MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Supplementary Agenda

Meeting: Finance Committee

Date: Wednesday 13 March 2024

Time: 10:00am

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

Members
Anne McMeel (Chair)
Anurag Gupta (Vice-Chair)
Seb Dance
Prof Greg Clark CBE
Dr Nina Skorupska CBE

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

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that these items should be considered as a matter of urgency. The reason for urgency is that the papers needed to reflect any impact on TfL of the Government's Budget 2024 that was announced on 6 March 2024 and not all information was available at the time the main agenda was published.

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Jackie Gavigan, Secretariat Manager; Email: v_JackieGavigan@tfl.gov.uk

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

Andrea Clarke, Interim General Counsel
Friday 8 March 2024

Supplementary Agenda
Finance Committee
Wednesday 13 March 2024

6 TfL Budget 2024/25 (Pages 1 - 38)

Chief Finance Officer

The Committee is asked to note the paper and approve the TfL Budget for 2024/25.

7 TfL Prudential Indicators 2024/25 to 2026/27 (Pages 39 - 52)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and approve: the TfL Prudential Indicators as set out in Appendix 1 for 2024/25 and the following two years; the Treasury Management Indicators as set out in Appendix 2 for 2024/25 and the following two years; and the annual TfL Policy Statement on Minimum Revenue Provision as set out in section 6 of the paper.

20 Exclusion of the Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

21 TfL Prudential Indicators 2024/25 to 2026/27 (Pages 53 - 58)

Exempt supplementary information relating to the item on Part 1 of the agenda.

Finance Committee

Date: **13 March 2024**

Item: **TfL Budget 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 matter of urgency. The reason for urgency is that the paper needed to reflect any impact on TfL of the Government's Budget 2024 that was announced on 6 March 2024 and not all information was available at the time the main agenda was published.

1 Summary

1.1 This paper considers TfL's proposed 2024/25 Budget which builds on our 2024 TfL Business Plan. The proposed 2024/25 Budget updates for the latest information and turns it into a detailed plan, against which we can track progress through the year.

1.2 On 6 March 2024, given the proposed 2024/25 Budget was not available for that meeting, the Board delegated approval of the Budget to the Committee.

2 Recommendation

2.1 **The Committee is asked to note the paper and approve the TfL Budget for 2024/25.**

3 TfL 2024/25 Budget

3.1 We will deliver an operating surplus in 2023/24, of all which is reinvested into maintaining and improving our network.

3.2 Our proposed 2024/25 Budget – set out in the Appendix to this paper – builds on this foundation and shows how we will grow this operating surplus, to increase our ability to invest.

3.3 However, as the Government has recognised, it is not possible for TfL to fully fund all major projects and asset replacement from its own sources of income. Therefore, we still need sufficient and long-term capital funding from Government to commit to and deliver the long-term investment required to replace major assets such as rolling stock, signalling and critical roads bridges and structures.

4 Next steps

4.1 We will report on the progress of delivering against this proposed budget to the Committee and Board throughout 2024/25.

4.2 As required under our 2024/25 capital funding settlement with Government, we will also continue to provide quarterly financial reporting to the Department for Transport and its advisers, update them on how we are maintaining operational financial sustainability and our progress on the requirements of the funding settlement.

List of appendices to this report:

Appendix 1: TfL 2024/25 Budget – presentation

List of Background Papers:

None

Contact Officer: Rachel McLean, Chief Finance Officer
Email: rachelmclean@tfl.gov.uk

2024/25
TfL Budget

TfL Finance Committee

13 March 2024

EVERY JOURNEY MATTERS

Financial summary

We will deliver an operating surplus in 2023/24, of all which is reinvested into maintaining and improving our network.

Our 2024/25 Budget builds on this foundation and shows how we will grow this operating surplus, to increase our ability to invest.

However, as the Government has recognised, it is not possible for TfL to fully fund all major projects and asset replacement from its own sources of income.

We still need sufficient and long-term capital funding from Government to commit to and deliver the long-term investment required to replace major assets such as rolling stock, signalling and critical roads bridges and structures.

Journeys:

3.8bn

+5.9% vs 23/24

Revenue:

£9,467m

+4.9% vs 23/24

Like-for-like operating costs (19/20 prices):

£5.1bn

11% down vs 19/20

Operating surplus:

£161m

Double our budget surplus in 23/24

Capital investment:

£1,821m

(2.6%) vs 23/24

Cash balance:

£1,383m

Maintaining 60 days operating cash

Key highlights for 2024/25:

- **Rising passenger demand:** we will grow our ridership by a further six per cent and passenger income by over £300m.
- **Other income sources:** we are growing total income whilst maintaining the proportion of fare income (58%) year-on-year.
- **Continuing to deliver recurring cost savings:** targeting £133m of incremental recurring savings and a total of £343m including one-off and cost avoidance.
- **Growing our operating surplus:** we will grow our operating surplus, all of which is used to fund investment.
- **Funding investment:** we are investing £1.8bn into our assets and maintaining the outcomes we set in our 2024 Business Plan. This is a three per cent reduction year-on-year as some of our programmes come to an end and others ramp up, although we are increasing the year-on-year investment in critical asset renewals.
- **Rebuild our cash reserves:** we will hold 60 days' worth of operating costs

Section 1

Building on our Business Plan

Our Business Plan is outcome focused and integrated

We have a balanced set of target outcomes based on the Mayor's Transport Strategy (MTS) and the roadmaps of the TfL Strategy which helps us set the direction of travel to 2030.

The 2024/25 Budget builds on the 2024 Business Plan and sets out in more detail how we will deliver the first full year of the Plan.

Mayor's Transport Strategy themes and outcomes

Healthy Streets and healthy people

Safe, Active, Efficient and Green

A good public transport experience

Connected, Accessible and Quality

New homes and jobs

Sustainable and Unlocking

TfL Strategy themes

The themes of TfL Strategy fully support the delivery of the MTS and the ambitions of the organisation

- Safety and Security
- Colleague
- Customer
- Green
- Finance

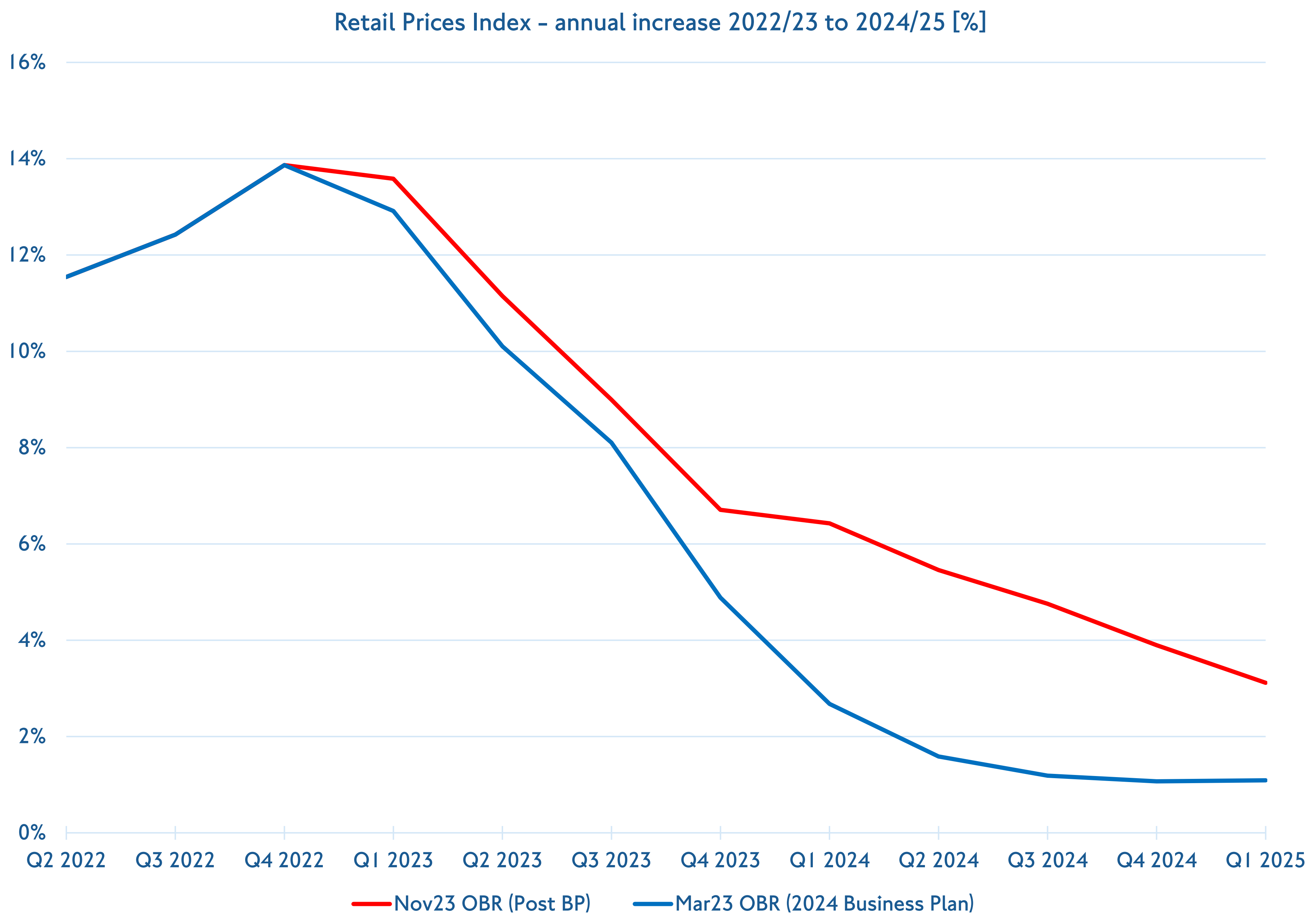
Since setting the Plan, expected inflation has increased

When setting the Budget, we update the Business Plan for the latest macroeconomic data and forecasts.

The 2024 Business Plan assumed inflation would align to the March 2023 OBR Forecast [blue line].

Post the Business Plan, inflation was expected to be higher for longer under the November 2023 OBR Forecast [red line]. This added c.£180m of operating cost pressure in 2024/25.

Inflation is currently trending between these two forecasts.



The outcomes of the Mayor's Budget fed into the TfL Budget

The TfL Budget is also updated for any outcomes of the Mayor's Budget process, which concludes after the TfL Business Plan is published.

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In the 2024/25 Mayor's Budget, there were a number of decisions on funding for TfL.

These lead to an additional £235.5m of funding of which £156.0m is recurring additional funding support and £79.5m is one-off funding.

This has been reflected in the 2024/25 TfL Budget.

Recurring / ongoing

Freezing Mayoral controlled fares so our services remain affordable

Recurring funding to support 2023/24 London Underground pay talks

Enhance publicly available toilets on the TfL estate

Additional in 2023/24 and 2024/25

Fares innovation: trialling off-peak Fridays

Helping further improve London's air quality by extending the scrappage scheme

Funding to support Superloop bus services

Source: Mayor's final draft budget for 2024/25 approved 22 February 2024

https://www.london.gov.uk/who-we-are/governance-and-spending/spending-money-wisely/mayors-budget

Our financial strategy underpins our delivery

Grow our income and control our costs to secure our future

For London to stay vital, we need to be strong

Our Finance Strategy shows how we will build a sustainable financial future

Our strategic priorities

Continually improve our efficiency

We need to continue to be affordable for our customers and the taxpayer. We'll do this by improving working practices to make TfL a great place to work, and targeting continuous savings across the value chain.

Diversify and grow our revenue

We need to attract more customers on to our network, reduce our reliance on fares income and motivate our colleagues to achieve our revenue goals.

Build our resilience and continue to invest

We need to continue to run a safe and reliable transport system that delivers for London. We need to prepare for whatever challenges lie ahead and, through steady investment, deliver vital improvements for London.

