TfL Mayor’s Budget 2023/24

GLA Consultation Extracts

November 2022 – DRAFT

MAYOR OF LONDON

TRANSPORT FOR LONDON

EVERY JOURNEY MATTERS

About Transport for London (TfL)

Transport for London is part of the Greater London Authority family led by Mayor of London Sadiq Khan, we are the integrated transport authority responsible for delivering the Mayor's aims for transport. We have a key role in shaping what life is like in London, helping to realise the Mayor's vision for a 'City for All Londoners', creating a safer, fairer, greener, healthier and more prosperous city. The Mayor's Transport Strategy (MTS) sets a target for 80 per cent of all journeys to be made by walking, cycling or using public transport by 2041.

To make this target a reality, we prioritise sustainability, health and the quality of people's experience in everything we do. We run most of London's public transport services, including the London Underground, London Buses, the DLR, London Overground, TfL Rail, London Trams, London River Services, London Dial-a-Ride, Victoria Coach Station, Santander Cycles and the IFS Cloud Cable Car. The quality and accessibility of these services is fundamental to Londoners' quality of life. By improving and expanding public transport and making more stations step free, we can make people's lives easier and increase the appeal of sustainable travel over private car use. We manage the city's red route strategic roads and, through collaboration with the London boroughs, we are helping to shape the character of all London's streets. These are the places where Londoners' travel, work, shop and socialise. Making them places for people to walk, cycle and spend time will reduce car dependency, improve air quality, revitalise town centres, boost businesses and connect communities. As part of this, last year's expansion of the Ultra Low Emission Zone (ULEZ) to the area bordered by the North and South Circular Roads (launched in October 2021) and our continuing investment in zero emission bus fleets are helping to tackle London's toxic air.

In March 2022 the Mayor asked TfL to consult on expanding the ULEZ London-wide in 2023 to further reduce air pollution, carbon emissions and congestion.

London has emerged strongly from the pandemic, with transport services back to normal and the numbers of Londoners using the network approaching pre-pandemic levels. The city's recovery is vital to the UK's recovery as life returns to normal. By working together, we can create a better city as London's recovery continues.

Chief Finance Officer's foreword

From the day-to-day service provided by our colleagues to the delivery of major new projects, we are focused on rebuilding our passenger income and reducing our reliance on central Government funding for our operations. The improvement in passenger demand, which increased from around 25 per cent of pre-pandemic levels at the start of 2021/22 to around 80 per cent by the end of October 2022, is helping to rebuild our finances after the devastating impact of the coronavirus pandemic.

Our funding model, set by the Government in the 2015 Spending Review, places a very high reliance on passenger revenue which made up approximately 72 per cent of total pre-pandemic operating income (compared to 38 per cent in Paris and 47 per cent in Madrid). Thus, we also need to build on existing, and find new sources of, income to improve our resilience for the future and to help us achieve our primary goal, which is to break-even on our operations by 2023/24, so that we will only require funding support for our investment programme.

Whilst we are making good progress with our savings plans, the pressures of managing inflation and the requirements of the 30 August 2022 Funding Settlement means that we need to go even further in finding new innovations and efficiencies in our operations, our capital projects, and from within our supply chain. This combination of improving and diversifying income and continuous improvement in our cost efficiency underpins our ability to plan effectively, deliver efficiently, and offer certainty for our colleagues, customers, and our supply chain.

The 30 August 2022 Funding Settlement also means that we can continue to invest with confidence: continuing to protect our critical assets and restoring a level of expenditure to improve our network, reducing Londoners' reliance on cars and improve air quality. We will achieve this by investing in safe and active travel, supporting environmental projects, and delivering our committed investment – including new Piccadilly line trains, DLR rolling stock, more zero-emission buses, and further modernising the Circle, District, Hammersmith & City and Metropolitan lines. We will also complete the upgrade of Bank station, further develop the Old Street area and station, and have recently completed the remaining stages of the Elizabeth line.

Last year we set up our commercial property company, TTL Properties Limited, to achieve the commitment in the Mayor's Transport Strategy to deliver 20,000 new homes, of which 50 per cent will be affordable, over the next 10 years, and generate a subsidy that can be invested back into the transport network

Despite the progress and our positive plans for the future, this plan has been developed during a period of great economic uncertainty. We do not underestimate the challenges ahead with the volatility on inflation, interest rates, energy prices and the labour market. We continue to work closely with Government to fulfil the strict conditions attached to the funding agreements, and there is further work to do to secure a longer-term capital funding settlement with Government beyond March 2024.

We are therefore managing our finances to maintain cash reserves at a prudent level and are maintaining an affordable level of debt to fund our investment. We are also grateful to the GLA for the facility of up to £500m that we can call on, which provides additional certainty and confidence in the balanced budget position that supports this submission to the Mayor's Budget for 2023/24.

We are moving positively towards our goal of operational financial sustainability, and we are committed to a sustainable financial future for our customers, colleagues, and partners.

Rachel McLean
Chief Finance Officer
Transport for London

Patrick Doig
Statutory Chief Finance Officer
Transport for London

Our Journey

Around 80 per cent of the customers that we served before the pandemic are now travelling on our network again. We continue our work to welcome them back to the network, providing assurance that it is safe, accessible, clean, and well-managed.

We continue to make progress on the five priorities set for the organisation by the former Commissioner, Andy Byford. These are to complete transformative projects; recover from the pandemic; create a new vision for our colleagues with greater diversity and inclusion, deliver a green and sustainable future; and secure long-term funding from the Government.

During 2021/22, we created our new Vision and Values to unite us all. We have also published our first ever Sustainability Report and Corporate Environment Plan.

Despite the pandemic, we continue to add to London's transport network. The Northern Line Extension delivered two new stations in September 2021, Nine Elms and Battersea Power Station, which were used by one million customers within the first two months. Meanwhile, we have nearly completed the upgrade of Bank station. These exciting developments were dwarfed by the Elizabeth line when it opened on 24 May 2022, a major project that will add 10 per cent to central London's rail capacity.

At the same time, active travel plays a vital role in the city's recovery – and in its future. The Mayor's Transport Strategy has a target of 80 per cent of London journeys being made in 2041 by cycling, walking or public transport. In 2021, we added or improved 21.5 kilometres of high-quality cycle lanes, as well as creating more temporary space for walking and cycling during the pandemic. We were also closely involved in the creation of hundreds of Low Traffic Neighbourhoods by boroughs, which have had a transformative effect across the capital. We are creating an environment where cycling and walking are safe and pleasant transport options for everyone.

Active travel is also a key part of our efforts to tackle London's toxic air. In September 2021, the Mayor announced that all our new buses will be zero-emission and accelerated our target of a 100 per cent zero-emission fleet from 2037 to 2034. In October 2021, we expanded the ULEZ out to the North and South Circular roads. In spring 2022, we consulted on the Mayor's preferred option to further tackle air pollution, carbon emissions and congestion – a London-wide expansion of the ULEZ in 2023, and we are investigating a smart, integrated scheme for the second half of the decade. We also remain committed to Vision Zero, the Mayor's plan to eliminate deaths and serious injuries from our roads by 2041.

All this costs money. Following a number of short-term funding support packages, we secured a vital longer-term financial agreement with the Government on 30 August 2022, which means we can get on with the business of supporting Londoners and all those who visit – and to plan for a brighter future for our great city.

Delivering on the Mayor's Commitments

TfL's projects and priorities are shaped by the ambitions of the Mayor's Transport Strategy, which acknowledges the key role transport plays in shaping London and driving its global competitiveness. It also emphasises the way that effective and well-planned transport projects and improvements can play a vital part in improving the health, opportunities, and quality of life of those who live and work in our city.

The central aim of the Mayor's Transport Strategy is to create a place that is not only home to more people but is a better space for them to live, work and visit. This means a safer, healthier, cleaner, greener, more inclusive, and better-connected city. This was particularly highlighted during the pandemic, which underlined the importance of continuing to make progress on all elements of the strategy.

Key themes and outcomes

All our work, from our daily running to our investment programmes, follows the key themes as set out in the Mayor's Transport Strategy. These are Healthy Streets and healthy people, a good public transport experience and new homes and jobs.

These key themes are fundamental in our investment decisions and our work and enhance our services across the capital. We use these three areas to outline how we will improve transport and deliver the efficient and sustainable services that London needs.

Across the three key themes of the Mayor's Transport Strategy, there are a number of outcomes that we are working towards. These include improving the facilities for our colleagues to bring them up to the standard they deserve. We are also working to reduce our carbon footprint, which includes using Power Purchasing Agreements to secure fully renewable energy supply for our direct operations, including London Underground.

■ Healthy Streets and healthy people

Together with London's boroughs, we are creating streets that are accessible, safe, and inclusive. This includes externally funded projects, together with investment to safeguard our revenue payments, deliver deployable enforcement cameras and improve cyber-security.

Lower speed limits

Lowering the speed of vehicles in London is key to reducing both the likelihood of a collision and the severity of the outcome. By working with London's boroughs, nearly half of London's roads now have a 20mph speed limit, as do more than 100km of our roads.

We will continue to lower speed limits across London to reduce road danger, with plans to introduce a 20mph speed limit on a further 28km of roads in the boroughs of Camden, Hackney, Haringey, Islington and Tower Hamlets by early 2023.

Priority traffic signalling

Our Healthy Streets signals programme is helping to prioritise sustainable modes at traffic signals on ours and borough roads. By making changes to signals at key junctions, we have saved 12,592 hours every day for people walking, cycling and using the bus. This includes saving almost 8,800 hours every day for bus passengers and reducing pedestrian wait time at 53 sites identified by community stakeholders.

Following a successful trial in 2022, we will continue to develop new pedestrian priority signals from 2023. These will show a continuous green person to pedestrians until a vehicle is detected approaching the crossing. The signal then changes to red for pedestrians, enabling the vehicle to cross the junction before returning to a green for pedestrians.

Direct Vision Standard

Our Direct Vision Standard requires all heavy goods vehicles weighing more than 12 tonnes to hold a safety permit, based on the star rating from zero (lowest) to five (highest), corresponding to the amount the driver can see directly from the cab windows. The majority of vehicles, around 112,000, are rated zero-star and must have a range of safe systems fitted to obtain a permit. This helps to improve protection for people walking, cycling or riding e-scooters or motorcycles.

The second phase of the Direct Vision Standard, which is under development, will tighten the standard in 2024 to further improve the safety of vulnerable road users.

Active streets

Following our latest funding agreement, we have been able to resume spending on our Healthy Streets programme. Within this Business Plan, we will continue to invest £150m per year in our Healthy Streets programme, working with boroughs through Local Implementation Plans to enable more people to walk, cycle and use the bus, as part of our aim for 80 per cent of trips in London to be by sustainable modes.

Improving bus safety

We continue to make our buses safer through our Bus Safety Standard, with 776 buses, which is around nine per cent, already meeting the standard safety measures. This includes retrofitting buses with Intelligent Speed Assistance technology, which limits the speed of the buses.

Other safety measures include camera monitoring systems that help to reduce blind spots, with 680 buses fitted, and an Acoustic Vehicle Alerting System for quiet-running buses, with 634 buses fitted so far.

Encouraging more people to cycle

Our cycling investment has led to the highest, safest and most inclusive levels of cycling on record. Significant expansion of the cycle network means that 22 per cent of Londoners now live within 400 metres of our Cycleways network. This means we are making good progress against one of the two key targets in our Cycling action plan – to increase the proportion of Londoners living within 400 metres of the London-wide cycle network to 28 per cent by 2024.

Over the next two years, as well as completing existing schemes, we will begin construction on up to 14km of additional cycleways and progress with design work for a further 16km of cycleways.

School streets

More than 400 School Streets, roads that are closed to traffic during school drop-off and collection times, have been introduced by the London boroughs since the start of the pandemic. Of these, 372 have been funded with support from the Greater London Authority and us. Including those delivered before the pandemic, this brings us to more than 500 School Streets.

The focus on schools means that we have already exceeded one of the two key targets in our Walking action plan – to increase the proportion of trips to primary schools made on foot to 57 per cent by 2024. Our latest estimates suggest that 58 per cent of primary school children are walking as their main mode of transport (2017-2019). We have now set a new stretch target of 60 per cent of primary school children walking to school by 2026.

■ Making more efficient use of the street network

We want London's streets to be more efficient and have less traffic on them. This includes delivering an extra 25km of bus priority schemes to improve reliability and bus journey times, as well as opening the Silvertown Tunnel in 2025 and continuing feasibility work on future road user charging schemes.

Reducing traffic on our streets

The only long-term, sustainable way to make our streets efficient is by reducing the amount of motorised traffic in London. This means taking action in a range of areas including prioritising walking, cycling and buses, encouraging efficient ways of moving and managing freight, and exploring ways of managing demand for road space.

Sustainable modes such as walking, cycling and buses take up significantly less space than cars, making them the most efficient ways to move people on London's streets. By prioritising space for sustainable modes, we can make the most efficient use of London's limited road space.

Efficient freight traffic and deliveries

As London grows, so will the demand for freight, servicing and deliveries. Accommodating this efficiently means finding new and innovative ways to move freight in London. Our aim is to reduce morning peak freight transport in central London by 10 per cent by 2026. Initiatives to support efficient ways of moving freight in 2021/22 included continuing to support the use of the Thames and London's waterways in major construction projects.

We have been working with Network Rail to produce a Rail Freight Strategy for London, setting out how we will work with partners to move freight from road to rail. We also continue to roll out 'click and collect' lockers on our premises to consolidate deliveries and reduce emissions.

Road user charges

Creating efficient streets will require measures to manage demand. As directed by the Mayor, we have now started to explore how a new kind of integrated road-user charging system could be implemented to improve safety, air quality, address climate change and reduce congestion.

Bus priority programme

We are working closely with the boroughs to progress schemes that prioritise buses on London's streets. We will deliver an extra 25km of bus lanes by 2025 to improve reliability and bus journey time across London, which will help make buses an attractive option for people.

Outer London bus services

We are improving connectivity in outer London, where the majority of Londoners live but where there are fewer public transport options. We are consulting on proposals for a new cross-river bus network as part of the opening of the Silvertown Tunnel in 2025 and will introduce the proposals consulted on in 2020 to improve services in Sutton and Croydon, which include two new routes.

In the longer term, we are looking at how we can support development in growth areas including Brent Cross, Haringey Heartlands, Harrow, Havering, Southall and Wanstead with bus services. A wider programme is under way to see where there are opportunities to increase frequencies on existing routes during off-peak times in outer London.

