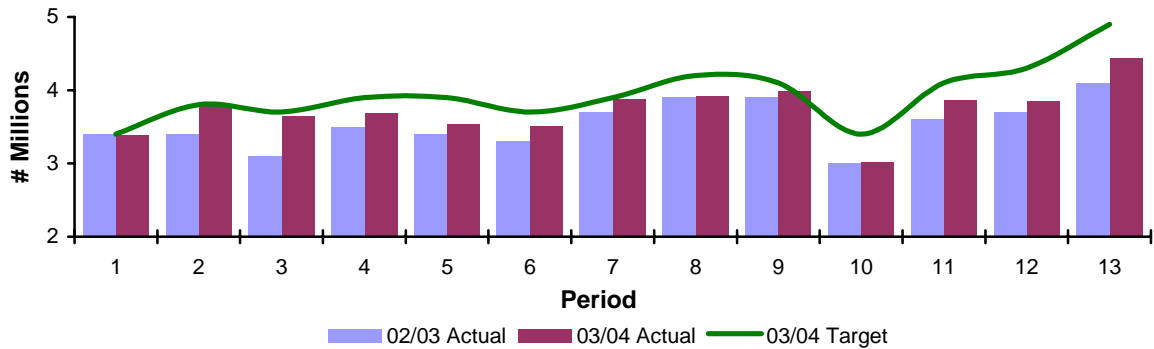
3.6 **Congestion Charging** – In April 2004 TfL released the Second Annual Monitoring Report. This confirmed that the Congestion Charging scheme (CCS) achieved the 2003/04 deliverables of a reduction in vehicles circulating the zone of 15% and a reduction in congestion within the zone by 30%. Traffic delays inside the charging zone have reduced by about 30%, which is at the high end of TfL’s expectations of a 20%-30% reduction. Following the introduction, new aggregate patterns of travel became established very quickly and have remained stable since. Public transport is successfully accommodating displaced car users. Comparative analysis of the many influences on the central London economy throughout 2003 suggest that the direct impact of congestion charging on business activity has been small.

The combined strategy of Congestion Charging and improved bus services has resulted in the first ever-modal shift from private car usage to Public Transport, against the trend elsewhere in the UK and the World. Of the 65,000 to 70,000 car trips that are no longer made to the charging zone during charging hours: between 50 and 60 percent have transferred to public transport, 20 to 30 percent now divert around the charging zone (these being trips with both origins and destinations outside of the zone), and 15 to 25 percent have made other adaptations, such as changing the timing of trips.

The operation and enforcement of the scheme are now working well; noticeable improvements in performance have followed the Supplemental Agreement with Capita, the scheme service provider. As a result of the Supplemental Agreement, Capita increased the number of Penalty Charge Notices (PCNs) issued during the final quarter. Over this period there would appear to be evidence that the level of PCNs available has reduced, indicating greater compliance and an increasing familiarity with congestion charging and the correct methods of payment by the public.

3.7 **DLR** - The increase in both ridership and level of service operated on the DLR continued into the final quarter following the occupation of new developments in Canary Wharf. Passenger journeys, as shown in the following chart, at 15.2m over the quarter were 6% greater than the equivalent quarter in 2002/03, but 9% below target due to slower than anticipated take-up of vacant space in the Canary Wharf/Heron Quays developments. Overall passenger journeys for the year at 48.5m were 6% above the level in 2002/03, while train kilometres operated were 6% above 2002/03 levels.

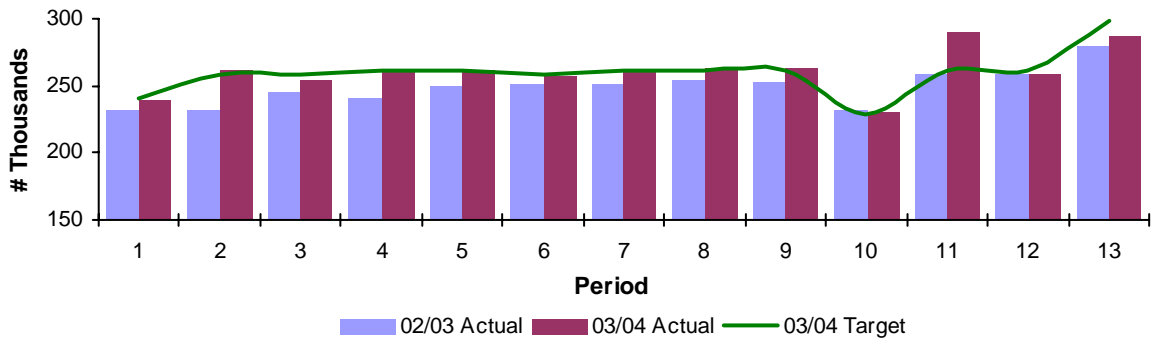
Figure 5: DLR - Passenger Journeys



Reliability and service quality performance indicators in DLR were all on or above target, including Customer Satisfaction Survey results that are amongst the highest ever recorded on the railway. This is against a background of new vehicles being introduced and a higher level of services than ever before.

As shown in the following chart, train kilometres operated in the quarter were 10% up on the same quarter last year at 1.1m, in line with target. During period 11 there was a 10-day boat show at Excel which increased passenger demand. This resulted in more trains being put into service to accommodate the increase which can be seen in the chart.

Figure 6: DLR - Kilometres Operated



3.8 **Victoria Coach Service** – The Customer Satisfaction score for overall satisfaction at 73 was 1 point above target. However, this represents a fall compared with 2002/03 of 2 percentage points. The target for 2003/04 was lower than the outturn for 2002/03 due to the building works that have taken place during the year which were anticipated to reduce the level of customer satisfaction.

4. ACTIVITY PERFORMANCE REVIEW

- 4.1 The TfL 2003/04 budget comprised over 120 activities. TfL monitors the success of each activity using key metrics including cost, milestone dates and key performance indicators. The performance of these activities is reported based on material variances, both financial and physical, against the deliverables approved by the TfL Board on 20 March 2003, as adjusted for the budget revisions approved on 29 July 2003. The following also contains performance for significant activities that are not at variance to budget. Further numbered activities, with deliverables, have been developed for London Underground. These were reported to the Board on 29 October 2003.

LONDON UNDERGROUND

- 4.2 **Station Projects – Progress with step-free access but delays on other projects**
East Ham and Kilburn step free access was completed during the final quarter of 2003/04 but step free access at Brixton has been delayed until autumn 2004 following contractual and site problems, including the discovery, and subsequent removal, of asbestos. The Tottenham Court Road planning application has been rescheduled pending agreement with CrossRail on the scheme and its timing. Delays to various congestion relief projects account for over £7m of the £8m variance in this activity. Tube Lines are progressing with feasibility work on the long term Covent Garden congestion relief scheme and the planning application submission for the Euston Masterplan, due in autumn 2003, has been delayed because of Network Rail withdrawal from the joint scheme.
- 4.3 **Cancellation of Train Information and Management Identification System (TIMIS)**
The existing contract for the development and supply of the TIMIS system has been cancelled, as the required benefits would not deliver the required benefits within the timescales needed to improve customer service. TIMIS would have provided real time train and crew identification, routing and service performance information which would enable faster response to incidents or disruptions to the train service. Much of the functionality can be introduced through other means including the completion of Tracknet rollout across all lines, the implementation of electronic train logging to signal cabins and additional locations as required, and integrating CONNECT train location information to platform displays.
- 4.4 **Wembley Park completion expected on time**
The start date was delayed by 3 months until April 2004 due to protracted discussions regarding the major enhancement agreement for the works between LUL and Tube Lines. However, it is still expected that the completion date for the opening of Wembley Stadium will be met.

SURFACE TRANSPORT

- 4.5 **Ticket Technology and Prestige**
The introduction of Oyster pre-pay on Buses and Trams was delayed until 15 May 2004. The Roadside Ticket Machines (RTM) were installed and commissioned on time for the conversion of Route 18 to articulated buses. Planning and installation work is underway for the conversion of routes 149, 12, 207, 73 to articulated buses.

4.6 Bus Stations

Planning delays at Hammersmith, Hounslow, and delays by the developer at Edmonton resulted in a budget underspend of £3.7m. TfL gained planning approval for an interim extension to Hammersmith Bus station in February 2004. The scheme will provide an extended bus station with an information facility, cycle racks and full CCTV coverage. The new facility will be connected to the existing bus station, shopping centre and underground station by a pedestrian link. Work on the interim station will begin in the summer and is due to be completed early in 2005. Work has been also been delayed at Bromley, awaiting agreement from Network Rail and the Strategic Rail Authority, as well as at Northwick Park and Chase Farm hospitals due to problems in obtaining agreement with the NHS Trust and Health Authority respectively.

4.7 Technical Services

An outline business case for the new platform for Countdown and AVL (automatic vehicle location) has been approved and the invitation to tender has been released. It is planned to award the contract by the end of October 2004. After this a pilot scheme will be introduced followed by a full scale roll out over 3 years (which will commence around April 2005).

4.8 Bus Garages

Construction of the Hanworth Road bus garage should commence in late 2004, due to negotiations with the future user, London United, and planning approval taking longer than anticipated. Revised plans are being submitted for North Acton following discussions with London Borough of Ealing, delaying opening until summer 2005. Walworth garage is available for use and is being leased to Travel London.

4.9 Engineering and Fuel Cell Buses

TfL is taking part in a pioneering two-year European project to reduce air pollution by introducing first-generation hydrogen fuel-cell buses. Three fuel-cell buses were introduced on trial on Route 25 (Ilford - Oxford Circus) from 14 January 2004 as part of a project to reduce air pollution and noise. The buses only emit pure water vapour. Extra expenditure took place on the particulate trap retrofit programme, which funded conversion of 500 vehicles.

4.10 Safety and Security

A £2m acceleration of the on-bus CCTV programme was brought forward from the 2004/05 budget.

4.11 Croydon Tramlink support costs

During the final quarter of 2003/04 London Trams' rolling programme of inspections of the Tramlink system commenced. These identified a number of defects and maintenance failings which have been raised with Tramtrack Croydon Limited (e.g. cleaning of stops, maintenance of shelters, provision of timetable and stop information, lighting).

4.12 Bus Priority

The target of 200 junctions fitted with Selective Vehicle Detection (SVD) was achieved. There are now 1000 junctions in London equipped with SVD. A total of 71 new bus lanes were installed on the Transport for London Road Network (TLRN) and Borough roads, 14 below target as a result of rephasing of schemes into 2004/05.

4.13 Transport Policing and Enforcement

Recruitment of police officers to Transport Operational Command Unit (TOCU) was behind schedule for the final quarter of 2003/4. As at March 2004 there were approximately 70 police officer vacancies. In recent months, a delay in the release of transferring officers by other Metropolitan Police Service (MPS) units has resulted in this slowed recruitment. Senior MPS commanders are working to overcome these difficulties and have assured TfL that full establishment will be achieved by the end of June 2004.

4.14 Taxi and Private Hire Licensing

The contract for Private Hire vehicle inspections has been signed with SGS United Kingdom Limited and the first vehicles started to be inspected for licensing purposes on 13 April 2004. 36,200 private hire vehicles have been registered to date with the Public Carriage Office (PCO) for exemption from the congestion charge, and are in receipt of a temporary permit to enable them to continue to be used for private hire until they have been fully licensed. The number of Private Hire drivers licensed at 4.5k remains behind target by 12.3k following the delayed start, the longer than expected application processing time and the lower than expected proportion of pre-registered drivers converting into licensed.

In the first stage of a programme to improve customer Taxi facilities the first taxi pole has been installed at the rank outside Lillywhites in Piccadilly. It carries the Taxi roundel and, amongst other things, the information panel has details of the fare tariff and approximate costs across a range of destinations from the rank. The intention is to install a number of other poles, totems and shelter at selected trial sites in 2004/05 and assess the benefits.

4.15 London River Services

The Thames Clippers commuter service funded by TfL has been extended to serve Greenwich pier on a 6 month trial basis from April 2004. Four journeys are provided each morning and two return journeys each evening on Mondays to Fridays. No additional resources are required to operate these journeys. Following a £1.3m make over Greenwich Pier re-opened in March 2004 in time for the busy summer season.

4.16 Dial-a-Ride

There has been a delay in the start of the implementation of the new booking system and purchase of 12 new vehicles which has resulted in a £0.3m underspend for 2003/04. The purchase of the new buses in 2003/04 was delayed when the chosen model was taken out of production by the manufacturer and a replacement is now expected in August 2004. The completion of the new booking system has slipped by 12 months due to planned milestones being over ambitious and is expected to be operational by March 2005.

4.17 Cycling & Walking

A total of £13.8m was spent in 2003/04 on cycling initiatives. £11.1m was spent on borough roads, which funded 235 schemes and allowed completion of 108km of the LCN+ network. In addition £1.5m was spent on 21 cycling schemes on the TLRN, with a further £800k on cycle parking at stations and in schools and £400k on promotional activities, such as the publication of 1.8m cycle maps. A total of £6.67m was spent on walking initiatives, which funded 57 schemes on borough roads and 21 schemes on the TLRN. Walking measures ranged from pedestrian crossings replacing previous

under-used subways to new bridges over water and comprehensive high street upgrades.

4.18 A23 Coulsdon Town Improvement

The start of the works had been rephased to allow for consideration of the tenders and as a result of delays in the transfer of some parcels of land from Network Rail to TfL. The contract was awarded in December 2003 and works started in January 2004. This will allow for completion by 2006.

4.19 Blackwall Tunnel Southbound Bore Refurbishment

The deliverable of completion of the refurbishment by March 2004 had slipped to August 2004. The contract is currently running 22 weeks late based upon the contractual Period for Completion. Extensions of Time for additional work of 4 weeks have been awarded and the contractor is therefore 18 weeks outside his contractual finish date. This would lead to liquidated damages being imposed. The major problem with the large slippage to the contract is the submission of designs; originally scheduled for August 2002, the designs were not approved until March 2003. As result the full night time closures of the Southbound Tunnel will continue on Friday/Saturday/Sunday until the completion of the project.

4.20 A13 Thames Gateway DBFO

At Woolwich Manor Way new flyovers have opened to two lanes of traffic in each direction and the old flyover has been demolished. At Prince Regent Lane a new underpass has opened to two lanes of traffic in each direction, at Canning Town a new flyover has opened to traffic and at the East India Dock Link Tunnel a new tunnel opened to one lane of traffic in each direction. Construction of the Freemason's Road underpass, a major thoroughfare for buses, continued to programme and was completed in May 2004.

LONDON RAIL

4.21 Fares Integration

TfL is seeking to promote and deliver the benefits of a single fare-pricing methodology within London. London Rail has achieved commercial agreement with the relevant Train Operating Companies (TOCs) to allow London Underground zonal fares on National Rail trains in an area of North London bounded by the North London and Victoria Lines (Liverpool Street to Seven Sisters, Tottenham Hale, Walthamstow Central, Euston to Queens Park, and Kentish Town to West Hampstead). The implementation of the necessary fares changes occurred in May 2004.

4.22 DLR Capacity Enhancements - 3 Car Upgrade

DLR is planning to submit a Transport and Works Act Order (TWA) application for its £130m capacity enhancement project. If the application is approved, work could start in 2007. The project will culminate in three-car trains running between Bank and Lewisham by 2009 but in order to achieve this, some viaducts will need to be strengthened and platforms lengthened. All TWA related documentation has been completed including preparation of Plans and Book of Reference. Meetings have been held with key borough stakeholders and 3 public meetings have taken place. The Public Inquiry has been delayed by 14 months to January 2005, as this is dependent on LUL agreement regarding Bank station. Following the completion of the further risk assessment work by LUL, relating to the future operational strategy for Bank Station,

the TWA Application is anticipated in June 2004. Contracts have been exchanged with SecondSite for land at Beckton to expand the DLR depot.

4.23 Railcar Refurbishment

The first two refurbished vehicles have completed their final testing at Alstom's site at Wolverton and been delivered to DLR's Beckton depot. The two vehicles are now undergoing commissioning and acceptance testing prior to entering passenger service.

4.24 Woolwich Arsenal

The TWA application was approved on the 26 February 2004. This £159m 2.5km project will be a continuation of DLR's extension to London City Airport - currently under construction - from its eastern terminus at King George V at North Woolwich. It will involve the construction of bored tunnels under the Thames and a new DLR station at Woolwich Arsenal, which will provide an interchange with main line rail services and other public transport routes. Work on drafting the technical specifications has commenced, and the Invitation to Tender documents have been issued with four bidders having pre-qualified. The current programme assumes that construction will begin in 2005 and be completed by the end of 2009.

CORPORATE DIRECTORATES

4.25 Borough Partnerships

An encouragingly high level of delivery of all boroughs' Borough Spending Plan (BSP) programmes has been achieved in 2003/04. With every borough having submitted its final claims on time, the year-end position is a total BSP programme spend of £143m (97%), against allocations of £148m. The new Borough Extranet was launched in the final quarter of 2003/04, which provides a means for improving communication with boroughs. The first phase included a wide range of information from across TfL and further phases will be developed in 2004/05. Everyone in TfL can access the site via the Intranet, and people from the boroughs, ALG and the GLA can be registered users.

4.26 West London Tram

A paper on the status of the project was presented to the TfL Board on 29 April 2004, which noted that TfL will proceed with a public consultation commencing in June 2004.

4.27 Thames Gateway Bridge

Approval to proceed with the project and make applications for Powers under the Highway orders and planning process was given by the TfL Board in March 2004. The project team is proceeding with the preparation of the application documentation for submission by 22 July 2004. This is dependent on confirmation by the Mayor's Office of the details required for the tolling order under the New Roads & Street Works Act.

Since the project is required to gain enabling powers using the Highway Powers route, this more complex process will lead to a longer overall programme than with the Hybrid Bill route, with the bridge opening to traffic in 2013. A detailed review of the TGB delivery programme has been carried out to establish the viability of accelerating the programme to bring forward the opening to spring 2012. This is achievable subject to the planning boroughs (Newham & Greenwich) granting planning approval by November 2004.

4.28 East London Line Extension Integration

The submission of the planning application for the Dalston Junction bus station has been delayed from March to September 2004 following a delay in agreeing the approach to planning applications, tender documentation and reference design with the SRA.

5 FINANCIAL PERFORMANCE REVIEW

OUTTURN AGAINST PERIOD 9 FORECAST

5.1 The net 2003/04 expenditure of £2,073m was £19m (1%) above the period 9 forecast as shown in the following table. A full reforecast was carried out at period 9 to enable the full impact of the integration with London Underground to be understood and to have an accurate comparator for the Mayoral 2004/05 budget submitted to the GLA Assembly.

Gross Revenue and Expenditure against P9 Forecast by Mode

	Income		Expenditure		Net Expenditure	
	Actual £m	Variance £m	Actual £m	Variance £m	Actual £m	Variance £m
Surface	(1,006)	(37)	1,958	42	952	5
Rail	(12)		78	1	66	1
Corporate	(28)	11	169	(21)	141	(10)
	(1,046)	(26)	2,205	22	1,159	(4)
Underground	(1,277)	18	2,191	5	914	23
Total	(2,323)	(8)	4,396	27	2,073	19

Income above forecast and expenditure below forecast is shown in brackets

Gross Expenditure

5.2 Gross Expenditure for 2003/04 was £4,396m, which is £27m above the forecast. This is due to £42m higher Surface Transport expenditure, partially offset by £21m lower Corporate Directorates expenditure.

5.3 The £21m lower Corporate Directorates expenditure is driven by three main factors. Transport Planning costs are £8m lower due to the rephasing of project expenditure into 2004/05 including West London Tram. Corporate Services expenditure is £6m lower than forecast. Expenditure on Travel Information services in Group Marketing has been less than forecast by £2m.

5.4 The £5m higher annual London Underground gross expenditure, as shown in the above table, included a net reduction in PPP contracts of £13m, offset by increased Central Services expenditure of £12m, Jubilee Line Works of £3m and Wembley Park of £2m.

5.5 The additional spend in Surface Transport includes the following:

	£m
• Additional TLRN maintenance and renewal costs (of which work brought forward from 2004/05 totals £6m)	11
• Bus network costs for additional incentive payments	3
• Additional Street Management support costs (of which £3m relates to additional accommodation costs)	7
• Additional expenditure on walking and cycling	5
• Additional expenditure on bus garages	3
• Fuel cell bus costs (deferred from 2002/03)	2
• Croydon Tramlink support costs	3
• Blackwall Tunnel Southbound Refurbishment costs	3
• Other minor additions	5
TOTAL	42

Income

5.6 2003/04 income totalled £2,323m, which is £8m above the forecast. This consists of an increase in Surface Transport income of £37m, offset by £18m lower London Underground income and £11m lower Corporate Directorates income which includes recharges for accommodation and facilities to the Infracos.