Our 2023 financial success measures

- Ensure our income always exceeds our costs, growing our operating surplus
- Control our costs in real terms, targeting inflation minus 2 per cent
- Secure long-term funding approach and settlement by 2025

- Diversify and grow our revenue
- Continually improve our efficiency
- Build our resilience and continue to invest

In an uncertain environment, we have taken a balanced view on inflation

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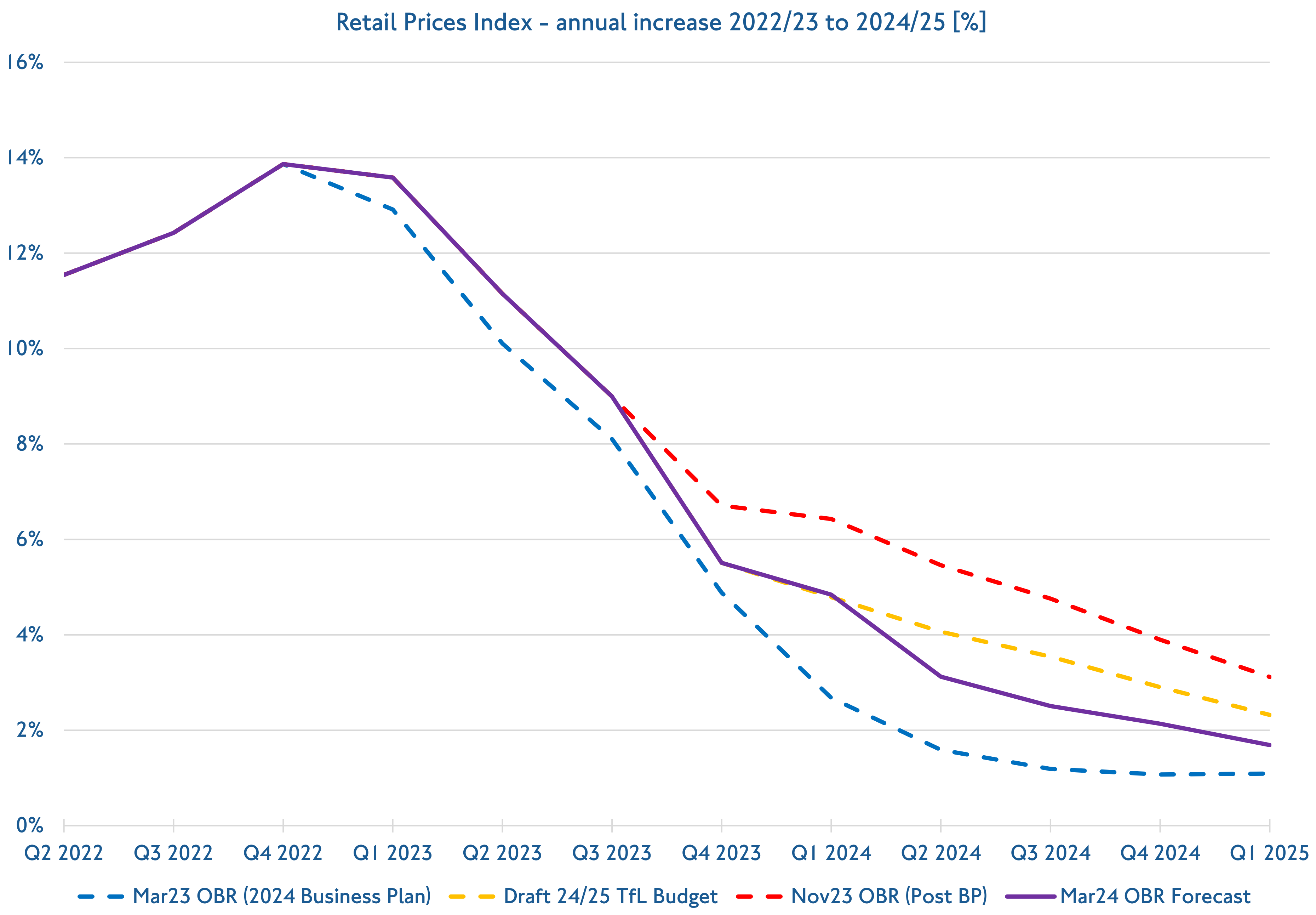
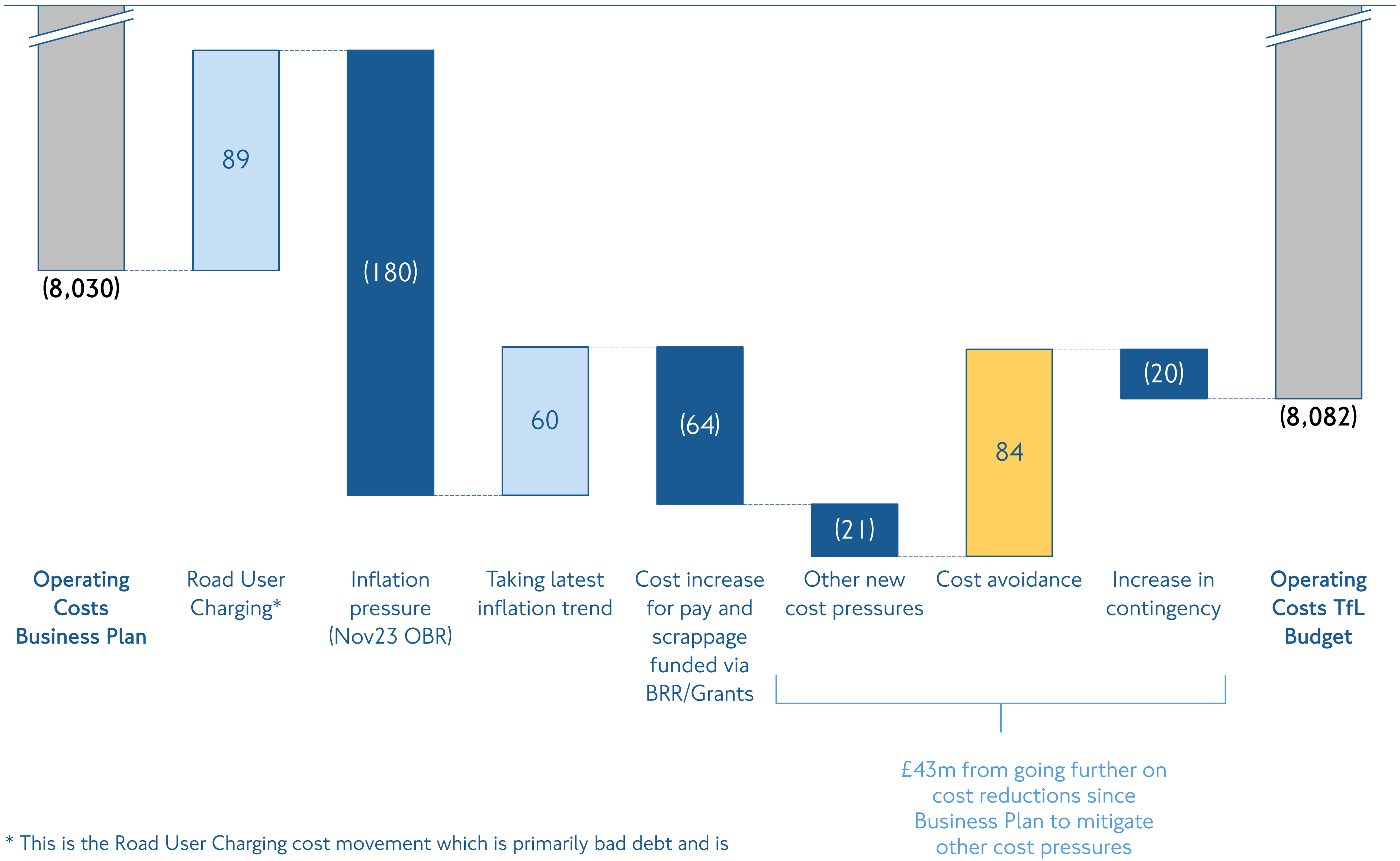
Informed by the latest trends and market expectations, we have taken our own view of inflation [orange line]. This reduces the £180m cost pressure in 2024/25 by £60m, down to £120m.

On 6 March 2024, the OBR published its latest forecast [purple line] which indicates RPI inflation will fall slightly faster than our own view embedded into this draft Budget.



To offset higher inflation we've had to find further savings

Operating costs (£m) – 2024 Business plan to 2024/25 Budget (FY 2024/25) – excluding Places for London



* This is the Road User Charging cost movement which is primarily bad debt and is offset by an opposite income movement.

We already had a more stretching savings target in 2024/25, but we've had to stretch this further

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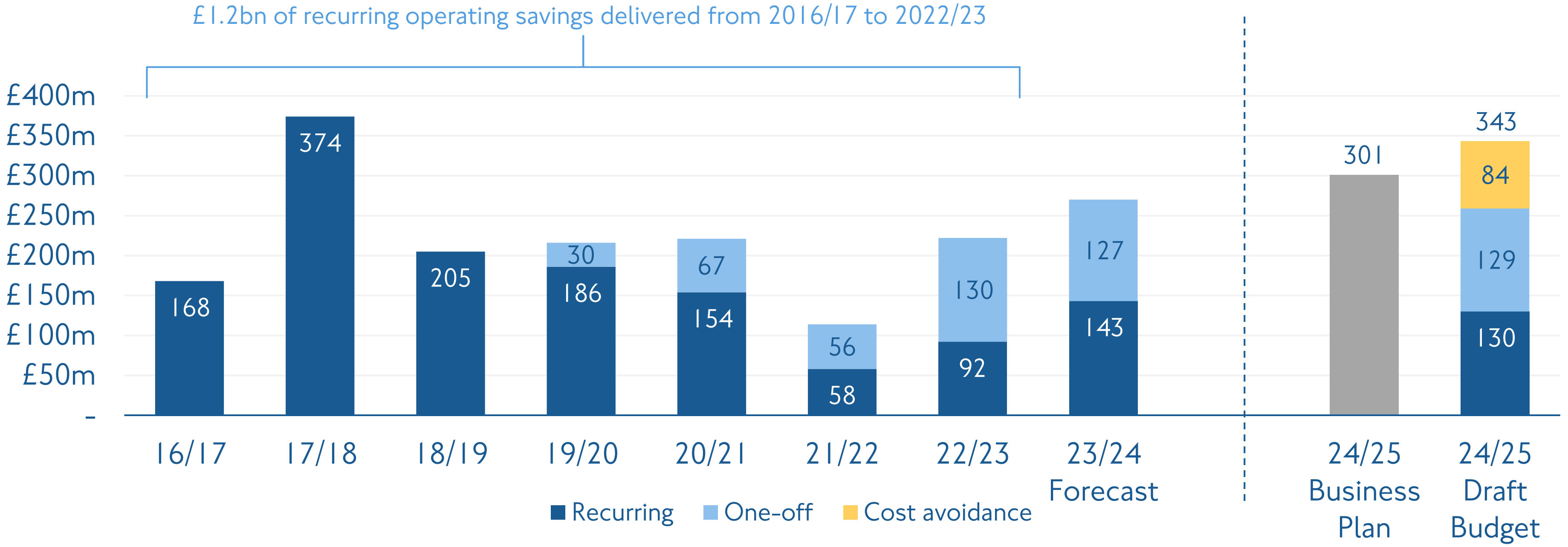
Year on year incremental savings – actual and planned (£m)



Our target for cost savings in 2024/25 is now circa £340m through a mixture of recurring, one-off and cost avoidance vs the circa £300m in the Business Plan. We've done this through taking a number of measured actions:

- Reviewing our non-permanent labour and reducing expenditure on consultancy
- Working with our suppliers to offset the impact of inflation and identify further savings
- Reducing our office footprint and sub-letting head office space
- Reducing energy consumption and effective energy procurement
- Further productivity improvement in on our back and middle office areas

In addition, to balance the budget, we have reviewed and avoided some of the cost growth we had original forecast in our 2024 Business Plan through a mixture of reducing or stopping the activity or mitigating the cost pressure.