■ Improving air quality and the environment

We want London's streets to be cleaner and greener. We will extend the ULEZ to cover the whole of the GLA boundary. We are also committed to decarbonising our operations and deliver a zero-emission bus fleet, as well as upgrading our support fleet to become zero-emission.

Ultra-Low Emission Zone

In October 2021, we expanded the ULEZ from central London up to, but not including, the North and South Circular roads, making it the largest zone of its kind in Europe.

Research published in July 2022, showed that harmful nitrogen dioxide concentrations in inner London in the first six months of the expanded zone were estimated to be 20 per cent lower than they would have been without the ULEZ and its expansion.

We needed to go further. In January, the Mayor published an independent report to develop pathways toward his target of London reaching net-zero carbon by 2030. As well as the urgent need to reduce carbon emissions and address climate change, we still need to reduce toxic air pollution and cut congestion.

To tackle these challenges, in November 2022 the Mayor announced that he would expand the ULEZ London-wide to tackle the triple threats of air pollution, the climate emergency and congestion, and to ensure five million more Londoners can breathe cleaner air. The expansion will come into effect on Tuesday 29 August 2023 and will operate across all London boroughs up to the existing Low Emission Zone boundary. The expansion will be accompanied by a brand new £110m scrappage scheme to support Londoners on lower incomes, disabled Londoners, charities and small businesses and sole traders.

To maximise the potential benefits of expanding the ULEZ and strengthen alternatives to private cars, the Mayor also announced a plan for improving the bus network in outer London. New services and improvements that will see over one million further kilometres added to the bus network are also planned to support growth areas in a number of other outer London locations, including Brent Cross, Haringey Heartlands, Harrow, Havering, Southall and Wanstead

We also asked Londoners for their views on how existing road user charging schemes could be replaced with a simple, fair scheme, which research suggests could be necessary to meet the Mayor's 2030 net zero target. The consultation asked Londoners about their views on the challenges that a potential scheme could address, and the elements that should be considered for inclusion in scheme design, such as vehicle type, distance travelled and time of day.

Working towards a zero-emission bus fleet in London

London has led the way in the electrification of buses in the UK, with more than 870 zero-emission buses already on the road across the capital.

In September 2021, the Mayor announced that all new buses in our fleet will be zero emission and accelerated our plan of delivering a 100 per cent zero-emissions bus fleet from 2037 to 2034.

Making London's bus fleet – the largest in Europe – zero-emission will give British bus manufacturers the confidence in large order requests and enable them to significantly ramp up production. This will enable local authorities to progress towards zero-emission targets that would not be possible otherwise. In this way the acceleration of London's shift to zero-emission is bringing down costs and enhancing products for the entire country.

With additional Government funding, we could deliver our target of a zero-emission bus fleet by 2030. Making buses zero-emission will save 3.4 million tonnes of carbon by 2034 and moving the date forward to 2030 will save an additional three hundred thousand tonnes.

■ New homes and jobs

Unlocking London

Transport investment will unlock the delivery of new homes and jobs. Wherever possible, we will work with developers to deliver on our outcomes including growth and accessibility, and leverage opportunities for third-party funding to help unlock new homes and jobs across London

Even before it opened, the Elizabeth line had supported the delivery of an additional 55,000 new homes along the route, as well as increased planning activity near many stations along the corridor. To improve links to the Elizabeth line stations in east and south-east London, where many customers will use buses to get to and from stations, changes were made to 14 bus routes. The changes took effect from May 2022 and included the new route 304 between Manor Park and Custom House stations.

The Northern Line extension, which saw new stations at Nine Elms and Battersea Power Station, provides access to the Vauxhall Nine Elms Battersea Opportunity Area and supports delivery of 20,000 new homes and 25,000 new jobs.

We have supported the largest housing development in east London by extending the London Overground our to Barking Riverside, with planning permission granted for 10,800 homes, along with new schools and community space. Without the London Overground station, the full potential of the site would not have been achieved.

Connections on public transport are key to unlocking parts of London to provide viable places to build homes and create jobs, generate placemaking and other benefits. At the same time they provide new and accessible connections, improving the quality of the journey. The sustainability of developments is an essential part of reducing carbon emissions from transport.

Improving the London Overground

We have secured significant third-party funding for the first phase of work to improve the London Overground line between Highbury & Islington and New Cross, West Croydon, Crystal Palace and Clapham Junction, through the Department for Levelling Up, Housing & Communities' Housing Infrastructure Fund.

East London Line - Housing Infrastructure Fund works

Delivery of a programme of works along the East London Line (the ELL Scope) directly supports two key themes of the Mayor's Transport Strategy (MTS). It will help deliver the "New Homes and Jobs" theme of the MTS by unlocking approximately 14,000 new homes; and it will also make a strong contribution to the "Good Public Transport Experience" theme by enabling a future higher frequency train service on overcrowded routes. By improving connectivity and increasing capacity, the ELL Scope is designed to unlock approximately 5,000 homes in the London Borough of Southwark and 9,000 homes in the London Borough of Lewisham.

The first phase will be delivered by 2025 and help unlock more than 7,000 new homes through a capacity upgrade at Canada Water bus station, a new station entrance and ticket hall with step-free access at Surrey Quays London Overground station, and power and signalling upgrades to enable future service improvements.

DLR extension to Thamesmead

Our Capital Strategy includes a contribution to feasibility funding for a potential DLR extension to Thamesmead to support the Thamesmead and Abbey Wood Opportunity Areas, as well as development at Beckton Riverside. This extension would require additional investment.

DLR Housing Infrastructure Fund

The Housing Infrastructure Fund will be used to buy 11 new trains, remodel Beckton Depot to accommodate the extra trains and support the delivery of a mixed-use development opportunity at Poplar Depot, including a link bridge over Aspen Way. The investment will result in more frequent services on both the Woolwich and Lewisham branches of the DLR.

Capital Strategy

The Mayor's Transport Strategy (MTS) shows how we can support London's growth by making the most of our existing assets and investing in new infrastructure.

This year's Capital Strategy sets out a path to delivering the investment required in London's transport network to progress towards the ambitions of the MTS. In the absence of capital funding certainty beyond 2023/24, we have not undertaken large-scale updates to our long-term investment plans over the past year. This means the strategy is broadly similar to last year's, but it has been updated to reflect the first five years as set out in this Budget submission, as well as flowing through changes that begin in those first five years into later years. The Strategy remains heavily informed by TfL's 2021 Long Term Capital Plan (LTCP), which was approved by the TfL Board in July 2021.

The early years of the Capital Strategy set out a constrained but optimised investment programme that delivers progress against our key outcomes. Between years six and 10, the strategy is aligned to the principles of the Financially Constrained scenario of the LTCP and would be able to improve progress towards MTS goals. In the following 10 years, the strategy is consistent with the Policy Consistent LTCP scenario, which delivers closest to the MTS vision by 2041. The strategy also sets out the funding required to achieve this vision, which will be subject to future funding mechanisms and discussions with the UK government. The Capital Strategy is set out in Appendix C.

GLA SECTION 1

Introduction

The GLA is the strategic authority for London and supports the Mayor and the London Assembly in delivering their respective responsibilities and functions. The GLA's five functional bodies are its principal delivery arms: the Mayor's Office for Policing and Crime, overseeing the work of the Metropolitan Police Service; the London Fire Commissioner; TfL; the London Legacy Development Corporation and the Old Oak and Park Royal Development Corporation.

GLA SECTION 6 - TfL Main Budget Section

Introduction

TfL is responsible for the planning, delivery, and day-to-day operation of the Capital's public transport system, including London's buses, London Underground and Overground including the Elizabeth line, the DLR, London Trams and London River Services. It is also responsible for managing road user charging schemes (the Congestion Charge, ULEZ and LEZ), maintaining London's main roads and traffic lights, regulating taxis and private hire vehicles, making London's transport more accessible and promoting Active Travel - walking and cycling initiatives.

Producing the TfL GLA Budget to inform the Mayor's Budget

6.1 The covid-19 pandemic created significant uncertainty for many industries across the United Kingdom. For TfL specifically, it had a catastrophic impact on TfL's finances and exposed TfL's funding model, which had been in place since 2015 following the withdrawal of the operating grant. These changes made TfL's budget highly reliant on fare revenues. Despite the removal of all coronavirus-related legal restrictions in England, the pandemic appears to have altered the behaviours of the travelling public which has made it increasingly challenging for us to extrapolate future travel patterns. Current data however suggests a permanent and structural decrease in overall post-pandemic ridership, especially across the weekday peaks as working patterns have changed. The recovery in weekend travel appears to have been stronger with levels approaching, and in some cases exceeding, pre-pandemic levels.

6.2 Following a series of short-term funding agreements since the onset of the pandemic, on 30 August 2022, the Department for Transport and TfL agreed a Funding Settlement out to 31 March 2024 which provides both base funding and a guaranteed level of passenger income via a revenue top-up mechanism. A copy of this agreement can be found here: https://tfl.gov.uk/info-for/investors/funding-letters

6.3 As TfL is required to make a submission into the GLA budget process to inform the Mayor's Budget for 2023/24 covering the period 2023/24 to 2025/26, this budget submission incorporates the financial implications of the 30 August 2022 Funding Settlement.

6.4 Given TfL is obliged to be able to prepare a budget that is balanced over both the short and medium term, TfL has developed its financial plans for the period from 1 April 2024 to ensure that TfL is financially sustainable and more details on this can be found in the 2023 Business Plan published in December 2022.

GLA collaboration

6.5 The GLA Group Collaboration Programme is a portfolio set up by the Mayor to ensure the GLA Group realises the maximum benefits obtainable from collaboration, both within the GLA Group and with other like-minded organisations. Senior Executives from across the GLA Group sit on the Group Collaboration Board which is responsible for strategic oversight and key decision making.

6.6 The programme is looking at options for realising benefits from greater collaboration, including efficiencies arising from how we buy energy more efficiently; utilising TfL's estates better; leveraging procurement processes; and removing duplication in back and middle office support service and other areas not provided exclusively by a member of the GLA Group.

Key operating account outcomes

6.7 This budget submission seeks to rebuild our finances, improve efficiency, and help to secure our future as we emerge from the pandemic across five key areas:

- Actively grow passenger demand, while creating new sources of revenue to reduce our reliance on fares income:
    - Increasing passenger demand to 86 per cent for Tube and rail (excluding the Elizabeth line) and 91 per cent for buses of pre-pandemic levels by 2025/26
    - Grow new revenue sources of at least £500m by 2023
    - Increase non-fares revenue as a proportion of total income
- Create and grow an operating surplus based on our own sources of income:
    - Reach operating financial sustainability by April 2023
    - Grow an operating surplus from 2024/25 onwards to fund investment
- Maintain cash reserves to make payments and protect against shocks:
    - Maintain average cash balances of 60 days operating expenses, which is around £1.2bn during the period covered by the Funding Settlement
    - Avail of the GLA Financing Facility of £500m for additional protection against shocks and risks if required during the period covered by the Funding Settlement
- Continue to deliver recurring cost savings to remain affordable for customers and taxpayers:
    - Continue to reduce like-for-like operating costs in real terms
    - Deliver a further £600m of recurring operating cost savings by 2025/26

- Fully fund our capital programme with a long-term Government settlement and an affordable level of debt:
    - Achieve a long-term funding settlement with Government
    - Maintain an affordable level of debt based on a range of prudential indicators

6.8 Notwithstanding securing the 30 August 2022 Funding Settlement, we are faced with a huge forecasting challenge. As London emerges from the pandemic, we are now facing a cost-of-living crisis, with double-digit inflation and significant increases to both the cost of energy and interest rates. This will have a significant impact on household finances for our customers. These pressures have not been seen for decades and add further uncertainty to our forecasts, as the effect of these economic trends will have an uneven impact, with low-income households, renters and those paying large mortgages more likely to make cutbacks that will likely have an effect on the frequency in which they travel.

6.9 All forecasts are subject to a level of inaccuracy. However, the uncertainty around the pandemic recovery, household finances, the UK's trading relationships post-Brexit, the war in Ukraine and the macro-economic climate, make it more difficult than usual to forecast beyond the next two years.

6.10 Monitoring and assessing external and internal threat and opportunity indicators are key to our planning and reporting process, enabling us to respond to early warning signs and take actions to keep us on track.

Gross service expenditure

6.11 The forecast gross service expenditure decreases by £57.5m, from £8,716.4m in the Budget for 2022/23 to £8,658.9m in the latest forecast as savings in London Underground and Bus, Roads, Compliance and Policing are realised, more than offsetting the impact of higher inflation and rising bad debt. Debt servicing costs are slightly lower due to a higher interest rate environment.

6.12 The budget for gross service expenditure of £8,826.6m in 2023/24 is £110.2m higher than the Budget for 2022/23 as additional costs from a full year of running the Elizabeth line, inflation in contracted services, higher utility and traction current costs and increasing bad debt costs, are partially offset by lower debt servicing costs and TfL's continued savings programmes.

Net service expenditure and council tax requirement

6.13 The pandemic exposed TfL's increasing reliance on covering its operating costs from fare revenue (72 per cent pre-pandemic) compared to other similar authorities, although TfL are expecting to see increasing passenger demand to circa 80 per cent of pre-pandemic levels in 2022/23.

6.14 In light of the revenue top-up mechanism as detailed in the 30 August 2022 Funding Settlement, passenger income in 2023/24, is protected up to a level of £5,158.0m. TfL expects ridership to continue building as London recovers from the pandemic. This revenue scenario is based upon a planning assumption of an annual national fare increase of four per cent in March 2023 and March 2024. The actual level of fares are set by the Mayor on an annual basis. After deducting passenger and commercial income, fees, charges, other income and its planned use of reserves, the Mayor proposes that TfL's net service expenditure for 2023/24 is £1,410.7m. An analysis of the revenue budget by service area is summarised on page 19.

6.15 The Mayor proposed in his Budget Guidance, that as a planning assumption, TfL's council tax requirement for 2023/24 would increase to £177.2m from £52.5m and business rates retention would increase from £1,897.0m in the TfL Budget to £1,944.1m. In 2023/24 TfL will be Financially Sustainable and will not require HM Government Revenue Support to cover the cost of day-to-day operating expenditure and Capital Renewals.

