TfL submission to the GLA Budget

TfL Board

8 December 2021

Section 1

2021/22 performance

1 April 2021- 13 November 2021

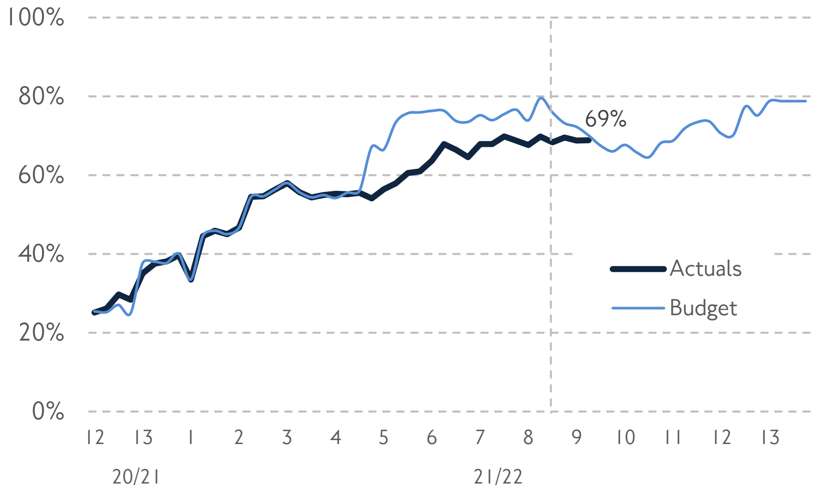
Headlines

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

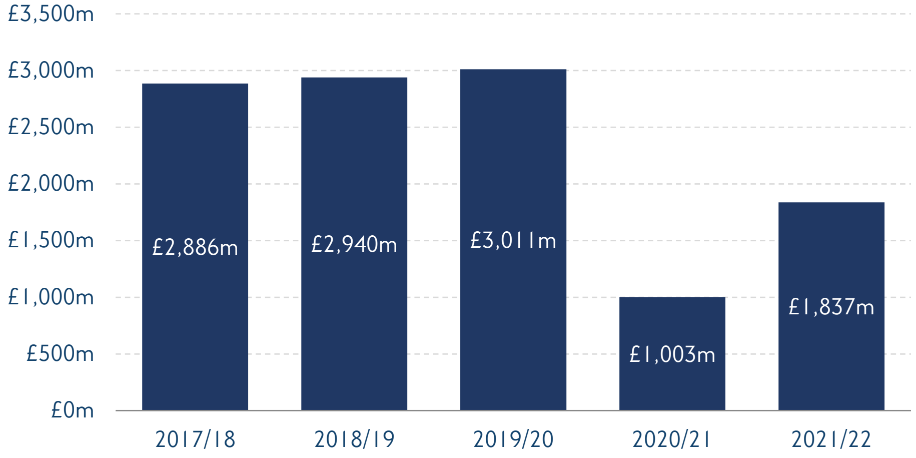
Cash balances are in line with Budget following the 1 June funding settlement with Government.

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

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

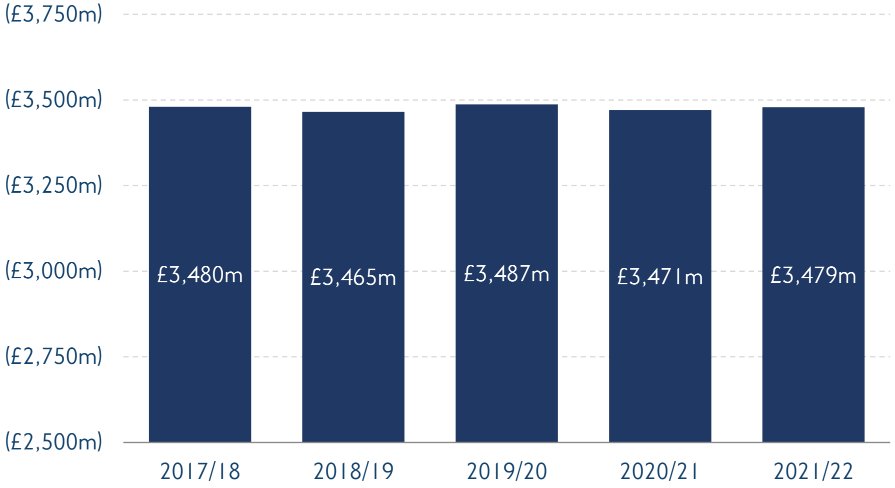


Passenger income up on last year, but £171m lower than Budget. Year-to-date income approximately 40% lower than pre-pandemic levels



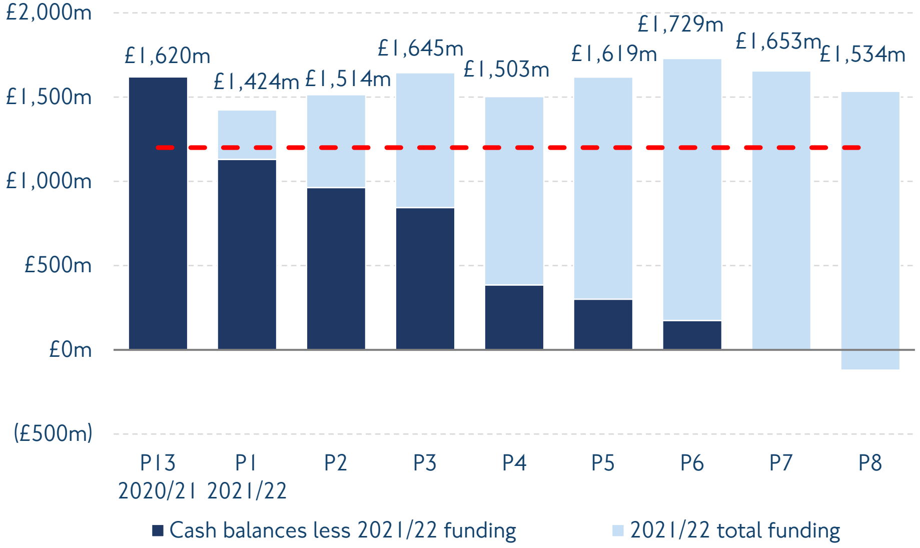
Individual years show year-to-date passenger income to end of Period 8.

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



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

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



Passenger journeys

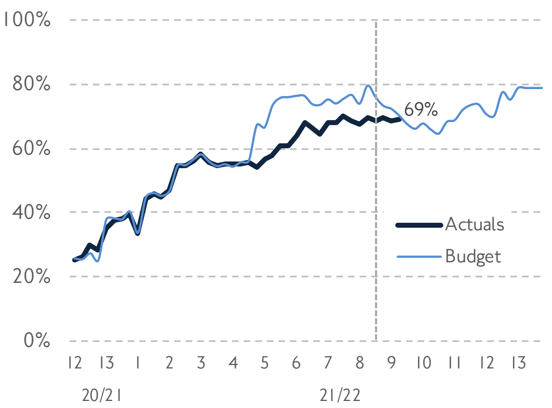
At the end of Period 8, passenger journeys were 69% of the pre-pandemic levels, compared to a target of 75%.

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

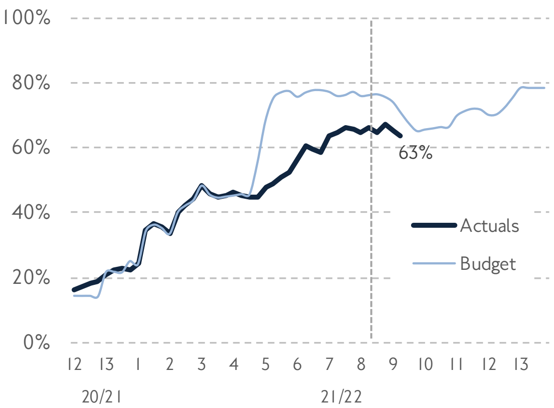
We had budgeted for a decline in journeys from the start of November, based on possible winter COVID outbreak. We are not yet seeing any significant impacts across the network, but with the re-introduction of face masks and emergence of the Omicron variant, the outlook remains uncertain.

