

Agenda – Supplementary

Meeting: Board

Date: Wednesday 9 December 2020

Time: 10.00am

Place: Teams Virtual Meeting

In accordance with section 100(B)(4) of the Local Government Act 1972, the Chairman has agreed to accept the following as an item of urgent business on the grounds that all information was not available at the time the Board papers were published.

Copies of the papers and any attachments are available on [tfl.gov.uk How We Are Governed](https://tfl.gov.uk/How-We-Are-Governed).

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Shamus Kenny, Head of Secretariat; telephone: 020 7983 4913; email: ShamusKenny@tfl.gov.uk

For media enquiries please contact the TfL Press Office; telephone: 0845 604 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Monday 7 December 2020

7 **Finance Report: Budget Submission and Capital Strategy [To Follow]** (Pages 1 - 120)

Chief Finance Officer

The Board is asked to note the Finance Report, TfL's submission to the GLA Budget and the Capital Strategy.

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Board

Date: 9 December 2020

Item: Finance Report: Budget Submission and Capital Strategy

This paper will be considered in public

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that this item should be considered as a late item. The reason for urgency is that Members need to consider the Budget submission and the Capital Strategy and not all information was available at the time the Board papers were published.

1 Summary

- 1.1 This paper considers TfL's draft Budget submission to the GLA consolidated budget, which is open to consultation from December 2020 and will be finalised in February 2021.
- 1.2 This submission covers an updated forecast for 2020/21 and a forward look to 2021/22 and 2022/23. It is an update and extension of the Revised Budget which was approved by the Board on 29 July 2020.
- 1.3 The Budget submission to the GLA includes our updated assumptions based on the conditions as set out within the Government H2 funding agreement, the latest cost estimates and profiles in our operations and investment programme, including updated social distancing assumptions and associated impacts.
- 1.4 The Board is asked to approve the Budget submission as the basis for TfL's Budget and Business Plan for the remainder of the financial year 2020/21 and the financial years 2021/22 and 2022/23 for the purposes of TfL Standing Orders.

2 Recommendations

- 2.1 **The Board is asked to note the paper and:**
 - (a) **note the presentation given in appendix 1, which is based on TfL's Budget and Capital Strategy submission to the GLA Budget;**
 - (b) **approve TfL's Budget submission to the GLA Budget (as set out in appendix 2) as TfL's Budget and Business Plan (for the purposes**

of TfL Standing Orders) for the remainder of the financial year 2020/21 and the financial years 2021/22 and 2022/23, which was part of the submission to the GLA on 30 November 2020; and

- (c) approve TfL's Capital Strategy included in its submission to the GLA Budget on 30 November 2020.**

3 TfL Budget submission to GLA

- 3.1 Our two clear priorities are to restart and recover from the coronavirus pandemic, and to complete Crossrail and open the Elizabeth line.
- 3.2 The pandemic has created significant uncertainty for a number of industries across the country. For TfL specifically, it has decimated fares income, with the return of passengers and economic recovery remaining a key challenge to future sustainability. The rapidly changing policies around local tiered and national lockdowns has had a disproportionate impact on different commercial and leisure sectors in London. This has altered the behaviours of the travelling public which has made it increasingly challenging for us to extrapolate future travel patterns.
- 3.3 In recent years, TfL has produced a detailed five-year Business Plan on an annual basis each December. Given the high level of revenue uncertainty caused by the pandemic, we will not be publishing a similar document this year. Instead we have incorporated a forward look into the Mayor's Budget submission that includes a detailed view of 2020/21 and 2021/22 and in addition looks at one further year to 2022/23 at a less granular level. This Budget submission will form the basis for TfL's Budget and Business Plan for the remainder of the financial year 2020/21 and the financial years 2021/22 and 2022/23 the purposes of TfL Standing Orders.
- 3.4 Our Budget, as submitted for consolidation into the draft GLA Budget on 30 November 2020, updates our position for 2020/21, including the funding agreement for the second half of the current year (H2) agreed with Government on 31 October 2020 for £1.8bn of funding to support us in delivering our essential services for London over the next six months, to 31 March 2021. This funding is flexible, covering any revenue shortfall depending on our passenger numbers and will allow us to help London through this next phase of the pandemic.
- 3.5 The 2020/21 position also includes the additional savings of £160m we have committed to as part of the H2 funding agreement, which are additional to the gross savings of over £400m incorporated in the Revised Budget. These additional savings will be made by reprioritising capital expenditure, deferring some non-safety-critical programmes, and reducing operating costs through financial and headcount controls.
- 3.6 Presenting the two additional years demonstrates the ongoing support required in the medium term to meet our statutory obligation to operate a balanced budget and ensure our assets are in a good and safe