6.16 The planning assumptions that underpin this plan are in line with the 30 August 2022 Funding Settlement out to the end of 2023/24. For 2024/25 and 2025/26, we have reverted to the planning assumption of an annual fare rise of the forecasted retail price index plus one per cent for the July preceding the date of increase, consistent with our last Business Plan in 2019. The actual level of fares are set by the Mayor on an annual basis. The passenger demand assumption is steady growth in-line with current trends to 86 per cent of pre-pandemic demand for Tube and rail modes, and 91 per cent for buses by December 2025.

TfL's operating budget is summarised in the following table.

(^Budget represents the TfL Budget published and approved in March 2022)

TfL Objective Analysis	**Budget^ 2022/23 £m**	**Forecast 2022/23 £m**	**Budget 2023/24 £m**	**Plan 2024/25 £m**	**Plan 2025/26 £m**
Income					
Passenger Income	(4,300.4)	(4,305.5)	(5,158.0)	(5,572.3)	(5,982.6)
CC, LEZ & ULEZ income*	(773.6)	(858.9)	(1,028.4)	(1,046.8)	(812.4)
Other Operating Income	(577.9)	(579.4)	(609.3)	(624.0)	(643.0)
Subtotal income	**(5,651.9)**	**(5,743.8)**	**(6,795.7)**	**(7,243.1)**	**(7,438.0)**
Operating costs					
London Underground	2,218.0	2,109.3	2,215.5	2,158.6	2,178.7
Bus, Roads, Compliance & Policing	2,564.3	2,528.6	2,702.6	2,812.1	2,841.3
Contracted Rail & Sponsored Services	541.3	579.5	607.2	638.9	654.9
Elizabeth Line	490.7	490.7	549.4	604.5	630.6
CC, LEZ & ULEZ costs*	287.3	420.5	535.4	586.3	474.3
Other Operations	1,101.9	986.3	1,212.5	1,168.1	1,220.2
Subtotal operating costs	**7,203.5**	**7,114.9**	**7,822.6**	**7,968.5**	**8,000.0**
Other					
Third-party Income	(26.3)	(36.2)	(30.8)	(29.2)	(26.3)
Debt Servicing	426.0	417.5	414.6	448.4	515.5
Subtotal other	**399.7**	**381.3**	**383.8**	**419.2**	**489.2**
Net service expenditure	**1,951.3**	**1,752.4**	**1,410.7**	**1,144.6**	**1,051.2**
Revenue resources used to support capital	1,086.9	1,126.5	589.4	1,110.4	1,225.4
Transfer to/(from) Reserves	93.3	(24.7)	140.6	(27.8)	(7.4)

* CC, LEZ & ULEZ also covers connected activity such as autopay schemes and the Direct Vision Standard

Financing requirement	**3,131.5**	**2,854.2**	**2,140.7**	**2,227.2**	**2,269.2**
Specific grants	8.0	97.2	96.9	0.5	0.5
Retained business rates	1,897.0	1,897.0	1,944.1	1,985.0	2,024.6
General services grant 2022/23	21.0	21.0	-	-	-
Collection fund surplus/ (deficit)	(78.0)	(78.0)	(77.5)	-	-
HM Government revenue support	1,231.0	864.5	-	-	-
Council tax requirement	**52.5**	**52.5**	**177.2**	**241.7**	**244.1**

Explanation of budget changes

6.17 An analysis of the year-on-year movement in the Mayor's proposed council tax requirement for TfL compared to the Budget for 2022-23 is set out below. An explanation of each change is provided in the paragraphs that follow.

Changes in the TfL's council tax requirement	**£m**
2022/23 council tax requirement	**52.5**
Changes due to:	
Passenger and commercial revenue and other income	(1,143.8)
Net change in service expenditure	614.6
Revenue surplus / deficit	(497.5)
Debt servicing	(11.4)
Use of reserves	47.3
Government and other revenue grants	1,163.1
Retained business rates	(47.1)
Collection fund surplus / deficit	(0.5)
2023/24 council tax requirement	**177.2**

Inflation & Interest Rates

6.18 Inflation rates have continued to increase dramatically in the last year, with highs not seen since 1981. At the time of publication, RPI stood at 14.2 per cent and CPI at 11.1 per cent with a multitude of factors driving the high inflation rate. Inflation has caused significant pressure on the total cost base of TfL compared to our March 2022 Budget and we are currently expecting the impact of higher inflation to drive an additional circa £300m of cost into our operating cost base in 2023/24.

6.19 As a response to the increased levels of inflation in the economy, the Bank of England has been raising interest rates in line with its mandate to return CPI inflation to two per cent. At the time of publication, the Bank Rate stood at 3 per cent, a rise of 290 basis points since November 2021. TfL have a number of lease contracts in place for rolling stock that are linked to interest rates, and these increases have driven additional cost into our cost base during 2022/23 and will continue to do so in 2023/24 compared to what was expected in the March 2022 Budget.

6.20 Shortly before publishing this document, on 17 November 2022 the Office for Budget Responsibility published new forecasts for the economic outlook. These have not been incorporated into this plan but will be incorporated into future plans.

Savings and efficiencies

6.21 As part of our Financial Sustainability Plan, we set out to achieve savings totalling £730m from 2019/20 to 2024/25. Following our new Funding Settlement and having delivered annualised recurring savings of £398m by the end of 2021/22, we plan to reset the programme, extend by an additional year and stretch the target to £600m from 2022/23 to 2025/26. This takes the total recurring saving to £1.7bn since 2016: of which £1.1bn has been delivered to 2021/22.

Recurring Savings	19/20–21/22	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	TOTAL £m
TfL	398	65	204	201	130	998

6.22 We expect to make total savings of £174m in 2022/23 with £65m of these being recurring savings. Recurring savings are lower than planned due to funding uncertainty throughout the year, however work is ongoing to develop strategic options for future recurring efficiencies and we have made up this year’s shortfall from one off savings.

6.23 Total recurring savings in 2022/23 are forecast to increase by £65m compared to 2021/22 from:

- London Underground (LU) recurring savings of £36m predominantly due to £6m from supplier partnership programmes across fleet and track maintenance, £5m from LU's One Asset Operations programme with majority of the remaining savings delivered through tightly controlled recruitment and reductions in overtime
- Bus operation savings totalling £13m, predominantly from tender savings following renegotiation of bus operating contracts and a further £3m from the Dial-a-Ride transformation programme
- Rail contract savings totalling £7m
- Additional savings totalling £9m across other areas

6.24 From 2023/24 our savings plans are challenging, with over £230m of savings currently high risk, and a further £215m of savings required to maintain financial sustainability. We are committed to meeting these targets and will deliver this through an approach to continuous savings, targeting around two per cent savings per year.

6.25 We plan to make new savings of £204m in 2023/24. There remain significant risks to these plans: we are currently developing plans to deliver £83m of savings and a further £70m of savings have a high risk, meaning workstreams have immature plans identified to deliver the savings targets. Additionally, £32m of savings are identified as medium risk; early plans are in place, but these require further work to ensure delivery.

6.26 We will deliver this through an approach to continuous savings, targeting around two per cent savings per year. These savings are critical to our success and the scale of savings required means we need to adapt to new ways of working and work even more collaboratively with our suppliers and stakeholders.

6.27 We will optimise our procurement and commercial approach to deliver savings across our third-party expenditure, including our operational concessions, other key operating and maintenance contracts and our head office accommodation. We will also maintain tight controls on recruitment and overtime.

Passenger and commercial revenue and other income

6.28 Passenger, commercial and other income is estimated to increase by £1,143.9m, from £5,651.9m in the TfL Budget 2022/23 to £6,795.7m in 2023/24, primarily due passenger income being guaranteed at the level set out in the Funding Settlement in 2023/24 and higher CC, LEZ and ULEZ income.

6.29 The 30 August 2022 Funding Settlement includes a passenger revenue scenario based upon a planning assumption of an annual national fare rise of four per cent in March 2023 and again in March 2024. For 2024/25 and 2025/26, we have reverted to the planning assumption of an annual fare rise of the forecasted retail price index plus one per cent for the July preceding the date of increase, consistent with our last Business Plan in 2019. To the extent that the national rail annual fares increase deviates from four per cent in March 2023 and March 2024, the passenger revenue scenario in the Funding Settlement will be updated to reflect this. The actual level of fares are set by the Mayor on an annual basis.

6.30 In line with the recommendations of the review mandated by the 1 June 2021 Funding Settlement, the Mayor in his September 2022 Mayoral Decision increased the fee for obtaining an Oyster Card to £7 (also making this fee non-refundable) and applied a peak fare to all journeys to/from Heathrow that include Zone 1. On 15 June 2020 the validity of the Freedom Pass and 60+ Oyster were removed from the AM peak on a temporary basis in response to the pandemic, as requested by Government. No final decision has been made as to whether to make this a permanent change, and any change in eligibility would be supported by consultation with appropriate key stakeholders and an Equality Impact Assessment.

6.31 In October 2021, the Mayor expanded the ULEZ from central London up to, but not including, the North and South Circular roads, making it the largest zone of its kind in Europe. Research published in a report of the first six months of the expanded zone, published in July 2022, showed that harmful nitrogen dioxide concentrations in inner London are estimated to be 20 per cent lower than they would have been without the ULEZ and its expansion.

6.32 In November 2022, the Mayor announced that he would further expand the ULEZ London-wide to tackle the triple threats of air pollution, the climate emergency and congestion, and to ensure five million more Londoners can breathe cleaner air. The expansion will come into effect on Tuesday 29 August 2023 and will operate across all London boroughs up to the existing Low Emission Zone boundary. The expansion will be accompanied by a brand new £110m scrappage scheme to support Londoners on lower incomes, disabled Londoners, charities and small businesses and sole traders.

Net change in operating expenditure

6.33 The change in total operating expenditure is an increase of £619.1m between Budget 2022/23 and 2023/24. Inflation on TfL's Bus and other Contracted Services, as well as an increase in bad debt charges are key drivers of the increase (see Subjective Analysis on page 37), partially offset by savings and other efficiencies.

Debt servicing

6.34 Debt servicing reduces by £11.4m in 2023/24 compared to the 2022/23 Budget predominantly due to maturing debt expected to be refinanced at lower rates and higher interest income on TfL's cash deposits. There is incremental borrowing anticipated in both 2024/25 and 2025/26, taking TfL's outstanding borrowing to £14.0bn by the end of 2025/26, which is subject to a further assessment of affordability at this time. We also plan to refinance the borrowing due to mature throughout the period of this plan.

Other grants

6.35 Overall income from specific grants will increase by £88.9m in 2023/24 compared to the Budget 2022/23. This is primarily due to most of the income from the GLA in support of a £110m car scrappage scheme (announced as part of the expansion of ULEZ to the existing Low Emission zone boundary) for polluting vehicles, falling in to 2023/24. The Forecast for 2022/23 is £89.2m higher than Budget due to precept income accelerated into 2022/23 per the terms of the Funding Settlement and an element of income from the GLA in support of the £110m car scrappage scheme for polluting vehicles.

6.36 HM Government Revenue Support decreases from £1,231.0 in the Budget 2022/23 to £nil in 2023/24 as financial sustainability is achieved base funding arising from the Funding Settlement in 2023/24 are allocated solely to support capital expenditure.

Retained business rates

6.37 Subject to consultation and billing authority forecasts due in late January 2023, it is proposed that the Mayor will allocate a total of £2,121.3m to TfL in 2023/24, which comprises of funding from the Mayor's council tax precept of £177.2m and business rates funding of £1,944.1m. Funding received under the business rate devolution proposals are not restricted to support capital investment and can be used to cover operating and financing costs (subject to Paragraph 14 of the 30 August 2022 Funding Settlement) and we have shown business rates funding in the Objective / Subjective Analysis tables in its entirety. The business rate allocation in this plan is indexed in line with guidance from the GLA.

Reporting against TfL's Budget

6.38 TfL monitors its Budget through regular public reporting which includes:

- A Quarterly Performance Report that monitors financial and operational performance against the targets set out in the annual Budget, as well as against prior year. The report also includes key financial and operating performance over the last five quarters and the last four years to assess medium-term trends. This is reported to the TfL Board along with slides to accompany the Chief Finance Officer's presentation

- TfL produce periodic finance reporting which monitor financial progress against the annual budget. These are monitored each period by the TfL Executive Committee along with progress on our balanced scorecard. Performance is additionally reported to the TfL Finance Committee at each meeting
- Project delivery is reported through the quarterly Investment Programme Report (IPR). This will monitor both project costs and milestone delivery against Budget. This report is provided to the Programmes and Investment Committee and the TfL Board

- Quarterly performance review of financial, operational, and capital results with City Hall, examining year-to-date and year-on-year variance analysis. These reports are available to the public within 35 working days after the end of the quarter

- The 2022/23 TfL scorecard has been aligned to our new Chief Officer structure and is supported by an Operations and a Capital scorecard. The scorecard sets up TfL to deliver safe and reliable services which encourage customers back on the network, supporting our goal to be financially sustainable from April 2023.

6.39 Project timeline changes are highlighted in the IPR; any changes in project costs or schedule which are expected to roll over into future years will be assessed as part of the annual Budget setting process and will be incorporated into future Budgets subject to approval by the TfL Board. Further, per the 30 August 2022 Funding Settlement, permission needs to be sought from HM Government to roll over funding to the 2023/24 financial year should the overall Capital Envelope (as detailed in Paragraph 15 of the Funding Settlement) not be met. Any monies so rolled over will not count towards the Capital Envelope for 2023/24.

Equalities, Diversity, Inclusion and Social Integration

6.40 This Budget moves TfL away from the managed decline trajectory TfL had previously been on, mitigating the widening inequalities that would have been caused by the reductions in operations and investment managed decline would have required.

6.41 TfL's obligations in equalities legislation, the Mayor's Transport Strategy and Inclusive London form the basis of our work on inclusion, diversity, equality, and accessibility. The *Action on Inclusion* document was delayed so as to spend time restructuring and refining in collaboration with GLA colleagues. It is due to be published in early 2023 and it will underpin TfL's ongoing commitment to inclusion, diversity, equality, and accessibility.

6.42 Published in November 2021, *Our Equality Objectives* clearly sets out how we are meeting our public sector equality duty and inclusion is threaded through all strategies including the Mayor's Transport Strategy and all its daughter documents.