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

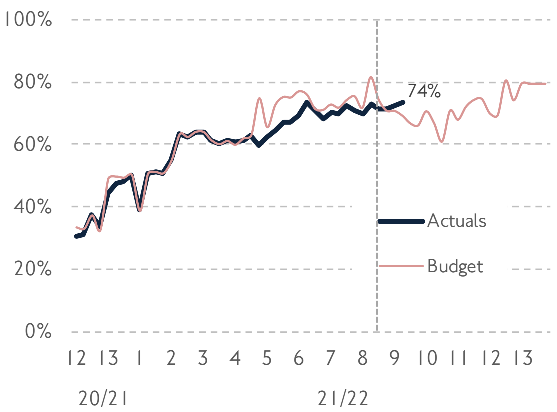
TfL	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	69%	75%	P	222	-22
			Y	1462	-120



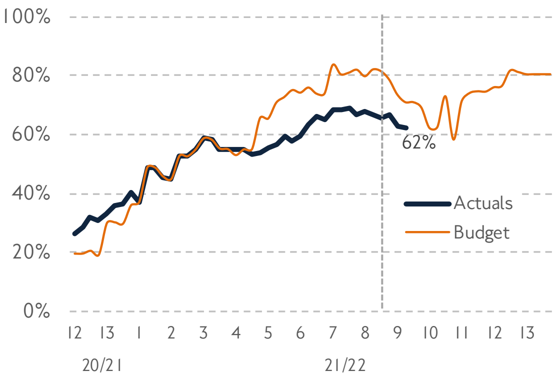
LU	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	66%	76%	P	74	-12
			Y	431	-70



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



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

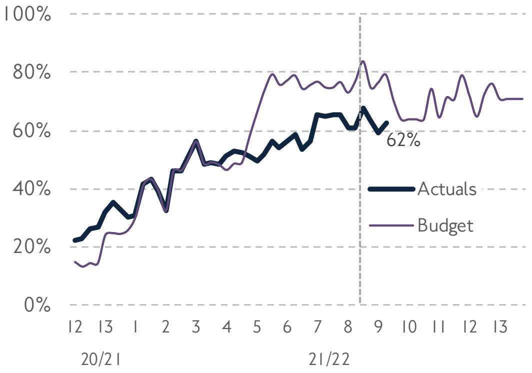


LO	% vs Pre Covid Period	budget		Absolute m	Var to Bud m
	64%	84%	P	10	-3
			Y	66	-10

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

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

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



Operating account

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

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

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

Operating account

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

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

Capital account

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

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

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

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

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

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

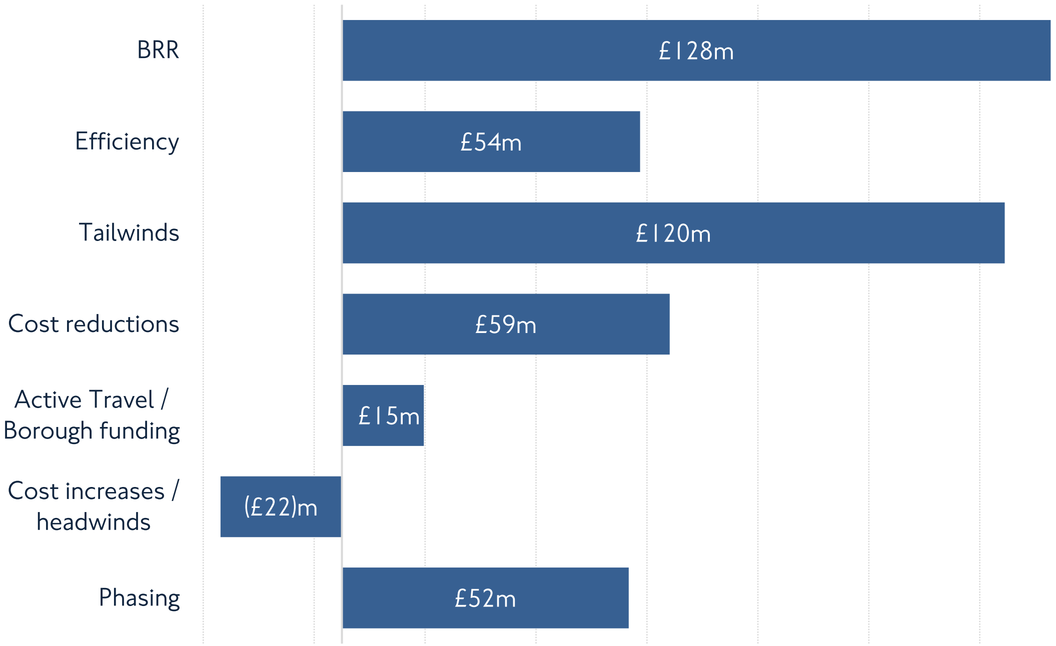
This draft GLA Budget submission shows £375m of savings in 2021/22. TfL has achieved £404m in the year-to-date (excluding £50m group contingency), which is now expected to reduce, mainly as a result of lower than expected ULEZ expansion income.

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

Savings summary

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

Year to date savings by type:



BRR: Business Rates Retention income

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

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

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

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

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

Section 2

The challenge

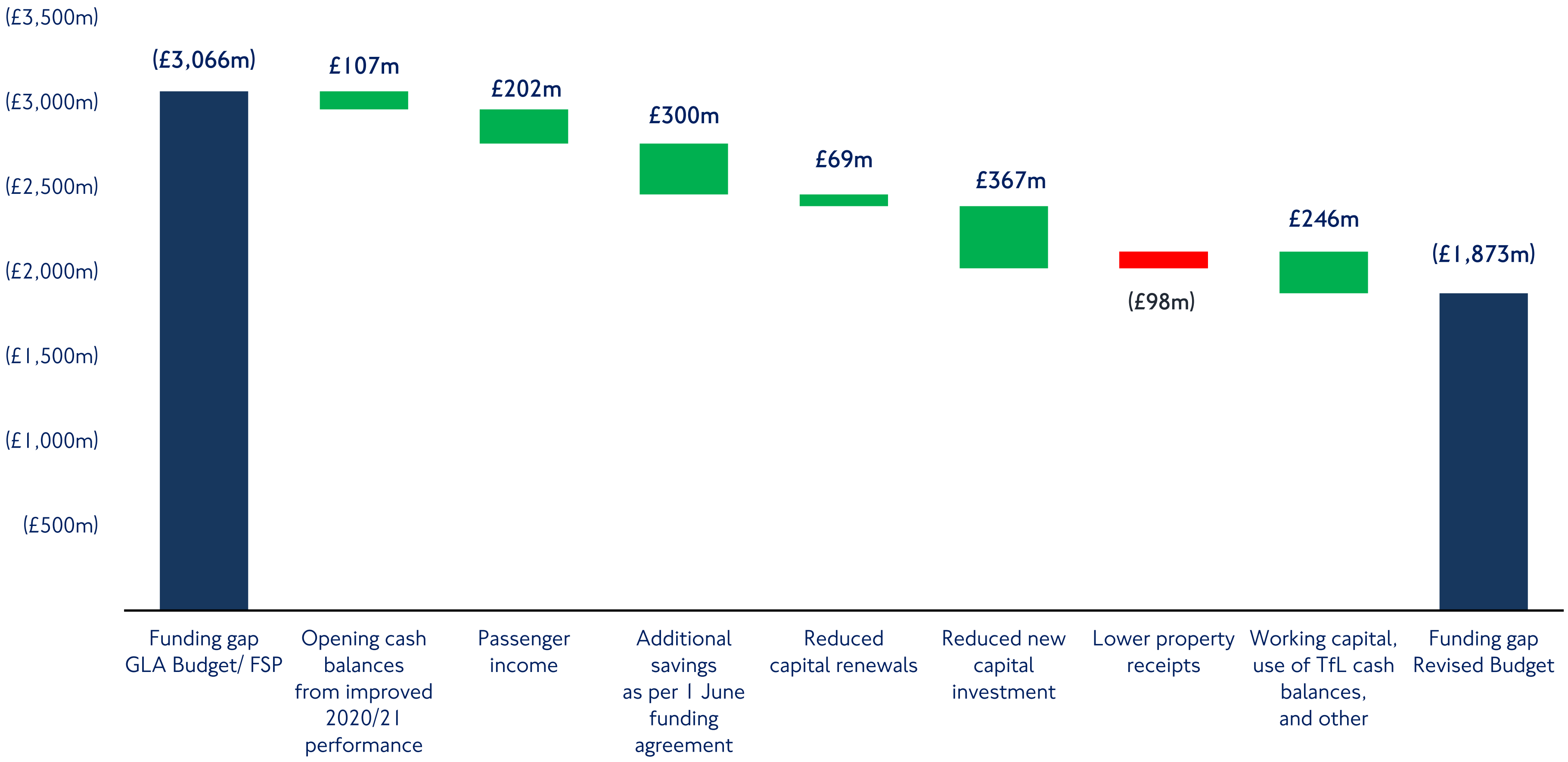
Funding gap since last year

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

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

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

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

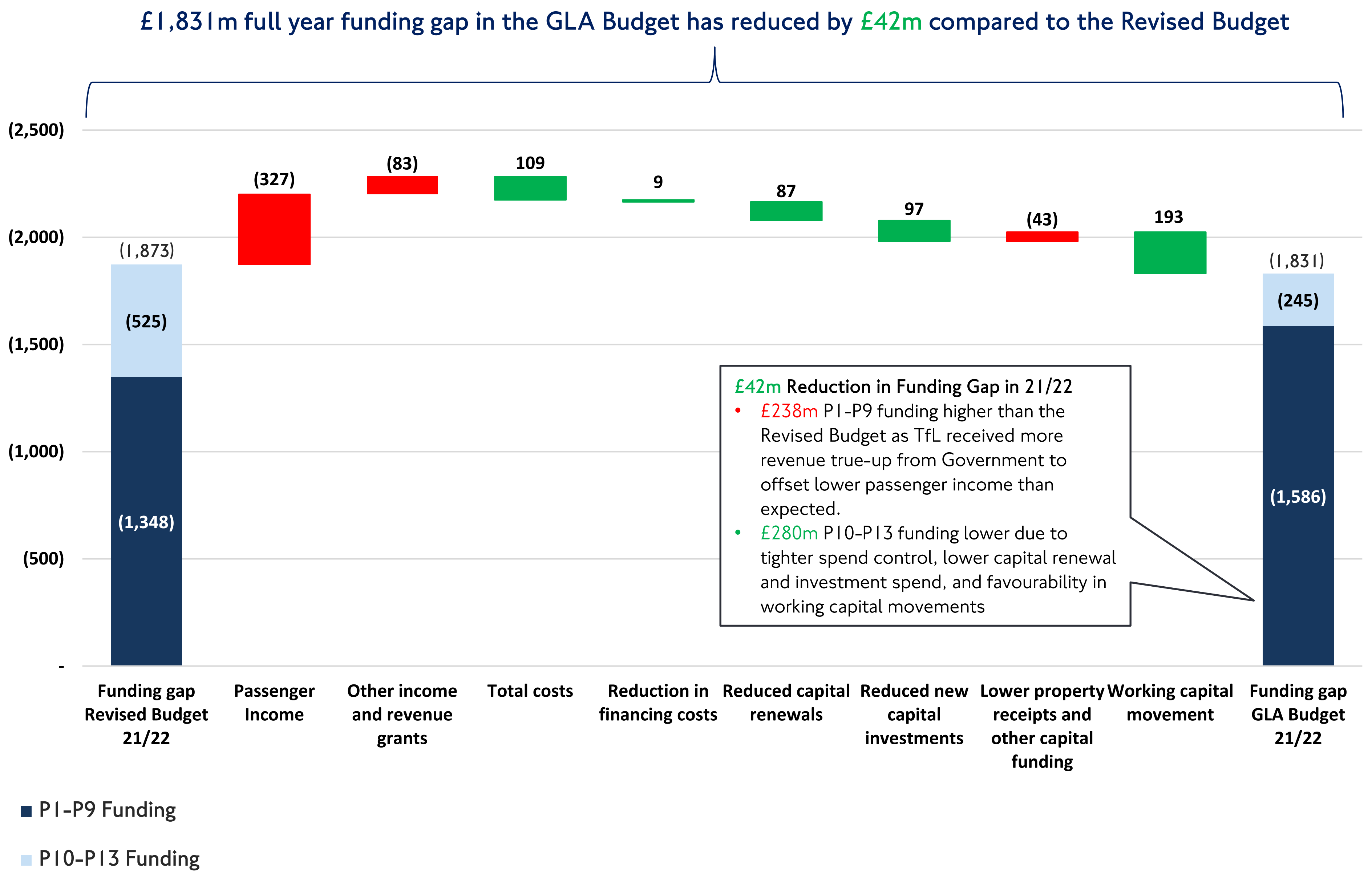


Funding gap in the GLA Budget

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

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

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

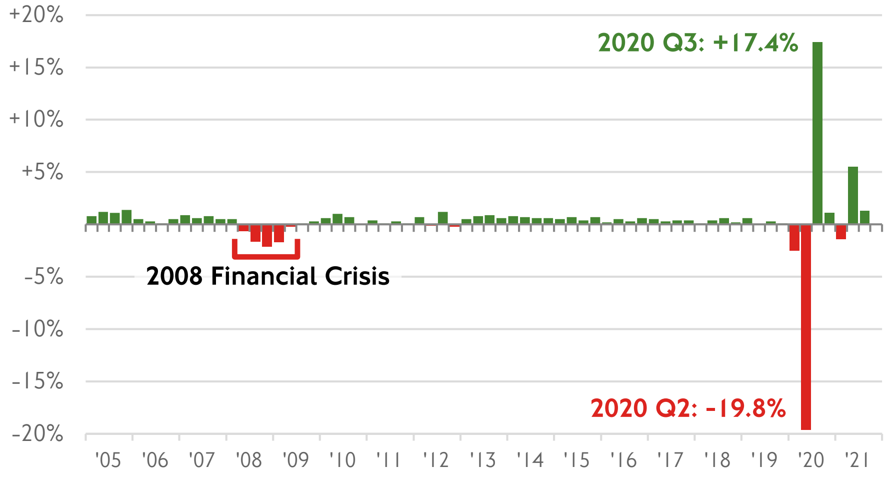


The pandemic has had a significant economic impact and the trajectory of economic recovery is uncertain

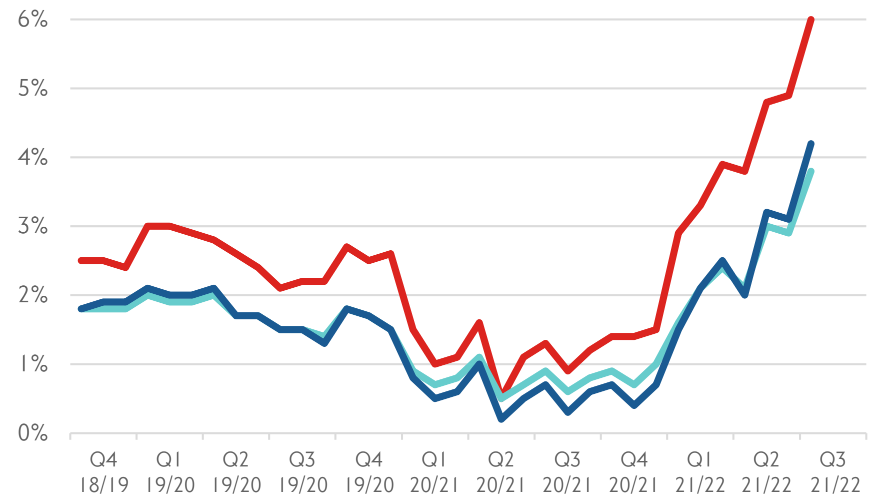
Both the price of energy and the rate of inflation have increased significantly in 2021, exerting significant pressure on our cost base and causing the outlook for future fiscal and monetary policy to be increasingly uncertain.