6 OUTTURN AGAINST BUDGET

6.1 TfL's net expenditure for the full year totalled £2,073m. This was £326m (14%) lower than anticipated in the budget. Actual fourth quarter net expenditure for TfL totalled £748m, which was £39m (5%) less than budget.

Gross Revenue and Expenditure against Budget by Mode

	Income		Expenditure		Net Expenditure	
	Actual £m	Variance £m	Actual £m	Variance £m	Actual £m	Variance £m
Surface	(1,006)	(61)	1,958	12	952	(49)
Rail	(12)	1	78	(10)	66	(9)
Corporate	(28)	(5)	169	(37)	141	(42)
Underground	(1,046)	(65)	2,205	(35)	1,159	(100)
	(1,277)	51	2,191	(277)	914	(226)
Total	(2,323)	(14)	4,396	(312)	2,073	(326)

Income above budget and expenditure below budget is shown in brackets

6.2 Gross Expenditure for 2003/04 was £4,396m, which was £312m (7%) below budget. In accordance with established and previously reported trends, London Underground contributed the majority of this underspend (£277m), although this does include efficiency savings achieved in 2003/04 of £11m. Additionally, Corporate Directorates spend was lower than budget by £37m, of which £6m was achieved through efficiency savings.

6.3 Total 2003/04 income amounted to £2,323m, which was £14m above budget. This consisted primarily of higher than budgeted bus revenue of £51m partially offset by lower than budgeted London Underground traffic income of £41m.

6.4 The net underspend for TfL of £326m comprises net additional income of £14m (para 6.5), deferral of programme delivery and business risks totalling £271m (para 6.6), cost savings and efficiencies of £56m achieved during 2003/04 (para 6.7) and increases in scope and cost totalling £15m (para 6.8).

6.5 Additional income during 2003/04 resulted from:

- Sustained growth in bus passengers as well as the part year effect of the increased bus fares introduced in January 2004 (£51m)
- Other increases in Surface Transport including Congestion Charging (£10m)
- Other increases in the Corporate Directorates including bank interest (£5m)

However, this is offset by the overall net reduction in London Underground income of £51m, which results from lower than budgeted traffic income, and lower than budgeted DLR income of £1m, resulting in TfL income £14m ahead of budget.

6.6 Deferral of programme delivery and business risks, where funding is required to be carried forward to enable the works and obligations to be completed in 2004/05 or later plan years is made up of the following:

- Allowance for business risks and obligations (£170m), principally arising from the impact of the PPP's across the Underground. Although these risks and obligations have not crystallised as costs in 2003/4, the conditions that give rise to them still exist and their impact has been rephased to 2004/5 and later years when the costs are now expected to arise. These amounts will be used to increase the Government required "reserve provision" and to build up earmarked reserves for funding these committed projects and obligations.
- Jubilee Line Works (£9m)
- Underground Investment Programme, including Power & Connect enabling works, Station Congestion relief projects, TRACKNET, and Piccadilly line extension to Heathrow for terminal five (£50m)
- DLR railcar refurbishment programme (£10m)
- Major road safety & route improvements schemes, including Coulsdon Relief Road, Rotherhithe Tunnel and Hanger Lane & Western Avenue Bridge projects (£6m)
- London Buses garage and station projects (£3m)
- Congestion Charging, including Traffic Management schemes and Western Extension project development (£8m)
- Bus Priority, Walking and Cycling Initiatives (£6m)
- Other Road Network Operations (£4m)
- Other programmes including Transport Policing, Enforcement and Dial-A-Ride (£5m)

6.7 Items that resulted in cost savings/efficiencies during 2003/04 consist of:

- Reduced London Underground expenditure arising from reduced performance payments to Infracos and other savings including lower transitional costs, savings in staffing costs and efficiency programmes (£19m). These savings will also be needed to build up earmarked reserves for funding committed projects and obligations mentioned earlier.
- Unused general TfL contingency provision (£6m); and

- Other TfL savings including lower costs of implementing the Under 18 fares initiative, savings in staffing costs, reduced Prestige operating costs and reduced management & support costs (£31m). These savings have been used to fund projects brought forward from 2004/05 and overspending in road maintenance areas.

6.8 Items that have increased in scope and cost:

- Increased level of TLRN & Borough road maintenance and capital renewal (£12m). These costs were met from savings within the overall TfL budget and reduced programmes in 2004/05
- Projects brought forward from 2004/05 (£3m). These costs will be met from reduced programmes in 2004/05

6.9 The full amount of £326m is being carried forward to 2004/05:

- To enable the committed projects that have slipped to be completed
- To build up the Government required LUL 'reserve provision'. LUL and TfL have always been concerned that it would be difficult to build up the reserve provision to £170m by 2006/07 out of the Government Settlement in February 2002. This underspend will be put towards fulfilling the Government's requirement
- To provide for the issues that are expected to arise as the PPP contract becomes more established
- To cover the uncertain business environment which may impact income.

6.10 London Underground has rephased expenditure amounting to £249m from 2003/04 to be spent in 2004/05 and future years. All of the planned expenditure is allocated for funding obligations that have been incurred but will not materialise until 2004/05, for building the Government required "reserve provision," and for vital planned Tube enhancements, including station redevelopment projects, for which reserves will be earmarked in 2003/4 in order that funds are available when costs are incurred in future years.

6.11 Examples of obligations for station redevelopment projects include: Wembley Park Station in support of Wembley Stadium, Holloway Road Station in support of Arsenal's new stadium, Euston Square Station as part of the Wellcome scheme and Shepherds Bush Station as part of the White City development. But there are also works such as those on the Jubilee Line, Air conditioning on the Sub Surface Lines and at Heathrow Terminal 5.

7 REVENUE TRENDS

7.1 Further to the TfL Traffic Revenue Trends paper presented to the TfL Board on 3 December 2004 income trends continued to be volatile during the remainder of 2003/04. Increases in Bus income were offset by significant reductions on London Underground. The following factors are contributing to uncertainty regarding long term trends:

- Security and safety concerns, linked to the risk of terrorist attacks
- The impact of Oystercards on Travelcard sales at different outlets

- London Underground service disruptions resulting from derailments at Chancery Lane and Camden Town
- Improvements in Bus services
- Introduction of the Congestion Charging Scheme

Bus Network

- 7.2 Total 2003/04 Bus Network income was £768m, £21m (3%) greater than the period 9 forecast.
- 7.3 Increasing bus passenger levels during the summer of 2003 proved to be more sustainable than anticipated in the forecast. This was recognised some time before the year-end and reflected in a revised revenue forecast of £765m in period 11. A combination of bus service enhancements, the introduction of Congestion Charging, and an element of switching from London Underground has driven the increasing passenger levels.
- 7.4 In addition, the January 2004 fares revision has had a lower downward impact on cash sales than expected. The extent of switching from cash to other tickets has also been lower than projected, partly due to the delay in the introduction of Pre Pay on buses. This occurred on 16 May.
- 7.5 The 2004/05 budgeted Bus Network income of £835m was established once all of the above impacts were known and as a result is still considered to be realistic despite the increase from the forecast.

London Underground

- 7.6 Traffic Revenue in London Underground totalled £1,161m for 2003/04. This is £6m (1%) below the period 9 forecast, resulting from:
- The yield from the January 2004 fares revision was less than expected. In particular, the increases in single fares have led to switches to One Day Travelcards, reducing revenue yield.
 - In 2002/03, a provision was established against traffic revenue for refunds in respect of the Chancery Lane derailment and closure of the Central Line. Initially, the level of claims was less than anticipated and as a result £10m was released in 2003/04. However, the provision was reassessed in Period 12 and the 2003/04 release was reduced by £3m.
- 7.7 The introduction of Oyster resulted in passengers purchasing their tickets from London Underground stations instead of National Rail stations. It has been recognised that this has not resulted from a change in travel patterns and the Train Operating Companies have been compensated for the loss of revenue arising from their reduced volume of sales.
- 7.8 The traffic revenue figure of £1,161m for 2003/04 represented an annual increase of 2%. The 2004/05 budget of £1,227m represents an increase of 6% on the 2003/04 outturn. The budget thus assumes a significant recovery in traffic from the depressed

level of 2003/04. Current trends in LUL, although uncertain, suggest this could be at risk by between £30m and £50m.

8 EFFICIENCIES

8.1 The 2003/04 budget included a target to achieve gross efficiency savings of £18.4m, with a net budget impact of £7.2m after estimated restructuring costs of £11.2m. Following initiatives in procurement, marketing and the Business Improvement Programme (BIP) TfL achieved £42.2m in gross efficiency savings, which exceeded the target by £24m (130%). Of this total, £22.8m represents cash savings against the 2003/04 budget.

	Corporate/			Total	Avoided	Total
	Underground	Surface	London Rail	Cash	Costs	
	£m	£m	£m	£m	£m	£m
Procurement	6.4	3.3	3.0	12.7	11.8	24.5
BIP/Staff	4.1	0.3	0.3	4.7	1.3	6.0
Marketing	0.9	1.6	1.5	4.0	6.3	10.3
Other			1.4	1.4		1.4
Gross Efficiencies	11.4	5.2	6.2	22.8	19.4	42.2
One-Off Costs				(5.7)		(5.7)
Net Efficiencies				17.1	19.4	36.5

8.2 The efficiency savings from avoided costs fall into two broad categories. First, true cost avoidance where cost savings have been made, either in full or in part, against spend not planned for in the TfL budget – for example, the investment in BIP has removed the need to replace legacy systems. Second, savings in unit costs for budgeted spend that is reinvested to provide more output for the same cost. The £11.8m in non-bankable procurement savings fall into both of these categories, and there is an opportunity to convert some of the non-bankable savings from reinvestment into cash savings against future years' budgets.

8.3 The one-off costs to achieve efficiencies in 2003/04 were £5.7m against a budget of £11.2m. The lower costs are largely due to slower than expected take-up of voluntary severance, and higher costs have been built into the 2004/05 budget to reflect this. As a result of higher gross savings and lower costs compared with the budget, net cash efficiencies for the year were £17.1m, or £10m better than target.

9 RESERVES

9.1 To the extent that underspending against the overall TfL budget relates to slippage in planned programme delivery and obligations incurred¹, funds have been earmarked for carrying forward to future years to fund the shift in expenditure profile. The remaining funds have been used for building the reserve provision for London Underground in accordance with Government's protocol agreed at the time of the funding of the PPP to cover business risks.

¹ including Wembley Park Station in support of Wembley Stadium, Holloway Road Station in support of Arsenal's new stadium, Euston Square Station as part of the Wellcome scheme, and Shepherds Bush station as part of the White City development.

10 STAFF NUMBERS

10.1 All budgets anticipated the staff transfers between the modes and the Corporate Directorates as part of the reorganisation that followed the integration of London Underground with TfL in July 2003. As shown in **Annex 4**, the total FTE for TfL staff at 31 March 2004 was 18,674, which was 54 Full Time Equivalents (FTEs) below budget. The reasons for this are discussed below.

10.2 Staffing levels within London Underground at 31 March 2004 were 247 below budget. This budget fully incorporated the transfers that were made as part of the integration with TfL and the variance consists of the following:

	FTEs
• Initiatives and Projects (resulting from delays in the enabling works being undertaken by the Infracos)	(209)
• Trains (reflecting that the budget included staffing for planning line upgrades that did not occur in 2003/04)	(76)
• Stations (due to the delayed implementation of the Special Events Team)	(82)
• Transport Police (additional agreed British Transport Police that were not included in the original budget)	109
• Other	11
TOTAL	(247)

10.3 Corporate Services were 164 FTE above budget arising mainly within Group Information Management (82) and Group HR Services (35). The Group Information Management variance is a result of Project Posts having been included in the actuals number. The FTE budget was based on establishment posts only, thus the resulting variance is made up of Project Posts. The Group HR Services variance results from additional 'transfers in' identified after the 2003/04 FTE budget was submitted.

10.4 Surface Transport were 24 FTE above budget, comprising 45 for London Buses and 27 for East Thames Buses, offset by lower than budget staffing levels in other areas due mainly to revisions to recruitment plans associated with re-structuring initiatives. The variation for London Buses was due to staff transferred elsewhere within the Group where the transfer of budget preceded the transfer of staff. For East Thames Buses the variation related to service extensions/improvements and reductions to duty length arising from the need to observe working time regulations.

11 WORKFORCE COMPOSITION

11.1 TfL is committed to becoming an exemplary employer and is driving forward an agenda to achieve a workforce that is balanced; reflecting the population profile of London and tackling historical barriers to employment, retention and, promotion for people from BME (Black and Minority Ethnic) communities, women and disabled people.

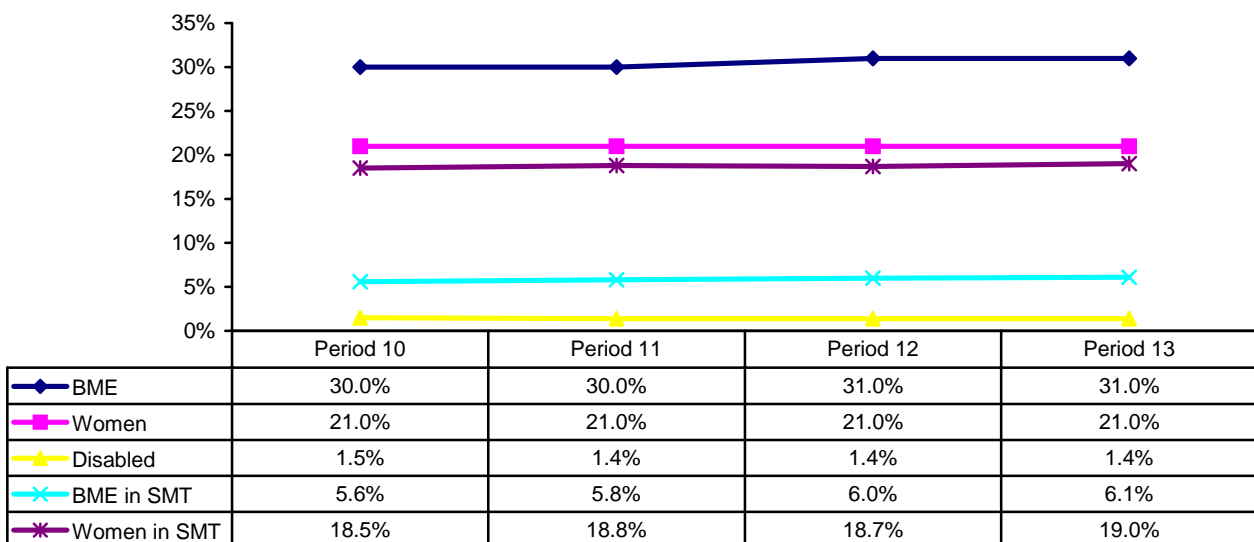
11.2 With the introduction of the SAP HR system in December 2003, TfL has moved to a new mechanism for recording, monitoring and reporting its workforce profiles and trends on disability, ethnicity and gender. This system is currently being populated with data from legacy IT systems and data not previously recorded.

11.3 London Underground's (LU) workforce composition (with the exception of data on disability) is now reported on a period basis, in line with the rest of TfL. Table 3 provides the workforce composition for TfL (including LU) for periods 10 to 13.

11.4 LU has not previously recorded information on disability within the workforce. However, action is being taken to address this, partly by the commencement of a pan-TfL staff survey which will gather information upon disability within the organisation.

11.5 For the purposes of this report SMT (Senior Management Team) is defined as those occupying posts described as Managing Directors, Directors and Business Managers. There are approximately 480 such posts. The workforce figure includes all employees on permanent or fixed term contracts. Agency staff and consultants are not included in this analysis.

Workforce Composition - 4th Quarter 2003/04



11.6 The inclusion of London Underground (LU) within the TfL workforce composition increased the overall proportion of Black and Minority Ethnic staff from 26% in period 9 to 30% in period 10, rising to 31% by period 13. The TfL target is 25%, which is equal to the average BME population of working age of London.

11.7 With the inclusion of LU staff, the percentage of women within the workforce decreased from 29% in period 9, to 21% in period 10 and remained at this level to the year end. TfL is developing a resourcing strategy to address the lack of diversity within the current workforce. This will be based upon positive action to increase the recruitment, promotion and retention of staff who are currently under-represented, including women.

11.8 There was an overall percentage decrease in senior BME and female staff with the inclusion of the LU workforce. However, both the total numbers have increased from period 10 to period 13, with a 0.5% increase in BME and female SMT staff.

11.9 There has been no increase in the number of disabled employees. However, an audit of equality data commenced in February 2004, including a review of disability within the workforce. This should provide more accurate information. In addition, TfL has

launched a positive action programme aimed at providing disabled people with opportunities to gain work experience within TfL and to create initiatives aimed at successfully attracting disabled people to work.

11.10 Finally, TfL is working closely with the GLA to develop a recruitment strategy aimed at improving the workforce composition and to identify positive action programmes to recruit, retain and promote women, BME and disabled people within the workforce.

Progress and Actions – Period 10-13

11.11 TfL designated March as Women's month and focussed upon promoting TfL as an attractive organisation for women through the 'capitalwoman' London Conference on March 6th, which included workshops facilitated by board members. TfL also launched its first 'Women's Action Plan' at the conference publicising TfL's plans to address the key transport barriers for women both within the transport and work environment.

11.12 TfL, Scope and the Camden Society have launched a positive action programme aimed at providing disabled people with opportunities to gain work experience within TfL and to create initiatives aimed at successfully attracting disabled people to work. The programme will commence in June 2004

11.13 London First placements will start in June 2004. These placements are designed to offer paid summer work placements to students from London's new (post 1992) universities. It is focussed primarily on students from culturally and socially diverse backgrounds who reflect the demography of London; in particular it sets out to encourage a more positive attitude towards ethnic diversity.

11.14 A review of HR policies is underway with the aim of ensuring that TfL has robust and transparent policies in place that enhance TfL's aim of becoming an exemplary employer.

11.15 TfL is currently updating the Race Equality Scheme and carrying out impact assessments of policies and functions within the organisation which impact upon our general and specific duties outlined within the Race Relations Amendment Act.

11. RECOMMENDATIONS

The Board is asked to NOTE the contents of this report.

