TfL Budget Update

TfL Board
2 February 2022

At the Board in December, we described how even with the mitigating actions including dropping to Managed Decline, a funding gap remained

£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)**
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)**

The funding agreement requires specific proposals to raise additional revenue using the Mayor's and TfL's existing powers to help achieve financial sustainability. The current proposals achieve a balanced budget but do not progress desired outcomes on decarbonisation, active travel, step free access and other important programmes.

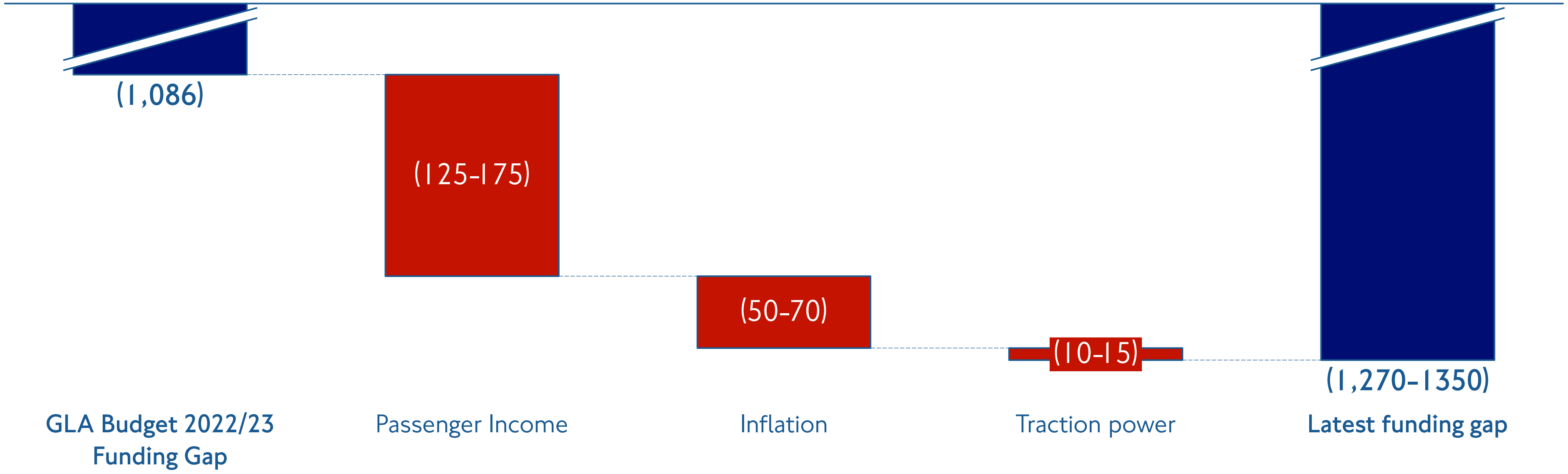
Subject to a commitment from Government on the provision of ongoing additional capital funding, the Mayor has set out plans to progress the following options*

*All measures will be subject to appropriate consultation, impact assessment and decision-making processes before they are implemented.

£m	22/23	23/24	24/25
Funding gap before new revenue sources	**(1,100)**	**(390)**	**(493)**
Recent changes included in Mayor's draft consultation budget:			
Modifications to fares structure and ticketing	14	61	102
Council tax	-	123	187
GLA grant to TfL	-	61	-
Emissions based road user charging options	-	75	300
Funding gap after new revenue sources	**(1,086)**	**(70)**	**96**

