MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Board

Date: Wednesday 23 March 2022

Time: 10:00

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

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 update and Prudential Indicators and not all information was available at the time the Board papers were published.

Copies of the papers and any attachments are available on tfl.gov.uk How We Are Governed.

This meeting will be open to the public and webcast live on TfL YouTube channel and on the GLA website Mayoral Webcast page, except for where exempt information is being discussed as noted on the agenda. There is access for disabled people and induction loops are available. A guide for the press and public on attending and reporting meetings of local government bodies, including the use of film, photography, social media and other means is available on www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf.

Further Information
If you have questions, would like further information about the meeting or require special facilities please contact: Shamus Kenny, Head of Secretariat **Error! Unknown document property name.**

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

Howard Carter, General Counsel
Monday 21 March 2022

Supplementary Agenda
Board
Wednesday 23 March 2022

7 TfL Budget 2022/23 and Finance Update (Pages 1 - 30)

Chief Finance Officer

The Board is asked to note the paper and approve the TfL Budget for 2022/23.

9 TfL Prudential Indicators 2022/23 to 2024/25 (Pages 31 - 42)

Chief Finance Officer

The Board is asked to approve: the TfL Prudential Indicators for 2022/23 and the following two years; the Treasury Management Indicators for 2022/23 and the following two years; and the Annual TfL Policy Statement on Minimum Revenue Provision.

Board

Date: **23 March 2022**

Item: **TfL Budget 2022/23 and Finance Update**

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 update and not all information was available at the time the Board papers were published.

1 Summary

1.1 This paper provides an update on TfL's Budget, as set out in Appendix 1 (the Budget) and seeks approval of it.

2 Recommendation

2.1 **The Board is asked to approve the TfL Budget for 2022/23 described in this paper.**

3 Background

3.1 On 25 February 2022, we reached agreement with Government for a funding settlement to 24 June 2022. Our GLA Budget, reviewed by the Board on 8 December 2021, has been updated for this latest funding agreement, in addition to revised passenger and cost assumptions to produce this Budget. Funding of £0.3bn has been secured until June 2022, however we continue to require around £0.9bn over the remaining three-quarters of the financial year. The Budget assumes this further funding is secured. Given the trajectory of funding for the first quarter, this assumption appears reasonable.

3.2 The Budget shows we are on track to achieve financial sustainability on our operations by April 2023. At that stage we will no longer need Government operational funding support, but will need continued long-term support for vital capital investment if we are to avoid the managed decline of London's transport network. We have not yet had visibility of a capital funding settlement from Government, so this Budget assumes no capital funding beyond the £1bn business rates confirmed in the 2021 spending review.

3.3 The Budget also shows that with around £3bn additional capital funding over the three-year period between 22/23-24/25, TfL can make the appropriate investment in replacing its strategic assets such as rolling stock, signalling and highways structures to avoid a managed decline scenario. Further funding will be required to fully deliver the Government's stated objective of allowing TfL to continue its full and vital contribution to HMG's economic recovery programme and support Government's priorities on decarbonisation, air quality and making transport better for users.

List of appendices to this report:

Appendix 1: TfL Budget Update

List of Background Papers:

None

Contact Officer: Simon Kilonback, Chief Finance Officer
Email: SimonKilonback@tfl.gov.uk

TfL Budget
2022/23

TfL Board
23 March 2022

Section 1

2021/22 Year-to-date performance

1 April 2021 - 5 February 2022

(YTD Period 11)

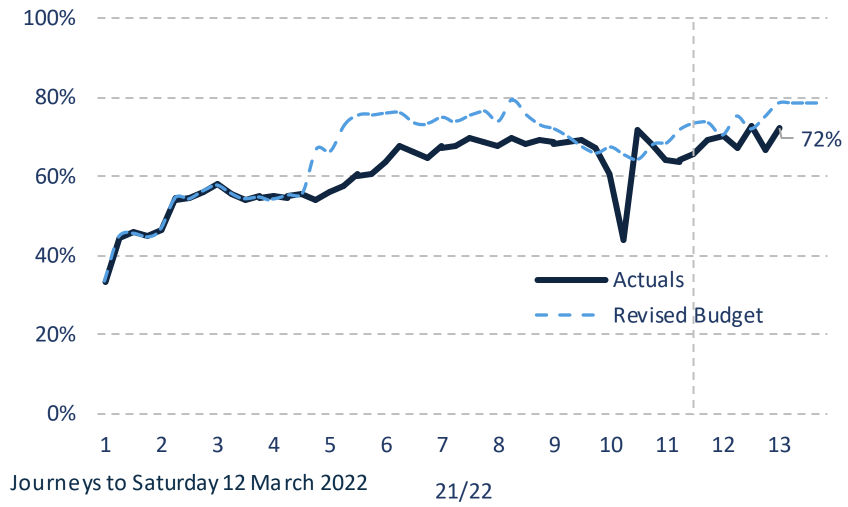
Headlines

Period 11 2021/22

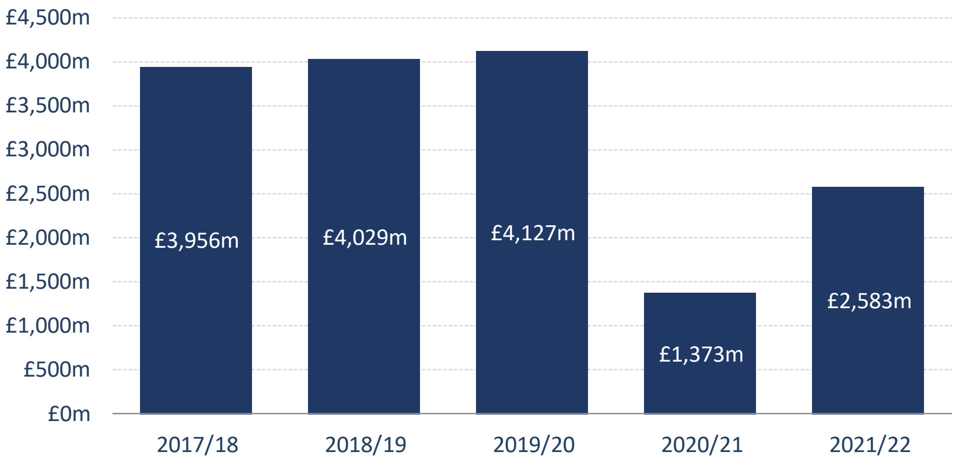
Total TfL journeys were 66% of pre-pandemic levels in Period 11. Journeys declined over Period 10, as a result of the Omicron variant. Since the New Year, and with the removal of working from home guidance, journeys have begun to increase again. Passenger income was down around £50m on prior periods; year-to-date income is lower than Budget and around £1.5bn lower than pre-pandemic levels.

As forecast, cash balances declined during the last quarter. A new funding settlement, dated 25 February 2022, provides top up funding for passenger income (up to an agreed limit) as well as £200m base funding spread over April to June 2022. Under the terms of the agreement, we expect average cash balances to be maintained at £1.2bn.

Total passenger journeys 66% of pre-pandemic levels in latest period and below target after the festive period

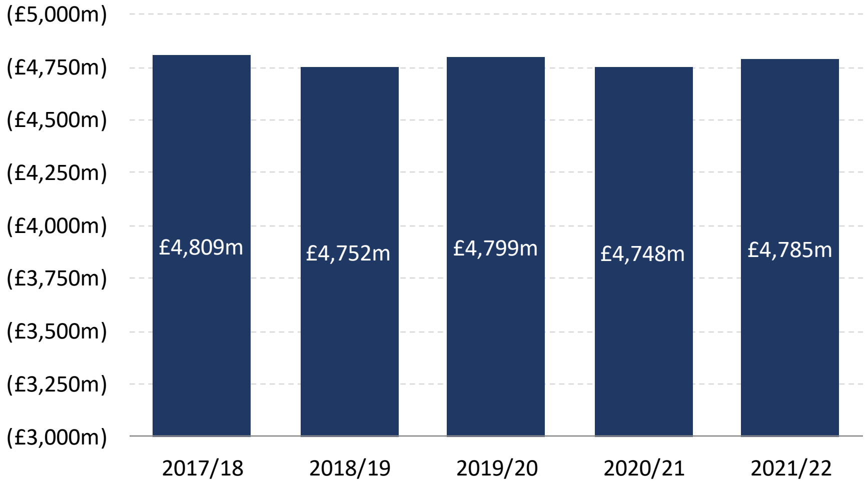


Passenger income is £1.2bn higher than last year, but £257m lower than Budget; year-to-date income approx. £1.5bn lower than pre-pandemic levels



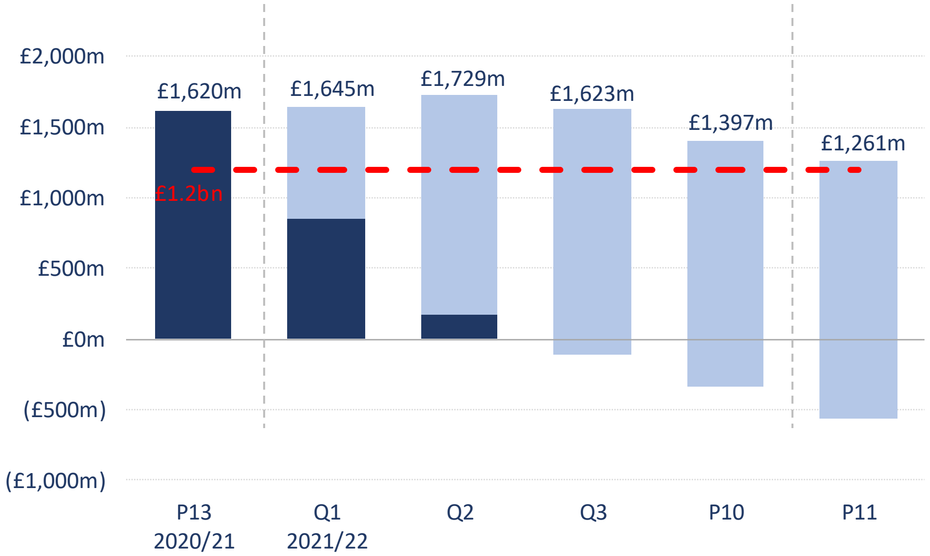
Individual years show year-to-date passenger income to end of Period 11.

Like-for-like operating costs broadly in line with last year; costs kept broadly flat over past five years with savings mitigating inflationary pressures



Individual years show year-to-date like-for-like costs to end of Period 11.

Cash balances have reduced as due to the declining trajectory of government funding and are now close to our minimum of £1.2bn



Passenger journeys

Week 49: 6 March – 12 March 2022

Total passenger journeys were 72% of pre-pandemic levels, with London Underground at 66% - 22 percentage points up on last week owing to two days of strikes on the network in week 48.

Whilst all modes are below Budget in week 49, bus demand was at 76% of pre-COVID levels, in line with trends in the week before the recent tube strikes.

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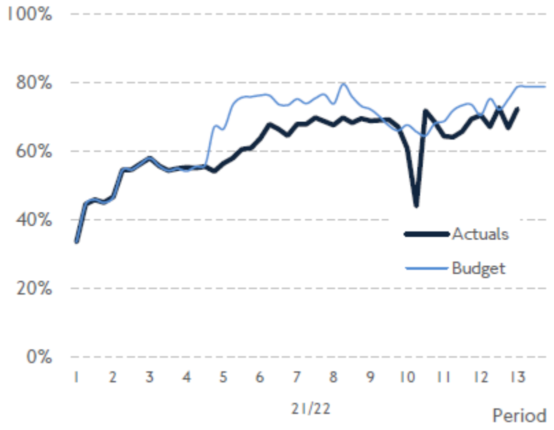
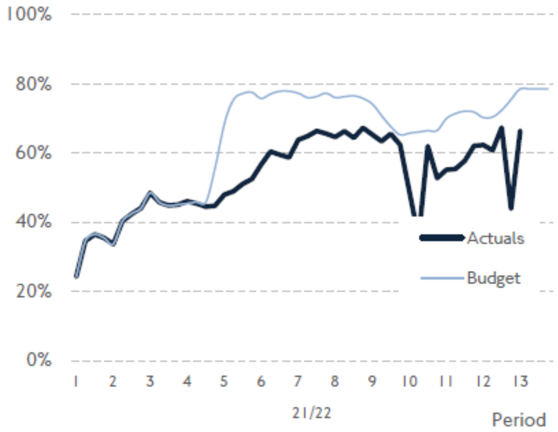
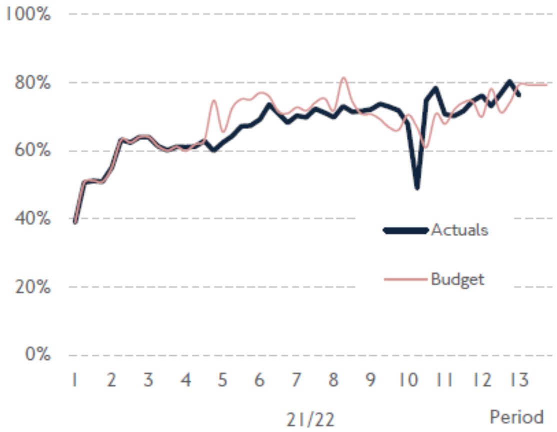
TfL	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	72%	79%	P	59	-8
			Y	2325	-180



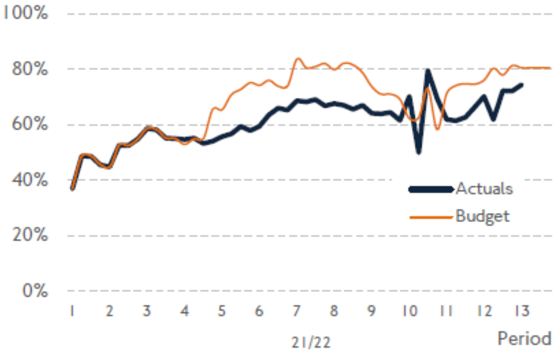
LU	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	66%	79%	P	19	-4
			Y	696	-127



Bus	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	76%	79%	P	34	-3
			Y	1398	-25



Rail	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	74%	80%	P	5	-1
			Y	195	-22

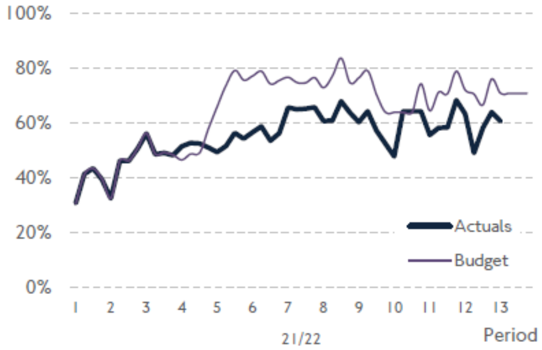


LO	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	77%	80%	P	3	0
			Y	105	-14

DLR	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	71%	82%	P	2	0
			Y	72	-6

Tram	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	70%	80%	P	0	0
			Y	18	-1

TfLR	% vs Pre Covid week / budget			Absolute m	Var to Bud m
	61%	71%	P	1	0
			Y	37	-6



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

Operating account

Period 11 2021/22

Passenger income is £2,583m year to date, which is £1.2bn higher than last year, but £257m below Budget. This is driven by lower journeys across all modes. Other operating income is £1m higher than Budget, with earlier Congestion Charge favourability largely eroded by lower ULEZ expansion income due to higher than anticipated levels of compliance. This demonstrates the benefits the ULEZ expansion is successfully delivering.