For detailed enquiries on the content of this report, please contact:

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or

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OPERATIONAL SCORECARD

Performance Indicators		Quarter 4*				Full Year			
		Actual	Target	Var	Prior Year	Actual	Target	Var	Prior Year
LONDON UNDERGROUND									
Safety									
Total number of major injuries and fatalities	#	46	N/A	N/A	35	144	N/A	N/A	113
CSS: personal safety and security	Score	80	79	1	78	80	79	1	78
Service Volumes / Ridership									
Usage: passenger journeys	M	296	303	(7)	285	948	970	(22)	942
Train kilometres operated	M	21	21	0	19	68	68	0	65
CSS: crowding	Score	75	69	6	71	73	69	2	71
Reliability & Service Quality									
Percentage of scheduled service operated	%	94.1	94.1	0	86.8	93.1	93.8	(0.7)	91.1
Excess journey time – unweighted	Mins	3.32	3.36	0.04	5.8	3.36	3.36	0	4.2
CSS: overall satisfaction	Score	78	75	3	74	76	75	1	75
CSS: information	Score	78	76	2	76	78	76	2	76
Peak Hour Trains cancelled	%	3.8	3.8	0	11.5	5.3	3.8	(1.5)	7.2
LONDON BUSES									
Safety									
Total number of major injuries and fatalities	#	288	N/A	N/A	315	843	N/A	N/A	1,166
CSS: personal safety and security	Score	82	80	2	80	81	80	1	80
Service Volumes									
Usage: passenger journeys	M	541	532	9	483	1,702	1,672	30	1,534
Bus kilometres operated	M	140	136	4	128.5	437	423	14	397
CSS: crowding	Score	79	78	1	77	78	77	1	77
Reliability & Service Quality									
Percentage of scheduled service operated	%	97.5	98.0	(0.5)	96.2	97.2	97.4	(0.2)	96.1
Excess wait time – high frequency routes	Mins	1.2	1.6	0.4	1.7	1.4	1.7	0.3	1.8
On time performance - low frequency routes	%	74.8	74.0	0.8	69.8	74.6	73.0	0.4	70.5
On time performance - night buses	%	79.9	77.1	2.8	75.1	79.3	76.0	3.3	74.6
CSS: reliability – journey/wait time	Score	81.0	78.0	3.0	78.0	79.0	78.0	1.0	78.0
CSS: overall satisfaction	Score	79.0	78.0	1.0	76.0	77.0	77.0	0	76.0
CSS: information	Score	74.0	74.0	0.0	72.0	73.0	74.0	(1.0)	72.0
Access									
Percentage of 'Low Floor' Buses	%	91.0	87.0	4.0	79.0	91.0	87.0	4.0	79.0

Where no quarterly or annual target has been set N/A is shown

* Periods 10-13

OPERATIONAL SCORECARD


Performance Indicators		Quarter 4				Full Year			
		Actual	Target	Var	Prior Year	Actual	Target	Var	Prior Year
LONDON TRAMS									
Usage: passenger journeys	m	6.0	N/A	N/A	6.1	19.1	N/A	N/A	18.7
Percentage of scheduled service operated	%	98.8	98.0	0.8	99.0	99.6	98.0	1.6	99
CSS: overall satisfaction	Score	89.0	N/A	N/A	88.0	88	88	0	88
PUBLIC CARRIAGE OFFICE									
No. of taxi drivers licensed	000	24.8	25.6	(0.8)	24.7	24.8	25.6	(0.8)	24.8
No. of private hire drivers licensed	000	4.5	16.8	(12.3)	0	4.5	16.8	(12.3)	0.0
LONDON RIVER SERVICES									
Usage: passenger journeys	M	0.3	0.3	0	0.3*	2.1	2.1	0	2.0
Percentage of scheduled service operated	%	98.9	98.0	0.9	98.1	98.5	98.0	0.5	98.0
VICTORIA COACH SERVICES									
Usage: Number of coach departures	000	61.4	60.3	1.1	61.2*	196.2	196.3	(0.1)	189.1
CSS: overall satisfaction	Score	73.0	N/A	N/A	76	73	72	1	75
DIAL-A-RIDE									
Total costs per trip	£	14.0	N/A	N/A	N/A	13.5	N/A	N/A	12.6
CSS: overall satisfaction	Score	94.0	93.0	1.0	93	93	93	0	93
ROAD NETWORK OPERATIONS									
Safety									
No. of major injuries and fatalities (TLRN)	#	455	519	64	472	1,418	1,480	62	1,586
No. of major injuries and fatalities (Londonwide)	#	1,699	1,846	147	1,713	5,164	5,438	274	5,650
Service Volumes									
Usage: Traffic Flows - Cent London (0700-1830)	#	101.9	N/A	N/A	N/A	102.5	N/A	N/A	N/A
Usage: Traffic Flows - Cent London (Mar 03=100)	#	99.8	N/A	N/A	N/A	101.5	N/A	N/A	N/A
Usage: Traffic Flows - Inner London (Mar 03=100)	#	104.9	N/A	N/A	N/A	105.7	N/A	N/A	N/A
Usage: Traffic Flows - Outer London (Mar 03=100)	#	91.8	N/A	N/A	N/A	94.8	N/A	N/A	N/A
Usage: Cycling on TLRN (index April 2000 =100)	#	106	107	(1)	102	117	117	0	113
Congestion (TLRN) (Mar 01=100)	#	77.3	N/A	N/A	76.4	84.2	N/A	N/A	86.6
Reliability and Service Quality									
Journey time reliability (TLRN)	%	35	N/A	N/A	N/A	35	N/A	N/A	30
Street Lights working	%	96.8	97.7	(0.9)	96.5	97.9	97.7	0.2	96.1
Traffic Signals operating effectively (Lon wide)	%	97.6	97.0	0.6	96.5	97.2	97.0	0.2	96.9
Traffic Signals with pedestrian phase	%	81.5	77.0	4.5	74.9	81.5	77.0	4.5	75.0
Days of Control/closure on sensitive roads	%	1	0	1	0	16	20	4	0
State of Good Repair: TLRN	%	88.5	87.4	1.1	85.8	88.5	87.4	1.1	85.8
Access									
Pedestrian Crossings for disabled	%	53.9	68.0	(14.1)	57.4	53.9	68.0	(14.1)	57.4
Bus Stops that are 'Low Floor'	%	15.1	12.0	3.1	12.9	15.1	12.0	3.1	12.9


* Figures for December 2002 to March 2003.

OPERATIONAL SCORECARD

Performance Indicators		Quarter 4				Full Year			
		Actual	Target	Var	Prior Year	Actual	Target	Var	Prior Year
DOCKLANDS LIGHT RAILWAY									
Safety									
RIDDOR reportable injuries to staff/passengers	#	7	N/A	N/A	7	13	N/A	N/A	23
CSS: personal safety and security*	Score	91.3	86.3	5.0	91.1	92.3	86.3	6.0	89.8
Service Volumes									
Usage: Passenger journeys	M	15.2	16.7	(1.5)	14.3	48.5	51.1	(2.6)	45.7
Train Kilometres Operated	M	1.1	1.1	0.0	1.0	3.4	3.4	0.0	3.2
Reliability and Service Quality									
Percentage of scheduled service operated	%	98.3	98.0	0.3	97.9	98.2	98.0	0.2	98.1
On-Time Performance – adherence to schedule	%	96.7	96.0	0.7	96.3	96.6	96.0	0.6	96.4
CSS : Overall Satisfaction*	Score	93.7	83.6	10.2	93.3	93.9	83.5	10.4	92.2
CSS : Information*	Score	95.2	86.0	9.2	93.9	95.1	86.0	9.1	93.3
Access									
% of system accessible	%	100.0	100.0	0.0	N/A	100	100	0.0	100

* CSS statistics for DLR relate to the quarter October to December

 Positive variance

 Neutral variance

 Negative variance

Notes/Key:

Negative variances are adverse.

The boxes in the variance column are shown as green, red or yellow depending on whether they are positive, adverse or neutral variances.

GROSS INCOME/EXPENDITURE SUMMARY

	Fourth Quarter		Full Year		Forecast	
	7 Dec to 31 Mar	Variance to Budget	Actual	Variance to Budget	P9 Forecast	Variance To Forecast
	£m	£m	£m	£m	£m	£m
Expenditure						
Surface Transport	707	66	1,958	12	1,916	42
London Rail	37	6	78	(10)	77	1
Corporate Directorates	47	(27)	169	(37)	190	(21)
Total	791	39	2,205	(35)	2,183	22
Income						
Surface Transport	(349)	(60)	(1,006)	(61)	(969)	(37)
London Rail	(4)		(12)	1	(12)	
Corporate Directorates	3	14	(28)	(5)	(39)	11
Total	(350)	(46)	(1,046)	(65)	(1,020)	(26)
Net Expenditure 'Old' TfL	441	(7)	1,159	(100)	1,163	(4)
Expenditure	698	(66)	2,191	(277)	2,186	5
Income	(392)	34	(1,277)	51	(1,295)	18
London Underground	307	(32)	914	(226)	891	23
Total Spend on Activities	748	(39)	2,073	(326)	2,054	19

Expenditure below budget and income above budget are shown with variances in brackets

NET EXPENDITURE SUMMARY

	Fourth Quarter		Full Year		Forecast	
	7 Dec to 31 Mar	Variance to Budget	Actual	Variance to Budget	P9 Forecast	Variance To Forecast
	£m	£m	£m	£m	£m	£m
London Underground						
Traffic Revenue	(367)	18	(1,161)	51	(1,167)	6
Customer Services	154	5	472	-	470	2
Contracts PFI	74	7	212	4	213	(1)
Contracts PPP	290	(36)	1,089	(139)	1,103	(14)
UIP	57	9	128	(47)	120	8
Central Services	98	(34)	170	(88)	148	22
Transition	-	(1)	4	(7)	4	-
	306	(32)	914	(226)	891	23
Surface Transport						
London Buses	178	(20)	507	(36)	514	(7)
Bus Priority	27	7	45	(10)	48	(3)
Transport Policing & Enforcement*	26	(2)	65	(6)	68	(3)
Street Management	155	29	391	15	366	25
CCS – Surplus*	(36)	(11)	(77)	(11)	(69)	(8)
Dial-a-Ride	5	1	17	(1)	17	
East Thames Buses			1		1	
Victoria Coach Station			(1)		(1)	
London River Services	2	1	2	1	1	1
Public Carriage Office*	1	1	2	(1)	2	
	358	6	952	(49)	947	5
London Rail						
London Rail Core	8	3	10	(1)	9	1
CrossRail	6	1	16	(1)	17	(1)
Docklands Light Railway	19	2	40	(7)	39	1
	33	6	66	(9)	65	1
Corporate Directorates						
Group Communications	2		6	(1)	7	(1)
Museum	1		4		4	
General Counsel	3		8		8	
Commissioner's Office	2		8	(1)	9	(1)
Corporate Services	23	7	47	(4)	40	7
Finance & Planning	22	(8)	70	(29)	86	(16)
LT Insurance (Guernsey)	(2)	(1)	(2)	(1)	(3)	1
Contingencies & Over-programming		(17)		(6)		
	50	(19)	141	(42)	151	(10)
Total Activity Net Costs	748	(39)	2,073	(326)	2,054	19

Net expenditure below budget is shown with variances in brackets

* Actual figures are presented on a cash basis which is in line with the budget. Accrued income not included above amounted to £2.3m for Congestion Charging, £2.2m for TPED and deferred income not recognised in PCO amounted to £5.6m.

HEADCOUNT SUMMARY

31 March 2003		31 March 2004	
		Actual	Variance to Budget
13,727	London Underground	13,408	(247)
	Surface Transport		
733	London Buses	788	45
140	Transport Policing/ Bus Priority	423	(8)
385	East Thames Buses	433	27
583	Dial-a-Ride	550	(5)
121	Victoria Coach Station	115	(11)
18	London River Services	16	(2)
185	Public Carriage Office	211	(1)
758	Street Management	862	(21)
3,038		3,398	24
	London Rail		
19	Core	23	
30	Docklands Light Railway	31	
49		54	
	Corporate Directorates		
48	Group Communications	76	12
219	Corporate Services	837	164
87	Museum	92	(12)
48	General Counsel	128	(5)
623	Finance & Planning	660	10
22	Commissioner's Office	21	
1,047		1,814	169
17,861	Total Staff Employed	18,674	(54)

Variations below budget/forecast are shown in brackets

London Underground PPP Performance Report

To TfL Board

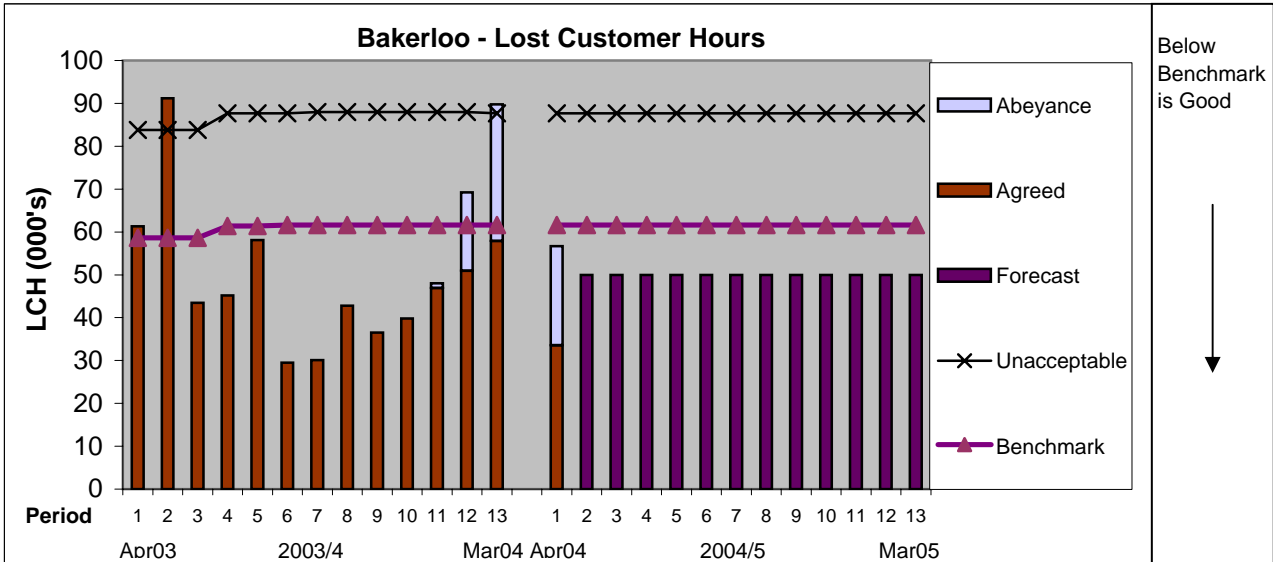
On 23 June 2004

Period 1 2004/2005
(01/04/04 to 01/05/04)

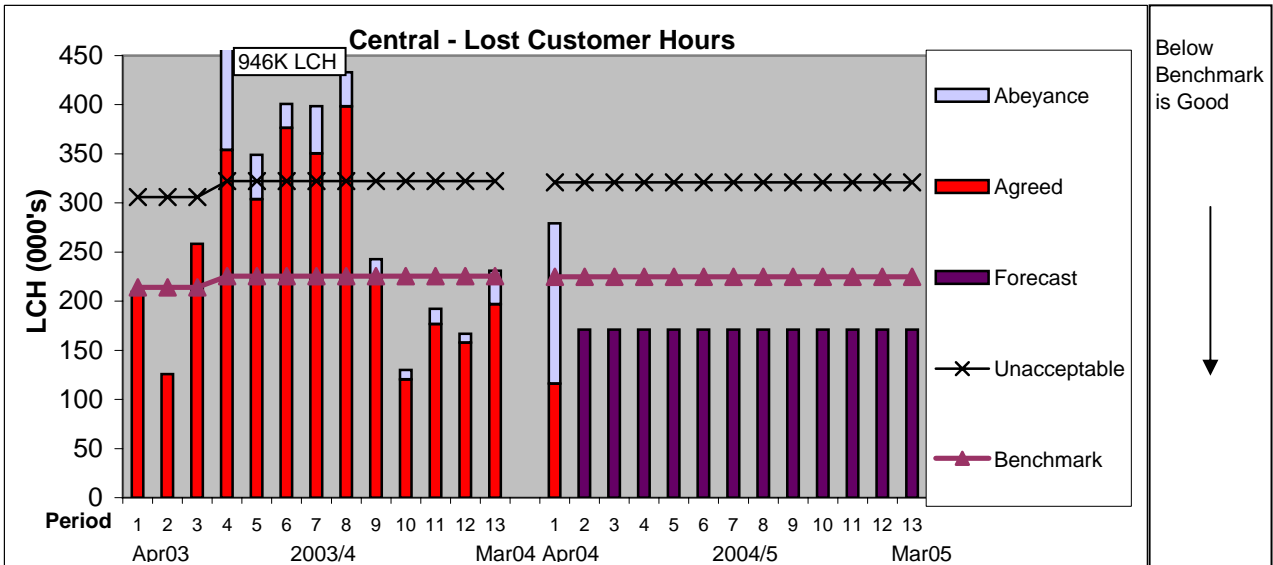


Performance figures are based on LU's reporting cycle of thirteen four week periods, starting on 1 April of each year and ending 31 March each year

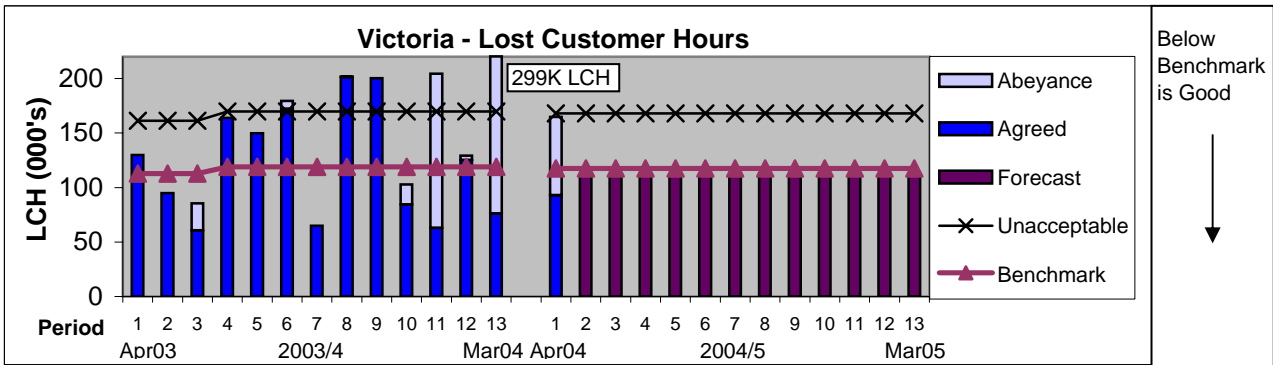
PPP PERFORMANCE - AVAILABILITY - BCV



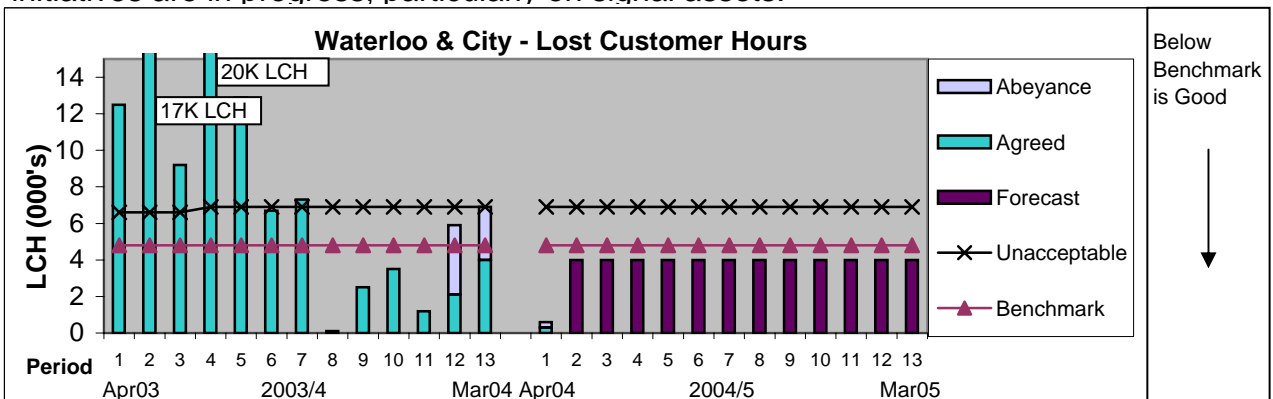
Agreed availability for 2003/04 was 25% better than benchmark. In 2003/04 the peak in period 2 was largely due to reports of smoke in a tunnel and lost air pressure on a train. In period 13 the peak was largely due to trackside fires and a failed block joint at Paddington. The largest incidents in period 1 of 2004/05 were a track side fire and a station closure due to a drainage problem, both at £12k each. There are no significant items in period 1 in abeyance. The train fuse replacement programme has been completed and the improved track cleaning programme has resulted in a significant reduction in track fires.



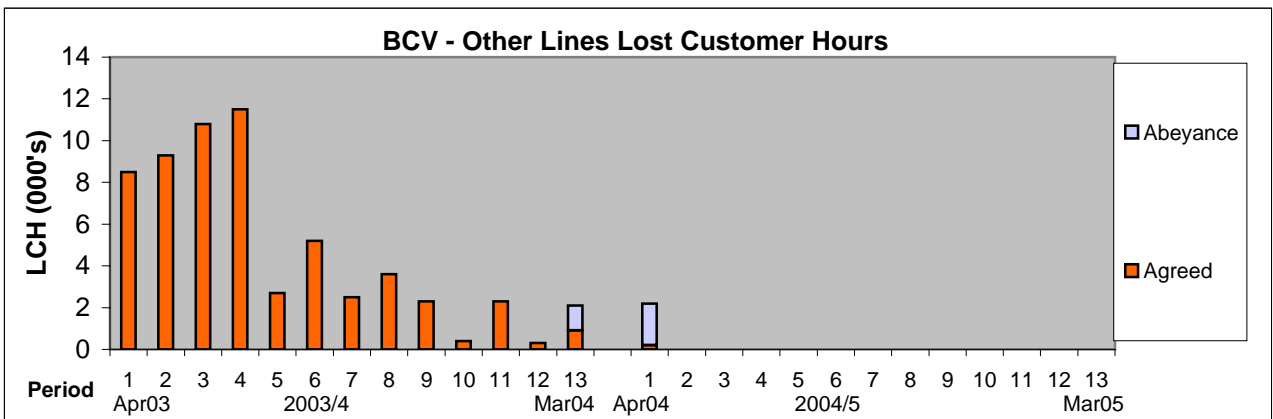
Agreed availability for 2003/04 was 11% worse than benchmark despite the 6 periods which were worse than benchmark due to train checks following Chancery Lane. Performance improved in the year following the introduction of specialist technical resource from Bombardier. In 2003/04 the peak in period 4 was due to a delay in returning escalators to service at Bond Street. The agreed availability has improved again for this period, despite two significant incidents due to a points failure at White City and a track circuit failure at Stratford. The relatively high in abeyance is mainly due to three incidents. A report of smoke due to locked wheels on a train at St Pauls, unsupported tunnel telephone cables between Marble Arch & White City and a train failure at Oxford Circus.



