MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Supplementary Agenda

Meeting: Board

Date: Wednesday 8 December 2021

Time: 10:00

Place: Conference Rooms 1 and 2, Ground Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ

Members

Sadiq Khan (Chair)
Heidi Alexander (Deputy Chair)
Cllr Julian Bell
Kay Carberry CBE
Prof Greg Clark CBE
Anurag Gupta
Bronwen Handyside
Anne McMeel
Dr Mee Ling Ng OBE
Dr Nelson Ogunshakin OBE
Mark Phillips
Marie Pye
Dr Nina Skorupska CBE
Dr Lynn Sloman MBE
Ben Story
Peter Strachan

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Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Shamus Kenny, Head of Secretariat Email: ShamusKenny@tfl.gov.uk.

For media enquiries please contact the TfL Press Office; telephone: 0343 222 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Monday 6 December 2021

Agenda
Board
Wednesday 8 December 2021

7 Finance Report: Budget Submission and Capital Strategy
(Pages 1 - 106)

Chief Finance Officer

The Board is asked to note the Finance Report, TfL's submission to the GLA Budget and the Capital Strategy.

Board

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Date: **8 December 2021**

Item: **Finance Report: Budget Submission and Capital Strategy**

This paper will be considered in public.

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that this item should be considered as a late item. The reason for urgency is that Members need to consider the Budget submission and the Capital Strategy and not all information was available at the time the Board papers were published.

1 Summary

1.1 This paper considers TfL's draft Budget submission to the GLA consolidated budget, which is open to consultation from December 2021 and will be finalised in February 2022.

1.2 This submission covers an updated forecast for 2021/22 and a forward look from 2022/23 to 2025/26. It is an update and extension of the Revised Budget, which was approved by the Board on 28 July 2021.

2 Recommendations

2.1 **The Board, is asked to note the paper and:**

(a) note the presentation given in appendix 1, which is based on TfL's Budget and Capital Strategy submission to the GLA Budget;

(b) note appendix 2, which is TfL's Budget submission to the GLA (including Capital Strategy); and

(c) note that the reporting baseline will continue as the Revised Budget approved by Board on 28 July 2021.

3 TfL Budget submission to the GLA Budget

3.1 The Budget submission presentation (appendix 1) and the TfL Budget submission to the GLA Budget (including Capital Strategy) (appendix 2) provide more detail on the Finance Committee paper from 24 November 2021, which outlined what options TfL would need to take to close its funding gap absent further funding. This followed confirmation from Government, as part of its

Comprehensive Spending Review, that TfL would not receive any capital funding for 2022/23 – 2024/25 beyond the £1billion per annum devolved business rates already received.

3.2 Appendix 1 presents a summary of:

(a) Year-to-date financial performance against the Revised Budget (approved by the Board on 28 July 2021) and last year.

(b) Budget submission to the GLA Budget reflecting the funding requirements for the remainder of 2021/22 and out to 2024/25, using the latest assumptions and forecasts for costs and income. The assumptions are in line with the financial constraints and reflect a 'managed decline' scenario.

£1.5bn of funding has already been secured for 2021/22 to 11 December 2021. A further £245m is now required the end of the financial year. The funding requirement for 2022/23, as set out in the Finance Committee paper, is £1.1bn, and around £400 - 500m for 2023/24 and 2024/25.

(c) Capital strategy setting out at high level the 20-year capital plan for London.

4 Next Steps

4.1 We are working through a plan of actions to meet the conditions set out in the 1 June Funding Agreement, and continue to work with Government for funding beyond 11 December 2021, and a longer-term funding solution.

List of appendices to this report:

1. TfL Budget submission to GLA – slides
2. TfL Budget submission to GLA (including Capital Strategy)– document

List of Background Papers:

Finance Committee, 24 Nov 2021: Item 11 Implications of reduced funding for TfL

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TfL submission to the GLA Budget

TfL Board
8 December 2021

Section 1

2021/22 performance

1 April 2021- 13 November 2021

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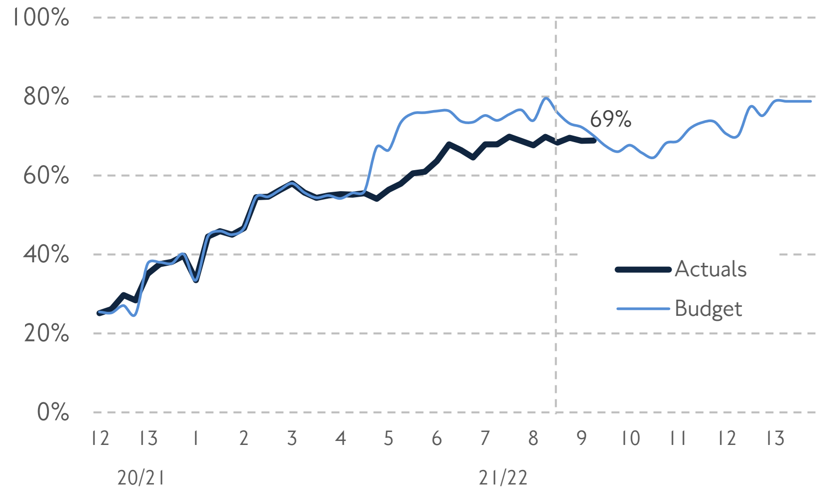
Headlines

Passenger journeys and income saw growth earlier this year, but are now broadly flat. Total TfL journeys reached were 69% of pre-pandemic levels in Period 8. Passenger income is significantly higher than last year, but remains around 40% lower than historical levels.

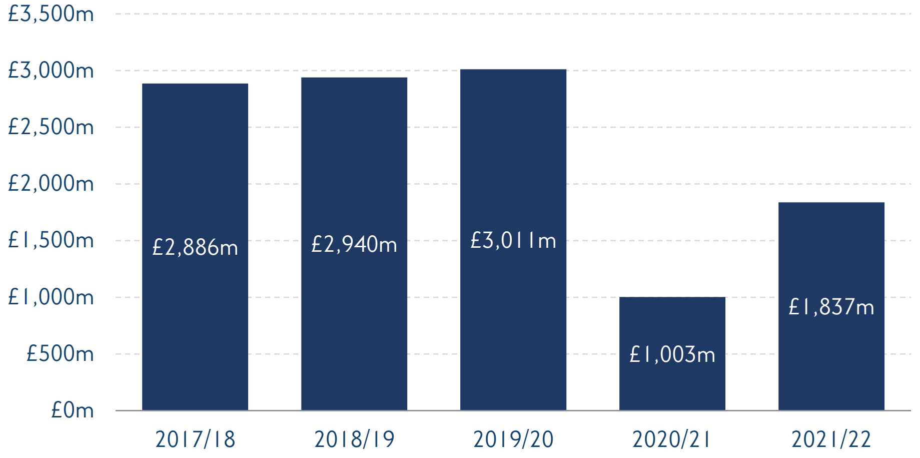
Cash balances are in line with Budget following the 1 June funding settlement with Government.

Following the expiration of the funding settlement (covering the end of May to December 2021), we expect to see cash balances decline beyond minimum cash levels, if we are not in receipt of further funding from Government.

Total passenger journeys 69% of pre-pandemic levels against a target of 75%.

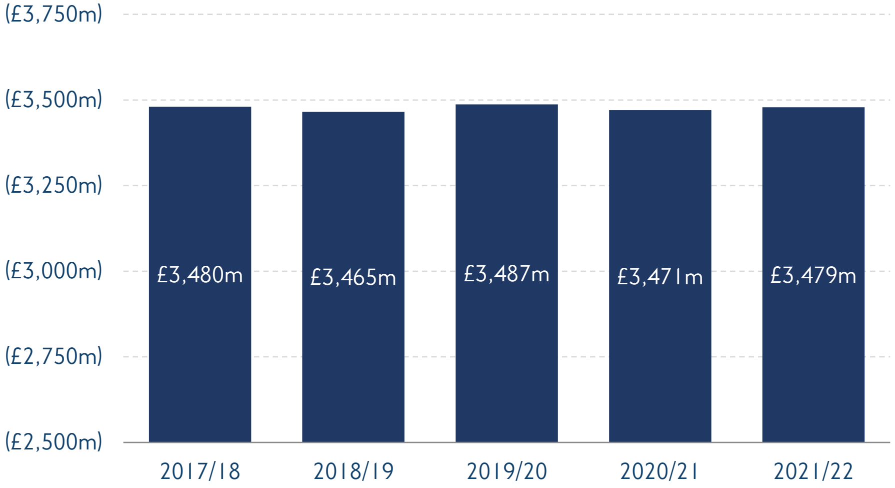


Passenger income up on last year, but £171m lower than Budget. Year-to-date income approximately 40% lower than pre-pandemic levels



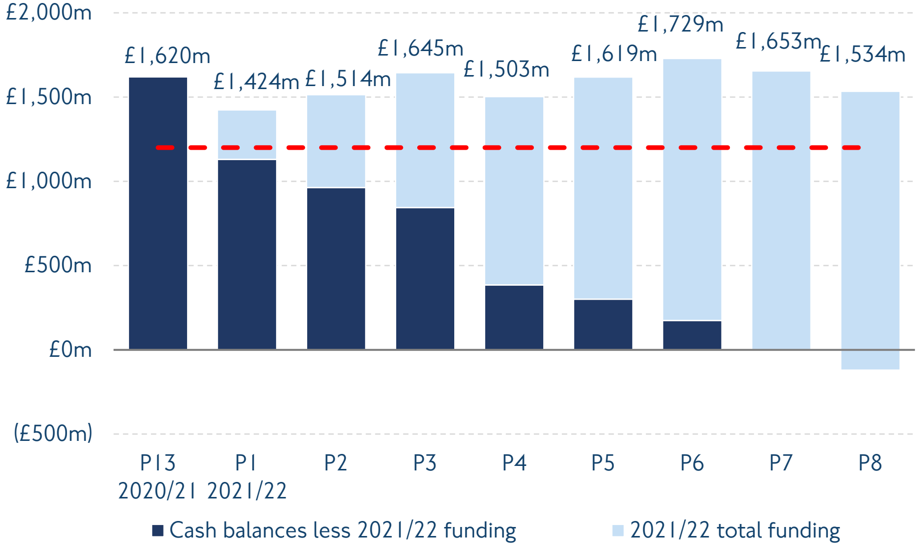
Individual years show year-to-date passenger income to end of Period 8.

Like-for-like operating costs in line with 2017/18, with our savings programme mitigating inflationary pressures



Individual years show year-to-date like-for-like operating costs to end of Period 8. Like-for-like costs adjust for new services (incl. Elizabeth line costs and ULEZ), project costs, service reductions at the start of the pandemic, and other one off and exceptional costs.

Cash balances are expected to reduce as Government funding declines. Excluding funding, we would have a cash deficit of (£121m) in Period 8.



Passenger journeys

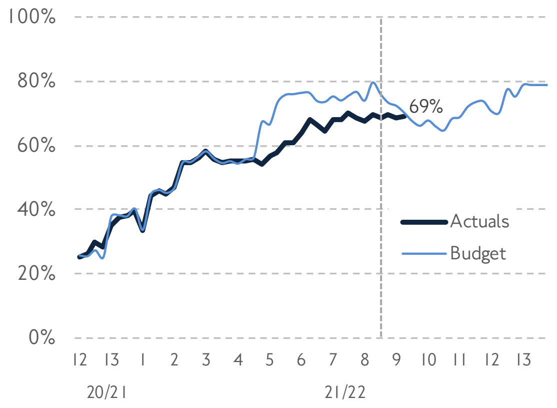
At the end of Period 8, passenger journeys were 69% of the pre-pandemic levels, compared to a target of 75%.

Passenger demand has more recently started to plateau. Similar to P7, bus journeys are 71% of pre-pandemic levels and nearly on target. Tube journeys are 66% of pre-pandemic levels in P8, up from 65% on P7, though dipping slightly in the last week of the period. Total journeys have averaged c. 68% of pre-pandemic levels since the end of the school holidays at the start of September.

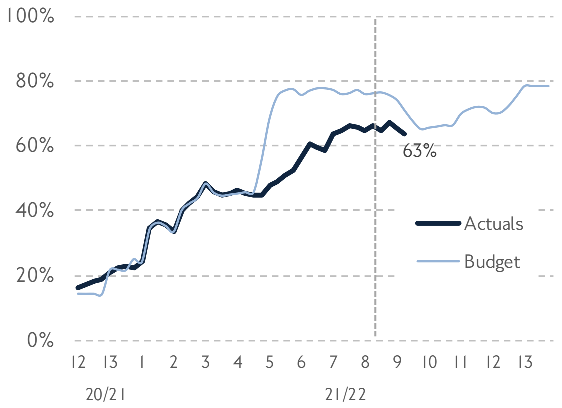
We had budgeted for a decline in journeys from the start of November, based on possible winter COVID outbreak. We are not yet seeing any significant impacts across the network, but with the re-introduction of face masks and emergence of the Omicron variant, the outlook remains uncertain.

Journeys compared to pre-pandemic baseline (adjusted 2018/19 journeys)
Target is budgeted demand against this baseline; 'P' denotes latest period; 'Y' denotes year-to-date performance

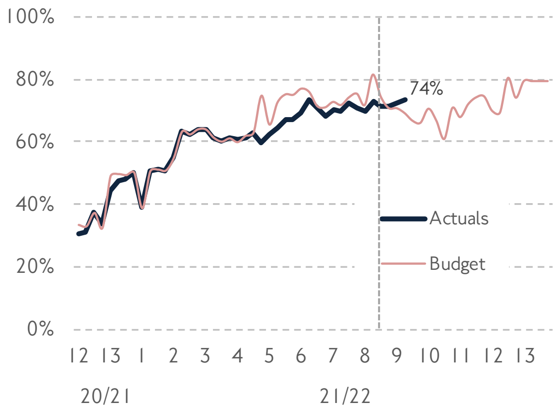
TfL	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	69%	75%	P	222	-22
			Y	1462	-120



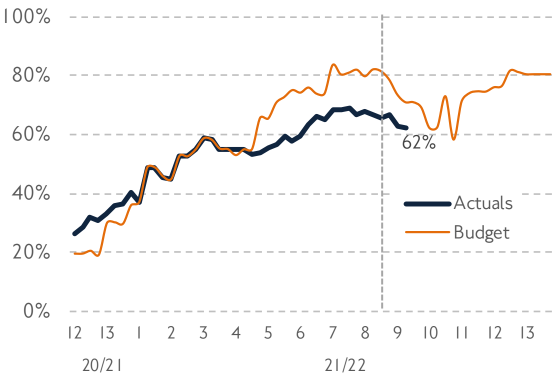
LU	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	66%	76%	P	74	-12
			Y	431	-70



Bus	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	71%	74%	P	125	-5
			Y	884	-32



Rail	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	67%	80%	P	19	-4
			Y	124	-14

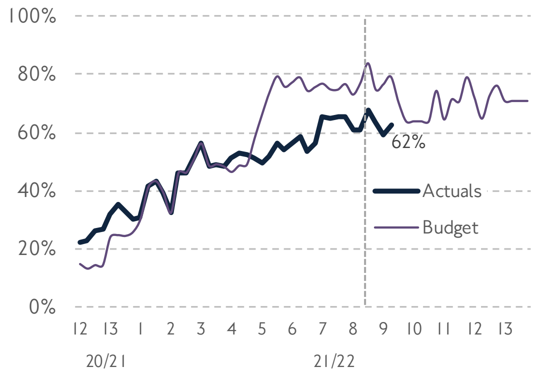


LO	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	64%	84%	P	10	-3
			Y	66	-10

DLR	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	70%	77%	P	7	-1
			Y	47	-4

Tram	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	72%	74%	P	2	0
			Y	12	-1

TfLR	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	63%	77%	P	4	-1
			Y	23	-3



Operating account

Passenger income is £1,837m in the year to date, which is 83% higher than last year, but (£171m) below Budget. This is driven by lower journeys across all modes, partly a result of the delay to Step 4 of the Government's roadmap, followed by the holiday season. Other operating income is £25m higher than Budget, driven by higher Road User Charging, media and property income.

Page 7

Operating costs are £135m below Budget from lower underlying costs (£54m), timing differences (£32m) and release of contingency (£50m) held to mitigate high risk uncertainties.

Extraordinary revenue grant is £120m higher than Budget, a result of higher revenue top up, which offsets lower passenger income.

Operating account

	Year to date, 2021/22				Year to date, 2020/21		
Operating account (£m)	**Actuals**	**Revised Budget**	**Variance to Revised Budget**	**% variance to Revised Budget**	**Last year**	**Variance to last year**	**% variance to last year**
Passenger income [1]	1,837	2,008	(171)	-9%	1,003	834	83%
Other operating income	636	611	25	4%	457	179	39%
Total operating income	**2,473**	**2,619**	**(146)**	**-6%**	**1,460**	**1,013**	**69%**
Business Rates Retention	587	572	15	3%	581	5	1%
Revenue grant	45	42	3	8%	22	23	108%
Government furlough grant	0	0	0	N/A	61	(61)	-100%
Total income	**3,105**	**3,233**	**(128)**	**-4%**	**2,124**	**981**	**46%**
Operating cost	(3,975)	(4,110)	135	-3%	(3,921)	(54)	1%
Net operating surplus	**(870)**	**(877)**	**6**	**-1%**	**(1,797)**	**927**	**-52%**
Net financing costs	(275)	(279)	4	-1%	(272)	(2)	1%
Net cost of operations after financing	**(1,145)**	**(1,155)**	**10**	**-1%**	**(2,070)**	**925**	**-45%**
Capital renewals	(274)	(342)	68	-20%	(174)	(100)	58%
Net cost of operations	**(1,419)**	**(1,497)**	**78**	**-5%**	**(2,244)**	**824**	**-37%**
Extraordinary revenue grant	1,496	1,375	120	9%	1,243	252	20%
Base funding	1,308	1,388	(80)	-6%	1,180	128	11%
Revenue top up	187	(13)	200	-1,530%	63	124	196%
Net cost of operations after extraordinary revenue grant	**76**	**(122)**	**198**	**-162%**	**(1,000)**	**1,077**	**-108%**

1 Year-to-date passenger income reflects £16m additional income from the Rail Delivery Group in relation to travelcard allocation between late 2019/20 and 2020/21. Underlying income is £1,853m, (£187m) lower than Revised Budget.

Capital account

Total capital expenditure £158m lower than target, largely a result of project slippage and deferrals due to short term and stop-start nature of the current funding settlements.

The continual deferral of renewals and capital expenditure due to stop-start funding provide poor value for money. It is difficult to enter into multi year commitments without having funding certainty beyond a number of months. This means a backlog of works is created, creating additional resource and cost pressures longer term.

Property and asset receipts are (£86m) lower than Budget, driven by later than expected property disposals and a delay in completing the Tottenham Court Road East Crossrail site.

Capital account (£m)	Year to date, 2021/22 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
New capital investment	(479)	(569)	90	-16%	(441)	(38)	9%
Crossrail	(392)	(451)	59	-13%	(468)	75	-16%
Total capital expenditure	**(871)**	**(1,020)**	**149**	**-15%**	**(909)**	**37**	**-4%**
Financed by:							
Investment grant	558	611	(53)	-9%	546	12	2%
Property and asset receipts	47	133	(86)	-65%	8	40	529%
Borrowing	1	1	(0)	-19%	507	(506)	-100%
Crossrail borrowing	74	74	0	0%	414	(340)	-82%
Crossrail funding sources	361	391	(29)	-7%	67	294	436%
Other capital grants	26	41	(15)	-37%	79	(53)	-68%
Total	**1,067**	**1,251**	**(183)**	**-15%**	**1,621**	**(553)**	**-34%**
Net capital account	**196**	**231**	**(35)**	**-15%**	**712**	**(516)**	**-72%**
Capital renewals	(274)	(342)	68	-20%	(174)	(100)	58%
New capital investment	(479)	(569)	90	-16%	(441)	(38)	9%
Total TfL capital expenditure	**(753)**	**(911)**	**158**	**-17%**	**(615)**	**(138)**	**22%**

We have exceeded the additional savings target of c.£300m in 2021/22 set by Government

In addition to the £730m savings programme already underway, the 1 June Funding settlement required additional savings of £300m in 2021/22 against the March Budget through non-fares revenue and/or cost savings.

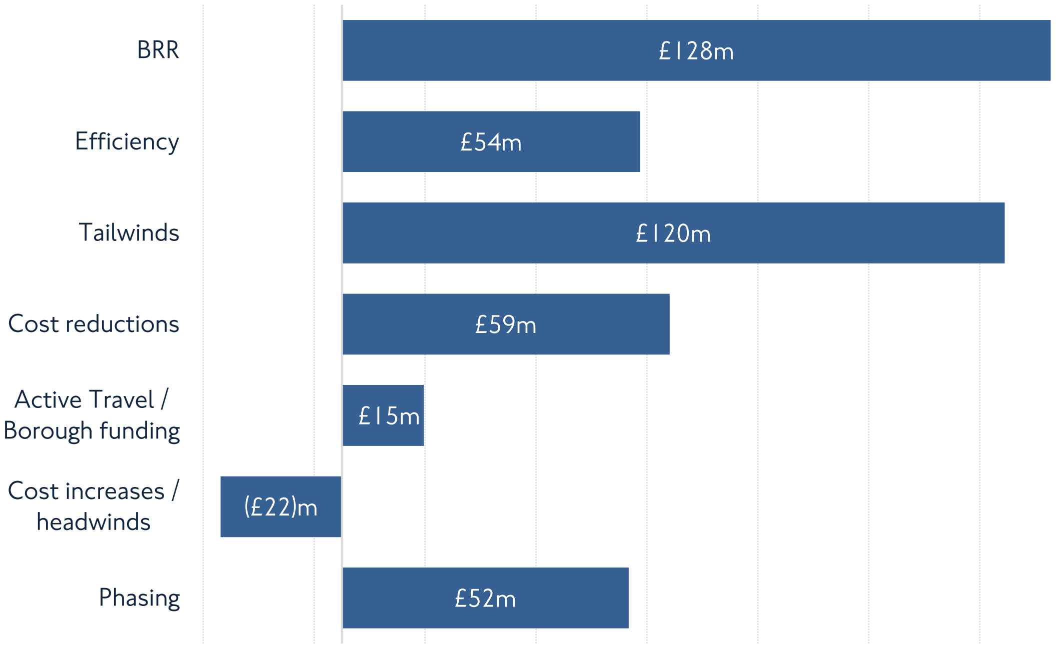
This draft GLA Budget submission shows £375m of savings in 2021/22. TfL has achieved £404m in the year-to-date (excluding £50m group contingency), which is now expected to reduce, mainly as a result of lower than expected ULEZ expansion income.

We have strived to achieve cost recurring and one-off cost reductions to reduce overall requirements of Government funding.

Savings summary

	Year to date, 2021/22			FY, 2021/22
(£m)	Actuals	March 2021/22 Budget	Actual savings vs March 2021/22 Budget	Target savings GLA Budget vs March 2021/22 Budget
Operating income	636	555	81	(89)
Revenue grants incl. BRR	632	499	132	132
Operating costs (incl. financing costs)	(4,250)	(4,491)	241	393
Net cost of operations excl. passenger income and capital renewals	**(2,982)**	**(3,437)**	**454**	**435**
Less contingency (included in operating costs above)	0	50	(50)	(60)
Net cost of operations excl. passenger income, capital renewals and contingency	**(2,982)**	**(3,387)**	**404**	**375**

Year to date savings by type:



BRR: Business Rates Retention income

Efficiency: Staffing/Pay/Performance arising from remuneration stipulations (Para. 28, 1st June 2021 TfL Settlement Letter)

Tailwinds: ULEZ & LEZ income improvement due to higher overall volumes of traffic

Cost reductions: Lower Elizabeth Line trial operations and rolling stock maintenance, bus service reductions, reducing bus retrofitting with Selective Catalytic Reduction technology (reducing NO2 emissions), LU traction current savings

Cost increases / headwinds: Less than expected income from ULEX due to higher compliance

Phasing: Coronavirus related spend and other costs and income across the business, which are expected to reverse before year end

Section 2

The challenge

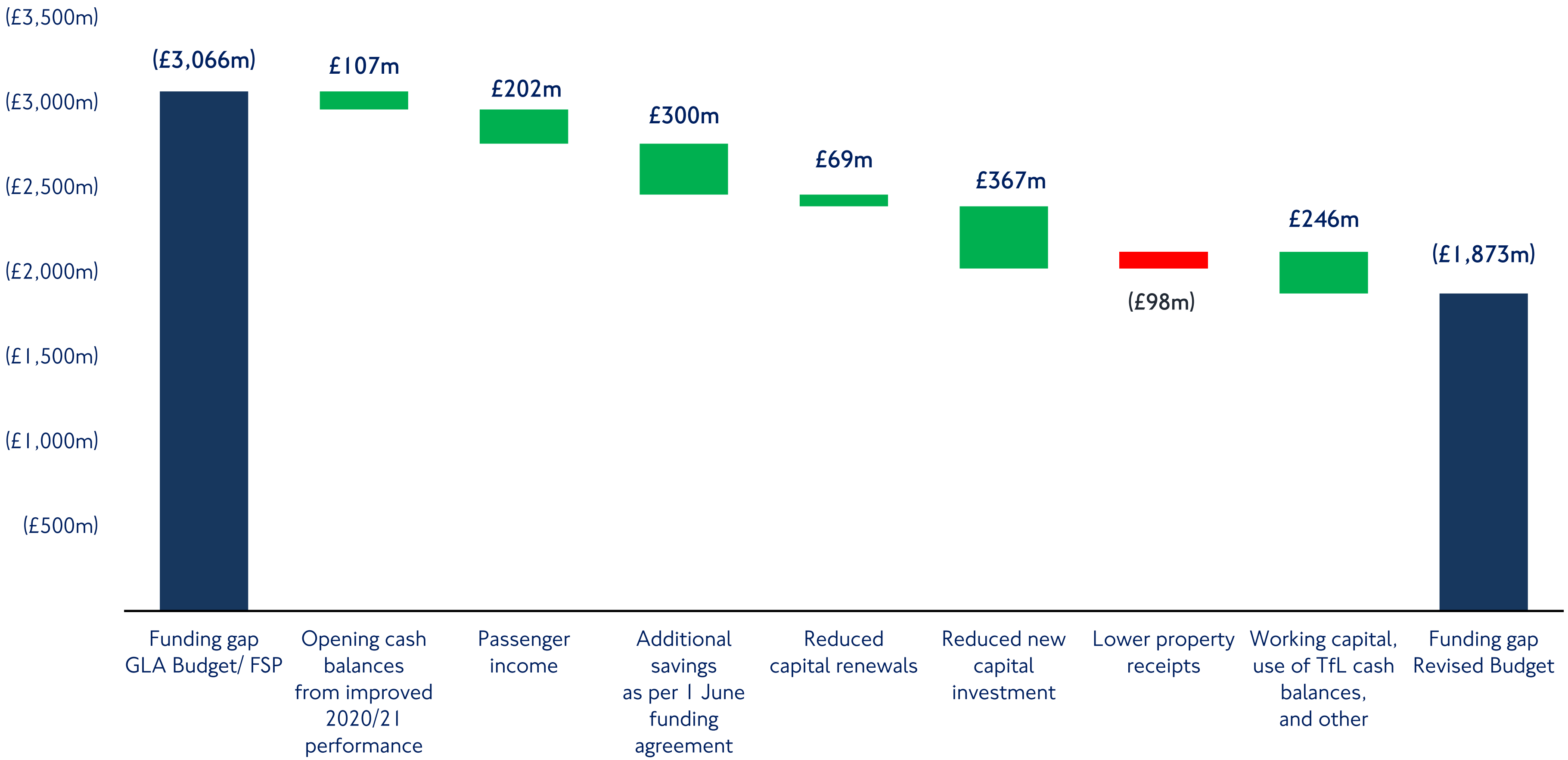
Funding gap since last year

When the GLA Budget was set in December 2020, our expected funding was £3.1bn.