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

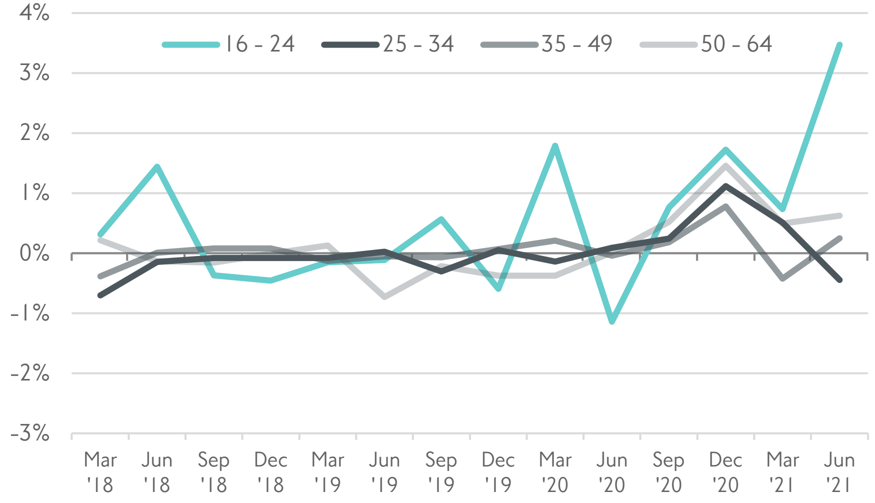
GDP Forecast



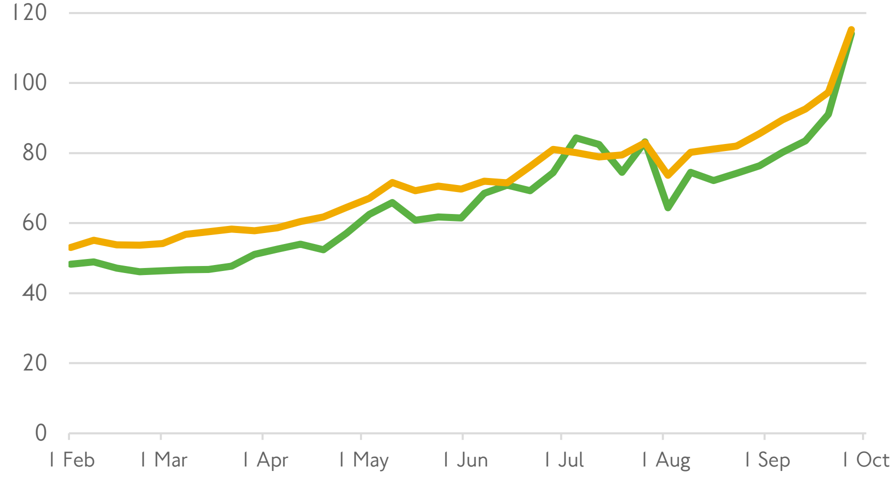
Inflation



Youth Unemployment



Energy Prices

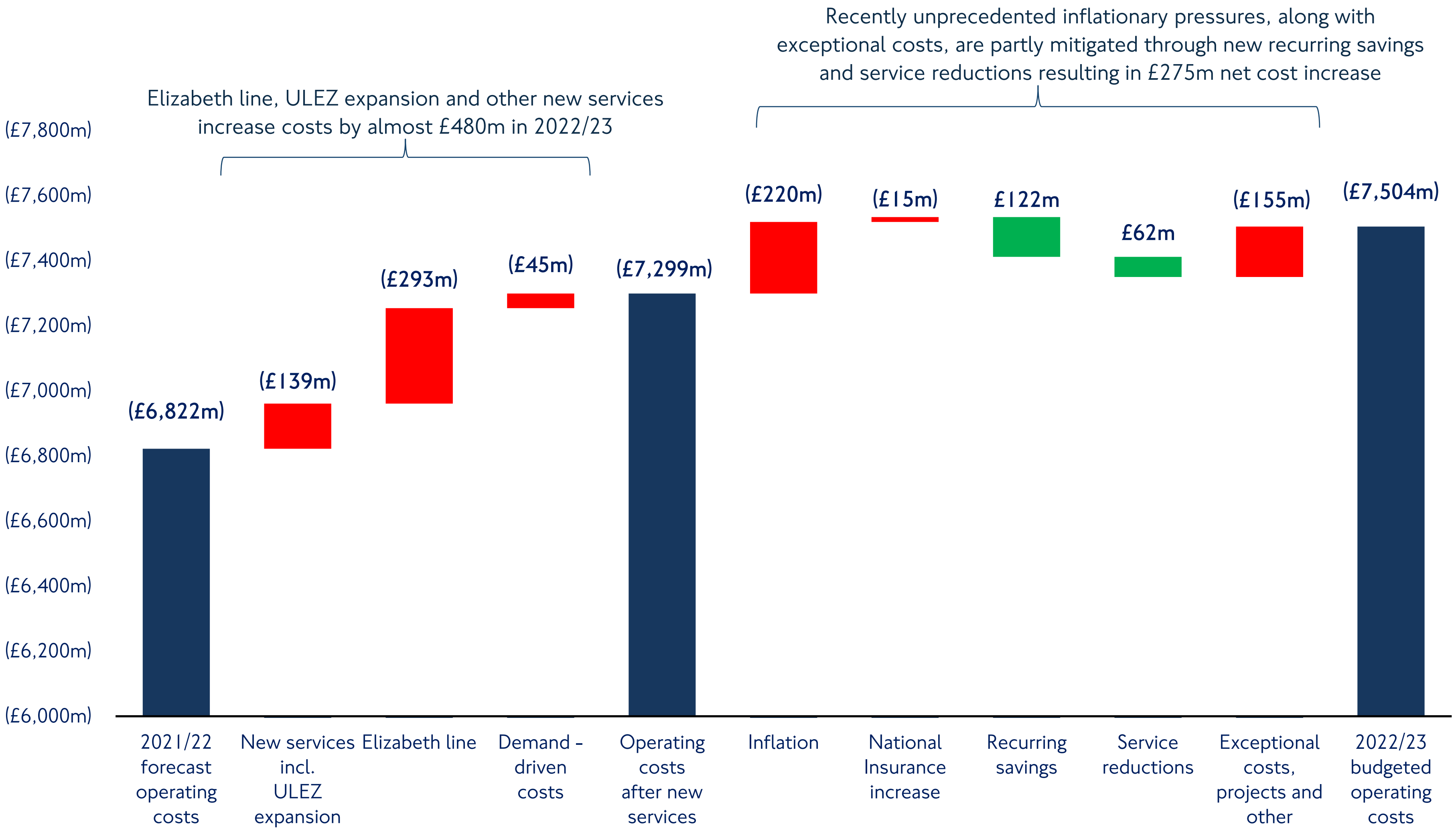


Operating cost pressures

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

We continue to make savings through our long-term savings programme, which has already removed almost £1.1bn (before the impacts of inflation) from our cost base since 2016/17. However, operating cost savings options are increasingly limited and available options will take time to deliver. In 2022/23, we are therefore proposing to reduce some services, in order to reduce costs further.