Agreed availability for 2003/04 was 4% worse than benchmark, with 6 periods worse than benchmark due to signal and train failures (such failures also explain the peaks in periods 8 & 9). The large abeyance for period 11 is due to a flooding incident between Finsbury Park and 7 Sisters and a train failure at Victoria and that for period 13 was due to an access booking issue for an escalator at Warren Street and a service suspension due to train traction shoes being knocked off by rails left overnight at Northumberland Park Depot. In period 1 of 2004/05 significant items in agreed availability are a signal failure at 7 Sisters and a broken track wire at Finsbury Park, each just over £100k in abatements. The largest item in abeyance is the failure of a signalling circuit at Pimlico. The train fuse replacement plan has been completed and a number of improvement initiatives are in progress, particularly on signal assets.

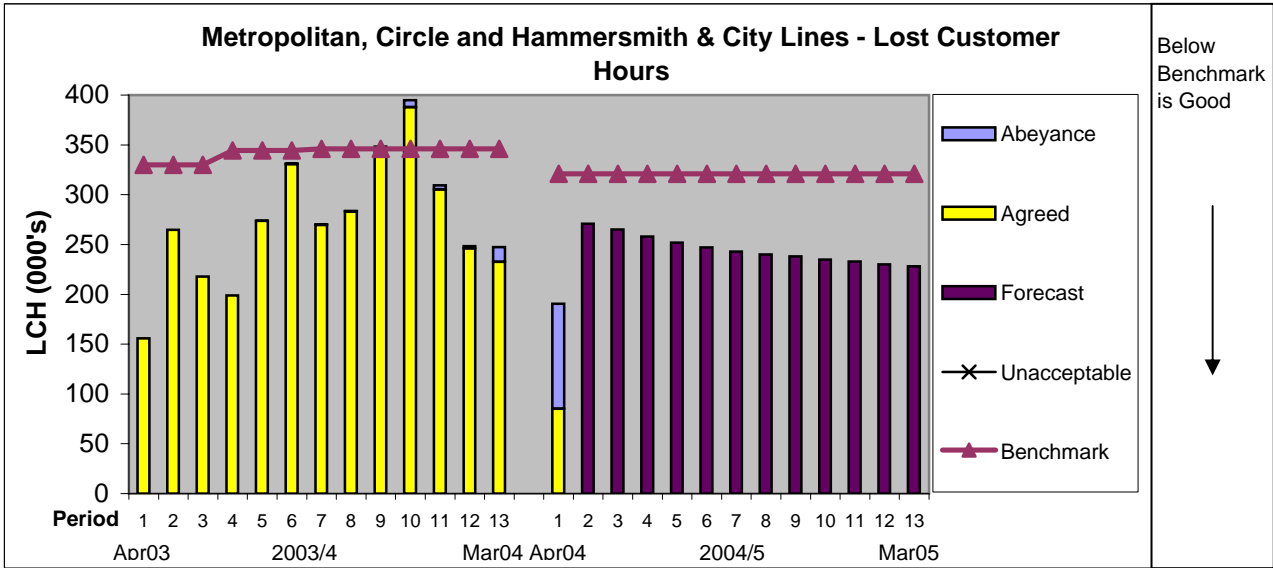


The poor performance at the start of 2003/04 was due to track defects. 2004/05 started well with a very low value of agreed availability for period 1. This arose from a single incident when a defective circuit led to a signal failure.

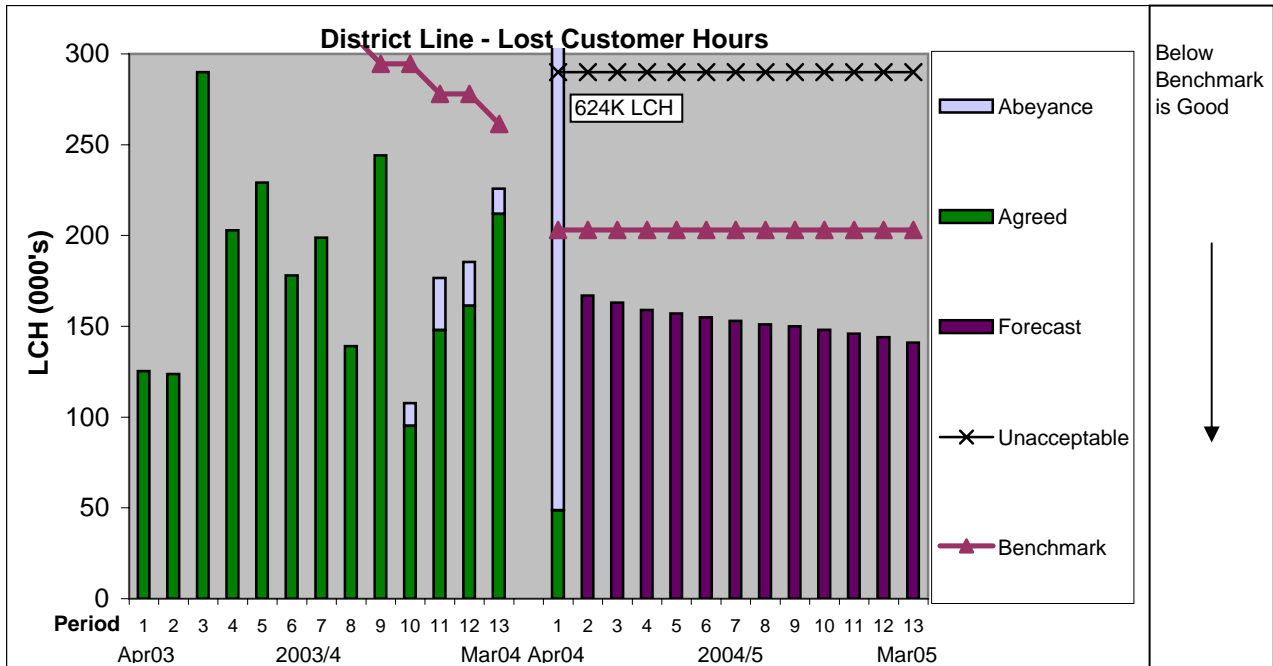


Performance last year showed a big improvement from period 5 of 2003/04 onwards. There have been no significant events in period 1.

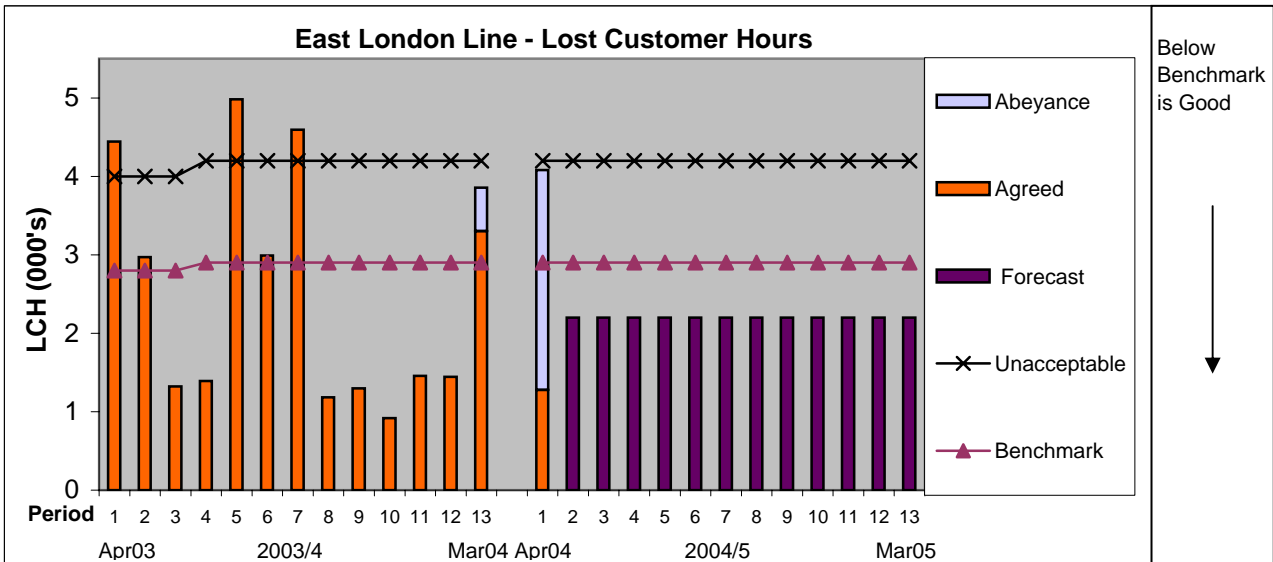
PPP PERFORMANCE - AVAILABILITY - SSL



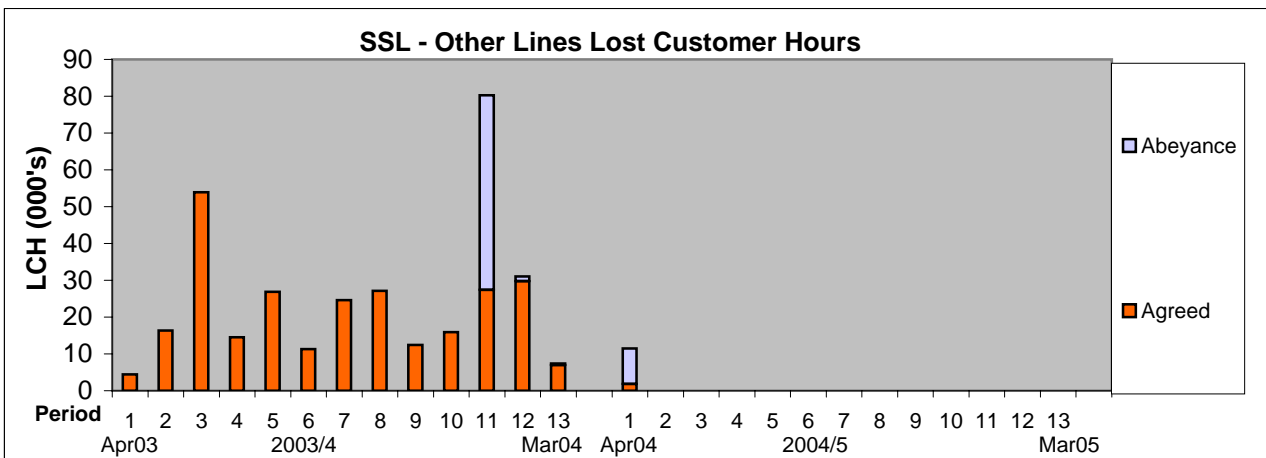
With the exception of period 10 performance in 2003/04 was better than benchmark due to good asset reliability and incident turn-around times and mitigation actions such as replacing block joints and track wires. Period 10 was worse than benchmark due in part to a number of signal failures between Baker Street and Liverpool Street. Performance for period 1 of 2004/05 is better than benchmark and has improved from period 13 due to improved train and signal reliability.



Performance for 2003/04 was better than benchmark due to reliability improvements to District Line trains and the removal of speed restrictions. The peak in period 3 was partly due to late depot start-ups, that in period 9 was largely due to a defective signal circuit at South Kensington and that in period 13 was due to a number of smaller issues mainly signalling related. The large abeyance for period 1 of 2004/05 is due to speed restrictions resulting from a defective drain at Victoria. If this is agreed to MRSSL, performance will be worse than benchmark and possibly worse than unacceptable. Benchmarks are tougher in 2004/05 reflecting the required improvement in Infracore performance.

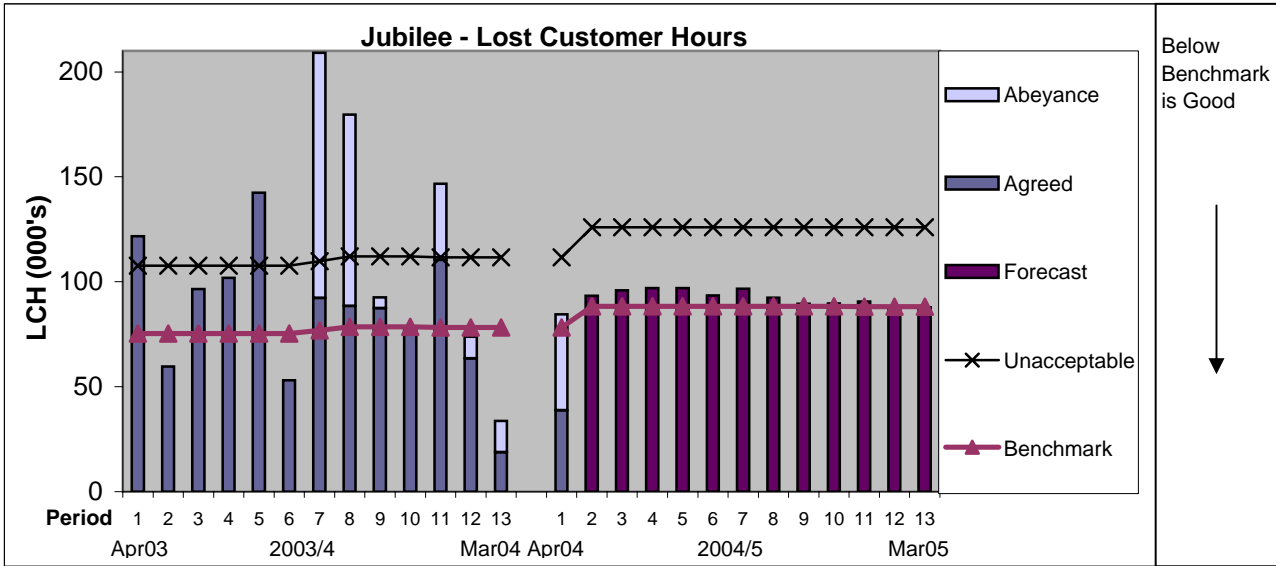


ELL is a small line with a low level of LCH, and therefore any incident tends to have a large impact on the graph above. Performance in 2003/04 was generally better than benchmark due to improved signal reliability with periods 1, 5 and 7 worse than benchmark primarily due to points failures, signal control computer faults and a faulty insulating pot respectively. Period 13 poor performance was mainly due to train defects. MRSSL's performance in period 1 of 2004/05 is likely to be worse than benchmark following attribution of abeyance items, the largest of which is a loss of signal control at Surrey Quays.

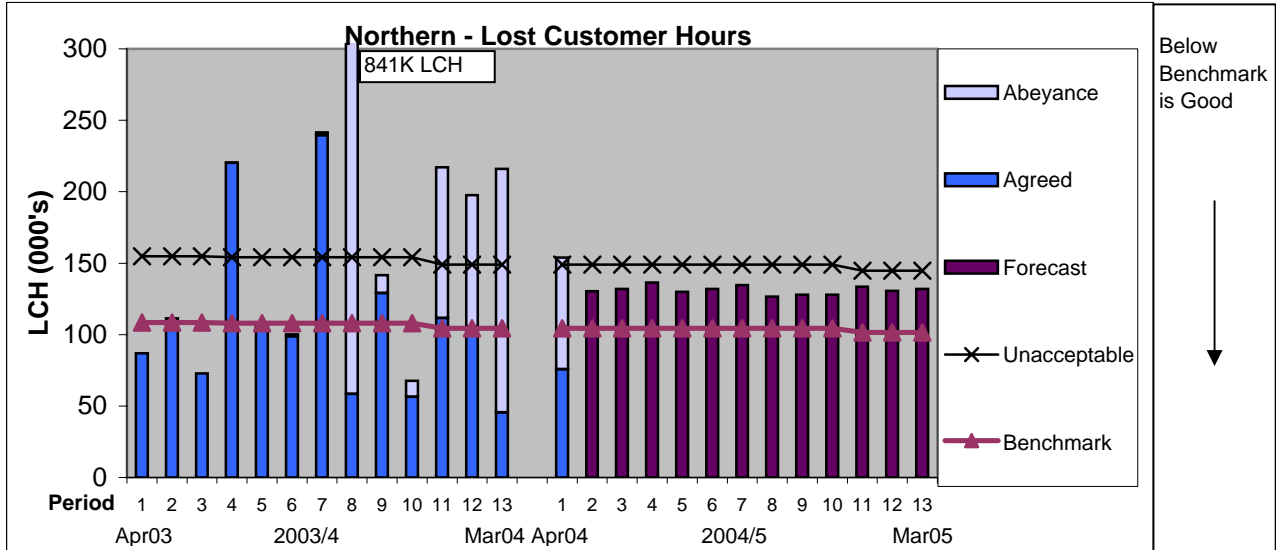


Performance in period 3 of 2003/04 was poor due to a track fault that delayed a Piccadilly Line train. The large abeyance in period 11 was largely due to Jubilee Line train cancellations caused by snow and ice-related issues at Neasden Depot. Note there is no benchmark or forecast for other lines as it is impossible to predict the full effects on BCV and JNP lines of incidents on SSL lines.

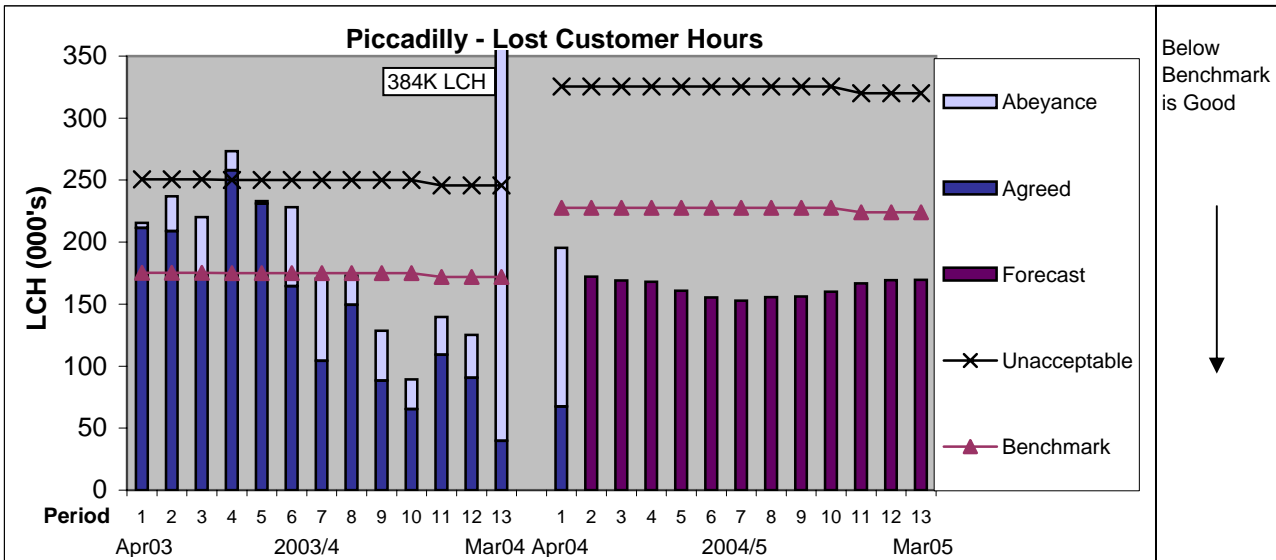
PPP PERFORMANCE - AVAILABILITY - JNP



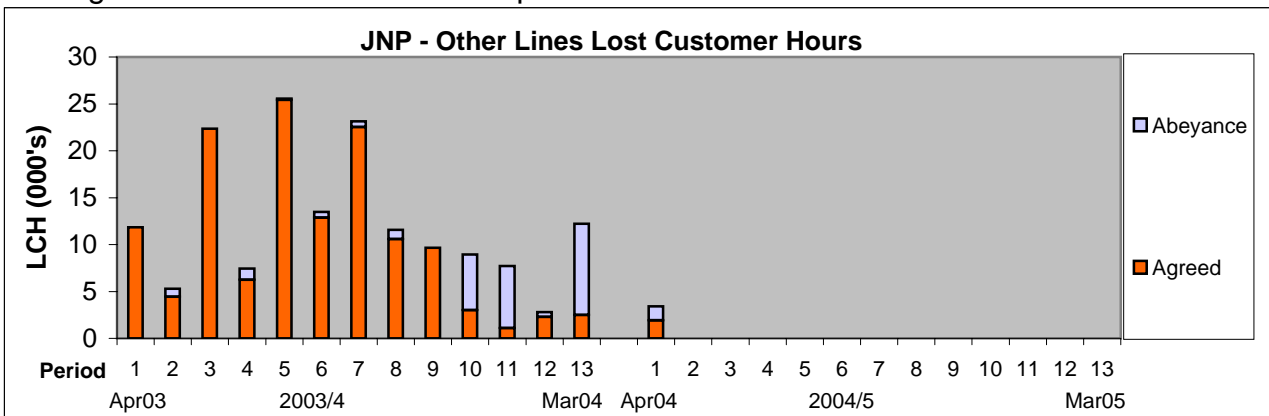
2003/04 Performance was variable, with 5 periods better than benchmark, 5 periods worse than benchmark and 3 periods (1, 5 and 11) worse than unacceptable due to signal and control system failures and winter weather disruptions. Performance in periods 7 and 8 would also be worse than unacceptable if the Green Park signalling failures (referred to Dispute Resolution) are accepted by Tube Lines. Period 1 of 2004/05 agreed performance is currently better than benchmark, the largest incident in abeyance is a signal failure at Southwark which would reduce the Tube Line bonus payment by approximately £40k. Changes to benchmark and unacceptable reflect Wembley Park adjustments.