Operating costs are £337m below Budget from a combination of: lower underlying costs (£118m), timing differences (£139m), and from the release of contingency (£80m) held to mitigate high risk uncertainties, including ULEZ income.

Extraordinary revenue grant is £268m higher than Budget, a result of higher revenue top up, which offsets lower passenger income.

	Year to date, 2021/22				Year to date, 2020/21		
£m	**Actuals**	**Revised Budget**	**Variance to Revised Budget**	**% variance to Revised Budget**	**Last year**	**Variance to last year**	**% variance to last year**
Passenger income	2,583	2,840	(257)	-9%	1,373	1,210	88%
Other operating income	954	954	1	0%	641	313	49%
Total operating income	**3,537**	**3,793**	**(257)**	**-7%**	**2,014**	**1,523**	**76%**
Business Rates Retention	851	835	16	2%	814	37	5%
Revenue grant	56	52	4	8%	50	7	14%
Government furlough grant	0	0	0	N/A	58	(58)	-100%
Total income	**4,444**	**4,680**	**(236)**	**-5%**	**2,935**	**1,509**	**51%**
Operating cost	(5,470)	(5,807)	337	-6%	(5,376)	(93)	2%
Net operating surplus	**(1,025)**	**(1,126)**	**101**	**-9%**	**(2,441)**	**1,416**	**-58%**
Net financing costs	(375)	(382)	7	-2%	(375)	0	0%
Net cost of operations after financing	**(1,400)**	**(1,508)**	**108**	**-7%**	**(2,816)**	**1,416**	**-50%**
Capital renewals	(407)	(594)	187	-32%	(268)	(138)	52%
Net cost of operations	**(1,807)**	**(2,102)**	**295**	**-14%**	**(3,085)**	**1,278**	**-41%**
Extraordinary revenue grant	1,721	1,453	268	18%	2,031	(310)	-15%
Net cost of operations after extraordinary revenue grant	**(86)**	**(648)**	**563**	**-87%**	**(1,053)**	**968**	**-92%**

Capital account

Period 11 2021/22

Total TfL capital expenditure (excluding Crossrail construction) is £368m lower than target, largely a result of project slippage and deferrals driven by short term and stop-start nature of funding agreements, and the increased spend controls required due to funding uncertainty.

Property and asset receipts are (£94m) lower than Budget, driven by later than expected property disposals including 1 Oxford Street and Lillie Bridge depot.

	Year to date, 2021/22				Year to date, 2020/21		
£m	**Actuals**	**Revised Budget**	**Variance to Revised Budget**	**% variance to Revised Budget**	**Last year**	**Variance to last year**	**% variance to last year**
New capital investment	(641)	(822)	181	-22%	(653)	12	-2%
Crossrail	(507)	(606)	99	-16%	(620)	113	-18%
Total capital expenditure	**(1,148)**	**(1,428)**	**280**	**-20%**	**(1,273)**	**125**	**-10%**
Financed by:							
Investment grant	781	834	(53)	-6%	764	17	2%
Property and asset receipts	58	152	(94)	-62%	8	50	637%
Borrowing	1	1	(0)	-23%	602	(601)	-100%
Crossrail borrowing	74	74	0	0%	564	(490)	-87%
Crossrail funding sources	493	555	(62)	-11%	71	422	592%
Other capital grants	32	82	(50)	-61%	117	(85)	-73%
Total	**1,440**	**1,699**	**(259)**	**-15%**	**2,127**	**(687)**	**-32%**
Net capital account	**292**	**271**	**21**	**8%**	**854**	**(562)**	**-66%**
Capital renewals	(407)	(594)	187	-32%	(268)	(138)	52%
New capital investment	(641)	(822)	181	-22%	(653)	12	-2%
Total TfL capital expenditure	**(1,048)**	**(1,416)**	**368**	**-26%**	**(922)**	**(127)**	**14%**

Section 2

Context

Prior to the pandemic, we were close to financial sustainability for the first time

If the pandemic hadn't occurred our net operating deficit would have been circa £200m in 2019/20 and we would have reached full financial sustainability in 2022/23.

TfL's high reliance on fare income and the devastating impact the pandemic had on TfL's income have meant we have required extraordinary funding from Government. The pandemic has created a structural reduction in our income of around £1.5bn per annum compared to our 2019 Business Plan.

We significantly improved our financial position and resilience in the period before the pandemic

Between 2015/16 and 2019/20 we:

Reduced the underlying operating deficit by

71%

Reduced the net cost of operations by almost

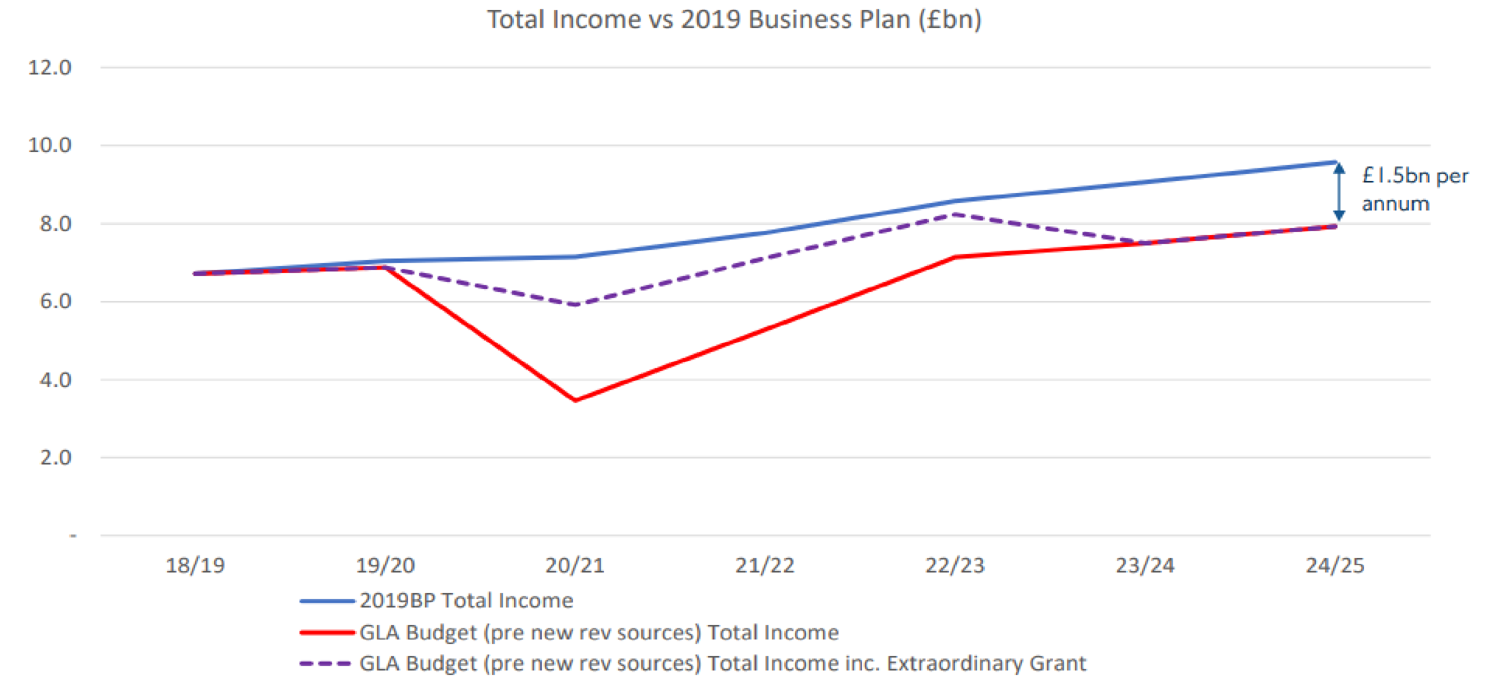
£1bn pa

Increased cash reserves to over

£2bn

The improved financial position and increased financial resilience in the period to 2019/20 was crucial to TfL being able to continue operating in the first phase of the pandemic whilst Government funding was being agreed.

But the pandemic had a devastating and long-lasting impact on our income



This Budget continues the path back to TfL being financial sustainable

The combination of easing restrictions leading to recovering income, and ongoing careful cost control, has meant we are on a declining trajectory of extraordinary Government support and on track for financial sustainability from April 2023 – meaning 2022/23 is the last year we require Government revenue support.

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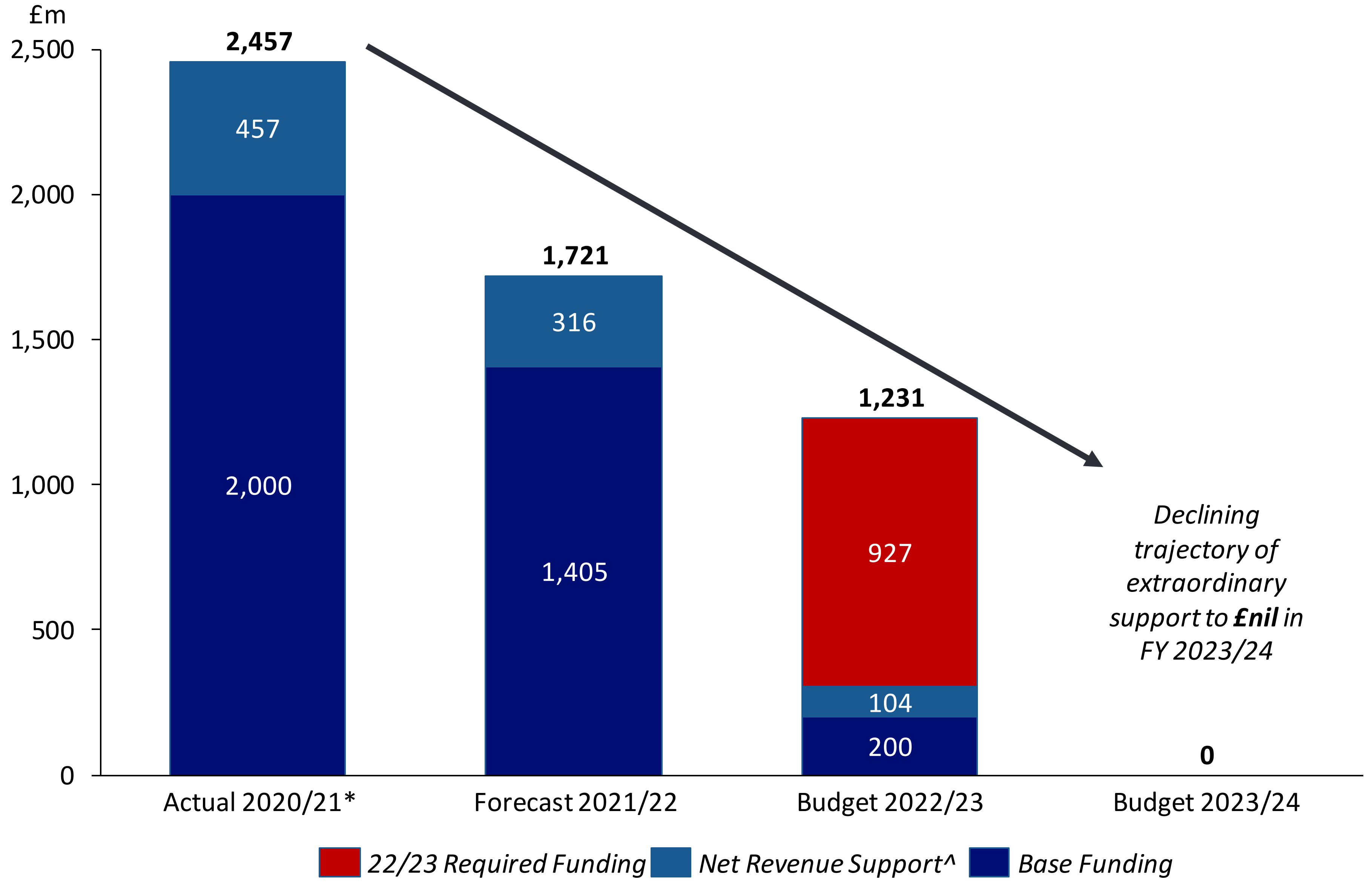
Government extraordinary support received since the onset of the COVID-19 pandemic (P&L basis)