- Thanks to the recent Government intervention in TfL's finances, TfL will be able to strengthen the transport network so it can continue to serve London's communities. However, there are constraints in the context of customer diversity and inclusion challenges due to service changes, fare affordability and long-term funding
- Although we are making changes to our bus network, we have carefully considered the routes affected through the Central London Bus Review in order to reduce the impact on passengers as much as possible. Despite reductions, maintaining a service that effectively serves those in the most deprived areas remains at the forefront of decision making
- In November 2022 the Mayor announced that he will expand the ULEZ London-wide. The expansion will come into effect on Tuesday 29 August 2023 and will operate across all London boroughs up to the existing Low Emission Zone boundary. The expansion will be accompanied by a brand new £110m scrappage scheme to support Londoners on lower incomes, disabled Londoners, charities and small businesses and sole traders
- The Mayor also announced new measures to support disabled people, including extending the existing exemption periods for London's disabled drivers and community transport minibuses run by not-for-profit organisations to October 2027 and October 2025 respectively, and introducing new exemption periods for disabled drivers and wheelchair accessible vehicles
- TfL has started its work on becoming an actively anti-racist organisation through its launch of the Anti-Racism Leadership Charter. We continue to champion a diverse recruitment process and inclusive leadership as we work hard to be an organisation representative of all Londoners

- Considerations around inclusion remain a key focus of the organisation. Work on inclusion is underpinned by the Action on Inclusion document which outlines our approach for going beyond compliance with the Equality Act 2010 and GLA Act obligations to deliver an inclusive transport network that is open to all.
- Many disabled people have reduced access to the public transport network as a result of stations requiring navigating steps or escalators. 84 per cent of disabled Londoners report that their disability limits their ability to travel. We have been increasing the proportion of our network that is step-free: currently 92 Tube stations, 62 London Overground stations and all Elizabeth line, DLR and London Tram stations have step-free access. This represents 53 per cent of our total station estate. Approximately 95 per cent of bus stops are step-free.

Environmental Impact

6.43 TfL is committed to reducing emissions of air pollutants in London, supporting the transition to a zero-carbon city, and supporting delivery of the London Environment Strategy (LES).

6.44 On 25 October 2021, the ULEZ expanded to cover the area within (but not including) the North and South Circular Roads. Six months after the launch of the ULEZ expansion, nearly 94 per cent of vehicles seen driving in the whole zone meet the strict ULEZ standards on an average day. In addition, nitrous oxide (NOx) concentrations alongside roads in inner London are estimated to be 20 per cent lower than they would have been without the ULEZ and its expansion. In central London, NOx concentrations are estimated to be 44 per cent lower than they would have been.

6.45 We are committed to reducing emissions of air pollutants and greenhouse gases from our bus fleet. We are continuing to introduce zero emission buses in line with the Mayor's commitment that all new buses ordered for TfL services will be zero emission. Around 10 per cent of the bus network will be zero emission by the end of 2022.

6.46 We will ensure that all new cars and vans (less than 3.5 tonnes) in TfL's support fleet are zero emission capable (ZEC) from 2025, in line with commitments in the LES for vehicles in the GLA Group fleet.

6.47 Through licensing requirements, we set standards for taxis and private hire vehicles which will result in reduced emissions from these fleets, as well as vehicle age limits. Taxi owners continue to be able to access ZEC taxi vehicle grants helping them transition to zero emissions as soon as possible. We have also been providing the necessary electric charging infrastructure to support the switch to zero emissions, as well as delicensing payments to reduce the number of polluting vehicles, helping to reduce harmful NOx emissions from the taxi sector.

6.48 We will continue to support the Mayor's target for London to be at least 50 per cent green cover by 2050. We are on track to meet the Mayor's Transport Strategy requirement of a one per cent annual increase in street tree numbers on the TfL Road Network, as part of maintenance activities. We have completed an initial Natural Capital Account of the TfL network and will use its findings to support enhancements to London's natural environment.

6.49 TfL is continuing to conduct and collaborate on research on the impacts of severe weather on our operations to help us better understand the likely impacts of climate change. In 2022 we submitted our most comprehensive assessment of asset climate risks to Defra under the Adaptation Reporting Power. We will make disclosures on TfL's management of climate risks and opportunities through our annual reporting, aligned to Taskforce for Finance-Related Financial Disclosures requirements.

6.50 We will work in partnership with the London Boroughs and other stakeholders to deliver Sustainable Drainage Systems across London's roads, supported by funding from Thames Water and the GLA and helping to reduce surface water flooding risks. We will also continue to contribute to the development of a pan-London surface water flood risk management strategy.

6.51 Our current funding will reduce the carbon emissions from our buildings by one third, by focusing on our most technically feasible sites. With additional funding we could eliminate all of our building emissions, however the remaining two thirds will be progressively more expensive as we take action on our more technically challenging sites. Through our new dedicated building decarbonisation programme, we are undertaking a pipeline of feasibility studies to produced detailed plans for each of our buildings, which will improve the accuracy of our estimated funding requirements over the coming years.

Reserves

6.56 At 31 March 2023, general fund reserves are expected to total £500.0m and are budgeted to remain constant at this level through to 31 March 2026.

6.57 In total, it is forecast that we will hold £624.7m of earmarked, street works reserve and general fund reserves at the close of 2022/23; these reserves will increase to £664.6m by the end of 2023/24, before reducing to £654.4m by the end of 2024/25 and then increasing to £747.1m by the end of 2025/26.

6.58 Earmarked reserves have been established to finance future projects. The street works reserve holds surpluses in relation to street works impacting traffic, which are required under legislation to be applied to reduce the adverse effects caused by street works. We maintain a general fund, with a target minimum of £500m, to ensure liquidity and protect from short-term fluctuations in cash requirements.

6.59 The expected movements in reserves over the planning period are set out in the table below.

Movement in reserves during financial year	**Outturn 2021/22 £m**	**Forecast 2022/23 £m**	**Budget 2023/24 £m**	**Plan 2024/25 £m**	**Plan 2025/26 £m**
Opening balances	886.9	681.2	624.7	664.6	654.4
Transfers to/(from)					
Earmarked reserves	(206.1)	(55.6)	39.9	(10.2)	92.7
Street works reserve	0.4	(0.9)	-	-	-
General fund reserve	-	-	-	-	-
TfL closing balances	**681.2**	**624.7**	**664.6**	**654.4**	**747.1**

6.60 The expected general fund, street works reserve and earmarked reserves at the end of each financial year are summarised in the following table.

Balance of reserves at end of financial year	Outturn 2021/22 £m	Forecast 2022/23 £m	Budget 2023/24 £m	Plan 2024/25 £m	Plan 2025/26 £m
Earmarked reserves	156.0	100.3	140.2	130.0	222.7
Street works reserve	25.2	24.4	24.4	24.4	24.4
General reserves	500.0	500.0	500.0	500.0	500.0
TfL closing balances	**681.2**	**624.7**	**664.6**	**654.4**	**747.1**

Capital Spending Plan and Borrowing Limits

Introduction

7.1 The Mayor is required to prepare a Capital Spending Plan every year for each of the GLA's functional bodies. Before issuing his final plan, he is required to consult on a draft plan with the Assembly and each functional body under section 123 of the Greater London Authority Act 1999. This section sets out the draft capital spending plan for consultation. Even though the statutory timetable for the submission of the Capital Spending Plan is different from the requirements for the revenue budget, the same timeframe is adopted to ease consultation. The Mayor is also required to set the borrowing limits for the GLA Group.

7.2 The Mayor's Budget Guidance for 2023/24 requires the submission of a 20-year Capital Strategy incorporating a 20-year Capital Investment Plan and 20-year Capital Funding Plan. The funding and expenditures in the first five years of the plan are presented annually below. These represent a constrained but optimised investment programme that seeks to deliver progress towards key MTS goals. From 2026/27 onwards, expenditure and funding is grouped into five-year 'buckets', with investment levels growing to improve progress towards the long-term MTS vision. There is a funding shortfall in these later years, due to the higher aspirational level of investment. The Capital Strategy is set out in Appendix C.

7.3 We have scrutinised all capital projects to see where costs can be reduced through value engineering, while continuing to deliver the outcomes required in full and have included efficiency targets which our Capital Efficiency Programme will deliver. We have also reviewed project timing to ensure the programme can be delivered.

Draft Capital Spending Plan

Under Section 122 of the GLA Act (for consultation)

7.4 Set out below is a summary of the Mayor's Draft Capital Spending Plan for 2023/24 which sets out the capital funding sources for the Capital Spending Plan in line with the format required under section 122 of the GLA Act. Further details on the GLA and each functional body's draft plan are set out below. More details of the key deliverables are set out in this section under each member of the Group and in the relevant Appendices.

Section		2023/24 £m
A	Total external capital grants	1,098.1
	Opening balance of capital receipts	-
	Total capital receipts during the year	249.8
	Total capital grants/ receipts	**1,347.9**
B	Minimum s.120(1) grant	-
	Total borrowings during the year	125.0
	Total borrowings	0.0
	Total borrowings and credit arrangements	**125.0**
C	Total capital expenditure anticipated during the year	2,293.2
	Total credit arrangements	-
	Total capital spending for the year	**2,293.2**
D	Funding: capital grants	1,057.6
	Funding: capital receipts/reserves	249.8
	Funding: borrowings and credit arrangements	125.0
	Funding: revenue contributions incl. BRS	860.8
	Total funding	**2,293.2**

7.5 No new capital PFI/PPP schemes are included, other than those already committed.

Below is a summary of the TfL's draft Capital Plan to 2026/27 and how this is financed. As well as specific DfT grant funding set out in the 30 August 2022 Funding Settlement, this funding also includes TfL's estimates of DfT's contributions towards Major Rolling Stock and Signalling Replacements which are included but not quantified in the funding letter.

Summary of the Capital Plan	2022-23 Forecast Outturn £m	2023-24 Budget £m	2024-25 Plan £m	2025-26 Plan £m	2026-27 Plan £m
TfL	1,850.2	2,293.2	2,322.2	2,462.3	2,553.2

Table 3: TfL's Draft Capital plan

TfL's Capital plan	2022-23 Forecast Outturn £m	2023-24 Budget £m	2024-25 Plan £m	2025-26 Plan £m	2026-27 Plan £m
Crossrail construction programme	246.8	47.6	-	-	-
Rolling Stock and Signalling replacement *	472.0	804.9	1,002.9	1,091.3	1,100.5
Enhancements	359.6	486.8	348.4	258.5	249.3
Transport Trading Limited** Properties	136.8	228.9	195.8	262.5	323.4
Renewals ***	635.0	725.0	775.0	850.0	880.0
Total capital expenditure	**1,850.2**	**2,293.2**	**2,322.2**	**2,462.3**	**2,553.2**
Funding:					
Capital Receipts	133.3	249.8	80.5	156.3	177.4
Capital Grants	81.0	984.6	618.1	698.0	708.5
Borrowing	-	125.0	370.0	495.0	495.0
Crossrail Funding Sources	312.0	73.0	-	-	-
Revenue resources used to support capital	1,101.7	730.0	1,082.5	1,218.0	1,276.4
Working Capital Movements	222.2	130.8	171.1	(105.0)	(104.1)
Total funding	**1,850.2**	**2,293.2**	**2,322.2**	**2,462.3**	**2,553.2**

* Rolling Stock and Signalling Replacement includes Four Lines Modernisation, Piccadilly line rolling stock, Railway systems enhancements and DLR rolling stock

** TfL has recently set up a standalone property entity, TTLP, to focus on delivering affordable homes and to generate recurring revenue to reinvest in Transport. TTLP is currently developing a new business plan, which will be published in due course.

*** Renewals expenditure is necessary to ensure the continued safe operation of transport services

Key Deliverables

10.0 Our 2023/24 Budget has moved away from a 'Managed Decline' scenario, although funding available is still limited. Transport Trading Limited Properties has been set up as a new stand-alone entity during the 2022/23 year.

10.1 Total capital expenditure for 2023/24 will be £2,293.2m including the Crossrail construction programme. The key investment areas in 2023/24 include:

- Crossrail construction programme - £47.6m
- Modernisation of Circle, District, Hammersmith and City and Metropolitan lines - £101.6m
- Major Station Upgrades including Elephant and Castle - £18.8m
- Healthy Streets - £108.5m (£150m on average across 2022/23 and 2023/24 including Opex)
- Piccadilly line rolling stock - £431.3m
- DLR fleet replacement - £260.2m

10.2 Key deliverables over the next year include:

Division	Key Deliverable
Crossrail	Complete the final elements of this project
Capital	Continue work on the signalling upgrade on the Circle, Hammersmith & City, Metropolitan and District lines, as well as refurbished trains on the Central line and new rolling stock on the Piccadilly line
	Progress the upgrade of Elephant and Castle station
	Continuing to progress the introduction of new trains on the DLR supporting jobs and homes
	Developing plans to replace the oldest trams in our fleet, although the pace that these can be introduced will be dependent on future funding levels
	Continue construction at Old Street Roundabout and related station works, which includes two complex traffic switches, and will deliver step free Station access and improved safety for vulnerable road users
	Continue road renewal works to keep safe our carriageways, footways, traffic signals, lighting, bridges, tunnels and drainage.
	Continued roll out of cycleways network and Safer Junctions.

Operations	Continue the refurbishment of the Jubilee line fleet and the Central Line Improvement Programme.
	Progress the life extension of our Central line signalling addressing obsolescence challenges
	Upgrading our communications and security systems to ensure we have safe and secure operational and customer information systems across our tube network
	Ongoing renewals of track across the network
TTLP (Transport Trading Limited Properties)	During 2022/23 we have set up TTLP as a stand-alone entity which is wholly owned by TfL and which will continue to bring housing projects through planning with the potential to generate significant ongoing revenue streams or reduce TfL's cost base.

10.3 Our capital spending is financed from seven main sources:

- Government grant as a consequence of the a set out in the August Funding letter including assumed amounts beyond March 2024 for rolling stock and signalling replacement
- Fares and ticket income
- Charges under the road user charging schemes (Congestion Charge, LEZ and ULEZ)
- Secondary revenue (such as advertising and property rentals)
- Third party funding for specific projects
- Surplus revenue resource from the capital grant funding through the business rates devolution
- Prudential borrowing and related financing (including bond issuances)

Our long-term Capital Strategy is presented in detail in Appendix C.

