

Transport for London

**Outline of a Programme for the Rehabilitation and
Management of the London Underground**

Transport *for* London



A centrepiece of the Greater London Authority Act of 1999 was the establishment of Transport for London (TfL) and the devolution of authority to it for public transport. Pursuant to the Act, most of the property rights and liabilities of London Transport and its subsidiaries were conveyed to TfL on 3 July 2000, except for the Underground. That handover was to await implementation, by the Underground's existing staff, of a scheme under which the private sector would effectively control the infrastructure of the Underground through "public private partnerships" (PPP).

In short, TfL has the responsibility to make transport in London work. But TfL cannot fully carry out its mandate, critical to life in the city and central to the economy of Greater London, until the Underground is brought within its operating and managerial portfolio. Whilst TfL has significant concerns with what it understands to be the current mechanism for the implementation of London Underground Ltd.'s version of PPP, it supports wholeheartedly substantial roles for the public and private sectors in the future of the Tube. It is in this constructive spirit that the programme set forth in this document is presented.

TfL believes that, as already seen with the national railways, the fragmentation of an inherently integrated system, such as the Underground, into different private consortia, precludes effective management and control not only of operations but also of capital investment. Under our plan, TfL will be directly responsible for the planning and management of a broad programme of upgrade and improvement, the proper role for the public sector, whilst reaching out to private firms to carry out specific, discrete responsibilities. Through managerial reforms and professional recruitment, TfL will strengthen the project and program management capabilities of the Underground. TfL will then be able to properly evaluate and effectively monitor the performance of private sector contractors working on its capital programme pursuant to long-term contracts for services.

Subject to more detailed study, TfL estimates the capital requirements for the Underground at approximately £700 million per year for the foreseeable future. As detailed in this document, we propose to finance this requirement from the following sources:

- Operating revenues of the Underground;
- Continuation of grants from HM Government;
- Long-term, publicly offered, highly rated revenue securitisation obligations (“RSOs”) issued on behalf of TfL and secured by a portion of LU’s revenues; and
- “Private Performance Contracts” (PPCs), limited scope, performance-oriented contractual arrangements with private entities, usually including an at-risk investment, for the construction or rehabilitation of specific assets, and for on-going maintenance.

It is the best professional conclusion of TfL management and of the firms advising us, the investment bank Bear, Stearns International Limited and the City law firm Orrick, Herrington & Sutcliffe, that such a programme is feasible and will result in the greatest benefit and least risk, both to passengers and to the taxpaying public. The plan will also provide TfL with an

opportunity to tap the experience and strengths of the many world class companies that have participated in the PPP contract bidding.

Basic Principles

In developing this programme, TfL has been guided by certain principles, which we believe reasonable and uncontroversial. These include the following:

- *The Tube has suffered from a long period of under-investment in its infrastructure.* Whilst the precise amount of work and funding required to restore the entire system to what transport professionals understand as a “state of good repair” is not currently known with an adequate degree of certainty, TfL will ascertain it promptly under the proposed programme.
- *A sound public transport system is one of London’s most essential infrastructure assets.* In managing this asset, the sole objective should be to deliver a safe, efficient and reliable service at the lowest possible cost to fare paying passengers and to taxpayers.
- *In order for it to ensure safe, efficient and reliable service, TfL must have authority and control over all private sector contractors servicing the System.* TfL must be in a position to supervise the performance of the private contractors on a day-to-day basis and to impose financial penalties or to grant incentive compensation based on demonstrated results.
- *Real increases in fares should not be relied upon to support the additional capital investment required.* Passengers have already made significant contributions to the System as a result of prior real fare increases.
- *The GLA should use its authority to raise new revenues to provide additional funding to the Underground.*
- *HM Government should provide the Underground with a stable level of annual grants.* Stability of funding will result in reduced costs due to greater efficiencies in planning and procurement.
- *The securitisation of LU’s revenues is an efficient and economical means of financing,* which is widely accepted both in the UK and internationally.