* FY 2020/21 also benefitted from an additional £600m of TfL borrowing (not included)

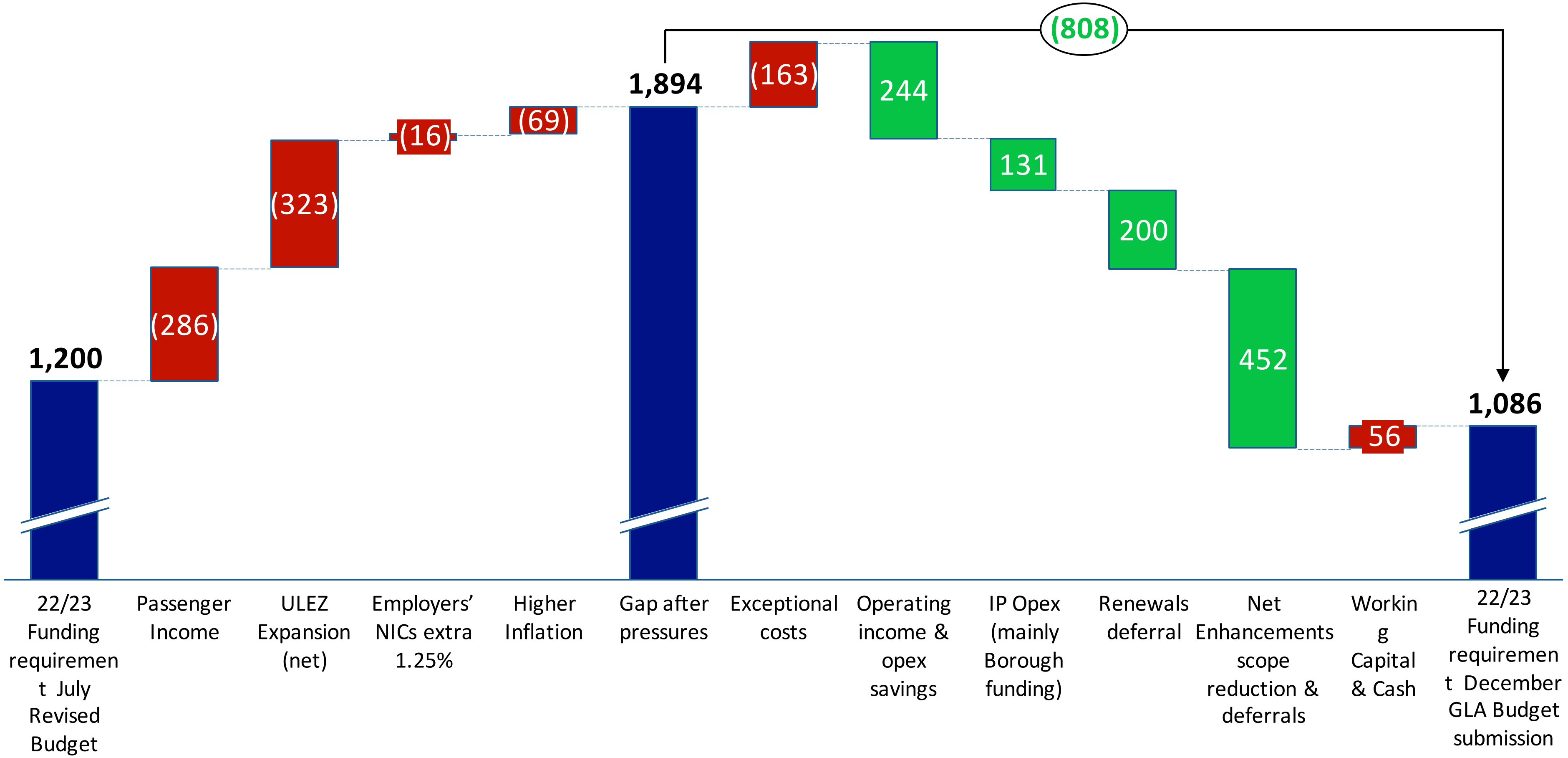
^ Net Revenue Support comprises revenue true-up grants less direct COVID operational cost adjustments

However, our financial position still means this Budget is based on a scenario of managed decline

In December 2021 we set out the combination of lack of long-term funding certainty, lower income and increasing inflation meant that we were required to adopt a 'managed decline' scenario to balance our budget.

A scenario of managed decline means reducing service levels, deteriorating asset condition and no new enhancement projects. It would create a transport network similar to that experienced in London in the 1980s.

The headwinds and mitigations outline in TfL's GLA Budget submission in December 2021



This created a budget which was financially balanced but assumed:

- Service reductions of 18% on the bus network and 9% on the LU and Rail networks
- Declining asset condition, impacting the reliability and operability of our public transport and road networks
- No new enhancement projects, which means a failure to deliver on our policy goals of tackling climate change, air quality, congestion and delivering our vision zero for people killed or seriously injured on our networks.
- No Local Implementation Plan funding for London Boroughs, impacting the capability and capacity to maintain and improve the 95 per cent of London's roads controlled by Boroughs.

To successfully deliver this coherent plan we need longer-term funding to avoid managed decline

Importance of Government capital funding

To successfully deliver this plan we need longer-term funding from Government for capital investment. The current scenario of managed decline would lead to decreasing service levels and worsening reliability leading to decreasing income, and deteriorating assets leading to increasing maintenance costs. This would ultimately fail to support long-term financial sustainability as well as failing to meet Mayoral and Government policy objectives.

We are in discussion with Government on a new, longer-term capital settlement. We have set out a requirement for sustainable, long-term capital funding, to replace London's strategic national transport assets and support other transport priorities. This would require c£0.5-1bn per annum over the medium- to long-term. The Government has recognised that we are not able to solely fund the replacement of major assets such as rolling stock and signalling from our own operating income.

Longer-term Government funding will enable us to deliver major renewals and capital projects in a more planned, efficient and effective manner. A number of studies, including those commissioned by Government, have estimated that long-term funding can enable cost efficiencies of between 10-30%.

Securing capital funding, would also free up operating income such that we can avoid the significant service reductions required under the managed decline scenario, and create the conditions required to support long-term financial sustainability.

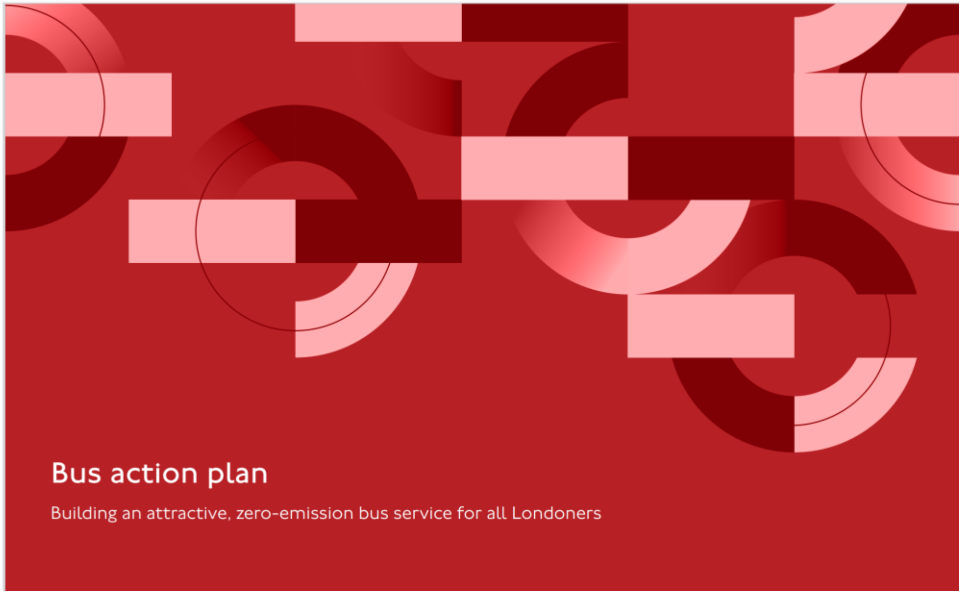
Once we have secured capital funding, we will update this Budget for 2022/23 and produce a new Business Plan in the autumn.

An attractive, zero-emission bus service for all Londoners is an essential part of this coherent plan

The crucial role of the bus network

On 4 March the Mayor asked TfL to consult on expanding the Ultra Low Emission Zone London-wide in 2023 to make London a greener, healthier and less congested city. The Mayor has also set out that the long-term and fairest solution to these challenges will ultimately be smart road user charging, although this is still many years away.

The bus network will be critical to supporting these plans, to offer Londoners an affordable, accessible and sustainable public transport alternative. This would not be congruent with a managed decline scenario of an 18 per cent reduction to bus services which we have currently assumed.



Our Bus action plan sets out our bold vision for buses in the capital

If we carry on with this trajectory of service reductions in 2022/23, we would then likely have to reverse these reductions in 2023/24. This would be inefficient, and create uncertainty and instability for passengers, bus operators and bus manufacturers.

Therefore, while this Budget assumes an 18% reduction in bus services, it remains a priority to use any additional funding that is secured to avoid this level of contraction.

Additional, long-term sustainable funding will also be required to accelerate the delivery of a zero-emission bus fleet to 2030. With our current trajectory, we will only be able to deliver this by 2034 at the earliest and significant service reductions would risk this slipping further as it would slow the introduction of new buses into the fleet.

Section 3

TfL Budget – Operating account

Summary of assumptions: operating account

HMG revenue funding	• Funding agreed up to 24 June 2022 has been included in the TfL Budget (£0.3bn), however we continue to require c.£0.9bn over the remainder of the financial year. This Budget assumes this further funding is secured.
Revenue	• The planning assumption is that fares are uplifted by RPI+1% on average in January 2023, but this will be subject to a Mayoral decision. • Our current central case for pandemic recovery prudently assumes the economy grows at a slower pace of return, office workers return to 65% by summer 2022 and there is a 5% suppression in demand over winter. By the end of the 2021/22 year (March 22) we are forecasting to be around 69% of pre-covid demand, with average passenger demand for 2022/23 around 80% of 2018/19 pre-covid actuals. • Business Rates Retention is in line with the Mayor's Budget Guidance issued at the end of July 2021 and also incorporates BRR deficit repayments. • 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.
Service levels	• On Tube / rail, we would have to implement every service reduction by 23-24 where there is a net cost saving, circa 9% of our services • Elizabeth line stage 3 opening is assumed to be the first half of 2022. • On buses, the current Budget assumption is to progress with the 18% reduction, however it will be priority to use any additional funding that is secured to reverse this.
Inflation	• Our RPI assumptions have increased from 4.3% for 2021/22 and 4.0% for 2022/23 in the GLA Budget to 5.2% and 5.7% respectively. However, RPI is currently running higher than these assumptions (January 2022 was 7.8), with further increases expected as the impact of higher energy and fuel prices feed through the economy.
Savings	• We will continue to deliver the committed £730m pa recurring savings programme • In addition, there are a range of non-recurring savings we are making across the organisation through tight cost control
Cash reserves & contingencies	• Our cash balances will operate around £1.2bn for the period to 24 June but we aim to end the funding period at £1.3bn. • By year-end we rebuild our cash reserves to £1.4bn to increase our resilience as we end Government revenue support. • We have £100m operating contingency provision, calibrated on the risks we face (excluding passenger income).

HMG revenue funding requirement: headwinds

Since the GLA Budget submission in December 2021 however, there have been £412m of further pressures – mainly slower passenger demand growth due to the impact of the Omicron variant and rising inflation.

The TfL Budget recognises these pressures – increasing the funding gap to **£1.5bn** before mitigations.