- **Modifications to fares structure and ticketing:**
  - the introduction of an all day peak fare on the Piccadilly line between Zone 1 stations and Heathrow;
  - increasing the Oyster card deposit to £7;
  - withdrawing from the Travelcard Agreement, which will require the support of HMG;
  - retaining the current restriction on use of 60+ concessionary fares to after 09:00 each day; and
  - increasing the age of eligibility for the 60+ concession on a phased basis (subject to consideration of the benefit being retained for those on low incomes).
- **Council tax & GLA grant to TfL** - proposal to increase the share of GLA council tax allocated to TfL in 2022-23 by £20 which is intended to generate £61.3 million of funding in 2022-23, subject to the government incorporating the Mayor's proposed increase in the council tax referendum principles for 2022-23 for the GLA. The initial amount raised in 2022-23, will be held in reserves by the GLA and passed to TfL in 2023-24 when it most needs it.
- **Emissions based road user charging options** – Given the urgency of the climate crisis and the damaging impact of toxic air pollution, the Mayor announced on 18 January that he was considering a number of policies that could be ready within the next few years to encourage Londoners and those who drive within London to shift from polluting cars to electric vehicles, public transport and sustainable active travel, such as walking and cycling. Possible approaches included extending or modifying ULEZ, or introducing a Greater London Boundary Charge. Subject to consultation and feasibility, the chosen scheme would be implemented by May 2024 and could raise at least £300m pa.

Since we compiled our GLA Budget in December, the emergence of the Omnicron variant coupled with soaring inflation and energy prices have added pressure to our finances, increasing the funding gap



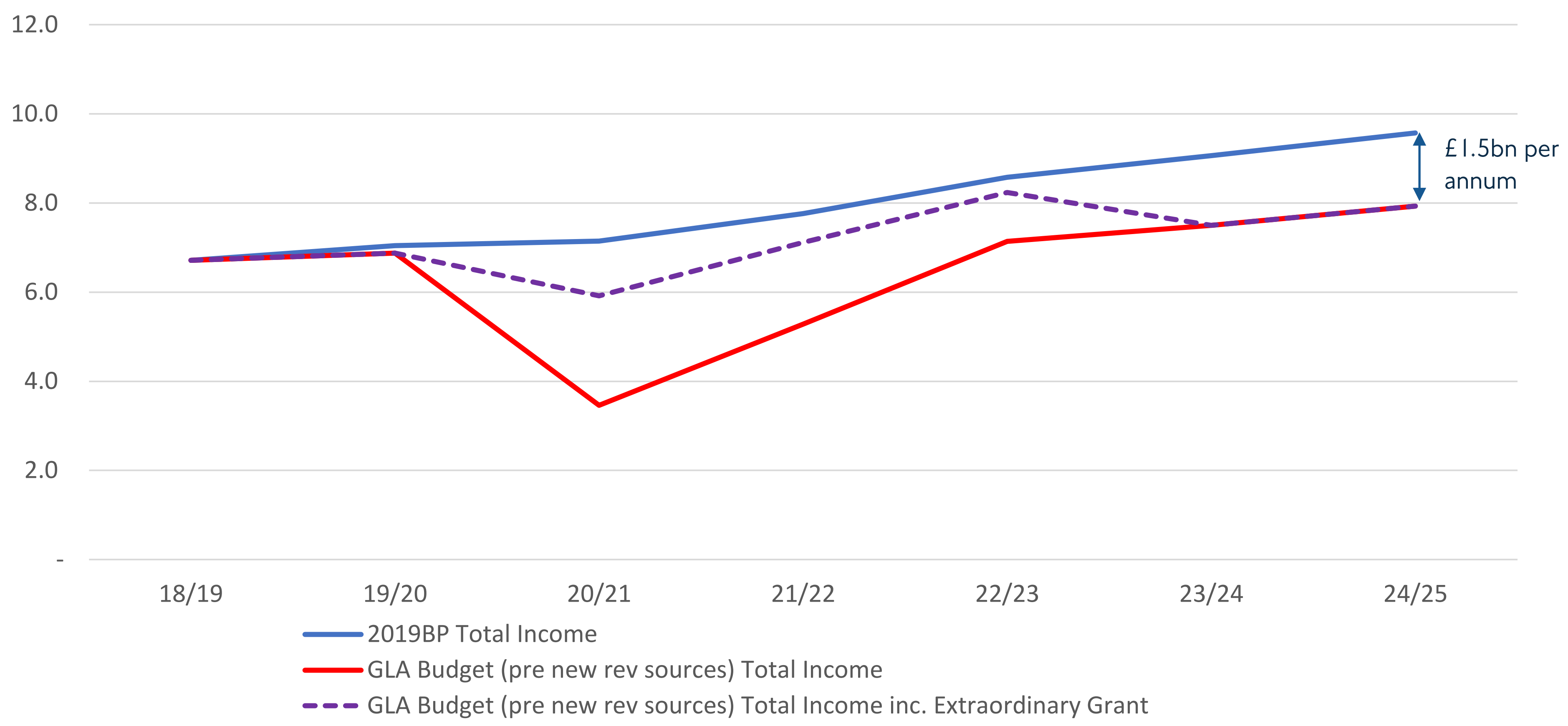
- **Passenger demand –** before 'Plan B' measures were introduced, we expected ridership to reach around 82% of pre-pandemic demand by the end of 21/22. As a result of the introduction of Plan B measures, demand fell to 62% of pre-pandemic levels, followed by further decline to 44% in Christmas week. Following the removal of working from home guidance, we are currently at c. 63% of pre-pandemic demand. We are closely monitoring the return to our network but we expect demand to be lower by the end of the year at 70-80% and into the start of 22/23 compared to our GLA Budget.

