

Date: 22 December 2023

Item: 2024 TfL Business Plan

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. TfL needs to approve its 2024 Business Plan and this could not be done until confirmation of TfL's Capital Funding Settlement from Government was confirmed.

1 Summary

- 1.1 This paper provides an update on the draft 2024 TfL Business Plan which was considered by the Board on 13 December 2023. At that meeting, the Board considered the draft 2024 TfL Business Plan, Capital Strategy and London Climate Budget and, recognising that a decision on approval could not be made until the resolution of several outstanding matters, delegated their approval to the Committee.
- 1.2 As described at the meeting of the Board, we have been in ongoing discussions on a capital funding settlement for 2024/25 with Government. Those discussions have now concluded, with the capital funding settlement announced on 18 December 2023. This paper describes how the funding settlement has been incorporated into our revised draft 2024 TfL Business Plan.
- 1.3 With confirmation of funding through this settlement as well as levers at TfL's disposal, TfL is able to produce a business plan for consideration by the Committee.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and:**
 - (a) **approve the revised draft 2024 TfL Business Plan attached at Appendix 1;**
 - (b) **authorise the Chief Finance Officer to make any minor presentational amendments to the 2024 TfL Business Plan, before it is published as the final version on the TfL website; and**
 - (c) **approve the change to the TfL Scorecard target for capital expenditure, required as a result of the DfT inflation funding outcome for 2023/24, to align to the 2024 TfL Business Plan.**

3 Background

- 3.1 The pandemic had a devastating impact on TfL's finances. Since March 2020, Government has supported TfL by providing almost £6.4bn of funding to enable it to continue to operate, maintain and invest in London's transport network. The funding settlement agreed in August 2022, runs to 31 March 2024, alongside the 18 December 2023 capital funding settlement.
- 3.2 Since the depth of the pandemic in 2020/21, TfL has been on a path back to financial sustainability by rebuilding its revenue and continually improving its efficiency. As a result, TfL is forecasting to be operationally financially sustainable in 2023/24 and generate an operating surplus without Government support. This means that all Government funding received in 2023/24 is being used to support capital investment.
- 3.3 By growing its operating surplus, TfL is able to fund around three quarters of its capital investment programme for 2024/25 but still needs Government funding so that projects critical to the city – like the new fleet of Piccadilly line trains, more than half of which are being built in Goole in Yorkshire – can be delivered.
- 3.4 In September 2023, TfL made a submission for capital funding in 2024/25 to align with the current Spending Review period. This submission was for capital funding support for major capital enhancement and major renewals, including replacement of life expired rolling stock, signalling and major highways assets.

4 Capital funding settlement

- 4.1 The 18 December 2023 capital funding settlement, attached at Appendix 4, does not replace the existing 20-month funding settlement agreed in August 2022 and runs alongside that August 2022 settlement until that expires on 31 March 2024.
- 4.2 The capital funding settlement provides £250m of funding to be received: £100m on 18 January 2024; £95m on 15 February 2024; £50m on 14 March 2024; and £5m on 11 April 2024.

Conditions

- 4.3 The main conditions in the capital funding settlement relevant to the 2024 TfL Business Plan are summarised below:
 - (a) TfL is required to use the capital funding to continue to deliver its current capital programme and committed major projects while prioritising the Piccadilly Line Upgrade Phase 1. TfL is not to use the capital settlement to fund any new capital activity or for any other purpose;
 - (b) TfL will demonstrate to Government that it is financially sustainable at the end of March 2024, and will provide to Government its plan in July 2024 demonstrating how it will maintain and strengthen its financial sustainability from 2024/25; and

- (c) there are requirements which are extensions of existing funding conditions around managing risk across its capital programme and delivering capital efficiencies.

Future funding

- 4.4 The funding settlement states that TfL is not expected to request or assume further Government contribution towards major capital enhancements or renewals before the next Spending Review period, which will start from 1 April 2025, except through other funding streams for which it is eligible.
- 4.5 However, the funding settlement retains the Government's recognition that TfL is not expected to solely finance major capital enhancements and renewals from its operating incomes. For the first time, this recognition includes specific references to the Bakerloo line fleet and major roads renewals as examples of projects TfL is not expected to solely finance.
- 4.6 Future capital funding will be considered as part of the DfT's Spending Review submission. The funding settlement states that TfL should plan prudently for 2025/26 and beyond, noting the fiscal constraints Government is operating within and that any future funding requests will be subject to the usual Government and DfT processes.
- 4.7 We welcome the £250m of Government capital funding, which will enable us to continue to deliver our major rolling stock and signalling programmes in 2024/25, and the reference in the Autumn Statement for funding a new bus network in Thamesmead. However, longer term funding certainty is still needed, and we look forward to future discussions with Government on this.