The gap was reduced by £1.2bn in our Revised Budget (July 2021), as a result of higher cash balances last year, higher than expected passenger income from more journeys, additional savings (a requirement for £300m savings set out in the 1 June funding agreement), as well as over £400m of reductions in capital expenditure.

The funding gap of £1.9bn this year included a further £500m required after the 1 June funding agreement expires on 11 December 2021.

Our funding gap has gone down by almost £1.2bn this year (2021/22)



Funding gap in the GLA Budget

To date, we have secured £1.58bn of funding for 2021/22 (P1-P9), an increase from £1,348m since the Revised Budget due to higher revenue true up following lower fares revenue.

The full year gap has reduced by £42m since the Revised Budget following cost savings, lower capital renewal and investment spend, and favourability in working capital – offsetting lower property receipts and the decrease in passenger income.

The full year funding requirement of £1,831m includes £245m required after the 1 June funding agreement expires on 11 December 2021, a reduction from the Revised Budget figure of £525m for P10-P13. This is predicated on TfL managing to a £1.2bn minimum cash balance.

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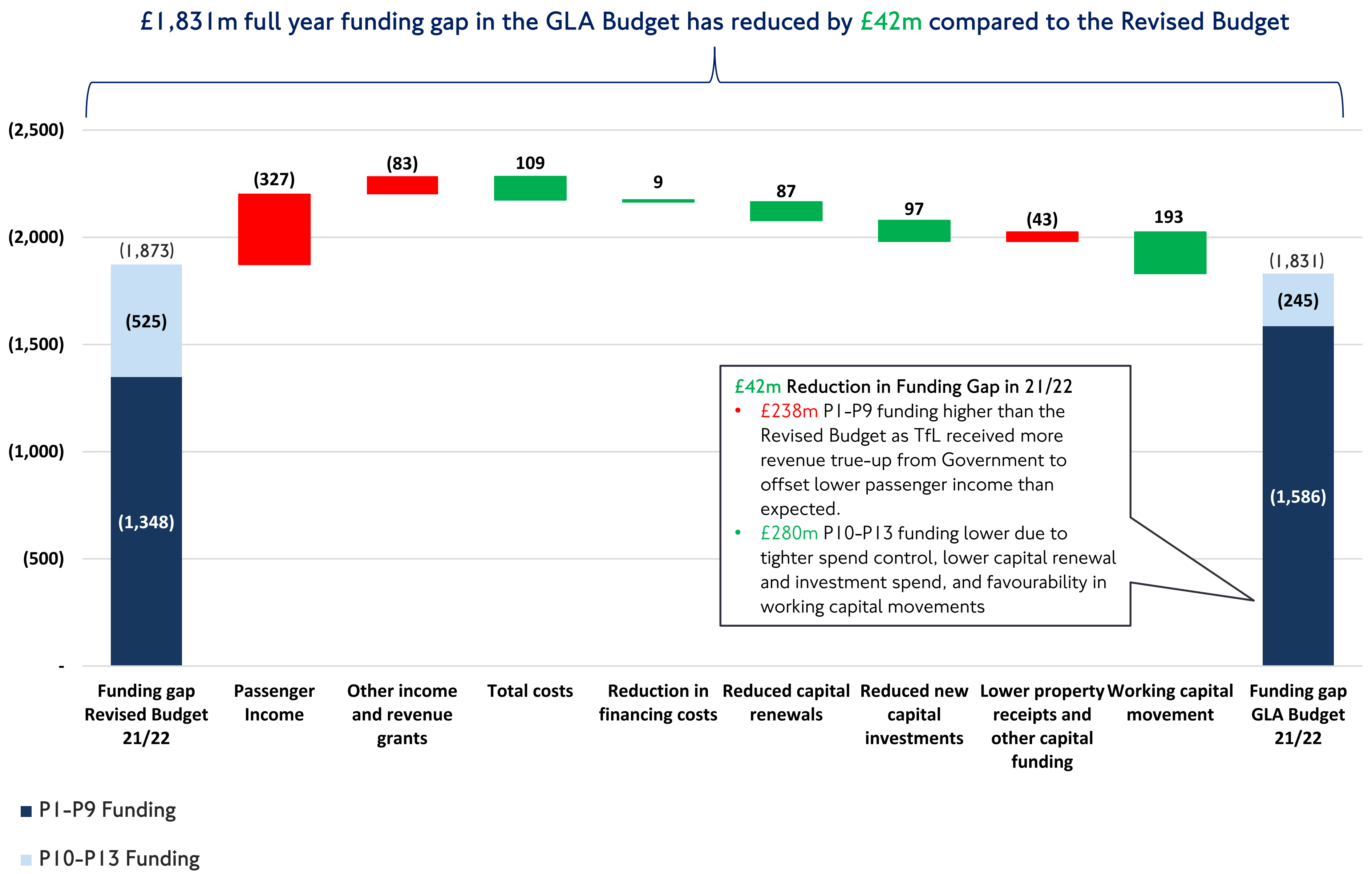

The pandemic has had a significant economic impact and the trajectory of economic recovery is uncertain

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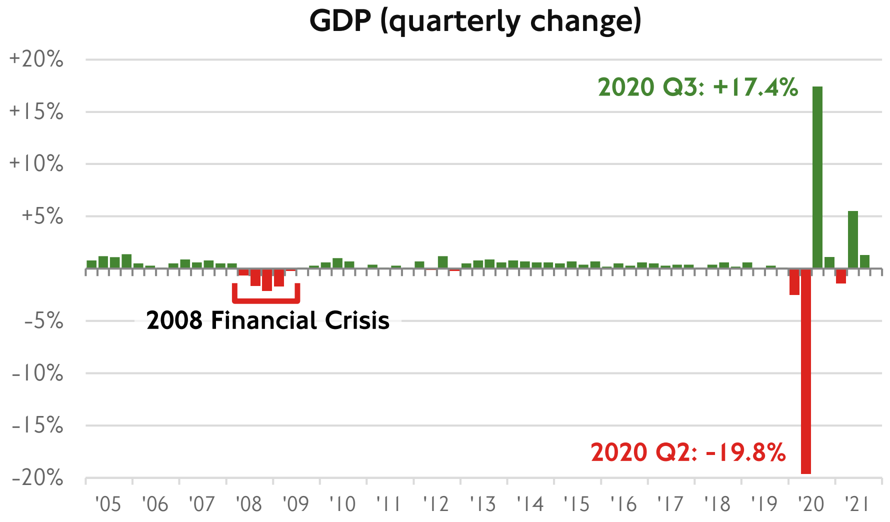
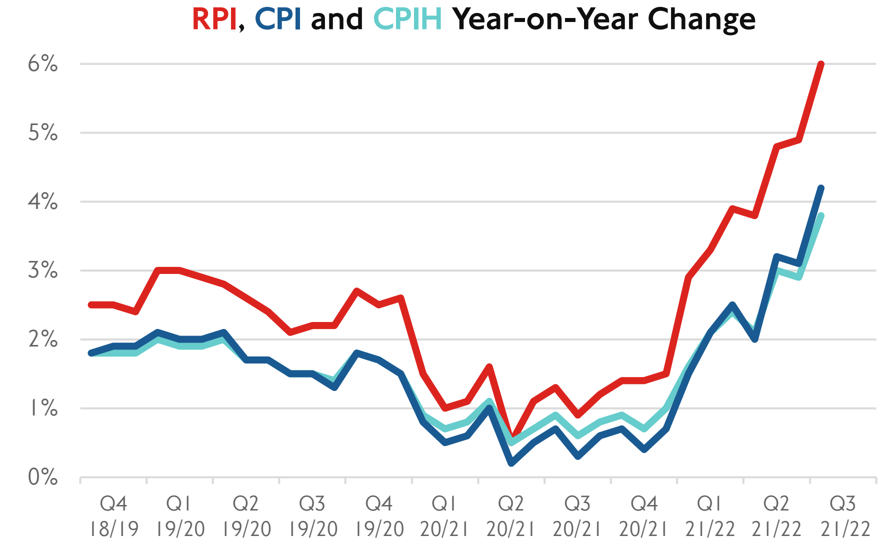
Both the price of energy and the rate of inflation have increased significantly in 2021, exerting significant pressure on our cost base and causing the outlook for future fiscal and monetary policy to be increasingly uncertain.

We estimate inflation will drive an increase of over £200m into our total costs for 2022/23 compared to 2021/22, with savings initiatives no longer able to mitigate inflation entirely.

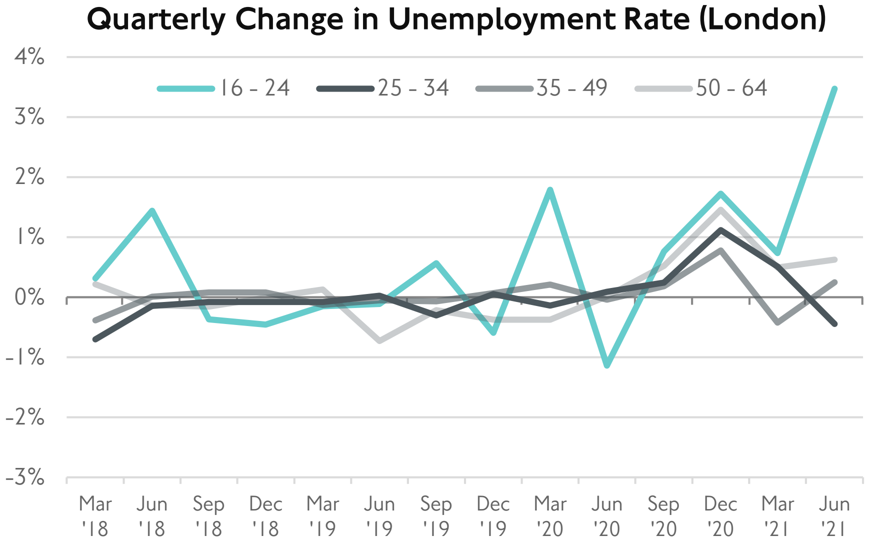
GDP Forecast



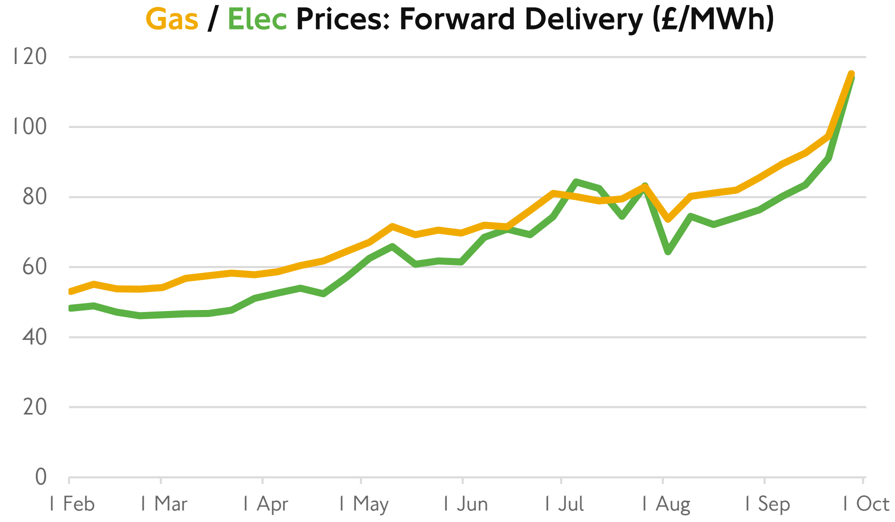
Inflation



Youth Unemployment



Energy Prices



Operating cost pressures

We are faced with recently unprecedented high inflation in 2022/23, along with increases on National Insurance, increasing our annual cost base by £235m.

We continue to make savings through our long-term savings programme, which has already removed almost £1bn (before the impacts of inflation) from our cost base since 2016/17. However, operating cost savings options are increasingly limited and available options will take time to deliver. In 2022/23, we are therefore proposing to reduce some services, in order to reduce costs further.

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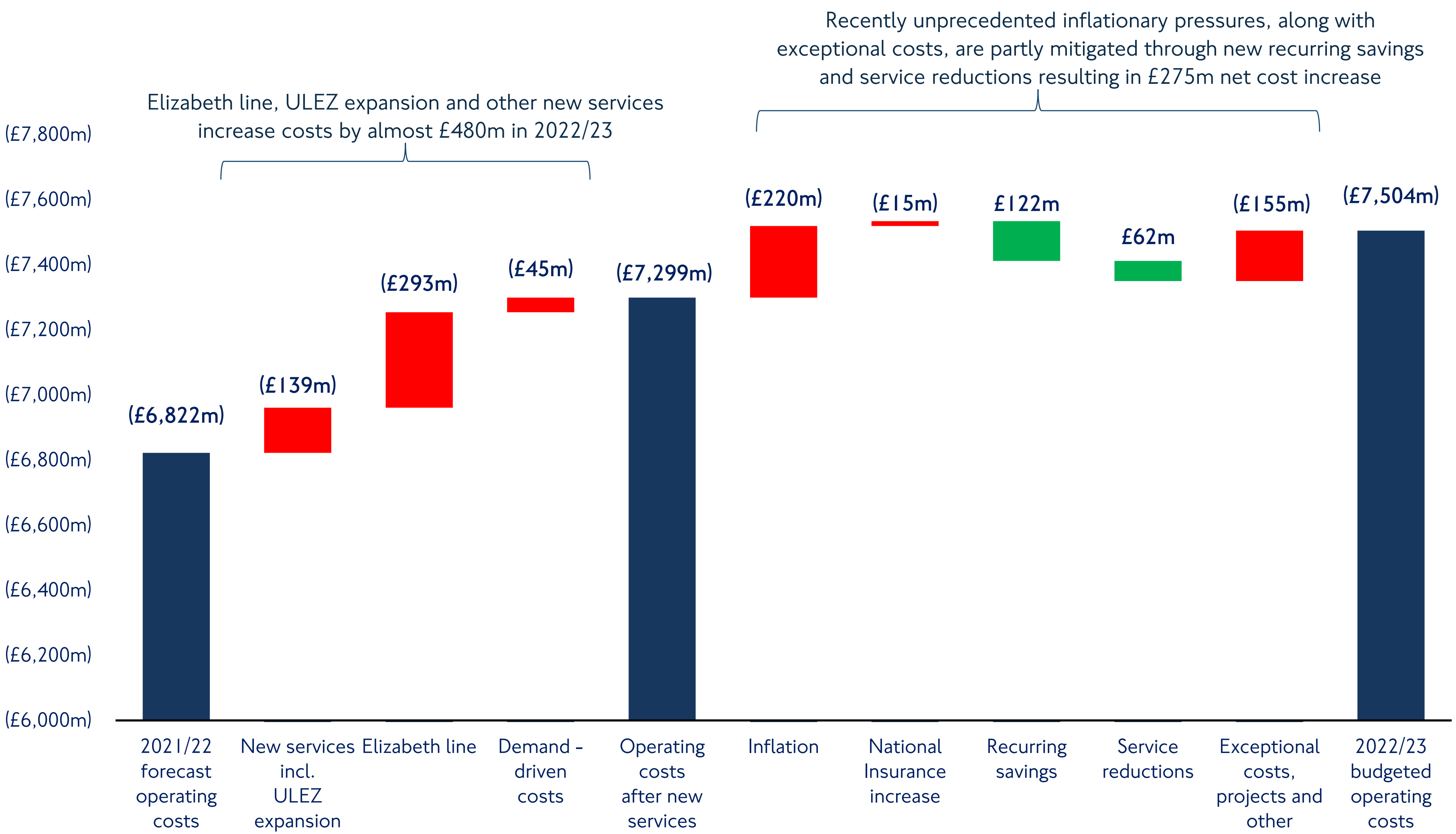
Year-on-year operating costs pressures



The winter period is expected to result in a step backwards in demand recovery.

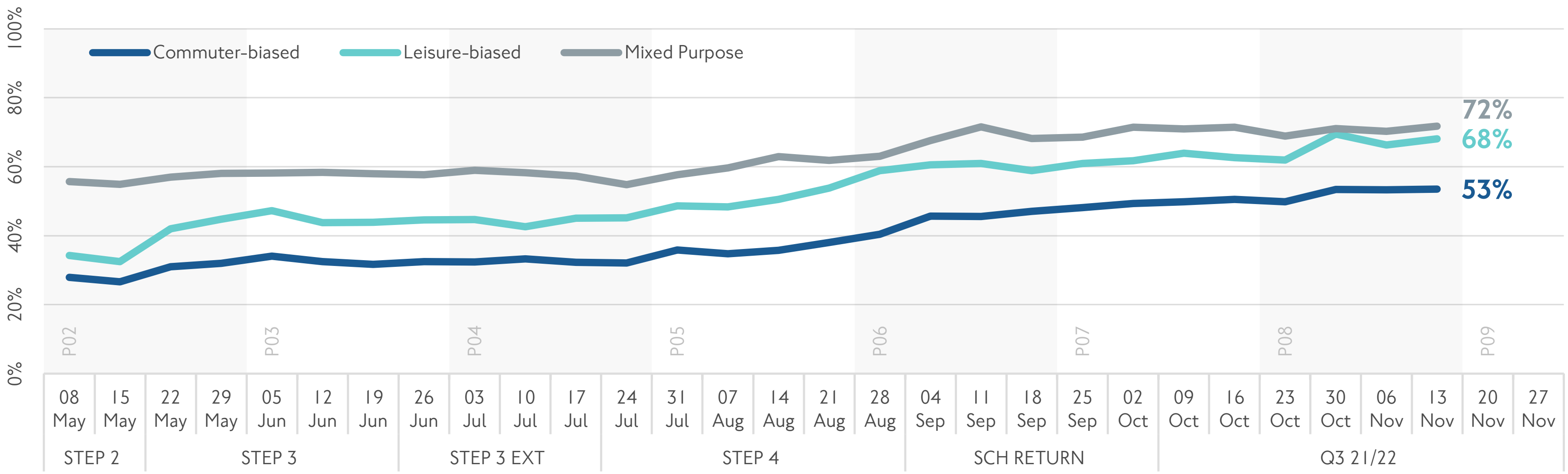
Moving to Step 3 and Step 4 saw the anticipated increases in Leisure-based LU journeys. The return of pupils to schools in September had the largest impact on commuter-based journeys.

Beyond the Roadmap, October and November saw slow, steady recovery of demand.

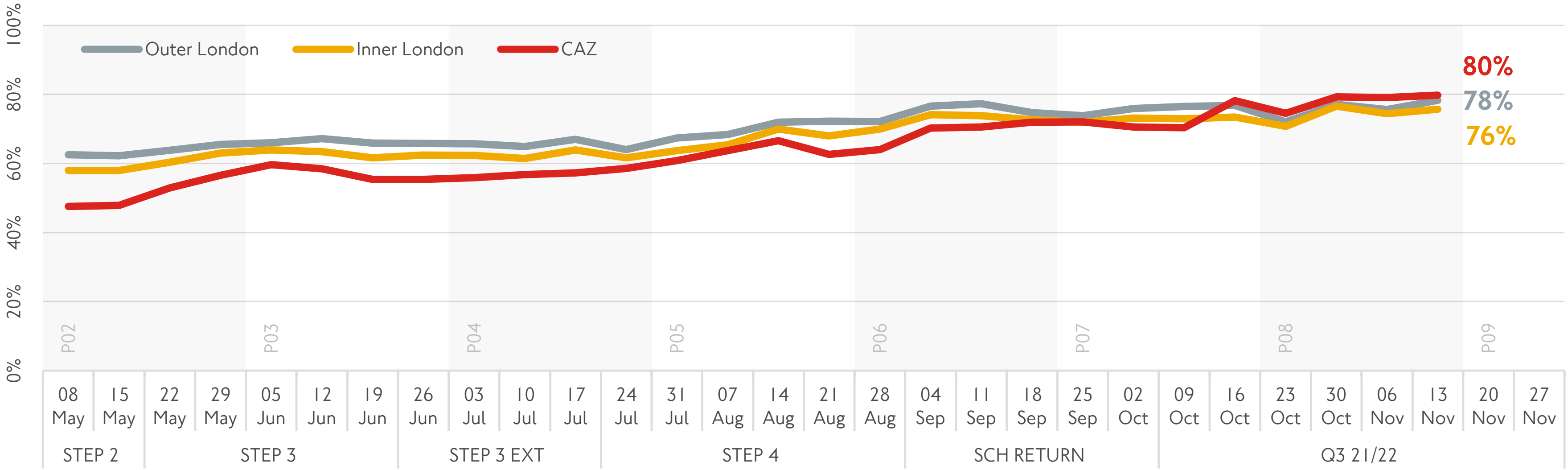
Forecast modelling assumes a suppression of demand as cold and flu season takes hold. The emergence of the Omicron variant may worsen this short-term impact.

Business sentiment suggests the next inflection point for the return to office will be in January, contingent on further positive news regarding the Omicron variant.

LU Demand Recovery



Bus Demand Recovery



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Demand recovery remains uncertain and as we are so dependent on fares revenue, this significantly impacts our financial forecasts

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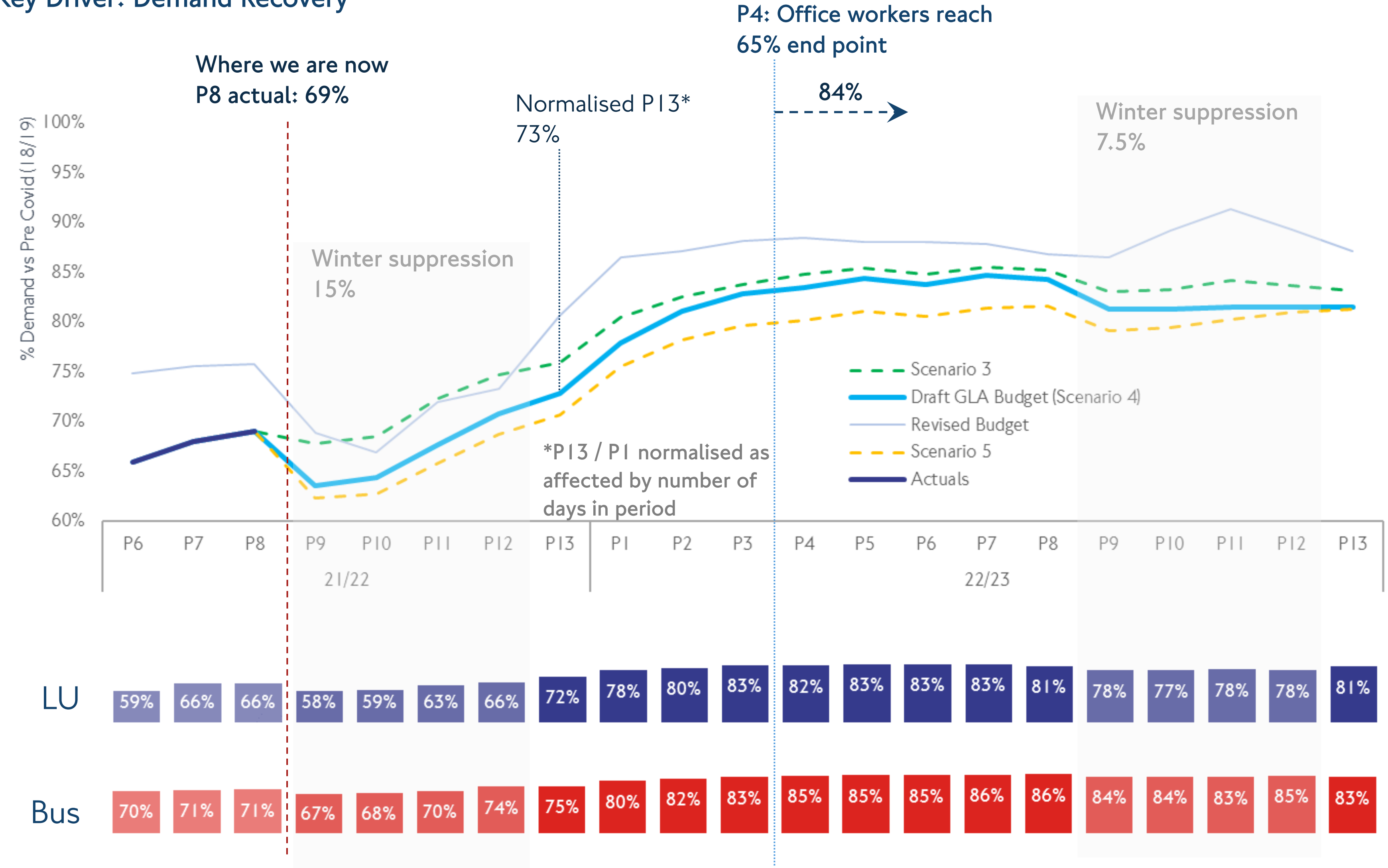
Our scenario modelling indicates a range of +/- £100m for this financial year and next which supports the case for continuation of the revenue true-up mechanism beyond the end of the current funding settlement.