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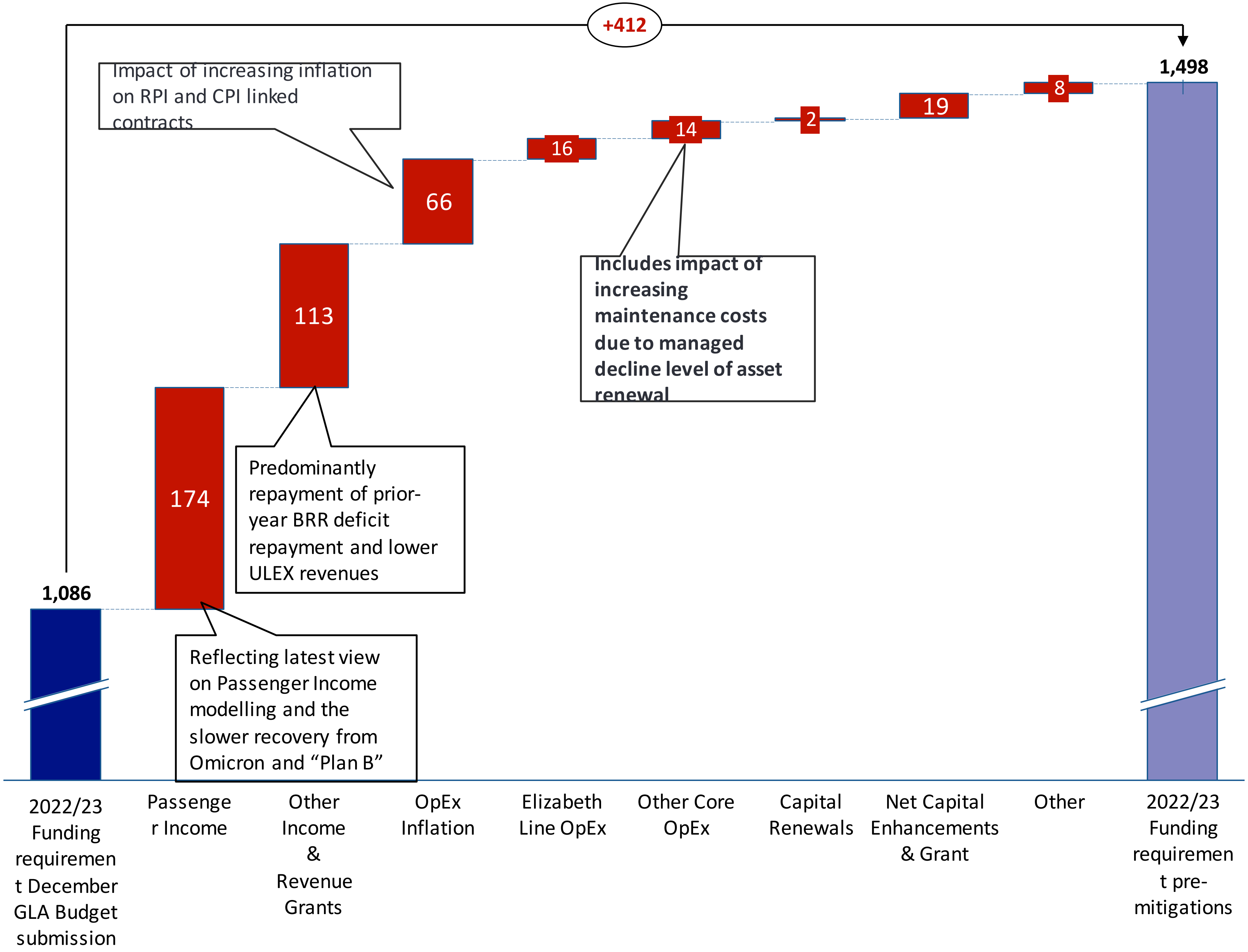

HMG revenue funding requirement: mitigations

We have been able to mitigate £267m of pressures, and bring the funding gap back down to **£1.2bn** in line with our Revised Budget of July 2021.

We are unable to fully mitigate the impacts of passenger income, although this should be addressed by the continuation of the revenue 'top-up' mechanism with HMG.

So far, we have secured £304m of HMG funding. We therefore require an additional **£927m** of extraordinary funding to balance the budget in 2022/23. This assumption appears reasonable given the level of funding secured in the first quarter of the financial year.

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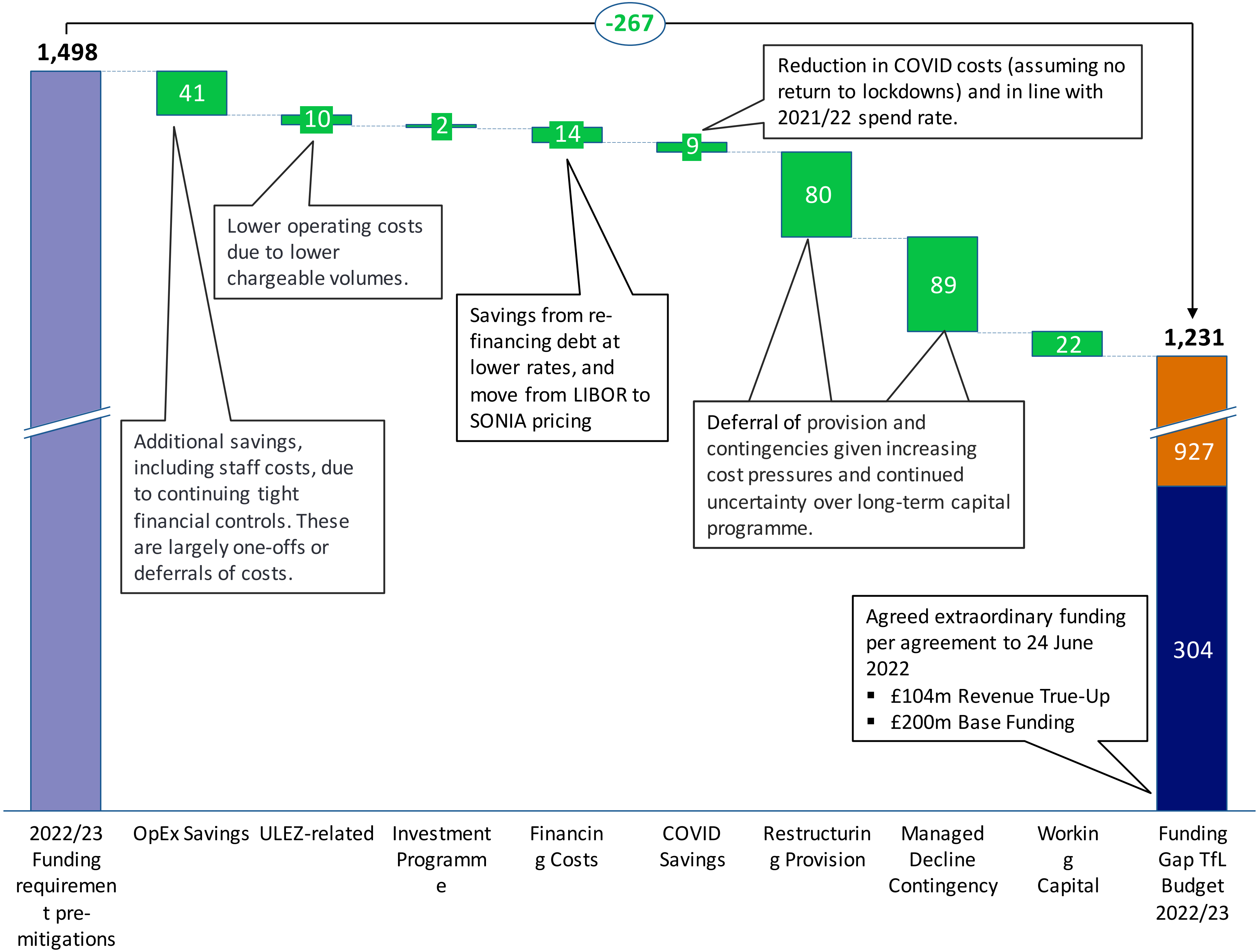


Revenue: passenger demand range

Outturn ridership levels for 2021/22 are expected to be lower than the GLA Budget due to the Omicron variant and 'Plan B' measures that came in after the GLA Budget was put together and submitted. This has a knock-on impact to the start of 2022/23.

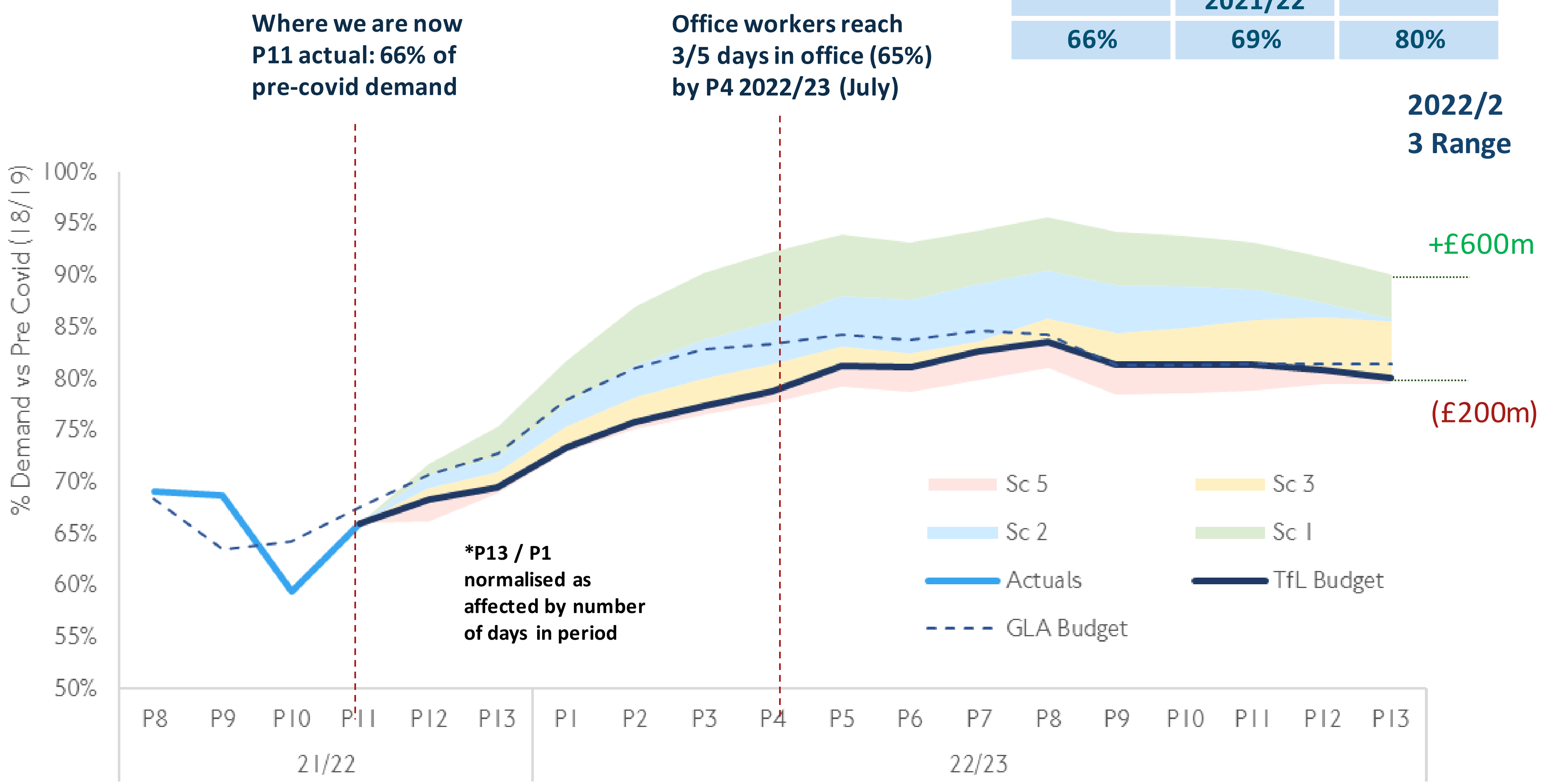
The TfL Budget assumes no further Government lockdown regulations however a "winter suppression" factor is assumed in our modelling.

Range of outcome for 2022/23 is +£600m / -£200m.

Variance to GLA Budget is (£174m) in 22/23

Demand vs. Pre-Covid (2018/19) (excl. Elizabeth Line)

% demand vs 2018/19		
P11 2021/22	P13* 2021/22	2022/23 Av
66%	69%	80%



	P8	P9	P10	P11	P12	P13	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	P13
LU	66%	64%	48%	58%	60%	66%	70%	72%	75%	75%	79%	79%	80%	79%	76%	76%	76%	75%	77%
Bus	71%	72%	65%	72%	74%	73%	77%	79%	80%	82%	84%	84%	85%	87%	86%	86%	85%	86%	84%

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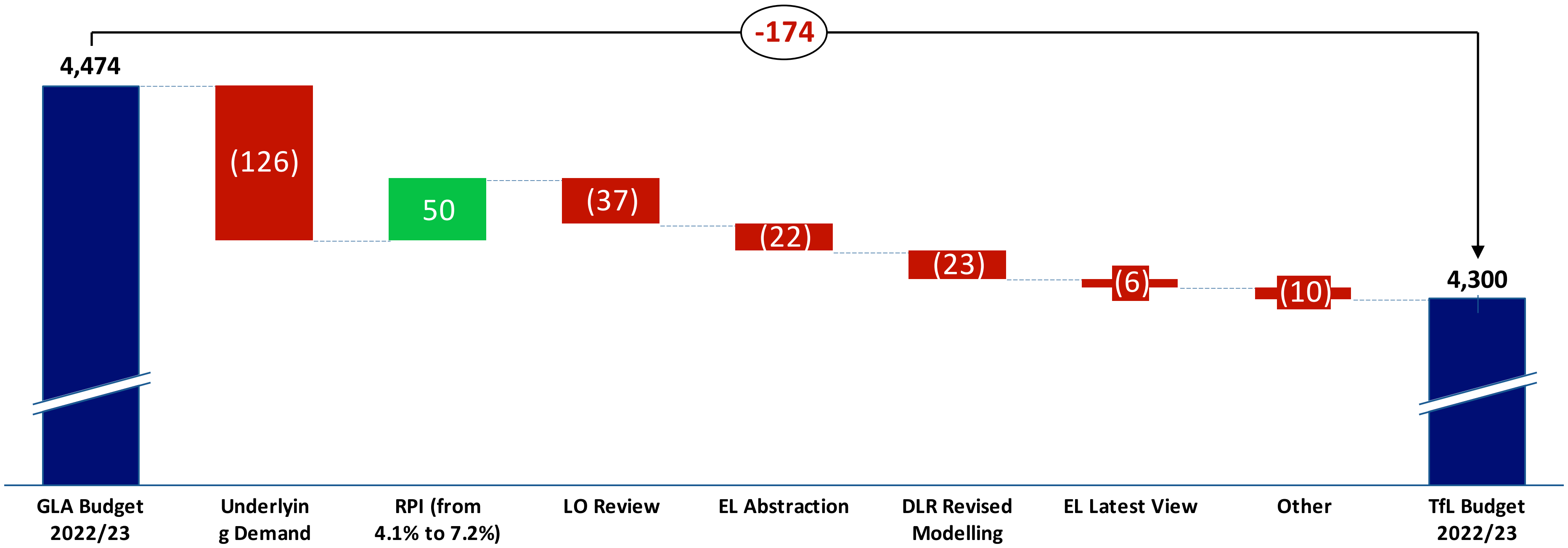
Revenue: impact on passenger income

The lower underlying demand is the key factor driving our Budget for passenger income being £174m lower than the GLA budget, disaggregated as opposite.