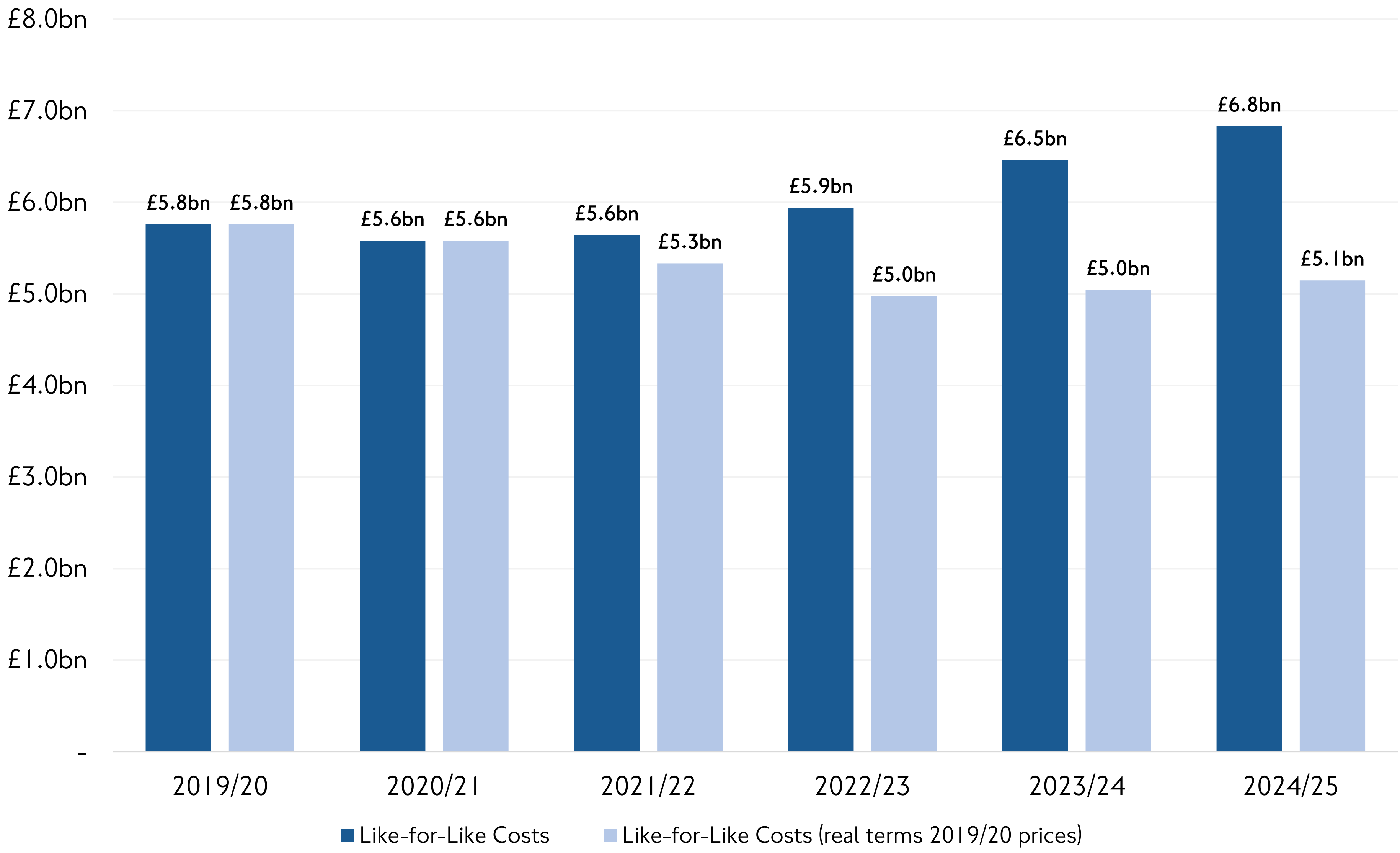
We still have an unidentified savings target of circa £90m across both recurring and one-off which is a similar challenge that we have taken in previous years. Some of this will be delivered by mitigating or avoiding cost increases, which while not meeting the technical definition of a year-on-year saving, will still support in delivering our budget.

We have continued to control our costs in real terms

A significant proportion of our costs for 2024/25 are indexed to inflation indices (mainly RPI) for February and March 2024. The downward trajectory of inflation means that the actual level of inflation over the course of 2024/25 will be lower. This leads to a slight increase in real-terms costs when deflated by the average level of inflation for the year.

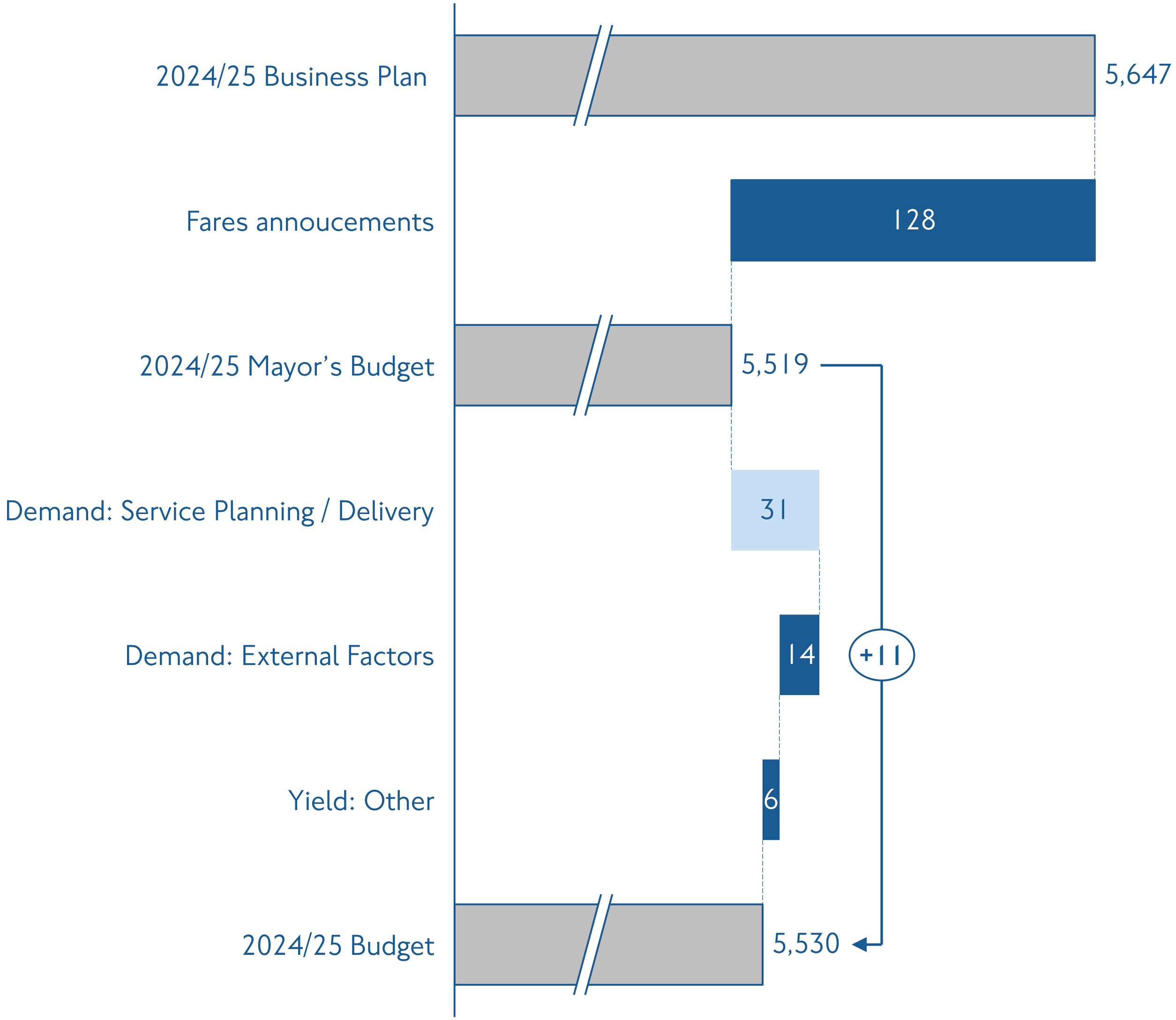
Our savings programme ensures we continue to mitigate inflation where possible.

Core Operating costs (£bn) – like for like (2019/20 baseline) – excluding Places for London



Our passenger income is lower than the Plan due to the Mayoral fares freeze – but this is offset by other funding from the Mayor

Passenger income forecast: 2024/25 Budget compared to 2024 Business Plan (£m)



- National fares uplift of 4.9%
- Mayoral fares frozen and off-peak Friday's trial (funded by the Mayor)

Underlying £11m improvement:

Demand impact

- Latest trends for LU and EL and targeting an improvement of bus journey times to increase revenue
- External factors: worsening macroeconomic indicators offset by underlying commuter traffic

Yield impact

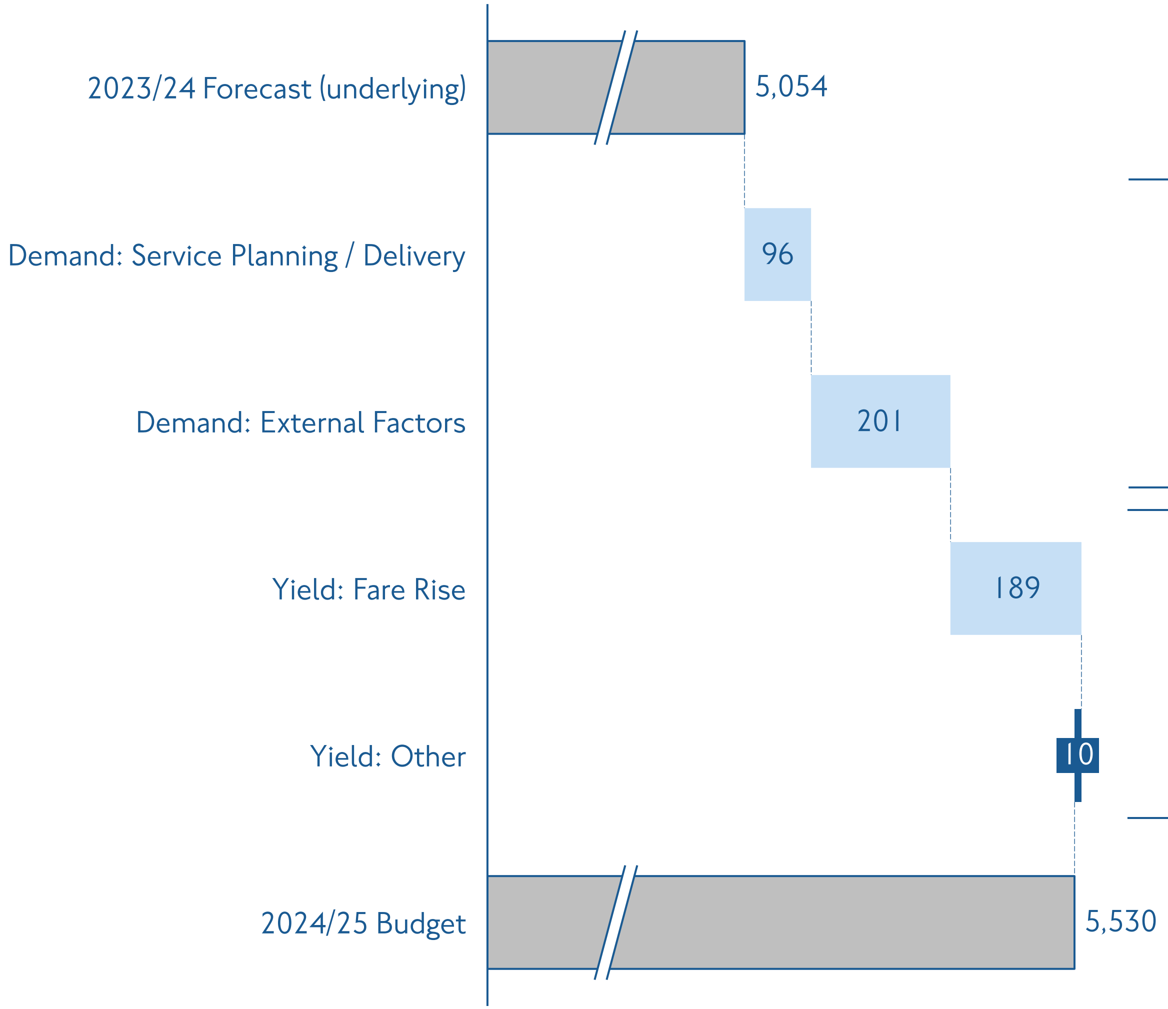
- External factors including changing journey patterns, capping and freedom pass income

Demand is growing by a further 6% year-on-year

By the end of 23/24 we expect our ridership to have grown by six per cent from 2022/23. This is on top of the 31 per cent increase in 2022/23.