Year-on-year operating costs pressures



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

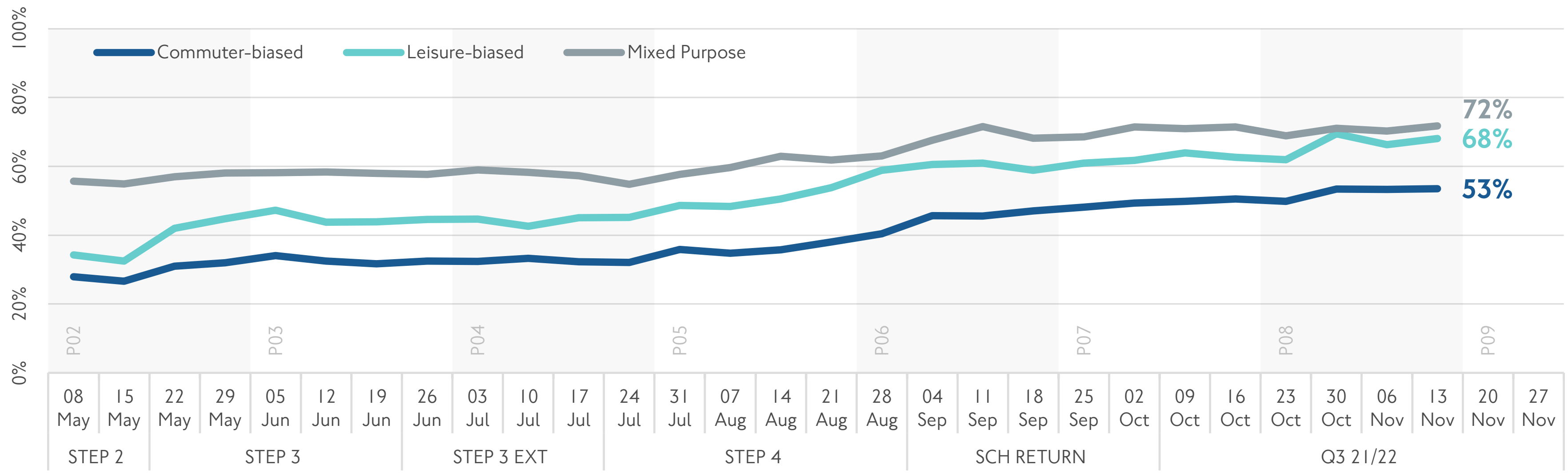
Moving to Step 3 and Step 4 saw the anticipated increases in Leisure-based LU journeys. The return of pupils to schools in September had the largest impact on commuter-based journeys.

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

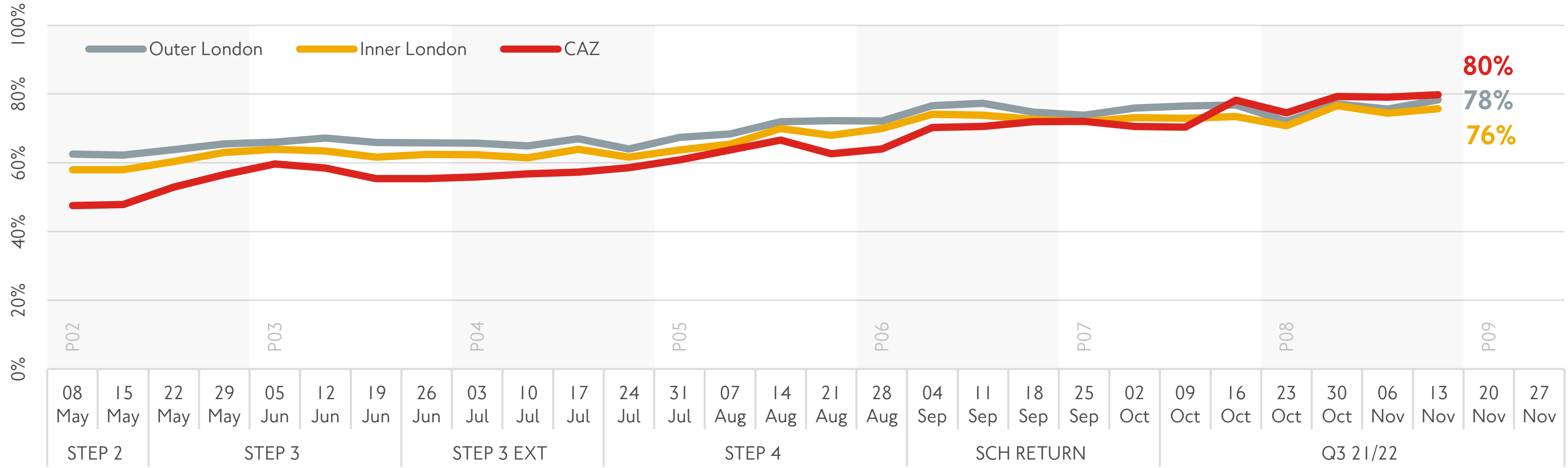
Forecast modelling assumes a suppression of demand as cold and flu season takes hold. The emergence of the Omicron variant may worsen this short-term impact.

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

LU Demand Recovery



Bus Demand Recovery



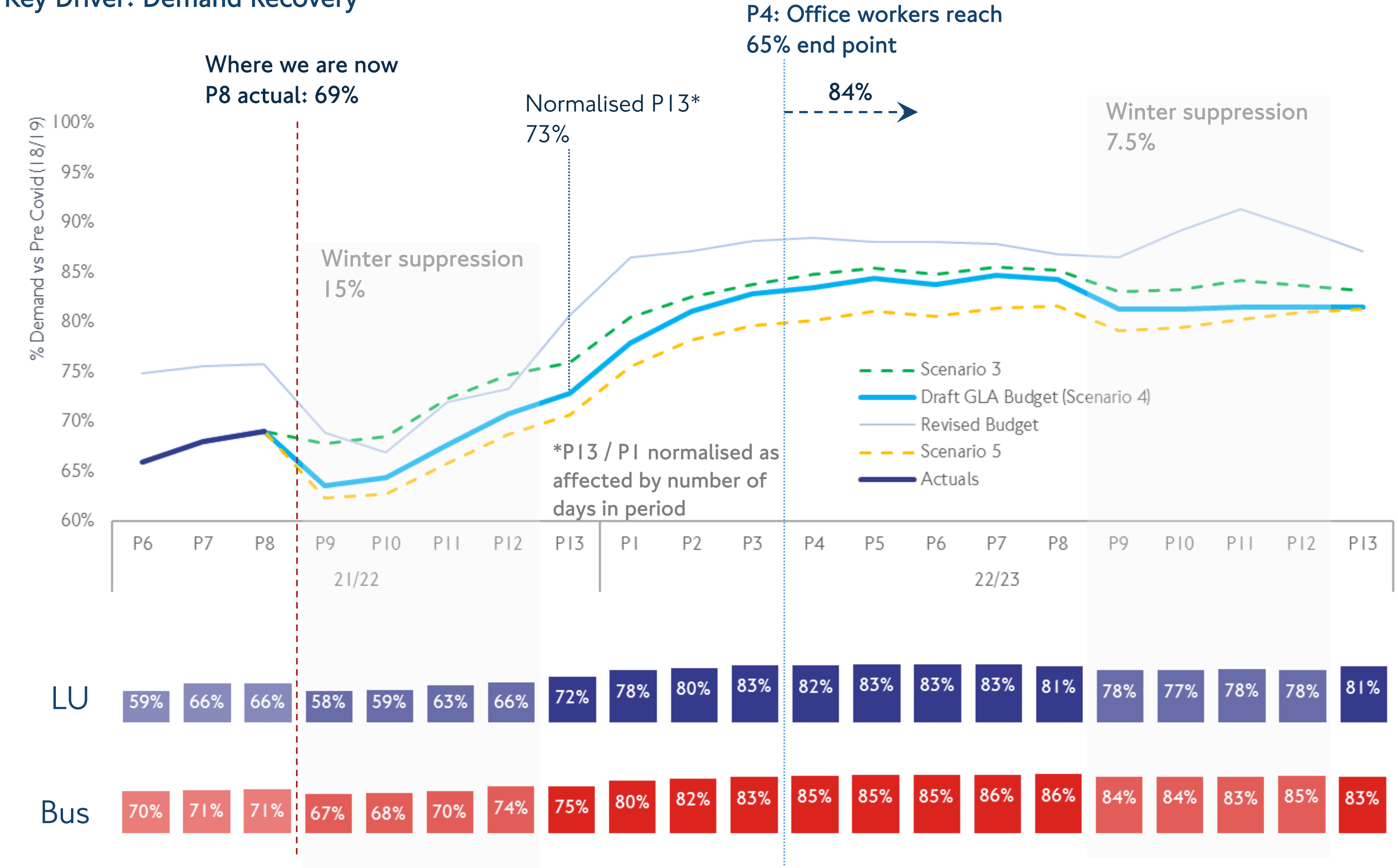
Demand recovery remains uncertain and as we are so dependent on fares revenue, this significantly impacts our financial forecasts