Demand vs. Pre-Covid (18/19) (excl. Elizabeth Line)

Variance to Revised Budget £m			% demand vs 18/19		
P9 YTD	FY 21/22	FY22/23	P8 21/22	P13* 21/22	22/23 Av
(£256m)	(£363m)	(£288m)	69%	73%	82%

Key Driver: Demand Recovery



These additional pressures materialising have increased the funding gap

£bn	22/23	23/24	24/25
CSR Funding gap (with no additional London income)	**(1.2)**	**(2.2)**	**(2.0)**
Move to 'Financially Constrained' capital scenario	-	0.8	0.5
Financially Constrained Funding gap (with no additional London / Government income)	**(1.2)**	**(1.4)**	**(1.5)**
Recent changes			
Latest passenger income forecast	(0.3)	(0.4)	(0.5)
Latest BRR forecast	0.1	0.2	0.2
Latest ULEX assumptions	(0.3)	(0.2)	(0.1)
Latest net operating costs	(0.2)	(0.3)	(0.3)
Latest capital investment	0.2	0.1	0.5
Funding gap after recent developments	**(1.7)**	**(1.9)**	**(1.7)**

This table was presented to the Finance Committee on 24 November 2021, to outline at a high level what the additional pressures have been since our revised budget (which informed our submission to the CSR), and the overall impact they have on our funding gap.

- Passenger income has been lower than budgeted, and this has been reflected in our most recent demand forecasts
- ULEX compliance has been greater than expected, resulting in lower proceeds from the scheme
- Operating costs have increased due to inflationary pressures, as well as an increase in the cost of energy

Section 3

TfL submission to the GLA Budget

Key assumptions in the draft GLA Budget submission

GLA submission assumes no Gov support after 2022/23 and instead presents a gap of required funding. Should funding become available then this would be reflected in TfL's final budget in Spring 2022

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Revenue	• We have modelled four scenarios for passenger income which flex four core variables: economy; office return to work profile; the end state for office return; and the level of reduction in demand over the winter period • Scenario 4 is our current central case which assumes the economy grows at a slow pace of return, office workers returned to 65% by summer 2022 and there is a 15% reduction in demand over winter • Average passenger demand for 21/22 is around 62% of 2018/19 pre-covid actuals, and by the end of the year (Mar 22) we are forecasting to be around 73% • Average passenger demand for 22/23 is circa 82% excluding Elizabeth line • Fares uplift remains RPI+1% (in line with assumed date for fare changes on national rail) although timings would be aligned to National Rail fare increases. These would then uplift again each year in January by the same level. This is in line with the current Government funding condition, however the decision for fares will be taken by the Mayor on an annual basis. • Business Rates Retention is in line with the Mayor's Budget Guidance issued at the end of July 2021
Congestion Charge and ULEZ	• The planning assumption is the set of changes to the Congestion Charge that were consulted on are implemented, but this is subject to a final Mayoral decision • The assumptions for ULEZ are based on the initial data we have for volumes and compliance levels following the go-live since the expanded zone on 25 October 2021
LU / Rail services	• On Tube / Rail, we would have to implement every service reduction where there is a net cost saving, circa 9% of our services • Night Tube restarted on 27th November for the Central and Victoria lines, work continues for confirming a date for the remaining lines • Elizabeth line stage 3 opening assumed to be the first half of 2022
Bus service levels	• A further 18 per cent of service cuts, circa 100 bus routes to be withdrawn over the period to 2024/25 • This includes 4 per cent of service reductions included in the Revised Budget
Financial	• Our RPI assumptions have increased from 2.8% for 21/22 and 3.1% thereafter to 4.3% and 4.0% respectively. However, RPI is currently running higher than these assumptions (October 2021 was 6.0%) • No new net borrowing assumed in 2021/22 and 2022/23

Rail combined (LU, EL & Rail)

LU is significantly below its £1bn direct operating surplus target (before indirect, financing and renewals) driven by passenger income being behind pre-pandemic levels.

Elizabeth line stage 3 opening now expected first half of 2022.

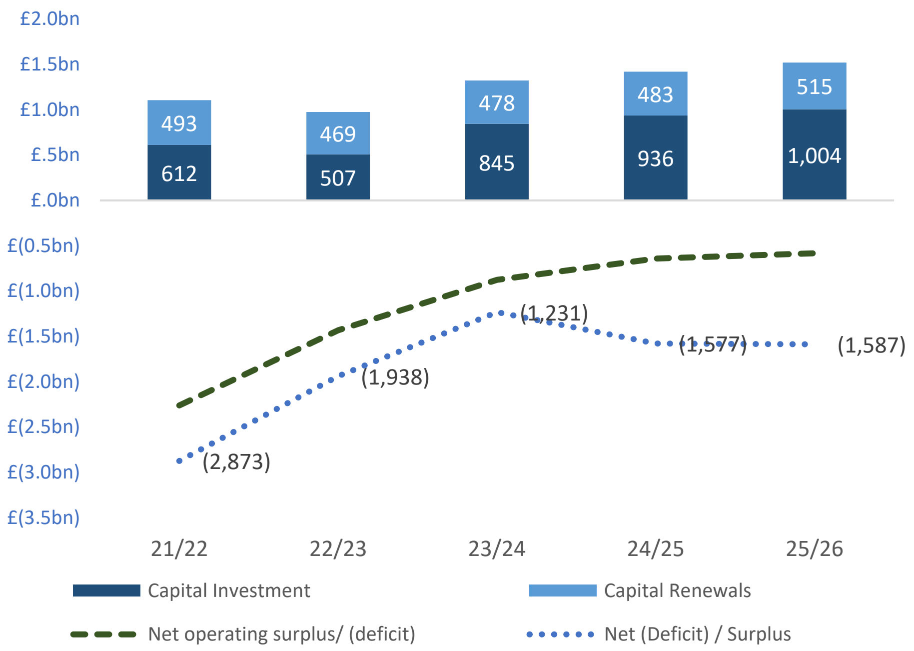
Other Rail modes cannot breakeven before renewals.

To break even including renewals, the combined function needs a combination of changes in fare structure and/or service offering

Draft GLA Budget submission

Combined Rail (LU/EL/Rail)	21/22	22/23	23/24	24/25	25/26
Passenger Income	1,999	3,133	3,561	3,830	4,070
Other income	65	305	442	456	470
Operating Costs	(3,017)	(3,496)	(3,701)	(3,823)	(4,003)
Finance Costs	(413)	(414)	(408)	(440)	(444)
Indirect Operating cost	(403)	(490)	(291)	(182)	(161)
Net operating surplus/ (deficit)	(1,768)	(962)	(398)	(159)	(67)
Capital Renewals	(493)	(469)	(478)	(483)	(515)
Net surplus/ (cost) of operations	(2,261)	(1,431)	(875)	(641)	(582)
Capital Investment	(612)	(507)	(845)	(936)	(1,004)
Other Asset Financing	0	0	489	0	0
Net (Deficit) / Surplus	(2,873)	(1,938)	(1,231)	(1,577)	(1,587)

Funding requirements for capital programme



Key assumptions

- Service cuts of 9% are assumed up to 24/25 as part of our high level assessment of service levels. These assumptions are subject to relevant consultation, impact assessment and decision making.
- Tube journeys expected to reach around 84% of pre-pandemic levels by 2024/25 (excluding service cuts above)
- Rail receives 70% of indirect cost allocation
- Note: Business rates have not been apportioned to this area

Impact of Managed Decline:

- No Step Free Access schemes other than those which are currently in construction.
- New Piccadilly fleet delivered, but other lines delayed through life extensions, creating longer-term back log at significant cost.
- No signalling upgrades after 4LM, including. Piccadilly line which would delay capacity benefits of the new fleet and disrupt the supply chain
- No Station capacity upgrades after current commitments, including Camden Town and Holborn, and TfL would not be able to enter joint funded new station schemes.
- Increasing renewals spend from recent under-investment to levels which are considered essential for long-term safety and operability, but not reliability. Renewals added to account for the reduction in enhancements beyond committed schemes. Many renewals deferred creating increased risk of reliability and future financial risk.

London Underground Till (incl. Rail, EL and Major Projects) – 22/23 Capital Expenditure

Renewals:

£469m (Revised Budget £536m)

Enhancement:

£507m (Revised Budget £803m)

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The draft GLA Budget focuses on the Managed Decline scenario with no new enhancement projects above those already committed together with only essential renewals projects continuing.

The scenario accepts a worsening in asset performance while maintaining safety (if necessary by taking assets out of service).

✓ Included in the draft GLA budget	✕ Removed, reduced or deferred from the Revised Budget
Capital Enhancements £507m vs Revised Budget of £803m	
MPD Upgrades and Extensions £366m (RB £534m)	
• New Piccadilly line and DLR Trains • 4 Lines signalling modernisation • Northern Line Extension • Barking Riverside Extension	• Jubilee Line Optimisation • Piccadilly Line Signalling
Stations, £77m (RB £68m)	
• Bank • Elephant and Castle (stage 1 externally funded)	• Elephant and Castle stage 2 (station fit out)
Rail Enhancements, £6m (RB £35m)	
• Royal Docks Station (GLA Funded)	• East London Line HIF (unless fully third party funded)
LU Technology & Networks, £1m (RB £1m)	
• Enablers for Modernisation programmes incl. workforce planning • Mobile device roll out • Underground connectivity – in time for PLU	• Post -AMIS ecosystem alignment to 2028 • Future workbank development
Civils, Accessibility and other £22m (RB £42m) + **Group Allocation £35m** (RB £123m)	
• Crossrail escalator programme • Safe Track Access • Group allocation of Technology projects	• Accessibility Programme • Civils enhancements programme • South Kensington
Capital Renewals £469m vs Revised Budget of £536m	
• Minimum safety spend on all assets • Elizabeth line renewals commence towards the end of this period • Group allocation for replacement of key technology systems	• Reductions in scope across asset areas particularly Fleet and Track • Increased levels of overprogramming in later years where exact projects to be removed has not been determined yet

Streets, Buses and Other Surface operations

The combined bus and streets network makes an operating loss of around £900m after renewals even after significantly reducing service levels.

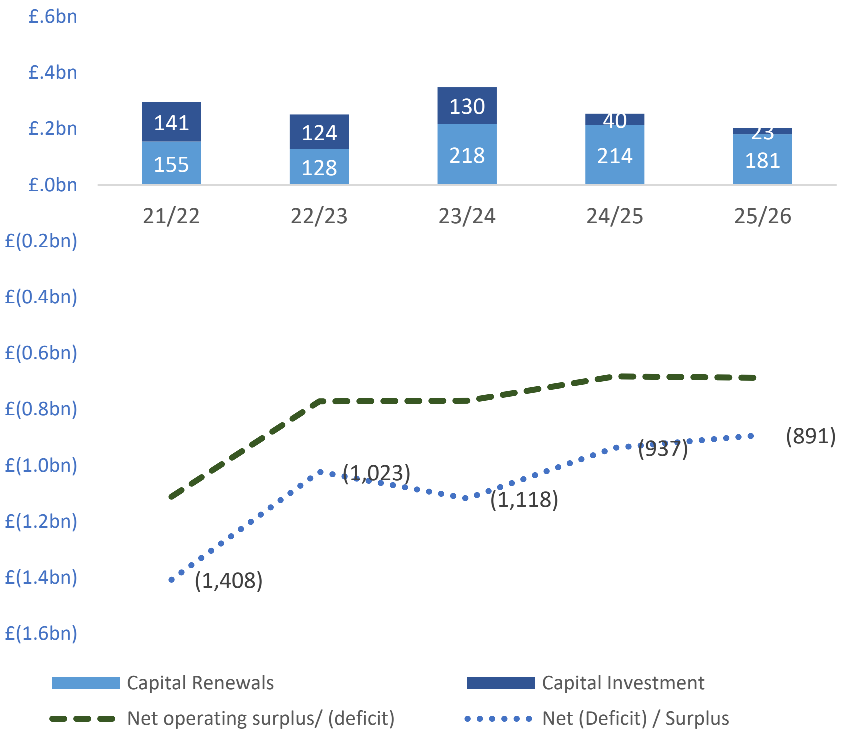
The expansion of ULEZ initially produces a significant increase in net income but as compliance increases revenue is expected to fall.

A new source of funding or income will be required to make our streets and buses operation financially sustainable over the medium to long term.

Draft GLA Budget submission

Street & Buses	21/22	22/23	23/24	24/25	25/26
Passenger Income	1,079	1,302	1,396	1,522	1,568
Other income	808	1,020	846	837	965
Operating Costs	(2,865)	(2,919)	(2,905)	(2,965)	(3,147)
Finance Costs	(27)	(24)	(26)	(25)	(27)
Indirect Operating cost	(106)	(151)	(80)	(52)	(47)
Net operating surplus/ (deficit)	**(1,112)**	**(771)**	**(769)**	**(683)**	**(687)**
Capital Renewals	(155)	(128)	(218)	(214)	(181)
Net surplus/ (cost) of operations	**(1,267)**	**(899)**	**(988)**	**(897)**	**(868)**
Capital Investment	(141)	(124)	(130)	(40)	(23)
Net (Deficit) / Surplus	(1,408)	(1,023)	(1,118)	(937)	(891)

Funding requirements for capital programme



Key assumptions

- Bus services are reduced by 18% over the period to 2024/25. These assumptions are subject to relevant consultation, impact assessment and decision making.
- Includes latest assumption for ULEZ compliance rates and volumes since opening in Oct 21
- Note: Business rates have not been apportioned to this area

Impact of managed decline

- Street assets generally remain in degraded condition, with short-term solutions to highest risk bridges and tunnels and high risk of unplanned closures
- On Healthy Streets, after completing schemes currently in construction, only £10m p.a. for the most safety critical schemes and limited bus priority schemes. No new cycling routes other than those currently in construction. No major transformation schemes, such as Vauxhall Cross or Wandsworth Gyratory.
- A reducing bus network would impact our ability to introduce new electric buses, delaying the completion of a zero-emission bus fleet beyond 2034

Streets, Buses, and Other Surface operations – 22/23 Capital Expenditure

Renewals:
£128m (Revised Budget £260m)
Enhancement:
£124m (Revised Budget £371m)

The draft GLA Budget focuses on the Managed Decline scenario with no new enhancement projects above those already committed together with only essential renewals projects continuing.

✓ Included in the draft GLA Budget submission	✕ Removed, reduced or deferred from the Revised Budget
Capital Enhancement £124m (£371m in RB)	
Air Quality and Environment, £21m (RB £165m)	
• Silvertown and Blackwall Tunnel Charging	• Bus Opportunity Charging – Single decker trials • Direct Vision Standard – Phase 2 • Mayors Air Quality Fund
Healthy Streets, £39m (RB £75m)	
• Old Street Roundabout • Completion of cycleways in construction • c£10m pa of funding for the most safety critical schemes and to deliver limited levels of bus priority to protect revenue	• Future cycleways • Transformational schemes such as Vauxhall Cross, Wandsworth Gyratory Removal, Waterloo City Hub • 20 mph zones • Any further safer junction schemes • Healthy Street local schemes
Surface Technology, £8m (RB £29m) **, Assets £6m** (RB £21m)**, Silvertown £41m** (RB £43m) **& Group allocation £10m** (RB £38m)	
Surface Technology • Deployable Enforcement Cameras • Cycle Hire e-Bike trial Public Transport • Bus Customer Experience enhancements • Group allocation of Technology projects	• Cycle Hire expansion (unless fully third party funded) • Cycle Hire e-Bike rollout (beyond 500 bike trial) • All uncommitted technology enhancement schemes that improve network performance • Any further permanent Hostile Vehicle Mitigation schemes on bridges
Capital Renewals £128m (£260m in RB)	
• Road User Charging re-let 2026 • Reduced level of renewals to be prioritised across asset base • Group allocation for replacement of key technology systems	• Some larger renewals of structures and tunnels are likely to be deferred leading to further restrictions and closures.

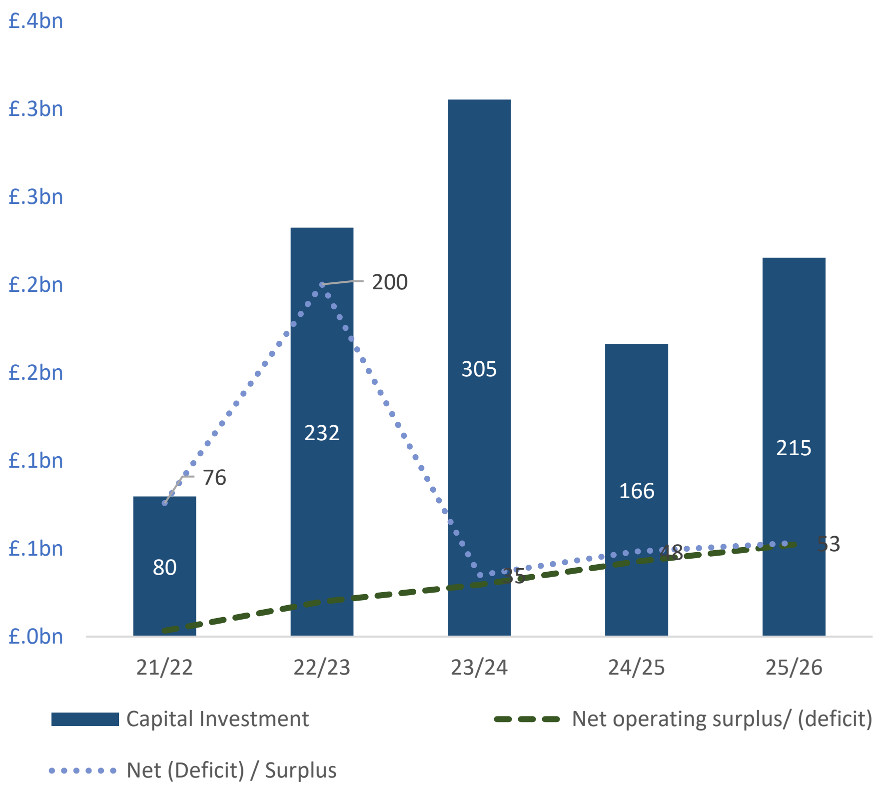
Housing, Property Development and Commercial Revenue

Maximising incomes from our property development business and commercial assets whilst recycling assets which are not revenue generating to fund the capital plan will generate a growing revenue stream to reinvest in transport.

Draft GLA Budget submission

Commercial Development	21/22	22/23	23/24	24/25	25/26
Other income	69	93	90	100	109
Operating Costs	(56)	(56)	(50)	(50)	(50)
Indirect Operating cost	(10)	(17)	(10)	(7)	(6)
Net Cost of Operation	3	20	29	43	52
Renewals	–	–	–	–	–
New Capital Investment	(80)	(232)	(305)	(166)	(215)
Capital Receipts	152	413	289	77	80
Borrowing	0	0	22	95	136
Net (Deficit) / Surplus	76	200	35	48	53

Funding requirements for capital programme



Key points:

- Plans are progressing for TfL's property team (TTLP) to fund revenue generating developments and asset improvements through borrowing and targeted disposals of assets; this will ensure there is no requirement on TfL to fund property initiatives, while enabling TfL to benefit from an ongoing and increasing revenue stream from the property activity.
- Alongside the increased revenue generation, this plan will enable starts on 20,000 homes over the next 10 years.
- The planned asset disposals will be critical in ensuring the capital is available to deliver the benefits associated with the plan.

Housing Delivery Plan

We have created a commercial property entity that is capable of accessing commercial debt to bring housing and other development projects through planning and invest in our existing property assets to generate significant ongoing revenue streams

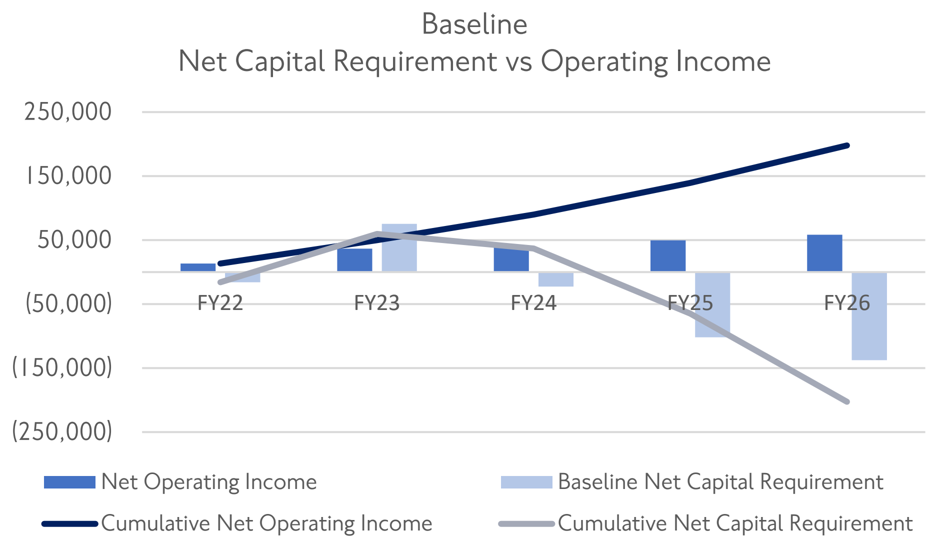
Recent activity:

- On 11th June TfL submitted its response to condition 10a. of the 1 June Funding settlement which required a plan for housing delivery to be agreed with Government;
- Subsequent discussions have led to the development of a 20,000 homes plan with a dual purpose to deliver homes and generate sustainable returns for TfL;
- Alongside these two core deliverables, the ability to invest in property development schemes will enable TTLP to deliver transport benefits when there are opportunities to do so within the planned schemes.
- To achieve these things, TTLP is intending to borrow on commercial terms, and conversations with investors are ongoing and highly positive;
- Work is underway on assurance and stress testing of the affordability of the plan and the commercial borrowing, and again is looking positive.
- The expectation is that TTLP will be drawing down the first tranche of debt in March/April 2022.

Key outcomes by plan:

	Total Houses Delivered	Asset Value by 2045	Net Capital Funding by 2045
TTLP Business Plan	20,000	£5.9bn	£0.3bn*

* Excludes cost of debt



Key points:

- TTL Properties Limited, TfL's subsidiary property development company, is targeting a dual target of both homes delivery and income growth to be re-invested in the transport network.
- That is enabled by accessing commercial debt to fund the development programme.
- Work is ongoing to ensure the plans are robust and affordable, and plans are still subject to the relevant approvals.

Section 4

Group summary

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Our view of total expenditure

For 2021/22, we have secured £1.58bn of funding for 2021/22 with a further £0.25bn yet to be agreed.

Going forward there is a funding gap of £1.1bn in 2022/23 and a further gap of £0.4bn per annum on average between 2023/24 and 2024/25.

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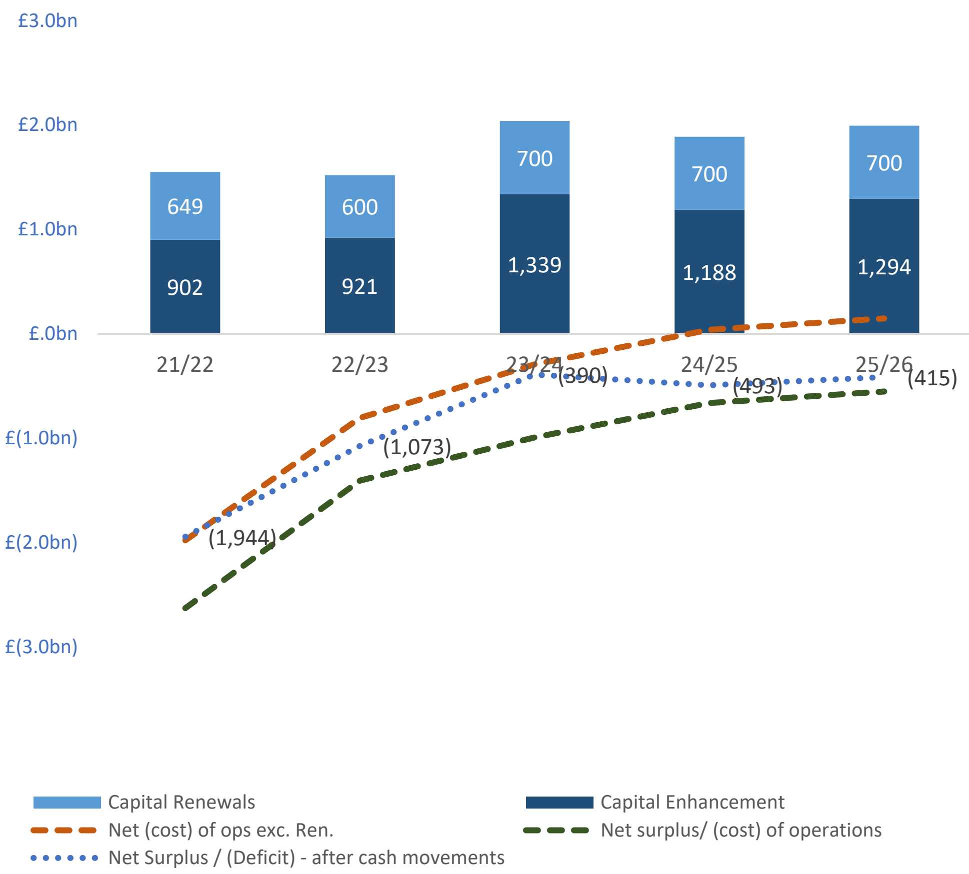
Draft GLA Budget submission

Pan TFL	21/22	22/23	23/24	24/25	25/26
Passenger Income	3,151	4,460	4,919	5,292	5,580
Other Income	1,147	1,679	1,665	1,709	1,861
Operating BRR	914	940	857	874	892
Other Grant	70	60	57	57	57
Total Income	5,283	7,139	7,499	7,933	8,390
Operating Cost	(6,822)	(7,504)	(7,359)	(7,429)	(7,774)
Financing	(440)	(441)	(432)	(466)	(469)
Net (cost) of ops exc. Ren.	**(1,980)**	**(806)**	**(292)**	**39**	**147**
Capital Renewals	(649)	(600)	(700)	(700)	(700)
Net surplus/ (cost) of operations	**(2,629)**	**(1,407)**	**(992)**	**(662)**	**(553)**
Capital Investment	(902)	(921)	(1,339)	(1,188)	(1,294)
Capital BRR	930	951	1,072	1,093	1,115
Other capital funding	240	503	380	264	317
Other Asset Financing	0	0	489	0	0
Net Surplus / (Deficit) – before cash movements	**(2,360)**	**(873)**	**(390)**	**(493)**	**(415)**
Cash decrease/(increase)	416	(200)	0	0	0
Net Surplus / (Deficit) – after cash movements	**(1,944)**	**(1,073)**	**(390)**	**(493)**	**(415)**
Extraordinary Grant	1,831	1,100	0	0	0
Net Surplus / (Deficit) incl extra. funding	**(113)**	**27**	**(390)**	**(493)**	**(415)**

Funding requirements for capital programme



Key points:

- From 2022/23, ridership returns to only circa 82% of pre-pandemic levels (excluding Elizabeth line) resulting in a funding gap of £1.1bn in 22/23 and circa £0.4bn per annum thereafter even after moving to 'Managed Decline' and service cuts on Tube and Bus
- We assume no new borrowing beyond 2020/21 due to financial affordability (2019 BP assumed £500m)