Our Budget assumes that journeys will grow by another six per cent in 2024/25 through a mixture of continued pandemic recovery, return to office and service planning delivery including full year of Elizabeth line through running, additional bus kms and Tube/Rail service enhancements.

Passenger income – year-on-year growth (£m)



Demand growth of 6%, £298m

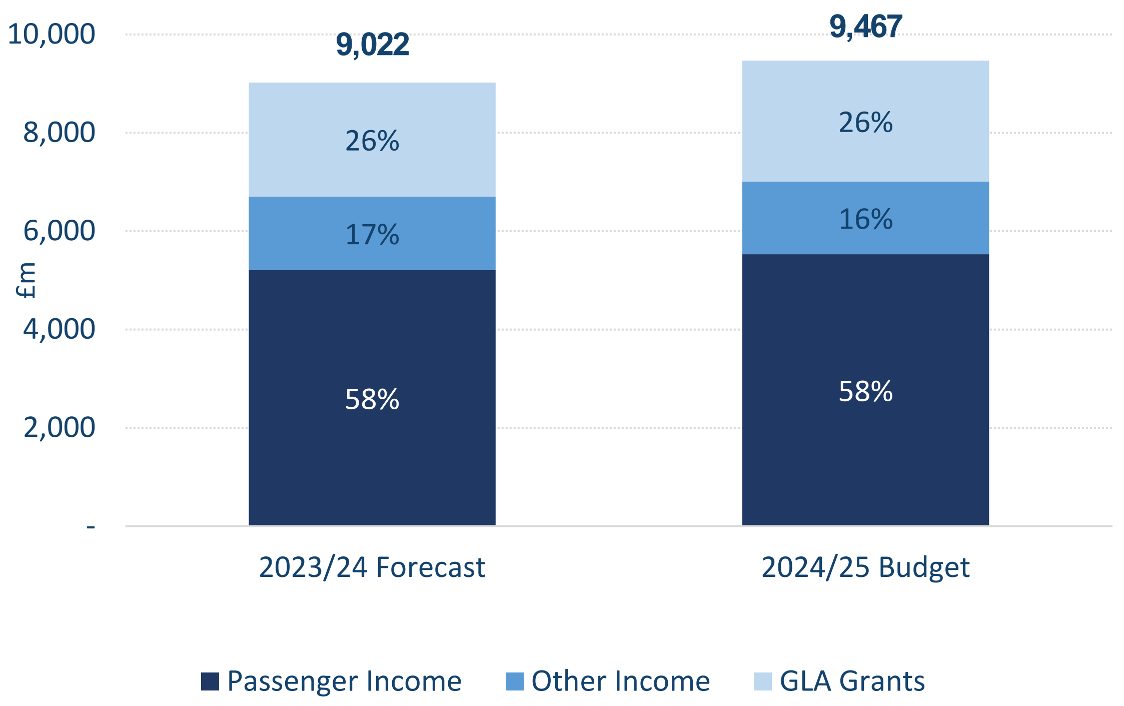
- Service planning & delivery: full year of Elizabeth line through running and additional bus kms. enhancements
- External factors: economic growth, further pandemic recovery and return to office

Yield growth of 3%, £179m

- Fare rise: c2% in line fares freeze on Mayoral controlled fares and 4.9% on national fares
- Other: other external factors including changing journey patterns, capping and freedom pass income

We are growing total income, while maintaining the same proportion of fare income year-on-year

Total income £m



How we are increasing other income sources outside of passenger income to maintain the proportion of income that comes from fares:

1. Business Rates Retention – 6.5 per cent uplift through local government settlement and billing authorities returns.
2. Council Tax - increase in the precept by an additional £20 (Band D) in line with the council tax excessiveness principles confirmed by government on 5 December 2023 generating approx. £60m of additional funding for transport. This is the last of the four increases in-line with the Government funding condition to raise £500m pa of new revenue.
3. Other sources: growing other sources of income including commercial media and partnerships, telecoms, taxi and private hire licence fees and other administration fees.

We have mitigated the majority of the inflation pressure and been able to increase investment in asset renewals

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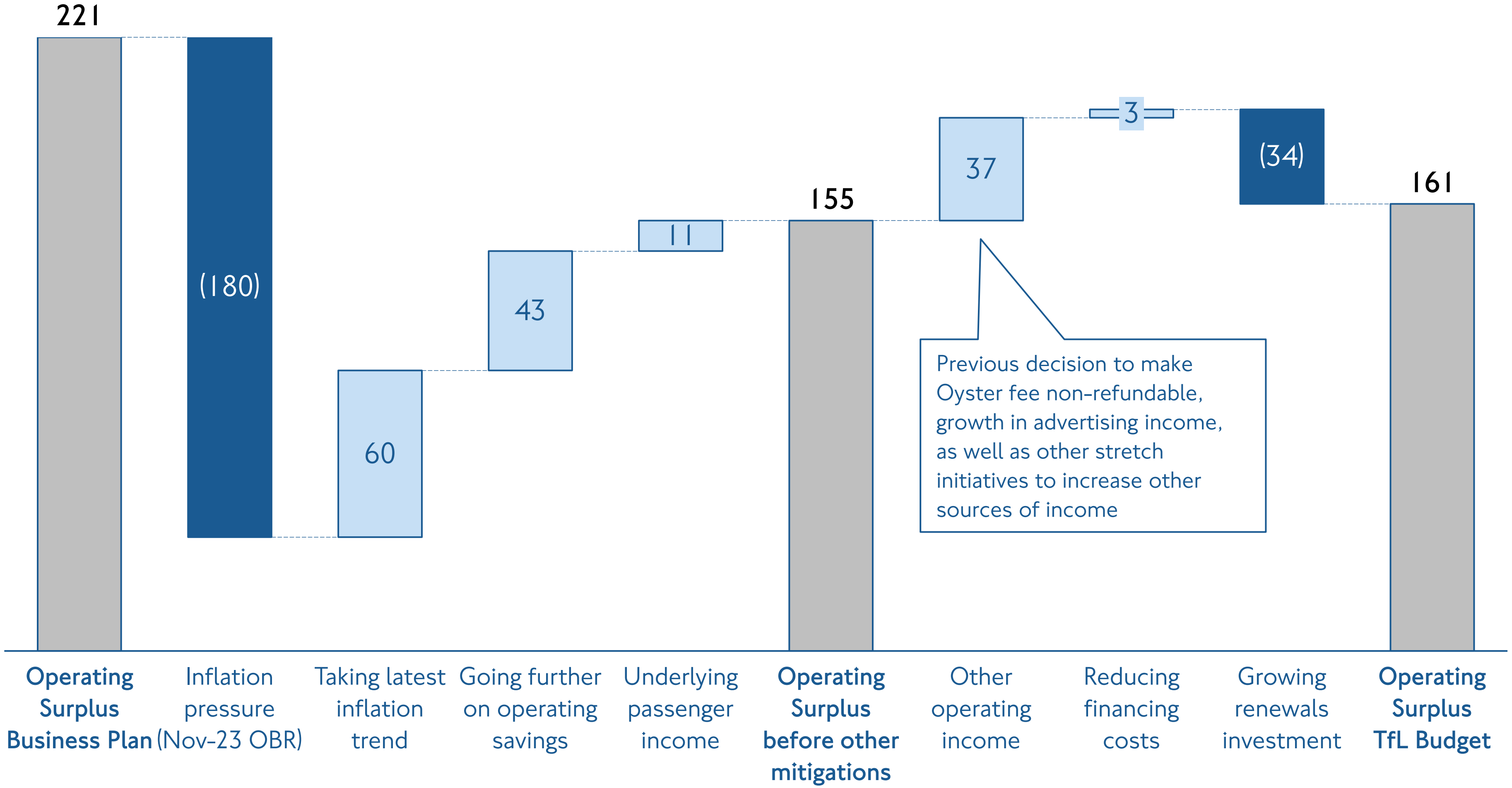
Operating surplus: 2024/25 Budget compared to 2024 Business Plan (FY 2024/25)



This leaves a gap of £60m to the 2024 Business Plan operating surplus that we have not been able to mitigate in-year, but importantly we are still able to show a growing operating surplus to fund investment from £102m in 23/24 to £161m in 24/25. We have achieved this whilst increasing the level of investment in our critical asset renewals.

We have maintained a growing operating surplus to fund investment

In 2023/24, we are on track to reach operational financial sustainability and no longer rely on Government support for day-to-day operations.

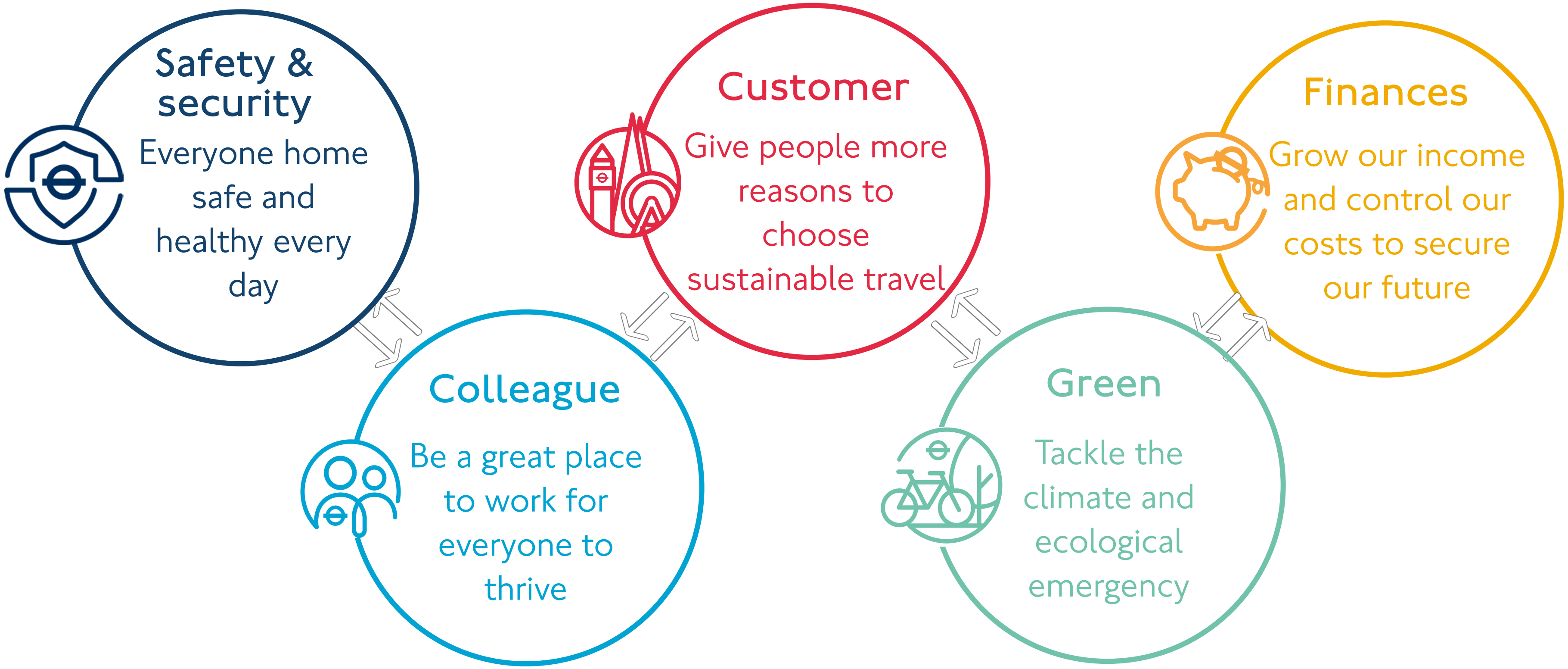
The surplus has reduced by £60m since our 2024 Business Plan but still grows to over £160m.

We have achieved this whilst growing our investment in critical capital renewals. However, we will need to continue to invest more in future years which needs to be supported by long-term Government funding.