This is partially offset by an increase in July 2022's RPI inflation rate driving a higher level of fare increase in January 2023. This is a financial planning assumption and the fares decision will be made by the Mayor.



- **Underlying demand:** primarily reduced due to the emergence of the Omicron variant and 'Plan B' measures that came in after the GLA Budget was put together and submitted. This has a knock-on impact to the start of 2022/23.
- **RPI:** latest RPI assumptions (aligned with cost) embedded, assuming a 7.2% increase in Jan-23 (RPI+1).
- **LO Review:** detailed review and revision of rail underlying yield and service assumptions
- **DLR Review:** Detailed review of DLRs yield, incorporating latest actuals as well as EL impact to yield.
- **EL Abstraction:** updated to latest view, assumes 70% of EL demand from stage 3 comes from existing TfL services, rising to 77% when stage 5b opens. Our prudent financial planning assumption is this would be in December.
- **EL Latest view:** reflects latest modelling of likely demand.

TfL RESTRICTED

Savings

Notwithstanding the cost pressures and inflation faced by TfL, in real terms (at 2015/16 prices), the per-km cost of all modes has been kept either flat or lower compared to a 2015/16 baseline, with costs expected to fall in real terms out to FY 2025/26.

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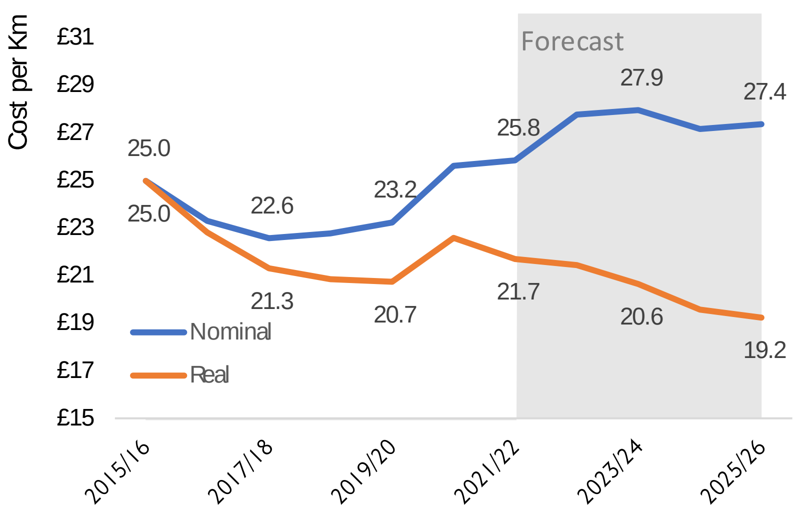
Note: RPI assumption in line with those used in the TfL Budget

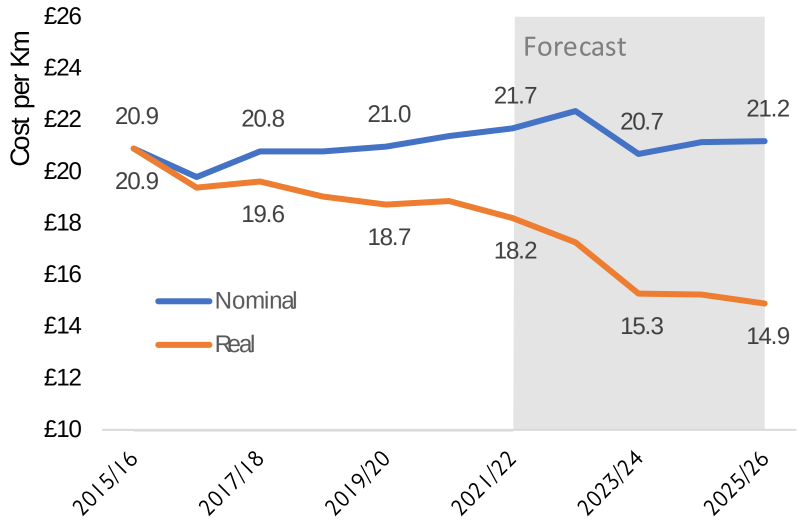
London Underground

Costs decrease in real terms when factoring in **RPI**



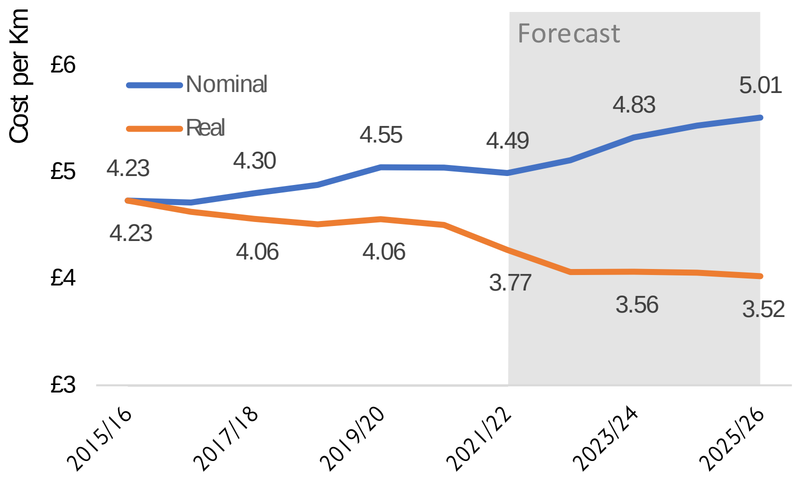
Docklands Light Rail

Costs decrease in real terms when factoring in **RPI**



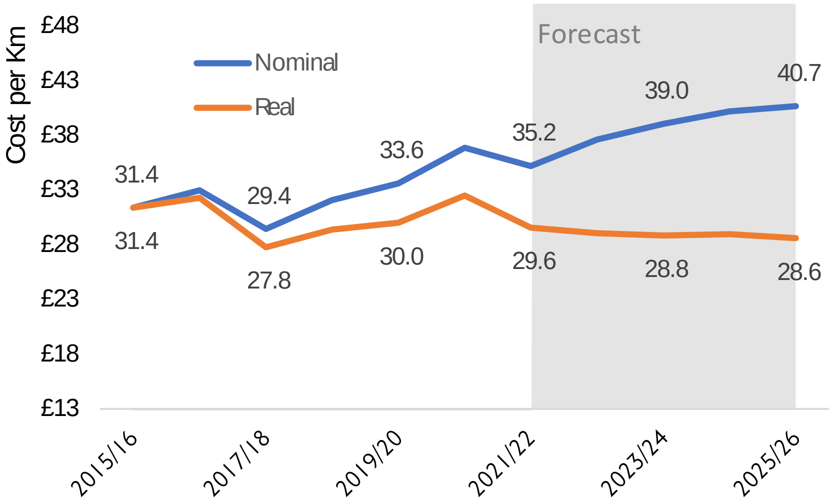
Buses

Costs decrease in real terms when factoring in **RPI**



London Overground

Costs held flat in real terms when factoring in **RPI**



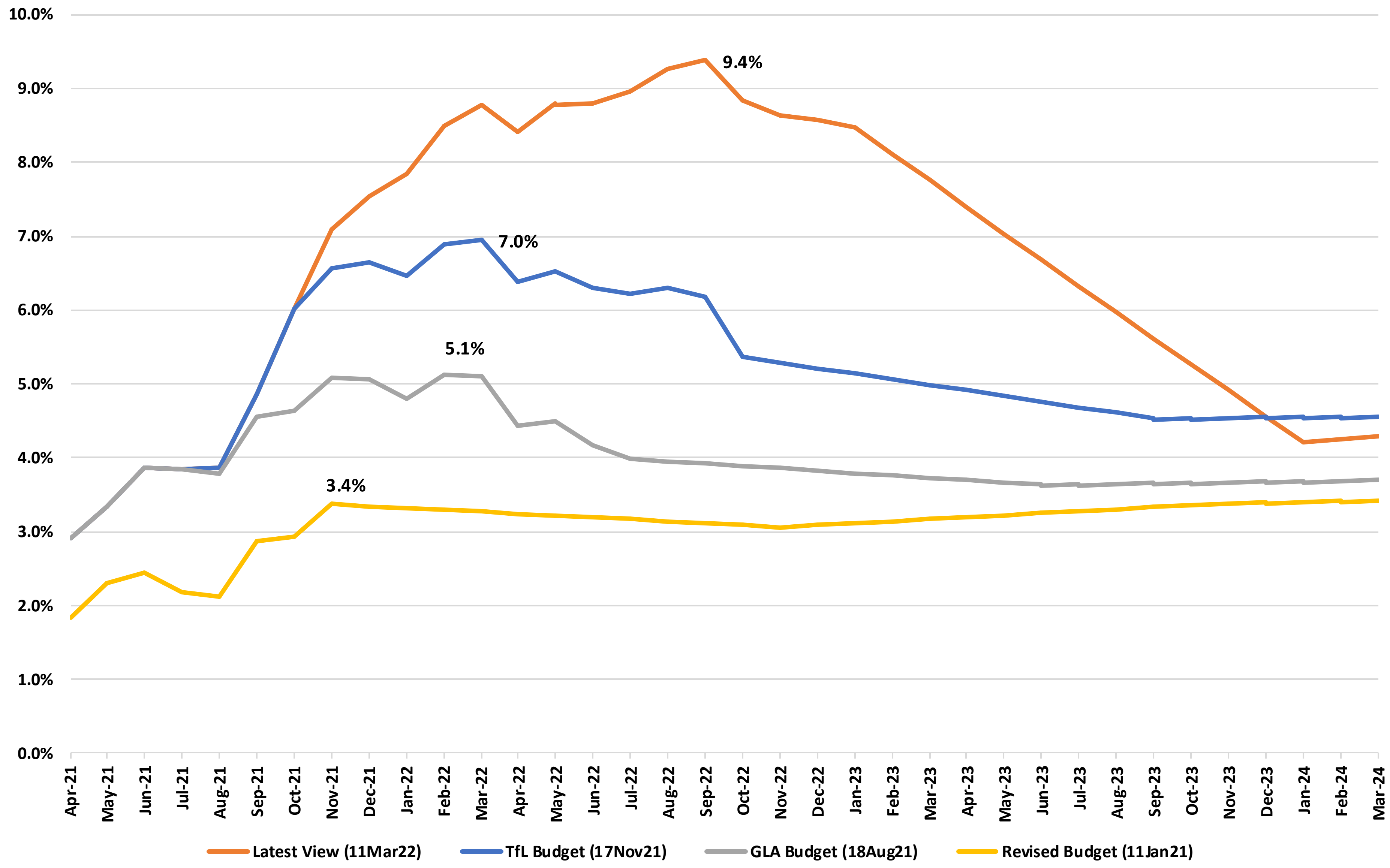
Inflation assumptions

We have seen a significant increase in the rate of inflation since setting the Revised Budget July 2021. Since our GLA Budget submission in December 2021, higher inflation has driven approximately **£66m** of pressure into our total cost base.

Inflation assumptions underpin the detailed models which are used to prepare the budget. Therefore, these are set at the start of the budget setting process, for the TfL Budget have used estimates available as of November 2021.

Current RPI inflation expectations continue to pose a challenge and are changing rapidly. At the time of setting the TfL Budget, we expected RPI to peak at 7.0% in March 2022. The latest Bloomberg market curves are implying RPI will now peak at 9.4% in September 2022.

RPI Inflation Expectations (2021/22 - 2023/24)



Note: *Whilst we show RPI above as our primary view of inflation, we also use other inflation measures (CPI, TPI) in our budget-setting process as appropriate.*

Cash reserves

Prior to the pandemic we had built up our cash reserves to over £2bn, but these have been drawn-down to manage the demand shock we have faced.

We need to rebuild our cash reserves to be financially sustainable, so we have the ability to absorb future shocks and withstand strategic, safety and operational risks.

We are targeting to regrow these to £1.4bn by 31 March 2023, but will need to grow these further thereafter to at least £1.6bn.