Even with the mitigating actions including dropping to Managed Decline, there remains a funding gap

£bn	22/23	23/24	24/25	25/26
CSR Funding gap (with no additional London income)	**(1.2)**	**(2.2)**	**(2.0)**	
Move to 'Financially Constrained' capital scenario	-	0.8	0.5	
Financially Constrained Funding gap (with no additional London / Government income)	**(1.2)**	**(1.4)**	**(1.5)**	
Recent changes				
Latest passenger income forecast	(0.3)	(0.4)	(0.5)	
Latest BRR forecast	0.1	0.2	0.2	
Latest ULEX assumptions	(0.3)	(0.2)	(0.1)	
Latest net operating costs	(0.2)	(0.3)	(0.3)	
Latest capital investment	0.2	0.1	0.5	
Funding gap after recent developments	**(1.7)**	**(1.9)**	**(1.7)**	
Impacts of closing the gap				
Drop to Managed Decline on enhancements	0.3	0.4	0.4	
Renewals below Managed Decline and cap at £0.7bn p.a. (£0.6bn for 22/23)	0.2	0.3	0.4	
Capital efficiency no longer achievable	0.0	(0.1)	(0.2)	
Service level reductions (18% on buses and 9% on tube)	0.0	0.1	0.2	
Borough funding	0.1	0.1	0.1	
Other operating cost reductions	0.0	0.2	0.2	
Asset financing options and Crossrail loan	0.0	0.5	0.0	
Funding gap after actions above	**(1.1)**	**(0.4)**	**(0.5)**	

Risks and Opportunities

There is a range of impacts on London and TfL from discrete events to long-term changes in the London economy and travel behaviour

We have a significant range of risks and opportunities for the next two years with a range of +£0.8bn / -£1.1bn in 22/23 and +£1bn / -£1.7bn in 23/24

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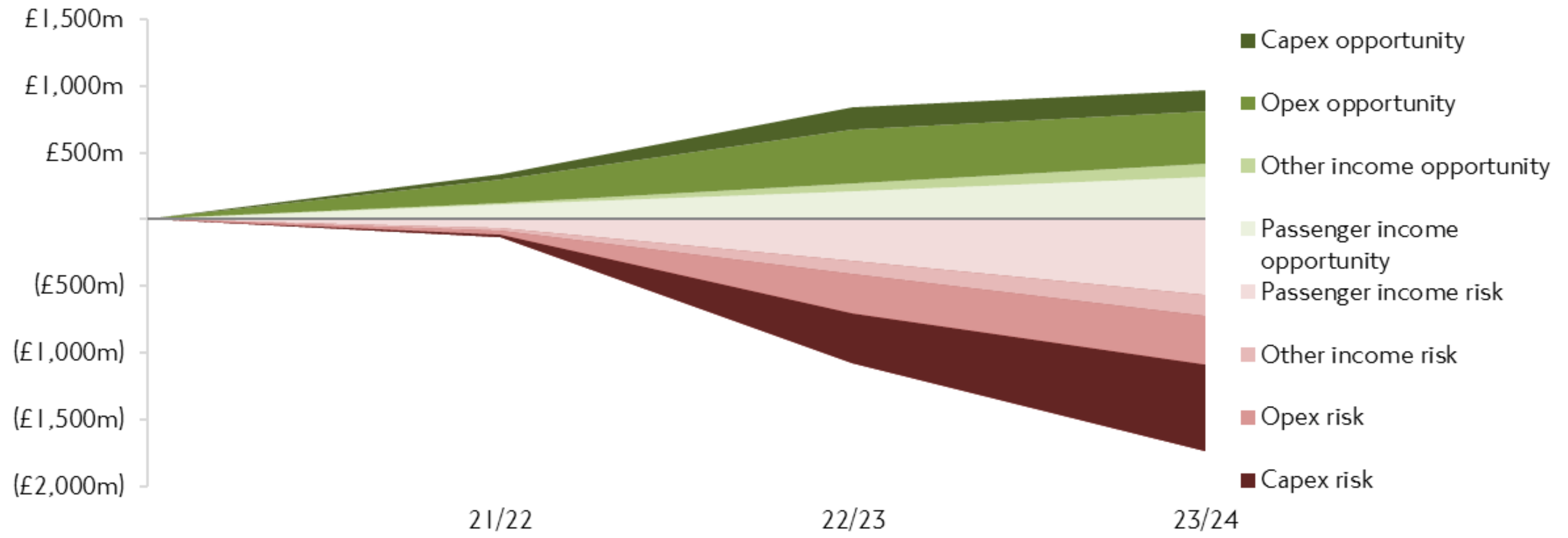
Risks and opportunities for the remainder of 2021/22 and next two years



Income:

- Our passenger income is modelled using four core variables: Economic recovery, Office return to work profile, the % of Office workers trips target end point and a reduction in demand over the winter period.
- We have flexed these variables to produce three scenarios with a range of +£0.1bn to (£0.1bn).
- There is significant uncertainty around how quickly ULEZ expansion will continue to increase compliance levels

Operating costs:

- Risks include an ambitious savings programme and maintenance costs due to capital deferrals
- As with other rail industry pension schemes, there is pressure on on-going service cost and deficit repair

Capital investment:

- Ability to invest in property developments and generate a future income stream is dependent on market conditions for asset sales
- Deliverability of our capital programme, with ongoing uncertainty on funding levels limiting the ability to plan and deliver capital programmes efficiently and effectively.

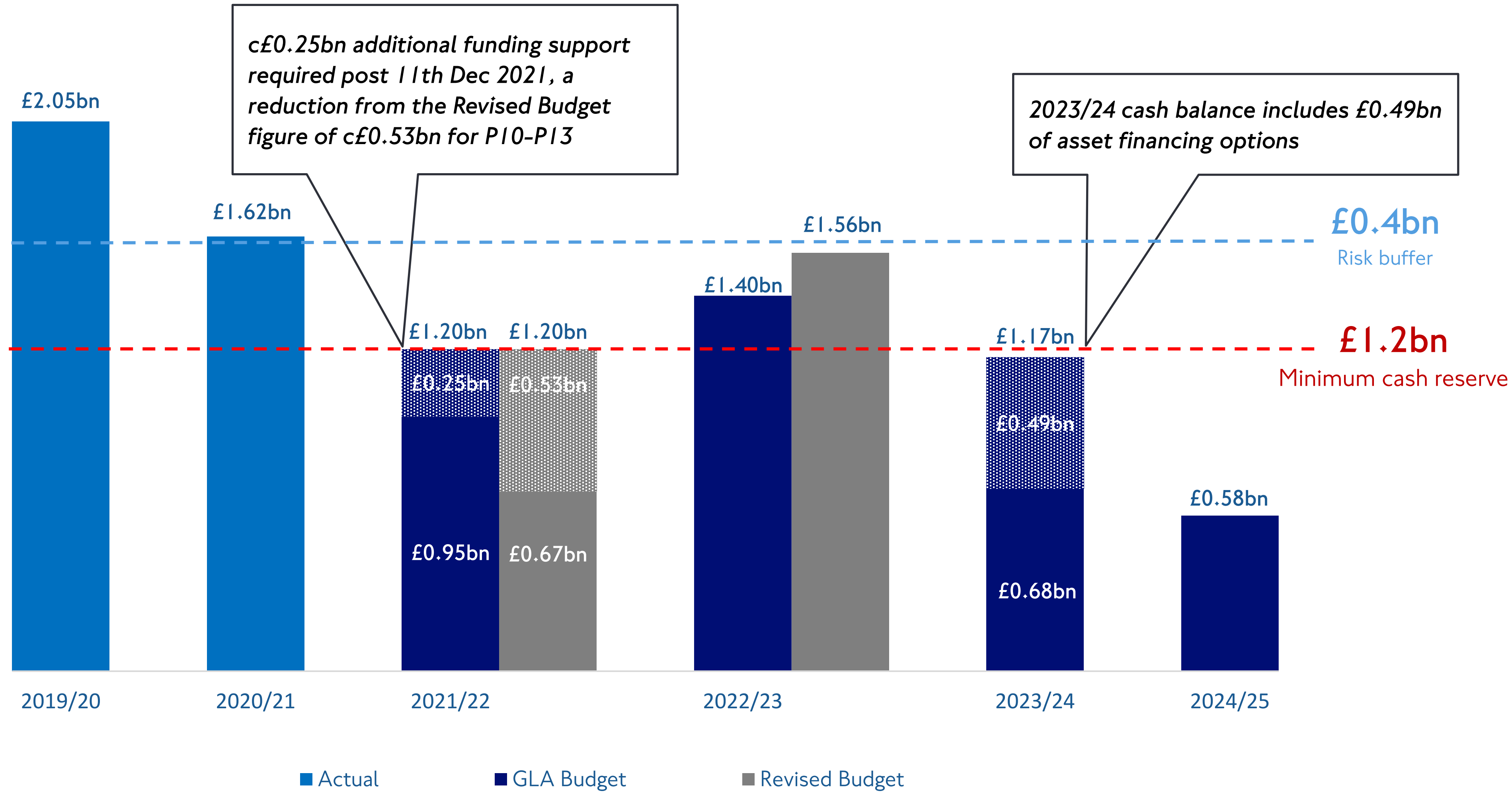
In the medium term, we need to maintain £1.2bn minimum cash reserves

We need to build resilience into our cash reserves so we have the ability to absorb future shocks to our revenue and withstand strategic, safety and operational risks.

For example, hard recession, Covid (winter suppression), terrorism and asset failure have each shown to impact our cash by c.£200m-£400m in the past.

The cash balance in 2023/24 and 2024/25 is expected to significantly decrease, falling below the minimum cash reserve of £1.2bn. This is expected to be partially off-set in 2023/24 by asset financing options.

TfL Cash balance (excluding Crossrail account)



Section 5

Closing the funding gap

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Closing the TfL funding gap

TfL are committed to achieving financial sustainability by April 2023.

In the absence of further Government support, we will need to consider further options to close the funding gap in order to achieve financial sustainability by April 2023, as we have been targeted to do in the 1 June Funding settlement.

This will significantly lower the outcomes set out in the FSP and last year's GLA Budget for London and the transport network.

Recurring funding gap

The pandemic had a significant impact on our finances, creating a recurring funding gap that must be fixed.

FSP January 2021: Decarbonise by 2030

- **Funding gap: £1.6bn p.a.** 2023-2030 after £500mp p.a. new income assumed (via either VED or from the net proceeds from a GLBC subject to consultation and assessment)
- **2020 Policy Consistent LTCP scenario –** delivering closest to local and national priorities, including bus electrification by 2030, a step change in accessibility improvements across the network, providing investment in schemes which would prevent a car-led recovery and greater development of new homes and jobs.

2022/23 GLA budget: Managed decline

- **Funding gap: c£0.4bn p.a.** on average from 23/24 to 25/26
- Significant reduction in level of investment: No new enhancements started, only completing those which are already committed. Renewals kept at today's level (i.e. below stated Managed Decline position)
- Service reductions required (18% on buses and 9% on the tube), whilst the city and the economy are recovering from the pandemic

New Income Sources review

- New Income Sources review was a key condition of the 1 June funding agreement
- We assessed options against appraisal criteria agreed with Government, and submitted a shortlist of options in the 27 August report to Government. The recommendations have been reviewed by Government and we received a response on 12 November with limited and partial feedback. The remaining options are under consideration and the Mayor is seeking dialogue with the Secretary of State to progress decision making.
- Some of the options included in the revenue report submitted to Government built on the revenue raising options considered by the Independent Review, published in December 2020
- Any options that are progressed will be subject to a decision making process, including being supported by impact assessment and consultation as appropriate
- Additional support for capital investment from Government, on top of new revenue from London sources, could create a surplus that would allow us to start to move back towards the 'Financially Constrained' scenario and avoid the worst of the service reductions.

Section 6

Capital Strategy

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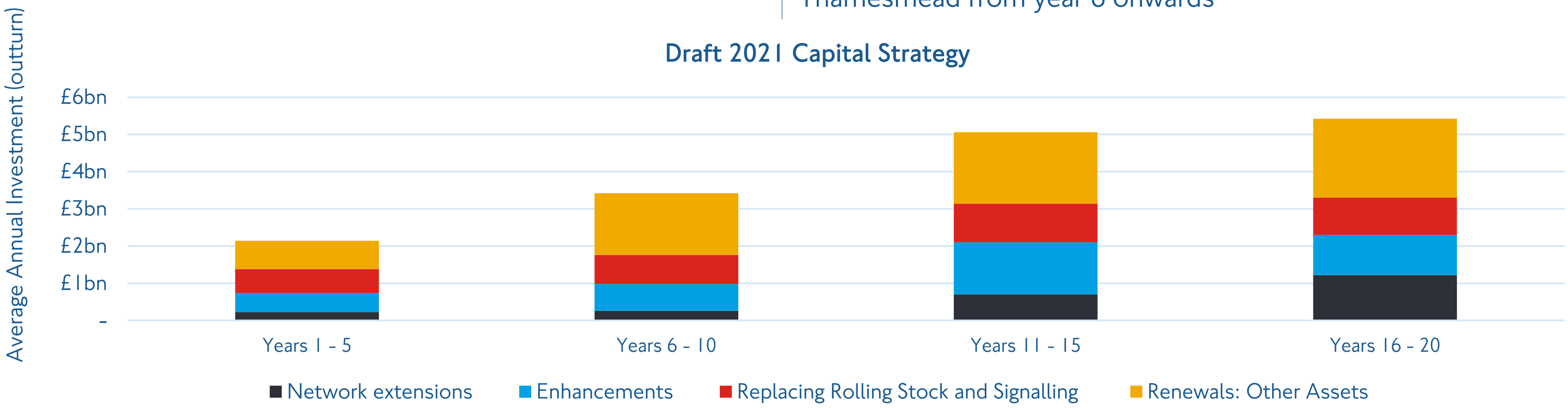
Our 2021 Capital Strategy

The Prudential Code requires local authorities to prepare and publish a long-term Capital Strategy covering a 20 year period. GLA guidance requires the Capital Strategy to set out the cost to achieve the Mayor's Transport Strategy.

Despite our current constrained financial circumstances in the short-term, the Capital Strategy is based on increasing investment over the medium-to-long term to deliver the Mayor's and Government's policy goals.

- This year's Capital Strategy has been developed in response to our funding challenges and the uncertainties presented by the pandemic. Following the confirmation of no additional funding in the Spending Review, we have moved to a Managed Decline scenario for four years focussed on the safety and operability of our network, while increasing our aspiration to Financially Constrained from year 5 and returning to last years Policy Consistent assumptions from year 11.
- Many schemes have to start later than assumed in previous Capital Strategies, and, due to inflation, will therefore cost more - some schemes may need to take place beyond the Capital Strategy timeframe.
- Setting out a long-term capital strategy is crucial to stability of investment and funding, the value of which has been estimated by Government as 20% efficiency (2013 Action on Roads)

Years 1 – 4: Based on the Managed Decline scenario which maintains safety and operability	**Years 5 – 10:** Aligned to the principles of the Financially Constrained scenario by progressing our investment towards the key MTS goals
No new enhancements started, including network extensions. Asset renewals focussed on safety and operability, not reliability. Piccadilly line replaced, other lines delayed through life extensions. Delayed zero-emission bus fleet due to reduced bus network	Moderate enhancements: Healthy streets rolling programme, Piccadilly line re-signalled and upgrade, 2 station upgrades with 20 Step Free Access stations, Some acceleration of bus electrification. Steady level of asset renewals with fleet renewals occurring at end of life. Network extensions limited to DLR Thamesmead from year 6 onwards



Appendix

Financial tables

TfL Group: Operating Account

2021/22 is around £200m worse than the July Revised Budget driven by lower demand recovery than expected.

Projections for 2022/23 have also deteriorated since the July Revised Budget view with £1.1bn of grant funding required.

2023/24 assumes no further grant funding, which increases the operating account deficit to almost £1bn.

TfL Group Operating account (£m)	2020/21 Actual	2021/22 Forecast	2022/23 GLAB	2023/24 GLAB	2024/25 GLAB
Passenger income	1,600	3,151	4,460	4,919	5,292
variance yoy		1,551	1,309	459	373
variance to Revised Budget		(327)	(300)	(429)	(612)
Other operating income	777	1,147	1,679	1,665	1,709
variance to Revised Budget		(89)	(334)	(859)	(1,334)
Total operating Income	**2,376**	**4,298**	**6,139**	**6,585**	**7,002**
Business rates retention	969	914	940	857	874
Revenue grants	117	70	60	57	57
Total income	**3,462**	**5,283**	**7,139**	**7,499**	**7,933**
variance to Revised Budget		(410)	(570)	(1,139)	(1,794)
Total costs	**(6,381)**	**(6,822)**	**(7,504)**	**(7,359)**	**(7,429)**
variance yoy		(441)	(682)	145	(70)
variance to Revised Budget		109	26	493	841
Direct operating surplus/(deficit)	**(2,919)**	**(1,540)**	**(365)**	**140**	**505**
variance yoy		1,379	1,175	505	364
variance to Revised Budget		(301)	(543)	(647)	(953)
Capital renewals	(367)	(649)	(600)	(700)	(700)
variance to Revised Budget		87	201	258	316
Net financing cost (inc borrowing repayment)	(440)	(440)	(441)	(432)	(466)
variance to Revised Budget		9	47		
Net costs of operations	**(3,726)**	**(2,629)**	**(1,407)**	**(992)**	**(662)**
variance to Revised Budget		(205)	(295)	(345)	(596)
Extraordinary revenue grant	2,457	1,831	1,100	0	0
Net surplus/ (cost) of operations after extraordinary grant	**(1,269)**	**(798)**	**(307)**	**(992)**	**(662)**

Passenger income

- Demand recovery has been slower than expected for LU and Rail passenger journeys. The draft GLA budget submission extrapolates this slower growth forward with commuters reaching 65% by the end of Q1 22/23 instead of Q4 21/22

Other income

- Lower other operating income is due to higher compliance levels from expanded ULEZ & lower regulatory income from EL
- Business rates retention improvement of £65m 22/23, £151m 23/24 is based on the latest view from GLA

Operating costs

- ULEX Bad debt and contract cost reduction due to lower volumes in the new ULEX zone and higher compliance of vehicles
- £35m saving in 22/23 & 23/24 in financing costs from delayed Crossrail loan repayments and higher costs associated with the rating agency downgrade

Capital renewals

- Reduction mainly owing to funding uncertainty and deliverability

TfL Group: Capital Account

This budget reflects further reductions to new capital investment in line with the 'Managed Decline' scenario which maintains safety and operability while being aligned to the principles of the Financially Constrained scenario by progressing our investment towards the key MTS goals through the next five years.

TfL (ex CR) Capital account (£m)	2020/21 Actual	2021/22 Forecast	2022/23 GLAB	2023/24 GLAB	2024/25 GLAB
New capital investment	(866)	(902)	(921)	(1,339)	(1,188)
variance to Revised Budget		97	480	348	444
Funded by:					
Business rate allocation	910	930	951	1,072	1,093
Property & asset receipts	63	152	413	778	77
Borrowings (TfL)	602	1	0	22	95
Other capital grants	127	88	90	69	92
Total	1,702	1,171	1,454	1,941	1,358
variance to Revised Budget		(42)	(15)	369	54
Net capital account	**836**	**270**	**533**	**601**	**169**
variance to Revised Budget		55	465	717	498

Crossrail Capital account (£m)	2020/21 Actual	2021/22 Forecast	2022/23 GLAB	2023/24 GLAB	2024/25 GLAB
Crossrail programme	(704)	(633)	(254)	(8)	0
variance to Revised Budget		67	(64)	(7)	0
Funded by:					
Borrowings (CR)	676	74	0	0	0
Crossrail funding sources	72	603	357	28	0
Total	**748**	**677**	**357**	**28**	**0**
variance to Revised Budget		(60)	186	28	0
Net capital account	**44**	**44**	**103**	**20**	**0**
variance to Revised Budget		7	122	21	

Enhancements

- Reductions reflect the 'Managed Decline' scenario

Capital Funding

- Property and asset income impacted by 12month+ deferral of multiple Commercial Development projects
- £489m asset financing options

Crossrail

- In line with P50 cost schedule from Crossrail programme
- Note: an additional £151m of funding is required under the P50 scenario and is yet to be agreed

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TfL Mayor's Budget 2022/23

GLA Consultation Extracts

November 2021

MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

About Transport for London (TfL)

Transport for London is part of the Greater London Authority family led by Mayor of London Sadiq Khan, we are the integrated transport authority responsible for delivering the Mayor's aims for transport. We have a key role in shaping what life is like in London, helping to realise the Mayor's vision for a 'City for All Londoners', creating a safer, fairer, greener, healthier and more prosperous city. The Mayor's Transport Strategy sets a target for 80 per cent of all journeys to be made by walking, cycling or using public transport by 2041.

To make this target a reality, we prioritise sustainability, health and the quality of people's experience in everything we do. We run most of London's public transport services, including the London Underground, London Buses, the DLR, London Overground, TfL Rail, London Trams, London River Services, London Dial-a-Ride, Victoria Coach Station, Santander Cycles and the Emirates Air Line. The quality and accessibility of these services is fundamental to Londoners' quality of life. By improving and expanding public transport and making more stations step free, we can make people's lives easier and increase the appeal of sustainable travel over private car use. We manage the city's red route strategic roads and, through collaboration with the London boroughs, we are helping to shape the character of all London's streets. These are the places where Londoners travel, work, shop and socialise. Making them places for people to walk, cycle and spend time will reduce car dependency, improve air quality, revitalise town centres, boost businesses and connect communities. As part of this, the expansion to the Ultra Low Emission Zone, which launched in October 2021 and more environmentally friendly bus fleets are helping to tackle London's toxic air.

During the coronavirus pandemic we have taken a huge range of measures to ensure the safety of the public. This includes enhanced cleaning using hospital-grade cleaning substances that kill viruses and bacteria on contact, alongside regular cleaning of touch points, such as poles and doors, and introducing over 1,000 hand sanitiser points across the public transport network. Working with London's boroughs we have also introduced Streetspace for London, a temporary infrastructure programme providing wider pavements and cycle lanes so people can walk and cycle safely and maintain social distancing. At the same time, we are constructing many of London's most significant infrastructure projects, using transport to unlock much needed economic growth.

In September 2021 we opened the new Northern Line extension to Battersea and we are continuing to work with partners on major projects like Barking Riverside and the Bank station upgrade. We are in the final phases of completing the Elizabeth line of which the central section is due to open in the first half of 2022 and will add 10 per cent to central London's rail capacity. Supporting the delivery of high-density, mixed-use developments that are planned around active and sustainable travel will ensure that London's growth is good growth. We also use our own land to provide thousands of new affordable homes and our own supply chain creates tens of thousands of jobs and apprenticeships across the country.

We are committed to being an employer that is fully representative of the community we serve, where everyone can realise their potential. Our aim is to be a fully inclusive employer, valuing and celebrating the diversity of our workforce to improve services for all Londoners. We are constantly working to improve the city for everyone. This means using data and technology to make services intuitive and easy to use and doing all we can to make streets and transport services accessible to all. We reinvest every penny of our income to continually improve transport networks for the people who use them every day. None of this would be possible without the support of boroughs, communities, and other partners who we work with to improve our services. By working together, we can create a better city as London recovers from the pandemic and moves forward.

Chief Finance Officer's foreword

We are focused on supporting London's sustainable recovery, getting people back on public transport, and rebuilding our finances after the devastating impacts of the coronavirus pandemic. We have been working with our people, communities, businesses and supply chain to get London moving. It is very encouraging to see ridership on our services climbing in the last few months - total ridership is now around 70 per cent of pre-pandemic levels. While ridership has been slowly recovering, we continue to be significantly below pre-pandemic levels, with considerable uncertainty surrounding the pace and magnitude of the return of patronage. This continues to result in a detrimental ongoing impact to our cash flow, with total cumulative Government support since the start of the pandemic forecast to amount to circa £4.6bn up to 11 December 2021.

Our funding model, set by the Government in the 2015 Spending Review, places a very high reliance on passenger revenue which made up approximately 72 per cent of total pre-pandemic operating income (compared to 38 per cent in Paris and 47 per cent in Madrid). This leaves us highly exposed to the short- and long-term impacts of the pandemic. The return of passengers and economic recovery remain a key challenge for our future sustainability, making it difficult to plan beyond a single financial year.

In response we have been closely managing our costs, restricting spending through more stringent and centralised cost control measures. We have also been delivering against the conditions set by Government in the 1 June funding agreement and continue to do so. In this budget submission, we reluctantly have had to adopt a 'Managed Decline' service level and capital investment scenario in light of Government confirming they do not intend to provide any further revenue support beyond March 2023.

There remains significant uncertainty on the level of available funding over the budget period, which would be determined by the pace and level of recovery and the final level of Government funding. The Independent Panel report published in December 2020 highlighted a long term funding gap of £2bn p.a., which has since been proven through updated work on TfL's funding gap through the Financial Sustainability Plan (FSP) and our submission to the Comprehensive Spending Review (CSR). Since our 2019 Business Plan, the structural shift in demand due to the pandemic has meant a significant loss of passenger revenue in future years with hybrid working and reduced tourism, compounded by Brexit.

Our submission to the CSR outlined the need for around £3bn p.a. of investment in London's transport network. This compares to the circa £8bn p.a. we spend on operating and maintaining the network, which is funded through income raised in London – primarily fares, road charges, commercial revenue and London's retained business rates (supplemented in the short term by emergency government grant to replace lost passenger revenue). In the CSR the Government have stated that for the period 2022/23 to 2024/25 we will not receive any additional capital funding, only retaining the £1bn devolved retained business rates the GLA previously received to cover circa £1bn p.a. of capital investment. Our CSR submission set out that this £2bn p.a. structural gap could be closed with £1-1.5bn additional government matched funding, based on an assumption that £0.5-1bn additional new income would be raised by London and the Mayor: a position we believe is a reasonable balance of contributions.

Though the Government stipulated in the last TfL emergency financial agreement in June 2021 that the Mayor and TfL must raise an additional £0.5-£1bn p.a. from 2023/24, as at 3 December 2021 there has been no agreement between the Mayor and Government on proposed revenue raising options and therefore no budget assumptions can be made based on TfL having this extra revenue.

In the absence of further support from Government, the potential savings to help close the funding gap have been included within this submission and is based upon the 'Managed Decline' scenario first laid out in the FSP. We have always been clear about the severe impacts to our service and the wider economy were 'Managed Decline' to take place, but in the absence of capital and revenue funding quantified by Government, we must now move to planning for this scenario. We would need to start enacting some changes immediately to start realising the financial savings in future years.