Income statement (£m) – excluding Places for London

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	5,207	5,530	(49)	(117)	855	323
Other operating income	1,495	1,478	(46)	(52)	10	(17)
Business rates retention	1,914	2,170	-	156	95	256
DfT base funding	-	-	-	-	(808)	-
Council tax precept	178	244	-	-	64	66
Other revenue grants	228	45	72	36	183	(183)
Revenue	**9,022**	**9,467**	**(23)**	**23**	**399**	**445**
Operating costs	(7,751)	(8,082)	(15)	(52)	(746)	(331)
Operating surplus before interest and renewals	**1,271**	**1,385**	**(38)**	**(29)**	**(347)**	**114**
Capital renewals	(755)	(795)	(5)	(34)	(131)	(40)
Operating surplus before interest	**516**	**490**	**(43)**	**(63)**	**(478)**	**74**
Net interest cost	(414)	(429)	1	3	10	(15)
Operating surplus	**102**	**161**	**(42)**	**(60)**	**(468)**	**59**
Operating surplus (excluding DfT base funding)	*102*	*161*	*(42)*	*(60)*	*340*	*59*

What this budget protects and delivers against our goals



Delivering on our Safety & Security goal

Everyone home safe and healthy every day

- Launch phase 2 of the Direct Vision Standard to improve safety of road users
- Start construction of Lambeth Bridge and Battersea Bridge Phase 2 safer junctions
- Delivering our Safer Junction programme
- Completing research into escalator safety and next steps
- TfL Colleague Safety Plan
- Starting trials for further reducing dust on the tube network
- Investing £150m in furthering the work towards safe and healthy streets
- Proof of Concept trials for further CCTV

Metrics and milestones tracked on the scorecard

24.6% reduction in the number of people Killed or Seriously injured on London's roads from 2010-14 baseline

12% reduction in Customers Killed or Seriously injured vs. 22/23

17% reduction in Colleagues Killed or Seriously injured vs. 22/23

- **Lambeth Bridge** start-on-site (Dec 2024)
- **Direct Vision Standard Phase 2** – Go Live (Oct 2024)

Delivering on our Colleague goal

Be a great place to work for everyone to thrive

- Progress our Reward Strategy
- Continue to embed the value chain through OTP and our change portfolio
- Continue to embed Action on Inclusion
- Continue to embed our approach to talent
- Continue to implement principle based polices
- Begin to embed our Colleague Wellbeing Plan
- Improve the quality of our data and embed use of dashboards to drive decision making

Metrics and milestones tracked on the scorecard

+2%
In employee engagement versus 2023/24

94.25%
Attendance %

Key indicator of staff engagement, health and wellbeing

Improving Senior Leader representation so that the end of 24/25 composition is at least:

Women: 35.3%
BAME: 19.8%
Have a disability: 6.4%
Minority faith/belief: 13.1%
LGB: 5.8%

- **Staff welfare** – Completion of staff welfare renewal works to 25 rooms (Oct 2024)
- **Bus driver welfare** – Twelve bus driver welfare facilities completed (Mar 2025)

Delivering on our Customer goal

Give people more reasons to choose sustainable travel

- Increasing our renewals budget to ensure we maintain existing service levels and improve reliability
- Focusing attention on improved bus journey times– including 25 km of new bus lanes
- Continuing the roll out of 4G/5G across the network
- Starting procurement for replacement Trams, preparing for new Bakerloo line trains and delivering new Piccadilly and DLR trains
- Continuing the Four Lines Modernisation & transforming Elephant & Castle Station
- Roll out of full Superloop service enabled by delivery of the Silvertown Tunnel
- Accelerated delivery of the Sustainable Housing & Accessibility fund and feasibility for DLR extension to Thamesmead to help deliver new homes and jobs
- Further innovation to incentivise sustainable travel

Metrics and milestones tracked on the scorecard

56% of Londoners agree we care about our customers (+2% vs 23/24)

34.1 mins Bus Journey Time*

26.6 mins LU Journey Time*

27.1 mins Rail Journey Time* (DLR, Trams, Overground, Elizabeth Line)

90% Investment programme milestone delivery

*Journey Time is a measure of how long it takes our customers to travel on our services, adding up each stage of a journey (e.g. waiting, time in transit, interchange) and applying a weighting for factors that negatively affect passenger experience, such as crowding and wait times.

- **Piccadilly Line Upgrade** – Delivery of first train to London (second half of 2024)
- **Trams Replacement Rolling Stock** – Release of Invitation To Tender (Oct 2024)
- **London Overground line naming**– Line names in use (End 2024)
- **DLR Rolling Stock Replacement Programme** – facilitate full length trains - Bank to Woolwich Arsenal (Dec 2024)
- **Bus priority** – Completion of the Detailed Design for the iBus2 Solution (Mar 2025)
- **4G/5G** – Increase mobile phone coverage underground to cover 225 locations (Mar 2025)

Delivering on our Green goal

Tackle the climate and ecological emergency

- Continuing the roll out of zero-emission busses with a further 500 buses joining the fleet in 2024/25
- Renewable Energy Procurement – award first TfL PPA
- Phase out all cars in the TfL support fleet which are not Zero Emission capable
- Continuing to build our building decarbonisation pipeline, including securing external funding where available
- Increase Green Infrastructure and biodiversity through enhanced Sustainable Drainage implementation and doubling our wildflower verges
- Strengthen our Climate Budget, with the inclusion of scope 3 and adaptation projects
- Continuing the Mayor's Air Quality fund from the business plan

Metrics and milestones tracked on the scorecard

<773ktonnes
CO_{2e} emissions from TfL operations & buildings. A reduction of 6.5% from 23/24

90%
Green Milestone delivery

9,000 sqm
New rainwater catchment area resulting from sustainable drainage schemes

- **Zero Emission:** All cars in TfL Support Fleet Zero Emission Capable (Dec 2024)
- **Therapia Lane Decarbonisation Project** – Start-On-Site (Sep 2024)
- **LED Upgrade**: Installation of six thousand energy-saving LED lights serving customers & staff at King's Cross station (Feb 2025)

Our capital programme

This budget delivers £1.8bn of capital investment and maintaining the outcomes we set in our 2024 Business Plan. It reflects the latest cost schedule for Piccadilly line trains (cash was already reflected in the business plan).

This is three per cent lower than this financial year as some of our programmes come to an end and others ramp up.

However, we are continuing to increase our funding for critical assets renewals to begin to address the backlog created by the pandemic and Government funding uncertainty.

Capital expenditure (£m)

	2024/25 Budget		2024 Business Plan		Variance	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 Variance	2024/25 Variance
Piccadilly Line Upgrade	(446)	(414)	(437)	(712)	(9)	298
DLR train replacement	(224)	(211)	(236)	(220)	12	9
Four Lines Modernisation	(98)	(74)	(101)	(74)	2	0
Environment	(86)	(58)	(103)	(58)	17	(0)
Safe & Healthy Streets	(117)	(113)	(120)	(112)	3	(1)
Rail & Station Enhancements	(59)	(75)	(62)	(79)	2	4
Technology	(56)	(64)	(63)	(64)	7	(0)
Other Enhancements	(27)	(17)	(6)	7	(21)	(24)
Renewals	(755)	(795)	(750)	(761)	(5)	(34)
Total capital expenditure	(1,869)	(1,821)	(1879)	(2,072)	9	251

Key movements:

- **PLU:** Reflects the changes to the contract for the new Trains that were approved by Finance Committee in December 2023. The impact was to reschedule the payments to the supplier and to re-phase delivery, with offsetting increases in future years. This has now been reflected in the cost schedule (cash was already reflected).
- **DLR:** The latest schedule reflects a rephasing to the programme predominantly driven by a supplier going into administration, with the £21m underspend now falling into future years. All trains are expected to be in place by 2026 as originally planned.
- **Environment:** reflects the latest ULEZ assumptions
- **Technology:** the main movements are due to timing changes on externally funded projects.
- **Other:** Revision to deliverability assumptions and rephasing of several small schemes
- **Renewals:** increase in investment to continue the ramp up of critical asset renewal after a period of renewals being supressed due to the pandemic and Government funding uncertainty.

Section 3

How we are being prudent and managing risks in our budget

We are maintaining an affordable level of debt

Our objective is to manage borrowing in a manner that is affordable, sustainable and prudent, in line with the provisions of the Prudential Code.

Borrowing has a role to play in supporting the capital investment programme. Generating a sustainable operating surplus means there will be borrowing headroom in the medium term.

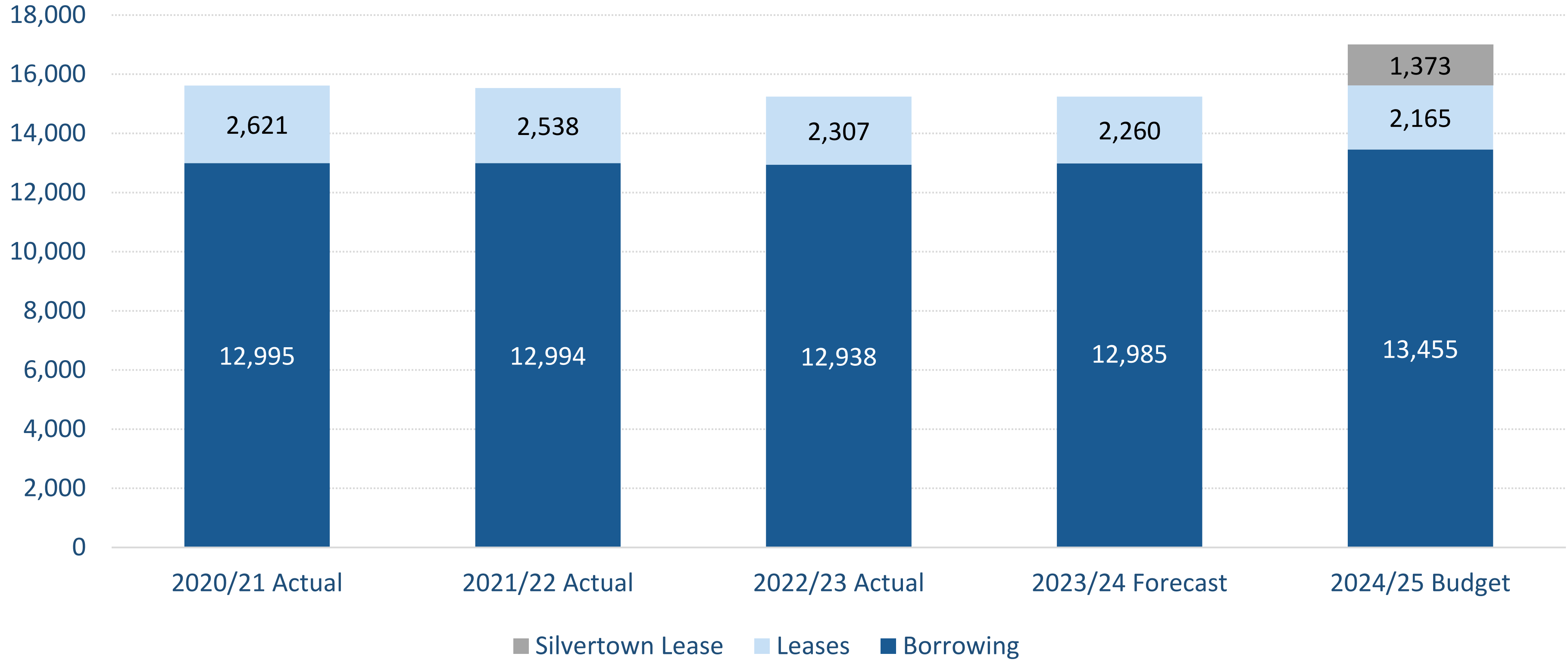
We have reduced our total debt since 2020/21 as part of our return to financial sustainability.

Our total debt is forecast to increase in 2024/25 as we borrow to fund our investment programme and the Silvertown Tunnel opens and comes on balance sheet.