- *Direct financial penalties imposed on the contractor providing or refurbishing a capital asset and the potential additional sanction of immediate dismissal are the most effective devices to minimise TfL's exposure to risk.*
- *It is ultimately the public sector's responsibility to keep the trains running. Attempts to shift this risk to the private sector through contractual arrangements cannot change this reality. Any programme for the future of the Tube must take this into account and ensure that the protective measures it does employ are targeted and implemented.*

The Programme

I. The Financing Plan

Our financing plan is a sound, conservatively structured scheme that will provide the stable, predictable funding necessary to restore LU to a state of good repair and to provide for normal replacement and service enhancements both in quality and capacity. Unlike the London Underground Ltd.'s PPP, our financing approach has been proven to work in other public transport systems around the world. This plan can be accomplished without exposing the passengers to unwarranted increases in fares or reductions in service, whilst at the same time protecting HM Government and the GLA from unanticipated calls for emergency financial aid.

Financing for the plan consists of three distinct elements: (i) proceeds from the securitisation of a portion of TfL's revenues, (ii) funding arrangements under the contemplated PPCs, and (iii) TfL revenues in excess of its operating costs and HM Government grants ("pay-as-you-go" funding).

Revenue Securitisation Obligations—RSOs

Unlike most public sector organisations, LU has historically collected ticket and other operating revenues in excess of its operating costs. As a result, TfL has the capability to access the long-term capital markets through efficient, proven and widely accepted financing structures. Under our plan, a portion of LU's revenues would be "securitised" to repay RSOs issued by a special purpose vehicle (SPV), possibly owned by a charitable trust, over a period of up to 30 years.

Only a portion of the projected LU revenues would be committed to these RSOs. Our programme limits the amount available to support the RSOs in any year to an amount no greater than 50% of the projected available surplus in that year. This conservative approach will, of course, limit the amount of RSOs which can be sold, but it will also help to ensure a higher credit quality for those RSOs that are issued. Furthermore, this affords a significant protective cushion: it would require a decline in revenues such as might occur in a severe economic downturn before TfL would have to raise real fares, cut service or seek emergency aid from either HM Government or GLA.

TfL would not require, and would not expect to seek a guarantee from HM Government for the RSOs issued to support the Underground. Even in the highly unlikely event of default, the RSOs would have no recourse against GLA or HM Government.

We have been advised by Orrick Herrington & Sutcliffe that obligations of this nature can be structured in a manner consistent with HM Government policies, specifically with regard to the Public Sector Borrowing Requirement. In addition, we have been advised by Bear, Stearns International Limited that such obligations should achieve high credit ratings and would be readily marketable to institutional investors in amounts well in excess of those required by the financing programme.

Private Performance Contracts (PPCs)

TfL firmly believes that the private sector should be involved to a very material degree in the restoration and improvement of the London Underground. But it is management's responsibility to establish the priorities of capital investment, the scope of private sector involvement, and the means of obtaining it. TfL's approach will employ PPCs to achieve measurable performance improvements from discrete assets or pools of assets. These PPCs will require private sector parties to provide capital improvements and ongoing maintenance. The physical assets themselves will be owned by

LU, and a minimum of 90% of the asset cost will be financed by TfL. This will assure low-cost financing, and it will de-link the financing from the term of the PPC.

Under a PPC, the private sector will be required to invest in the project (5% to 10% of the assets being managed). This investment would be earned back in full over the term of the PPC at an attractive rate of return. However, it would only be earned back if performance by the private sector met agreed upon minimum standards in each year of the contract. If the assets were defective or performance levels were not met, then the private sector party could be terminated, thus losing its investment.

This approach will keep the private sector aligned to the long-term interest of TfL, but will leave TfL with the opportunity to finance the assets on its own credit, and therefore at the lowest cost and over the useful life of the asset. Specific and measurable performance standards would constitute a cornerstone of a PPC, so that private contractors will be responsible to the extent of their control for service availability, reliability, and quality. Unlike the PPP, these contracts would be readily terminable for inadequate performance. This approach, and its position in TfL's illustrative cash flows, is further discussed later in this paper.

"Pay-as-You-Go" (PAYGO)

The LU operating revenue historically has provided substantial funding for capital investment. Under our programme, the operating revenue will be reduced by the amounts necessary to support the RSOs; but it will still provide significant PAYGO funding. Our financing model, described below, generates over £6.23 billion of PAYGO funding over the 15-year programme: £3.75 billion from HM Government grants and £2.48 billion from revenue.