Appendix A

Table 1: TfL - Subjective analysis

(^Budget represents the TfL Budget approved and published in March 2022)

TfL Subjective analysis	Budget^ 2022/23 £m	Forecast 2022/23 £m	Budget 2023/24 £m	Plan 2024/25 £m	Plan 2025/26 £m
Income					
Passenger Revenue	(4,300.4)	(4,305.5)	(5,158.0)	(5,572.3)	(5,982.6)
CC, LEZ & ULEZ*	(773.6)	(858.9)	(1,028.4)	(1,046.8)	(812.4)
Advertising Income	(125.3)	(144.1)	(136.7)	(131.5)	(134.7)
Property Income	(73.7)	(78.1)	(83.3)	(86.3)	(88.4)
Other Income	(405.1)	(393.3)	(420.0)	(435.5)	(446.2)
Subtotal Income	**(5,678.1)**	**(5,779.9)**	**(6,826.4)**	**(7,272.4)**	**(7,464.3)**
Operating Costs					
Staff Costs (gross)	2,338.9	2,174.2	2,265.2	2,313.6	2,352.7
Property, Utilities, Cleaning & Security	539.9	533.9	614.0	649.8	655.7
Bus Contract Payments	2,040.0	2,027.4	2,166.6	2,251.8	2,272.9
Other Contracted Services Costs	783.3	798.3	860.2	918.8	950.1
Traction Current	205.7	199.6	289.3	318.2	312.2
Maintenance	510.0	508.5	536.3	563.1	572.0
Legal and Professional Fees	125.7	133.5	131.6	138.2	140.9
Technology Costs	166.9	167.6	166.3	174.7	177.3
Bad Debt Provisioning	230.7	353.5	458.5	487.9	327.6
Staff Recharges	(411.1)	(361.3)	(371.7)	(387.1)	(394.0)
Investment	65.4	153.4	219.7	151.8	129.1

Programme

Table 1: TfL - Subjective analysis (continued)

Other Operating Costs	608.1	426.2	486.4	388.0	503.3
Subtotal Operating Costs	**7,203.5**	**7,114.8**	**7,822.4**	**7,968.8**	**7,999.8**
Net Operating Expenditure	**1,525.4**	**1,334.9**	**996.0**	**696.4**	**535.5**
Debt Servicing	426.0	417.5	414.6	448.4	515.5
Revenue resources used to support capital investment	1,086.8	1,126.4	589.4	1,110.3	1,225.4
Transfer to/(from) reserves	93.3	(24.7)	140.6	(27.8)	(7.4)
Financing Requirement	**3,131.5**	**2,854.2**	**2,140.7**	**2,227.2**	**2,269.2**
Specific grants	8.0	97.2	96.9	0.5	0.5
Retained business rates	1,897.0	1,897.0	1,944.1	1,985.0	2,024.6
General services grant 2022/23	21.0	21.0	-	-	-
Collection fund surplus/ (deficit)	(78.0)	(78.0)	(77.5)	-	-
HM Government revenue support	1,231.0	864.5	-	-	-
Council tax requirement	**52.5**	**52.5**	**177.2**	**241.7**	**244.1**

* CC, LEZ & ULEZ also covers connected activity such as autopay schemes and the Direct Vision Standard

Table 2: TfL Group - Capital financing costs

Capital financing costs	Budget 2023/24 £m	Plan 2024/25 £m	Plan 2025/26 £m
Provision for repayment of debt	57.7	62.4	62.4
External interest	563.2	591.7	655.7
Total	**620.9**	**654.1**	**718.1**

Prudential borrowing The TfL Board approves prudent treasury strategies and policies that have regard to the principles of the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the Treasury Management Code) issued in 2017 and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued in 2021 by the Chartered Institute of Public Finance and Accountancy (CIPFA). The strategies and policies also have regard to the Statutory Guidance on Local Authority Investments (the Investments Guidance) issued by the Department for Levelling Up, Housing and Communities (DLUHC) formerly the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in March 2018.

Borrowing is undertaken within prudent limits approved by our Board and the Mayor. We do not expect to increase our net borrowing in 2022/23 but may plan to increase our borrowings in subsequent years by a prudent amount, subject to a further assessment of affordability at that time.

The GLA has also established a financing facility of up to £500m as contingency funding over the course of the Funding Settlement with the DfT, which forms part of the authorised limit for external debt that TfL can call on, if needed, to balance the budget.

During the year the TTL Properties Limited established a £200m revolving credit facility in order to support their operations for the development of investment property assets and affordable housing schemes.

The maximum amounts of borrowing in each financial year are set out in the tables below. We constantly assess our financial position and will only borrow where it is prudent and affordable to do so.

Historically we have borrowed from a variety of sources, with consideration given to the cost of borrowing, market conditions and the level of flexibility offered. These sources include:

- The Public Works Loan Board
- A £5bn Medium Term Note programme
- A £2bn Commercial Paper programme
- The European Investment Bank and Export Development Canada, with loans linked to specific infrastructure projects
- Leasing arrangements, used for specific assets such as rolling stock
- Overdraft and liquidity facilities of £200m that are in place to provide contingency liquidity.
- GLA financing facility of up to £500m that is in place to provide contingency funding
- A £750m loan facility from the Department for Transport to support the completion of the Crossrail project

We believe our proposed levels of borrowing remain affordable and consistent with prudent financial management.

Annual Minimum Revenue Provision

As TfL have a legal requirement to produce a balanced budget (and this approach had been extended to the full Business Plan), the cost of debt service is taken account of in determining whether the budget and business plans are in balance.

The significant majority of our borrowings are passed down to TfL's subsidiaries, where they are used to fund capital expenditure in the year they are drawn down. As the assets funded by these borrowings come into use and are depreciated, revenue grant is passed down by the Corporation to fund that element of the annual depreciation expense that is not already covered by other sources of revenue within the respective subsidiary. The revenue grant passed down is charged against the Corporation's General Fund Reserve and hence acts as a proxy for Minimal Revenue Provision.

For the debt used to finance capital expenditure within the Corporation, an Annual Minimal Revenue Provision is made. This has been calculated to build up a provision over the average expected useful economic life of the assets funded.

The tables below set out the proposed borrowing limits over the period having regard to proposed capital spending plan and have been prepared with reference to the requirement of the Prudential Code, including providing calculations of the prudential indicators.

Table 3: TfL Group - Authorised limit for external debt

Authorised limit for external debt	Current Approval 2022/23 £m	Revised Approval 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m	Proposed 2025/26 £m
Borrowing	14,568.8	14,568.8	15,018.6	15,388.6	16,083.6
Long term liabilities	3,175.4	3,175.4	3,169.2	3,044.5	2,926.4
TfL closing balances	**17,744.2**	**17,744.2**	**18,187.8**	**18,433.1**	**19,010.0**

Table 4: TfL Group - Operational limit for external debt

Operational limit for external debt	Current Approval 2022/23 £m	Revised Approval 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m	Proposed 2025/26 £m
Borrowing	13,069.0	13,069.0	13,118.6	13,488.6	13,983.6
Long term liabilities	2,675.4	2,675.4	2,419.2	2,294.5	2,176.4
TfL closing balances	**15,744.4**	**15,744.4**	**15,537.8**	**15,783.1**	**16,160.0**

Table 5: TfL Corporation - Authorised limit for external debt

Authorised limit for external debt	Current Approval 2022/23 £m	Revised Approval 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m	Proposed 2025/26 £m
Borrowing	13,769.0	13,769.0	14,818.6	15,188.6	15,883.6
Long term liabilities	785.3	785.3	691.2	645.6	604.4

TfL closing balances	**14,554.3**	**14,554.3**	**15,509.8**	**15,834.2**	**16,488.0**

Table 6: TfL Corporation - Operational limit for external debt

Operational limit for external debt	Current Approval 2022/23 £m	Revised Approval 2022/23 £m	Proposed 2023/24 £m	Proposed 2024/25 £m	Proposed 2025/26 £m
Borrowing	13,069.0	13,069.0	13,118.6	13,488.6	13,983.6
Long term liabilities	535.3	535.3	441.2	395.6	354.4
TfL closing balances	**13,604.3**	**13,604.3**	**13,559.8**	**13,884.2**	**14,338.0**

Appendix B - Climate Budgeting

Progress this year

6.52 TfL has set out its Vision & Values, which has as its central vision ensuring TfL is the "strong, green heartbeat for London". Emissions of carbon per person for transport in London are much lower than in the rest of the UK, and have been decreasing in recent years, but we know we must go further and are setting ourselves up as an organisation to achieve this. Continuing progress on decarbonisation is set out in this Budget, and with more funding we could go even further.

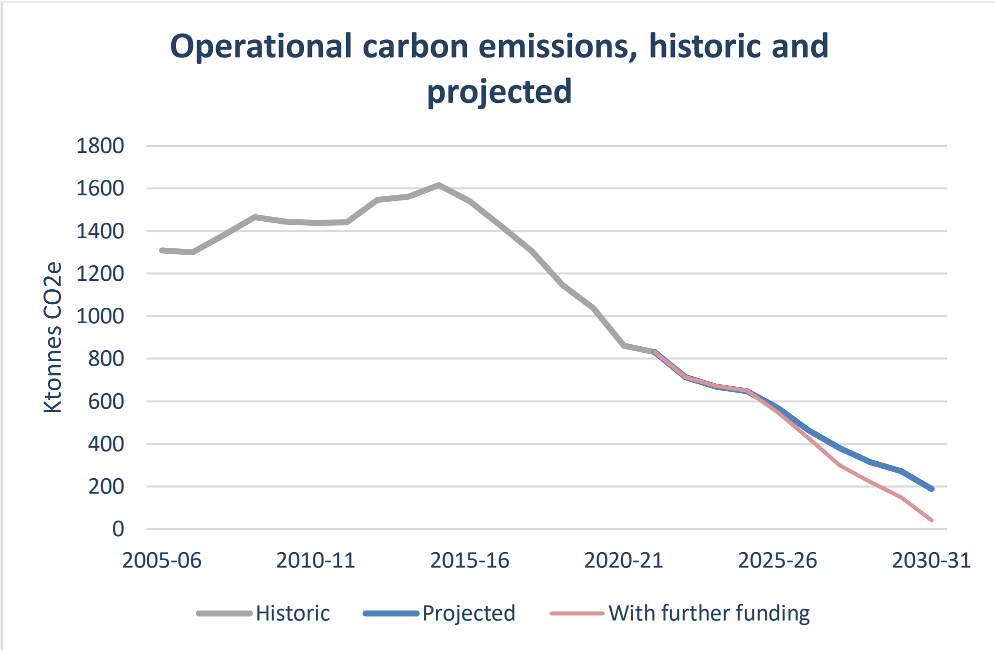
6.53 Over the course of this year, we made a good start on our goal to adopt a Net Zero plan for our Head Offices and develop Decarbonisation Plans for all other buildings. We undertook a deep dive across our entire estate (about 2,400 sites) and developed a strategy to cut costs, carbon and energy and attracted £100k of government grant funding. Work is now underway to detail the next steps into delivery.

6.54 We completed the Major Projects Carbon Baseline – this is the first time the whole life carbon emissions for all ten current Major Projects have been modelled in detail and consistently over a 120-year assessment period, allowing programmes to identify their carbon hotspots. The carbon baseline contains approximately 2.3 million tonnes of CO2 equivalent and Major Projects will be aiming to reduce their whole life carbon impacts in the coming years, by management of carbon through the design process and in collaboration with our supply chain. We are now working to expand the carbon baseline across our capital investment portfolio.

6.55 In recognition that everyone has their part to play on cutting carbon we launched TfL Carbon Literacy Training in the summer with the Carbon Literacy Project. Nearly 300 employees have already become Carbon Literate and 25 have become Carbon Literacy Trainers. At the start of 2023, we plan to run four courses a week and be on track to reach our target of 500 employees by end of the financial year.

6.56 In June we went to market with our first renewable Corporate Power Purchase Agreement covering approximately 10 per cent of our electricity demand. This year the energy market has been volatile and the response from the market was limited. We learned from the process and are revising the tender to widen eligibility with plans to relaunch it at a more stable time next year. At present our energy is 100% standard Grid mix however we are looking at sourcing approved "green" electricity.

6.57 The scope of this year's Climate Budget is TfL's operational emissions, where our target is to achieve net zero by 2030. This includes all energy and fuel that TfL purchases directly, along with the emissions associated with the operation of TfL-branded services. For example, this includes the emissions associated with the TfL bus network and London Overground, where TfL doesn't directly purchase the energy or fuel directly.



6.58 We have made and will continue to make significant progress in reducing our carbon emissions. Our funded plan is demonstrated in the projected emissions scenario above. With additional funding, we could go even further, closing almost all of the gap towards the ambition of net zero operations by 2030. We do not at present "offset" any carbon emissions arising from staff air travel. Further assessment would be required to close the remaining gap beyond the 'with further funding' scenario.

Funded initiatives (contributing to projected emissions scenario)

6.59 Around 98 per cent of TfL's operational emissions come from bus operations and the electricity we use for our rail operations (covering traction and non-traction, for example in our buildings). Therefore, our primary focus has been on tackling these two issues.

6.60 Bus operations make up over 50 per cent of TfL's operational emissions. The Mayor's Transport Strategy in 2018 set out an ambition for all TfL buses to be zero emission by 2037. In 2021, the Mayor confirmed that all new TfL buses will be zero emission and that the plan to deliver a 100 per cent zero-emission fleet would be brought forward by three years, to 2034. At the same time, he set out that, with further funding, it would be possible to accelerate further, to achieve a fully zero-emission bus fleet by our target of 2030.

6.61 The TfL business plan maintains the 2034 zero emission bus plan, but with confirmed investment in the next two years that allows us to keep the pathway open for an acceleration in roll-out of zero emission buses to our target 2030. Our approach will ensure we do not contract combustion engine buses into the fleet beyond 2030 over the next two years. However, to maintain the trajectory towards a 2030 target beyond 2024/25 will require significant additional funding (see section on additional funding).

6.62 We continue to make progress upon our plan for a cost-effective transition to zero carbon energy, of which a significant proportion (approx. 50 per cent) will be achieved thorough Power Purchase Agreements (PPA). TfL are using a phased introduction which will see various tranches take power at intervals up to 2030. Using this approach allows TfL to learn and adapt as the market evolves. TfL are also engaged in GLA Energy Procurement Collaboration which aims to pool the electricity demand of the GLA bodies to jointly procure PPAs. This could allow the entire Group to benefit from enhanced purchasing power whilst also bringing efficiencies in the procurement process.

6.63 These two key initiatives are complemented by the following range of additional initiatives.

6.64 Over the past year we have developed a better understanding of emissions from our buildings and have developed a strategy to minimise this impact. We are now creating a programme with dedicated funding to deliver upon this strategy, which will focus on energy efficiency upgrades and gas appliance removal that will payback within the period of the plan.