state of repair. In 2021/22, the funding requirement is expected to be £3.1bn, broadly in line with our Revised Budget expectation and £1.8bn for 2022/23. This reflects the latest modelling which predicts passenger revenues will be at 80 per cent of pre-coronavirus pandemic projections by the end of 2021/22 and throughout 2022/23. Beyond this in the medium term the gap remains around £1.5bn to £2.0bn per annum. This is driven by uncertainty around passenger revenue and return of demand, coupled with the loss of Business Rates Retention of around £200m per annum, and partly to ensure our Investment Programme is adequately funded to keep assets safe and reliable, and so projects aligned to key priorities are progressed.

- 3.7 We will never compromise on safety and throughout the coronavirus pandemic we have prioritised safety critical works to ensure our assets are in a good and safe state of repair. This budget ensures we invest in our asset base to maintain the high standards safety and reliability we need to run services across the network.
- 3.8 Despite future uncertainty, continued prioritisation of activities to achieve mode-shift is required to ensure a sustainable, inclusive recovery in the short term as well as achieving the aims of the Mayor's Transport Strategy in the longer term for 80 per cent of trips in London to be made on foot, by cycle or using public transport. Our plan to achieve this over the next year includes:
- (a) investing significant amounts in continuing the **extensive cleaning regime** introduced at the start of the pandemic to ensure the transport network is cleaner than ever before and keeping customers and staff safe. Other measures to keep people safe include social distancing signage and the mandatory wearing of face coverings. These will continue in line with Government policy;
 - (b) continuing the **electrification of London buses**, which with currently 380 zero emission buses is one of the largest electric fleets in Europe, so that all are zero-emission by 2037 at the latest. We will also work with bus operators to implement a world-leading Bus Safety Standard, including all new buses purchased from August 2019 requiring Intelligent Speed Assistance as standard;
 - (c) continue to **optimise the bus network in response to changing demand**, and TfL and partner authorities' plans for other modes. In outer London, service volume will grow by six million kilometres by 2022/23 compared to pre-pandemic levels in 2019/20. In Inner London, where there are more sustainable alternatives and many instances of bus congestion, we will reduce the network in a targeted way by removing excess capacity on some routes, subject to consultation and consideration of impacts as appropriate;
 - (d) driving forward the **Vision Zero action plan** to eliminate deaths and serious injuries on London's roads, through the delivery of more Safer-Junctions, continued rollout of 20mph speed limits, enhanced policing and enforcement, and ensuring safety is at the heart of all projects undertaken;

- (e) helping to **clean up London's toxic air quality** by toughening the Low Emission Zone (LEZ) standards for heavy vehicles in March 2021 and, in October 2021, expanding the ULEZ – the toughest air quality standard of any city in the world – to all roads within the North and South Circular;
- (f) delivering a world-leading **road incident management system** expected to launch in March 2022;
- (g) a material year-on-year increase in funding for **renewal of borough roads and bridges**. Following the long-term capital plan review we are allocating £40m to these crucial structures, and we will award funding to those structures most in need of repair; and
- (h) **borough funding for the Local Implementation Plan (LIP) programme** is retained at the same level as agreed in last year's Business Plan, however any future schemes are dependent on our ability to secure robust funding.

3.9 This Budget ensures we are only spending on critical projects or activities that keep our networks safe and protect our people and customers from the impacts of the coronavirus pandemic and completing projects which make clear commercial sense to do so.

3.10 Going forward we will have to continue to rely on Government funding in order to maintain the required level of investment in the network and maintain a balanced budget in-line with our statutory obligations for at least the short to medium term.

3.11 The steps that could be taken to achieve financial sustainability in the longer-term are currently being evaluated and will be presented to the GLA and Department for Transport in mid-January 2021.

Capital Strategy

3.12 In parallel to the Budget submission, we are also statutorily required to submit a 20-year capital strategy as part of the GLA budget process. Our submission shows at a high level the ambitious 20-year capital plan for London. This complements the Comprehensive Spending Review submission made to the Government and published in September 2020.