TfL Credit Rating

In June of 2000, Standard & Poor's reviewed the credit quality of TfL in connection with TfL's assumption of responsibility for non-Underground

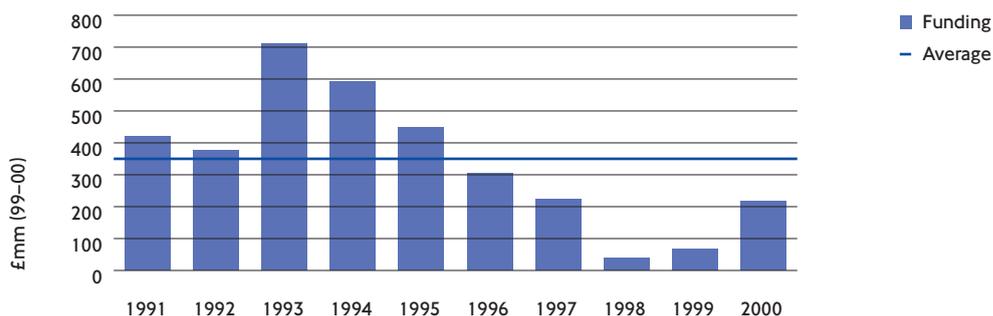
transport in London. Whilst acknowledging the absence of debt issuance, the report nonetheless concluded that TfL was a very high quality AA with a stable outlook. Whilst the credit of the TfL will not be directly related to the ratings received on the RSO, the high credit rating of TfL will be a positive consideration for the rating agencies and investors.

Pro Forma Plan of Financing

We have constructed a pro forma model to help determine the amount and timing of a sustainable capital investment program for LU using RSOs. The model tests the capacity of the System's revenues, including ticket receipts, GLA revenues, and HM Government grants by calculating the amount required to support the RSOs, whilst still maintaining an operating surplus in reserve. We assume that these reserves are committed each year to PAYGO capital spending. On the following pages we present a reasonable scenario for the financing of TfL capital programme, based upon the following assumptions:

- £450 million of capital expenditures in fiscal year 2002 and £700 million annually over the next 14 years
- Operating revenue growth at the level projected by PricewaterhouseCoopers in their PPP analysis (increasing passenger levels only)
- Operating expense growth at the same real rate as operating revenues
- No fare increases in real terms
- A fixed annual HM Government grant of £250 million, £100 million below average historical support
- £100 million per year in GLA revenues beginning in fiscal year 2004
- £150 million of PPC arrangements, including £15 million of contractor investment annually beginning in year 2 and continuing over the next 13 years

Our current estimates are that the Underground will require £10.25 billion over a fifteen-year period to reach a state of good repair on the existing infrastructure and replace other assets at the end of their useful lives. Based upon these



Source: London Underground Limited, Financial and Operating Performance Trends, May 24, 2000

assumptions the model meets our required investment as follows: £6.23 billion from PAYGO funding (£3.75 billion from HM Government grants and £2.48 billion from operating revenue), £1.92 billion from the proceeds of RSOs, and £2.1 billion from PPC investment (10% private equity and the balance in additional RSO proceeds). The reliance on RSO financing in this model is conservative; no more than 50% of projected available surplus is committed to RSO support over the life of the programme.

The financing programme presented here is carefully tailored to eliminate, as a practical matter, any exposure for HM Government and thereby the taxpayers to the ongoing capital needs of LU. Were TfL permitted to control and oversee the capital programme in a proper and professional manner, the financial and potential exposure of HM Government would be kept to a minimum.

Appropriate Level of HM Government Support

A key funding resource for TfL would be a specific, sustained funding commitment from HM Government. The chart above shows the grants provided to the Underground by HM Government over the last decade, excluding grants for the Jubilee Line Extension (JLE).

On average over the last decade, HM Government has provided LU almost £350 million of investment per annum (other than for JLE). However, the year-to-year variance has been dramatic, ranging from a high of more than £700 million in 1993 to a low of approximately £45 million in 1998. This uneven pattern has been a factor in hampering the development of a long-term, well-planned investment scheme for LU, and it ultimately diminishes the value of the funds provided. The capacity of the Underground to manage scarce resources would have been enhanced and the condition of the System might well be better had it received a commitment for consistent, annual funding even at a lower level in total. PricewaterhouseCoopers, in their analysis of the public sector funding alternative for LU, concluded that predictable funding should result

in cost savings of 5% due to greater efficiencies in planning and procurement.