Performance in 2003/04 was variable, with 7 periods better than benchmark, 4 periods worse than benchmark and 2 periods (4 and 7) worse than unacceptable. Agreement of the incidents currently in abeyance, including the Camden derailment (period 8, referred to Dispute Resolution), the Angel compressor failure (period 11) and a signal failure at Finchley Central (period 13) would put performance in periods 8, 11 and 13 worse than unacceptable. Period 1 of 2004/05 agreed performance is currently better than benchmark, the largest incident in abeyance being a signal failure at Mornington Crescent/Camden worth approximately £34k.

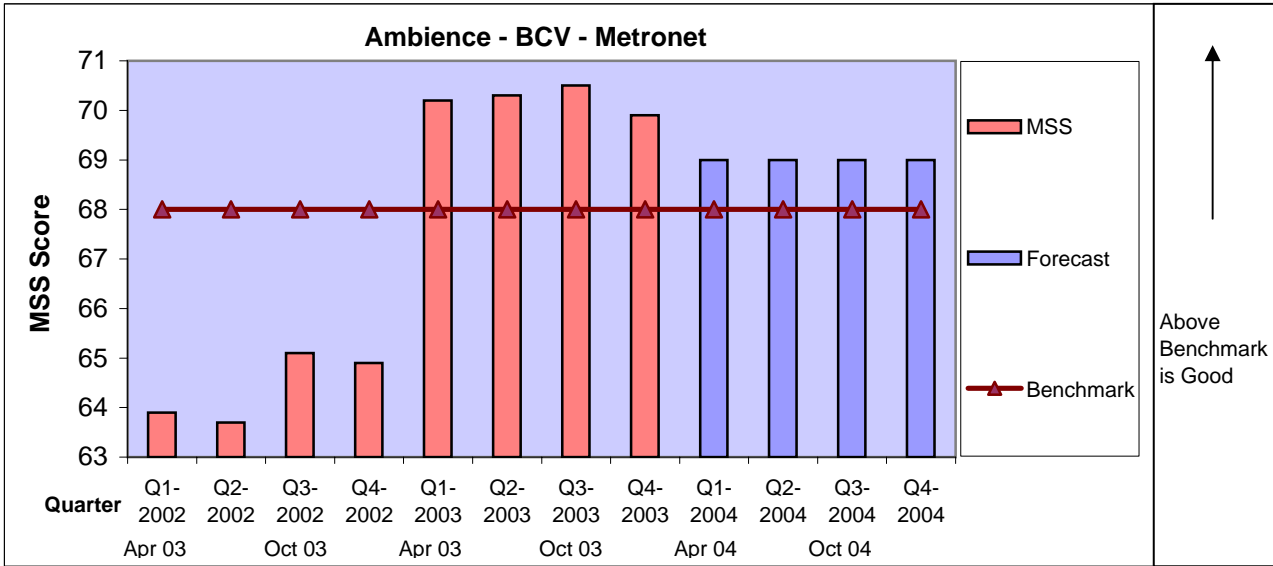


Performance for the first 6 periods of 2003/04 was worse than benchmark, with period 4 worse than unacceptable, however 6 of the last 7 periods were all better than benchmark. Period 13 of 2003/04 has some large incidents in abeyance, including signal failures at Arnos Grove and Russell Square necessitating a Special Timetable. In period 1 of 2004/05 performance has continued the recent trend and is better than benchmark. The largest incident in abeyance is a train delay at South Kensington. Changes to benchmark and unacceptable reflect axle box works.

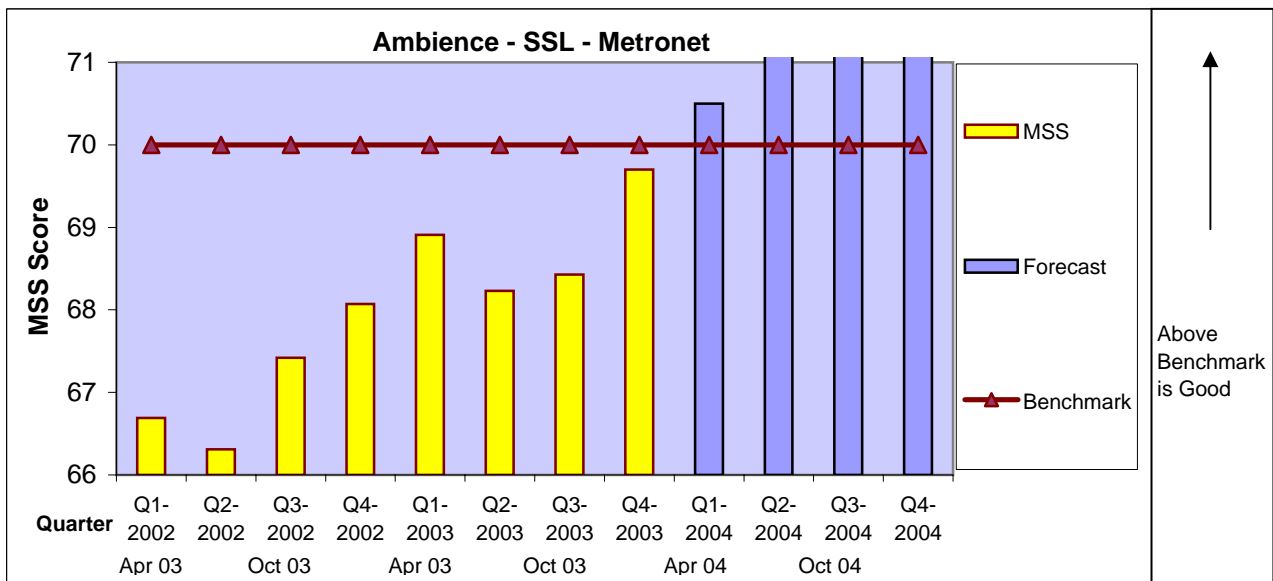


Performance generally improved throughout 2003/04. An engineering overrun at Ealing Common Depot in period 13 worth £43k in lost customer hours and a further £22k in service points is still in abeyance. Period 1 of 2004/05 performance is the best since transfer.

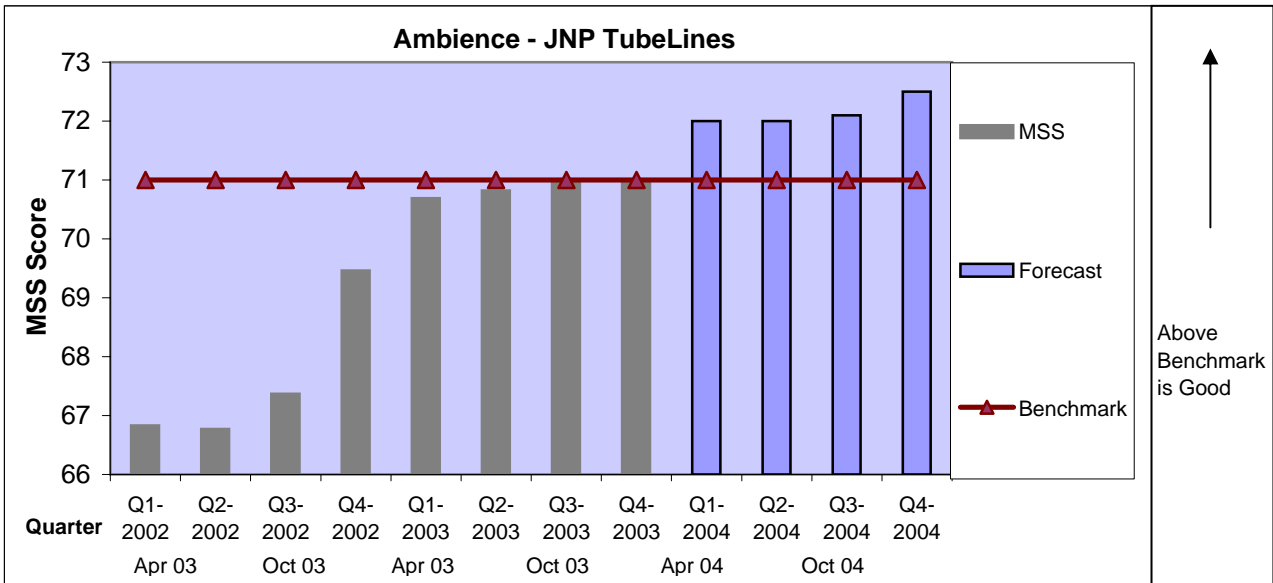
PPP PERFORMANCE - AMBIENCE



The recently published result for Q4 continued the excellent trend of better than Benchmark performance, despite a slight fall on the Bakerloo Line due to cleanliness and the Victoria Line due to signage. LU expect the scores to fall slightly going forward as Major Works at stations get underway.

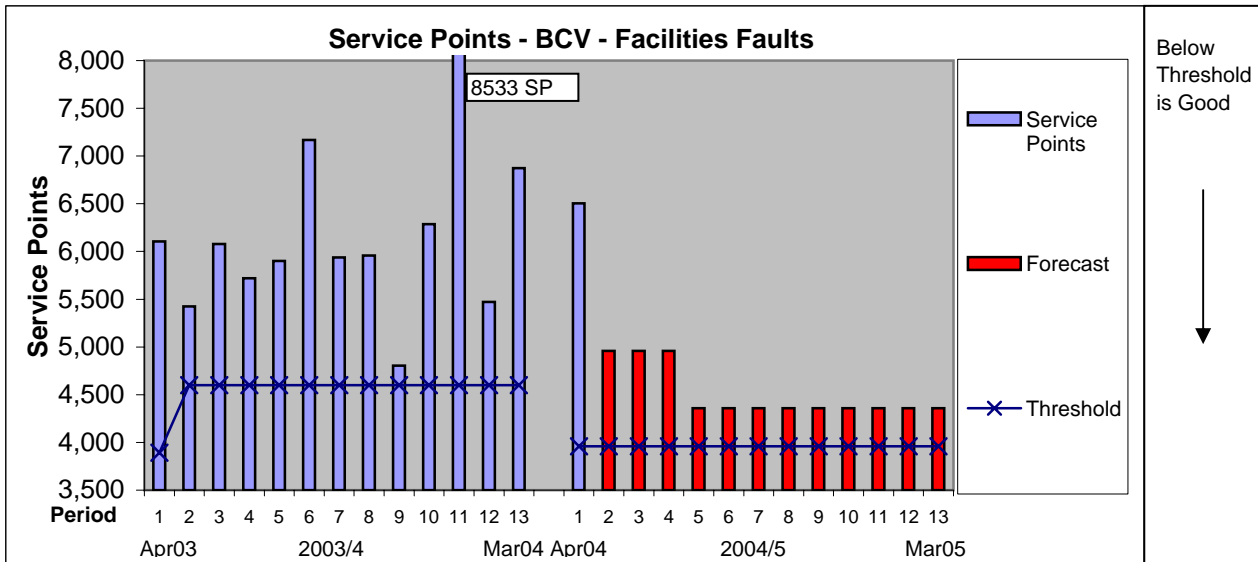


Performance for 2003/04 was worse than benchmark, largely due to graffiti on trains. The improved performance in quarter 3 is due to MRSSL's focus on trains, such as cleaning and sealing floors and new seat covers for the District Line trains. Performance in quarter 4 has improved towards benchmark due to completion of the train anti-graffiti initiatives and increased cleaning frequencies. The forecast for the year 2004/05 is based on initiatives in MRSSL's Annual Asset Management Plan.

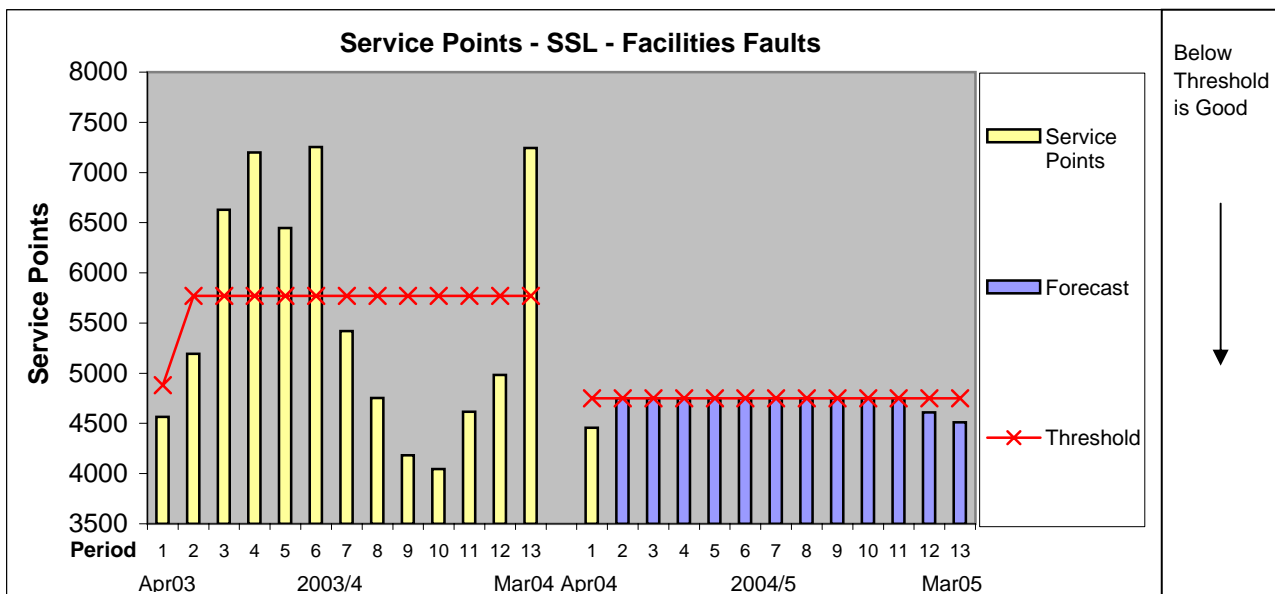


Ambience performance for 2003/04 has been worse than benchmark although there has been a gradual but continuing improvement. Quarter 4's performance has seen continued good performance on the Piccadilly Line while there have been reductions in scores for station cleanliness, graffiti and litter control on the Jubilee and Northern Lines.

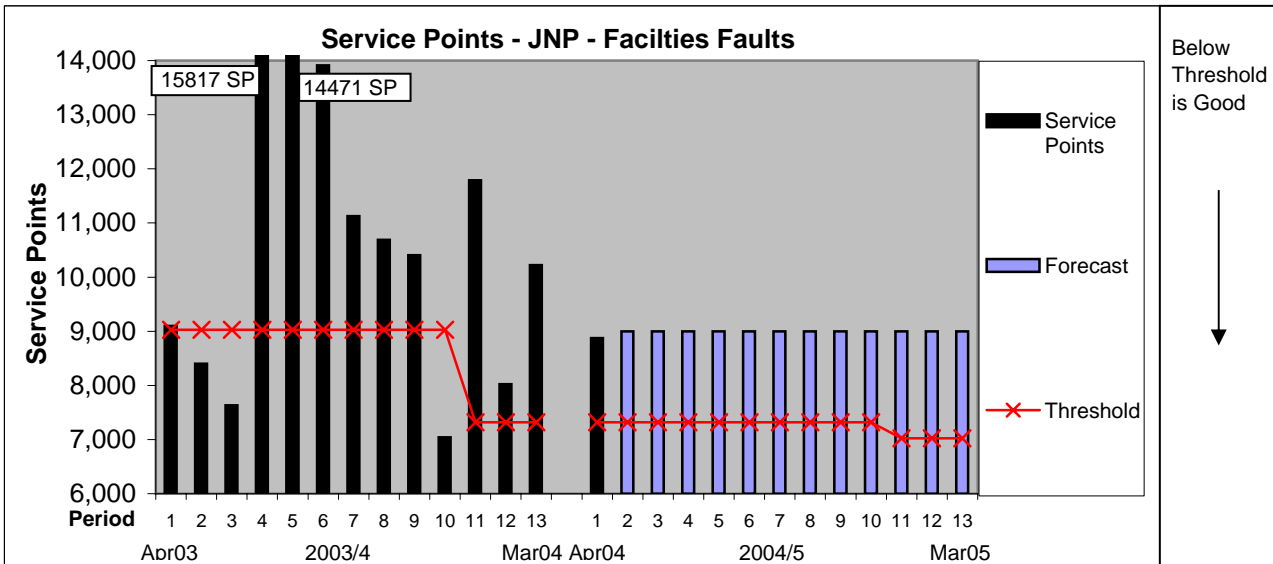
PPP PERFORMANCE - SERVICE POINTS ON FACILITIES



Performance throughout 2003/04 was worse than threshold. The performance improved slightly in period 1 of 2004/05 but remains worse than threshold. This was due to an improvement in CCTV which was however offset by a worse performance for dot matrix (time to next train) indicators. The improvement which is forecast will be delivered by increased investment in CCTV and toilet cleaning regimes. Thresholds are tougher in 2004/05 reflecting the required improvement in Infraco performance.



Performance for 2003/04 improved over the year, periods 3 to 6 being worse than threshold due to dot matrix indicator and PA faults. Performance in period 13 is worse than threshold due to an increase in CCTV faults and worse cleaning performance. Performance in this period is expected to be worse than threshold due to the level of CCTV and public address system (PA) faults. Thresholds are tougher in 2004/05 reflecting the required improvement in Infraco performance.



Performance for 2003/04 has been worse than threshold in 10 out of 13 periods. The particularly bad performance in period 6 results from large numbers of CCTV, Public Address and Dot Matrix (time to next train) indicator faults. The performance for period 1 of 2004/05 is worse than threshold with CCTV faults remaining the largest category within the total. Thresholds are tougher in 2004/05 reflecting the required improvement in Infraco performance.

TRANSPORT FOR LONDON

STAFF SUMMARY
Board Meeting

**SUBJECT: THE PICCADILLY LINE EXTENSION TO HEATHROW
TERMINAL 5 – APPROVAL TO SIGN THE PROJECT
AGREEMENT**

MEETING DATE: 23 JUNE 2004

1. INTRODUCTION

1.1 This paper:

- Outlines the Piccadilly Line Extension to Terminal 5 (PiccEx) project to meet the terms of the Terminal 5 planning approval issued by the Secretary of State in November 2001.
- Describes the proposed Project Agreement.
- Describes the financial impact and risks to London Underground Limited (LUL) of signing the Project Agreement.
- Seeks Board approval for the resolution in section 10.

Attached to this staff summary is Appendix A providing further information on Demand Scenarios.

All prices are March 2003, unless otherwise stated.

2. BACKGROUND

2.1 London Transport made representations in support of the PiccEx at the planning inquiry into BAA PLC (BAA) application to build Terminal 5 at Heathrow.

2.2 In September 1999, LUL and Heathrow Airport Limited (HAL), a wholly owned subsidiary of BAA, entered into a non-binding Heads of Terms Agreement. In November 2001, the Secretary of State approved the T5 planning application with the condition that the new terminal must be served by an extension of the Piccadilly Line before the main terminal building can open. Further proposals were then developed based around the Heads of Terms, which were approved by the September 2002 LUL T5 Board Sub-Committee.

2.3 Following the Secretary of State approval for Terminal 5, LUL and HAL jointly completed the Transport and Works Act Order for the PiccEx.