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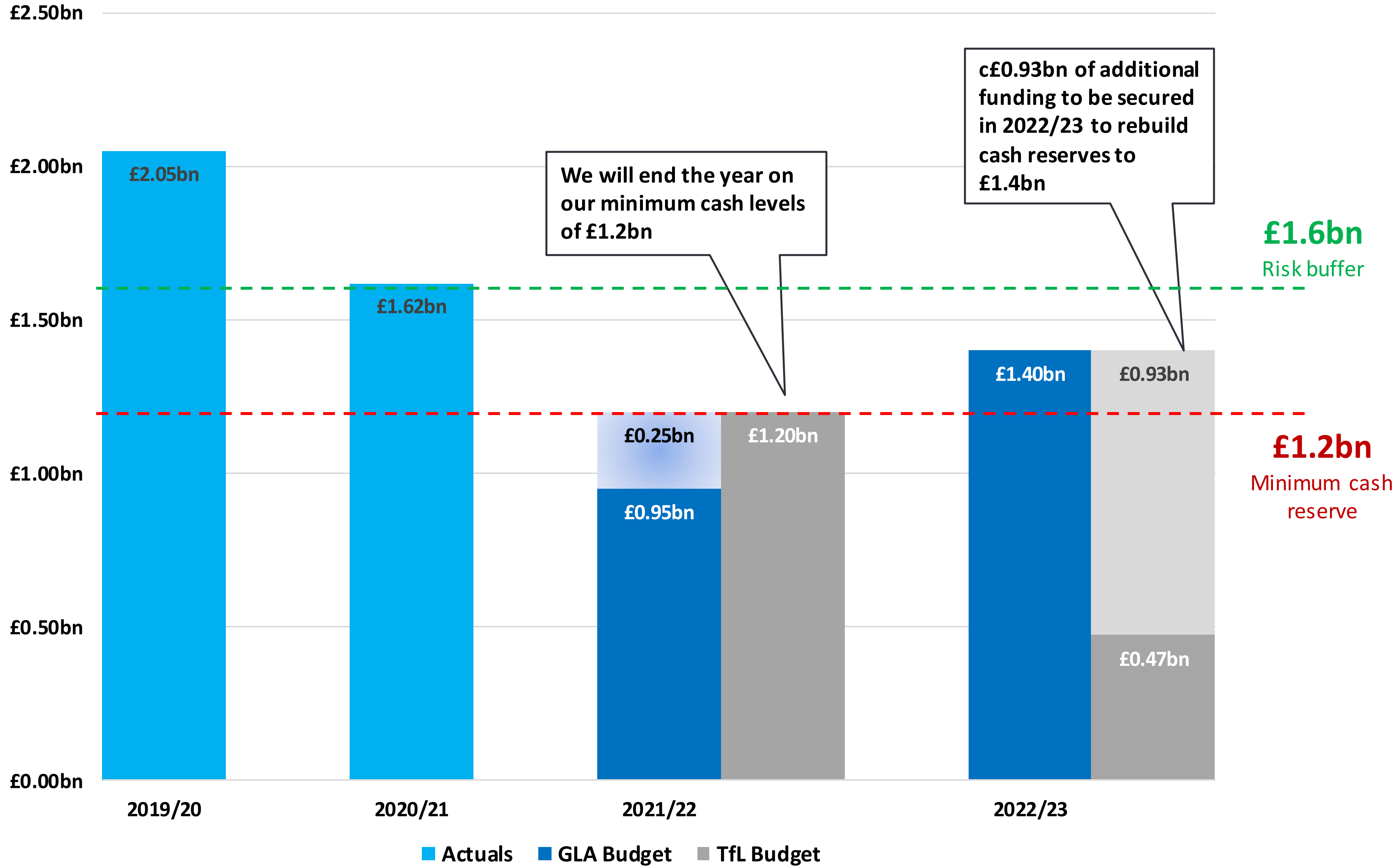
TfL Cash balance



NB: This excludes Crossrail & the TTLP account

TfL RESTRICTED

Moving to financial sustainability

We still assume a 'Managed Decline' scenario – even with the £500m of new revenue sources committed to by the Mayor.

However, this plan does lead to financial sustainability. For 2023/24, we move into a small operating surplus of £125m and by 2024/25 fully cover our capital investment (at a managed decline level).

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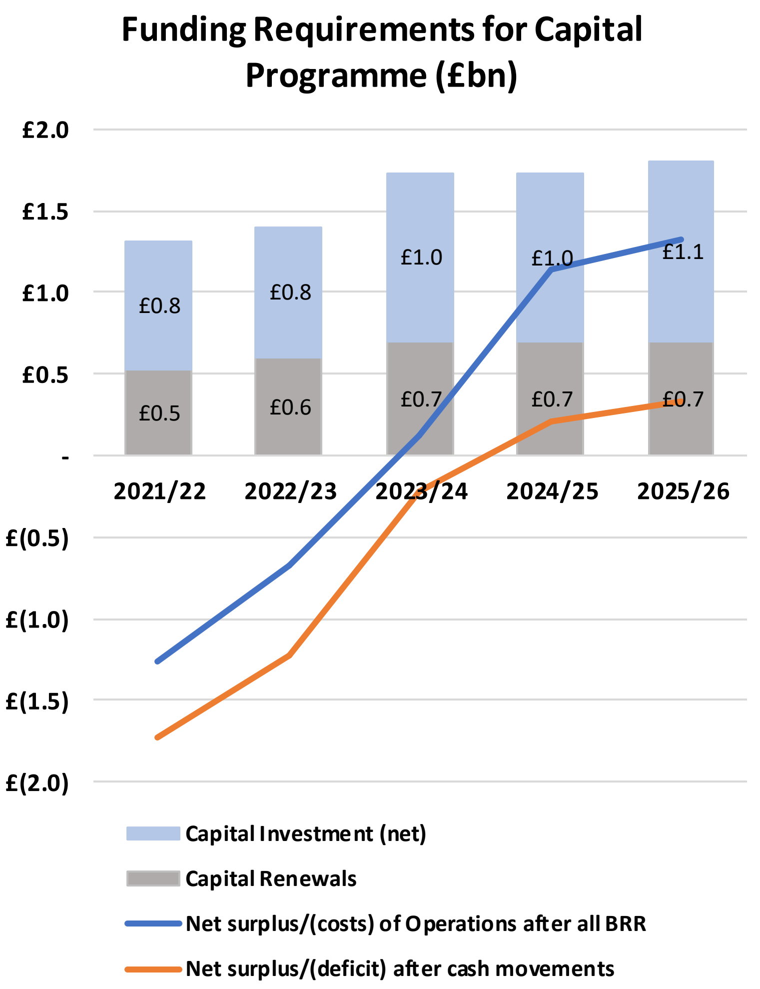
Longer-term HMG capital funding is required to move off the managed decline scenario.

TfL Group £millions	FY 2021/22 TfL Budget	FY 2022/23 TfL Budget	FY 2023/24 TfL Budget	FY 2024/25 TfL Budget	FY 2025/26 TfL Budget
Passenger Income	3,155	4,300	5,025	5,535	5,832
Other Operating Income	1,189	1,647	1,714	1,993	2,142
Business Rates Retention	914	868	785	880	898
Other Revenue Grants	72	60	246	244	244
Total income	5,330	6,876	7,770	8,652	9,116
Total Operating Costs	(6,553)	(7,472)	(7,597)	(7,450)	(7,741)
Financing Costs	(439)	(426)	(420)	(455)	(461)
Net (costs) of Ops excl. Renewals	(1,661)	(1,023)	(247)	747	913
Capital Renewals	(529)	(603)	(700)	(700)	(700)
Net surplus/(costs) of Operations	(2,190)	(1,626)	(947)	47	213
Capital Business Rates Retention	930	951	1,072	1,093	1,115
Net surplus/(costs) of Operations after all BRR	(1,260)	(675)	125	1,140	1,329
Capital Investment (net)	(785)	(801)	(1,035)	(1,024)	(1,106)
Capital Grants	77	126	102	88	103
Net surplus/(deficit) before cash movements	(1,968)	(1,350)	(809)	204	326
Working Capital & Cash	235	119	-	-	-
Property and Asset Receipts	4	-	589	-	-
Net surplus/(deficit) after cash movements	**(1,729)**	**(1,231)**	**(220)**	**204**	**326**
Memo: Capital Impact of TTLP	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Capital Investment (net)	(70)	(156)	(304)	(195)	(246)
Property and Asset Receipts	181	140	283	85	130
Borrowing	-	24	16	113	124
	112	**8**	**(5)**	**2**	**8**



Key assumptions:

- Service reductions of 18% on buses and 9% on LU & Rail, noting it will be a priority with any additional funding secured to reverse these reductions.
- The only new enhancement schemes being financially positive, third-party funded or the highest priority safety schemes.
- Renewals capped at £700m pa leading to declining reliability and operability of assets
- £500m pa new revenue from Mayoral sources have been embedded, and we are exploring sources for the capex funding to deliver the potential expansion of ULEZ to the GLA boundary and the complementary measures that will be required to support the scheme.

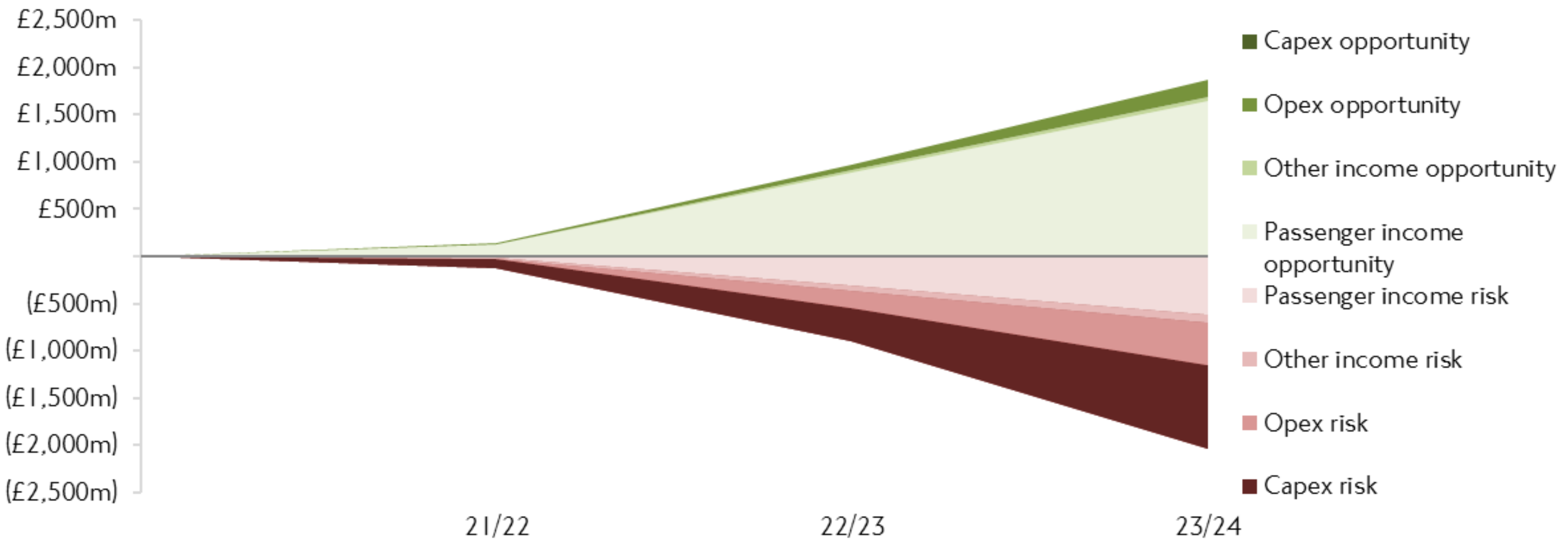
Even if we secure HMG support to March 23, we still face significant uncertainty

The key risk to our budget is securing the circa £0.9bn of further HMG revenue support required and the continuation of the revenue top-up mechanism.

However, even if we secure this, we have a significant range of risks and opportunities for the next two years with a range of +£0.9bn / -£0.9bn in 22/23 and +£1.8bn / -£2.0bn in 23/24.

This highlights the importance of rebuilding our cash reserves and maintaining an appropriate level of contingency. We have set a contingency level of £100m in 2022/23, which is sized on the net risks excluding passenger income.

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 +£0.6bn to (£0.2bn).

Operating costs:

- Risks include an ambitious savings programme and significant inflationary pressure above that already planned

Capital investment:

- Deliverability of our capital programme, with ongoing uncertainty on funding levels limiting the ability to plan and deliver capital programmes efficiently and effectively.

Section 4

TfL Budget – Capital investment

Summary of assumptions: investment programme

HMG capital funding

- No HMG capital funding is assumed, beyond the £1bn of capital business rates confirmed in the 2021 comprehensive spending review.
- HMG have recognised the need for certainty and stability in TfL's pipeline of capital investment and has stated it is willing to provide support in the short and medium term. Any agreement may impact capital expenditure in 2022/23 and will be reflected in an update to this Budget when secured.

Renewals

- There is £600m for renewals, which is circa 10% higher than our expected level of delivery in 2021/22, in-line with our increasing delivery capacity.
- The level of renewals has been capped at an affordable level – however this is below the long-term level required to maintain the operability of assets and the wider network.
- Given our current asset condition, it is important to maximise delivery within this limited budget, a total work bank of circa £750m of critical asset renewals has been developed. We will apply active portfolio management to ensure this work-bank approach can mitigate any unforeseen slippage on individual schemes whilst remaining within the budget envelope.

Active travel

- As the HMG revenue funding to 24 June was in-line with our managed decline scenario, we have met the condition to set aside £50m of funding for active travel – allowing work to continue on existing schemes, developing the TfL and borough future pipeline and starting some new schemes.
- We recognise the importance of maintaining Borough transport capability and will continue to seek funding for a sustainable pipeline of scheme development for TfL and Boroughs.

Other enhancements

- The managed decline scenario remains for enhancements, with the only new enhancement schemes being financially positive, third-party funded or the highest priority safety schemes.
- There will no progress against key safety, carbon, air quality and other targets, unless additional longer-term capital funding is provided by HMG.

Crossrail

- We have made the prudent assumption that circa £150m of further funding is provided to complete the project.
- Of this, £48.5m has been identified by the GLA in the Mayor's budget for 2022/23 funded from business rates income, meaning there is a remaining gap of circa £100m.