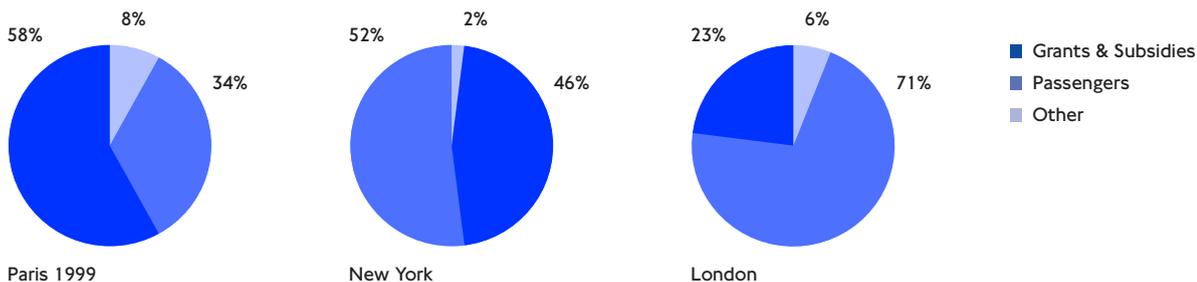
The decision as to the nature and amount of the subsidy to be provided to TfL ultimately rests solely with HM Government. However, it is TfL’s expectation that such decision will take into account (i) HM Government’s financial support for other means of transport such as the rail system, (ii) public sector support for aging public transport systems in comparable cities, and (iii) the needs assessment and funding requirements of the Underground.

The London business community understand the Underground is essential in delivering their customers and employees to their businesses. Similarly, HM Government, as a major employer in London, need the Underground to bring its staff to work, and to move people around the city.

The System’s needs assessment and funding requirements are discussed in Section II of this paper; the first two issues are discussed immediately below.

Support for Railtrack. HM Government recognised the consequences of the significant underfunding of the nation’s rail transport infrastructure and in response implemented its privatisation scheme. The creation of Railtrack has not completely solved the problems, nor has it diminished HM Government’s involvement, as evidenced in the recent decision by the Office of Rail Regulator to grant £4.7 billion in subsidies over the period 2001 to 2006. Clearly, HM Government continues to have a significant financial role in supporting rail travel, both in London and throughout the nation.

Support to Other Transit Systems. As evidenced in the charts below, the Underground receives significantly less public support than either the transport authority of Paris (Syndicat des Transports Parisiens) or the New York Metropolitan Transportation Authority.



Source: Funding London Underground, Financial Myths and Economic Realities. Gaffney, Shaoul, and Pollock. February 2000

Supplemental Funding Resources

Regardless of the financing scheme adopted, as long as there are only two funding sources for the Underground, then either the passengers (through increased fares) or HM Government (through increased grants) will be at risk for a decline in ticket revenue due to a decline in passenger levels.¹ Consequently the TfL, in conjunction with the GLA, might consider, in the medium term, other sources of regional/local funding support; the congestion charges contemplated in the GLA Act of 1999 are an obvious example.

II. Needs and Resources Assessment

A prerequisite to developing any financing scheme is a thorough understanding of the capital requirements and the resources available. Such a understanding will highlight the existing funding gap and will allow TfL to (i) consider and to set its priorities in relation to its capital requirements, (ii) find additional resource, and/or (iii) raise additional resources directly or indirectly through debt. Whilst much has been written about the under-investment in the Underground, a proper assessment and cataloguing of the capital investment needs to restore the System to good repair, and equally important, to preserve that condition, has not been undertaken. Conversations between TfL and members of each of the bidding consortia indicate that, at best, there has been only a limited review of the existing state of the System infrastructure as part of their due diligence. Without a definitive engineering assessment, there is no foundation for the base line costs of the Public Sector Comparator. TfL will conduct a proper engineering assessment to determine both the cost and the time required to address the deficiencies and to identify immediate as well as short and long-term priorities. The assessment will have the following aims:

- To verify with precision the trend of the Underground's deterioration for at least the last five years and to relate this trend to levels of maintenance efforts, staffing and funding;
- To consider the possible adverse impact of further deterioration on the System and to project possible trends for at least the next ten years;

- To evaluate each category of improvements in the capital programme to confirm that the planned improvements are based on sound engineering and that the improvements are necessary individually, and compatible in the aggregate;
- To ascertain that the capital programme has a reasonable probability of arresting System deterioration and of promoting improved service; and
- To establish that the capital programme's cost estimates were logically derived and reasonable.