Debt: movements (£m)

£m	2020/21	2021/22	2022/23	2023/24	2024/25
Net borrowing	1,275	(1)	(56)	47	470
Net movement in outstanding leases	78	(83)	(231)	(47)	1,278
Total change in debt balance	1,353	(84)	(287)	-	1,748

Actual/Forecast Closing Debt Balances (£m)



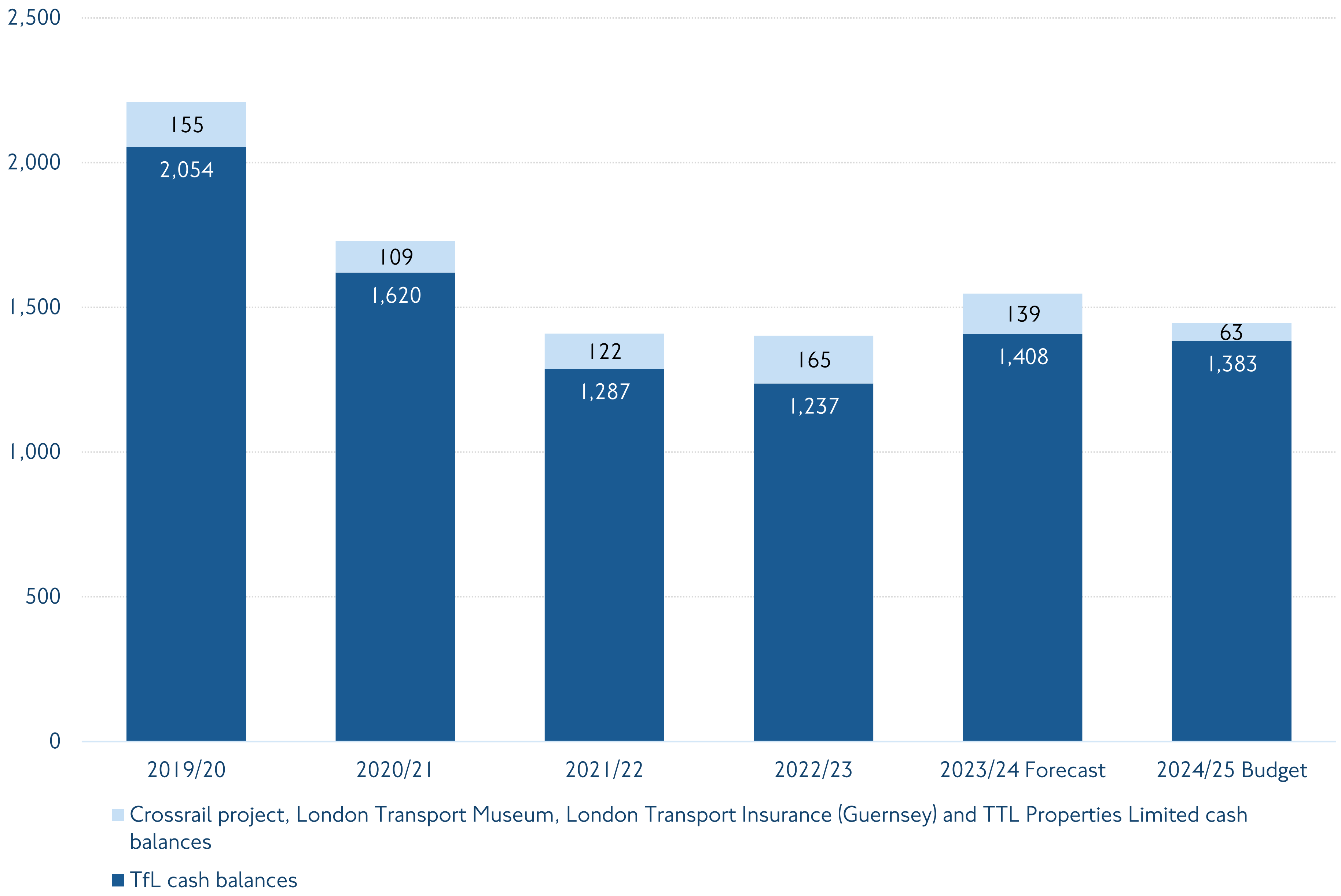
We are rebuilding our cash reserves

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.

As per the August 2022 funding settlement, we continue to manage cash at around £1.2bn throughout the period of the agreement but expect to end 2023/24 at £1.4bn (£1.3bn after adjusting for grants we have received in advance of spend in future years - which is the maximum permitted under the funding settlement).

In 2024/25, we plan to hold cash reserves equivalent to 60 days of operating costs. We maintain other sources of liquidity including an overdraft facility, a short-term financing facility and the £350m GLA financing facility to absorb any shocks and withstand strategic, safety and operational risks.

Cash balances (£m)



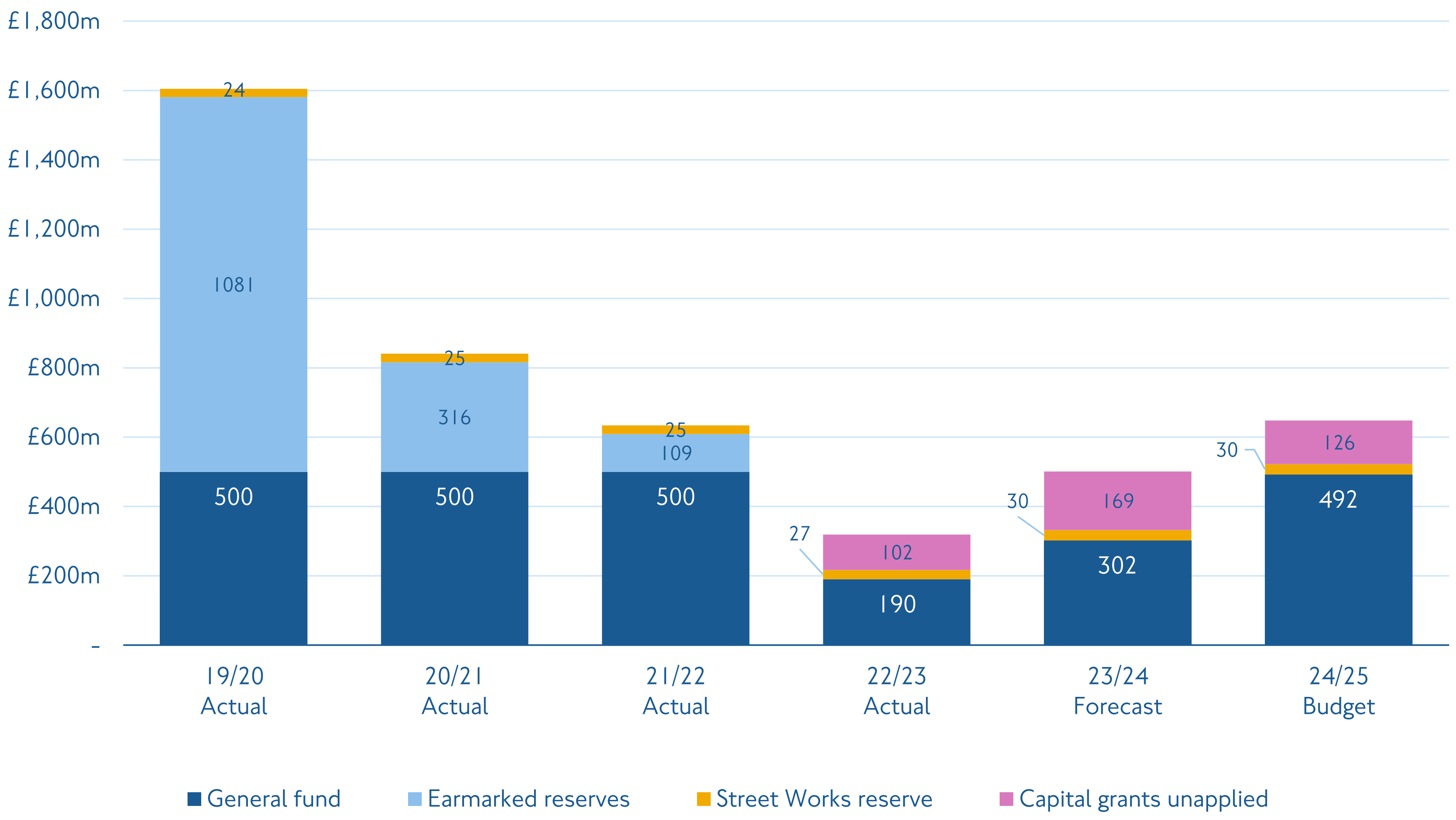
And we are rebuilding our accounting reserves

The pandemic has seen a material reduction in TfL's useable reserves, which consist of its General Fund and Earmarked Reserves.

The General Fund represents sufficient cash-backed reserves held to cover risks that may arise. TfL has a target General Fund balance of £500m, which was increased from £150m at the start of the pandemic in March 2020.

This Budget confirms the trajectory set out in our 2024 Business Plan to return to a General Fund of £500m by 2025/26.

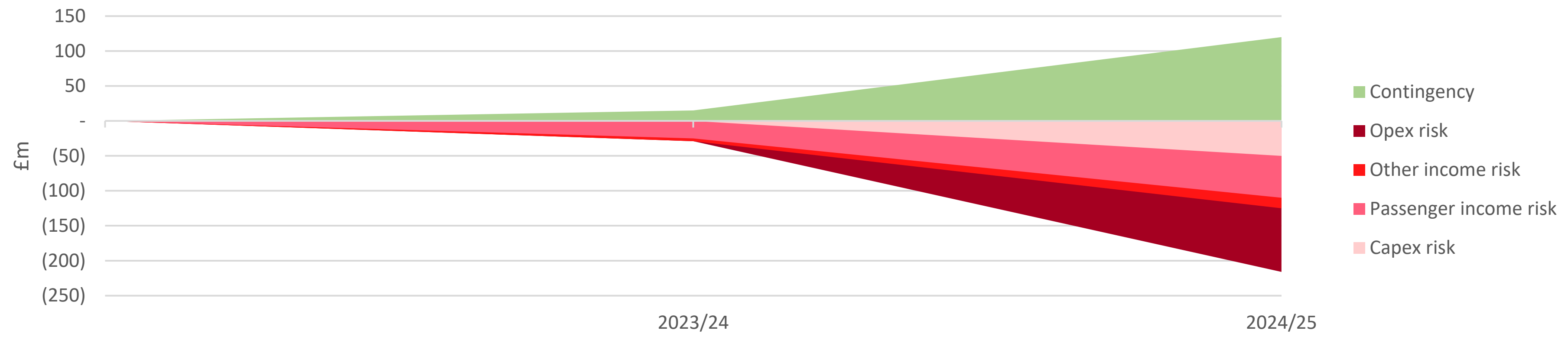
Accounting reserves (£m)



Although we have taken a measured approach, this budget does contain significant risks which we can manage through contingency and other levers

Probability weighted risks and opportunities for the remainder of 2023/24 and 2024/25

Risks of around (£220m) offset by contingency of £120m



Key risks in 24/25:

1. Passenger income – risk returns to TfL at the end of the August 2022 funding settlement.
2. Other income – there is a range of uncertainty around some of our other income streams
3. Savings – there remains some risks to achieving our challenging savings targets this year but we are committed to delivering our programme of change.
4. Asset condition – we are ramping up our investment in renewing our assets in line with the trajectory set out in our business plan but it is still lower that the circa £1.2bn per annum run rate required.

We have some capacity built into our budget to manage these risks with £120m of contingency.

Further downside scenario levers:

The total of our risk exposure is greater than the level of contingency. Rather than reduce our ability to deliver the outcomes we have set out, we are taking a balanced approach and identifying levers to course correct during the year if required. This will be achieved by:

- Maintaining the GLA financing facility at £350m to provide time to respond to shocks
- Introducing more stringent controls on operating costs if required
- Managing the commitments of our capital expenditure to maintain levers to slow or stop expenditure if required.

Section 4

Appendices

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Cash flow statement

£m	2024/25 Budget: 2023/24 Forecast	2024/25 Budget: 2024/25 Budget	Variance to Plan: 2023/24 Forecast	Variance to Plan: 2024/25 Plan	Variance YoY: 2023/24 vs 2022/23	Variance YoY: 2024/25 vs 2023/24
Net cash generated by operating activities	1,271	1,385	(38)	(28)	(347)	114
Less LTIG and LTM	1	2	-	-	3	1
Net cash generated by TfL operating activities	**1,272**	**1,387**	**(38)**	**(28)**	**(344)**	**115**
Cash flows from investing activities						
Capital renewals	(755)	(795)	(5)	(34)	(131)	(40)
New capital investment	(1,113)	(1,026)	15	285	(30)	87
Ring-fenced capital funding	899	178	(66)	88	604	(721)
Working capital movements	235	190	211	(319)	54	(44)
Net cash utilised by investing activities	**(734)**	**(1,453)**	**155**	**20**	**497**	**(718)**
Free cash flow	**538**	**(66)**	**117**	**(8)**	**154**	**(604)**
Cash flows from financing activities						
Net interest paid	(414)	(429)	1	3	10	(15)
Net TfL borrowing	47	470	(100)	(20)	56	423
Net cash generated from financing activities	**(367)**	**41**	**(99)**	**(17)**	**66**	**408**
Net increase/(decrease) in cash	**171**	**(25)**	**18**	**(25)**	**220**	**(196)**
TfL cash balances	*1,408*	*1,383*	*19*	*(8)*	*171*	*(25)*

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Divisional income statements

These divisional income statements show the performance of each 'Division' that we use in our Quarterly Performance Reporting.