Without long-term funding certainty we risk significant disruption due to asset restrictions and closures, which will stifle the economic recovery and increase whole-life costs

The asset renewal backlog that has developed over the years since the Government revenue grant was withdrawn will take around a decade to address, even with long-term sustained funding.

We now have over 45 TfL road network structures, bridges and tunnels which have interim safety measures; below are six examples that represent a high risk to operability

A40 Westway
(12 x key bridge Joint renewals)
Daily users – 90,000

Rotherhithe Tunnel
(Fire / Ventilation system renewal)
Daily users – 30,000

Gallows Corner Flyover
(steel fatigue)
Daily users – 38,000

Major renewal interventions required between 2022 to 2025 to avoid significant network closures, with imminent closure possible

Brent Cross Structures
(all over structural condition – very poor, temporary parapets in place)
Daily users – 175,000

Vauxhall Bridge
(steel fatigue / overall condition – very poor)
Daily users – 47,000

Croydon Flyover
(significant structural lighting renewal)
Daily users – 40,000

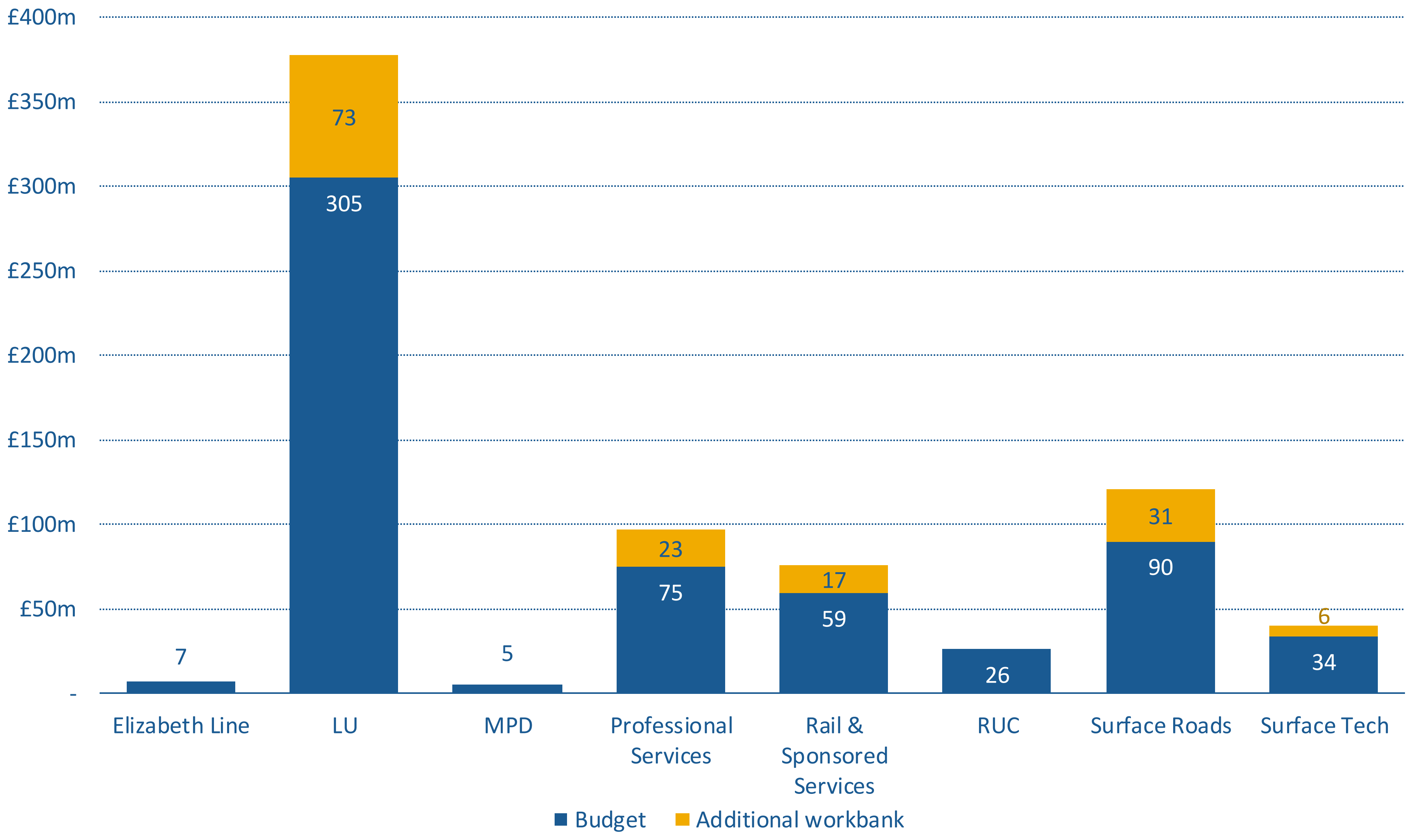
Renewals: summary

The Budget in 2022/23 is £600m for renewals, which is circa 10% higher than our expected level of delivery in 2021/22, in-line with our increasing delivery capacity.

The level of renewals has been capped at an affordable level – however this is below the long-term level required to maintain the operability of assets and the wider network.

Given our current asset condition, it is important to maximise delivery within this limited budget, a total work bank of circa £750m of critical asset renewals has been developed. We will apply active portfolio management to ensure this work-bank approach can mitigated any unforeseen slippage on individual schemes whilst remaining within the budget envelope.

22/23 Budget renewals by Business Area (£m)



This document reflects ongoing work and discussions within TfL on options for the future of TfL/LU. It is not intended to reflect or represent any formal TfL/LU views or policy. Its subject matter may relate to issues which would be subject to consultation. Its contents are confidential and should not be disclosed to any unauthorised persons

Enhancements: summary

We are continuing the deliver the enhancement schemes that were committed and in-delivery prior to the pandemic, with a number of key projects completing in 2022/23 which will support the capital's recovery from the pandemic.

The managed decline scenario remains for new enhancements, with the only new enhancement schemes being financially positive, third-party funded or the highest priority safety schemes.

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Headlines


Elizabeth line
Central section open

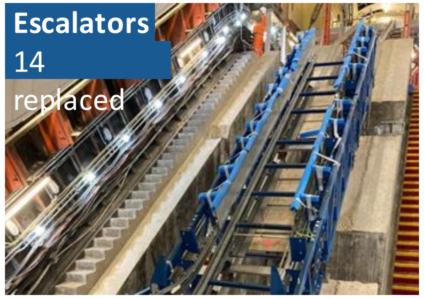

Barking Riverside
Complete


Bank Station
Complete


Healthy Streets: Old Street
Complete


Piccadilly line trains
First car body built


DLR trains
First train starts testing


Escalators
14
replaced


Metropolitan line
Overhaul started

Area	Budget	Including
Major Projects	£508m	New Piccadilly line and DLR Trains, Four Lines Modernisation, Barking Riverside Extension, Bank and Elephant and Castle Stage 1
LU Enhancements	£29m	Safe Track Access, LU Elizabeth line obligations
Rail Enhancements	£41m	Royal Docks Station (GLA Funded) and East London Line (HIF Funded)
Air Quality and Environment	£12m	Silvertown and Blackwall Tunnel Charging
Healthy Streets	£50m	Old Street Roundabout and funding for the most safety critical schemes and to deliver limited levels of bus priority to protect revenue
Surface Technology, Public Transport, Assets, Silvertown	£54m	Deployable Enforcement Cameras and Bus Customer Experience enhancements
Other Enhancements	£65m	Group Technology projects and Media projects

Board

Date: **23 March 2022**

Item: **TfL Prudential Indicators 2022/23 to 2024/25**

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 update and the Prudential Indicators that draw on information in the Budget and not all information was available at the time the Board papers were published.

1 Summary

1.1 This paper sets out the proposed TfL borrowing limits and other Prudential Indicators under the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code (the Code), which are consistent with the Treasury Management Strategy for 2022/23 and the principles underpinning the long-term TfL Capital Strategy. These limits and indicators are based on figures in the TfL's Budget that is submitted for approval by the Board elsewhere on the agenda.

1.2 Under the Prudential Code, TfL is required to adopt Prudential Indicators which support decision making on planned capital expenditure, borrowing and treasury management activities. The proposed Prudential Indicators for 2022/23 and the following two years are attached to this paper as Appendix 1. In line with guidance from CIPFA, Treasury Management Indicators are shown separately in Appendix 2.

1.3 Under Capital Finance regulations, local authorities are also required each year to set aside some of their revenues as provision for debt. TfL has a statutory duty to make an annual statement as to its policy for the calculation of this provision. This paper, therefore, sets out and asks the Board to approve the TfL Policy Statement on Minimum Revenue Provision, as set out in section 7.

1.4 Capital structure options are being explored in relation to TfL's commercial development subsidiary, including the potential to raise commercial funding for future investment in housing. The borrowing limits set out in this paper make an allowance for potential future debt arising from this activity.

1.5 TfL operates a structure of parent company guarantees across most companies within the Group, with the guarantees being registered at Companies House. This has the benefit of allowing the accounts of guaranteed companies an exemption from audit. However, to allow for the proposed capital structuring outlined in 1.4 above to be undertaken, and for any debt drawn down within subsidiary companies to be non-recourse to TfL, it is proposed that, for the financial year 2022/23, the

guarantees of TTL Properties Limited and, possibly, its subsidiaries which enter into development-specific joint ventures should not have their guarantees from Transport Trading Limited renewed.

1.6 TfL's Extraordinary Funding and Financing Agreement with the Department for Transport (DfT), dated 25 February 2022, extends only until 24 June 2022. TfL's Budget has therefore been prepared using assumptions in respect of levels of future government support that may not, in the event, prove accurate. Any future financing agreement from the DfT could, in addition, contain conditions attached to further funding which may impact more widely on TfL's operations and capital investment activities.

1.7 In the event that a new funding agreement is put in place during 2022/23 that materially impacts on the assumptions underlying TfL's approved Budget, a revised Budget will be required. Amendments to the prudential indicators will be submitted for approval accordingly.

2 Recommendations

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

(a) the TfL Prudential Indicators as set out in Appendix 1;

(b) the Treasury Management Indicators as set out in Appendix 2 for 2022/23 and the following two years; and

(c) the Annual TfL Policy Statement on Minimum Revenue Provision set out in section 7 of the paper.

3 Background on the Prudential Code

3.1 The Code plays a key role in capital finance in local authorities. It was developed as a professional code of practice to support local authorities in their decision-making processes for capital expenditure and its financing.

3.2 Local authorities are required by regulation to have regard to the Code when carrying out their duties under Part 1 of the Local Government Act 2003 (the Act).

3.3 The framework of Prudential Indicators established by the Code aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the Statement of Accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management.

3.4 As required by the Code, TfL prepares Prudential Indicators at both the Corporation and TfL Group level.

3.5 A revised Code was published in December 2021, setting out changes to the requirements for the capital strategy, prudential indicators and investment reporting, as well as a requirement that an authority must not borrow to invest primarily for financial return. Application of the revised reporting requirements has been deferred, as permitted by the revised Code until 2023/24. However, the general ongoing principles of the revised Code have been applied with immediate effect.

3.6 TfL's Budget submitted for approval by the TfL Board elsewhere on the agenda has been used to calculate the proposed indicators (see Appendix 1).

3.7 The Capital Expenditure and External Debt Indicators relevant to TfL are the:

(a) Authorised Limit;

(b) Operational Boundary;

(c) Capital Financing Requirement;

(d) Capital Expenditure; and

(e) Ratio of Financing costs to Net Revenue Stream.

Definitions for each of these are included in Appendix 3.

4 Treatment of PFI Liabilities in the Calculation of External Debt Limits for 2021/22

4.1 In setting the direct borrowings element of the authorised limit for 2021/22 an allowance was made for the Corporation to refinance certain PFI transactions held as long-term liabilities in subsidiary entities as and when it becomes commercially advantageous to do so. The long-term liabilities element of the authorised limit for the Group was adjusted down by the same amount to ensure that there was no overall increase in the total authorised limit for the Group.

4.2 The Budget for 2021/22 assumed that only the portion of PFI liabilities outstanding at the start of any particular year that was scheduled to be repaid within that year would be refinanced; and the Operational Boundary was calculated to reflect this.

4.3 For the Group indicator, so long as total debt remains within the overall authorised limit, movement may be made between direct borrowings and other long-term liabilities without penalty. These debt reclassifications are accordingly not considered to be a matter for concern as they have no net effect on the overall total limit for external debt.

4.4 No new PFI liabilities have been recognised for a number of years, and the remaining liability balances in relation to PFI contracts have significantly reduced as contractual payments have been made. Accordingly, this refinancing allowance is no longer considered necessary and has not been made in the proposed indicators for 2022/23 or later years.