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

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

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

Key Driver: Demand Recovery



These additional pressures materialising have increased the funding gap

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

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

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

Section 3

TfL submission to the GLA Budget

Key assumptions in the draft GLA Budget submission

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

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

Rail combined (LU, EL & Rail)

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

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

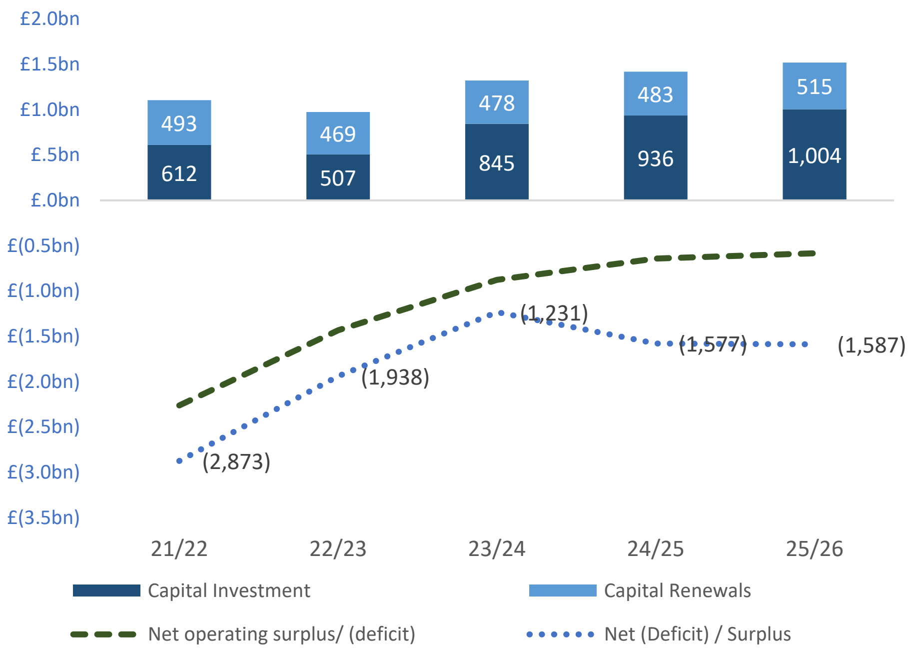
Other Rail modes cannot breakeven before renewals.

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

Draft GLA Budget submission

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

Funding requirements for capital programme



Key assumptions

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

Impact of Managed Decline:

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

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

Renewals:

£469m (Revised Budget £536m)

Enhancement:

£507m (Revised Budget £803m)

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

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

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

Streets, Buses and Other Surface operations

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

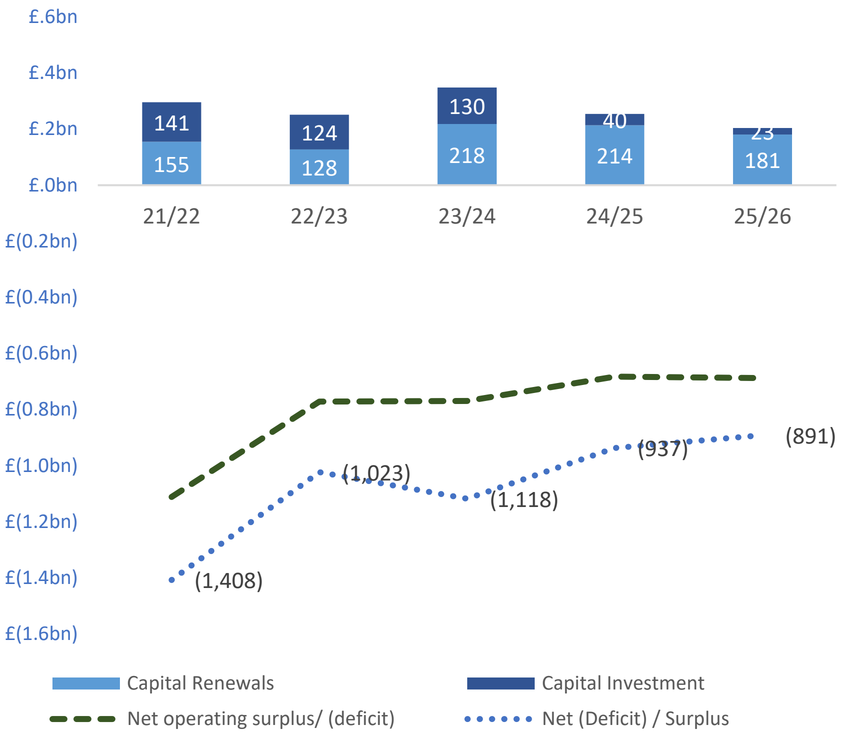
The expansion of ULEZ initially produces a significant increase in net income but as compliance increases revenue is expected to fall.

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

Draft GLA Budget submission

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

Funding requirements for capital programme



Key assumptions

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

Impact of managed decline

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

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

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

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

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

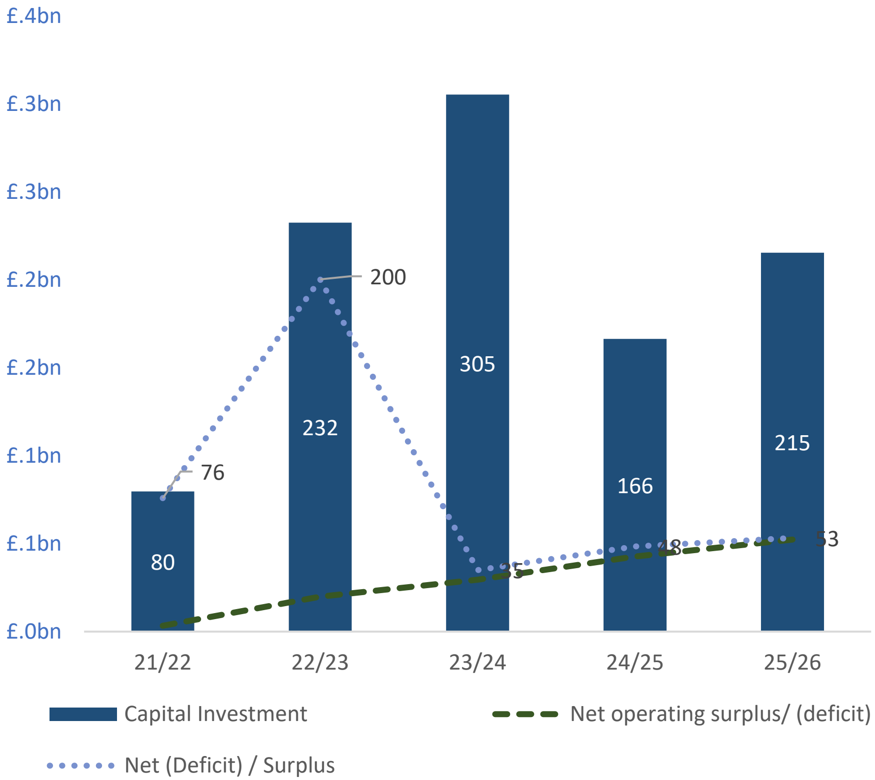
Housing, Property Development and Commercial Revenue