These income statements show the 'net contribution' each division makes towards its share of indirect costs, financing cost and renewals. This does not represent a 'profit' or surplus at a business unit level.

A negative contribution means a division is utilising centrally received income, such as retained business rates and council tax to cover its operating costs.

Our Quarterly Performance Reporting will allocate the indirect costs, financing costs and renewals to each division to provide a complete view of the financial performance of each division.

London Underground

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	2,526	2,773	(29)	(88)	314	247
Other operating income	27	26	(1)	3	(2)	(1)
Revenue	**2,553**	**2,799**	**(30)**	**(85)**	**312**	**246**
Operating costs	(2,289)	(2,409)	(39)	(208)	(197)	(120)
Net contribution	**264**	**390**	**(69)**	**(293)**	**115**	**126**

Elizabeth line

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	604	669	18	17	290	65
Other operating income	7	8	-	-	(4)	1
Revenue	**611**	**677**	**18**	**17**	**286**	**66**
Operating costs	(520)	(576)	3	11	(44)	(56)
Net contribution	**91**	**101**	**21**	**28**	**242**	**10**

Divisional income statements

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Buses

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	1,501	1631	(7)	(34)	134	130
Other operating income	11	12	2	5	4	1
Revenue	**1,512**	**1,643**	**(5)**	**(29)**	**138**	**131**
Operating costs	(2,269)	(2,381)	(9)	29	(157)	(112)
Net contribution	**(757)**	**(738)**	**(14)**	**-**	**(19)**	**19**

Streets & Other Operations

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	10	10	-	-	1	-
Other operating income	1,150	1,125	(77)	(139)	(17)	(25)
Revenue	**1,160**	**1,135**	**(77)**	**(139)**	**(16)**	**(25)**
Operating costs	(1,268)	(1,110)	3	27	(209)	158
Net contribution	**(108)**	**25**	**(74)**	**(112)**	**(225)**	**133**

Divisional income statements

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London Overground

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	248	272	-	-	36	24
Other operating income	10	12	(3)	(1)	(11)	2
Revenue	**258**	**284**	**(3)**	**(1)**	**25**	**26**
Operating costs	(346)	(370)	(9)	(1)	(1)	(24)
Net contribution	**(88)**	**(86)**	**(12)**	**(2)**	**24**	**2**

DLR

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	146	158	(5)	(7)	18	12
Other operating income	1	1	-	-	-	-
Revenue	**147**	**159**	**(5)**	**(7)**	**18**	**12**
Operating costs	(153)	(160)	2	(2)	(19)	(7)
Net contribution	**(6)**	**(1)**	**(3)**	**(9)**	**(1)**	**5**

Divisional income statements

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Our Quarterly Performance Reporting will allocate the indirect costs, financing costs and renewals to each division to provide a complete view of the financial performance of each division.

Trams

	2024/25 Budget		Variance to Plan		Variance YoY	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Plan	2023/24 vs 2022/23	2024/25 vs 2023/24
Passenger income	17	17	(2)	(4)	(1)	-
Other operating income	-	-	-	-	(4)	-
Revenue	**17**	**17**	**(2)**	**(4)**	**(5)**	**-**
Operating costs	(45)	(48)	-	-	(4)	(3)
Net contribution	**(28)**	**(31)**	**(2)**	**(4)**	**(9)**	**(3)**

Mayor's budget comparison

The Mayor's Final Draft Consolidated Budget for 2024/25 was approved on Thursday 22 February 2024.

The Budget document can be found here:

[Final Draft Budget - Part 2 Explanation of Proposals 2024-25 (london.gov.uk)]

Please refer to page 81 for the TfL Objective Analysis table which includes Places for London.

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	2024/25 Budget		Final Mayor's Budget		Variance	
	2023/24 Forecast	2024/25 Budget	2023/24 Forecast	2024/25 Budget	2023/24 Variance	2024/25 Variance
Passenger income	5,207	5,530	5,250	5,519	(43)	11
CC, LEZ, & ULEZ income	933	850	999	988	(66)	(138)
Other operating income	619	694	598	602	20	92
Third-party contributions	38	34	33	36	5	(2)
Subtotal income	**6,796**	**7,109**	**6,880**	**7,145**	**(84)**	**(36)**
Operating costs						
London Underground	(1,866)	(1,937)	(1,820)	(1,740)	(46)	(197)
Bus, Roads, Compliance & Policing	(3,217)	(3,421)	(3,129)	(3,369)	(88)	(51)
Contracted Rail & Sponsored Services	(614)	(654)	(610)	(647)	(4)	(7)
Elizabeth line	(520)	(576)	(523)	(587)	2	11
CC, LEZ, & ULEZ costs	(669)	(487)	(693)	(576)	25	89
Other operations	(922)	(1,081)	(1,046)	(1,245)	124	163
Subtotal operating costs	**(7,807)**	**(8,156)**	**(7,821)**	**(8,164)**	**13**	**8**
Net operating income and expenditure	**(1,011)**	**(1,047)**	**(941)**	**(1,019)**	**(70)**	**(28)**
Other						
Debt servicing	(412)	(430)	(414)	(433)	2	2
Revenue resources used to support capital	(752)	(1,083)	(842)	(1,046)	90	(37)
Net service income and expenditure	**(2,175)**	**(2,560)**	**(2,197)**	**(2,498)**	**22**	**(63)**
Transfer (to)/from reserves	(145)	101	(112)	57	(33)	44
Financing requirement	**(2,320)**	**(2,460)**	**(2,309)**	**(2,440)**	**(10)**	**(19)**
Specific grants	39	8	9	8	29	0
GLA funding from transport reserve	184	37	203	18	(19)	19
Retained business rates	1,991	2,170	1,991	2,170	0	(0)
22-23 General services grant	5	-	5	-	-	-
Collection fund deficit	(78)		(78)	-	(43)	11
HM Government revenue support	-	-	-	-	-	-
Council tax requirement	**178**	**244**	**178**	**244**	**-**	**-**

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Finance Committee

Date: **13 March 2024**

Item: **TfL Prudential Indicators 2024/25 to 2026/27**

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 matter of urgency. The reason for urgency is that the paper needed to reflect any impact on TfL of the Government's Budget 2024 that was announced on 6 March 2024 and not all information was available at the time the main agenda was published.

1 Summary

1.1 Investing in our transport infrastructure involves high upfront costs. Borrowing can play a role in the financing of capital projects, as it enables us to make vital improvements sooner by spreading the costs over time, including rolling stock and signalling replacements, new homes and growth, as well as air quality and decarbonisation.

1.2 Borrowing can complement direct Government capital funding. The Government has recognised that TfL is not expected to solely finance major capital enhancements and major renewals from its own operating incomes, as is consistent with other transport authorities. TfL has confirmed capital funding from Government until 31 March 2025. The 2024 TfL Business Plan reflected this and, in line with that settlement, made prudent assumptions in respect of levels of future Government capital funding.

1.3 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). These are consistent with the proposed Treasury Management Strategy for 2024/25, which is also being presented to this meeting, and the principles underpinning the proposed long-term TfL Capital Strategy. The proposed Prudential Indicators for 2024/25 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.

1.4 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL or of a sensitive nature to our listed counterparties. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and:**

(a) approve the TfL Prudential Indicators as set out in Appendix 1 for 2024/25 and the following two years;

(b) approve the Treasury Management Indicators as set out in Appendix 2 for 2024/25 and the following two years; and

(c) approve the annual TfL Policy Statement on Minimum Revenue Provision as set out in section 6 of the paper.

3 Background on the Prudential Code and Capital Financing Regulations

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.

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 audited 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 Places for London Limited, TfL's wholly owned property subsidiary (Places) has a revolving credit facility (RCF). The facility is currently undrawn and is non-recourse to TfL. However, Places still falls within the scope of the borrowing limits set out in this paper and forms part of the overall TfL Group limits.

3.6 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 Committee, under delegated approval from the Board, to approve the TfL Policy Statement on Minimum Revenue Provision, as set out in section 6.

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

(a) Authorised Limit;

(b) Operational Boundary;

(c) Capital Financing Requirement;

(d) Capital Expenditure;

(e) Ratio of Financing costs to Net Revenue Stream; and

(f) Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream.

Definitions for each indicator are set out in Appendix 3.

3.8 The debt limits – the Authorised Limit and Operational Boundary – proposed have been assessed against affordability metrics. These affordability metrics are informed in part by the quantitative assessments employed by credit rating agencies when assessing TfL. These have been derived on a first principles basis with debt service cover ratio as the overriding metric.

3.9 The other metrics, as defined in Appendix 3, include:

(a) debt service coverage ratio

(b) net debt to operating surplus before financing;

(c) net debt to operating surplus before financing and renewals; and

(d) interest cover ratio.

3.10 These metrics are not formal Prudential Indicators under the Code but, given TfL's size and complexity, they provide useful insight into the affordability, sustainability and prudence of TfL's borrowing. Any incremental borrowing is also subject to a further assessment of affordability at the time of borrowing.

4 Changes to Prudential Indicators for 2024/25

4.1 The overall proposed Operational Boundary for gross debt for 2024/25 in the Corporation of £15,222.0m and the Group of £17,106.1m represents an increase of £1,347.8m and £1,286.1m respectively when compared with the previously approved indicators for 2024/25 as result of:

(a) long-term liabilities in both the Corporation and the Group have decreased by £0.7m and £18.9m respectively. This is to reflect the revised settlement profile for long term capital provisions and movements in lease liabilities;

(b) the addition of the Silvertown Tunnel Private Finance Initiative (PFI) which comes on balance sheet as a liability for both the Corporation and the Group, when the tunnel is permitted to be brought into use. The tunnel is expected to be brought into use during 2025 and for prudent financial planning purposes this has been incorporated into the prudential indicators for 2024/25. Upon initial recognition, the liability is £1,373.1m and will be amortised over 25 years to 2050;

(c) a cumulative decrease in planned new borrowing by 2024/25 of £24.6m impacting both the Corporation and the Group. New borrowing is required to part finance TfL's investment in rolling stock and signalling programmes as a result of the Government's capital funding settlement for 2024/25 being below the level assumed in the 2023 TfL Business Plan. TfL's Budget assumes this additional borrowing to be approximately £47m and £470m for financial years 2023/24 and 2024/25 respectively; and

(d) amended draw down profile for the Places RCF facility in the Group being a cumulative reduction of £43.5m by 2024/25, based on the latest Places development plans.

4.2 The overall proposed Authorised Limit for gross debt for 2024/25 in the Corporation of £16,422.0m and the Group of £18,306.1m represents an increase of £1,097.8m and £786.1m respectively, when compared to previously approved indicators for 2024/25. The increase is due to changes within the Operational Boundary as listed in paragraph 4.1, partially offset by removal of the specific allowance for potential identification and classification of leases in the Corporation of £250m and the Group of £500m.

4.3 Removal of this item is considered prudent, as it reflects that the risk of existing contracts containing material embedded leases is now lower than it was in the years immediately following the implementation of accounting standard IFRS 16 Leases.

4.4 Guided by the Code, the Operational Boundary represents TfL's best estimate of most likely, i.e. prudent, but not worst case scenario, level of external debt. We do this by reflecting external debt levels that align to TfL's most recent, published, Budget and Business Plan.

4.5 Additionally, the Code requires that the Authorised Limit should provide headroom over and above the Operational Boundary that would sufficiently address liquidity requirements, arising from unforeseen or unusual circumstances i.e. not considered within the 'most likely' plans for levels of external debt.