3.13 This year's strategy is an evolution on prior years. It sets out the steady and sustained investment required to ensure London remains a competitive global city by improving capacity, connectivity, health and the environment. This year's strategy has been updated to reflect our latest understanding of the need to invest in renewing and replacing our assets to maintain their condition. As well as this, it is aligned to emerging work to ensure we deliver a green and just recovery from the coronavirus pandemic. It sets out the funding required to achieve this vision, which will be subject to future funding mechanisms and discussions with government.

- 3.14 We estimate that delivering this capital plan beyond the next five years would require an average annual spend of £3.1bn in constant prices (£4.5bn in outturn terms (including inflation)). Of this, more than half is the required cost to renew and replace existing assets. The remainder is required to deliver enhancements and extensions that will support the growth of the city as well as critical improvements such as reducing carbon emissions, eliminating death and serious injury from the transport network and cleaning London's air.
- 3.15 Much of this capital cost will be funded from our own operating income provided demand returns to our network, and we seek local contributions (for example from developers) for all appropriate projects, many of which depend on third-party funding to progress. This means our ask of central government is much smaller than the full cost and benefits that would be delivered – but we need support to unlock the full potential of London's transport network to support a strong London and UK economy.
- 3.16 These priorities are also reflected in our submission to the government's 2020 Spending Review, which outlined some of the most important projects within this Capital Strategy that are needed to get London and the UK moving again.
- 3.17 We continue to make the case to government for confirmed capital funding to support the level of investment described in the Capital Strategy. We are unable to commit to long-term projects without long-term certainty of funding, which we do not currently have.

4 Equalities, Diversity, Inclusion and Social Integration

- 4.1 Under Section 149 of the Equality Act 2010, as a public authority, TfL must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, and any conduct that is prohibited by or under that Act; and to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. Protected characteristics under the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status (the duty in respect of this last characteristic is to eliminate unlawful discrimination only). The duty is an ongoing one and applies to ensure that due regard that is appropriate in all of the circumstances is had to the equalities implications of TfL's decision making.
- 4.2 The budget submission has been prepared mindful of 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. They set out a bold and ambitious vision for maximising the opportunities available to Londoners, whilst also building stronger, thriving and connected communities by making London more accessible and inclusive.
- 4.3 Our plans, which will be subject to ongoing consideration of any equalities implications, are underpinned by a commitment to inclusion, diversity, equality and accessibility, which will be set out in a statement of intent in early 2021.

- (a) This will build on our existing customer facing work and our Action on Equality strategy
- (b) It will have a short-term focus, recognising current workforce and customer diversity and inclusion challenges
- (c) It will consider the social impacts of the pandemic, how we have responded and our ambition for an inclusive recovery, to enable a conversation with stakeholders and Londoners
- (d) It will set out how we will be actively anti-racist as an organisation and ensure our workforce becomes more representative of Londoners at all levels through diverse recruitment and inclusive leadership, cultures, systems and behaviours
- (e) We will ensure considerations around inclusion are the very heart of our decision-making. The statement of intent will be underpinned by a more detailed diversity and inclusion programme plan with metrics focused on closing the gaps in outcomes between minority groups and others.

4.4 This year, the approach to financial management has been very different to previous years. As the pandemic hit the UK in March, we were due to publish both the annual Budget and Scorecard for 2020/21. Given the circumstances, the Budget was approved by Chair's Action to allow essential services to continue whilst an Emergency Budget was put together. The scorecard however was not, as we undertook emergency planning to ensure Londoners could travel safely on the TfL network. We subsequently published an Emergency Budget in May 2020, a Revised Budget in July 2020 and following the Extraordinary Funding and Financing Agreement with Department for Transport on 31 October 2020, we are now working to produce a Financial Sustainability Plan in January 2021.

4.5 This Financial Sustainability Plan will be delivered in line with our approach to equality, inclusion, diversity, and accessibility. We will prioritise spend to meet the conditions set out by the Department for Transport and equality impacts will be assessed as part of our decision making. Our plans will include a number of projects and programmes, which aim to achieve the goals set out in our Action on Equality and the Mayor's Transport Strategy. The key changes will be assessed as part of the development of this plan.