3. THE PICCEX PROJECT

- 3.1 The project will deliver an extension of the existing Piccadilly Line, 2km in length, to a dedicated station at the new Terminal 5 building. The extension will bifurcate from the current Piccadilly Line at a junction west of the current Heathrow T123 station.
- 3.2 During construction from January 2005, the T4 Loop will need to be closed for 20 months to facilitate safe construction of the junction connecting the new PiccEx tunnels to the existing tunnels. During this period, all trains will go direct to Heathrow Terminal 123 station and services to Terminal 4 station will be suspended. During the suspension of service to Terminal 4 station, HAL have an obligation to provide a rail replacement bus service between Hatton Cross and Heathrow Terminal 4 at their cost. The bus service will comply with the requirements of the Disability Discrimination Act and will have additional capacity for luggage. Both LUL and HAL are committed to maintaining customer service and are jointly planning all requirements for the closure.
- 3.3 The PiccEx station will be fully integrated within the terminal building, providing a high quality transport interchange between air services and the Underground, along with interchange opportunities to other modes. PiccEx will provide fully integrated, step free journeys between all passenger levels at Terminal 5 and the Underground network. The station will be operated by Heathrow Express Operating Company which currently provides station services for Heathrow Express. All LUL services within the station will be constructed and maintained to an equivalent level as the Heathrow Express services.
- 3.4 Following opening of PiccEx, planned for April 2008 when Terminal 5 will open, Piccadilly Line services to Heathrow will be split. The Terminal 4 service will continue to operate around the T4 Loop serving the Terminal 4 station and returning to London via Terminal 123 station (north platform). The Terminal 5 service will operate directly to Terminal 123 station (south platform) without going around the T4 Loop, then onto Terminal 5 station where the service will reverse and return to London via Terminal 5 and Terminal 123 station (north platform). The precise split of service will be determined closer to the opening date by LUL, following liaison with HAL around detailed Terminal planning. The revised operating arrangement will create an opportunity for passengers whose destination is T123 to reduce their journey time by travelling directly to T123 on the T5 service.
- 3.5 The PiccEx has been tested against various demand scenarios and compared to current BAA forecasts to ensure the existing Piccadilly Line service can manage the additional demand generated by Terminal 5. The results show that the Piccadilly line is not adversely impacted by any perceived demand scenario, including the latest demand forecasts recently discussed with BAA. Further details of the analysis is included in Appendix A.
- 3.6 The potential impacts of the proposed CrossRail project on PiccEx demand have also been considered. Analysis has concluded that CrossRail has only a relatively small impact on PiccEx demand, due to the fact it serves a different geographical market. Appendix A provides further details of this analysis.

3.7 The PiccEx provides an opportunity for LUL to be an integral part of a major gateway to London with the resultant increased worldwide exposure of LUL and TfL services. The project will increase the public transport mode share for both air passengers and staff travelling to and from the airport, reducing dependence on the car, and therefore easing road congestion.

4. PROPOSAL

4.1 It is proposed that the Board approve the resolution in section 10, in order that LUL can enter into the Project Agreement with HAL. It is planned that the final Project Agreement documentation will be complete by the time the proposal is reviewed by the Board, with the parties currently undertaking final checks of the documentation.

4.2 The Project Agreement offers favourable terms to LUL which have been extensively negotiated resulting in significant Value for Money and a forecast neutral cash flow impact, and are unlikely to be bettered by prolonging negotiations any further. This proposal is also in line with the Secretary of State T5 planning condition, placing a requirement on the extension of the Piccadilly Line to the new Terminal 5 building before it can open for public use. Failure to enter into this Agreement would almost certainly result in BAA lobbying government, claiming LUL were acting unreasonably.

4.3 The key elements of the proposal can be summarised by the following:

- HAL will fund and carry out the design and construction of the Piccadilly Line Extension according to LUL's requirements.
- HAL will have responsibility for compliance with HMRI, LUL standards and other applicable statutory and safety requirements.
- LUL will procure certain of the PiccEx Works, the "**LUL Works**", on behalf of HAL from its existing PPP/PFI contractors, for which HAL will reimburse LUL (HAL costs of approximately £59m). HAL will retain overall risk for the delivery and integration of the LUL Works, along with integration of all other assets to the Piccadilly Line.
- LUL's liability to HAL for any breach arising from the LUL Works is limited to the overall £5 million limit on liability within the Project Agreement. The only exception to this is where LUL receives monies following a successful claim against the PFI/PPP.
- LUL will fund certain elements of signalling upgrade on the existing Piccadilly Line up to a cap of £4 million, and initial start-up costs relating primarily to customer information (although HAL will contribute 50% of these start-up costs up to £1.2 million).
- BAA will guarantee the design and construction obligations of HAL under the Project Agreement. The guarantee remains in force until the expiry of twelve years from opening for revenue service and is only in respect of obligations that arise in the Design and Construction Phase of the Agreement.

- In the operations phase LUL will pay for and be responsible for the carrying out of maintenance of the non-station railway assets. HAL will be responsible for the maintenance of the station, station ventilation, reversing sidings civil build and cut and cover tunnel structures, at their cost, for the duration of the Project Agreement.
- Upon opening LUL will be granted two leases in accordance with the terms of an Agreement for Lease. The leases are for 999 years and provide for station and tunnel access following the commencement of revenue service.
- HAL will operate the LUL station at Terminal 5, including the provision of a ticketing system compatible with LUL's existing ticketing system, including Smartcards. Operations at the station will be governed by a performance regime, which is set out in a schedule to the Project Agreement.
- LUL will share a percentage of the incremental revenue it receives with HAL for a fixed period of 30 years. The basis of this payment will be that for demand up to the forecast level LUL will share its incremental revenue less LUL forecast operating costs less contingency. Should demand be greater LUL shares a much reduced percentage with HAL.
- Following the conclusion of the Project Agreement, LUL will be relieved from the revenue share. The operating arrangements at the station will remain and LUL will agree a station access charge with HAL for the T5 station according to a lease agreement.
- On signature of the Project Agreement, HAL will make an additional contribution of £17m (January 2003 prices) for general improvements to the Piccadilly Line in the Heathrow area and for any potential tax liability for Stamp Duty. It is planned to use this for the refurbishment of T123 to reduce congestion and bring it up to modern standards.

A legal overview of the Project Agreement is available from the Secretariat.

5. OUTSTANDING ISSUES

LUL Works

- 5.1 It is anticipated that the contractual arrangements (Specified Right and Variations) for the LUL Works will not be finalised until after the Project Agreement is signed. Agreements for the LUL Works will therefore be conditions precedent to the Project Agreement. LUL will enter into these arrangements once final positions have been reached with each of the contractors, to the satisfaction of the Managing Director Underground. The PPP and PFI contractors are already undertaking some activities in relation to the LUL Works to facilitate meeting HAL's construction programme. This will continue and will include the letting of certain key sub contracts by LUL's PFI/PPP contractors prior to the main arrangements being entered into. LUL are fully indemnified by HAL for all associated costs.

If the conditions precedent have not been satisfied by November 2004 e.g. were LUL unable to negotiate acceptable commercial terms with the PPP/PFI contractors, the Project Agreement expires and LUL's costs in relation to the LUL Works will be met by HAL.

Secretary of State Consent

- 5.2 The Greater London Authority Act 1999, requires TfL to obtain the consent of the Secretary of State before it, or any of its subsidiaries, enters in an agreement where a contractor provides a “reserved service” which includes “any station operating function”. As HAL will be selling tickets and operating the station, consent of the Secretary of State will be required. This issue has been discussed with the Department of Transport and appropriate consents have been drawn up. The Resolution to sign the Project Agreement is based on these consents being given.

Balance sheet treatment

- 5.3 LUL's auditors KPMG will confirm the accounting treatment of the Project Agreement. The current draft indicates that the project will be an off-balance sheet transaction.

6. KEY FINANCIAL IMPLICATIONS

Construction

- 6.1 LUL's obligations and risk are funded from the Group Budget and Business Plan up to 2008/09 (UIP8791), which includes £18.52 million for the following;
- Tube Lines Support Costs - the cost of Tube Lines supporting the project in addition to their LUL Works. This primarily includes design review and assurance for assets designed and constructed by HAL that will, later be adopted by Tube Lines.
 - T4 Loop Closure - LUL's own cost in organising the T4 Loop Closure i.e. timetables, driver retraining and publicity.
 - Control Upgrade - the contribution made by LUL to the upgrade of the existing Piccadilly Line signalling to support the extension.
 - LUL additional support costs-any external support required to support LUL's obligations, for example, Chief Engineers Directorate procuring specialist resource to assure a specific design.
 - LUL start up costs for passenger information modifications (HAL contribute up to £1.2 million towards LUL costs).
 - Risk-LUL's risk contingency for the project.
- 6.2 The Group Budget and Business Plan 2007/08 (UIP8301) includes a provision to facilitate the procurement of the LUL Works on behalf of HAL. The estimated cost of the LUL Works is £59.08 million (including forecast contingency and risk), although the net cost to LUL will be zero. Tripartite discussions continue with the PFI/PPP Contractors, HAL and LUL on final cost estimates.
- 6.3 During the Design and Construction phase LUL will have an operating cost budgeted of £1 million per annum for the contract management team, which is included within the LUL Chief Programmes Office operating budget.

- 6.4 LUL leases the T4 Station from HAL. During the T4 Loop Closure HAL has agreed to a 50% reduction on the lease payment estimated at £1 million to compensate for reduction in LUL revenue. During the T4 loop closure HAL will also provide and fund a replacement bus service between Hatton Cross and Terminal 4.

Operating Costs

- 6.5 Following the completion of PiccEx, LUL will be required to adopt the non-Station railway assets (HAL also retain station ventilation, reversing siding civil build, T4 Junction civil build and all cut and cover structures) for operations and maintenance at an estimated cost of £1.96 million/annum including contingency. A range of measures have been included in the Project Agreement to mitigate adoption risk.
- 6.6 Once PiccEx is in passenger service LUL will make payments to HAL according to the revenue share payment mechanism, this is estimated at £123.5 million PV¹ over 30 years. After a demand build up to 2017/18 the payment is forecast at £8.7 million/annum. Payments to HAL increase each year by RPI from the Q1/2003 base, so real fare changes outside of RPI will result in the changes to the forecast neutral cash flow.
- 6.7 It is forecast the additional revenue from T5 will be £154.18 million PV (based on £2.60 per passenger), sufficient to fund the operating costs and the payment to HAL. The Project Agreement is forecast to have a neutral impact on cashflow for the operations phase, when comparing revenue received against payments to HAL under the revenue share and operating costs. The deal is structured to ensure that LUL's Gross Margin excluding fixed costs is robust under different levels of demand generated by the T5 development. For levels of demand generated by wider economic issues, LUL's Gross Margin benefits in all circumstances compared to the no T5 scenario.
- 6.8 The Gross Margin analysis assumes a step-up in demand for all LUL's Heathrow services upon the opening of PiccEx due to the additional passengers of PiccEx. However, some of this T5 demand will be experienced ahead of opening in 2008 because airlines have chosen to remain at Heathrow, instead of moving to other airports, in anticipation of T5 opening. This 'anticipated demand' is due to the airlines and the airport squeezing capacity at Heathrow in advance of T5. The effect of this is that LUL will receive additional revenue attributable to the opening of T5 several years ahead of PiccEx actually opening.
- 6.9 Following the expiry of the Project Agreement, LUL will agree a service payment with HAL who will continue to maintain and operate the T5 station in the same manner. The arrangements for this stage, including the basis for service and service payment is detailed in the lease documents. HAL have indicated that these costs will average £3 million per annum, therefore based on forecast demand PiccEx will make a contribution to LUL's income post 2038.

¹ Uses 3.5% discount rate - Equates to £80.2m using 6% discount Rate.

Business Commentary

- 6.10 The benefit costs ratio is 2.6:1 in the Mid Demand scenario. The procurement mechanism generates value for money in the forecast demand scenario, which is maintained in all other demand scenarios tested. This is due to the fact that LUL are contributing only a share of revenue generated towards the HAL capital construction and station operating and maintenance costs.

7. Risk Assessment

- 7.1 A risk register was presented to the LUL PFI Risk Review meeting on 16 February 2004, and approved as an accurate representation of the risk retained by LUL at signature of the Project Agreement. The expected value of risk for this project is evaluated at £7.87 million across 2004/05-2008/09. Mitigation plans are being further developed for each of the risks to reduce the probability and/or impact of each risk.

- 7.2 The top five risks are;

- LUL is not risk free in relation to the LUL Works because it must exercise its rights under the PPP and PFI contracts (e.g. in relation to poor performance) with reasonable skill and care. If HAL can show LUL has not done this LUL may incur liability, albeit capped.
- Failure or delay to receive payment from HAL for LUL works or associated contractor claims.
- Variation to LUL's specification to HAL due to emerging business requirement resulting in a discretionary variation (ie. at LUL's cost) under the Project Agreement.
- HAL claim for LUL stakeholders that act unreasonably in reviewing HAL designs during design review and Works Plant and Equipment (Her Majesties Railway Inspectorate) approval process.
- Higher than budgeted cost (£3 million) for contribution to the signalling upgrade on the existing Piccadilly Line (albeit this risk is capped at £1 million).

- 7.3 In considering the magnitude of risk, LUL has in general terms a capped liability of £5m for contractual breach with additional liability in relation to PFI/PPP contracts limited to that which is actually recovered from the PFI/PPP contractors.

- 7.4 Risks around demand have been considered in the analysis undertaken outlined in section 3.5 and 3.6 and are relatively small. The Project Agreement further mitigates the financial impact of demand risk by LUL only having an obligation to pay HAL for actual usage and by incurring no minimum payment.

8. SAFETY

- 8.1 To facilitate the construction and opening to revenue service of the PiccEx, the Piccadilly Line Heathrow area needs to change operations in several stages. Those stages are:
- Stage 1: Closure of the T4 loop to facilitate the construction of the PiccEx Junction, when the train service will run direct to T123.

- Stage 2 : Re-opening of the T4 loop without the PiccEx, when the train service will resume to Terminal 4.
- Stage 3 : Trial operations of the PiccEx and opening to revenue service, when the split train service commence.

8.2 The split for safety responsibility between HAL and LUL for the Construction Design Management Regulations is clearly defined within the Project Agreement. LUL take Client responsibility for the operational railway and HAL take Client responsibility for the construction site.

8.3 A safety case plan has been developed to detail the requirements for HAL to assist LUL in obtaining the amended operating safety case. In this plan, the case for safety submissions are identified with the programme dates that these approvals are required.

9. RECOMMENDATION

The Board is asked to approve the resolution at section 10.

10. RESOLUTION

That the Board:

1. Approve the contents of the Project Agreement, Parent Company Guarantee and the Agreement for Lease (an overview of the Project Agreement is available from the Secretariat), subject to such additions, deletions or amendments as may be authorised by the Commissioner or the Managing Director Finance and Planning.
2. Agree, subject to the consent of the Secretary of State having been obtained pursuant to Section 207 of the Greater London Authority Act 1999:
 - i) that the Commissioner or in his absence the Managing Director Finance and Planning shall have delegated authority on behalf of TfL to permit execution by London Underground Limited via any one of its company directors, LUL company secretary or LUL Head of Legal Services to sign and/or seal and deliver on behalf of London Underground Limited the Project Agreement, Parent Company Guarantee and the Agreement for Lease (including any additions, deletions or amendments as may have been authorised by the Commissioner or the Managing Director Finance and Planning in accordance with Resolution 1 above)
 - ii) that the Commissioner or the Managing Director Finance and Planning shall authorise London Underground Limited to do all such further things necessary in connection with completing the Project Agreement and authorise LUL to sign and/or seal such further documents including contracts as are required in connection with the documents referred to above.
3. Approve and release funds from the Group Budget and Business Plan UIP 8791 to the value of £18.52 million across 2004/05 to 2008/09. Further release funds from UIP 8301 to a value of £59.08 million across 2004/05 to 2008/09, fully reimbursable by HAL.

Appendix A

PiccEx Demand Scenarios

1. Introduction

- 1.1. This appendix outlines key demand issues regarding the Piccadilly line extension to Heathrow Terminal 5 (PiccEx).

2. What is the forecast demand for the PiccEx?

- 2.1. Currently 9.6 million passengers per annum (mppa) use the Piccadilly Line to travel to Heathrow, which handles approximately 65 mppa (2003).
- 2.2. Throughput at Heathrow has continued to grow substantially since 1991, with the only year to counter this trend being 2001 (attributed to September-11). Terminal 5, when at full capacity, will be larger than Gatwick airport with a design capacity of up to 35-40 mppa. BAA's current 10-year forecast for all of Heathrow with T5 is 87 mppa, with an end-state forecast of 95 mppa. The figure presented at the Planning Inquiry assumed usage to reach 90 mppa. [CHART-1]
- 2.3. BAA have also indicated that, if runway inter-operability is approved and the terminals can cope, airport capacity could reach up to a maximum 115 mppa in the long-term end state.
- 2.4. Several PiccEx demand scenarios - from low to very high - have been tested to reflect varying economic conditions; varying fare levels on Heathrow Express; new rail services including CrossRail and demand for air services at Heathrow. As an indication, these macro-economic drivers of demand are grouped into a Heathrow Airport usage figure. The very high demand scenario assumes airport usage in excess of 120 mppa, far higher than BAA's forecast maximum achievable design capacity, and therefore proves a valid test for a 'worst case' demand impact on the Piccadilly line. [CHART-2]
- 2.5. The MoU (Memorandum of Understanding) represents the forecast that underpins the T5 deal, which equates to around 4.2 mppa travelling on the PiccEx by 2016. This assumes Heathrow airport provides a capacity of 90 mppa. Prior to the introduction of Heathrow Express in 1998, the Piccadilly line traffic was some way above current levels. In fact the forecast demand on the Piccadilly line post-T5 would be no higher than these historic levels. [CHART-1]

3. What will be the Impact on the Piccadilly Line?

- 3.1. This section confirms that the additional demand attributed to Terminal 5 would not adversely impact on the Piccadilly Line. LU undertook substantial analyses to study the impacts of Terminal 5 on the Piccadilly line for the Public Inquiry in 1997 and demonstrated that T5 would not adversely impact on the Piccadilly line. This work has been reviewed and updated in the last year. The key factors are explained below.
- 3.2. Heathrow traffic is spread throughout the day and is not concentrated during the AM or PM peaks. Peak demand from Heathrow occurs between 1400 and 1600 when the Piccadilly line is relatively lightly used. During the Eastbound morning peak around 600 customers per hour board at Heathrow, a fraction of the total train capacity. [CHART-3]. The Westbound PM Piccadilly line peak more closely coincides with peak arrivals at Heathrow, though this peak is much less concentrated. [CHART-4]
- 3.3. Although there are high levels of usage on the Piccadilly line during the peak hour, T5 will only lead to a small increase in usage, even in very high demand scenario, which is equivalent to Heathrow airport operating at above 120 mppa. The difference in Piccadilly line customer volumes in the AM peak hour with T5 is equivalent to an extra 2 persons per car at Acton Town (3 in the very high demand scenario) and less than 1% of total demand on the busiest Piccadilly line section between Gloucester Road and South Kensington. [CHART-5 and CHART-6]
- 3.4. Although the Piccadilly line service on the Heathrow branch is not scheduled to improve from 12tph to 15tph until the line upgrade is due in 2014, T5 is not forecast to reach its full capacity until 2016. Through all T5 demand scenarios, Piccadilly line loadings remain within the planning capacity for the line, which broadly equates to one person standing to every person sitting. [CHART-5 and CHART-6]

- 3.5. The current Piccadilly line service is split evenly between the Rayners Lane and Heathrow branches. Additional capacity could be provided but this would be at the expense of the Rayners Lane branch.
- 3.6. A significant benefit of T5 to LU, in common with current airport usage is that a large proportion of T5 customers will travel during the off-peak, providing a good source of additional revenue with no extra operating costs i.e. good utilisation of spare capacity during the off peak.

4. What is the Impact of CrossRail on the case for PiccEx?

- 4.1. PiccEx and Heathrow Express/CrossRail generally serve different geographical markets in the corridor west of London, as shown in the map in FIGURE-1.
- 4.2. The new 'Heathrow Express Connect' stopping service will be introduced in February 2005, though it is currently proposed to be replaced by CrossRail if/when it is introduced at Heathrow. CrossRail will run on a 6tph service to Paddington and central London, compared to a more frequent Piccadilly line service (of up to 15 tph). Much of the demand that will be attracted to a stopping service to London along the CrossRail route, if any, will already have switched away from LU prior to the introduction of CrossRail.
- 4.3. We also know that 50% of current demand for the Piccadilly line into central London comes from west of Earls Court, with a significant proportion coming from Hounslow alone reflecting the large volume of airport workers using the line from the local catchment area. In addition, 35% of Heathrow passengers travel to/from the area immediately east of Earls Court - Victoria and Covent Garden - where the District/Piccadilly line is much the more convenient route even with CrossRail in place. Therefore, it is not believed that CrossRail will take more than a further 5% of demand away from Piccadilly line. This view is shared by the CrossRail team. [CHART-7]

5. What is the case for PiccEx?

- 5.1. The PiccEx is a significant part of the T5 Public Transport Interchange, and will maintain LU's presence at the airport, providing direct Tube connections between all Heathrow terminals and central London. The Piccadilly line is complementary to Heathrow Express, providing a low cost and high frequency service into the heart of London with good connections and direct access to the hotel areas of Gloucester Road and Russell Square, and convenient access to Westminster and the City. The line importantly, also serves airport workers within the local catchment areas.
- 5.2. Should the Piccadilly line not serve T5, this would create confusion for existing customers and potentially impact LU use (and hence revenue) at Heathrow's other terminals, exacerbated by the long interchanges and less frequent alternative services available to/from T5.
- 5.3. The project is worthwhile in terms of social benefits and the deal represents good value for money when compared to alternative funding options. LU have undertaken substantial analyses to study the impacts of Terminal 5 on the Piccadilly line for the Public Enquiry in 1997 and have continued to review and demonstrate that T5 would not adversely impact on the Piccadilly Line.