5 Changes to Prudential Indicators for 2022/23 to 2023/24

5.1 Changes to Borrowing Limits for Future Years

Prudential Indicators for the years 2021/22 to 2023/24 were approved by the Board in March 2021. For 2022/23 and 2023/24 changes are proposed as set out in the paragraphs below:

(a) the Operational Boundary for long-term liabilities (and the total Authorised Limit for External Debt) in both the Corporation and Group have been amended to reflect the revised settlement profile for long term capital provisions;

(b) the phasing of the Crossrail funding package agreed with the Department for Transport in December 2018 has been updated. Within this package, TfL made drawdowns under a £750m loan facility provided by the DfT. TfL's debt limits have been amended to reflect the latest assumptions in respect of the repayment profile of this facility;

(c) in the Group, the reduction to the authorised limit for long-term liabilities for the possible refinancing of PFI liabilities has been removed as this is no longer considered necessary;

(d) the allowance within the Authorised Limit to avail of favourable market conditions in relation to the refinancing of existing tranches of debt has been uplifted for future years to provide adequate coverage in the years where we have greater debt maturities occurring;

(e) certain contracts TfL enters into in the ordinary course of business may result in the recognition of lease liabilities where prior to IFRS 16 these contracts were not so classified. Classification is highly technical and dependent on the specifics of each contract which may not be known in advance of that contract being entered into. An increase in the Authorised Limit has been deemed necessary, to provide headroom against the risk that items included in the Budget may have been incorrectly classified;

(f) the Operational Boundary and Authorised Limits have been increased to reflect a planned revolving credit facility of £200m limit in 2022/23 ringfenced to finance investment by TTL Properties Limited as set out in 1.4. The Group Operating Boundary includes budgeted drawdowns under this facility, while the Authorised Limit includes the undrawn balances; and

(g) TfL is currently reviewing options to refinance some of its asset and assets under construction. The accounting solution for some of these options might potentially result in a liability on the balance sheet, which has been included as headroom in the Authorised Limit.

Reconciliation of Changes in External Debt Limits for the Corporation for 2022/23 to 2024/25

	Paragraph reference	2021/22 (no change from previously approved limits)	2022/23	2023/24	2024/25
		£m	£m	£m	£m
Corporation:					
Previous Operational Boundary for Gross External Debt		**13,733.3**	**13,656.4**	**13,576.0**	n/a
Re-phasing of provisions and liabilities	5.1 (a)	-	(52.1)	(49.5)	n/a
Department for Transport Crossrail loan facility[4]	5.1(b)	-	-	35.0	n/a
Proposed Operational Boundary for Gross External Debt		**13,733.3**	**13,604.3**	**13,561.5**	**13,485.2**
Overdraft facility [1]		200.0	200.0	200.0	200.0
Refinancing of PFIs [2]	5.1 (c)	132.3	-	-	-
Refinancing of short-term borrowings [3]	5.1 (d)	1,000.0	500.0	500.0	500.0
Leases [5]	5.1 (e)	250.0	250.0	250.0	250.0
Proposed Authorised Limit		**15,315.6**	**14,554.3**	**14,511.5**	**14,435.2**

Reconciliation of Changes in External Debt Limits for the Group for 2022/23 to 2024/25

	Paragraph reference	2021/22 (no change from previously approved limits)	2022/23	2023/24	2024/25
		£m	£m	£m	£m
Group					
Previous Operational Boundary for Gross External Debt		**15,923.5**	**15,798.5**	**15,669.8**	**n/a**
Re-phasing of provisions and liabilities	5.1 (a)	-	(54.3)	(82.8)	n/a
Re-phasing of Department for Transport loan facility [4]	5.1 (b)	-	-	35.0	n/a
TTL Properties RCF facility	5.1 (f)	-	-	21.5	n/a
Proposed Operational Boundary for Gross External Debt		**15,923.5**	**15,744.2**	**15,643.5**	**15,586.7**
Overdraft facility [1]		200.0	200.0	200.0	200.0
Refinancing of PFIs [2]	5.1 (c)	27.0	-	-	-
Refinancing of short term borrowings [3]	5.1 (d)	1,000.0	500.0	500.0	500.0
Leases	5.1 (e)	500.0	500.0	500.0	500.0
Commercial property undrawn RCF facility [5]	5.1 (f)	-	200.0	178.5	83.7
Asset refinancing provision	5.1 (g)	-	600.0	600.0	600.0
Proposed Authorised Limit		**17,650.5**	**17,744.2**	**17,622.0**	**17,470.4**

Notes

1 An overdraft facility is in place to mitigate short term adverse cash flow variances and this is included in the authorised limit.

2 In setting the Prudential indicators in March 2012, the Board approved an increase in the authorised limit to allow for the refinancing of certain PFI contracts (as permitted in annex C of TfL's SR2013 settlement letter) as and when commercial opportunities arise and value for money can be demonstrated.

3 In setting the Prudential indicators in March 2012, the Board also approved an increase in the authorised limit to provide flexibility in refinancing of borrowings, to ensure that the most advantageous rates can be secured.

4 Facility made available as part of the funding package to deliver Crossrail agreed with the Department of Transport in December 2018, draw down is subject to conditions precedent.

5 The Authorised Limit has been uplifted to capture the planned revolving credit facility for investment by TTL Properties Limited.

5.2 **Changes to Other Prudential Indicators for Future Years**

Further amendments to reflect TfL's Budget have been applied to the other Prudential Indicators for 2022/23 and 2023/24 for the Corporation and Group. Indicators have been set for the first time for 2024/25. The tables in Appendix 1 set out the revised indicators.

6 Treasury Management Indicators

6.1 In addition to the Prudential Indicators, there are a number of treasury indicators that outlined in CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the TM Code), published in December 2017. Local authorities are required to have regard to these Treasury Management Indicators.

6.2 The TM Code recommends that local authorities should adopt the following Treasury Management Indicators:

(a) upper and lower limits on the maturity structure of borrowing, including variable as well as fixed rate debt; and

(b) the period for upper limits to the total of principal sums invested longer than one year.

6.3 While there is not a specific recommended indicator in respect of interest rate exposures, the TM Code suggests that authorities should explain the strategy for managing their interest rate risk as part of the investment and/or capital strategies. We cover our targets for fixed and floating rate debt, as well as general approach to interest rate risk, in our Treasury Management Strategy.

6.4 The proposed Treasury Management Indicators are detailed in Appendix 2.

6.5 A revised TM Code was published on 20 December 2021 requiring the adoption, from 2023/24 of a broader range of Treasury Management Indicators, including a new debt liability benchmark indicator to support the risk management of the capital financing requirement. These new requirements have not been reflected in the indicators presented here for the 2022/23 financial year.

7 TfL Policy Statement on Minimum Revenue Provision

7.1 Local authorities are required each year to set aside some of their revenues as provision for debt. TfL has a statutory duty to determine for the current financial year an amount of minimum revenue provision which it considers to be 'prudent' in relation to debt service obligations.

7.2 While statutory guidance suggests four potential methods for calculating Minimum Revenue Provision (MRP) it also allows for other methods and approaches to be used. Since 2016/17 TfL has applied the principles inherent in the statutory guidance on MRP, to make an annual provision in the Transport for London (the Corporation), that aims to build up a reserve on the Balance Sheet over the average useful economic life of the assets funded by borrowings in the Corporation, such that, at the end of that useful economic life, that reserve may be employed to either repay borrowings or to finance replacement capex for those assets that have reached the end of their lives. An MRP is effectively already made for borrowings passed down to the subsidiaries through TfL's existing processes for funding those entities.

7.3 Given current levels of debt (including finance leases) retained within the Corporation the MRP is anticipated to be approximately £56m per annum throughout the business plan period and will result in an annual transfer of this amount from usable reserves (i.e. the General Fund) to unusable reserves (namely the Capital Adjustment Account).

List of appendices to this report:

Appendix 1: For Approval: TfL Prudential Indicators for 2022/23 to 2024/25
Appendix 2: Treasury Management Indicators
Appendix 3: Definitions for Prudential Indicators

List of Background Papers:

Treasury Management Strategy for 2022/23
Draft Budget
Draft long-term TfL Capital Strategy.

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Appendix 1

FOR APPROVAL: PRUDENTIAL INDICATORS FOR 2021/22 TO 2024/25
TRANSPORT for LONDON

	Paragraph reference	Approved Indicators 2021 - 22 £millions	Proposed Revised Indicator 2022 - 23 £millions	Proposed Indicator 2023 - 24 £millions	Proposed Indicator 2024 - 25 £millions
Operational Boundary for External Debt*					
TfL Corporation					
Borrowing		13,162.5	13,069.0	13,068.7	13,033.5
PFI and long-term liabilities		570.8	535.3	492.8	451.7
Total Operational Boundary for External Debt in TfL Corporation	5.1	**13,733.3**	**13,604.3**	**13,561.5**	**13,485.2**
TfL Group					
Borrowing		13,162.5	13,069.0	13,089.9	13,149.3
PFI and long-term liabilities		2,761.0	2,675.2	2,553.6	2,437.4
Total Operational Boundary for External Debt TfL Group	5.1	**15,923.5**	**15,744.2**	**15,643.5**	**15,586.7**
Authorised Limit for External Debt**					
TfL Corporation					
Borrowing		14,494.8	13,769.0	13,768.7	13,733.5
PFI and long-term liabilities		820.8	785.3	742.8	701.7
Total Authorised Limit in for External Debt in TfL Corporation	5.1	**15,315.6**	**14,554.3**	**14,511.5**	**14,435.2**
TfL Group					
Borrowing		14,494.8	14,568.8	14,568.4	14,533.0
PFI and long-term liabilities	5.1	3,155.7	3,175.4	3,053.6	2,937.4
Total Authorised Limit for External Debt in TfL Group		**17,650.5**	**17,744.2**	**17,622.0**	**17,470.4**
Estimates of Capital Expenditure (Annual)					
TfL Corporation	5.2	**2,671.2**	**1,571.6**	**1,131.1**	**1,671.2**
TfL Group	5.2	**3,634.9**	**2,445.1**	**2,641.8**	**2,508.9**
Estimates of Capital Financing Requirement (Cumulative)***					
TfL Corporation	5.2	**14,740.5**	**14,046.0**	**13,986.2**	**13,928.4**
Total TfL Group	5.2	**18,941.3**	**17,773.6**	**17,406.9**	**16,969.9**

* The Operational Boundary is a calculation based upon the cash flows in the TfL Budget. If breached, it is a warning that financial plans may require review and amendment.

** The Authorised Limit is the maximum amount that TfL may borrow legally.

*** The Capital Financing Requirement is the amount of capital expenditure to be financed by means other than grant or asset sales proceeds.

Prudential Indicators for Prudence and Affordability

<u>**Estimates of ratio of financing costs to net revenue stream**</u>	**Paragraph reference**	**Approved Indicator 2021 - 22**	**Proposed Revised Indicator Budget 2022 - 23**	**Proposed Revised Indicator Budget 2023 - 24**	**Proposed Indicator Budget 2024 - 25**
TfL Corporation	5.2	**11.0%**	**15.4%**	**23.0%**	**26.3%**
TfL Group	5.2	**16.6%**	**17.1%**	**18.2%**	**18.7%**

Gross Debt and the Capital Financing Requirement*	**TfL Group* £millions**	**Corporation £millions**
Authorised Limit for total debt at 31 March 2023	17,744.2	14,554.3
Less headroom for refinancing of short-term debt	(1,000)	(1,000)
Adjusted Gross Debt at 31 March 2023	**16,744.2**	**13,554.3**
Capital Financing Requirement at 31 March 2025	**16,969.9**	**13,928.4**

* The Prudential Code stipulates that Gross Debt at 31 March 2023 should not generally exceed the Capital Financing Requirement at 31 March 2025 Headroom included in the calculation of the Authorised Limit for External Debt has been stripped out for the purposes of this comparison, as this represents a uplift of debt limits solely to allow flexibility in the timings of drawdown of debt such that TfL is able to obtain the most favourable rates on its borrowings. It does not represent debt that could be used to fund the capital activities of the Group.

Appendix 2

For Approval: Treasury Management Indicators

Maturity Structure of Borrowing	**Budget 31 Mar 2022**	
	Upper	Lower
< 1year	35%	0%
1 year to < 2 years	35%	0%
2 years to <5 years	50%	0%
5 years to <10 years	75%	0%
10 years and above	100%	20%

This indicator represents limits of the percentage of borrowing maturing in the future periods above as a total of fixed rate borrowing outstanding.

Actual amounts will depend on the projects financed and which ones have been converted into long-term obligations

Maximum Outstanding Principal sum Invested for more than 365 days	**Budget 31 Mar 2023** £millions	**Budget 31 Mar 2024** £millions	**Budget 31 Mar 2025** £millions
Forward Financial Year 1	**0**	**0**	**0**
Forward Financial Year 2	**0**	**0**	**0**

Appendix 3

Definitions for Prudential Indicators used by TfL

1. **External Debt - Operational Boundary**
   The Operational Boundary is a sum of external borrowings and long-term capital liabilities, including finance lease creditors and provisions, as shown in the Budget and Plan. If breached, it is a warning that financial plans may require review and amendment.

2. **External Debt - Authorised Limit**
   The authorised limit is the maximum amount that TfL may borrow legally.
   It is comprised of the Operational Boundary plus an element of headroom to allow for unexpected cashflow fluctuations.

3. **Capital Expenditure**
   For the Group this is the total of fixed asset additions for the given period.
   For the Corporation this is the Corporation's own fixed asset additions plus any loans or capital grants passed to the subsidiaries for the given period.

4. **Capital Financing Requirement**
   The Capital Financing Requirement (CFR) is the amount of capital expenditure to be financed by means other than grant or asset sales proceeds. It is calculated from the balance sheet of the Group and Corporation by deducting deferred grant, and capital reserve balances from the total fixed asset balance.

   There is a requirement in the Code to ensure that the estimate for the CFR at the end of 2025 is not exceeded by gross debt budgeted at the end of 2023. This requirement seeks to ensure that over the medium term, debt will only be for a capital purpose.

5. **Ratio of financing costs to net revenue streams**
   Indicator expresses the interest costs, net of interest income as a percentage of TfL's Revenue Grant and fares income plus or minus transfers to reserves.