4.6 Our Scorecard provides measures for tracking progress against our key priorities. During 2020/21 we have implemented two scorecards – one during the first half of the year and another in the second half. This reflects the rapidly changing environment we find ourselves in – but our main focus as always, is the safety of our customers, staff and supply chain. Both scorecards reflect our equality priorities. During H1 we targeted no gender or ethnic disparity in staff wellbeing and during H2 we are targeting to reduce our existing inclusion disparity gap. Our 2021/22 scorecard will follow the same approach.

- 4.7 We will continue to prioritise investment in maintaining and renewing our assets, including lifts and escalators, reducing the likelihood of disruption to journeys and/or making them impractical to make. Renewal of assets on the road network helps keep the streets safe for all users, including buses and Dial-a-Ride. Funding to Boroughs will enable other roads and streets to be made safer on the 95 per cent of the network that is not managed by TfL.
- 4.8 The continued delivery of healthy streets and active travel programmes including funding for London boroughs will allow TfL to continue the progress made in 2020 to create more space for people to safely walk or cycle as London deals with the coronavirus pandemic. Initial interventions have included temporary cycle lanes and wider pavements. Moving forwards, we will seek to make some of these changes permanent to build on the increase in active travel to continue the push towards 80 per cent sustainable mode share by 2041.
- 4.9 Planned improvements on the rail network, such as the upgrade to Bank station and the new Northern Line Extension, will provide further step-free connectivity and reduce crowding across the network.
- 4.10 We will continue to make further strides in improving London's air quality through the tightening of the Low Emission Zone (LEZ) in March 2021 and expanding the Ultra-Low Emission Zone in October 2021. Tackling poor air quality has disproportionately positive impacts on deprived communities as well as school age children, older people and pregnant women.
- 4.11 The new TfL Go app will provide improved real time accessibility information. The app already has a 'step-free mode' for planning accessible journeys, while further features will be added in the future, including toilet availability, platform access and live lift status.

List of appendices to this report:

1. TfL Budget submission to GLA – slides
2. TfL Budget submission to GLA (including Capital Strategy)

List of Background Papers:

None

Contact Officer: Simon Kilonback, Chief Finance Officer
Number: 020 3054 8941
Email: simonkilonback@tfl.gov.uk

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TfL submission to the GLA Budget

TfL Board
9 December 2020



Section I

Executive Summary

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Executive Summary

The TfL submission to the GLA Budget highlights the need for ongoing support required to ensure TfL fulfils its statutory obligation to operate a balanced budget over the medium term



Our priorities

We have two very clear priorities: to restart and recover from COVID-19 which means securing long term funding which is stable and sustainable, and to complete Crossrail and open the Elizabeth line.

Context

The **Draft TfL submission to the GLA Budget** is an update to the **Revised Budget for 2020/21 and 2021/22** and looks one year further ahead to 2022/23. It fulfils our legal requirement to submit a TfL Budget to the GLA Budget, and will be the baseline of our Financial Sustainability Plan which will be submitted to the DfT by 11 January 2021.

Although under no statutory obligation to do so, in recent years we have produced a detailed 5-year Business Plan on an annual basis each December. Given the continued uncertainty caused by the pandemic, it is not our intention to produce such a document this year

2020/21 outturn

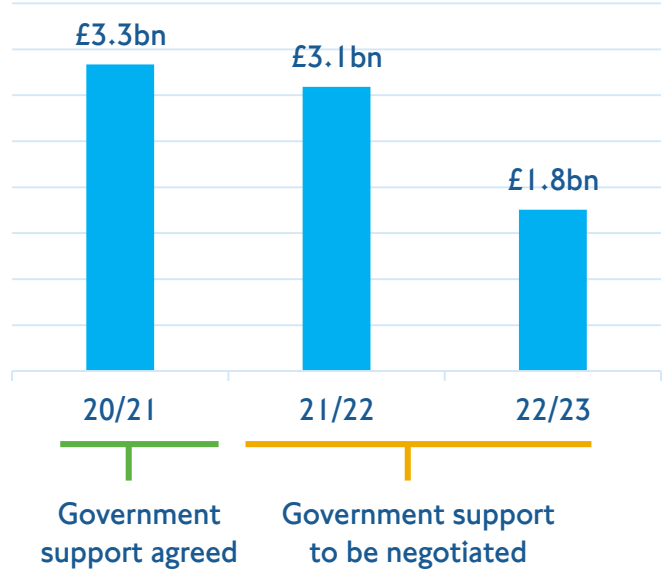
In H2 2020/21, we are expecting to need around **£1.8 billion of the £2.0 billion government funding requirement we set out in the Revised Budget**, after making savings of £160m as agreed in the H2 funding agreement

2021/22 and 2022/23

2021/22 assumes a funding gap of **£3.1 billion**, broadly in line with our Revised Budget expectation and **£1.8 billion for 2022/23**.