FIGURE-1

Piccadilly Line and Hex/CrossRail Corridors

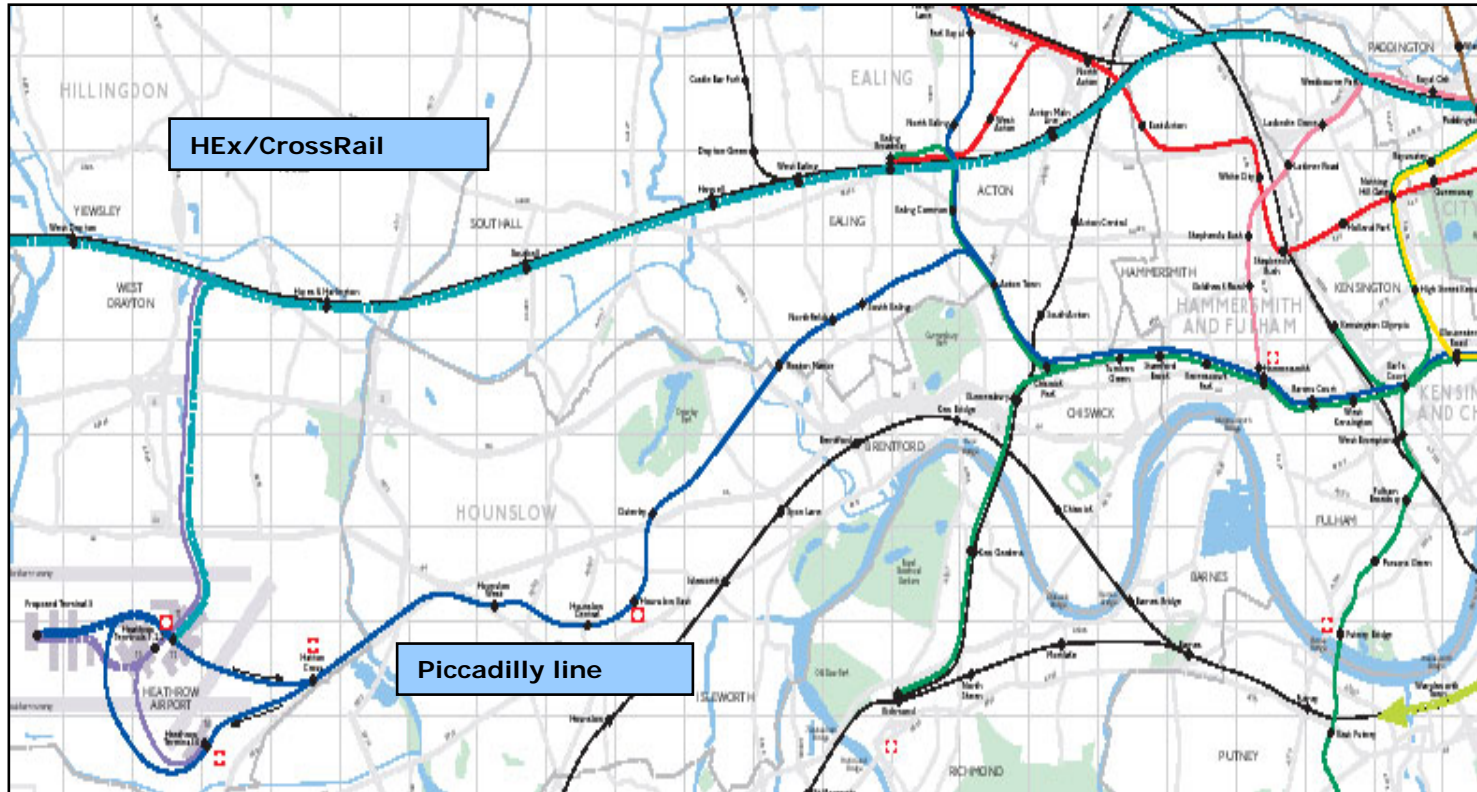


CHART-1

Annual usage at Heathrow Airport
(Actual and Forecast - BAA Figures)

Passengers (000's)