5 2024 Business Plan impact

Financial impact

- 5.1 The draft 2024 TfL Business Plan, noted by the Board on 13 December 2023, assumed £500m of Government capital funding in 2024/25. Therefore, the capital funding settlement creates a shortfall of £250m against this previous assumption; although the funding is received earlier than assumed as most of the funding is in 2023/24.
- 5.2 The impact of this is set out in Table 1 below.

Table 1 - Impact of funding settlement

£m (decrease)/increase in cash	2023/24	2024/25	2025/26	2026/27	Total
draft TfL 2024 Business Plan assumption	515	500	350	318	1,683
Revised profile	760	5	350	318	1,433
Impact of capital funding settlement	245	(495)	0	0	(250)

Mitigations

5.3 We cannot add additional savings targets, given the scale of the existing savings challenge, higher than expected inflation, and the fact that our revenue ‘top-up’ guarantee from Government ends in March 2024.

5.4 Therefore, the proposed mitigations for the financial impact of the capital funding settlement are set out in Table 2 below and described below.

Table 2 - Proposed mitigations

£m (decrease)/increase in cash	2023/24	2024/25	2025/26	2026/27
Impact of capital funding settlement	245	(495)	-	-
Piccadilly Line Upgrade (net of cost and cash profile changes)	(126)	256	253	(291)
Updated operating surplus	120	(90)	-	-
Accelerated capital renewals	(14)	14		
Reduced capital expenditure				45
Other changes		(15)	15	
Net change after mitigations but pre-borrowing	225	(330)	268	(246)
Borrowing (decrease)/increase	(135)	240	(268)	246
Net change after mitigations post-borrowing	90	(90)	0	0

5.5 As described in a separate paper on the agenda, the proposed compensation event and cash profiling with Siemens for the Piccadilly Line Upgrade – Stage 1 is a key mitigation to the impact of the capital funding settlement.

5.6 Our financial performance in 2023/24 to date has been better than Budget, with TfL’s operating surplus being £46m favourable to budget as of Period 8. We have been managing a number of risks that were one-off in nature rather than recurring. In recent weeks several risks – including the outcome of the judicial review on enforcement of red routes using CCTV – have been retired. Therefore, we are able to release our contingency and recognise a one-off benefit in 2023/24, with our central forecast being to deliver an operating surplus for the year £120m favourable to our Budget.

5.7 However, the latest Office for Budget Responsibility forecast showed that inflation is now anticipated to fall more gradually over the course of 2024. This creates a significant cost pressure, with payment under many of TfL’s contracts being linked to either RPI or CPI. Therefore, we are likely to need to use a large proportion of the over performance in 2023/24 to increase our contingency and resilience in 2024/25 to manage this additional pressure.

5.8 TfL’s delivery of capital renewals has been strong during 2023/24, and our current delivery trajectory is to over deliver against our full year budget. The early receipt of funding under this funding settlement would allow us to maintain this rate of delivery this year and avoid slowing down critical programmes such as the

Central Line Improvement Programme. However, this is a timing difference only, an offsetting reduction will be made to capital renewals in future years.

- 5.9 A reduction to capital investment will need to be made in 2026/27 and beyond to offset the deferred costs from the changes to the Piccadilly Line Upgrade programme. This challenge will be considered in future capital funding submissions to Government.

Borrowing

- 5.10 The draft 2024 TfL Business Plan considered by the Board on 13 December 2023 assumed a steady level of incremental borrowing to fund investment of £250m per annum. The impact of the capital funding settlement, and our proposed mitigations, means that this will need to be varied to maintain TfL’s cash balance at our minimum of 60 days operating expenses while meeting the conditions of the 30 August 2022 funding settlement for the remainder of 2023/24.
- 5.11 The impact is a reduced borrowing requirement in 2023/24 and a cumulative reduction in borrowing requirement through to 2025/26. However, in 2026/27 there is a net cumulative increase in the borrowing requirement of £83m to fund the revised Piccadilly Line Upgrade programme cash profile.
- 5.12 The affordability of this additional borrowing will be kept under review over the next two years. Dependent on the level of growth to TfL’s operating surplus, and the outcomes of future Government funding settlements, it may be necessary to make further reductions to capital expenditure.
- 5.13 The revised borrowing profile is also ‘lumpier’ with a peak borrowing requirement in 2024/25 of £490m – rather than a ‘smooth’ profile of £250m per annum. This is shown in Table 3 below. Given TfL’s access to the Public Works Loan Board, as well as commercial debt markets this level of borrowing should be deliverable.