Beyond this, the gap remains around **£1.5 billion to £2.0 billion per annum**. This is partly because the latest modelling predicts that passenger revenues will only recover to 80% of pre-Covid projections, coupled with the loss of Business Rates Retention of c£200m per annum, and partly to ensure our Investment Programme is adequately funded to keep assets safe and reliable, and so projects aligned to key priorities are progressed.

TfL funding gap (exc. Government grant)
Draft Business plan



Key points from H2 Funding deal

We have made a funding and financing agreement with Government for H2 20/21 for:

- £905 million of base funding to be paid between periods 8 to 12
- £95m of borrowing in period 10
- Periodic revenue true up of passenger revenue receipts

Key points of agreement:

- RPI+1 fares increase from January 2021
- Delivery of £413m cumulative savings and efficiencies (as part of ongoing BP 2019)
- £160m of non-passenger revenue cash savings to be included in H2, base line being the Revised Budget
- £75m set aside for Healthy Streets and Active Travel, including walking / cycle ferry at Hammersmith (additional £4m contribution to be made towards Hammersmith Bridge stabilisation and repair)
- 2-way agreement on Direct COVID-19 related exceptional costs: to be reimbursed by DfT if in excess of Revised Budget, conversely we need to reimburse DfT if we come in under

Other H2 commitments include;

- Current charging structure for Congestion Charge, LEZ and ULEZ maintained but subject to review in response to the pandemic; timetable for roll out of LEZ (Mar 2021) and ULEZ (25 Oct 2021) unchanged
- Under-18s and 60 Plus concessions, above those available nationally, must be met by the Mayor, and not through Government funding
- Complete roll out of TfL-Go by the end of the calendar year
- Sharing information with DfT following meetings with lenders and ratings agencies

Comfort wording around balanced budget and long term financial commitments included, as well as assumption that minimum cash of £1.2 billion will be maintained:

- A combination of future measures from TfL, GLA and Government will enable TfL to continue to meet these obligations and commitments during the H2 Funding Period and beyond

Oversight Group: The Oversight Group, chaired by DfT, will periodically review progress towards H2 commitments. A mechanism has been built into the agreement for DfT to potentially withhold up to £25m of grant in the event we do not meet stated conditions. Government Special Representatives will be retained on the Board, and attend Finance Committee and the Programmes and Investment Committee

Financial Sustainability Plan: The final submission to the GLA Budget will form the basis of the financial sustainability plan in terms of operating and capital costs, and we will build further scenarios and options around each of these for consideration. The Financial Sustainability Plan to be delivered to DfT by 11 January 2021 showing trajectory of financial sustainability with a target date of FY2023, this will feed into the longer term negotiations.