The result should be a long-term investment programme, including a realistic management plan for its implementation, which reflects the requirement to restore the System to a state of good repair and to provide for regular replacement assets as they reach the end of their useful lives, and to implement service enhancements.

Because operating revenues will be critical to any capital-funding scheme, there must be a thorough understanding of the factors which affect revenue production. For this reason, TfL intends to engage an independent firm with expertise in the economics of mass transportation to conduct a feasibility study, in order to determine the sufficiency of the funding sources available to meet operating and capital requirements. The study will have the following objectives:

- To determine whether sufficient ticket revenues can be raised for operating and maintenance expenses of the Underground and the costs, including debt service, relating to the proposed capital programme under alternative operating and capital subsidy scenarios (the "Ticket Requirements");
- To determine the level of passenger revenues necessary to generate the Ticket Requirements under alternative revenue and/or expense scenarios;
- To evaluate the impact of higher fares on the regional economy in the event that HM Government grants are not available or are made available in lesser amounts;
- To determine the impact of the capital programme on Underground passenger levels and ticket revenues; and

- To determine the impact of a downturn in the economy on Underground passenger levels and revenues.

III. The Question of Risk

Whilst the principles and objectives of TfL's programme are consistent with those of LUL's PPP, the means of achieving the goals are different. TfL's programme starts with the inescapable facts that the Underground must run and that TfL must ensure that it runs. This means that there is a finite limit to the amount of risk that can effectively be transferred to the private sector.

The most fundamental concept of risk analysis argues for risks to be allocated to the party best able to control and manage them. Certain uncontrollable risks (*e.g.*, *force majeure* events, radically changed circumstances, etc.) will always remain with the party ultimately responsible for the provision of the service. As to other risks, transfers are best accomplished where each risk can be foreseen, its consequences analysed and measured, and its results properly allocated between the parties.

Under TfL's programme, the bulk of work will be carried out under contract with private firms. Consistent with sound practice, these contracts will provide TfL with a diverse arsenal of legal devices, all designed around two basic principles:

- If a private contractor does his job properly, he is entitled to be paid promptly and earn a fair profit;
- But if the contractor fails, the contractor – not the passengers or the taxpayers – must bear all of the costs, consequential as well as direct, of the failure.

This means TfL will demand of any entity wishing to deal with it ironclad financial guarantees from a creditworthy party.

TfL also contemplates more extensive partnerships with the private sector through PPCs. PPC arrangements will encompass discrete assets or pools of assets over which management may be transferred to the private sector. The design and operation of specific assets will be transferred; and

the private sector transferee will undertake a rigorous, performance-based contractual regime in which compensation (including the return on their investment in the assets involved) will be directly tied to measured performance against selected outputs. The chief difference between the TfL PPC approach and the London Underground Ltd.'s PPP will be that of scope. By breaking down the scale of the transfers, TfL will achieve the following benefits:

- The PPCs will attract a broader number of private sector bidders, thereby enhancing competition in the initial procurement and, most likely, avoiding cumbersome consortia in which each member becomes involved only for discrete portions of the overall work;
- Since the scope is smaller, the number and effects of the transferred risks can be better understood, and the performance regime can be more rigorous. Private sector guarantees that look through to strongly capitalised corporate entities will be more achievable when the scope and complexity of the transfer has been reduced; and
- The tenor of the PPC will not have to be matched to the life of the asset that is being managed, thereby providing the public sector with easier enforceability through termination. This reduces the complexity of the resulting contract (*i.e.*, increasing the flexibility of the public sector whilst removing many contractual complexities relating to financing and the need to allow for contingencies).