Table 3 - Impact on TfL borrowing requirement

	£m (decrease)/increase in cash	2023/24	2024/25	2025/26	2026/27
Absolute borrowing requirement – draft 2024 BP		282	250	250	250
Annual borrowing (decrease)/increase		(135)	240	(268)	246
Revised absolute borrowing requirement		147	490	(18)	496
<i>Cumulative borrowing (decrease)/increase</i>		<i>(135)</i>	<i>105</i>	<i>(163)</i>	<i>83</i>

- 5.14 An updated revised Business Plan document including all the impacts described above is contained in Appendix 1 as well as a summary of the changes to the key financial tables in Appendix 2 and the three forewords in Appendix 3.

Impact on outcomes

- 5.15 We continue to deliver against the Mayor’s Transport Strategy outcomes and the changes to the revised draft Business Plan to accommodate the capital funding settlement do not significantly affect the outcomes that are achievable. There remains a significant risk that ultimate delivery of these targets by 2041 will be

impacted if we continue to have either shortfalls in funding or uncertainty over funding. Investment in renewals is still below that which would be required to clear the backlog that follows the lack of investment deliverable under Government funding conditions in the years following the COVID-19 outbreak.

- 5.16 **Safe and Healthy Streets:** This plan invests £150m in safe and active travel each year over the course of this plan, growing by inflation from 2025/26 as well as additional funding for Boroughs in walking, cycling and expanding the bus priority programme.
- 5.17 Road safety improvements are anticipated through investment in lower speed limits, changes to the Direct Vision Standard Phase 2 and continued delivery of the safer junction programme and Bus Safety Programme.
- 5.18 The plan will support decarbonisation by continuing our plans for the electrification of our bus fleet– the largest scale plans of this nature in the UK. Additional funding will still be required, however, to achieve this by our target of 2030 rather than the current trajectory of 2034. Our work to secure power purchase agreements is integral to delivering our plan to source 100 per cent of our electricity from renewable sources by 2030.
- 5.19 We also continue to invest in sustainable drainage and unlocking the benefits of biodiversity.
- 5.20 **A good public transport experience:** We are able to continue to invest in our major projects. Additional funding has also been allocated for the completion of the new Elephant & Castle station entrance and ticket hall.
- 5.21 We are able to maintain investment in renewals with £4.7bn allocated towards the renewals workbank over the next five years. However, this is still significantly below the required investment rate will result in constrained spend and some lower priority high-cost renewals being deferred which will in turn affect customer experience. This is one of the reasons it is vital for us to secure a longer-term funding deal.
- 5.22 We continue delivery of our bus priority programme, including 25km of new bus lanes and operation of the Superloop service, and we continue to deliver our bus action plan, and roll out of 4G/5G on London Underground and the Elizabeth line.
- 5.23 **New Homes and Jobs:** Additional money for the Sustainable Homes and Accessibility fund in 2026/27, as well as the continued leveraging of third-party funds, allows us to invest in the feasibility for growth schemes such as DLR Thamesmead, and other projects which will improve growth and connectivity around London.
- 5.24 Completion of stage 2 of the Elephant & Castle project – the fit out of the station box created in stage 1 – will enable plans for 7,500 new homes and 10,000 new jobs in the Elephant & Castle Opportunity Area.
- 5.25 Our commercial property company, Places for London, will provide sustainable revenue to reinvest in public transport. 20,000 homes will be started by 2031, many of which will be affordable.

6 2023/24 TfL Scorecard

- 6.1 The paper considered at the 13 December 2023 meeting of the Board set out the impact of not receiving Government inflation funding on our 2023/24 capital expenditure, but asked Board to delegate approval of changes to the scorecard metric to Finance Committee. This was because the capital expenditure target for 2023/24 was linked to the outcome of the capital funding settlement.
- 6.2 With the capital funding settlement in place, we are proposing to seek approval from the Committee to amend the absolute target for 2023/24 capital expenditure to £1,879m (from £1,947m), as a result of the impact of the inflation and capital funding outcomes.
- 6.3 As previously, we will maintain the +/- two per cent range around the new target, with any result within that range achieving the full weighting.

List of appendices to this report:

Appendix 1: Revised draft TfL 2024 Business Plan document
Appendix 2: Revised financial tables
Appendix 3: Revised draft Business Plan document forewords
Appendix 4: Funding settlement letter – 18 December 2023

Background papers:

TfL Board paper – 13 December 2023 – Business Plan

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