We will continue to make the case for additional Government funding, and to continue to support the recovery of passenger demand, which will help mitigate the need to take all the actions set out in this budget submission and allow TfL to play its role in supporting our economic recovery, decarbonisation and levelling up across the country. Government has said it is committed to this, and that is what we are seeking to achieve.

Simon Kilonback
Chief Finance Officer
Transport for London

Patrick Doig
Statutory Chief Finance Officer
Transport for London

Recovery from the Pandemic

Along with the rest of the UK, our recovery from the pandemic continues. From the very start of the crisis we have continued to work tirelessly to make using our network as safe as possible for our customers, staff, and contractors, while following advice from the Government. Nothing is more important to us.

We have been running a near-full service since May 2020, and journeys made on our services have grown significantly since the easing of Government restrictions. Supported by the Mayor's 'Let's Do London' campaign which launched in Summer 2021, the campaign brought together many of the Capital's leading organisations and venues, with one clear message: that London is ready to entertain and inspire once again.

We continue to promote the network's safety to businesses and employers, local authorities, and other stakeholders across the Capital. We are also working hard to build our customers' confidence back and are seeing them safely return to the network. A range of customer communications derived from our integrated 'Welcome Back' campaign continues to give people confidence in returning to transport.

We have many interventions in place to provide a service that is clean, safe and orderly for our customers. Alongside ventilation measures ensuring the regular exchange of air across the public transport network, as we head into the winter we are continuing to remind customers to keep windows open on buses and have worked with bus operators on a mechanism to keep windows open while busses are in passenger use.

We continue to promote other mitigations to minimise the risk of Covid-19 transmission providing real time demand data via our TfL Go app to encourage customers to travel at quieter times if possible. Measures also include mandating the use of face coverings when using our services and in stations (unless exempt). An enhanced cleaning regime continues and our partnership with Dettol for the provision of hand sanitiser at 270 London Underground stations and across all transport modes currently runs until January 2022.

Since September 2020, Imperial College London has run monthly tests for all virus variants on the transport network. Sampling has taken place at a variety of stations and on buses and trains — with the locations changing for each round — and swabs taken from heavily touched areas and air tested for any airborne traces. To date, none of the tests has found any traces of the virus.

At the time of writing, we have tragically lost 103 colleagues to COVID-19, and our thoughts continue to be with their family, friends, and colleagues. There will be a new permanent memorial on a pedestrian plaza on Braham Street in Aldgate to allow a space for quiet reflection and remembrance.

Data shows that confidence is indeed growing, with Tube ridership regularly hitting nearly 60 per cent of pre-pandemic levels, and buses now at 70 per cent. Ridership at weekends is higher still indicating that customers are returning to the enjoyment of leisure activities; Tube ridership reaching 81 per cent and buses 77 per cent.

Our Santander Cycle Hire scheme grew by 330,000 new members, and 10m hires were made in 2020.

In October 2021, we launched our campaign against sexual harassment. We want our network to be safe for all customers, particularly women and girls. We have now successfully brought back all Tube lines and the Night Tube restarted on 27 November 2021, resuming on the Victoria and Central lines. Services on these two lines will run throughout the night on Fridays and Saturdays, providing more options for customers who need to travel at night either for leisure or for work.

The Night Overground service is due to restart on 17 December and we will resume the Night tube on the remaining lines as soon as possible. We will also continue to promote London's longstanding night bus and taxi and private hire services.

As our customers change and adjust their travel patterns during the pandemic recovery, we have responded by adapting our ticketing system, with the introduction of weekly capping of Oyster PAYG fares in October 2021. Our ticketing system is flexible and designed for commuting patterns as well as those travelling for leisure purposes.

Our network also continues to expand and connect London, the opening of the Northern Line Extension took place on 20 September 2021 and the Elizabeth line is on course to follow in the first half of 2022.

We have worked with London boroughs to deliver 22,500 sqm of extra pavement space, more than 100km of new or upgraded cycle routes have been delivered or are under construction.

Our recovery from the crisis, as with the nation's as a whole – continues to be gradual. But we know that Londoners are more reliant on public transport than any community in the country, and we continue to help the economic recovery by providing safe, clean, reliable, and well-managed transport services.

Delivering on the Mayor's Commitments

TfL continues to be ready to play our full part in the recovery. We continue to support investment in public transport to ensure it is safe, affordable and reliable; putting TfL on a sound, sustainable financial footing after the pandemic; and to support a revolution in walking and cycling.

We have supported the Mayor's commitment to progress initiatives such as the rollout of 4G connectivity on the London Underground, the upgrade of Bank station and the completion of the London Overground extension to Barking Riverside.

Despite the challenges arising from the pandemic, we have been able to deliver on key commitments such as the expansion of the ULEZ and the delivery of the Northern Line extension – including two new step-free access stations at Battersea Power Station and Nine Elms. The regeneration and new connectivity provided by this scheme further highlights why it is so important that we work with Government to secure the funding we need to help continue investment in the Capital and the wider UK economy.

The 'Managed Decline' scenario outlined in this budget submission however, significantly impacts our ability to progress in a number of areas. This includes – but is not limited to – growing the cycle network, continuing the delivery of step-free access across the TfL network and supporting housing growth through investment in transport infrastructure.

Delivering the Mayor's Transport Strategy

The Mayor's Transport Strategy acknowledges the key role of transport in shaping London and its global competitiveness, as well as in improving the health, opportunities, and quality of life of those who live and work in the city.

The strategy aims for a significant shift in travel behaviour to active, space-efficient, and environmentally sustainable modes so that by 2041, 80 per cent of trips in London will be made on foot, by cycle or using public transport.

It highlights the need to create a place that is not only home to more people but is a better space for them to live. This means a safer, healthier, cleaner, greener, more inclusive and better-connected city.

The coronavirus pandemic has underlined the vital importance of making future progress on all elements of the strategy to ensure a sustainable, inclusive recovery in the short term as well as achieving the aims of the Mayor's Transport Strategy in the longer term. However, many of the ambitions contained within the strategy cannot be progressed without certainty of sufficient funding.

Our plans to contribute to this over the next year, within the confines of the 'Managed Decline' scenario, are summarised below:

■ Healthy Streets and healthy people

Active travel:

The 'Managed Decline' scenario has a significant impact on our ability to make progress on active travel. We are limited, in the absence of additional funding, to completing only schemes already under construction: progressing only the most safety-critical schemes and making limited bus speed improvements to protect revenue, with no new enhancement schemes in the pipeline.

If additional funding was to be made available, our plans - delivered with the boroughs via Local Implementation Plan funding – would include:

- Growing our cycle network – building on the rapid rollout of cycle routes through the London Streetspace Programme by restarting the delivery of permanent schemes
- Cycle parking – working with boroughs and other partners to introduce convenient cycle parking in town centres, high streets, and secure cycle parking in residential areas

- Delivering safety improvements at key locations, and including a further roll out of lower speed limits at key locations on the TLRN (Transport for London Road Network)
- Transforming places – continue to transform areas around some of London's busiest junctions to make them safer, healthier, and more pleasant places to be
- Doing more to ensure better bus outcomes, supporting positive outcomes for all active, efficient, and sustainable modes over general traffic – including working with boroughs to expand our programme of bus priority schemes across the city
- Reducing car dominance to improve air quality and support increased walking and cycling in local neighbourhoods and to schools, including, subject to funding, restarting work on Liveable Neighbourhood projects
- Continuing schools' engagement and cycle training

Encouraging more Londoners to walk and cycle will be an important part of London's recovery from the coronavirus pandemic. Many of these schemes have the potential to contribute to the long-term aims of the Mayor's Transport Strategy and have an important role in regeneration and housing delivery.

Vision Zero:

Vision Zero reflects our fundamental belief that no death or serious injury on London's streets is acceptable or inevitable. In 2018 we published our first Vision Zero action plan, setting out ambitious short, medium and long-term targets towards eliminating road deaths and serious injuries by 2041. Three years on, we remain focused on our Safe System approach to reducing road danger and have published a progress report, which outlines achievements so far and sets out our commitment to new tougher measures to ensure we meet these targets.

However, the 'Managed Decline' scenario will restrict our ability to progressing only the most safety-critical schemes which will significantly restrict our progress towards Vision Zero.

If additional funding was to be made available, our plans would include:

- Continuing the roll-out of the 20mph speed limit programme on TfL roads
- Delivering a significant increase in speed enforcement undertaken by the Metropolitan Police Service to tackle the risk and harm caused by speeding
- Improving safety for motorcyclists
- Publishing analysis showing how deprived communities and some ethnic groups suffer disproportionate road injuries
- Responding to new trends in road danger; including increased use of smartphones, driving apps and in-car entertainment systems and more home delivery traffic

- A new communications campaign to challenge the belief that deaths and serious injuries on London's roads are inevitable

Making more efficient use of the street network:

Since its implementation in 2003, TfL has made changes to the Congestion Charge to ensure it remains effective, including changes to discounts and exemptions, charge levels and days/times of operation. Last year we made temporary changes to the charging days and hours in response to the transport challenges presented by the pandemic, including operating daily until 22:00 and increasing the charge from £11.50 to £15.00.

We have developed proposals to achieve the long-term Mayor's Transport Strategy objectives, and to ensure that the Congestion Charge continues to be effective in reducing traffic and congestion in central London.

The public consultation on the proposed changes ended on 6 October 2021. A consultation report is being prepared, which will inform the Mayor's decision in December 2021 on whether the proposals are taken forward, with or without modifications. These proposed changes, if implemented, would be introduced in phases with changes to hours of operation coming in during 2022.

Improving air quality and the environment:

We are committed to cleaning London's air and supporting the Mayor's ambition to make London a net zero-carbon city by 2030. Toxic air pollution remains a huge risk to the health of all Londoners. Progress has been made in reducing air pollution from road traffic in London through the introduction of ULEZ in 2019. This was progressed again this year with the strengthening of the Low Emission Zone standards in March and the expansion of ULEZ to the area covered within the North and South Circular roads in October 2021. Since January 2021, the bus fleet has continued to meet or exceed the latest Euro VI emission standard.

Last year we hit our target of delivering 300 rapid charging points across the capital. In Spring 2022, we are due to open our third rapid charging hub in the City of London.

In October 2021 the Mayor launched a summary of the London Electric Vehicle Infrastructure Strategy which sets out our vision and key principles, captures recent trends and policy changes, includes forecasting of the infrastructure needs to 2030 and sets out the roles of TfL and the wider public sector. We will be publishing the full document in December.

However, there is still much to do for London to comply with legal limits for nitrogen dioxide (NO_2) and to meet the London Environment Strategy's ambition of reaching the World Health Organisation's recommended limits on particulate matter ($PM_{2.5}$).

We already operate the largest zero emission bus fleet in western Europe, with more than 550 electric buses currently in operation. We are on course to increase this figure up to 800 by the end of March 2022, along with 22 hydrogen fuel cell buses. At the Bus summit on 17 September 2021, the Mayor announced all new TfL buses in London will now be zero-emission. Reducing transport emissions through a shift to sustainable modes is key to ensuring London becomes a zero-carbon city by 2030. This remains at the heart of London's recovery.

Although we intended to accelerate our commitment to deliver a 100 per cent zero-emission bus fleet in London by three years (from 2037 to 2034) the impact of the 'Managed Decline' scenario on service levels means this will no longer be possible. The drastic levels of service reduction on the bus network required under this scenario will create a significant number of surplus vehicles, which will reduce the pace at which new vehicles are ordered and slow down our transition to a zero-emission fleet.

Our other delivery priorities, should sufficient funding be available, include:

- Cleaner energy – working to reduce carbon emissions from our entire operations including our buildings, stations and infrastructure following the Mayor declaring a climate emergency
- Climate change adaptation – we will continue to assess the impact of current severe weather events on our transport system, and make improvements to support climate change resilience and biodiversity

■ A good public transport experience

Improving customer service, public transport accessibility and inclusivity:

We have supported customers and communicated clearly during the coronavirus pandemic, and we will continue to focus on the core experience as we continue to move through the recovery period. Safety and reliability remain top customer priorities and during 2022/23 we will focus on:

- Rebuilding and maintaining confidence by continuing enhanced cleaning regimes, operating a reliable service, and creating reassuring marketing campaigns
- Encouraging and enforcing face coverings, managing our capacity to help customers avoid crowding and maintain social distancing, and maintaining high standards of cleanliness including use of anti-viral products across stations and vehicles
- Providing better real-time information to support decision-making, especially during disruption, reducing customer pain points
- Test new concepts and enhanced features on buses and at stops and shelters, including more comfortable vehicles and better information
- Subject to more funding being available, we would aim to enhance TfL Go functionality based on customer feedback, including integration of TfL accounts and payments, and real-time crowding information

We will improve the accessibility of the transport system through a programme including:

- Delivering Disability Equality training across the organisation to both London Underground frontline and Professional Services staff
- Providing more real-time information on lift availability
- Having 91 stations with fully step-free access by the end of 2021, and 93 by the end of 2022
- Continuing our Travel Kind marketing campaign to encourage considerate behaviour towards customers who may need more time when travelling and who may have a disability that isn't visible
- Continuing the roll out of our accessible signage standards in stations
- Launching the world's first 'Design for the Mind' standard for designing for people who can be classed as neurodivergent

Maintaining our assets

Maintaining the condition of our extensive asset base is essential to providing a safe and reliable service and to attract passengers to our network against a backdrop of ever-widening travel options for Londoners. To keep our network safe and operable over the long term we need to get to a level of steady state asset condition. This is our baseline level of investment, which is what we need to do to keep our existing system safely operating and reliable which is core to continuing to provide a good public transport experience. It is important to note however that 'Managed Decline' is more costly in the long run. It can be 20-30 per cent more inefficient to spend in a "boom and bust" manner, with short-termism and structural underfunding not being an economical or efficient way to support safe and efficient services.

However, given our current funding constraints, we have designed the 'Managed Decline' scenario to ensure the network remains as safe as it is today and consistent with our regulatory responsibilities, but operability and reliability would be compromised. Asset closures and restrictions would be likely on our road network (with a high risk of unplanned bridge and tunnel closures), which impact speed and reliability of the bus network. The Tube would be unable to consistently operate a full service, and the Rail service and assets are likely to degrade.

To close the current funding gap completely we would have to drop below 'Managed Decline', with these adverse impacts currently being investigated further so we can effectively understand and manage the asset risk from this level of renewals. We will always make sure the network is safe using a regime of increased maintenance, inspections, mitigations and reactive work – but where required we would close assets to keep the network and customers safe, resulting in poorer outcomes for Londoners and hamper the Capital's recovery from the pandemic.

Reviewing the underground network:

The London Underground network plays a pivotal role in the recovery of London's economy, particularly in the Central Activities Zone (CAZ). It is important the London Underground meets the needs of Londoners to help win customers back. The 'Managed Decline' indicates a reduction of nine per cent in services by 2024/25.

A high-level review suggests that this would require reductions predominantly in off-peak services across all lines irrespective of social disbenefit and resulting in additional crowding in some locations. Although the reduction in some off-peak services has already been implemented and captured in the current budget submission, further service reductions would adversely affect the recovery London requires.

As with other modes, the pandemic had a significant impact on Tube demand, however we have seen ridership levels improve to circa 66 per cent of pre-pandemic demand in November, albeit still below planned expectations. Further service reductions would adversely impact the trajectory of ridership levels and therefore the revenue received.

Shaping the bus network:

Buses are one of the most affordable, accessible, and inclusive forms of transport in London and are the backbone of London's transport network. As the main sustainable alternative to the car in many parts of our city, buses and active travel are key to achieving the Mayor's sustainable transport, safety, and environmental targets.

We continuously review the bus network to ensure our services reflect the changing demand of our city and deliver value for money for our customers. The pandemic had a significant impact on bus demand, however, in November 2021 bus ridership was recorded at 72 per cent of normal demand on a weekday and 77 per cent on a weekend, showing a growth in customer confidence.

Our Financial Sustainability Plan was clear that wholesale reductions to service levels would be counter-productive, damaging the recovery and increasing the likelihood of a return to car travel. However, the 'Managed Decline' scenario means we are now having to plan for up to an 18 per cent reduction in bus services by 2024/25, unless more funding can be made available.

Our high-level assessment suggests that achieving this level of service reductions would require over 100 routes to be withdrawn (about a seventh of the network) and over 200 routes (about a third of all remaining routes) would have frequencies reduced.

While our intention to date has been to focus changes to frequencies and services in inner London where there are more travel alternatives, as the scale of change increases it becomes impossible to limit changes to central and inner London, and the impact on outer London becomes much larger.

Improving rail service safety, reliability and tackling crowding:

As these projects are in construction, we would complete the current programme to enhance and modernise the Tube and rail network under the 'Managed Decline', which includes:

- Signalling – replacing the legacy signalling system on the Circle, District, Hammersmith & City and Metropolitan lines with a modern, digital system which covers 40 per cent of the Tube network and replaces some of our oldest signalling assets
- Piccadilly line trains – the new trains for the Piccadilly line are expected to enter service from 2025 and will replace the existing 1970s fleet, will boost reliability and provide the ability to increase frequency during peak times
- Bank station – work continues apace at the project to modernise and expand Bank Underground station, increasing its capacity by 40 per cent. Detailed travel advice has now been issued to customers, ahead of a partial closure of the Northern line in the first five months of 2022, which is required to safely finalise work on the brand-new Northern line tunnel and passenger concourse. Improvements to this vital transport hub will be finished by late 2022
- Elizabeth line – work continues to progress the Elizabeth line and we are still on track to open the line in the first half of 2022. The Elizabeth line will increase central London's rail capacity of 10 per cent. All 41 stations on the Elizabeth line will have step-free access

- Barking Riverside Extension – work continues to build a new extension to the London Overground Gospel Oak to Barking line and take it from Barking to a new station at Barking Riverside. The main works are in progress, with passenger services expected to start in Autumn 2022

■ New homes and jobs

Supporting Good Growth:

Transport has a key role in unlocking housing delivery in London and tackling the housing crisis. TfL will continue to work with boroughs to ensure that reducing car use and enabling active, efficient and sustainable travel is at the heart of new development. The spatial framework for this is provided at a strategic level by the new London Plan, and TfL works with boroughs to implement this in local plans and individual planning applications. Through applying the London Plan, we can deliver less car-dependent growth to reduce the impact of developments, allowing more new homes to be delivered.

TfL will continue to unlock good growth in Opportunity Areas, including at Vauxhall-Nine Elms, enabled by the extension of the Northern line which was completed in September 2021, and Barking Riverside, enabled by an extension of the London Overground. We are continuing to work with Government on Housing Infrastructure Fund funded upgrades to the East London Line and DLR which will unlock thousands of homes in east London.

Only if more funding is made available, will we be able continue to develop proposals to enable growth in London's other Opportunity Areas, including targeted transport improvements which can unlock housing and more major investments such as a new West London Orbital rail link and public transport investment in Beckton Riverside and Thamesmead.

We are using our commercial development programme as an opportunity to tackle the construction industry's skills shortage. TfL has trained almost 22,500 people on our sites, 78 per cent of these were previously unemployed. In the last year alone our construction skills training programme has helped more than 400 people into long-term employment.

Providing new homes on TfL land:

- Subject to approvals within TfL and with the Government we will be working with our development partners to bring forward 20,000 new homes on our land over the next ten years. This is dependent on securing commercial financing and will include creating retail and commercial space and opportunities for small and independent businesses
- Construction has already started on two of our sites - Blackhorse Road and Kidbrooke, which will provide 969 new homes, 50 per cent of which will be affordable
- Earlier in the year we received permission to build 852 new homes at Bollo Lane in Ealing, which will also allow us to widen local footpaths, construct a new cycle zone and cycle parking and create more than 2,300 square metres of commercial space
- We have entered a joint venture with Grainger, Connected Living London, to provide build-to-rent homes. We currently have planning permission to build 1,078 new build-to-rent homes. These will bring new amenities for the local community as well as providing more affordable housing and light industrial workspace
- We continue to work with communities and stakeholders to bring forward new sites to provide more homes near transport hubs

Capital Strategy

The Mayor's Transport Strategy shows how we can support London's growth by making the most of our existing assets and investing in new infrastructure.

This year's strategy has been developed in response to our funding challenges and the uncertainties presented by the pandemic. In the short term we have focussed our investment on the safety and operability of our network while looking ahead to identify what investment is needed to renew and improve the transport network to support full economic recovery for London and the UK. It is based on a mix of our 2021 Long Term Capital Plan (LTCP) scenarios which was approved by the TfL Board in December 2020. In the early years it is based on the 'Managed Decline' scenario which maintains safety and operability while it is aligned to the principles of the Financially Constrained scenario by progressing our investment towards the key Mayor's Transport Strategy (MTS) goals through the next five years. In the later years, it transitions into the 2021 Policy Consistent LTCP scenario which delivers closest to the MTS vision by 2041. It also sets out the funding required to achieve this vision, which will be subject to future funding mechanisms and discussions with the UK government. The Capital Strategy is set out in Appendix C, alongside the Mayor's document.

Introduction

The GLA is the strategic authority for London and supports the Mayor and the London Assembly in delivering their respective responsibilities and functions. The GLA's five functional bodies are its principal delivery arms: the Mayor's Office for Policing and Crime, overseeing the work of the Metropolitan Police Service; the London Fire Commissioner; TfL; the London Legacy Development Corporation and the Old Oak and Park Royal Development Corporation.

GLA SECTION 6 - TfL Main Budget Section

Introduction

TfL is responsible for the planning, delivery, and day-to-day operation of the Capital's public transport system, including London's buses, London Underground and Overground including the Elizabeth line, the DLR, London Trams and London River Services. It is also responsible for managing road user charging schemes (the Congestion Charge, ULEZ and LEZ), maintaining London's main roads and traffic lights, regulating taxis and private hire vehicles, making London's transport more accessible and promoting walking and cycling initiatives.

Producing the TfL GLA Budget to inform the Mayor's budget

6.1 The coronavirus pandemic continues to create significant uncertainty for a number of industries across the country. For TfL specifically, it has decimated fares income, with the return of passengers and economic recovery remaining a key challenge to future sustainability. Despite the removal of coronavirus-related legal restrictions in England, the pandemic has altered the behaviours of the travelling public which has made it increasingly challenging for us to extrapolate future travel patterns.

6.2 In the Comprehensive Spending Review (CSR) of October 2021, the Government stated that for the period 2022/23 to 2024/25 TfL will not receive any additional capital funding, only retain the £1bn devolved retained business rates the GLA previously received. Government also confirmed they do not intend to provide any further revenue support beyond March 2023 to TfL.

6.3 As TfL is required to make a submission into the GLA budget process to inform the Mayor's Budget for 2022/23 covering the period 2022/23 to 2024/25, this budget submission incorporates this reduced level of funding. However, TfL is still obliged to be able to prepare a budget that is balanced over both the short and medium term.

6.4 With all the interventions on capital investment and service levels TfL has embedded into its budget submission as part of the GLA budget process, and in light of the statements from the Government as detailed above, TfL cannot balance its budget in any of the upcoming financial years to 2024/25 without extraordinary Government support. TfL will continue to develop its financial plans, informed by continued funding discussion with the Government in the run up to the publication of the final Mayor's budget in February 2022.

GLA collaboration

6.5 The GLA Group Collaboration Programme is a portfolio set up by the Mayor to ensure the GLA Group realises the maximum benefits obtainable from collaboration, both within the GLA Group and with other like-minded organisations. Senior Executives from across the GLA

Group sit on the Group Collaboration Board which is responsible for strategic oversight and key decision making.

6.6 The programme is looking at options for realising benefits from greater collaboration, including potential financial efficiencies arising from how we buy our energy more efficiently; leveraging our procurement processes; utilising our estates better and removing duplication in back and middle office support service and policy/delivery areas not provided exclusively by a member of the GLA Group.

6.7 Development work is proceeding at pace with clear governance and methodology framework, and a programme in place. Resources are committed to develop the initiatives identified as possible areas of opportunity.

6.8 The results of this work will be included in the budget process as they are available on an ongoing basis. At this stage initiatives that are included in these figures are ones that will have a material impact in 2022/23.

Key operating account outcomes

6.9 The key outcomes over the next year include:

- Rebuilding and maintaining confidence by continuing enhanced cleaning regimes ensure the transport network is cleaner than ever before, operating a reliable service, and creating reassuring marketing campaigns. Other measures to keep people safe include social distancing signage and the mandatory wearing of face coverings.
- With the expansion of the ULEZ in October 2021, TfL is leading the way in improving London's toxic air quality with the toughest air quality standards of any city in the world: covering all roads within the North and South Circular roads. We will continue the operation of the expanded ULEZ and provide regular reporting on the compliance levels and the benefits this is delivering in improved air quality
- Elizabeth line – work continues to progress the Elizabeth line and we are still on track to open the line in the first half of 2022. The Elizabeth line will increase central London's rail capacity of 10 per cent and improve journey times for those crossing London east / west

6.10 Given the current position on funding and the requirement to assume a 'Managed Decline' scenario for the budget this also means:

- TfL will continue to optimise the bus network in response to changing demand, and TfL and partner authorities' plans for other modes. However, the 'Managed Decline' scenario would require a more than four times increase in the current modest service reductions planned for the bus network from four per cent to around 18 per cent over the period to 2024/25 subject to any required consultation, impact assessment as appropriate and decision making processes

- Given the impact these service reductions will have on the rate that new vehicles are required, and that London has been excluded from eligibility for bus electrification funding from the CSR, this will slow the transition to zero-emission vehicles. This will mean delaying the completion of a zero-emission bus fleet beyond 2034
- In this budget submission, reductions in TfL's capital programme have been matched with reductions in Borough funding. This will stop all enhancements and leave only a small provision for renewals. This means that there will be no further TfL funding for the Borough Local Implementation Plan programme or other programmes such as the Borough cycle network development, the remaining Liveable Neighbourhoods and Cycle Parking

Gross service expenditure

6.11 Gross service expenditure reduces by £115.5m, from £7,346.6m in the Revised Budget for 2021/22 to £7,231.0m in the latest forecast driven by operating cost savings implemented and lower net debt interest payable, partially offset by lower third-party contributions.

6.12 Gross service expenditure in 2022/23 will increase by £684.4m compared to the latest forecast for 2021/22: a result of new initiatives – including the full-year impact of ULEZ expansion in October 2021, activities related to the planned opening of the Elizabeth line and inflationary pressures.

Net service expenditure and council tax requirement

6.13 The pandemic has exposed TfL's increasing reliance on covering its operating costs from fare revenue (72 per cent) compared to other similar authorities. It is currently expected that passenger journeys will only return to 73 per cent of pre-pandemic forecasts by the end of 2021/22 and up to circa 84 per cent throughout 2022/23.