Private raising of finance will not necessarily be a component of a PPC initiative. TfL is considering structures that would enable it to realise the benefits of long-term fixed rate public sector financing within the context of the shorter-term arrangements under the PPCs. It is contemplated that such a structure could reduce the costs of the financing component of the PPCs whilst assuring that the private sector participant remains fully responsible for its performance.

It is crucial for the effective management of the Underground to obtain the benefits, efficiencies, and innovations provided by private sector

involvement in the restoration of London's great underground transport system. Nothing in TfL's programme conflicts with this objective. Indeed, the projected pro forma cash flows include a significant element of private sector involvement, aggregating over £2.1 billion in assets over the 15-year projection period. However, the scope and approach of TfL's programme will allow the public sector to set priorities and to manage each PPC initiative aggressively so that the contribution of the private sector is optimised whilst overall performance standards are vigorously enforced.

Conclusion

TfL has formulated a sound programme for bringing the Underground up to a state of good repair, and maintaining it in that condition. Our goal is to combine the best features of the public sector oversight and management with the competitive drive of the private sector to rebuild and refurbish the Tube over 15 years.

We neither need nor want HM Government guarantees, nor are we relying on increasing HM Government grants. We do request a long-term commitment of £250 million each year made by HM Government, so that we can embark on an equally long-term improvement scheme. This level of funding is well below the average funding support for the Underground over the last decade, but it is stable, not erratic, and can therefore be employed effectively in our capital programme.

Using conservative projections, and employing only (i) our projected operating revenues, (ii) a steady £250 million annual HM Government grant, and (iii) GLA revenues of £100 million in each year beginning in 2004, the London Underground can generate over £10.25 billion for its own improvement during the next 15 years. To raise this capital, the Underground will securitise a portion of its revenues to support the issuance of £3.81 billion RSOs through an SPV, possibly owned by a charitable trust. Proceeds of £1.89 billion of these RSOs, along with £210 million of private at-risk investment, will fund £2.1 billion of PPCs, enabling TfL to achieve the

benefits of private sector efficiencies and low cost public financing. Partnerships with the private sector have an important place and our programme uses them in a manner that is focused and rigorous in practice.

The Underground is essential to the economy and daily life of London. Our programme is designed to carry out this fundamental obligation, without recourse to the operator of last resort: the taxpayer. Using sound financing and management techniques, and focusing on safety, reliability and cost effectiveness, TfL will do the job of managing the modernization of its Underground in the public's interest. That is the strength of the programme.

FORECASTED CASH FLOWS (Fiscal Year Ending March 31st)

(£ Millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Operating Revenue																	
Interest Income																	
Total Income	1229.59	1249.6	1279.6	1289.6	1309.6	1329.6	1339.6	1359.5	1379.5	1399.5	1419.5	1439.5	1459.5	1479.8	1500.3	1521.2	20,755.9
Total Operating Revenue		1249.6	1279.6	1289.6	1309.6	1329.6	1339.6	1359.5	1379.5	1399.5	1419.5	1439.5	1459.5	1479.8	1500.3	1521.2	20,755.9
% Growth		1.63%	2.40%	0.78%	1.55%	1.53%	0.75%	1.49%	1.47%	1.45%	1.43%	1.41%	1.39%	1.39%	1.39%	1.39%	
+ Other Revenue																	
GLA Contributions				100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1,300.0
= Total Revenue		1249.6	1279.6	1389.6	1409.6	1429.6	1439.6	1459.5	1479.5	1499.5	1519.5	1539.5	1559.5	1579.8	1600.3	1621.2	22,055.9
- RSO Payments		0.5	9.6	26.5	40.3	54.9	70.8	87.8	106.1	125.8	146.9	169.6	193.9	220.1	248.3	278.6	1,779.6
+ Grants																	
HM Government Contribution	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	3,750.0
= Available Revenues	1499.1	1520.0	1613.0	1619.3	1624.6	1618.8	1621.7	1623.4	1623.7	1622.6	1620.0	1615.6	1609.7	1602.0	1592.6	1592.6	24,026.2
Operating Expense																	
- Total Operations & Maintenance	952.8	968.3	991.6	999.3	1014.8	1030.3	1038.1	1053.5	1069.0	1084.5	1100.0	1115.5	1131.0	1146.7	1162.6	1178.8	16,084.2
+ PPC O&M Reduction		0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1,400.0
= Avail. Surplus before Other Expenses	530.8	628.4	713.7	704.5	694.3	680.7	668.2	654.4	639.2	622.6	604.4	584.6	562.9	539.4	513.8	493.4	9,342.0
% Growth		1.63%	2.40%	0.78%	1.55%	1.53%	0.75%	1.49%	1.47%	1.45%	1.43%	1.41%	1.39%	1.39%	1.39%	1.39%	
- Other Expenses																	
PFI Capital Cost	93.4	94.4	95.3	96.3	97.2	98.2	99.2	100.2	101.2	102.2	103.2	104.2	105.3	106.3	107.4	108.5	1,518.9
PPC O&M Reimbursement (1)		0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1,400.0
PPC Funding Cost		0.0	1.9	3.8	5.6	7.5	9.4	11.3	13.2	15.0	16.9	18.8	20.7	22.6	24.4	26.3	197.4
= Available Surplus	436.4	431.2	513.7	501.6	488.6	472.2	456.7	440.0	422.0	402.5	381.4	358.6	334.1	307.6	279.0	279.0	6,225.7
= Total PAYGO	436.4	431.2	513.7	501.6	488.6	472.2	456.7	440.0	422.0	402.5	381.4	358.6	334.1	307.6	279.0	279.0	6,225.7