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

Draft GLA Budget submission

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

Funding requirements for capital programme



Key points:

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

Housing Delivery Plan

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

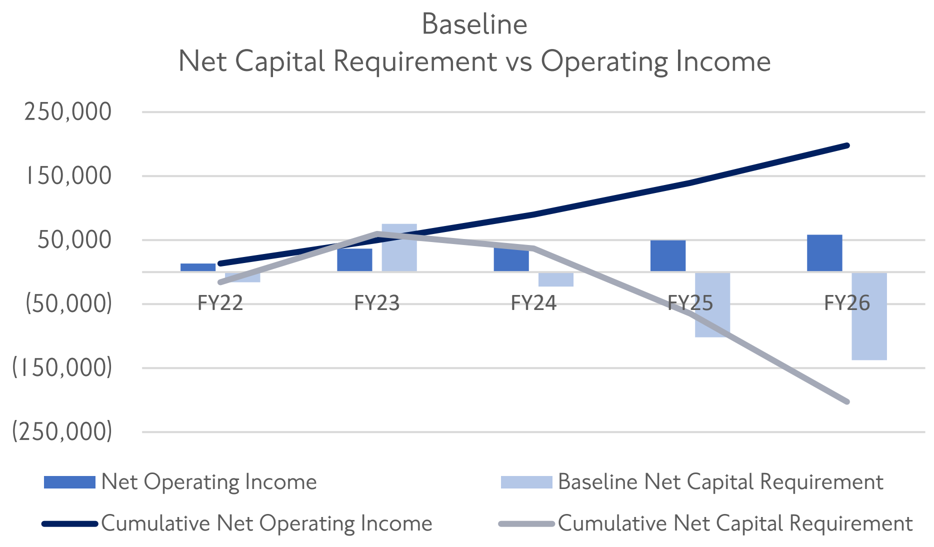
Recent activity:

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

Key outcomes by plan:

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

* Excludes cost of debt



Key points:

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

Section 4

Group summary

Our view of total expenditure

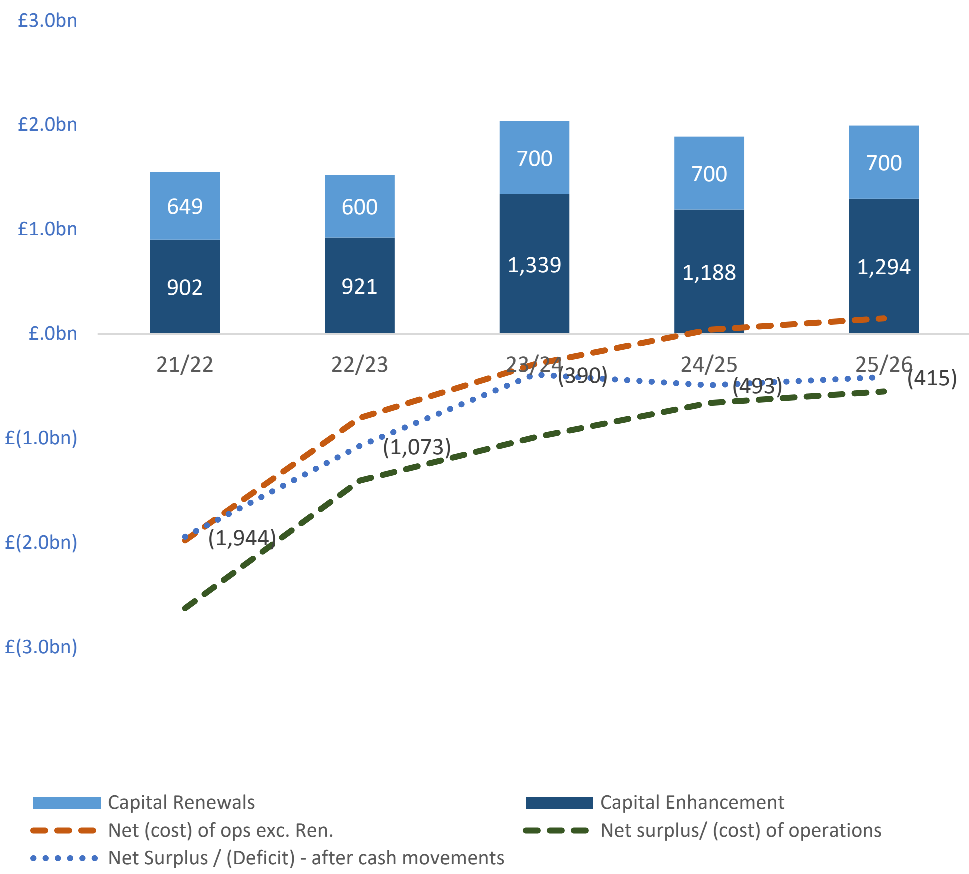
For 2021/22, we have secured £1.58bn of funding for 2021/22 with a further £0.25bn yet to be agreed.

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

Draft GLA Budget submission

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

Funding requirements for capital programme



Key points:

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

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

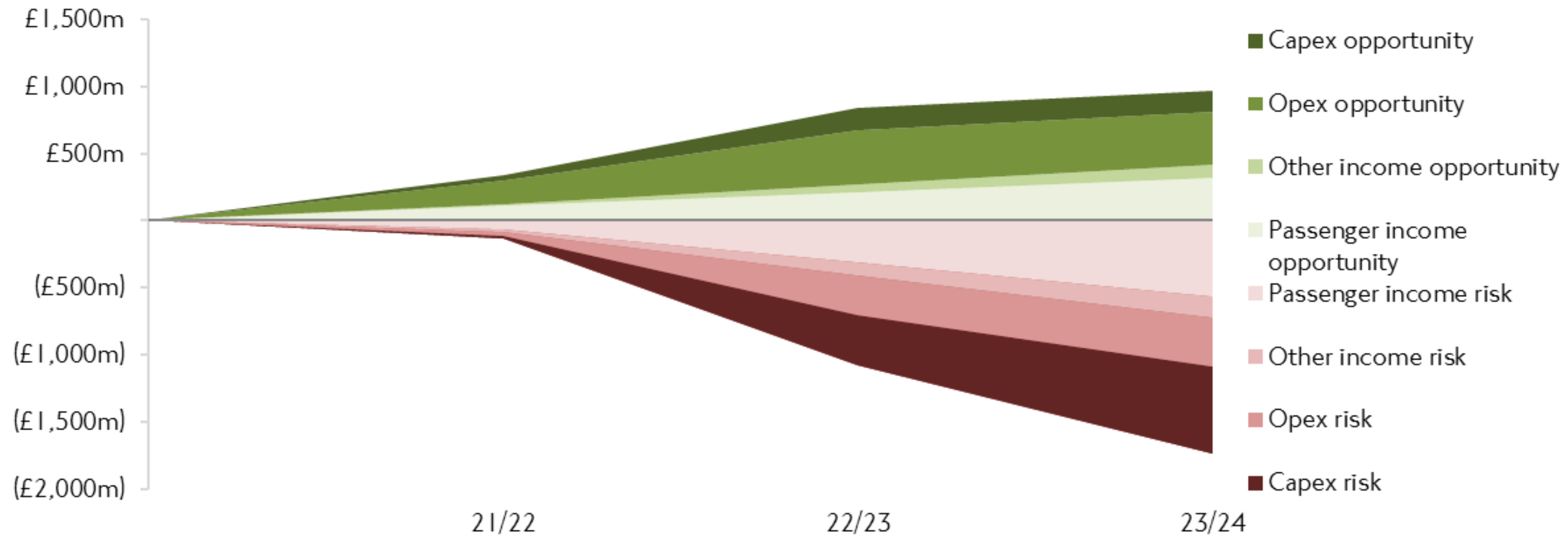
£bn	22/23	23/24	24/25	25/26
CSR Funding gap (with no additional London income)	**(1.2)**	**(2.2)**	**(2.0)**	
Move to 'Financially Constrained' capital scenario	-	0.8	0.5	
Financially Constrained Funding gap (with no additional London / Government income)	**(1.2)**	**(1.4)**	**(1.5)**	
Recent changes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