6.65 The Mayor’s Transport Strategy (MTS) and London Environment Strategy (LES) outlines commitments for all GLA Group fleets to be zero emission by 2030. To support this, our Corporate Environment Plan sets out the following targets:

- All cars in TfL fleet must be zero emission by 2025;
- All vans in TfL support fleet must be zero emission by 2030;
- All heavy vehicles (greater than 3.5 tonnes) must be fossil fuel-free from 2030.

TfL operates approximately 1,000 fleet vehicles, with less than five per cent currently being Zero Emission Capable (ZEC). We have funding to convert all cars and vans in TfL to zero emission in line with our targets, with the leasing of new vehicles as well as the implementation of supporting infrastructure in the vehicle depots.

6.66 Solar Private Wire is a key project to enable TfL to directly receive zero-carbon electricity from new-build local solar assets, reducing the carbon emissions associated with the operation of the LU network. As well as the environmental benefits, there is the potential for financial savings based on the avoidance of costs associated with delivery of power via the grid, which typically make up circa 50 per cent of the energy bill.

Funded initiatives (not in scope)

6.67 Whilst not directly reducing TfL's operational carbon footprint, therefore not in-scope for this year's climate budget, TfL continues to invest in measures that incentivise active travel and reducing the usage of the most polluting vehicles in London, thereby reducing the carbon footprint of London as a whole.

6.68 In October 2021, we expanded the ULEZ from central London up to, but not including, the North and South Circular roads, making it the largest zone of its kind in Europe.

6.69 In January 2022, the Mayor published an independent report to develop pathways toward his target of London reaching net-zero carbon by 2030. As well as the urgent need to reduce carbon emissions and address climate change, the Mayor identified the need to reduce toxic air pollution and cut congestion.

6.70 To tackle these challenges, in November 2022 the Mayor announced that he will expand the ULEZ London-wide to tackle the triple threats of air pollution, the climate emergency and congestion, and to ensure five million more Londoners can breathe cleaner air. The expansion will come into effect on Tuesday 29 August 2023 and will operate across all London boroughs up to the existing Low Emission Zone boundary.

6.71 The ULEZ expansion will be accompanied by a brand new £110m scrappage scheme to support Londoners on lower incomes, disabled Londoners, charities and small businesses and sole traders. Successful scrappage applicants will receive a grant to scrap or - for the first time - retrofit their vehicle for certain vans and minibuses. Successful car owners can opt to receive a smaller grant accompanied by up to two free annual bus and tram passes, which would give them a higher financial package.

6.72 To maximise the potential benefits of expanding the ULEZ and strengthen alternatives to private cars, the Mayor also announced a plan for improving the bus network in outer London that will see over one million further kilometres added to the bus network. In east London, new zero-emission cross-river services will be introduced, subject to consultation.

6.73 We are also continuing to fund a project team to explore the delivery of waste heat opportunities that would provide CO_2 savings to London, by capturing and re-using thermal energy from London Underground ventilation shafts for use by external suppliers of local heat networks and buildings.

Uncertainty over funded initiatives

6.74 Although Government have provided a funding settlement to March 2024, there remains significant uncertainty on the level of funding that will be provided in 2023/24. A proportion of expected funding, linked to increased inflation, is subject to DfT review and approval. All Government funding in 2023/24 contributes to the funding of capital investment, therefore failure to receive this funding would impact our ability to deliver our capital investment programme including carbon-related initiatives.

6.75 There is currently no certainty on Government funding for capital investment beyond March 2024. The TfL Business Plan makes an assumption on the level of funding that will be made available for rolling stock and signalling replacement. If this funding is not confirmed in future, this will impact the ability to fund all of TfL's capital investment including green initiatives.

6.76 Since the Government introduced the 'Energy Prices Act', which contained outline proposals to control energy prices – with potential implications for the wholesale price of electricity generated by renewable and low-carbon generators – there has been significant market uncertainty. This has meant we have to pause our proposed re-launch of our first PPA procurement. Ongoing market uncertainty or further changes to Government regulation, could impact the pace of progress with PPA roll outs.

With additional funding

6.77 With additional funding, we could deliver additional improvements that would close the gap between our forecast and net zero emissions by 2030. Some of these options are at a very early stage of development, with costs and benefits estimated only at a high level. Further funding certainty in future would allow us to develop some of these options for delivery through this decade.

6.78 With additional funding, we could lock-in the pathway to making the bus fleet zero-emission by our target 2030, which in combination with existing and funded initiatives would save an additional three hundred thousand tonnes of carbon. This would require circa £500-600m in additional funding, although this cost would be spread over the lifetime of the new vehicles which extends beyond 2030.

6.79 In addition to making all buses zero emission, further funding would allow us to make our Dial-a-Ride fleet zero emission. The Dial-a-Ride fleet was renewed with Euro VI vehicles in 2019/20 in order to be compliant with ULEZ. While this considerably improved their emissions footprint, moving to electric vehicles would remove tailpipe emissions completely. It would also improve air quality and reduce noise in residential areas where many customers live. Infrastructure would need to be installed at each Dial-a-Ride depot to facilitate charging. The current supplier market for suitable vehicles is restricted, leading to higher costs.

6.80 We have plans to make our support fleet of cars and vans zero emission. A more expensive intervention would be to make the 20 HGVs in the TfL support fleet zero emission, as options for such vehicles are much more limited. We have estimated costs only at a very high level, though as the market matures options may improve.

6.81 Energy usage and emissions from our rail modes could be reduced through further improving traction efficiency. This could include measures such as regenerative braking, energy storage and 'green CBTC' (where driving style is designed to minimise energy usage).

6.82 Our current funding will reduce the carbon emissions from our buildings by one third, by focusing on our most technically feasible sites. With additional funding we could eliminate all of our building emissions, however the remaining two thirds will be progressively more expensive as we take action on our more technically challenging sites. Through our new dedicated building decarbonisation programme, we are undertaking a pipeline of feasibility studies to produced detailed plans for our buildings, which will improve the accuracy of our estimated funding requirements over the coming years. Further work is required to understand the optimum level of energy efficiency measures for different buildings and sites.

6.83 Further investment in LEDs in our advertising infrastructure, street lighting and traffic signals would reduce another source of emissions, as well as supporting cost savings in operations.

6.84 Finally, further investment in solar power generation beyond the Private Wire project included in this Budget would allow more generation of renewable energy on our estate.

6.85 Climate Budget Tables A & B can be found published on the following web URL: https://tfl.gov.uk/corporate/publications-and-reports/the-mayor-s-budget

Appendix C: TfL Capital Strategy 2023

8 Background

8.1 The Prudential Code for Capital Finance in Local Authorities (2017) requires all local authorities including Transport for London (TfL) to prepare and publish a Capital Strategy. This 2023 Capital Strategy supersedes TfL's Capital Strategy published in previous years.

8.2 On 30 August 2022, we reached agreement with the government on funding until 31 March 2024, which keeps us on track to reach operational financial sustainability by April 2023.The agreement with government means that across the funding period, we are able to deliver more capital investment than previously budgeted, although still below the long-term level necessary to meet the priorities of national and regional government.

8.3 TfL plays a crucial role in driving growth and jobs across London and the UK, and equally we can support the government's national priorities to progress to a carbon-free and climate change resilient future and create wealth and employment that will level up the national economy. In the short term, we are seeking to maximise the benefits we can deliver within a constrained capital envelope, but it remains important to look ahead and identify what investment is needed to renew and improve the transport network in line with the Mayor's Transport Strategy (MTS) and in support of national priorities. Even with the uncertainty of long-term planning, this Capital Strategy will support us in being resilient to a wide range of potential future economic and transport demand outcomes.

8.4 Our Capital Strategy sets out the investment required to maintain safety and operability in the short term as well as the level to which investment should over time increase to achieve the aims of the MTS. The MTS, published in 2018, aims to encourage a shift from cars to active, efficient and sustainable modes of travel, with the central aim for 80 per cent of all trips in London to be made on foot, by cycle or using public transport by 2041. This Capital Strategy covers a 20 year period until 2042.

8.5 We will continue to make the case to government for confirmed capital funding over the long term to support the level of investment described here. We have already recognised the new realities brought about by the pandemic and adapted our capital investment to defer major growth schemes such as Crossrail 2 and the Bakerloo Line Extension, so we can focus on protecting core assets and services. The Capital Strategy reiterates our preferred level of investment from 2030 onwards, as set out in the Policy Consistent scenario of our 2021 Long-Term Capital Plan. In the first five years, this Capital Strategy is aligned to our GLA Budget submission, with investment assumed to increase through the late 2020s towards the necessary long-term level to support key MTS goals.

8.6 The Capital Strategy forms part of TfL's financial planning process and is based on a number of assumptions including the likely cost of the future capital programme and expectations in terms of funding. It is a planning exercise that will need to evolve as TfL's long-term funding position becomes clearer, and the Capital Strategy will be reviewed and developed year on year.

9 Benefits

9.1 Our Capital Strategy enables clearer and more transparent long-term decisions to be made on the investment needs of London. Many transport schemes take a long time to develop and deliver. A long-term view that reflects the current realities and charts a trajectory towards supporting London's post-pandemic recovery is critical to ensure enhancements to London's transport network are delivered when they are needed.

9.2 Our Capital Strategy sets out a pipeline of investment for 20 years. Giving clear sight of our investment aspirations over this period, subject to funding, is useful for a variety of audiences, including customers, London's businesses and our supply chain, who will be able to resource accordingly to meet the demand for construction in London.

9.3 Investment in transport infrastructure benefits many different groups, and it is appropriate that the funding packages for these investments reflect these various beneficiaries. These beneficiaries range from central government, through increased taxation on economic activity and property, all the way to local businesses and residents, who most directly benefit from improved transport links. Formulating full funding packages for large schemes is complex and takes time, as was the case with Crossrail 1. This Capital Strategy identifies schemes in the longer term that require such funding packages and discusses some options for funding them. Developing this work further will help to ensure such schemes are funded in a fair and sustainable way.

9.4 It is not possible to commit to long-term projects unless and until there is long-term funding available to ensure they can be completed. Therefore, a lack of certainty of funding can delay the commencement of essential improvements. A key benefit of the Capital Strategy is that it enables these funding requirements to be identified in sufficient time for them to be addressed.

10 Approach and updates this year

10.1 Our Capital Strategy reflects the long-term priorities set out in the MTS and other Mayoral strategies, including the need to run services safely and reliably. This is set in the context of significant uncertainty on the level of available funding to TfL which will be determined by the pace and level of recovery of passenger demand and the long-term level of government funding.

10.2 This strategy is based on previous Capital Strategy, which was approved by the TfL Board in December 2021. Last year's Capital Strategy was based on the 2021 Long-Term Capital Plan

(LTCP), which was approved by the TfL Board in July 2021. The late agreement of a new funding settlement this year and the ongoing uncertainty about longer-term funding means we have not refreshed our LTCP in 2022. We plan to complete a more fundamental update to our LTCP and Capital Strategy in 2023. Therefore, this year's Capital Strategy is broadly similar to last year's, though updated in the early years to reflect this GLA Budget submission and the assumptions behind it, with minor changes to later years where needed to be consistent with this. We have also updated the outturn figures for the significant changes in inflation over the period, but this does not impact the strategy in real terms

10.3 In the first five years of the strategy, the first two years are covered by our funding agreement with government with the remaining three years seeing us maximise achievement of outcomes as far as possible within our funding constraints.

10.4 The following five years broadly align to the principles of the Financially Constrained scenario of our LTCP ramping up our investment towards the key MTS goals. In the later years, our investment spend transitions into the Policy Consistent LTCP scenario which delivers closest to the MTS vision by 2041.

10.5 Due to the need to combine different scenarios to show a transition from a low rate of investment in the next five years towards the Policy Consistent level by the 2030s, there are some instances of spend profiles that, in a more stable planning environment, could be smoothed. As a result, this document is a high-level planning exercise rather than a detailed guide to very specific investment plans for the next 20 years. TfL regularly revisits its future forecasts and our understanding of future capital investment needs will develop and improve as the future environment becomes clearer.

10.6 Risk allowances have been updated and funding assumptions in the longer term are particularly indicative at this time, being subject to future discussions with the government. We hope that future Capital Strategies will be able to present greater clarity in this area.

11 Influences

11.1 Our Capital Strategy is directly influenced by:

11.1.1 the Mayor's policies and statutory strategies for London, including the MTS, the London Plan, and the London Environment Strategy

11.1.2 the UK's infrastructure requirements, as set out in the National Infrastructure Assessment

11.1.3 our near-term delivery plans and financial position, in particular the funding and conditions that were part of the funding agreement we reached with government on 30 August 2022

11.1.4 the condition and lifecycle of our asset base; and

11.1.5 underlying behaviour trends in London, as analysed in documents such as our annual Travel in London report.

11.2 Our Capital Strategy will be directly or indirectly influenced over time by:

11.2.1 central government policy, in areas such as direct infrastructure funding and devolution, as well as other specific policies such as the Transport Decarbonisation Plan.

11.2.2 external events with the potential to impact on the national economy, London's growth and/or our financial position, such as the war in Ukraine, the cost-of-living crisis, climate and ecological change and rising inflation levels. and

11.2.3 the Mayor's future decisions on allocation of devolved business rates to functional bodies of the Greater London Authority.

11.2.4 Availability of finance through bodies such as the UK Infrastructure Bank may affect availability of financing for our projects.

11.3 This Capital Strategy continues to set out the level of capital expenditure required in the long term to deliver the MTS, which was written and approved before the pandemic. We are experiencing a steady but ongoing recovery on our transport network as a result of the pandemic with ridership now increasing to around 80 per cent of pre-pandemic levels. Demand on our network interacts with transport trends in the wider south east and rest of the UK, for example through demand for commuting to/from London, which has been affected by the pandemic. Although the long-term effects of the pandemic will be complex and wide-ranging and impossible to fully predict at this time, the broad objectives of the MTS are almost certain to remain applicable in all potential future circumstances. Strategic aims such as increasing the shift to more sustainable ways of travel and improving the quality of public transport are central to securing a green recovery for London and supporting the national priorities of decarbonisation and economic growth.