- **Inflation and energy prices –** forecasting forward has been made difficult by a rising inflationary environment. Our GLA Budget assumed an average RPI for 22/23 of 4% which equated to circa £220m of operating cost increases through wages, energy prices, materials and third-party contracts. However, our average RPI assumption is now at 5.7% and still rising, leading to an additional pressure of between £60-85m.

Our plan shows that revenue is expected to recover but will be £1.5bn per annum lower than our pre-COVID projections

Revenue projections in the 2019 Business Plan allowed us to confidently make long-term investment decisions including major projects such as the Piccadilly line trains.

However, post-COVID, our costs remain largely fixed, investment decisions are committed but revenue is severely impacted, pointing to a structural longer term issue.



- Revenue is forecast to get back to 2019/20 levels by 2022/23, however, this will be around £1.5bn lower than the 2019 BP forecast
- The 2019 BP sought to grow cash reserves to over £2bn. However, since the start of the pandemic, we have used £1bn of our own cash and therefore have no further resilience to shocks after Government supports ends in March 2023
- We constrained maintenance and renewals even before the pandemic in the 2019 BP, and now need to address the backlog of lack of investment

How investment levels have changed since pre-pandemic

Enhancements

Over 6 years (19/20 – 24/25), the GLA Budget is £1.4bn lower for enhancements than the 2019 Business Plan. Nearly all enhancements that remain are contractually committed. Work from prior years has been deferred into future years due to 'safe-stop' at the start of the pandemic and slower delivery since then. Prolongation and inflation impacts have increased costs.

£473m reduction in Healthy Streets. Paused / cancellation of all uncommitted schemes. Increase in Old Street costs (primarily due to COVID and scheme redesign)

£281m reduction in Surface Air Quality & Environment, Public Transport & Technology

- **Paused / cancelled:** Rotherhithe to Canary Wharf Ferry, Direct Vision Standard phase 2, Rail Devolution
- **Added:** ELL 20TPH (HIF funded – costs / income now shown separately), Deployable Enforcement Cameras

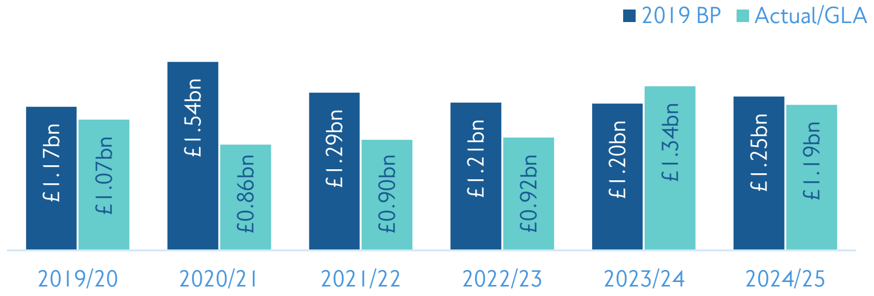
£435m reduction in Major Projects

- **Paused / cancelled:** Piccadilly line signalling upgrade (deferred out of plan); Jubilee line optimisation
- **Significant efficiencies:** Piccadilly Rolling Stock cost savings; Northern Line Extension risk reduction
- **Added:** DLR Royal Docks (HIF funded scheme – costs and income now shown separately)
- **Cost increases**: 4LM (COVID impact & software reliability challenges). Barking Riverside (COVID & unchartered utilities/redesign the piers)