6.14 In 2021/22, TfL expects ridership to continue building as London recovers from the pandemic and commuters return to the office, but to only 62 per cent on average compared to the 65 per cent annual average forecast in last year's plan. This results in a loss of passenger income of £124.8m compared to last year's plan. Therefore, after deducting passenger and commercial income, fees, charges, other income and its planned use of reserves, the Mayor proposes that TfL's net service expenditure for 2021/22 is £2,515.8m. An analysis of the revenue budget by service area is summarised on page 20.

6.15 The Mayor proposed in his Budget Guidance, that as a planning assumption, TfL's council tax requirement for 2022/23 would increase to £52.2m from £51.6m and business rates retention would increase to £940.4m from £914.5m. The balance of net revenue expenditure will be financed by £1,100.0m of extraordinary grant income currently assumed to come predominantly from the Government. The nature and extent of the funding required will depend on the returns provided by billing authorities to the GLA in late January 2022, and consequent Mayoral and Government decisions.

6.16 This plan assumes that fares rise by the July 2021 RPI+1 per cent (total 4.8 per cent), helping to support vital investment in public transport. This is in accordance with the 1 June 2021 funding agreement with Government. It is expected that in future periods the fares rise will revert to every January. While this level of fares rise is assumed to continue throughout the life of the plan, TfL fares are set by the Mayor on an annual basis.

TfL's operating budget is summarised in the following table.

(Revised Budget represents the TfL Budget published in July 2021)

TfL Objective Analysis	Revised Budget 2021/22 £m	Forecast 2021/22 £m	Budget 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m
Income					
Passenger Income	(3,477.6)	(3,150.8)	(4,460.2)	(4,919.3)	(5,292.4)
Road User Charging*	(748.5)	(652.9)	(753.8)	(538.3)	(491.3)
Other Income	(427.2)	(444.7)	(625.8)	(693.0)	(774.0)
Elizabeth line regulatory income**	(26.6)	(18.4)	(269.0)	(404.3)	(416.5)
Sub total income	**(4,679.9)**	**(4,266.8)**	**(6,108.8)**	**(6,554.9)**	**(6,974.2)**
Operating costs					
London Underground	2,111.5	2,089.1	2,247.6	2,282.4	2,311.5
Buses, Streets and Other Surface	2,869.9	2,865.2	2,919.0	2,905.4	2,964.8
Rail	484.1	476.6	504.6	520.1	541.8
Elizabeth line	435.2	432.4	474.4	494.3	553.2
Elizabeth line regulatory charge**	26.6	18.4	269.0	404.3	416.5
Other Operations	951.5	884.7	1,033.4	701.8	590.7
Property Development	52.6	55.9	56.0	50.1	50.3
Sub total operating costs	**6,931.4**	**6,822.3**	**7,504.0**	**7,358.4**	**7,428.8**
Other					
Third-party contributions	(33.5)	(30.9)	(29.9)	(29.6)	(27.3)
Debt servicing	448.7	439.6	441.3	432.2	466.0
Sub total other	**415.2**	**408.7**	**411.4**	**402.6**	**438.7**
Net service expenditure	**2,666.7**	**2,964.2**	**1,806.6**	**1,206.1**	**893.3**
Revenue resources used to support capital	608.6	299.9	159.2	(57.3)	641.0
Transfer to/(from) reserves	(422.7)	(448.4)	150.6	(218.9)	(586.5)

Financing requirement	**2,852.6**	**2,815.7**	**2,116.4**	**929.9**	**947.7**
Specific grants	13.7	18.6	8.1	4.6	4.3
Retained business rates	914.0	914.5	940.4	857.2	874.3
Funding for NI increase	-	-	15.8	15.5	16.0
Council tax collection fund deficit	-	-	(0.1)	(0.1)	-
Extraordinary grants***	1,873.3	1,831.0	1,100.0	-	-
Council tax requirement	**51.6**	**51.6**	**52.2**	**52.7**	**53.2**

* Any changes to these Schemes which result in additional income are subject to impact assessment, consultation, and Mayoral decision.

** The table reflects the Elizabeth line central operating section regulatory track charge, which is net-nil at TfL Group level

*** Extraordinary grant for 2021/22 and 2022/23 assumed to come predominantly from the Government

Explanation of budget changes

6.17 An analysis of the year-on-year movement in the Mayor's proposed council tax requirement for TfL compared to the Revised Budget for 2021-22 is set out below. An explanation of each change is provided in the paragraphs that follow.

Changes in the TfL's council tax requirement	**£m**
2021/22 council tax requirement	**51.6**
Changes due to:	
Passenger and commercial revenue and other income	(1,428.9)
Net change in service expenditure	576.2
Revenue surplus / deficit	(449.4)
Debt servicing	(7.4)
Use of reserves	573.3
Government and other revenue grants	778.9
Retained business rates (and funding for NI increase)	(42.2)
Council tax collection fund deficit	0.1
2022/23 council tax requirement	**52.2**

Inflation

6.18 Inflation rates have increased dramatically in the last year, with demand for goods and services including energy prices as the UK has emerged from the pandemic. RPI is currently at 6.0 per cent (October 2021), compared to 1.3 per cent in October 2020. This has caused significant pressure on our total costs across all years.

Savings and efficiencies

6.19 The total operating cost savings and efficiencies to 2024/25 which have been identified across the Group are summarised below. The figures are presented on an incremental basis and only include recurring savings; future savings from service reductions are not included.

Savings and efficiencies	PY19/20-20/21 (Actual) £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	TOTAL £m
TfL	340.0	60.8	122.2	113.1	93.9	730.0

6.20 In the Financial Sustainability Plan, TfL committed to delivering recurring operating cost savings totalling up to £730m between 2019/20 and 2024/25. In 2019/20 and 2020/21 we delivered £340.0m of recurring savings, compared to a target of £336.0m. Our latest plan shows we will make a further £390.0m of savings from 2021/22 to 2024/25, delivering total savings of £730.0m between 2019/20 and 2024/25.

6.21 Total recurring savings in 2021/22 are forecast to increase by £60.8m compared to 2020/21 from:

- London Underground (LU) recurring savings of £41.5m predominantly due to £23m from supplier partnership programmes across fleet and track maintenance, £10m from LU's One Asset Operations programme
- Surface Transport savings totalling £15.9m, including £11.5m across the bus network from tender savings following renegotiation of bus operating contracts and a further £4.4m from the Dial-a-Ride transformation programme
- Additional savings totalling £3.4m from sub-letting head office accommodation and other smaller savings initiatives

6.22 The cost reduction programme continues across all areas of the organisation as we continue to drive the development of a modern, efficient, high-performing organisation. 2022/23 will be the seventh year of the cost reduction programme: by the end of 2019/20 we had made annualised gross recurring savings of £933m - mitigating inflationary pressures - while protecting safety, services and reliability. In 2020/21 we delivered further incremental recurring savings of £154m (as well as additional one off savings from lower service levels and other volume-based costs of £193m); savings of £60.8m in 2021/22 will mean we have made recurring savings (before inflation and other cost pressures) up to £1,148m by the end of March 2022.

6.23 We plan to make new savings of £122.2m in 2022/23. These are incremental to the savings already achieved from 2015/16 to 2020/21 and those forecast to be delivered in 2021/22. There remain significant risks to these plans: £80m of savings have a high risk, meaning workstreams have no or immature plans identified to deliver the savings targets. A further £25m of savings are identified as medium risk; early plans are in place, but these require further work to ensure delivery.

6.24 These savings, all of which deliver cashable benefits, are embedded across all of TfL's divisions:

- London Underground will deliver additional savings of £102.0m in 2022/23 through their modernisation plan:
    - £42m is being is planned to be delivered in Asset Performance and Capital Delivery (APCD) mostly through supply chain initiatives
    - £39m through tightly controlled recruitment, reductions in overtime and a step up in supply chain savings as a result of action taken in prior years
    - £21m pending plans to be confirmed
- Surface Transport – Buses, Streets and Other Operations, and Rail - will deliver £12.7m of new incremental savings in 2022/23:
    - Review of the bus operations commercial model, saving £11.7m per year
    - Further commercial savings from Rail operators, total £1.0m per year
- Savings of £3.5m across Professional Services following the implementation of the Procurement & Supply Chain transformation programme which will also bring wider supply chain savings across the organisation once complete
- A further £4.0m of savings from accommodation savings, primarily from sub-letting head office buildings.

Passenger and commercial revenue and other income

6.25 Passenger, commercial and other income is estimated to decrease by £413.1m, from £4,679.9m in the Revised Budget 2021/22 to £4,266.8m in the latest forecast, primarily due to slower than expected recovery of our passenger demand and higher ULEZ compliance in the newly-expanded zone and lower vehicle volumes. To illustrate the uncertainty around how travel patterns may recover to pre-pandemic levels, we have developed a range of different passenger travel scenarios which flex four core variables; GLA Economic scenarios, office workers return profile, office workers new normal and winter suppression. The credible range of possible revenue outcomes for 2021/22 is +£100m / -£40m. The central scenario in this plan assumes that our demand is supressed over winter during the flu season and then gradually increases up until July 2022 when the level of our commuter travellers reaches 65 per cent of pre-pandemic levels, circa 84 per cent overall.

6.26 To help meet our legal requirement of a balanced budget, service level cuts over and above those set out in the FSP would be required under current income forecasts. We have carried out a high-level assessment of the impact of substantial service cuts to our network. On Tube and rail services consideration would need to be given to implementing every service reduction where there is a net cost saving subject to consultation, impact assessment and decision making process. This would amount to around 9 per cent of the service. On Buses TfL's high-level assessment has identified a further 18 per cent of service cuts, which would require over 100 routes to be withdrawn (about a seventh of the network) and over 200 routes (about a third of all remaining routes) would have frequencies reduced.

6.27 Night Tube restarted on 27 November 2021 for the Central and Victoria lines. Work continues to confirm a date for restarting the remaining lines. The Waterloo & City line re-opened in the peak on 7 June 2021 as London started recovering from the pandemic, with the full weekday service returning on 22 November 2021. The Northern line extension opened on 20 September 2021 with two new stations. This was the first large tube extension of the twenty-first century and is already playing a vital role in regenerating the Vauxhall, Nine Elms and Battersea areas.

6.28 The 1 June 2021 funding agreement included a commitment that TfL will continue with its existing plan to increase fares in line with their Business Planning assumption of an overall fares increase by the July 2021 retail price index plus 1 per cent (4.8 per cent) on fares under the Mayor's control, the timing of which will be in line with Government announcements. Any changes in fares are subject to Mayoral decision.

6.29 We have a comprehensive range of travel concessions, which are an important part of providing affordable travel around London. In June 2020 TfL announced the Freedom Pass and 60+ Oyster would be removed from the AM peak on a temporary basis in response to the pandemic, as requested by the Government.

6.30 Road User Charging income includes the expansion of the ULEZ in October 2021 out to the North and South Circular roads, which includes increased income in 2021/22 (partial year of operation) and 2022/23. Early indications show the expansion of the ULEZ has been successful in driving the desired policy outcomes from the scheme by improving air quality, as we have seen greater compliance of vehicles and fewer journeys by polluting vehicles being made compared to original expectations. One consequence of greater compliance is reduced proceeds from the scheme than was anticipated, which equates to roughly £600m over the three years 2022/23 to 2024/25.

Net change in operating expenditure

6.31 The change in total operating expenditure is an increase of £576.2m between Revised Budget 2021/22 and 2022/23. The plan for 2022/23 fully covers the cost of debt servicing allowing for the transfer of revenue resources to support the capital plan.

Debt servicing

6.32 Debt servicing reduces by £7.4m in 2022/23 compared to the Revised Budget 2021/22 predominantly due to maturing debt expected to be refinanced at lower rates. There is no new net borrowing planned for 2021/22 and 2022/23.

Other revenue grants

6.33 Overall income from other grants will decrease by £5.6m in 2022/23 compared to the Revised Budget 2021/22. This is primarily due to the non-recurrence of funding received from Government in 2021/22 to boost transport capacity for dedicated school and college bus services during the height of the pandemic.

Retained business rates

6.34 Subject to consultation and billing authority forecasts due in late January 2022, it is proposed that the Mayor will allocate a total of £1,943.4m to TfL in 2022/23, which comprises of funding from the Mayor's council tax precept of £52.2m and business rates funding of £1,891.2m. Of the £1,891.2m business rates funding we have allocated £940.4m to the operating account and £950.8m to capital. Funding received under the business rate devolution proposals are not restricted to support capital investment and can be used to cover operating and financing costs. The business rate allocation in this plan is indexed in line with guidance from the GLA.

Reporting against TfL's Budget

6.35 TfL monitors its Budget through regular public reporting which includes:

- A Quarterly Performance Report that monitors financial and operational performance against the targets set out in the annual Budget, as well as against prior year. The report also includes key financial and operating performance over the last five quarters and the last four years to assess medium-term trends. This is reported to the TfL Board along with slides to accompany the Chief Finance Officer's presentation

- TfL produce periodic finance reporting which monitor financial progress against the annual budget. These are monitored each period by the TfL Executive Committee along with progress on our balanced scorecard. Performance is additionally reported to the TfL Finance Committee at each meeting

- Project delivery is reported through the quarterly Investment Programme Report (IPR). This will monitor both project costs and milestone delivery against Budget. This report is provided to the Programmes and Investment Committee and the TfL Board

- Quarterly performance review of financial, operational, and capital results with City Hall, examining year-to-date and year-on-year variance analysis. These reports are available to the public within 35 working days after the end of the quarter

- TfL normally set an annual scorecard that tracks performance against in-year objectives derived from the Mayor's Transport Strategy, the Business Plan and the Budget. Progress against the measures is reported every period or quarter (depending on the measure) and the results are reported to the Executive Committee each period. The scorecard is also presented in the Commissioner's report at Board meetings

6.36 Project slippage is highlighted in the IPR; any slippage in project costs or schedule which are expected to roll over into future years will be assessed as part of the annual Budget setting process and will be incorporated into future Budgets subject to approval by the TfL Board.

Equalities, Diversity, Inclusion and Social Integration

6.37 The health, social and economic challenges from the coronavirus pandemic have exacerbated existing inequalities in London, with a greater impact on many Londoners with protected characteristics. The Mayor has stated his commitment to securing a better future for Londoners, ensuring that nobody is left behind in London's recovery from the pandemic.

6.38 TfL's obligations in equalities legislation, the Mayor's Transport Strategy and Inclusive London form the basis of our work on inclusion, diversity, equality and accessibility.

6.39 TfL's plans are underpinned by a commitment to inclusion, diversity, equality and accessibility, which will be set out in TfL's revised Equality Objectives, published in winter 21/22 and in TfL's "Action on Inclusion" document due to be published in early 2022.

- The documents will focus TfL's efforts to maximise the social benefits of the transport network in the context of significant funding issues, recognising current workforce, customer diversity and inclusion challenges
- They will consider the social impacts of the pandemic, how TfL have responded and TfL's ambition for an inclusive recovery, to enable a conversation with stakeholders and Londoners
- They will set out how TfL will be actively anti-racist as an organisation and ensure the workforce becomes more representative of Londoners at all levels through diverse recruitment and inclusive leadership, cultures, systems and behaviours
- They will ensure considerations around inclusion are at the very heart of decision-making. The documents will be underpinned by a more detailed diversity and inclusion programme plan with metrics focused on closing the gaps in outcomes between minority groups and others

6.40 TfL's financial planning environment is currently volatile and differs from the approach we have taken in normal years. We have been producing several Budget revisions within years reflecting our changing funding position, as well as a number of deliverables required by our current funding deal with government. Throughout these processes, we remain focused on our responsibilities related to equality, inclusion, diversity and accessibility.

6.41 Throughout our engagement with government on funding and our production of the various documents required by our current funding deal, we have ensured that considerations related to the variety of underrepresented or underserved groups across London are a key part of any assessment. This includes proposals considered by our Capital Programme Review, Service Level Review and New Income Sources Review. We continue to make the case that operating and improving London's transport network is essential for social inclusion, with many people from different protected characteristics often highly dependent on good public transport to access opportunities.

6.42 The TfL Scorecard provides measures for tracking progress against our key priorities. For 2021/22, we focussed on measuring the progress of our work on embedding inclusive cultures, behaviours, line management systems and processes across our organisation. Development of the scorecard for 2022/23 has begun. As we begin to recover from the effects of the pandemic, our top priorities will remain: the safety of our customers, staff and supply chain.

6.43 Public transport services are essential for equity, equality, and making London open and accessible for everyone. When planning future investments, TfL will address the equality and inclusion needs of all Londoners. However, with the current level of uncertainty and shortfall in funding, we may need to stall funding in enhancements in public transport services such as bus travel, step-free access or reducing overcrowding – affecting those from disadvantaged backgrounds or with accessibility needs. We are making the case to Government about why these are essential considerations for any future funding.

6.44 London is the region of England with the highest poverty rates, and the child poverty rate is 38 per cent. In-work poverty rates are also particularly high in London, with more than one in five working households living in poverty. Despite this, London has been allocated only 4 per cent of the Levelling Up Fund awarded in the CSR.

6.45 Many disabled people have reduced access to the public transport network as a result of stations requiring navigating steps or escalators. 84 per cent of disabled Londoners report that their disability limits their ability to travel. We have been increasing the proportion of our network that is step-free: currently 89 Tube stations, set to increase to 91 by the end of 2021, 60 London Overground stations and most of the 27 stations served by TfL Rail have step-free access. All DLR stations and tram stops are step free as are 95 per cent of bus stops, but this progress would completely cease under a 'Managed Decline' capital expenditure plan. With reduced renewals, we would see more frequent failures of lifts and escalators – with a broken lift often meaning someone who depends on it simply cannot travel.

6.46 In November 2021, TfL initiated a public consultation which focuses on step-free access priorities. The results will be used to shape and inform any future approach to step-free improvements on the London Underground network, depending on Government funding for future programmes.

6.47 Overcrowded services are a further deterrent to travel. A wheelchair space being occupied, or there being too much crowding to enable access to it, can make a bus inaccessible to a disabled passenger. Aversion to highly crowded conditions may persist in future, particularly for older people or others who are more vulnerable to respiratory and other airborne transmitted infections. Reducing public transport service in a way that increases crowding beyond tolerable levels would disproportionately affect those with disabilities or such vulnerabilities. Significant service reductions are assumed in this Budget, however a full integrated impact analysis would take place before any changes were implemented.

6.48 The 1 June 2021 funding agreement included a commitment that TfL will continue with its business plan assumptions to increase fares under the Mayor's control in 2022 by RPI+1 per cent. Above inflation fare increases can lead to negative impacts on the ability of all users to access London's transport network. However, these impacts need to be considered in light of the benefits of continued services. The additional income from such a fare rise would allow TfL to continue to provide a public transport system that provides access and connectivity to all Londoners.

Environmental Impact

6.49 TfL is committed to reducing emissions of air pollutants in London, supporting the transition to a zero-carbon city, and supporting delivery of the London Environment Strategy (LES). In September 2021 we published our Corporate Environment Plan, setting out the actions we will take to reduce emissions, maximise the value of green infrastructure on our network, reduce waste and support the circular economy, and adapt our infrastructure to be prepared for the impacts of climate change.

6.50 The central ULEZ contributed to a 44 per cent reduction in harmful roadside nitrogen dioxide (NO_2) and a 27 per cent reduction in particulate matter ($PM_{2.5}$) in the first ten months of its operation, before the pandemic, and these improvements in air quality have been maintained, even when lockdown restrictions were eased over the summer of 2020. On 25 October 2021, the ULEZ expanded to cover the area within (but not including) the North and South Circular Roads. Expansion of the ULEZ was necessary to meet legal limits for NO_2, as well as contributing to meeting ambitious targets to reduce $PM_{2.5}$ and greenhouse gas emissions. The new zone is eighteen times larger than the original central area and covers a population of 3.8 million people. Compliance with the standards has increased significantly from 39 per cent in February 2017 when the Mayor announced his intention to expand the scheme to over 87 per cent when the scheme went live.

6.51 On 1 March 2021, the LEZ standards for heavy vehicles were tightened, matching the ULEZ emission standards for heavy vehicles across most of Greater London. The six-month monitoring report published in September 2021 showed a high compliance rate of 95.5 per cent in August 2021, compared to only 48 per cent in 2017 when changes to the LEZ were announced.

6.52 We are committed to reducing emissions of air pollutants and greenhouse gases from our bus fleet. All buses now meet or exceed the cleanest Euro VI emissions standard. In September 2021 the Mayor announced that all new buses ordered for TfL services will now be zero-emission. Ten per cent of the bus network will be zero emission by the end of

2022, although the pace of further progress on zero-emission buses will be impacted by the need to adopt the 'Managed Decline' scenario.

6.53 We will ensure that all new cars and vans (less than 3.5 tonnes) in TfL's support fleet are zero emission capable (ZEC) from 2025, in line with commitments in the LES for vehicles in the GLA Group fleet.

6.54 Through licensing requirements, we set standards for taxis and private hire vehicles which will result in reduced emissions from these fleets, as well as vehicle age limits. Taxi owners continue to be able to access ZEC taxi vehicle grants helping them transition to zero emissions as soon as possible. We have also been providing the necessary electric charging infrastructure to support the switch to zero emissions, as well as delicensing payments to reduce the number of polluting vehicles, helping to reduce harmful NOx emissions from the taxi sector.

6.55 TfL will reduce operational carbon emissions to meet the carbon budgets set out in the LES, through measures to improve energy efficiency and increasing the volume of renewable energy that we consume. We are retrofitting lighting across the TfL estate, including London Underground stations and depots. In Spring 2022 we will begin procurement for 12.5 per cent of our electricity to be sourced from renewables via direct contracts with renewable energy developers. This will represent a significant step towards the target for TfL rail services to be zero carbon by 2030.

6.56 We will continue to support the Mayor's target for London to be at least 50 per cent green cover by 2050. We are on track to meet the Mayor's Transport Strategy requirement of a one per cent annual increase in street tree numbers on the TfL Road Network, as part of maintenance activities on the network. TfL is also developing a natural capital account for its green estate, to help improve the way that green infrastructure is embedded and considered within decision-making.

6.57 TfL is continuing to conduct and collaborate on research on the impacts of severe weather on our operations to help us better understand the likely impacts of climate change, in line with the LES commitment to identify thresholds for disruption. TfL is also conducting a pan-TfL asset climate risk assessment that will inform both a submission to Defra under the Adaptation Reporting Power and a pan-TfL Adaptation Strategy.

6.58 TfL is aiming to reduce waste, including single use plastics, and support the LES target of a 65 per cent municipal waste recycling rate.

Reserves

6.59 At 31 March 2022, general fund reserves are expected to total £500.0m and are budgeted to remain constant at this level before falling to £436.0m in 2023/24 and then to a deficit balance of £198.0m by 31 March 2025.

6.60 In total, it is forecast that we will hold £526.0m of earmarked, street works reserve and general fund reserves at the close of 2021/22; these reserves will rise to £652.0m by the end of 2023/24 before falling back to £462.0m in 2023/24 and to a negative 172.0m in 2024/25.

6.61 Earmarked reserves have been established to finance future projects. The street works reserve holds surpluses in relation to street works impacting traffic, which are required under legislation to be applied to reduce the adverse effects caused by street works. We maintain a general fund to ensure liquidity and protect from short-term fluctuations in cash requirements.

6.62 The expected movements in reserves over the planning period are set out in the table below.

Movement in reserves during financial year	Outturn 2020/21 £m	Forecast 2021/22 £m	Budget 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m
Opening balances	1,604.2	886.9	526.0	652.0	462.0
Transfers to/from					
Earmarked reserves	(718.6)	(362.1)	126.0	(126.0)	-
Street works reserve	1.3	1.2	-	-	-
General fund reserve	-	-	-	(64.0)	(634.0)
TfL closing balances	886.9	526.0	652.0	462.0	(172.0)

6.63 The expected general fund, street works reserve and earmarked reserves at the end of each financial year are summarised in the following table.

Balance of reserves at end of financial year	Outturn 2020/21 £m	Forecast 2021/22 £m	Budget 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m
Earmarked reserves	362.1	-	126.0	-	-
Street works reserve	24.8	26.0	26.0	26.0	26.0
General reserves	500.0	500.0	500.0	436.0	(198.0)
TfL closing balances	886.9	526.0	652.0	462.0	(172.0)

Draft Capital Spending Plan and Borrowing Limits

Introduction

7.1 The Mayor is required to prepare a Capital Spending Plan every year for each of the GLA's functional bodies. Before issuing his final plan, he is required to consult on a draft plan with the Assembly and each functional body under section 123 of the Greater London Authority Act 1999. This section sets out the draft capital spending plan for consultation. Even though the statutory timetable for the submission of the Capital Spending Plan is different from the requirements for the revenue budget, the same timeframe is adopted to ease consultation. The Mayor is also required to set the borrowing limits for the GLA Group.

7.2 The Mayor's Budget Guidance for 2022/23 requires the submission of a 20-year Capital Strategy incorporating a 20-year Capital Investment Plan and 20-year Capital Funding Plan. The funding and expenditures in the first five years of the plan are presented annually below. These represent moving to a 'Managed Decline' scenario. For enhancements this would mean that only projects already underway, or those required to be compliant with safety and other statutory regulations would continue – meaning no new investment by TfL at all in the transport network. Major outcome areas for TfL would be impacted, with no proactive progress towards Vision Zero (safety), decarbonisation, improving air quality or active travel to support a shift towards more sustainable modes. The Mayor's Transport Strategy (MTS) would be largely undeliverable without this investment. Even in this scenario TfL is unable to produce a balanced budget. Thereafter from 2026/27 onwards, expenditure and funding is grouped into five-year 'buckets', showing a shortfall. The Capital Strategy is set out in Appendix C.

7.3 We have scrutinised all capital projects to see where costs can be reduced through value engineering, while continuing to deliver the outcomes required in full and have included efficiency targets which our Capital Efficiency Programme will deliver. We have also reviewed project timing to ensure the programme can be delivered.

Draft Capital Spending Plan

Under Section 122 of the GLA Act (for consultation)

7.4 Set out below is a summary of the Mayor's Draft Capital Spending Plan for 2022/23 which sets out the capital funding sources for the Capital Spending Plan in line with the format required under section 122 of the GLA Act. Further details on the GLA and each functional body's draft plan are set out below. More details of the key deliverables are set out in this section under each member of the Group and in the relevant Appendices.