11.4 Our financial planning since the pandemic has considered a range of potential demand scenarios to recognise the uncertainty around future travel demand. How the Mayor's transport policies in the MTS are implemented will need to be considered as the longer-term impacts of the pandemic on travel demand become clearer. As these long-term impacts become clearer, we will keep our future investment programme under review, and future Capital Strategies will further reflect any necessary changes resulting from new forecasts of future travel demand.

12 Policies

12.1 Our Capital Strategy is fully aligned to the Mayor's policies, the MTS policies and TfL's submission to the GLA's Budget on which the Capital Strategy is in part based.

12.2 Any activity in delivering the Capital Strategy will be executed in accordance with our statutory functions and approved policies. The most important of these policies and functions are outlined here.

12.3 In adherence with the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2021, the Capital Strategy references key principles underpinning our approval and governance processes for capital expenditure, commercial activity (including long-term liabilities) and treasury management. For detailed aspects, the documents referenced below and TfL Standing Orders are published on our website.

12.4 Capital spend on transport infrastructure and commercial/investment activity is budgeted for and included in our financial plans covering both the near- and medium-term. These plans are produced at certain points throughout the year and are approved by the Board (or, under delegation, the Finance Committee). We typically produce a medium-term plan that aligns to delivery of the overall MTS, and a more detailed budget, reflecting our near-term targets.

12.5 TfL's financial planning is balanced, integrating capital spend inclusive of commercial activity and investment strategies with the financing strategy for planned expenditure. Short-term extraordinary financial and funding assistance was provided by the government during the coronavirus pandemic, culminating in the funding agreement of August 2022. The 2021 government Spending Review confirmed £1 billion annual investment funding for London's transport system to 2024/25 through Retained Business Rates.

12.6 TfL's commercial activity plans are produced reflecting the Investment Management Strategy (IMS) for non-financial assets, which is updated at least annually and considered by the Finance Committee prior to submission to the Board for final approval.

12.7 The IMS outlines the strategic objectives of the commercial activities, long term direction of the investment programme, metrics to inform decision making framework, risk management policies and the use of independent and specialist experts.

12.8 TfL manages its investments in financial assets and its debt financing in line with its Treasury Management Strategy (TMS), which is updated at least annually and approved by the Finance Committee.

12.9 TfL's treasury management is directed and governed by the TMS comprising the Investment Strategy, Borrowing Strategy, Liquidity Strategy, Risk Management Strategy and Counterparty Exposure Limits. The TMS is implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments, both of which are approved by the Finance Committee.

12.10 Within the year, unbudgeted activity is monitored by various means and is explicitly captured through monitoring of the Prudential Indicators which are aligned to the TfL Group

Budget and TfL's submission to the GLA Budget, and define an operational boundary and authorised limit of external debt including borrowing and long-term liabilities for the following year. The Prudential Indicators set an expected estimate of capital financing costs and capital expenditure for the following year. The Prudential Indicators are considered by the Finance Committee prior to submission to the Board for approval annually.

12.11 Financial guarantees granted by TfL are subject to approval by the Chief Finance Officer or higher authority according to the approvals matrix approved by the Board, as set out in TfL Standing Orders. Under section 161 of the Greater London Authority Act 1999, details of all financial guarantees so granted are disclosed annually in TfL's Annual Report and Statement of Accounts.

12.12 Outturn performance against the Board approved Prudential Indicators is presented to the Finance Committee who also monitor treasury management by verifying the TMS has been implemented and administered appropriately and are responsible for regular in-year monitoring of outturn performance against the TfL Budget.

Financial Investment Strategy

12.13 TfL maintains a low-risk appetite consistent with the good stewardship of public funds, the overriding principle being the prioritisation of security before liquidity and liquidity before yield.

12.14 TfL considers the risk of its overall portfolio as well as individual investments, seeking to diversify its investments and has regard to the exposure to any one counterparty, country, industry, investment type, and credit. TfL targets allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time. TfL will seek to invest cash responsibly by investing in counterparties with strong Environmental, Social and Governance (ESG) performance and policies.

12.15 The maturity profile of investments reflects the expected cash flow requirements of TfL and accommodates for potential forecast variances. The maximum tenor of cash investments is one year.

12.16 TfL seeks to achieve year-to-date returns greater than the year-to-date average benchmark of the Sterling Overnight Index Average (SONIA) which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as Money Market Funds.

Borrowing Strategy

12.17 TfL's objective is to manage its borrowing in a manner that is affordable, sustainable and prudent, combining flexibility, security of access to funds, diversity of funding sources and value for money.

12.18 We have historically used borrowing to help finance investment in London's transport network. All of our borrowing is conducted in line with the provisions of the Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy.

12.19 The total value of outstanding borrowing and other long-term liabilities is maintained within an Authorised Limit agreed by the Mayor and approved annually by the Board (as required by the Local Government Act 2003) through a separate Prudential Indicators document.

12.20 Given the reduction in our income during the pandemic, borrowing has not made up a significant source of our recent funding, although we have continued to refinance the majority of our maturing debt. Borrowing may continue to support our capital investment programme in future, when we reach and maintain financial sustainability. Our latest business plan assumes around £1.2bn of incremental borrowing is anticipated across 2024/25 and 2025/26, taking our outstanding borrowing to £14.0bn by the end of 2025/26, although this will be subject to a further assessment of affordability at that time. Borrowing will also be considered where the capital spend results in a clear increase in recurring operating surplus that can service the operating and financing costs.

12.21 In addition to the Public Works Loan Board being a readily available source to raise funds, TfL seeks to maintain access to a range of other financing sources.

12.22 Transport Trading Limited Properties (TTLP), a subsidiary of TfL, has secured a £200m three-year revolving credit facility and will draw on this facility as required to support its capital programme. Since 1 April 2022, TTLP has been financially independent of TfL and the revolving credit facility is non-recourse to TfL.

12.23 The TMS sets a limit on the level of variable debt exposure acceptable to TfL. As debt service represents a relatively significant part of TfL’s annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement.

13 20 Year Capital Ambition

13.1 Our Capital Ambition over the long term is to deliver the outcomes of the MTS, including supporting the three pillars of that strategy: Healthy Streets and healthy people, a good public transport experience, and new homes and jobs.

13.2 In the later years of this Capital Strategy, we hope to improve our funding position to enable an increase in the level of investment towards what is required to improve the reliability, capacity and resilience of London's transport network, supporting London's development into a safer and greener city.

13.3 We estimate that delivering this Capital Ambition beyond the next five years would require an average annual spend of £4.9bn in outturn terms (including inflation), of which £3.3bn is the required cost to renew and replace existing assets. The remainder is required to deliver the enhancements and extensions that will support quality of life in the city as well as critical improvements such as making progress on decarbonising the transport network, eliminating death and serious injury from the transport network and cleaning London's air. The impact of inflation over 20 years is significant, and this is a large driver of the higher costs shown here compared to the first five years of this Budget.

13.4 Our Capital Ambition can be divided into three substantial categories, detailed below. Average annual costs in outturn terms for years 6-20 are shown for each category.

Rolling Stock and Signalling replacement (*£1.2bn pa*)

13.5 Across our rail services, TfL owns more than 800 trains, as well as signalling systems across each rail service and line. Underground trains have a design life of around 40 years and require replacing towards the end of this period, although in some cases it is possible to extend this life depending on asset condition. Light rail vehicles have a shorter life. We are already contractually committed to replacement programmes on the Piccadilly line and DLR. Like trains, signalling systems also degrade over time and require replacing when the costs of maintaining them are no longer efficient compared to the costs and benefits of replacing them.

13.6 To optimise whole-life cost, rolling stock should be replaced at the end of its design life or as close to it as reasonably possible. Over the course of the next 20 years, this will mean replacing the rolling stock on the Piccadilly, Bakerloo, Central, Waterloo & City, Jubilee and Northern lines, as well as rolling stock on Trams and more recent DLR vehicles. We will require funding support to enable this programme of replacements to progress, as set out in our funding agreement with government.

13.7 When TfL replaces life-expired assets, the new rolling stock and signalling typically provide much greater functionality than the older assets being replaced. This category assumes that we replace our assets with modern equivalents – which would perform at a higher level than the assets they are replacing, some of which date back to the 1970s or earlier.

13.8 Rolling stock for London Overground and the Elizabeth line is leased and not owned by TfL, so is not included here.

13.9 For signalling, costs are included for a replacement system on the Piccadilly line by the early 2030s, replacement Bakerloo line signalling, incremental replacement projects across the Central line and DLR, and ongoing management of existing systems on all other lines. These investments would deliver performance, reliability and capacity benefits, supporting communities all along these important routes.

Renewals *(£2.1bn pa)*

13.10 Separate from the large-scale projects to renew and replace rolling stock and signalling, our ongoing capital renewals cover the remaining investment in our existing asset base to maintain its condition and performance. This covers assets ranging from London Underground track, stations, power and other enabling assets to highways, bridges, cycle routes, IT systems and many others.

13.11 We continually assess asset condition to ensure we can maintain safe and reliable services. Our latest funding agreement has allowed us to increase the level of renewals of our assets compared to our previous Budget, although this is still below the rate we need to achieve in the long term. Beyond the early years of this strategy, we have increased renewals spend towards what is required for a more stable long-term investment rate.

13.12 Investing in maintaining the condition of all of our assets is crucial to the long-term sustainability of London's transport network. It supports the high standards of safety, reliability and environmental performance that we must deliver, as well as enabling the best whole-life cost for maintaining assets to be achieved. Failing to renew assets at an acceptable level will lead to reduced operations to maintain safety which will impact the reliability of our services, our revenue and financial sustainability. It will also lead to more inspections, maintenance and higher costs in the long term for emergency works and sub-optimal repairs. This strategy sets out a path to returning renewals investment to a sustainable level in the long term.

Enhancements (£1.6bn pa)

13.13 Our latest funding agreement will allow us to deliver additional enhancements compared to our previous Budget. This, however, is still below the rate we need to achieve in the long term. Beyond the early years of this strategy, we hope to be able to build up activity to accelerate progress towards making London a safer city, with cleaner air and greener, more inclusive environments. This long-term investment will also be aimed at delivering a transport network that will unlock growth and support future housing and jobs growth, to maintain London's competitiveness as a world-leading city for living, working and visiting.

13.14 The Enhancements category includes investment priorities that are required to deliver the wide range of improvements set out in the MTS. This includes progressing towards London's ambitious goal of making London's transport network zero-carbon; increasing mode shift to walking, cycling and public transport; our Vision Zero ambition to eliminate death and serious injury from London's roads; and providing step-free access at London Underground and rail stations. Improving the transport network will also require investment in our technology to increase productivity and improve customer experience.

13.15 As well as the capital investment on TfL's own assets included in this category, TfL contributes to improvements on London's street network through its operating account, which funds work on borough roads through the Local Implementation Plans. As TfL cannot capitalise such costs due to them occurring on non-TfL assets, these sums are not included here.

13.16 This category also covers new-build schemes to extend existing lines or build completely new routes. We have been developing several such schemes that will unlock housing and growth across London, relieve crowding on the existing network and stimulate development in opportunity areas. None of these have been expected to commence construction in the next five years. We have adapted our capital plans to respond to our funding challenges by deferring these schemes and this presents a level of risk to delivery. Many schemes have developer and borough funding committed towards scheme development and/or delivery and delaying them will likely result in developers choosing to invest elsewhere, potentially outside London, losing significant third-party income to maximise economic growth in opportunity areas.

13.17 It remains crucial to focus on long-term demand and not solely on the volatility of our current circumstances. Network extensions require input from multiple stakeholders including the Mayor, developers, boroughs and other third-parties and due to their size and complexity they require bespoke delivery plans that take a long time to implement. We must plan now for longer-term enhancements that will enable us to prepare for a level of regeneration that will support recovery across London and the wider UK. It is not possible to commit to long-term projects unless and until there is long-term funding available to ensure they can be completed. Therefore, a lack of certainty of funding can delay the commencement of highly beneficial improvements.

13.18 The schemes included here are subject to funding becoming available to progress them. The schemes considered are a DLR extension to Thamesmead supporting up to 20,000 new homes along with bus transit links, the Bakerloo line extension to Lewisham which is assumed to commence in the 2030s and is aimed at improving connections within southeast London and into central London and the West London Orbital, a new rail service that would be part of the London Overground and improve connectivity across west and northwest London.

13.19 All planned schemes in this area will be dependent on third-party funding to support their affordability, reflecting the various beneficiaries such schemes deliver.

13.20 Many of these schemes would be likely to be delivered in cooperation with other organisations, but we have included the full estimated capital cost of each scheme at this stage as well as an assumption about funding (either from grant or other sources) that may be available to support such schemes. It is possible that TfL will not eventually incur the full capital cost as and when these schemes proceed to delivery.

13.21 There continues to be a strong case for developing Crossrail 2 as a major scheme for the longer-term development of London. At this stage TfL expects construction work on Crossrail 2 to commence outside the period covered by this Capital Strategy, but it remains an important long-term scheme for London. We continue to safeguard the route and are working with government to update this safeguarding. If a funding package can be identified, work on the scheme could be brought forward to begin within the period of this Capital Strategy.

14 20-Year Capital Investment Plan

14.1 All projects included in the Capital Ambition are included within the Capital Investment Plan.

14.2 While the MTS deliverables are clear, it is not always possible to be precise about the exact schemes being undertaken, particularly towards the later years of the Capital Strategy. Where specific projects and cost estimates are not available, costs have been included based on appropriate comparator projects. This means the costs outlined in this Capital Investment Plan are not precise and will be expected to change over time.

14.3 The Capital Investment Plan covers work on TfL's existing network and anticipated extensions to it. Other investment in London's transport infrastructure not owned by TfL would be required to accomplish the outcomes of the MTS, but such investment is not included here, as it would not be classified as TfL's capital investment. TfL will continue to make the case for all investment required to deliver the MTS to be progressed, regardless of who owns the assets. If there is any transfer of responsibility for assets in future, then future Capital Strategies would reflect any required investment in this new asset base.

14.4 Increasing activity from the current level to the levels of investment proposed for later years of this strategy would require increasing our delivery capacity. This would be best supported by confirmation of long-term funding that would allow us to commit to planning and developing schemes with our supply chain to allow us to achieve the level of delivery necessary to support a larger capital programme.

14.5 While we have a funding agreement with government taking us to March 2024, the uncertainty of funding over a longer period constrains TfL's ability to optimise investment delivery. It is also inconsistent with the commitments we need to make to projects that take many years to design and build and an asset portfolio that, in order to be efficient, requires a whole life approach to maintenance. Without a clear picture of future resources, TfL cannot plan for the future of the network, and the benefits it brings nationally, in an optimal way.