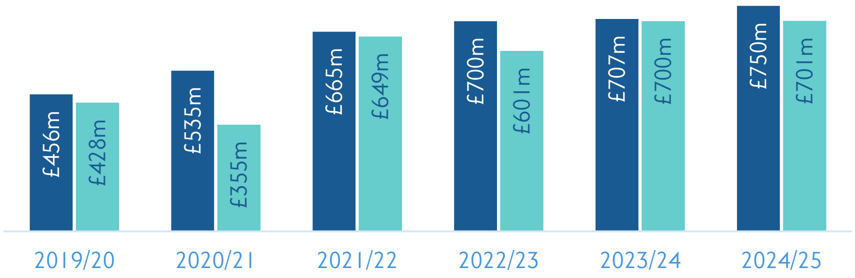
£188m reduction in other areas: removal of all uncommitted schemes (including step free access and Growth Fund)

Renewals: Renewal expenditure over 6 years is £0.4bn lower than 2019 Business Plan. While this is similar to the 2019 Business Plan, based on the impact of the pandemic and our understanding of asset condition this is now expected to be inadequate to maintain the condition of our assets. The 2019 Plan capped renewals due to affordability, acknowledging asset and engineering work was needed to determine if this was appropriate. Analysis has since determined that constraining to c.£700m of renewals is below the minimum required to keep the network safe and operable.

Enhancements: GLA Budget vs 2019 Plan



Renewals: GLA Budget vs 2019 Plan



Asset Outcomes: Summary

In all scenarios we have prioritised as far as possible maintaining the safety and operability of our existing transport network.

We summarise here the issues we would face in the three LTCP scenarios. Each major group of assets can be considered in much greater detail and we will continue to develop our Asset Strategies to ensure we prioritise the most pressing issues.

Managed Decline (reaches an 'Action Required' level of service)

A declining network with ageing assets that will fail more regularly. Significantly worse performance on the road network as existing strained conditions for some assets worsen, with the risk of closure of major bridges / tunnels. Risk of major asset reliability issues on the Tube that could cause multi-day closures.

Large backlog of renewals for later decades, particularly Tube and rail fleets which would be life extended not replaced. Major consequences for our supply chain and the reliable operation of the network. Higher rate of delays on public transport services, and poorer road condition may impact aspirations to encourage more walking and cycling.

Financially Constrained (reaches a 'Managed' level of service)

A balanced package that would see performance stabilise or improve in areas where it is currently weak. Replaces major fleets at the right time so avoids the huge backlog that would occur in the Do Minimum scenario. Allows better intervention to address priority issues such as energy efficiency and track noise. Performance may still fall in some areas in early years as activity ramps up, but over time should stabilise and improve.

Policy Consistent (reaches a 'Managed / 'Good' level of service)

This scenario is similar to Financially Constrained in terms of asset condition achieved by the end of the plan but includes a quicker ramp up of activity in LU.

Asset Group	Example Measures (in 2041)	2020	Do Min	Fin.C.	Pol.C.
Streets	State of good repair: carriageway	88%	85%	91%	91%
	State of good repair: bus shelters	96%	90%	96%	96%
	Number of structures with interim measures	80	60	25	25
	Percentage of traffic signals with LED lamps	36%	56%	86%	86%
London Underground	Average age of Underground fleet (years)	25	32	15	15
	Maximum age of Underground fleet in whole period	48	68	58	58

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

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

A40 Westway
(12 x key bridge Joint renewals)

Daily users – 90,000

Rotherhithe Tunnel
(Fire / Ventilation system renewal)

Daily users – 30,000

Gallows Corner Flyover
(steel fatigue)

Daily users – 38,000

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

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

Daily users – 175,000

Vauxhall Bridge
(steel fatigue / overall condition – very poor)

Daily users – 47,000

Croydon Flyover
(significant structural lighting renewal)

Daily users – 40,000