Risks and Opportunities

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

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

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



Income:

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

Operating costs:

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

Capital investment:

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

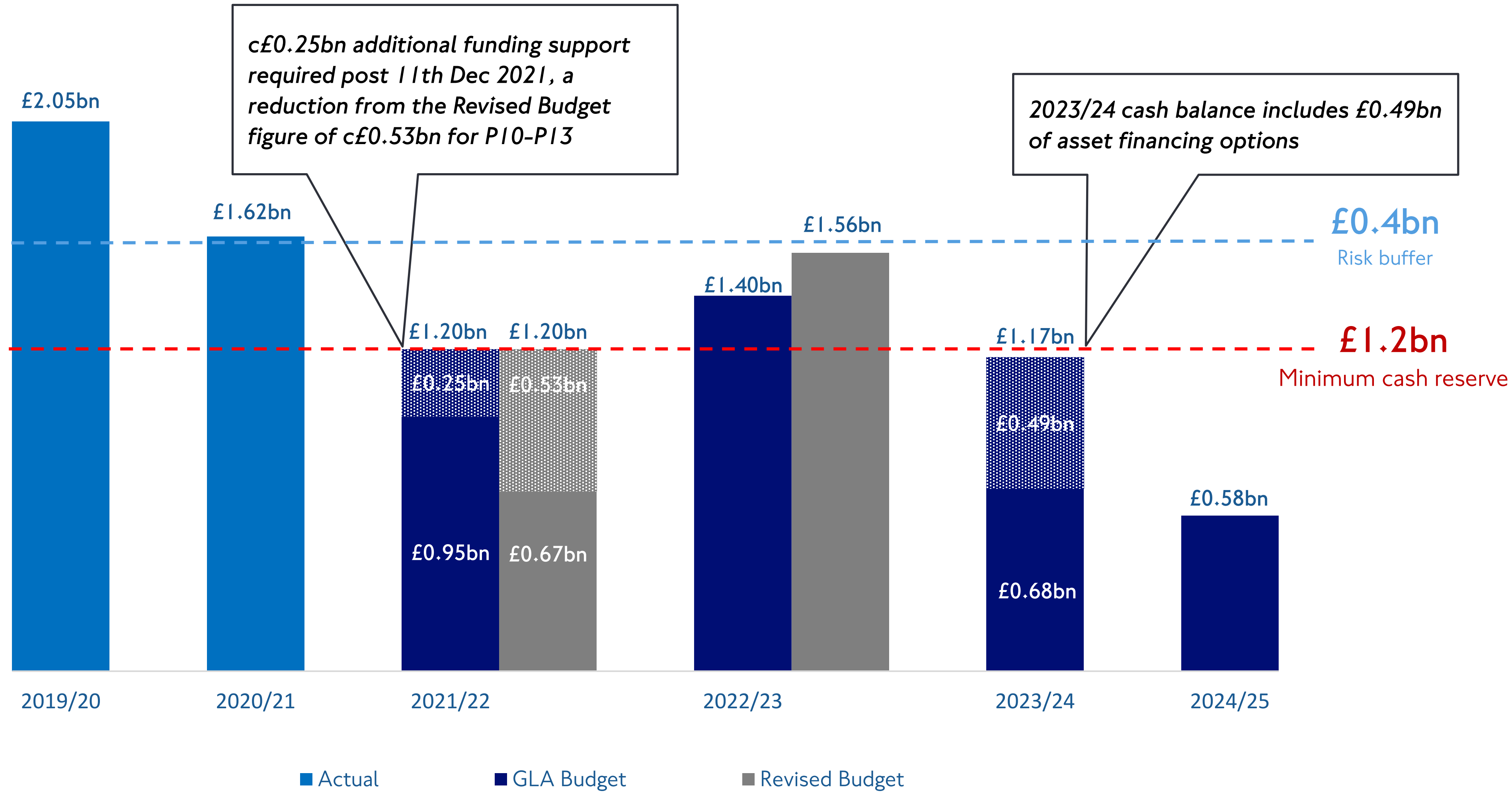
In the medium term, we need to maintain £1.2bn minimum cash reserves

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

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

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

TfL Cash balance (excluding Crossrail account)



Section 5

Closing the funding gap

Closing the TfL funding gap

TfL are committed to achieving financial sustainability by April 2023.

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

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

Recurring funding gap

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

FSP January 2021: Decarbonise by 2030

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

2022/23 GLA budget: Managed decline

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

New Income Sources review

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

Section 6

Capital Strategy

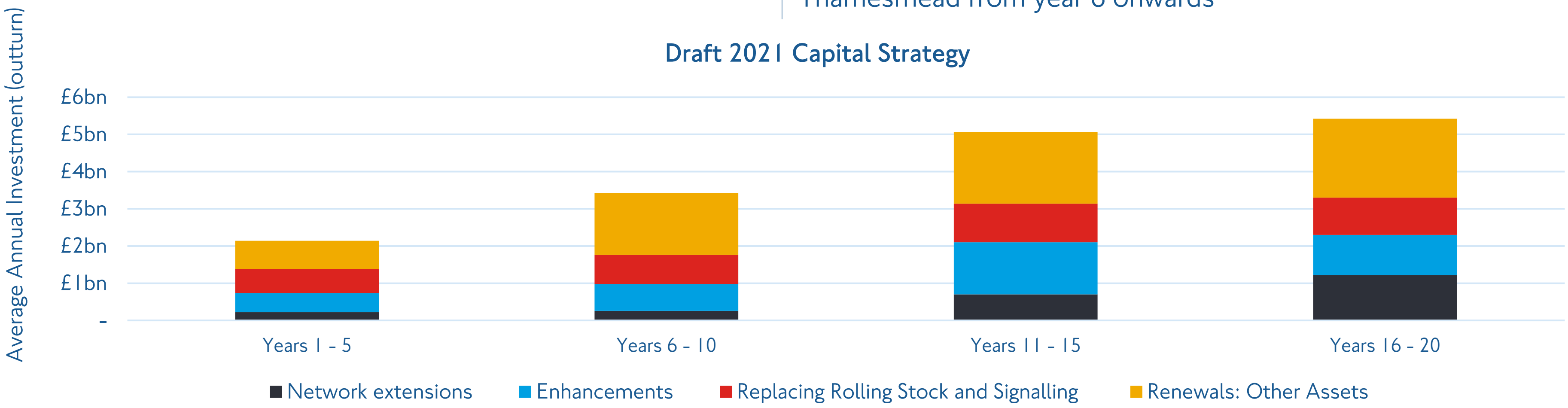
Our 2021 Capital Strategy

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

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

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

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



Appendix

Financial tables

TfL Group: Operating Account

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

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

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

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

Passenger income

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

Other income

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

Operating costs

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

Capital renewals

- Reduction mainly owing to funding uncertainty and deliverability

TfL Group: Capital Account

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

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

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

Enhancements

- Reductions reflect the ‘Managed Decline’ scenario

Capital Funding

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

Crossrail

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