FORECASTED CAPITAL EXPENDITURES (CapEx)

(£ Millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Total PAYGO		436.4	431.2	513.7	501.6	488.6	472.2	456.7	440.0	422.0	402.5	381.4	358.6	334.1	307.6	279.0	6,225.7
PPC																	
RSOs		0.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	1,890.0
PPC Contractor Proceeds		0.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	210.0
+ Total PPC CapEx		0.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	2,100.0
+ Other RSOs		13.6	118.8	36.3	48.4	61.4	77.8	93.3	110.0	128.0	147.5	168.6	191.4	215.9	242.4	271.0	1,924.3
= Total CapEx		450.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	700.0	10,250.0

(1) Does not reflect any efficiency savings associated with use of the PPC.

Transport For London Financing Programme
£700 Million Annual CapEx Requirement, £250 Million Annual HM Government Contribution, £150 Million Annual PPC Programme Assumptions

Line Item	Amount £ MM	Additional Information
Base Case Income (2000)	£ 1,199.60	London Underground 2000 Business Plan
% Growth		Based on the PriceWaterhouse Coopers projections
GLA Contributions	£ 100.00	
Base Case Operations and Maintenance (2000)	£ 929.60	London Underground 2000 Business Plan
% Growth		Same as income growth rate
PFI Capital Cost	£ 92.50	
% Growth	1.0%	
Annual HM Government Contribution	£ 250.00	
RSO Interest Rate	6.650%	Per Bear Stearns assuming 30 year level debt service with 20 year average life
PPC Investment Rate	9.000%	Per Bear Stearns assuming 15 year level amortisation
Cost of Issuance	1.0%	Per Bear Stearns
Surplus Reinvestment Interest Rate	0.0%	
Annual PPC Programme	£ 150.00	
Funded directly by TFL	90.0%	Funded by RSOs
Funded directly by Contractors	10.0%	
PPC O&M Reduction	£ 100.00	

THESE PROJECTIONS ARE BASED SOLELY ON THE ASSUMPTIONS LISTED ABOVE AND OUR CURRENT UNDERSTANDINGS. THEY HAVE NOT BEEN REVIEWED BY ENGINEERING OR ACCOUNTING PROFESSIONALS. BEAR STEARNS CAN MAKE NO REPRESENTATIONS AS TO THEIR ADEQUACY OR COMPLETENESS UNTIL SUCH A REVIEW HAS BEEN COMPLETED AND WE HAVE PERFORMED APPROPRIATE DUE DILIGENCE.

Footnote

¹ It would appear that the relative risk might be greater to both riders and HM Government under the PPP scheme as there is no sure way to delay temporarily investment as a short-term means of adjusting to a decline in passenger revenues. Under pressure from their lenders, the PPP consortia will continue to demand their payments, irrespective of the impact on the public.