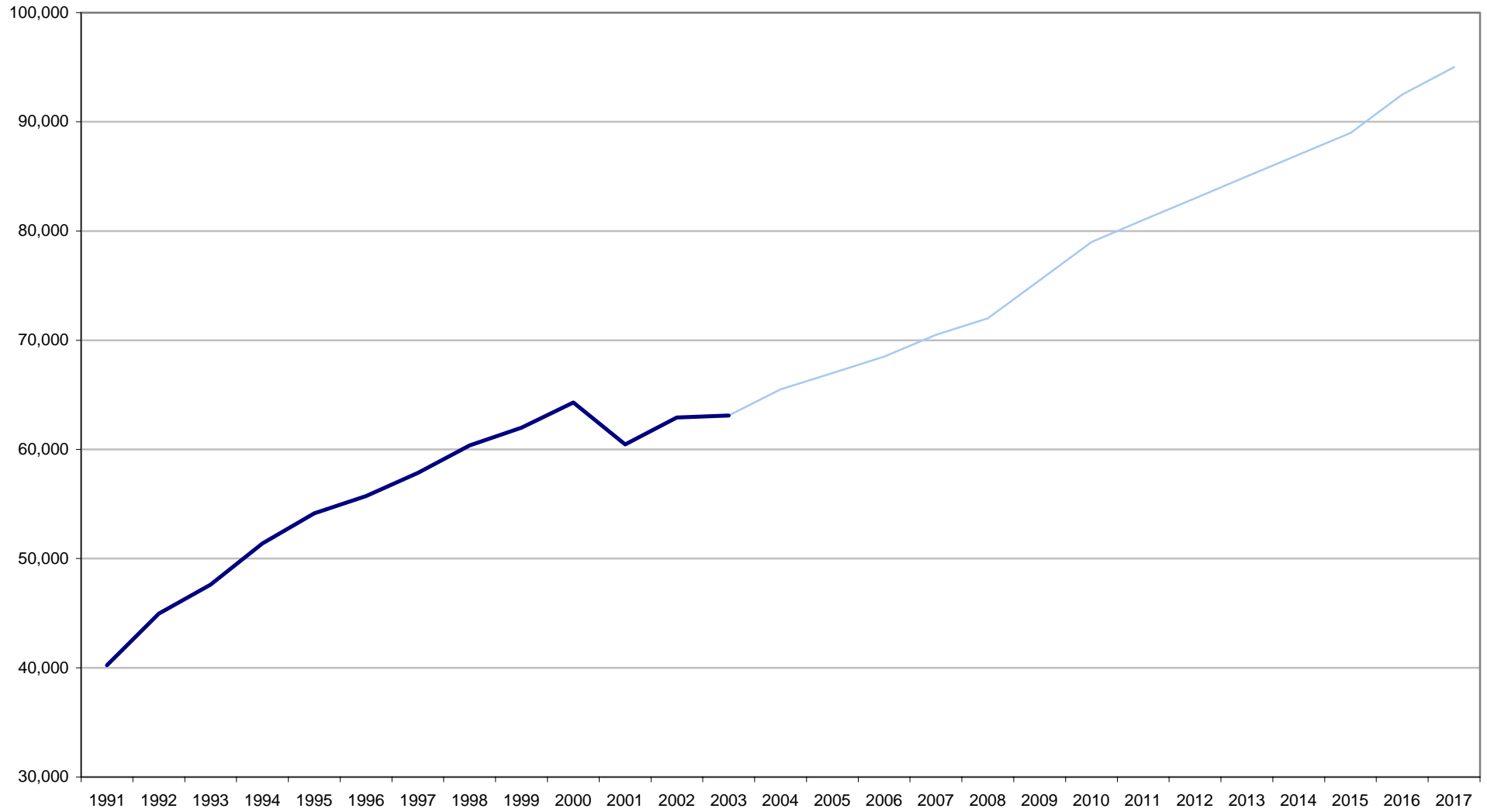


CHART-2

Annual Usage by Heathrow Piccadilly Line Stations

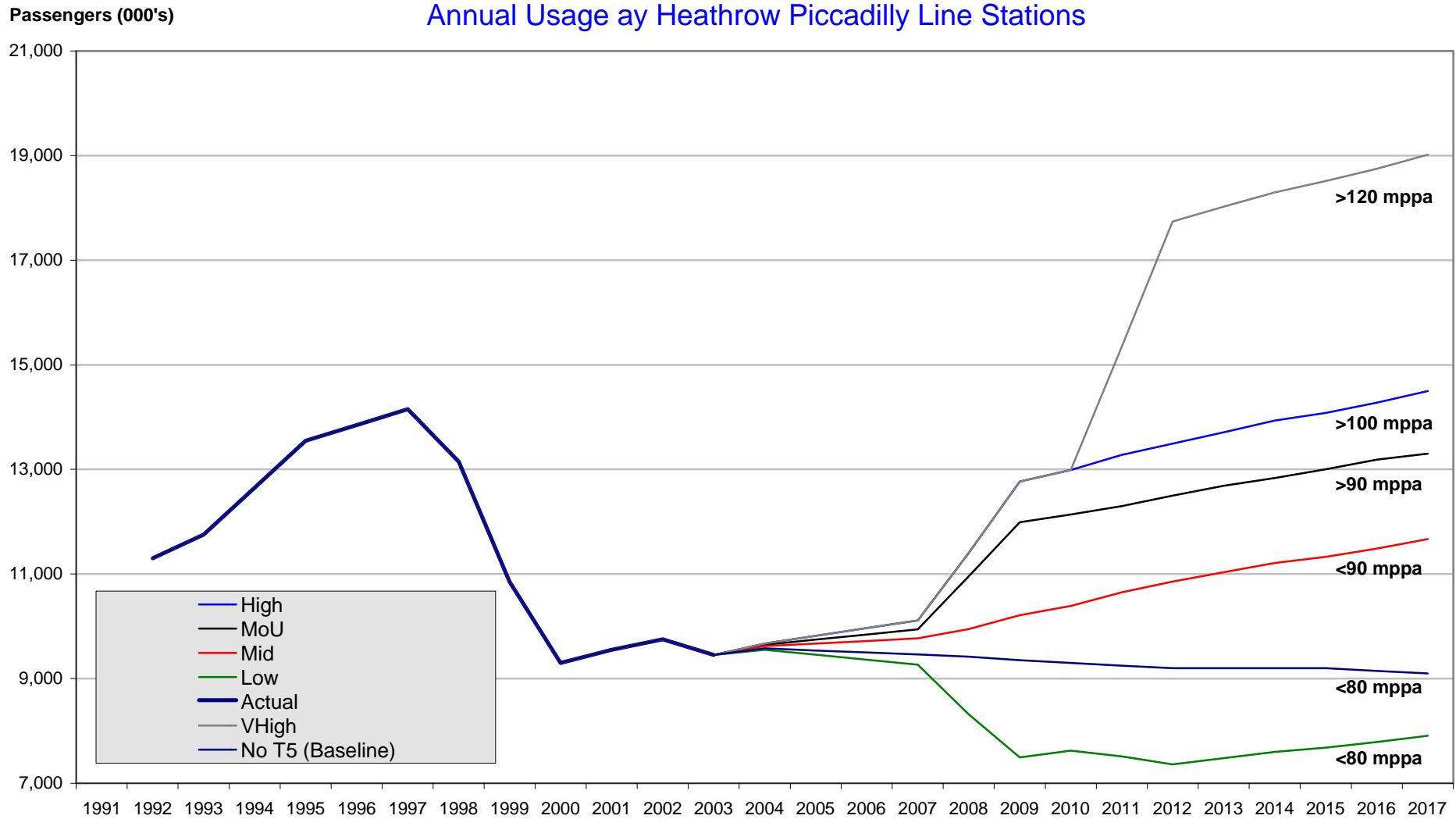


CHART-3

Piccadilly Line Eastbound

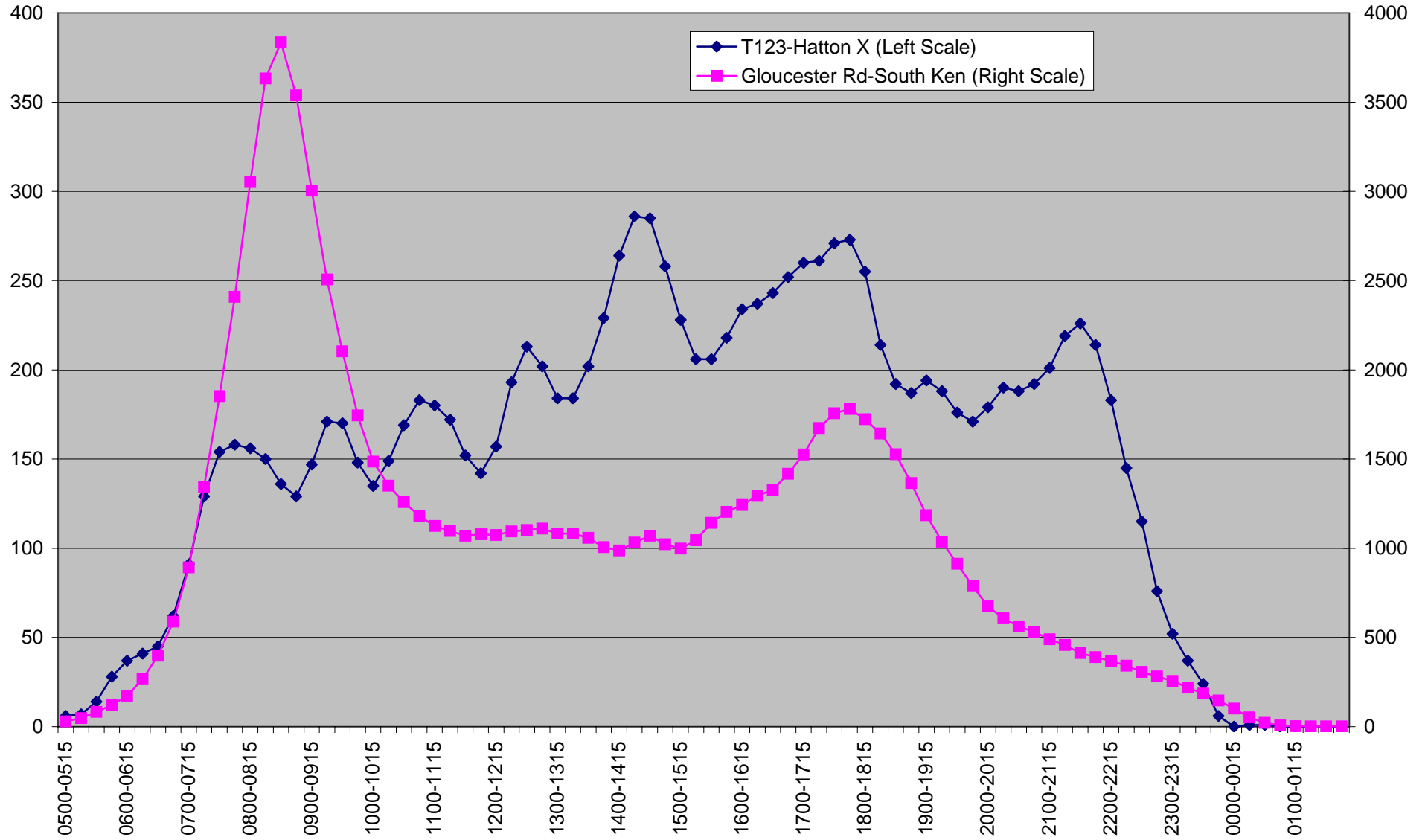


CHART-4

Piccadilly Line Westbound

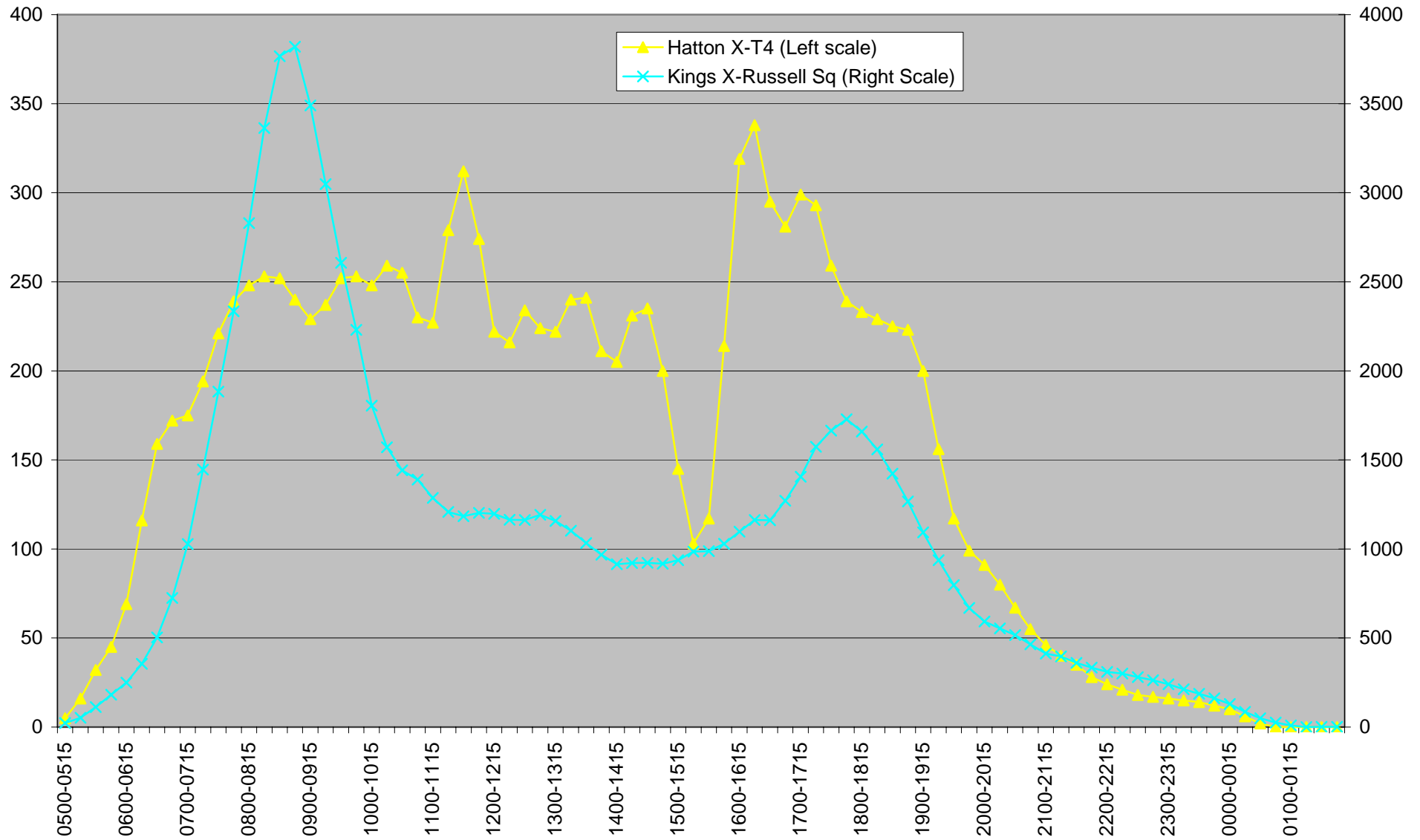


CHART-5

AM Peak Hour Piccadilly Line EB Flows - 2016

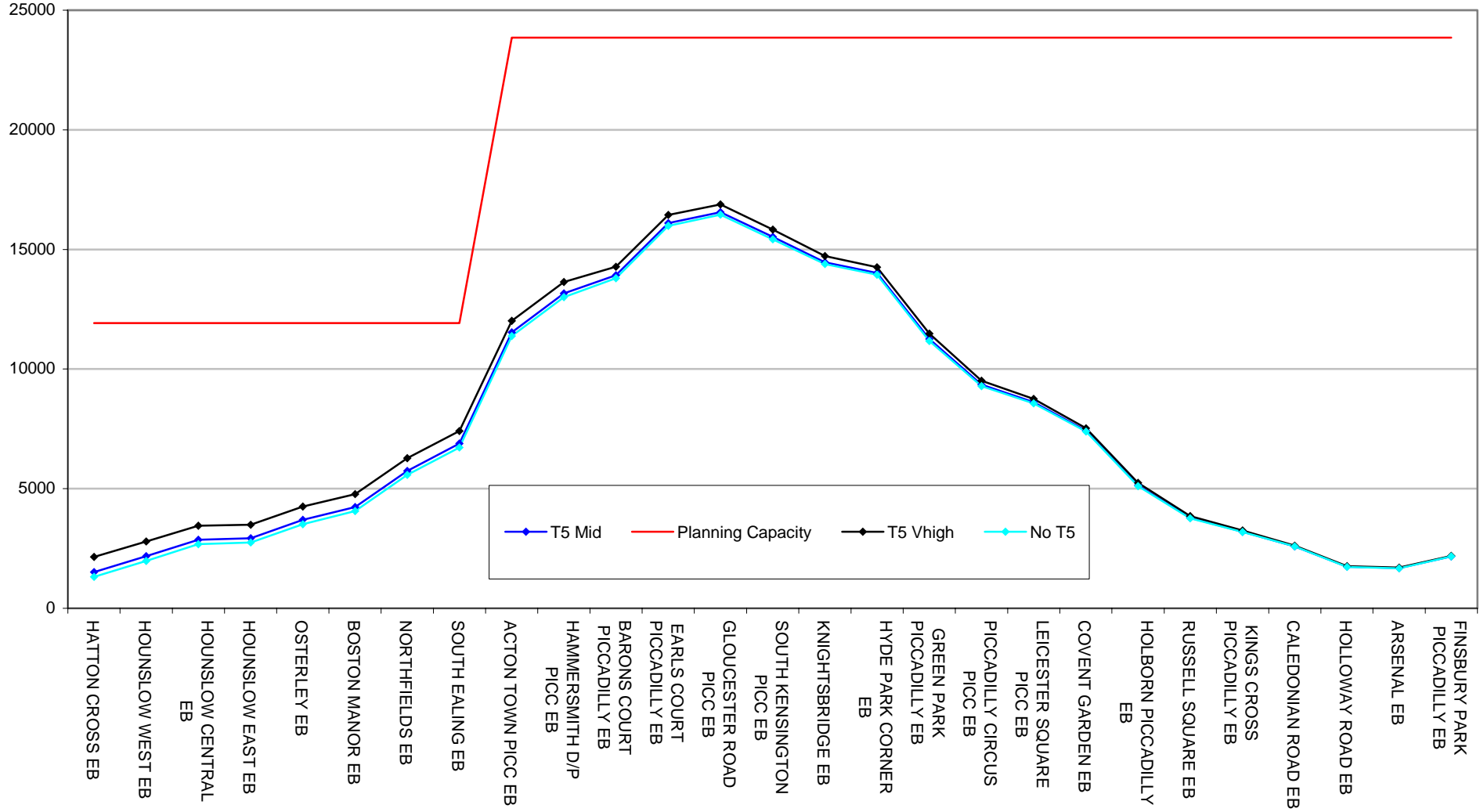


CHART-6

AM Peak Hour Piccadilly Line WB Flows - 2016

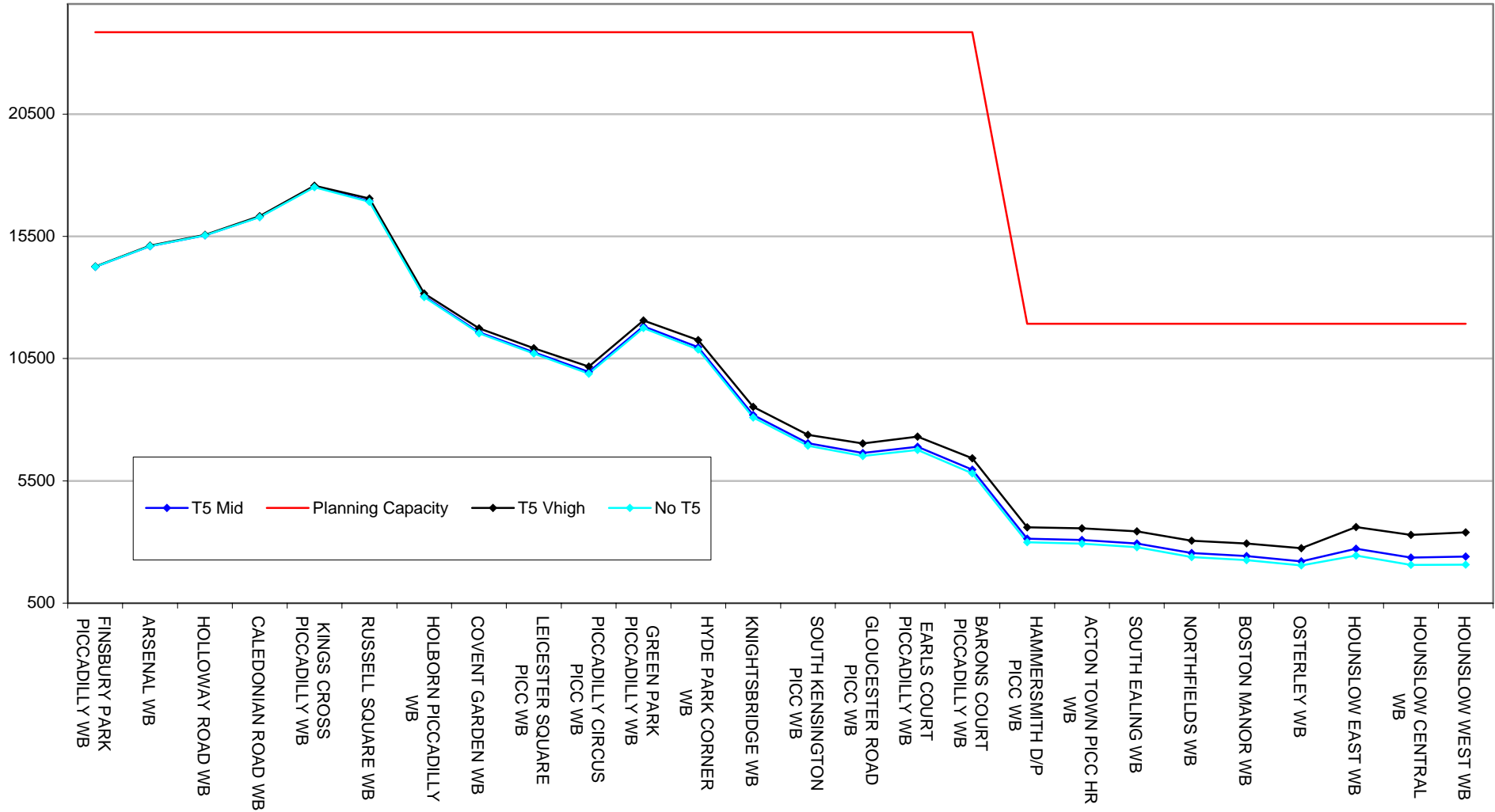
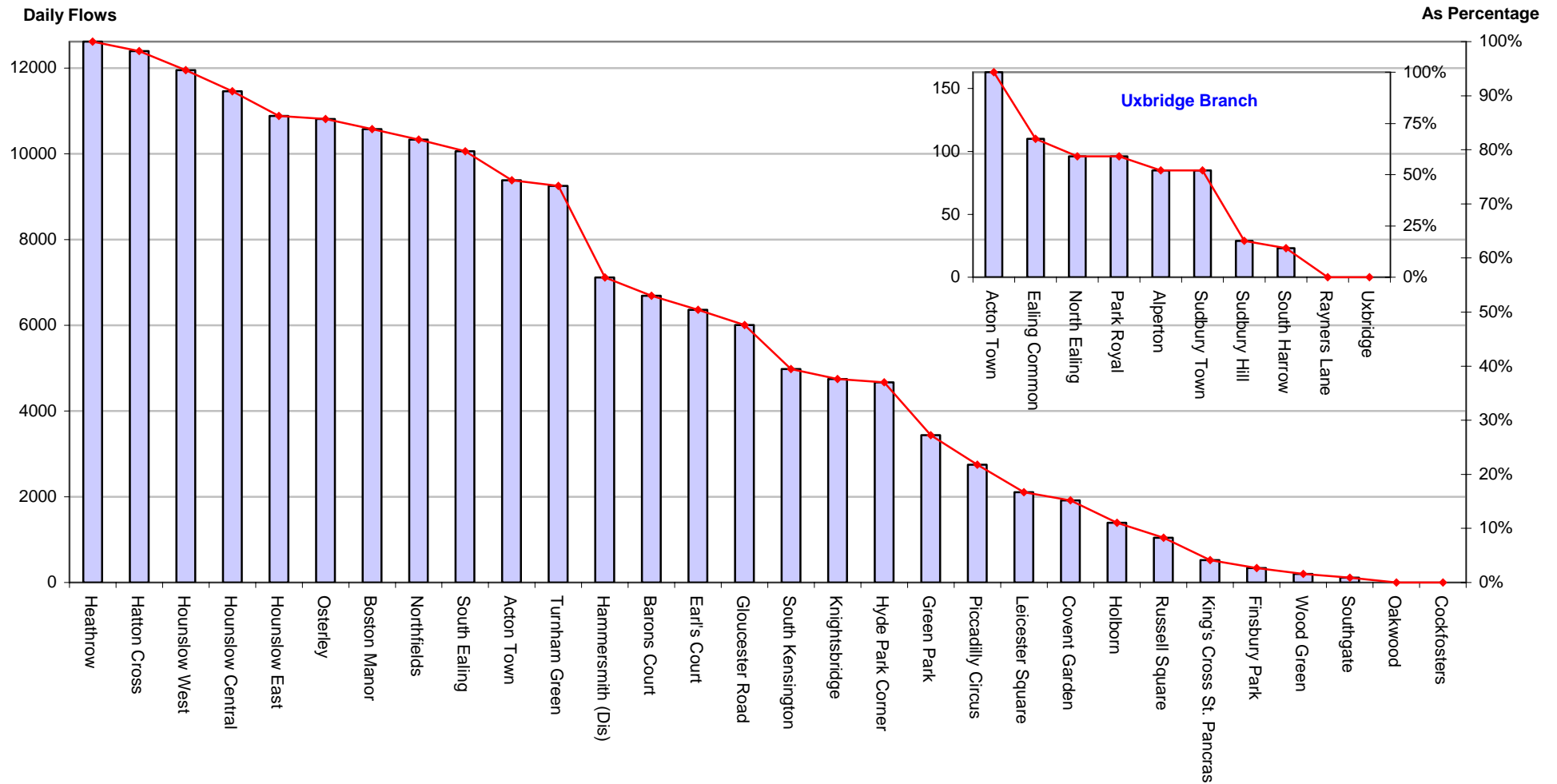


CHART-7

Heathrow Passenger Demand Distribution on the Piccadilly Line (Eastbound)
 (Interchanges and Final Destinations - Heathrow Passengers on train leaving the station)



TRANSPORT FOR LONDON

**STAFF SUMMARY
Board Meeting**

SUBJECT: AUDIT COMMITTEE REPORT

MEETING DATE: 23 JUNE 2004

1. PURPOSE

To report to the Board on the Audit Committee meeting held on 25 May 2004.

2. BACKGROUND

The Audit Committee considered its normal standing items and, in particular, reviewed the corporate governance disclosures and other matters relating to the annual accounts for the year ended 31 March 2004.

The Committee reviewed the reports from the General Counsel and Director of Internal Audit on TfL's compliance with its Code of Corporate Governance for the year ended 31 March 2004. These reports confirmed the adequacy and effectiveness of the Code as well as TfL's compliance therewith. The Statement of Assurance, which is to be signed by the Mayor and the Commissioner as in previous years, now has to also cover the system of internal control in accordance with the amended rules in the Accounts and Audit Regulations 2003. The draft of the Statement of Assurance is attached for information having been amended in part as a result of discussions at the Audit Committee. Your attention is drawn to the fact that there is an exception noted on the last page of the Statement which notes that the significant changes to be brought about by the introduction of Shared Service Centres needs to be carefully managed to ensure other governance issues do not arise. The Audit Committee will be recommending that this Statement be signed at the Board meeting in July.

The Committee also reviewed a note from the Chief Finance Officer on the accounting for the transfer of London Underground. It has now been agreed with KPMG that merger accounting rules should be applied which mean there is no requirement to revalue LUL's assets at fair value on the date of transfer.

The Audit Committee were also updated on the Audit Commission's initial performance assessment (IPA) review which had concluded its onsite work the day before. This review is being conducted for the GLA as a whole as well as at each individual functional body. The final reports from this review will not be published until November although draft reports will be made available to TfL in September for their review and comment.

3. RECOMMENDATIONS

The Board is asked to NOTE the content of this report and in particular the recommendation of the Audit Committee that the Statement of Assurance on Corporate Governance should be signed by the Mayor and the Commissioner.

The Statement of Corporate Governance Assurance

Scope of Responsibility

The Statement of Corporate Governance Assurance reports on the current standard of corporate governance, including internal control, within TfL. It identifies those areas where further work is to be undertaken and gives a brief description of the monitoring process to ensure the effectiveness of the Code of Corporate Governance.

Transport for London (TfL) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. TfL also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness. In discharging this accountability, board members and senior managers are responsible for putting in place proper arrangements for the governance of TfL's affairs and the stewardship of the resources at its disposal, including arrangements for the management of risk. To this end, TfL has approved and adopted a Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/ SOLACE framework and the requirements of the Accounts and Audit Regulations 2003. A copy of TfL's Code is on our website www.transportforlondon.gov.uk or can be obtained from TfL Company Secretariat, Windsor House, 42-50 Victoria Street, London, SW1H 0TL.

Purpose of the System of Corporate Governance Assurance

TfL has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. Specifically, it has an established system of internal control. This is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of TfL's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Corporate Governance in TfL

Corporate governance is the system used to direct, manage and monitor an organisation and enable it to relate to its external environment. The fundamental principles of corporate governance, to which TfL is fully committed, are openness, inclusivity, integrity and accountability.

Using the nationally recognised CIPFA/SOLACE framework TfL developed and published a Code of Corporate Governance in 2002 tailored to its own circumstances which are designed to make its adopted practices in this area open and explicit. On an annual basis It agreed to undertake a wide-ranging review of its relevant activities involving all senior managers to determine the degree to which TfL's methodologies conform to the Code's requirements. Where they have been found wanting, action plans are being developed to identify and implement remedial action.

TfL's Governance Structure

The Mayor, who serves as its Chair, appoints the TfL Board members. The Board determines and agrees TfL's strategic direction and oversees the performance of the executive team.

The Board has four committees:

- Finance
- Audit
- Remuneration
- Safety, Health and Environment

The Audit Committee has been delegated the responsibility for overseeing corporate governance in TfL. It has received reports on the implementation of the Code of Corporate Governance, the Statement of Assurance contained in these accounts and the results of the compliance review. It receives regular update reports from the General Counsel and the Director of Internal Auditor and is responsible for the annual assurance process.

To ensure that the Code is integral to the routine functioning of TfL the General Counsel has the overall responsibility for its operation. In addition the Director of Internal Audit has the responsibility for independently conducting an annual review of the adequacy and effectiveness of the Code and the extent of TfL's compliance with it.

The Commissioner of TfL advised by his Chief Officers is responsible and accountable for the delivery of the day to day operations of TfL.

There are three advisory panels, drawn from the Board members, who provided strategic advice to the Commissioner on the development and the carrying out of policy in TfL.

- Rail Transport
- Surface Transport
- London Underground.

The London Underground and Surface Transport panels were established in 2003/04. The former in response to the integration of LU into TfL, the latter

reflecting the internal merger of the Surface Transport and Street Management operations.

The dimensions of corporate governance

There are five dimensions to the corporate governance activities of TfL:

- Public focus
- Structures and processes
- Risk management and internal control
- Service delivery arrangements
- Standards of conduct

In each area TfL is working to ensure that good corporate governance is fully incorporated into the culture of the organisation, are applied within the management processes and are transparent to all stakeholders.

Within the public focus dimension

- ✓ the Mayor has published his transport strategy that clearly sets out where TfL wants to be
- ✓ TfL regularly publishes public reports on its performance
- ✓ TfL has developed and implemented numerous strategies to consult with all interested parties and has processes in place to ensure the results are given due weight in decision taking
- ✓ the public has easy access to TfL board papers and meetings

Within the structures and processes dimension

- ✓ the roles and responsibilities of board members and staff managers are well defined
- ✓ TfL has procedures to ensure its activities are properly planned, implemented, monitored and reviewed

Within the risk management and internal control dimension

- ✓ TfL has in place a system to identify and manage all significant risks
- ✓ TfL has robust processes to ensure the maintenance of proper internal control

Within the service delivery arrangements dimension

- ✓ TfL has a management structure geared to the delivery of efficient, effective and economic services
- ✓ TfL's budget process allocates resources according to the priorities in the Mayor's strategy
- ✓ TfL has systems in place to set targets and monitor performance for service delivery on a sustainable basis and with reference to equality policies

Within the standards of conduct dimension

- ✓ TfL has formal codes of conduct for board members, staff and contractors

- ✓ TfL has arrangements in place to ensure the actions of board members and employees are not influenced by prejudice, bias or conflicts of interest

Responsibilities and review of effectiveness

TfL's General Counsel has the responsibility for:

- overseeing the implementation and monitoring the operation of the code
- reviewing the operation of the code in practice
- reporting annually to the Audit Committee on compliance with the code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

In addition, TfL's Director of Internal Audit has the responsibility to independently review the adequacy and effectiveness of the Code and the extent of TfL's compliance with it. The Director of Internal Audit reports annually on these matters to the Audit Committee.

On the basis of reports of the General Counsel and the Director of Internal Audit, initially to the Commissioner and the Chief Officers and then to the Audit Committee, we are satisfied that TfL's corporate governance arrangements are adequate and are operating effectively.

The aspect of the Code of Corporate Governance where further work is needed to ensure satisfactory levels of compliance are maintained is the development of pan-TfL HR policies which is ongoing but not yet complete. This work is linked to the development and implementation of a "shared service" approach to the delivery of HR which is currently well advanced. This approach is also being adopted for finance. Progress is going according to plan but it should be noted that this will be a significant change during the coming year that has the potential to be disruptive within TfL and that will be monitored closely to ensure it does not impact on the operation of effective governance.

Signed

Chair of the TfL Board

On behalf of the Board members and the Chief Officers of TfL

AGENDA ITEM 10

DOCUMENTS SEALED ON BEHALF OF TRANSPORT FOR LONDON FROM 11th March 2004 – 9th June 2004

Property Transactions

- 1 Contract for the sale of freehold land
- 1 Deed Poll
- 2 Land Registry Form TR1
- 4 Land Registry Form TP1
- 1 Deed of Agreement
- 1 Deed of Surrender and Release
- 1 Tenancy Agreement
- 1 Agreement relating to undertaking for abortive costs
- 1 Assignment of Leasehold
- 1 Licence to carry out alterations to property

Highway Agreements

- 3 Section 278 Highways Act 1980 Agreements
- 2 Section 8 of Highways Act 1980 Agreement
- 1 Section 253 of Highway Act 1980 Agreement
- 1 Agreement for highway maintenance
- 1 Agreement for road safety camera maintenance
- 1 Agreement for Blackwall and Rotherhithe Tunnels CCTV
- 1 Agreement for maintenance of the London Traffic Surveillance System
- 1 Agreement for maintenance of radio system for road tunnels

1 Licence under Section 177 of the Highways Act 1980

1 Agreement giving TfL the right, at TfL own cost, to carry out maintenance works

Bus Lane Enforcement

1 Deed of Variation to a Joint Agreement in connection with the enforcement of bus lane contraventions

1 Agreement for development and supply of bus processor equipment

1 Deed of Agreement

Agreements with London Boroughs

1 Agreement relating to Section 106 of the Town and County Planning Act 1990

Tube Line Refinancing

1 Guarantee

2 Put Option Agreements

1 Stand Still Agreement

1 Escrow Deed

1 Amended and restated Put Option Agreement

1 Amended and restated Stand Still Agreement

1 Amended Agreement relating to Escrow Deed

Rail Services

2 Agreements relating to financial assistance

2 Deeds relating to the provisions of additional services by Silver Link Train Services

The TfL Seal Register will be available for inspection by Board Members at the meeting.