14.6 The combined Capital Investment Plan and Capital Funding Plan are presented in Table 7.

15 20-Year Capital Funding Plan

15.1 TfL is on course to reach a financially sustainable position by 2023/24. This will mean that capital renewals are funded by operating income. While the level of renewals will need to increase in later years of this strategy, our intention will be to continue to fund them within a balanced operating account.

15.2 The remaining categories contain the largest number of schemes, including all streets investment and much of our London Underground and Rail investment to renew, improve and grow the existing network. A steady and sustained level of capital improvements not only delivers efficiencies and reduces whole life costs but improves the reliability of our transport network.

15.3 A significant funding source for these enhancements is the capital element of retained business rates (formerly paid as an Investment Grant direct from central government). This is insufficient to cover all investment included here, particularly given the need to replace rolling stock and signalling on the Deep Tube lines dating back to the 1970s or earlier.

15.4 Our funding agreements with government have acknowledged that we would not be expected to fully fund the replacement of life-expired rolling stock and signalling. Accordingly, we have assumed some government contributions towards this investment during the years of our Business Plan, although we note there is no confirmation of this beyond March 2024.

15.5 We regularly review the amounts we can borrow, ensuring they are prudent, affordable and sustainable. We have not assumed any incremental borrowing until after we have reached financial sustainability. Around £1.2bn of incremental borrowing is anticipated across 2024/25 and 2025/26, which is subject to a further assessment of affordability at this time. We also plan to refinance the borrowing due to mature throughout the period of this plan. We have not included borrowing in later years of this strategy, as our operating account is not forecast that far into the future, so affordability is not able to be assessed.

15.6 Network extensions not only improve transport but also stimulate a step change in development in the areas they run through, and they are of strategic importance to the future of London and the wider South East. We must plan for the long-term demand and growth that London will need in the aftermath of the pandemic, to put it on the path to full economic recovery. Network extensions not only unlock growth, jobs and new homes but increase capacity and accessibility to jobs. They are a significant contributor to the national priorities of economic growth, levelling up and decarbonisation and not delivering them will likely put London and the wider UK's economic recovery at risk.

15.7 Due to the size, complexity and expense of these schemes, they require bespoke funding and delivery plans, as was the case for Crossrail 1 and the Northern Line Extension. Sources of funding for these projects could range from central government investment grant through to devolved income streams, contributions from developers and other forms of land value capture. Elements of some projects would be expected to be delivered by bodies other than TfL, such as Network Rail.

15.8 Given the early stages of development of these schemes, it is natural that their funding packages have not yet been fully agreed. This Capital Strategy includes funding where sources have already been identified.

15.9 Other possible funding sources towards this investment are considered in the next section.

Table 7: Capital Investment and Funding

All figures are adjusted for future forecasts of inflation

TfL's Capital Strategy £bn	**2022/23 to 2026/27 £bn**	**2027/28 to 2031/32 £bn**	**2032/33 to 2036/37 £bn**	**2037/38 to 2041/42 £bn**	**Total Yrs 6-20**	**Average pa Yrs 6-20**
Crossrail	(0.3)	-	-	-	**-**	**-**
Rolling Stock and Signalling Replacement	(4.5)	(4.7)	(7.3)	(6.2)	**(18.3)**	***(1.2)***
Enhancements	(1.7)	(5.0)	(7.6)	(11.1)	**(23.7)**	***(1.6)***
TTLP	(1.1)	(0.7)	(0.1)	(0.1)	**(1.0)**	***(0.1)***
Renewals	(3.9)	(8.4)	(10.7)	(11.9)	**(31.1)**	***(2.1)***
Total capital expenditure	**(11.5)**	**(18.8)**	**(25.8)**	**(29.3)**	**(74.0)**	***(4.9)***
Funding						
Capital Receipts	0.8	0.7	0.1	0.1	**1.0**	**0.1**
Revenue Contributions	8.5	14.3	17.2	19.1	**50.6**	**2.1**
Borrowing	1.5	-	-	-	**-**	**-**
Working Capital and Reserve movements	0.4	-	-	-	**-**	**-**
Capital Grants	0.0	1.5	0.1	0.8	**2.4**	**0.2**
Crossrail 1 Funding	0.3	-	-	-	**-**	**-**
Total funding	11.5	16.5	17.5	20.0	**54.0**	**3.6**
Overall additional funding required	**-**	(2.3)	(8.4)	(9.3)	**(20.0)**	**(1.3)**

16 Ambition Gap

16.1 Beyond the first five years, there is a gap between the Capital Ambition and identified funding sources. The long-term financial situation of TfL is uncertain and also subject to discussions with the GLA and the government, although in the longer term there is greater flexibility and the potential ability to identify new, sustainable sources of funding.

16.2 The main funding source for investment before the pandemic was the capital element of retained business rates (formerly paid as an Investment Grant direct from central government). This is insufficient to cover all investment included here, particularly given the need to renew our existing assets while also investing to improve and expand our network. Delivering all of the investments London needs to replace and upgrade its infrastructure will require further funding beyond that currently identified.

16.3 Various mechanisms exist for raising this additional funding, including:

a. **Further government support beyond the current business rates arrangements.** This could include a larger allocation to London, reflecting its contribution to the national economy, and a longer-term settlement enabling us to plan with more certainty for investments that will take many years to deliver. We continue to make the case to government, for confirmed capital funding to support the investment described in this strategy.

b. **Devolution of financial powers to London (and other cities).** London controls relatively little of the tax raised within it. Devolving powers over taxes such as stamp duty and vehicle excise duty could allow the cities of the UK to better manage their own growth.

c. **Generating an operating surplus and devoting this to investment.** We intend to achieve operational financial sustainability in 2023/24 and then generate a growing operating surplus from 2024/25 onwards. Any such surplus would be used to fund further investment.

d. **Generating new commercial income.** We generate income from property development, management of our media and advertising estate, and leveraging our expertise and intellectual property in markets in the UK and overseas. Any new commercial income (beyond that already planned) could potentially be reinvested in capital investment.

e. **Funding from new income sources.** We are considering and implementing new sources of operating income as part of the latest funding agreement conditions. This income is included within this strategy. Further new income sources identified in future could address the funding gap.

f. **Bidding for targeted support from central government.** This could come from existing sources such as the Housing Infrastructure Fund, Major Road Network funding, Public Sector Decarbonisation Scheme, or from new sources.

g. **DfT funding for Major Rolling Stock and Signalling Replacements** as acknowledged in the Funding Agreement

h. **Private financing on a case-by-case basis where it delivers value for money.** Such financing would generally have to be paid back over time through the operating account, so this option should only be considered as a short-term financing solution where circumstances justify it.

i. **Borrowing.** The borrowing set out in this strategy has been assessed against rigorous affordability criteria and we have not assumed any incremental borrowing until after we have reached financial sustainability. If our operating revenues increase sufficiently, it may be possible in future to use further borrowing to close short-term financing gaps, but this would only be appropriate to fund projects that will in the long run generate sufficient operating surpluses to service the interest on this borrowing. Borrowing could take place against revenues/funding sources that continue or begin beyond the 20-year period covered by this Capital Strategy. We have included the provision for non-recourse borrowing as part of a proposed plan for TTLP to deliver 20,000 homes over 10 years and we are in ongoing discussions with the government.

j. **Funding contributions from developers and other third parties including boroughs.** We seek such funding for all appropriate projects.

17 Risks to the Capital Investment Plan

17.1 TfL manages an identified set of strategic risks through a defined framework. Risks are reviewed on a regular basis and reported to the relevant committee of the TfL Board annually. Some particular risks relevant to the capital account over a 20 year horizon are noted here.

17.2 The long-term impacts of the pandemic on travel demand remain to be fully understood. It is likely that travel demand on our network will remain lower than it was pre-pandemic for many years to come. This creates numerous risks for the delivery and funding of future capital investment. These are the subject of ongoing analysis and review and TfL will continue to revise its plans as needed in coming years as the future environment becomes clearer. This section focuses on more ongoing risks, which in many cases relate to the pandemic but would also be true regardless of it.

17.3 Lack of long-term certainty of funding: It is not practicable to enter into long-term contracts for major projects until funding is determined, so delay in agreement of long-term funding can result in a delay in projects commencing. This risk can be best managed by early identification and sharing of funding requirements with stakeholders.

17.4 Approvals and consents risk: Most projects require cooperation including approvals from other parties which may or may not be forthcoming. This includes Transport and Works Act 1992 powers / hybrid bills for many projects.

17.5 Delivery Risk: delivery of a significant capital programme contains many risks, particularly where cost estimates are being made many years in advance of when projects would commence and in some cases with little detail available on which to base an estimate. Developments in the construction industry could lead to increases or decreases in the ease of delivering projects included here.

17.6 Risk of estimating future costs: It is very difficult to predict cost inflation over 20 years, and TfL faces both general inflation and differential construction cost inflation. There are also material short term uncertainties. A two per cent increase in inflation for next year, flowing through the 20 year plan would increase costs by £1.7bn.

17.7 Risk that pressures on TfL's operating account require funding to be diverted away from capital expenditure. This could include for issues such as inflation or other drivers of higher operating costs for necessary staffing and maintenance levels.

17.8 Risk related to asset condition: Due to affordability constraints, investment in our asset base in recent years has been less than is required for a sustainable long-term rate. This means asset condition has declined. This creates risks to performance, which we will have to manage through maintenance, inspections and if necessary restrictions. In the long term, there will be ongoing risk that worse asset condition will lead to higher required spend in the future..

17.9 A PESTLE analysis of the Capital Strategy identifies a number of risks listed below. Many of these could impact on TfL either positively or negatively.

- Political risks: TfL is part of the regional government of London, and also works with political stakeholders at local (borough) and national levels. Different policy priorities between these groups will impact on TfL in different ways, including the availability of funding to achieve these policy priorities. This may alter the need for and funding available for TfL capital projects. Over 20 years changes in these different political stakeholders are hard to forecast, though many of the priorities towards which TfL projects contribute tend to have cross-party support.
- Economic risks: Over 20 years many economic conditions and factors could change demand for TfL services, and hence indirectly funding available and the need to invest. TfL's revenues are particularly closely linked to the size of the London economy.
- Social risks: Known risks include reductions in the requirement for travel such as increases in home working, internet shopping and alternatives to conventional public transport such as private hire apps, ride sharing, car clubs and new mobility solutions. Such trends if accelerated could require a re-prioritisation of the strategy

- Technology risks: Known risks include cyber security, the impacts of Artificial Intelligence, autonomous vehicle technology and increased ability to work remotely – but there may be others yet to be invented. These could have favourable or unfavourable impacts on TfL and might challenge today's public transport model
- Legal Risks: TfL may be compelled to undertake new activity as a result of changes in law, which may increase costs of projects or require additional ones. Legal challenges may delay TfL activity
- Environmental Risks: The climate and ecological emergency creates a significant challenge for TfL across adaptation, resilience and decarbonisation. Increase risk of flooding, extreme weather events, drought and storms all need to be considered on our assets (including our natural assets) and network. Wider impacts due to the climate and ecological emergency include supply chain disruption, human and species migration and social unrest. We are improving our understanding of this requirement, but future climate challenges cannot be predicted with high confidence. Addressing the climate and ecological emergency will require us to invest in decarbonising our services, adapting to a changing climate and protecting and regenerating nature on our assets and through our supply chains, which we are already including in this Capital Strategy, but the specific requirements of this could change.

Appraisal

17.10 TfL's financial planning process involves input from TfL's Executive Committee, the Finance Committee and TfL Board at numerous points through the financial year.

17.11 Similarly, the MTS underwent a thorough review and approval process. This included substantial stakeholder engagement during its development followed by a fifteen-week public consultation in the summer of 2017. An Integrated Impact Assessment and substantial evidence base were also developed and published alongside the strategy. Taking into account comments received during this consultation, the final MTS was approved by the Mayor in February 2018, then considered by the London Assembly in March 2018.

17.12 The Capital Strategy has been developed in part from the 2021 Capital Strategy that was published for consultation as part of the Mayor's Consolidated 2022/23 Budget and approved by the TfL Board in December 2021 Its development has been largely informed by the 2021 Long-Term Capital Plan process in consultation with the TfL Executive Committee and TfL Board.

17.13 The TfL project and programme management methodology "Pathway" allows for key governance intervention points to ensure effective governance oversight and control throughout the project lifecycle. This includes our three-line assurance system, part of which involves monitoring and advice from the Independent Investment Programme Advisory Group. At a strategic level, monitoring and evaluation are in place across the MTS to ensure that the desired outcomes are delivered.

Statutory Chief Finance Officer sign off

This Capital Strategy is a planning document reflecting a high-level view at a time of considerable uncertainty. As understanding of funding and requirements of the network evolve in coming years, it will need to be kept under review. Affordability of the Capital Strategy over 20 years is dependent on TfL obtaining significant additional funding which cannot be considered certain at this point in time. The characteristics of the funding source(s) could influence the timing, cost and capitalisation of projects within the Capital Strategy. The nature of these large projects is such that they require a certainty of funding over a number of years prior to commencement. The risks noted above are a comprehensive but not exhaustive list. Significant known risks have been listed, however, it is possible that unpredictable future events and opportunities would result in an amendment to the TfL Capital Strategy. Readers of the Capital Strategy should note the considerable risk in estimating costs up to 20 years into the future, especially for novel projects.

Annex F: Integration and Equality, Diversity, and Inclusion (EDI)

Activity	Budget 2023/24 £m	Plan 2024/25 £m
Workforce diversity	0.2	0.2
Inclusive workplace culture	0.1	0.1
EDI Staff	1.0	1.0
EDI Training	0.2	0.2
Self-Organised staff groups	0.0	0.0
External programmes	7.2	7.2
Engagement	0.6	0.6
Accessible communications	0.3	0.3
Total	**9.6**	**9.6**

Notes:

- Workforce diversity: includes specific diversity campaigns and outreach but not including spend incorporated in wider campaigns such as graduates or specific engineering areas
- Self-organised staff groups: spend in in the region of £5k-£50k, but does not reflect the time colleagues are given to participate
- External programmes: includes items where people have responded such as schools programmes, ending violence against girls/women, hate crime, citizen programme. Mid-range disclosed (range between £5m-£8m p.a.)
- Engagement: specific items include: Valuing People and the Independent Disability Advisory Group. The Local Communities and Partnerships activities.