Section		2022/23 £m
A	Total external capital grants	1,398.1
	Opening balance of capital receipts	-
	Total capital receipts during the year	412.9
	Total capital grants/ receipts	**1,811.0**
B	Minimum s.120(1) grant	
	Total borrowings during the year	-
	Total borrowings	-
	Total borrowings and credit arrangements	**-**
C	Total capital expenditure anticipated during the year	1,774.9
	Total credit arrangements	
	Total capital spending for the year	**1,774.9**
D	Funding: capital grants	1,398.1
	Funding: capital receipts/reserves	67.0
	Funding: borrowings and credit arrangements	-
	Funding: revenue contributions incl. BRS	309.8
	Total funding	**1,774.9**

7.5 No new capital PFI/PPP schemes are reflected, other than those already committed.

Below is a summary of the TfL's draft Capital Plan to 2025/26 and how this is financed. The plan assumes DfT provides grant funding to make up for income shortfalls resulting from coronavirus until 2022/23 – however TfL has no funding agreement in place beyond 11 December 2021.

Summary of the Capital Plan	Forecast 2021/22 £m	Budget 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m	Plan 2025/26 £m
TfL	2,184.0	1,774.9	2,047.3	1,889.2	2,993.7.0

Table 3: TfL’s Draft Capital plan

TfL's Capital plan	Forecast 2021/22 £m	Budget 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m	Plan 2025/26 £m
Crossrail construction programme*	633.2	253.5	8.0	-	-
Elizabeth line trains and enabling work	12.1	0.7	-	-	-
Line extensions **	101.7	45.4	40.6	21.0	40.2
Line upgrades ***	386.1	361.5	700.5	954.0	861.8
London Underground enhancements	101.4	100.3	49.2	22.3	208.3
Buses enhancements	-	5.8	9.2	10.8	25.7
Streets enhancements	63.8	39.2	16.7	10.0	106.5
Rail enhancements	10.5	6.1	9.9	41.2	100.0
Other Surface operations enhancements	61.8	29.0	44.4	26.0	176.9
Corporate Projects enhancements	164.2	332.7	468.9	103.1	279.2
Renewals ****	649.2	600.6	699.9	700.8	1,195.1
Total capital expenditure	**2,184.0**	**1,774.9**	**2.047.3**	**1,889.2**	**2,993.7**
Funding:					
Capital Receipts	152.2	412.9	778.2	77.4	79.8
Retained Business Rates	930.2	950.8	1,071.8	1,093.3	1,115.1
Capital Grants	88.0	290.3	69.2	92.1	100.6
Borrowing	75.1	-	22.4	95.3	136.8
Crossrail Funding Sources	603.4	357.0	28.0	-	-
Revenue Contributions	(148.4)	309.8	(276.3)	54.5	1,147.0
Working Capital and Reserve Movements	483.5	(345.9)	354.0	476.6	414.4
Total funding	**2,184.0**	**1,774.9**	**2,047.3**	**1,889.2**	**2,993.7**

* Crossrail construction programme: Any further funding amounts required would need to be subject to further discussions between TfL, GLA, and HM Government.

** Line extensions includes Northern Line Extension and Barking Riverside Extension

*** Line upgrades includes Four Lines Modernisation, Piccadilly line rolling stock, Railway systems enhancements and DLR rolling stock

**** Renewals expenditure is necessary to ensure the continued safe operation of transport services

Key Deliverables

10.0 The 'Managed Decline' scenario ensures the network remains as safe as it is today and is consistent with our regulatory responsibilities, however operability and reliability would be compromised. Asset closures and restrictions would be a very likely outcome on our road network (with a high risk of unplanned bridge and tunnel closures). The Tube would be unable to consistently operate a full service, and the Rail service and assets are likely to degrade.

10.1 Total capital expenditure for 2022/23 will be £1,774.9m including the Crossrail construction programme. The key investment areas in 2022/23 include:

- Crossrail construction programme - £253.5m
- Modernisation of Circle, District, Hammersmith and City and Metropolitan lines - £120.5m
- Major Station Upgrades including Bank - £76.7m
- Healthy Streets - £39.1m
- Barking Riverside extension - £2.3m
- Piccadilly line rolling stock - £212.3m
- DLR fleet replacement - £69.6m

10.2 Key deliverables over the next year include:

Division	**Key Deliverable**
Crossrail	Progressing the highly skilled and technical work required to allow for the Elizabeth line stage 3 to open in the first half of 2022
Major Projects	Continue work on the signalling upgrade on the Circle, Hammersmith & City, Metropolitan and District lines, as well as refurbished trains on the Central line and new rolling stock on the Piccadilly line
	Complete the upgrade of Bank station
	Continuing to progress the introduction of new trains on the DLR supporting jobs and homes
	Services on the new Barking Riverside extension will commence in 2022
Surface	Developing plans to replace the oldest trams in our fleet, although the pace that these can be introduced will be dependent on future funding levels

	Continue construction at Old Street Roundabout, which includes two complex traffic switches, and will deliver step free access and improved safety for vulnerable road users
	Continue road renewal works to keep safe our carriageways, footways, traffic signals, lighting, bridges, tunnels and drainage. We are also continuing a multi-year programme of renewal works on the Westway (A40)
London Underground	Commence the refurbishment of the Jubilee Line fleet and the life extension of the Piccadilly Line and Jubilee Line fleets
	Progress the life extension of our Central Line Signalling addressing obsolescence challenges
	Upgrading our communications and security systems to ensure we have safe and secure operational and customer information systems across our tube network
	Refurbishment of escalators at Oxford Circus and on the Jubilee Line
	Ongoing renewals of track across the network
	Progress only those step-free access schemes already in progress across the London Underground network
Commercial Development	During 2022/23 we will continue to bring housing projects through planning and invest in property assets like our significant Arch portfolio – all of which have potential to generate significant ongoing revenue streams or reduce TfL's cost base

10.3 Our capital spending is financed from seven main sources:

- Government emergency grant as a consequence of coronavirus
- Fares and ticket income
- Charges under the road user charging schemes (Congestion Charge, LEZ and ULEZ)
- Secondary revenue (such as advertising and property rentals)
- Third party funding for specific projects
- Surplus revenue resource from the capital grant funding through the business rates devolution
- Prudential borrowing and related financing (including bond issuances)

Our long-term Capital Strategy is presented in detail in Appendix C.

Appendix A

Table 1: TfL - Subjective analysis

TfL Subjective analysis	Revised Budget 2021/22 £m	Forecast 2021/22 £m	Budget 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m
Income					
Passenger Revenue	(3,477.6)	(3,150.8)	(4,460.2)	(4,919.3)	(5,292.4)
Road User Charging*	(748.5)	(652.9)	(753.8)	(538.3)	(491.3)
Media Income	(80.5)	(94.9)	(122.7)	(134.2)	(161.7)
Rental Income	(67.3)	(70.1)	(83.1)	(114.2)	(119.8)
Elizabeth line regulatory**	(26.6)	(18.4)	(269.0)	(404.3)	(416.5)
Other Income	(312.9)	(310.5)	(449.9)	(474.2)	(519.9)
Total Income	**(4,713.4)**	**(4,297.6)**	**(6,138.7)**	**(6,584.5)**	**(7,001.6)**
Operating Expenditure					
Employee Expenses	2,289.1	2,238.1	2,415.4	2,181.3	2,217.0
Premises	320.6	313.7	337.0	352.8	370.5
Bus Contract Payments	2,062.3	2,060.2	2,040.7	1,960.7	1,903.2
CCS Income and other road contracted services	326.9	258.8	263.7	283.2	291.6
Asset Maintenance and Local Authority Payments	519.0	516.0	578.6	564.9	575.5
Professional and consultancy fees	138.5	143.2	144.1	139.5	134.0
Franchise Payments	493.4	522.4	496.8	510.1	526.1

Elizabeth line regulatory**	26.6	18.4	269.0	404.3	416.5
Information and Communication Technology	237.0	236.8	245.9	263.4	288.1
Traction Current	160.8	154.0	195.8	220.5	247.6
Other operating expenses	540.1	518.1	674.1	677.6	694.3
Capital resources and other recharges	(338.5)	(317.4)	(387.3)	(362.1)	(379.0)
Bad debt provision	155.7	160.0	229.3	162.6	143.3
Total Operating Expenditure	**6,931.5**	**6,822.3**	**7,503.9**	**7,358.8**	**7,428.7**
Net Operating Expenditure	**2,218.1**	**2,524.7**	**1,365.2**	**774.3**	**427.1**
Net financing costs	448.7	439.6	441.3	432.2	466.0
Revenue resources used to support capital investment	608.6	299.9	159.2	(57.3)	641.0
Transfer to/(from) reserves	(422.7)	(448.4)	150.6	(218.9)	(586.5)
Financing Requirement	**2,852.7**	**2,815.8**	**2,316.3**	**930.3**	**947.6**
Specific grants	13.8	18.7	8.0	5.0	4.1
Retained business rates	914.0	914.5	940.4	857.2	874.3
Funding for NI increase	-	-	15.8	15.5	16.0
Council tax collection fund deficit	-	-	(0.1)	(0.1)	-
Extraordinary grant***	1,873.3	1,831.0	1,100.0	-	-
Council tax requirement	**51.6**	**51.6**	**52.2**	**52.7**	**53.2**

* Any changes to these schemes which result in additional income are subject to impact assessment, consultation, and mayoral decision.

** The table reflects the Elizabeth line central operating section regulatory track charge, which is net nil at TfL Group level

*** Extraordinary grant for 2021/22 and 2022/23 is assumed to come predominantly from the Government however no funding agreement is in place beyond 11 December 2021

Table 2: TfL - Capital financing costs

Capital financing costs	Budget 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m
Provision for repayment of debt	57.5	57.5	57.5
External interest	531.9	524.2	523.3
Total	**589.4**	**581.7**	**580.8**

Prudential borrowing

The TfL Board approves prudent treasury strategies and policies that have regard to the principles of the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the Treasury Management Code) and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and last updated in 2017. The strategies and policies also have regard to the Statutory Guidance on Local Authority Investments (the Investments Guidance) issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in March 2018.

Borrowing is undertaken within prudent limits approved by our Board and the Mayor. We do not expect to increase our net borrowing in 2022/23, but expect to draw down against a planned £200m revolving credit facility (subject to approval) dedicated to the development of investment property assets and affordable housing schemes during 2023/24 and 2024/25.

The maximum amounts of borrowing in each financial year are set out in the tables below. We constantly assess our financial position and will only borrow where it is prudent and affordable to do so.

We borrow from a variety of sources, with consideration given to the cost of borrowing, market conditions and the level of flexibility offered. These sources include:

- The Public Works Loan Board
- A £5bn Medium Term Note programme
- A £2bn Commercial Paper programme
- The European Investment Bank and Export Development Canada, with loans linked to specific infrastructure projects
- Leasing arrangements, used for specific assets such as rolling stock

- Bank loans, including a £200m bank overdraft facility that is in place to provide contingency liquidity
- A £750m loan facility from the Department for Transport to support the completion of the Crossrail project

We believe our proposed levels of borrowing remain affordable and consistent with prudent financial management.

Annual Minimum Revenue Provision

As we have a legal requirement to produce a balanced budget (and this approach had been extended to the full Business Plan), the cost of debt service is taken account of in determining whether the budget and business plans are in balance.

The significant majority of our borrowings are passed down to TfL's subsidiaries, where they are used to fund capital expenditure in the year they are drawn down. As the assets funded by these borrowings come into use and are depreciated, revenue grant is passed down by the Corporation to fund that element of the annual depreciation expense that is not already covered by other sources of revenue within the respective subsidiary. The revenue grant passed down is charged against the Corporation's General Fund Reserve and hence acts as a proxy for Minimal Revenue Provision.

For the debt used to finance capital expenditure within the Corporation, an Annual Minimal Revenue Provision is made. This has been calculated to build up a provision over the average expected useful economic life of the assets funded. This has been calculated at 35 years.

The tables below set out the proposed borrowing limits over the period having regard to proposed capital spending plan and have been prepared with reference to the requirement of the Prudential Code, including providing calculations of the prudential indicators.

Table 3: TfL Group – Authorised limit for external debt

Authorised limit for external debt	Current Approval 2021/22 £m	Revised Approval 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m
Borrowing	14,494.8	14,494.8	14,568.8	14,568.4	14,533.0
Long term liabilities	3,155.6	3,155.6	3,175.4	3,053.6	2,937.4
TfL closing balances	**17,650.4**	**17,650.4**	**17,744.2**	**17,622.0**	**17,470.4**

Table 4: TfL Group - Operational limit for external debt

Operational limit for external debt	Current Approval 2021/22 £m	Revised Approval 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m
Borrowing	13,162.5	13,162.5	13,068.8	13,089.9	13,149.3
Long term liabilities	2,761.0	2,761.0	2,675.4	2,553.6	2,437.4
TfL closing balances	**15,923.5**	**15,923.5**	**15,744.2**	**15,643.5**	**15,586.7**

Table 5: TfL Corporation - Authorised limit for external debt

Authorised limit for external debt	Current Approval 2021/22 £m	Revised Approval 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m
Borrowing	14,494.8	14,494.8	13,769.0	13,768.7	13,733.5
Long term liabilities	820.8	820.8	785.3	742.8	701.7
TfL closing balances	**15,315.6**	**15,315.6**	**14,554.3**	**14,511.5x**	**14,435.2**

Table 6: TfL Corporation - Operational limit for external debt

Operational limit for external debt	Current Approval 2021/22 £m	Revised Approval 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m
Borrowing	13,162.5	13,162.5	13,069.0	13,068.7	13,033.5
Long term liabilities	570.8	570.8	535.3	492.8	451.7
TfL closing balances	**13,733.3**	**13,733.3**	**13,604.3**	**13,561.5**	**13,485.2**

Appendix B: GLA Group Four-Year Efficiency Plan

Savings and efficiencies across the GLA Group

The total savings and efficiencies to 2024/25 which have been identified across the Group are summarised below. The figures presented show operating costs only, are presented on an incremental basis, and only include recurring savings.

Savings and efficiencies	PY19/20-20/21 (Actual) £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	TOTAL £m
TfL	340.0	60.8	122.2	113.1	93.9	730.0

Appendix C: TfL Capital Strategy 2022

11 Background

11.1 The Prudential Code for Capital Finance in Local Authorities (2017) requires all local authorities including Transport for London (TfL) to prepare and publish a Capital Strategy. This 2021 Capital Strategy supersedes TfL's Capital Strategy published in previous years.

11.2 The coronavirus pandemic resulted in TfL facing significant and unprecedented challenges with ridership falling by 90 per cent at the start of the pandemic and an immediate impact on our cash flow. This year's Capital Strategy is produced in a period of continuing uncertainty with a steady recovery in passenger journeys to around 70 per cent of pre-pandemic levels.

11.3 Our latest funding agreement expires on 11 December 2021 and we continue to work with the government to identify a longer-term funding arrangement that will support our goal of being financially sustainable from April 2023. TfL plays a crucial role in driving growth and jobs across London and the UK, and equally we can support the government's national priorities to progress to a carbon-free future and create wealth and employment that will level up the national economy. In the short term, we are having to adapt our capital plans to respond to our funding challenges and the uncertainties presented by the pandemic, but it remains important to look ahead and identify what investment is needed to renew and improve the transport network in line with the Mayor's Transport Strategy (MTS) and in support of national priorities. Even with the uncertainty of long-term planning, this Capital Strategy will support us in being resilient to a wide range of potential future economic and transport demand outcomes.

11.4 Our Capital Strategy sets out the minimum investment required to maintain safety and operability in the short term as well as the level to which investment should over time increase to achieve the aims of the MTS. The MTS, published in 2018, aims to encourage a shift from cars to active, efficient and sustainable modes of travel, with the central aim for 80 per cent of all trips in London to be made on foot, by cycle or using public transport by 2041. This Capital Strategy covers a 20 year period until 2041.

11.5 We continue to make the case to government for confirmed capital funding to support the level of investment described here. We recognise the new realities brought about by the pandemic and we have adapted our capital investment to defer major growth schemes such as Crossrail 2 and the Bakerloo Line Extension, so we can focus on protecting core assets and services. The Capital Strategy reiterates our preferred level of investment from 2030 onwards, as set out in the Policy Consistent scenario of our 2021 Long-Term Capital Plan and Medium-Term Capital Plan submission to the government on 14 August 2021, as well as our Comprehensive Spending Review submission. In the first five years, this Capital Strategy is aligned to our GLA Budget submission, performed on the basis of a "Managed Decline" capital scenario, with investment assumed to increase through the late 2020s towards the necessary long-term level to support key MTS goals.

11.6 The Capital Strategy forms part of TfL's financial planning process and is based on a number of assumptions including the likely cost of the future capital programme and expectations in terms of funding. It is a planning exercise that will need to evolve as TfL's funding position becomes clearer, and the Capital Strategy will be reviewed and developed year on year.

12 Benefits

12.1 Our Capital Strategy enables clearer and more transparent long-term decisions to be made on the investment needs of London. Many transport schemes take a long time to develop and deliver. For example, Crossrail 1 was first proposed in the 1970s, but is only now nearing its final delivery. A long-term view that reflects the current realities and charts a trajectory towards supporting London's full recovery, is critical to ensure enhancements to London's transport network are delivered when they are needed.

12.2 Our Capital Strategy sets out a pipeline of investment for 20 years. Giving clear sight of our investment aspirations over this period, subject to funding, is useful for a variety of audiences, including customers, London's businesses and our supply chain, who will be able to resource accordingly to meet the demand for construction in London.

12.3 Investment in transport infrastructure benefits many different groups, and it is appropriate that the funding packages for these investments reflect these various beneficiaries. These beneficiaries range from central government, through increased taxation on economic activity and property, all the way to local businesses and residents, who most directly benefit from improved transport links. Formulating full funding packages for large schemes is complex and takes time, as was the case with Crossrail 1. This Capital Strategy identifies schemes in the longer term that require such funding packages and discusses some options for funding them. Developing this work further will help to ensure such schemes are funded in a fair and sustainable way.

12.4 It is not possible to commit to long-term projects unless and until there is long-term funding available to ensure they can be completed. Therefore, a lack of certainty of funding can delay the commencement of essential improvements. A key benefit of the Capital Strategy is that it enables these funding requirements to be identified in sufficient time for them to be addressed.

13 Approach and Updates in 2021

13.1 Our Capital Strategy reflects the long-term priorities set out in the MTS and other Mayoral strategies, including the need to run services safely and reliably. This is set in the context of significant uncertainty on the level of available funding to TfL which would be determined by the pace and level of recovery of passenger demand and the final level of government funding.

13.2 This strategy builds from our 2020 Capital Strategy, which was approved by the TfL Board in December 2020. TfL developed a flexible Long-Term Capital Plan (LTCP) in 2020, which identifies the optimal investment required to keep our existing assets safe, operable, and reliable and considers how our capital ambitions can be optimised to deliver enhancements within different funding constraints. Last year's Capital Strategy was based on a scenario from the 2020 LTCP that delivers the maximum possible performance against MTS objectives within a long-term investment programme of c.£3bn per year (in 2020 prices). This year we have updated our LTCP with a focus on ensuring affordability and deliverability in the early years and improving the articulation of benefits within each scenario.

13.3 This year's Capital Strategy is based on a mix of the 2021 LTCP scenarios, in response to the uncertainty produced by the pandemic, lack of confirmed funding for the capital priorities we made a case for as part of the government's 2021 spending review, and our financial challenges. We will continue to work with the Government to make the case for a longer-term funding settlement. There are efficiency benefits to long-term funding for capital investment. The Government's 2013 published Action for Roads estimates 20 per cent savings on maintenance spending when moving from a 1-2 year planning horizon to a 1-5 year horizon.

13.4 The first five years of the strategy is based largely on the 2021 Managed Decline scenario (but below it in some cases) which sets out the minimum level of spend required to keep our network safe, but with impacts on operability and reliability. This is because the safety and operability of our assets are inextricably linked. TfL cannot operate an unsafe network as our legal authorisation is based on running a safe network. At the managed Decline level, we will life extend our asset base which will lead to reduced operations to maintain safety through closing assets and not making them available for service, or by placing loading and speed restrictions on their use. Consequently, reduced service would impact revenue and financial sustainability. For example, lower train availability, either due to reduced speed or due to closures to maintain safety, would mean lower passenger numbers and revenue, requiring additional funding for TfL to break even and with negative impacts on London's economic activity and growth. In addition, we will need to maintain our assets through short-term fixes that would lead to higher maintenance costs and whole life costs, further jeopardizing our financial sustainability.

13.5 The next five years align to the principles of the Financially Constrained scenario by progressing our investment towards the key MTS goals while in the later years, our investment spend transitions into the 2021 Policy Consistent LTCP scenario which delivers closest to the MTS vision by 2041.

13.6 Because of the need to combine different scenarios to show a transition from a low rate of investment in the next five years towards the Policy Consistent level by the 2030s, there are some instances of spend profiles that, in a more stable planning environment, could be smoothed. The full impacts of the proposals for very low levels of investment in the next five years are not yet fully understood and plans for later years will likely have to change to reflect these impacts once they become clearer. As a result, this document is a high-level planning exercise rather than a detailed guide to very specific investment plans for the next 20 years. TfL regularly revisits its future forecasts and our understanding of future capital investment needs will develop and improve as the future environment becomes clearer.

13.7 Risk allowances have been updated and funding assumptions are particularly indicative at this time, being subject to ongoing discussions with the government. We hope that future Capital Strategies will be able to present greater clarity in this area.

14 Influences

14.1 Our Capital Strategy is directly influenced by:

14.1.1 the Mayor's policies and statutory strategies for London, including the MTS, the London Plan, and the London Environment Strategy

14.1.2 the UK's infrastructure requirements, as set out in the National Infrastructure Assessment

14.1.3 our near-term delivery plans and financial position, as set out in our Revised Budget for 2021/22

14.1.4 our capital prioritisation framework, agreed with government in December 2020 and set out in our Financial Sustainability Plan

14.1.5 the condition and lifecycle of our asset base; and

14.1.6 underlying behaviour trends in London, as analysed in documents such as our annual Travel in London report.

14.2 Our Capital Strategy will be directly or indirectly influenced over time by:

14.2.1 central government policy, in areas such as direct infrastructure funding and devolution, as well as other specific policies such as the Transport Decarbonisation Plan

14.2.2 external events with the potential to impact on the national economy, London's growth and/or our financial position, such as the UK's exit from the European Union and the continuing impacts of the coronavirus pandemic; and

14.2.3 the Mayor's future decisions on allocation of devolved business rates to functional bodies of the Greater London Authority.

14.3 This Capital Strategy continues to set out the level of capital expenditure required in the long term to deliver the MTS, which was written and approved before the pandemic. We are experiencing a slow recovery on our transport network as a result of the pandemic with ridership now increasing to around 70 per cent of pre-pandemic levels. Although the long-term effects of the pandemic will be complex and wide-ranging and impossible to fully predict at this time, the broad objectives of the MTS are almost certain to remain applicable in all potential future circumstances. Strategic aims such as increasing the shift to more sustainable ways of travel and improving the quality of public transport are central to securing a green recovery for London and supporting the national priorities of decarbonisation and economic growth.

14.4 Our financial planning since the pandemic has considered a range of potential demand scenarios to recognise the uncertainty around future travel demand. How the Mayor's transport policies in the MTS are implemented will need to be considered as the longer term impacts of the pandemic on travel demand become clearer and if travel demand does change in a sustained way after the pandemic. As these long-term impacts become clearer, we will keep our future investment programme under review, and future Capital Strategies will further reflect any necessary changes resulting from new forecasts of future travel demand.

15 Policies

15.1 Our Capital Strategy is fully aligned to the Mayor's policies, the MTS policies and TfL's submission to the GLA's Budget on which the Capital Strategy is in part, based.

15.2 Any activity in delivering the Capital Strategy will be executed in accordance with our statutory functions and approved policies. The most important of these policies and functions are outlined here.

15.3 In adherence with the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017, the Capital Strategy references key principles underpinning our approval and governance processes for capital expenditure, commercial activity (including long-term liabilities) and treasury management. For detailed aspects, the documents referenced below and TfL Standing Orders are published on our website.

15.4 Capital spend on transport infrastructure and commercial/investment activity is budgeted for and included in our financial plans covering both the near- and medium-term. These plans are produced at certain points throughout the year and are approved by the Board (or, under delegation, the Finance Committee). We typically produce a medium-term plan that aligns to delivery of the overall MTS, and a more detailed budget, reflecting our near-term targets.

15.5 TfL's financial planning is balanced, integrating capital spend inclusive of commercial activity and investment strategies with the financing strategy for planned expenditure. Short-term extraordinary financial and funding assistance has been provided by the government during the coronavirus pandemic. The 2021 government Spending Review confirmed £1 billion annual investment funding for London's transport system to 2024/25 through Retained Business Rates. However, it did not provide any of the additional capital investment for which TfL had made the case. Discussions are ongoing in relation to short-term funding for TfL's capital spending and operations.

15.6 TfL's commercial activity plans are produced reflecting the Investment Management Strategy (IMS) for non-financial assets, which is updated at least annually and considered by the Finance Committee prior to submission to the Board for final approval.

15.7 The IMS outlines the strategic objectives of the commercial activities, long term direction of the investment programme, metrics to inform decision making framework, risk management policies and the use of independent and specialist experts.

15.8 TfL manages its investments in financial assets and its debt financing in line with its Treasury Management Strategy (TMS), which is updated at least annually and approved by the Finance Committee.

15.9 TfL's treasury management is directed and governed by the TMS comprising the Investment Strategy, Borrowing Strategy, Liquidity Strategy, Risk Management Strategy and Counterparty Exposure Limits. The TMS is implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments, both of which are approved by the Finance Committee.

15.10 Within the year, unbudgeted activity is monitored by various means and is explicitly captured through monitoring of the Prudential Indicators which are aligned to the TfL Group Budget and TfL's submission to the GLA Budget, and define an operational boundary and authorised limit of external debt including borrowing and long-term liabilities for the following year. The Prudential Indicators set an expected estimate of capital financing costs and capital expenditure for the following year. The Prudential Indicators are considered by the Finance Committee prior to submission to the Board for approval annually.

15.11 Financial guarantees granted by TfL are subject to approval by the Chief Finance Officer or higher authority according to the approvals matrix approved by the Board, as set out in TfL Standing Orders. Under section 161 of the Greater London Authority Act 1999, details of all financial guarantees so granted are disclosed annually in TfL's Annual Report and Statement of Accounts.

15.12 Outturn performance against the Board approved Prudential Indicators is presented to the Finance Committee who also monitor treasury management by verifying the TMS has been implemented and administered appropriately and are responsible for regular in-year monitoring of outturn performance against the TfL Budget.

Financial Investment Strategy

15.13 TfL maintains a low risk appetite consistent with the good stewardship of public funds, the overriding principle being the prioritisation of security before liquidity and liquidity before yield.

