

TRANSPORT FOR LONDON

FINANCE AND POLICY COMMITTEE

**SUBJECT: TRANSPORT FOR LONDON (LONDON TRAMS
RESTRUCTURING) TRANSFER SCHEMES 2010**

DATE: 9 MARCH 2010

1 PURPOSE AND DECISION REQUIRED

- 1.1 The purpose of this paper is to set out proposals for the making of two transfer schemes under the Greater London Authority Act 1999 (“GLA Act”) to transfer, subject to the Mayor’s approval, all property, rights and liabilities of Tramtrack Lease Financing Limited (“TLFL”) and Tramtrack Leasing Limited (“TLL”) to Tramtrack Croydon Limited (“TCL”). Approval of transfer schemes prior to their submission to the Mayor is a matter reserved to the Board under TfL’s Standing Orders.
- 1.2 The purpose of these transfer schemes is so that TLFL and TLL can subsequently become dormant companies, resulting in costs savings and a reduced administrative burden.
- 1.3 The Committee is asked to recommend the proposal to the Board.

2 BACKGROUND

- 2.1 London Tramlink (formerly Croydon Tramlink) is a 28km long light rail system serving the London Boroughs of Croydon, Merton and Bromley. The system has three branches radiating from central Croydon and serving Wimbledon, New Addington and Beckenham Junction/Elmers End. Tramlink was established in 1996 as a 99-year design, build, finance, operate and maintain concession under the Private Finance Initiative, awarded to TCL.
- 2.2 On 27 June 2008, the entire issued share capital of TCL was acquired by Transport Trading Limited (“TTL”) for a £1 consideration. Immediately prior to the acquisition, the Group lent TCL £98m in order to settle its shareholder loans. TCL is, therefore, now a wholly-owned subsidiary of TTL, sitting within the TfL Group.
- 2.3 TCL has two subsidiaries of its own – TLL and TLFL – which were set up prior to the acquisition for leasing and financing purposes only. In summary, legal title to the trams on Croydon Tramlink is held by TLL, which hires the trams to TLFL, which in turn leases the trams to TCL. In relation to the track, legal title to existing and new track is held by TLFL, which leases it to TLL, which then grants TCL the right to use the track. This structure provided tax benefits

when TLFL was owned by the Royal Bank of Scotland. Once these benefits were no longer available, TLFL was sold to TCL. No tax benefits now apply.

- 2.4 Once all property, rights and liabilities of TLL and TLFL have been transferred to TCL the finance and leasing structure will come to an end. TLL and TLFL will be left as empty shells, which will then be dormant, removing unnecessary administrative and financial costs, particularly in relation to audit fees. An application could subsequently be made to remove TLL and TLFL from the Companies House register, reducing the number of subsidiaries within the TfL Group.
- 2.5 For tax purposes, the transfer of the assets will be at book value and this will create balancing charges in TLFL and TLL (of approximately £45m). These are taxable but can be offset by group relief from elsewhere in the TLL group. Correspondingly the tax value of the assets will be increased by a similar amount, and this will generate tax deductions which will be available for offset against future group profits.

3 PROPOSED INTERNAL TRANSFER SCHEMES

- 3.1 The GLA Act provides TfL with the power to make schemes for the transfer of property, rights and liabilities between TfL and a subsidiary, or between subsidiaries, subject to the approval of the Mayor. Approval of transfer schemes prior to their submission to the Mayor is a matter reserved to the Board under TfL's Standing Orders.
- 3.2 The proposed Transport for London (London Trams Restructuring) Transfer Schemes 2010 has two parts:
 - (a) TLFL to TCL

All property, rights and liabilities of TLFL will be transferred to TCL, with no exceptions.
 - (b) TLL to TCL

All property, rights and liabilities of TLL will be transferred to TCL, with no exceptions.
- 3.3 Neither company has employees so no employees will transfer under these transfer schemes.

4 RISK MANAGEMENT IMPLICATIONS

- 4.1 The collapsing of the asset finance and leasing structure and the alteration of TLFL and TLL into "shell" companies should reduce complexity and therefore risk.

5 RECOMMENDATIONS

- 5.1 The Committee is asked to recommend to the TfL Board that it:
- (a) NOTE the contents of this paper;
 - (b) APPROVE the making of the Transport for London (London Trams Restructuring) Transfer Schemes 2010 to transfer all property, rights and liabilities from TLFL and TLL to TCL;
 - (c) APPROVE the submission of the transfer schemes to the Mayor for his approval; and
 - (d) AUTHORISE the TfL Officers and Subsidiaries described at paragraph 5.2 below:
 - (i) to agree the form of the transfer schemes;
 - (ii) to seek the Mayor's approval of the transfer schemes; and
 - (iii) to do all such other things as they consider necessary or desirable to facilitate the making and implementation of the transfer schemes.
- 5.2 The following Officers and Subsidiaries shall have delegated authority:
- (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director London Underground, Managing Director London Rail, Chief Finance Officer, General Counsel and the Director of Finance, London Rail; and
 - (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary of Transport Trading Limited.

6 CONTACT

- 6.1 Contact: Stephen Critchley, Chief Finance Officer
Number: 020 7126 4871
Email: StephenCritchley@tfl.gov.uk