4.6 The proposed Authorised Limit provides headroom of £1,200m, for the Group and the Corporation. This is a level deemed sufficient, taking account of the following items:

(a) allowance to avail of favourable market conditions in relation to short-term refinancing activities and allow for flexibility when refinancing; and

(b) contingency allowance for TfL to increase debt should the need arise and it is assessed as affordable at the time of borrowing.

Facilities and options available to support TfL, should headroom be required to absorb financial shocks and contingent events, include:

(i) the Greater London Authority financing facility of £350m;

(ii) an existing overdraft facility of £100m and a money market facility of £100m;

(iii) the Places RCF of £200m; and

(iv) new commercial or Public Works Loan Board borrowings.

4.7 The changes outlined to the Operational Boundary and Authorised Limit for financial year 2024/25 are also applicable to 2025/26 and outlined within the table at section 4.9. The planned borrowing in 2025/26 has reduced due to the rephasing of cash payments for the Piccadilly line rolling stock contract, as part of the mitigations for the shortfall in Government capital funding for 2024/25 as compared to the assumed level in the 2023 TfL Business Plan.

4.8 Additional Prudential Indicators listed within Appendix 1, for 2024/25 to 2025/26, have been updated to reflect the 2024 TfL Business Plan. Indicators are being set for the first time for 2026/27.

4.9 **Reconciliation of Changes in External Debt Limits for the Corporation for 2023/24 to 2025/26**

Corporation, £m	Reference	2023/24	2024/25	2025/26	2026/27
Previously approved Operational Boundary for Gross External Debt		**13,559.0**	**13,874.2**	**14,328.1**	**n/a**
Re-phasing of provisions and liabilities	4.1(a), 4.7	-	(0.7)	(3.7)	n/a
Addition of PFI	4.1(b), 4.7	-	1,373.1	1,363.2	n/a
Net new borrowings	4.1(c), 4.7	-	(24.6)	(537.6)	n/a
Increase/(decrease)		-	1,347.8	821.9	n/a
Proposed Operational Boundary for Gross External Debt		**13,559.0**	**15,222.0**	**15,150.0**	**15,587.5**
Headroom	4.6	-	1,200.0	1,200.0	1,200.0
Short-term refinancing of borrowings	4.6	500.0	-	-	-
Additional contingent borrowing	4.6	500.0	-	-	-
Leases	4.2	250.0	-	-	-
Proposed Authorised Limit		**14,809.0**	**16,422.0**	**16,350.0**	**16,787.8**

4.10 **Reconciliation of Changes in External Debt Limits for the Group for 2023/24 to 2025/26**

Group, £m	Reference	2023/24	2024/25	2025/26	2026/27
Previously approved Operational Boundary for Gross External Debt		**15,504.9**	**15,820.0**	**16,196.9**	**n/a**
Re-phasing of provisions and liabilities	4.1(a), 4.3	-	(18.9)	(76.4)	n/a
Addition of PFI	4.1(b), 4.3	-	1,373.1	1,363.2	n/a

Net new borrowings	4.1(c), 4.3	-	(24.6)	(537.6)	n/a
Changes to Places RCF drawdown	4.1(d), 4.3	-	(43.5)	28.6	n/a
Increase/(decrease)		-	1,286.1	777.8	n/a
Proposed Operational Boundary for Gross External Debt		**15,504.9**	**17,106.1**	**16,974.7**	**17,571.4**
Headroom	4.6	-	1,200.0	1,200.0	1,200.0
Short-term refinancing of borrowings	4.6	500.0	-	-	-
Additional contingent borrowing	4.6	500.0	-	-	-
Leases	4.2	500.0	-	-	-
Proposed Authorised Limit		**17,004.9**	**18,306.1**	**18,174.7**	**18,771.4**

5 Treasury Management Indicators

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

5.2 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;

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

(c) a debt liability benchmark indicator to support risk management of the capital financing requirement.

5.3 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.

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

5.5 The liability benchmark is a comparison of gross external debt with the gross loans requirement. If gross external debt exceeds the gross loan requirement, this potentially indicates that excess cash is required to be invested. Being under the benchmark indicates a potential borrowing requirement.

6 TfL Policy Statement on Minimum Revenue Provision

6.1 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 (MRP) which it considers to be ‘prudent’ in relation to debt service obligations, and having given regard to the Statutory Guidance on Minimum Revenue Provision. Several clarifications have been added to the statement below to further explain certain elements of the provision. There have been no changes to how MRP is calculated.

6.2 While statutory guidance suggests four potential methods for calculating MRP, it also allows for other methods and approaches to be used. Since 2016/17, TfL has used one of these approaches while also considering the principles inherent in the statutory guidance on MRP, to make an annual provision in the Corporation, that aims to build up a reserve on the Balance Sheet over the average useful economic life (UEL) of the assets funded by borrowings in the Corporation, such that, at the end of that UEL, 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. The provision is also measured against the weighted average lifetime of TfL’s debt.

6.3 An MRP is effectively already made for borrowings passed down to the subsidiaries for capital purposes through TfL’s existing processes for funding those entities. Therefore, no additional MRP is provided for these borrowings passed down to subsidiaries.

6.4 Average UEL is used to measure the service potential of the assets that the borrowings have been used to fund. This is based on property, plant and equipment in the Corporation, excluding assets under construction.

6.5 For right of use assets the MRP charge is equal to the depreciation charged against the associated assets. Depreciation has been used rather than the movement in lease liability as this is more reflective of the consumption of the service potential given movements in lease liability are impacted by payment profiles e.g. bullet rental arrangements.

6.6 For PFI assets the useful economic life of the asset is used to calculate the MRP charge. In most cases the UEL of the asset will exceed the duration of the PFI arrangement, which is permitted by the guidance as the UELs are determined by appropriately qualified individuals.

6.7 Changes to the MRP statutory guidance are currently being proposed by the Department for Levelling Up, Housing & Communities to better enforce the duty of local authorities to make a prudent MRP. The matters being consulted on do not have an impact on TfL’s current methodology which continues to be prudent and in line with the requirements of the Code.

6.8 Given current levels of debt (including finance leases) retained within the Corporation, the MRP is anticipated to be approximately £54m for 2024/25 and increasing to approximately £64m from 2025/26 as a result of the Silvertown Tunnel PFI contract. This 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: TfL Prudential Indicators for 2024/25 to 2026/27
Appendix 2: Treasury Management Indicators
Appendix 3: Definitions for Prudential Indicators, Treasury Management Indicators and Affordability metrics
A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

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Appendix 1

PRUDENTIAL INDICATORS 2024/25 to 2026/27

Operational Boundary for External Debt*	Approved Indicator 2023 - 24 £millions	Proposed Indicator 2024 - 25 £millions	Proposed Indicator 2025 - 26 £millions	Proposed Indicator 2026 - 27 £millions
TfL Corporation				
Borrowing	13,108.5	13,454.0	13,436.0	13,932.0
PFI and long term liabilities	450.5	1,768.0	1,714.0	1,655.5
Operational Boundary for External Debt, TfL Corporation	**13,559.0**	**15,222.0**	**15,150.0**	**15,587.5**
TfL Group				
Borrowing	13,113.5	13,457.4	13,511.5	14,214.2
PFI and long term liabilities	2,391.4	3,648.7	3,463.2	3,357.2
Operational Boundary for External Debt, TfL Group	**15,504.9**	**17,106.1**	**16,974.7**	**17,571.4**
Authorised Limit for External Debt**				
TfL Corporation				
Borrowing	14,108.5	14,654.0	14,636.0	15,132.0
PFI and long term liabilities	700.5	1,768.0	1,714.0	1,655.5
Authorised Limit in for External Debt, TfL Corporation	**14,809.0**	**16,422.0**	**16,350.0**	**16,787.5**
TfL Group				
Borrowing	14,113.5	14,657.4	14,711.5	15,414.2
PFI and long term liabilities	2,891.4	3,648.7	3,463.2	3,357.2
Authorised Limit for External Debt, TfL Group	**17,004.9**	**18,306.1**	**18,174.7**	**18,771.4**
Capital Expenditure (Annual)				
TfL Corporation	2,060.6	2,910.9	1,528.7	1,862.4
TfL Group	2,909.8	3,709.9	2,310.0	1,925.9
Capital Financing Requirement (Cumulative)***				
TfL Corporation	14,325.3	14,837.8	14,772.3	15,217.4
Total TfL Group	17,277.1	17,260.6	17,477.8	17,600.4

* 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.

Ratio of financing costs to net revenue stream	Approved Indicator 2023 - 24	Proposed Indicator 2024 - 25	Proposed Indicator 2025 - 26	Proposed Indicator 2026 - 27
TfL Corporation	15.7%	18.1%	27.0%	30.7%
TfL Group	16.9%	19.6%	15.9%	16.2%
Ratio of net income from investments to net revenue stream				
TfL Group	0.2%	0.3%	0.3%	0.4%

Gross Debt and the Capital Financing Requirement*	TfL Group £'m	TfL Corporation £'m
Operational Boundary (Gross Debt) at 31 March 2025	17,106.1	15,222.0
Adjusted Cumulative Capital Financing Requirement at 31 March 2027**	17,950.1	15,344.9

*The Code stipulates that Gross Debt at 31 March 2025 should not generally exceed the Capital Financing Requirement at 31 March 2027.

**The Code states the Cumulative Capital Financing Requirement should be based on the actual from the preceding year plus estimates of any additional capital financing requirement for the current and next two years. If in any of these years, there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement used for comparison with gross external debt.

Appendix 2

TREASURY MANAGEMENT INDICATORS 2024/25 to 2026/27

Maturity Structure of Borrowing	**Budget 31 Mar 2024**	
	Upper	Lower
< 1year	20%	0%
1 year to < 2 years	10%	0%
2 years to <5 years	25%	0%
5 years to <10 years	40%	0%
10 years and above	80%	50%

Max Outstanding Principal invested >365 days The numbers in this table reflect the Core Contribution element of TfL's intended investment in London Treasury Limited Fund LP which does not have a fixed maturity date	**31 Mar 2025 £m**	**31 Mar 2026 £m**	**31 Mar 2027 £m**
Forward Financial Year 1	18.0	18.0	18.0
Forward Financial Year 2	18.0	18.0	18.0

Debt liability benchmark indicator	**31 Mar 2025 £m**	**31 Mar 2026 £m**	**31 Mar 2027 £m**
Loans CFR	13,747	13,738	14,376
Net loans requirement	12,117	12,108	12,746
Liability benchmark	13,490	13,485	14,109
Gross external debt	13,457	13,512	14,214
(Over)/under benchmark	**64**	**33**	**(26)**

Appendix 3

Definitions for Prudential Indicators, Treasury Management Indicators and Affordability metrics

Prudential Indicators

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 Business 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 comprises the Operational Boundary plus an element of headroom to allow for unexpected cashflow fluctuations, short-term refinancing and other contingencies.

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 Prudential Code to ensure that the estimate for the CFR at the end of 2026 is not exceeded by gross debt budgeted at the end of 2024. 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.

6. **Ratio of net income from commercial and service investments to net revenue streams**

   Indicator expresses net income from commercial and service investments, other than treasury management investments, as a percentage of TfL's Revenue Grant and fare income plus or minus transfers to reserves.

Definition of Treasury Management Indicators

1. Debt Liability Benchmark Indicator

(a) Gross external debt is the authority's loan debt at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

(b) Net loans requirement: the authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

(c) Liability benchmark (or gross loans requirement) equals net loans requirement plus short-term liquidity allowance.

(d) Loans CFR excludes any part of the CFR related to other long-term liabilities rather than borrowing.

Definitions for affordability metrics

1. Net debt to operating surplus before financing

This metric considers the level of our forecast net debt compared to our operating surplus before financing costs. Net debt is the level of borrowing and other financing liabilities less cash balances. The operating surplus is calculated by deducting operating costs (including renewals) from operating income.

2. Net debt to operating surplus before financing and renewals

This metric considers the level of our forecast net debt compared to our operating surplus before financing costs and renewals. Net debt is the level of borrowing and other financing liabilities less cash balances. The operating surplus is calculated by taking operating costs (excluding renewals) from operating income.

3. Debt service cover ratio

The debt service cover ratio calculates how many times our operating surplus before financing costs and capital renewals covers our debt service obligations.

4. Interest cover ratio

The interest cover ratio calculates how many times our operating surplus before financing costs and capital renewals covers the interest payments due on our borrowings.

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