15.14 TfL considers the risk of its overall portfolio as well as individual investments, seeking to diversify its investments and has regard to the exposure to any one counterparty, country, industry, investment type, and credit. TfL targets allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time.

15.15 The maturity profile of investments reflects the expected cash flow requirements of TfL and accommodates for potential forecast variances. The maximum tenor of cash investments is one year.

15.16 TfL seeks to achieve year-to-date returns greater than the year-to-date average benchmark of the seven day London Interbank Bid Rate (LIBID), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as Money Market Funds. An appropriate replacement will be used upon cessation of LIBOR from 31 December 2021.

Borrowing Strategy

15.17 TfL's objective is to manage its borrowing in a manner that is affordable, sustainable and prudent, combining flexibility, security of access to funds, diversity of funding sources and value for money.

15.18 We are not currently planning to raise any incremental borrowing during our medium-term planning horizon. The annual borrowing requirement is therefore primarily driven by the refinancing of maturing debt. In future, additional borrowing will only be an option where it is deemed affordable and the capital spend results in an increase in future operating surplus that can service the operating and financing costs, as discussed in the Ambition Gap section below. We are working with the government on a 10-year plan to deliver 20,000 homes through our property vehicle (TTL Properties Limited (TTLP)). This proposed plan will be funded through borrowing raised by TTLP on its balance sheet and it will come with no recourse to TfL. We will update our future Capital Strategy as the ongoing discussions with government progress.

15.19 The total value of outstanding borrowing and other long-term liabilities is maintained within an Authorised Limit agreed by the Mayor and approved annually by the Board (as required by the Local Government Act 2003) through a separate Prudential Indicators document.

15.20 In addition to the Public Works Loan Board being a readily available source to raise funds, TfL seeks to achieve its borrowing objectives by maintaining access to capital markets and complementing this with loans and other facilities from financial institutions where appropriate.

15.21 The TMS sets a limit on the level of variable debt exposure acceptable to TfL. As debt service represents a relatively significant part of TfL's annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement.

16 20 Year Capital Ambition

16.1 Our Capital Ambition over the long term is to deliver the outcomes of the MTS and a consistently excellent travelling experience. The severe funding pressures in the short term are forcing us to reduce activity so we can focus our limited funding on maintaining the safety and as far as possible operability of our existing network, with unavoidable impacts likely on reliability and the passenger experience. In the absence of funding certainty, we would cease improvements to our network and resort to reactive, short-term fixes that would need to be revisited more quickly, thereby increasing whole life costs primarily due to increased maintenance costs.

16.2 In the later years of this Capital Strategy, we hope to improve our funding position to enable an increase in the level of investment towards what is required to improve the reliability, capacity and resilience of London's transport network, supporting London's development into a safer and greener city.

16.3 We estimate that delivering this Capital Ambition beyond the next five years would require an average annual spend of £4.6bn in outturn terms (including inflation), of which £2.8bn is the required cost to renew and replace existing assets. This level of renewal spend will need to remain under evaluation given the lower level of investment now proposed for the early years of this period. The remainder is required to slowly build up the delivery of enhancements and extensions that will support quality of life in the city as well as critical improvements such as making progress on decarbonising the transport network, eliminating death and serious injury from the transport network and cleaning London's air.

16.4 Our Capital Ambition can be divided into four substantial categories, detailed below.

Replacement of Rolling Stock and Signalling (*Line Upgrades; £0.9bn pa*)

16.5 Across our rail services, TfL owns more than 800 trains, as well as signalling systems across each rail service and line. Underground trains have a design life of around 40 years and require replacing towards the end of this period, although in some cases it is possible to extend this life depending on asset condition. Light rail vehicles have a shorter life. We are already contractually committed to replacement programmes on the Piccadilly line and DLR. Like trains, signalling systems also degrade over time and require replacing when the costs of maintaining them are no longer efficient compared to the costs and benefits of replacing them.

16.6 To optimise whole-life cost, rolling stock should be replaced at the end of its design life or as close to it as reasonably possible. This has been TfL's intention, but if the current funding shortfall continues it will not be possible to replace rolling stock in the near future and already old fleets including on the Bakerloo line, Central line and Tram network would have to be life extended rather than replaced. Beyond 2025, this Capital Strategy assumes we are able to replace our next set of Tube fleets starting with the Bakerloo line, but this is contingent on future funding.

16.7 When TfL replaces life-expired assets, the new rolling stock and signalling typically provide much greater functionality than the older assets being replaced. This category assumes that we replace our assets with modern equivalents – which would perform at a higher level than the assets they are replacing, some of which date back to the 1970s or earlier.

16.8 As a result of the assumptions set out above, this category includes the costs for replacement of all current rolling stock on the Piccadilly, Bakerloo, Central, Jubilee and Waterloo & City lines as well as London Trams and the DLR, to minimise whole-life costs. Costs are included for the beginning of a replacement programme on the Northern line that is assumed to start in the mid-2030s and continue into the 2040s. Rolling stock for London Overground and the Elizabeth line is leased and not owned by TfL, so is not included here.

16.9 For signalling, costs are included for a replacement system on the Piccadilly line in the late 2020s, incremental replacement projects across the Central line and DLR, and ongoing management of existing systems on all other lines. These investments would deliver both performance and capacity benefits, supporting communities all along these important routes.

Renewals of Other Assets ***(£1.9bn pa)***

16.10 Separate from the large-scale projects to renew and replace rolling stock and signalling, our ongoing capital renewals cover the remaining investment in our existing asset base to maintain its condition and performance. This covers assets ranging from London Underground track, stations, power and other enabling assets to highways, bridges, cycle routes, IT systems and many others.

16.11 We continually assess asset condition to ensure we can maintain safe and reliable services. We reduced the recent level of renewal spend previously, as a proactive measure to accelerate TfL's push to produce an operating surplus in advance of anticipated higher revenue from the completion of Crossrail, and more recently out of necessity during the pandemic. In the first five years of the Capital Strategy, we will have to maintain spend at a lower level than is required in the long term. This will maintain safety but lead to challenges for operability and will have real impacts on the customer experience. Beyond the early years, we have increased renewals spend towards what is required for a more stable long-term investment rate. The full impact of the low level of activity in the first five years cannot be fully predicted in advance, so requirements in later years will have to remain subject to future revision.

16.12 Investing in maintaining the condition of all of our assets is crucial to the long-term sustainability of London's transport network. It supports the high standards of safety and reliability that we must deliver, as well as enabling the best whole-life cost for maintaining assets to be achieved. Failing to renew assets at an acceptable level will lead to reduced operations to maintain safety which will impact the reliability of our services, our revenue and financial sustainability. It will also lead to more inspections, maintenance and higher costs in the long term for emergency works and sub-optimal repairs. This is the unfortunate position required by our funding challenges, but we will continue to endeavour to deliver sufficient renewals to protect our asset base and rebuild over time towards the necessary, sustainable investment.

Enhancements (£1.1bn pa)

16.13 In the first five years of the Capital Strategy, we would not be able to commence any new enhancements unless additional funding becomes available. Beyond those five years, we hope to be able to build up activity to restart progress towards making London a safer city, with cleaner air and greener, more inclusive environments. This long-term investment will also be aimed at delivering a transport network that will unlock growth and support future housing and jobs growth, to maintain London's competitiveness as a world-leading city for living, working and visiting.

16.14 The Enhancements category includes investment priorities that are required to deliver the wide range of improvements set out in the MTS. From the mid-2020s, this would include progressing towards London's ambitious goal of making London's transport network zero-carbon; increasing mode shift to walking, cycling and public transport; our Vision Zero ambition to eliminate death and serious injury from London's roads; and increasing capacity and providing step-free access at London Underground and rail stations. Improving the transport network will also require investment in our technology to increase productivity and improve customer experience.

16.15 As well as the capital investment on TfL's own assets included in this category, TfL contributes to improvements on London's street network through its operating account, which funds work on borough roads through the Local Implementation Plans. As TfL cannot capitalise such costs due to them occurring on non-TfL assets, these sums are not included here. This contribution will likely have to reduce significantly in the first five years consistent with TfL's approach to its own assets. It is important that a fair funding model for such streets improvements is identified to enable TfL to continue to support such improvements.

Network Extensions (£0.7bn pa)

16.16 This category covers new-build schemes to extend existing lines or build completely new routes. We have been developing several such schemes that will unlock housing and growth across London, relieve crowding on the existing network and stimulate development in opportunity areas. None of these have been expected to commence construction in the next five years. We have adapted our capital plans to respond to our funding challenges by deferring these schemes and this presents a level of risk to delivery. Many schemes have developer and borough funding committed towards scheme development and/or delivery and delaying them will likely result in developers choosing to invest elsewhere, potentially outside London, losing significant third-party income to maximise economic growth in opportunity areas.

16.17 It remains crucial to focus on long-term demand and not solely on the volatility of our current circumstances. Network extensions require input from multiple stakeholders including the Mayor, developers, boroughs and other third-parties and due to their size and complexity they require bespoke delivery plans that take a long time to implement. We must plan now for longer-term enhancements that will enable us to prepare for a level of regeneration that will support recovery across London and the wider UK. It is not possible to commit to long-term projects unless and until there is long-term funding available to ensure they can be completed. Therefore, a lack of certainty of funding can delay the commencement of essential improvements.

16.18 The schemes included here are subject to funding becoming available to progress them: DLR extension to Thamesmead supporting up to 20,000 new homes along with bus transit links, the Bakerloo line extension to Lewisham which is assumed to commence in the 2030s and is aimed at improving connections within southeast London and into central London and the West London Orbital, a new rail service that would be part of the London Overground and improve connectivity across west and northwest London.

16.19 All planned schemes in this area will be dependent on third-party funding to support their affordability, reflecting the various beneficiaries such schemes deliver.

16.20 Many of these schemes would be likely to be delivered in cooperation with other organisations, but we have included the full estimated capital cost of each scheme at this stage as well as an assumption about funding (either from grant or other sources) that may be available to support such schemes. It is possible that TfL will not eventually incur the full capital cost as and when these schemes proceed to delivery.

16.21 There continues to be a strong case for developing Crossrail 2 as a major scheme for the longer-term development of London. At this stage TfL expects construction work on Crossrail 2 to commence outside the period covered by this Capital Strategy, but it remains an important long-term scheme for London. This was reflected in the Long-Term Capital Plan, which extended beyond the horizon of the Capital Strategy.

17 20-Year Capital Investment Plan

17.1 All projects included in the Capital Ambition are included within the Capital Investment Plan.

17.2 While the MTS deliverables are clear, it is not always possible to be precise about the exact schemes being undertaken, particularly towards the later years of the Capital Strategy. Where specific projects and cost estimates are not available, costs have been included based on appropriate comparator projects. This means the costs outlined in this Capital Investment Plan are not precise and will be expected to change over time.

17.3 The early years of the Capital Investment Plan have been constrained by the lack of confirmed funding in the 2021 spending review. Beyond the first five years, forecast spend increases, but this is subject to further funding becoming available.

17.4 The Capital Investment Plan covers work on TfL's existing network and anticipated extensions to it. Other investment in London's transport infrastructure not owned by TfL would be required to accomplish the outcomes of the MTS, but such investment is not included here, as it would not be classified as TfL's capital investment. TfL will continue to make the case for all investment required to deliver the MTS to be progressed, regardless of who owns the assets. If there is any transfer of responsibility for assets in future, then future Capital Strategies would reflect any required investment in this new asset base.

17.5 Increasing activity from the current level to the levels of investment proposed for later years of this strategy would require increasing our delivery capacity. This would be best supported by confirmation of long-term funding that would allow us to commit to planning and developing schemes with our supply chain to allow us to achieve the level of delivery necessary to support a larger capital programme.

17.6 We have not had a long-term capital funding settlement for over a decade and the lack of funding certainty constrains TfL's ability to optimise investment delivery. It is also inconsistent with the commitments we need to make to projects that take many years to design and build and an asset portfolio that, in order to be efficient, requires a whole life approach to maintenance. Without a clear picture of future resources, TfL cannot plan for the future of the network, and the benefits it brings nationally, in an optimal way.

17.7 This short-term approach and lack of certainty undermines the ability of supply chain to invest, limiting job creation, skills development and ability to command more efficient prices for work. This is both for TfL and other transport operators in the UK and beyond, who can benefit from supplier efficiencies enabled by largescale TfL orders.

17.8 The implications of this lack of certainty will compound over time. Delays to renewals and inability to plan on an efficient whole life basis means impacts such as closures, reliability and punctuality issues, longer journey times. All of these factors impact TfL's customers and have a negative effect on the economy and growth.

17.9 The costs of fixing the network rise exponentially if renewals are not carried out in a timely manner. This is a false economy and represents poor value for money. London has been here before, with investment falling significantly in the 1990s. Between 1990/91 and 1998/99, passenger subsidy was removed, the renewals grant dropped 48 per cent and the enhancements grant dropped by 74 per cent. Increasing renewals debt would have to be corrected at great expense at later date.

17.10 The combined Capital Investment Plan and Capital Funding Plan are presented in Table 7.

18 20-Year Capital Funding Plan

Funding Renewals

18.1 TfL had been making good progress towards its goal of covering all operating expenditure (including capital renewals) from operating income by 2022/23. The impact of the pandemic has meant that this target will no longer be achieved. In the later years of this plan, we assume that TfL will be able to fund capital renewals out of operating income, although at this stage this is purely a planning assumption and subject to future modelling of TfL's long-term financial position.

Funding Replacement of Rolling Stock and Signalling, and Enhancements

18.2 These categories contain the largest number of schemes, including all streets investment and much of our London Underground and Rail investment to renew, improve and grow the existing network. A steady and sustained level of capital improvements not only delivers efficiencies and reduces whole life costs but improves the reliability of our transport network. Given our current funding constraints, we have designed the 'Managed Decline' scenario to ensure the network remains as safe as it is today and consistent with our regulatory responsibilities, but operability and reliability would be compromised. The Tube would be unable to consistently operate a full service, and the Rail service and assets are likely to degrade. This will result in reduced passenger numbers and revenue, putting our financial sustainability at risk.

18.3 The main funding source for these enhancements is the capital element of retained business rates (formerly paid as an Investment Grant direct from central government). This is insufficient to cover all investment included here, particularly given the need to replace rolling stock and signalling on the Deep Tube lines dating back to the 1970s or earlier. This constraint is reflected in the level of spend in the first five years of the Capital Strategy. Delivering all the investments London needs to replace and upgrade its existing infrastructure will require further funding beyond that currently identified.

18.4 Possible funding sources to meet this requirement are considered in the next section.

Funding Network Extensions

18.5 Network extensions not only improve transport but also stimulate a step change in development in the areas they run through, and they are of strategic importance to the future of London and the wider South East. We must plan for the long-term demand and growth that London will need in the aftermath of the pandemic, to put it on the path to full economic recovery. Network extensions not only unlock growth, jobs and new homes but increase capacity and accessibility to jobs. They are a significant contributor to the national priorities of economic growth, levelling up and decarbonisation and not delivering them will likely put London and the wider UK's economic recovery at risk.

18.6 Due to the size, complexity and expense of these schemes, they require bespoke funding and delivery plans, as was the case for Crossrail 1 and the Northern Line Extension. Sources of funding for these projects could range from central government investment grant through to devolved income streams, contributions from developers and other forms of land value capture. Elements of some projects would be expected to be delivered by bodies other than TfL, such as Network Rail.

18.7 Given the early stages of development of these schemes, it is natural that their funding packages have not yet been fully agreed. This Capital Strategy includes funding where sources have already been identified. Possible funding sources for additional funding requirements are considered in the next section.

18.8 We are not including any provision for borrowing for transport investment in this Capital Funding Plan. Our assumption at this stage is that all existing borrowing will be able to be refinanced, but no further incremental borrowing is included. This issue is discussed further in the next section. We are working with the Government on a proposed 10-year plan that will see TTLP deliver 20,000 homes and will be funded through non-recourse borrowing.

Table 7: Capital Investment and Funding

All figures are adjusted for future forecasts of inflation

TfL's Capital Strategy £bn	2021/22 to 2025/26	2026/27 to 2030/31	2031/32 to 2035/36	2036/37 to 2040/41	Total	Average pa
	£bn	£bn	£bn	£bn	Yrs 6-20	Yrs 6-20
Capital Investment	(1.2)	(1.3)	(3.5)	(6.1)	(10.9)	*(0.7)*
*Crossrail 1**	(0.9)	-	-	-	-	-
(including Elizabeth line trains						
and enabling work)						
Line Extensions	(0.3)	(1.3)	(3.5)	(6.1)	(10.9)	*(0.7)*
Enhancements	(2.6)	(3.6)	(7.0)	(5.4)	(16.0)	*(1.1)*
Line Upgrades	(3.3)	(3.9)	(5.2)	(5.0)	(14.1)	*(0.9)*
Renewals	(3.8)	(8.3)	(9.6)	(10.6)	(28.5)	*(1.9)*
Total capital expenditure	**(10.9)**	**(17.2)**	**(25.2)**	**(27.1)**	**(69.5)**	***(4.6)***
Funding						
Capital Receipts	1.5	0.5	0.5	0.7	1.7	0.1
Retained Business Rates	5.2	5.9	6.5	7.2	19.7	1.3
Revenue Contributions	1.3	8.3	9.6	10.6	28.5	1.9
Borrowing	0.3	-	-	-	-	-
Working Capital and Reserve movements	1.4	-	-	-	-	-
Capital Grants	0.4	1.3	0.6	0.9	2.8	0.2
Crossrail 1 Funding	1.0	-	-	-	-	-
Total funding	**10.9**	**16.0**	**17.2**	**19.4**	**52.7**	***3.5***
Overall additional funding required		*(1.2)*	*(8.0)*	*(7.6)*	*(16.8)*	*(1.1)*

19 Ambition Gap

19.1 Beyond the first five years, there is a gap between the Capital Ambition and identified funding sources. The long-term financial situation of TfL is uncertain and also subject to discussions with the GLA and the government, although in the longer term there is greater flexibility and the potential ability to identify new, sustainable sources of funding.

19.2 The main funding source in recent years for investment has been the capital element of retained business rates (formerly paid as an Investment Grant direct from central government). This is insufficient to cover all investment included here, particularly given the need to renew our existing assets while also investing to improve and expand our network. Delivering all of the investments London needs to replace and upgrade its infrastructure will require further funding beyond that currently identified.

19.3 Various mechanisms exist for raising this additional funding, including:

a. **Further government support beyond the current business rates arrangements.** This could include a larger allocation to London, reflecting its contribution to the national economy, and a longer-term settlement enabling us to plan with more certainty for investments that will take many years to deliver. We continue to make the case to government, including in the anticipated December 2021 funding discussions, for confirmed capital funding to support the investment described in this strategy.

b. **Devolution of financial powers to London (and other cities).** London controls relatively little of the tax raised within it. Devolving powers over taxes such as stamp duty and vehicle excise duty could allow the cities of the UK to better manage their own growth.

c. **Generating an operating surplus and devoting this to investment.** Though this is subject to ongoing discussions with the government, we hope to return to a position where we can break even or generate a surplus on our operating account in due course. Any such surplus could then be used to fund further investment.

d. **Generating new commercial income.** Pre-pandemic, we were increasing the income we raised from property development, management of our media and advertising estate, and leveraging our expertise and intellectual property in markets in the UK and overseas. Any new commercial income (beyond that already planned) could potentially be reinvested in capital investment.

e. **Funding from new income sources.** We are considering potential new sources of operating income as part of the latest funding agreement conditions. This could address our operational funding gap due to reduced passenger income and fund future capital renewals but not enhancements. We expect to need a level of capital settlement to fund the enhancement investments set out in this strategy which will include government funding; this will also ensure our operating account remains viable. In the October 2020 funding settlement letter, the Government acknowledged that we would not be expected to solely finance major capital enhancements and major renewals (i.e. replacement of rolling stock and signaling) from our operating incomes, as is consistent with other transport authorities.

f. **Bidding for targeted support from central government.** This could come from existing sources such as the Housing Infrastructure Fund and Major Road Network funding, or from new sources.

g. **Private financing on a case-by-case basis where it delivers value for money.** Such financing would generally have to be paid back over time through the operating account, so this option should only be considered as a short-term financing solution where circumstances justify it.

h. **Borrowing.** We have not included any provision for incremental borrowing for transport investment. If our operating revenues increase sufficiently, it may be possible in future to use borrowing to close short-term financing gaps, but this would only be appropriate to fund projects that will in the long run generate sufficient operating surpluses to service the interest on this borrowing. Borrowing could take place against revenues/funding sources that continue or begin beyond the 20-year period covered by this Capital Strategy. We have included the provision for non-recourse borrowing as part of a proposed plan for TTLP to deliver 20,000 homes over 10 years and we are in ongoing discussions with the government.

i. **Funding contributions from developers and other third parties including boroughs.** We seek such funding for all appropriate projects.

20 Risks to the Capital Investment Plan

20.1 TfL manages an identified set of strategic risks through a defined framework. Some particular risks relevant to the capital account over a 20 year horizon are noted here.

20.2 The short-term impacts of the coronavirus pandemic have been the most significant event in TfL's history, but the long-term impacts of the pandemic remain to be fully understood. It is likely that the pandemic and its after effects will influence the development of London, travel demand within it and the financial position of TfL for many years to come. This creates numerous risks for the delivery and funding of future capital investment. These are the subject of ongoing analysis and review and TfL will continue to revise its plans as needed in coming years as the future environment becomes clearer. This section focuses on more ongoing risks, which in many cases relate to the pandemic but would also be true regardless of it.

20.3 Lack of long-term certainty of funding: It is not practicable to enter into long-term contracts for major projects until funding is determined, so delay in agreement of long-term funding can result in a delay in projects commencing. This risk can be best managed by early identification and sharing of funding requirements with stakeholders.

20.4 Approvals and consents risk: Most projects require cooperation including approvals from other parties which may or may not be forthcoming. This includes Transport and Works Act 1992 powers / hybrid bills for many projects.

20.5 Delivery Risk: delivery of a significant capital programme contains many risks, particularly where cost estimates are being made many years in advance of when projects would commence and in some cases with little detail available on which to base an estimate. Developments in the construction industry could lead to increases or decreases in the ease of delivering projects included here.

20.6 Risk of estimating future costs: It is very difficult to predict cost inflation over 20 years, and TfL faces both general inflation and differential construction cost inflation. As an illustration, if the rate of inflation is 1 per cent higher every year than we forecast here, it would increase our total costs over the 20 years by £10bn, or around 12 per cent of the overall costs projected here.

20.7 Risk that pressures on TfL's operating account require funding to be diverted away from capital expenditure. This could include for issues such as funding investment on non-TfL assets (including borough roads) or higher operating costs for necessary staffing and maintenance levels.

20.8 Risk related to asset condition: We are having to plan to spend less on our assets in the next five years than would be required for a sustainable long-term rate. This will mean asset condition will continue to decline. This will create risks to performance, which we will have to manage through maintenance, inspections and if necessary restrictions. In the long term, there will be ongoing risk that underinvestment now will lead to higher required spend in the future, and future planning exercises will have to continually review the need for further increases in renewals spend to address the current shortfall of work.

20.9 Commercial risk: the value of TfL's commercial properties is exposed to market volatility as are property purchase costs within large projects. Over time, market conditions could make such transactions better or worse than expected, creating a source of uncertainty. TfL is discussing with central government potential structures for our commercial activities, which take account of this risk and may change how we manage it in future.

20.10A PESTLE analysis of the Capital Strategy identifies a number of risks listed below. Many of these could impact on TfL either positively or negatively.

- Political risks: Over 20 years, politics at every level can impact on the availability of funding and support for TfL capital projects
- Economic risks: Over 20 years many economic conditions and factors could change demand for TfL services, and hence indirectly funding available and the need to invest. TfL's revenues are particularly closely linked to the size of the London economy.
- Social risks: Known risks include reductions in the requirement for travel such as increases in home working, internet shopping and alternatives to conventional public transport such as private hire apps, ride sharing, car clubs and new mobility solutions. Such trends if accelerated could require a re-prioritisation of the strategy
- Technology risks: Known risks include cyber security, the impacts of Artificial Intelligence, autonomous vehicle technology and increased ability to work remotely – but there may be others yet to be invented. These could have favourable or unfavourable impacts on TfL and might challenge today's public transport model

- Legal Risks: TfL may be compelled to undertake new activity as a result of changes in law, which may increase costs of projects or require additional ones. Legal challenges may delay TfL activity
- Environmental Risks: The climate emergency creates a significant challenge for TfL across adaptation, resilience and decarbonisation. Increase risk of flooding, extreme weather events, drought and storms all need to be considered on our assets and network. We are improving our understanding of this requirement, but future climate challenges cannot be predicted with high confidence. Addressing the climate emergency will require us to invest in decarbonising our services, which we are already including in this Capital Strategy, but the specific requirements of this could change.

11. Appraisal

20.11 TfL's financial planning process involves input from TfL's Executive Committee, the Finance Committee and TfL Board at numerous points through the financial year.

20.12 Similarly, the MTS underwent a thorough review and approval process. This included substantial stakeholder engagement during its development followed by a fifteen-week public consultation in the summer of 2017. An Integrated Impact Assessment and substantial evidence base were also developed and published alongside the strategy. Taking into account comments received during this consultation, the final MTS was approved by the Mayor in February 2018, then considered by the London Assembly in March 2018.

20.13 The Capital Strategy has been developed in part from the 2020 Capital Strategy that was published for consultation as part of the Mayor's Consolidated 2021/22 Budget and approved by the TfL Board in December 2020. Its development has been undertaken through the Long-Term Capital Plan process in consultation with the TfL Executive Committee and TfL Board.

20.14 The TfL project and programme management methodology "Pathway" allows for key governance intervention points to ensure effective governance oversight and control throughout the project lifecycle. This includes our three-line assurance system, part of which involves monitoring and advice from the Independent Investment Programme Advisory Group. At a strategic level, monitoring and evaluation are in place across the MTS to ensure that the desired outcomes are delivered.

Statutory Chief Finance Officer sign off

This Capital Strategy is a planning document reflecting a high-level view at a time of considerable uncertainty. As understanding of funding and requirements of the network evolve in coming years, it will need to be kept under review. Affordability of the Capital Strategy over 20 years is dependent on TfL obtaining significant additional funding which cannot be considered certain at this point in time. The characteristics of the funding source(s) could influence the timing, cost and capitalisation of projects within the Capital Strategy. The nature of these large projects is such that they require a certainty of funding over a number of years prior to commencement. The risks noted above are a comprehensive but not exhaustive list. Significant known risks have been listed, however, it is possible that unpredictable future events and opportunities would result in an amendment to the TfL Capital Strategy. Readers of the Capital Strategy should note the considerable risk in estimating costs up to 20 years into the future, especially for novel projects.

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