Section 2

Recap

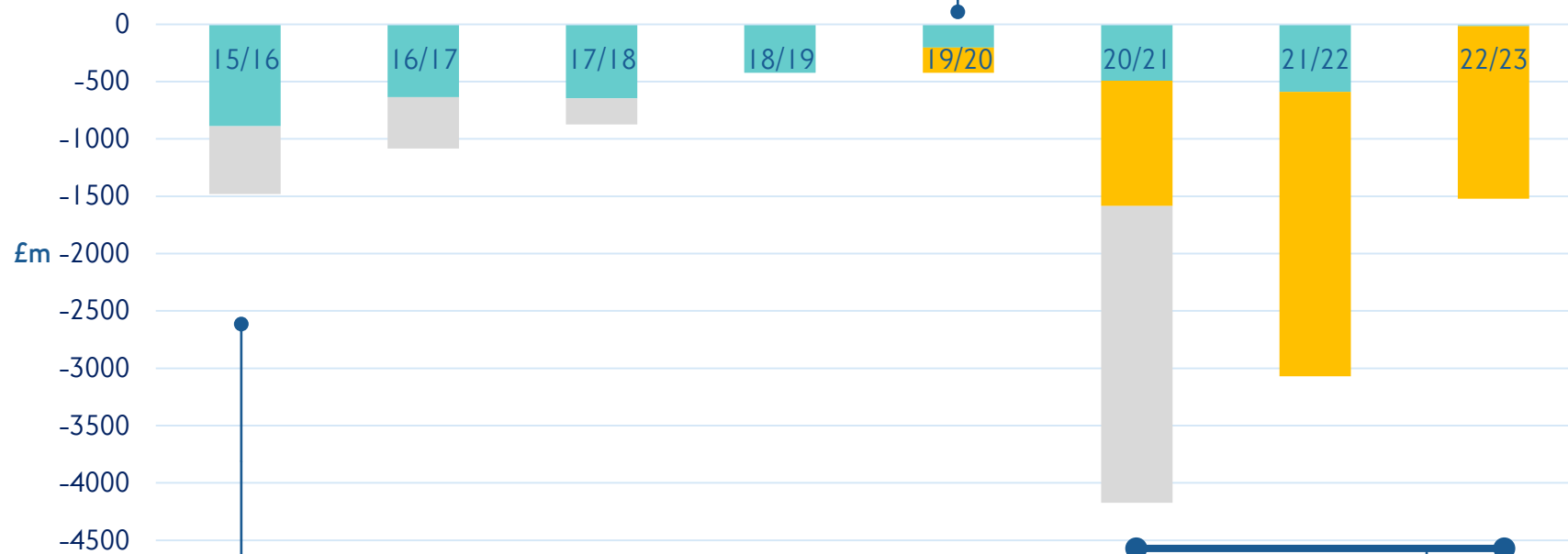
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Our trajectory to financial sustainability was knocked off course by the pandemic

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 COVID-19 sees us move to unsustainable deficit levels beyond that seen in 2015/16, excluding the impact of the removal of Government grant

TfL net cost of operations (full year)

- Net cost of operations*
- If General Grant removed (extraordinary grant in 20/21)
- COVID-19 impact



In 19/20, before the impact of COVID-19 our year end position was £1bn better than in 15/16, excluding the impact of the Government General grant (which was phased out by 2018/19)

Our efficiency is better than the headline improvement as previous years were bolstered by the General Grant, which we no longer receive

The impact of COVID-19 significantly sets us back from our trajectory of breaking even in 22/23

* Historical net cost of operations has not been retrospectively updated for accounting changes and capital renewals reclassifications

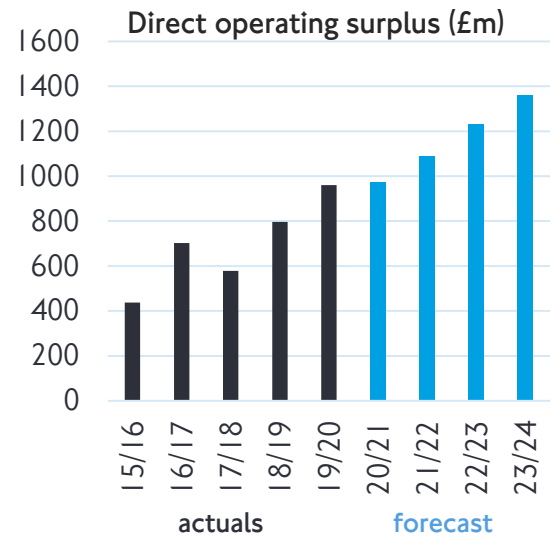
Pre COVID-19 each business area had a financially sustainable plan

Our major business areas had clearly defined requirements to cover their baseline capital costs, grounded in strong historic performance



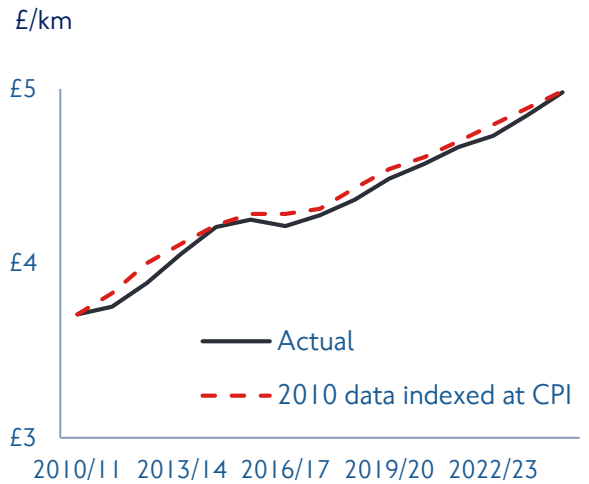
Underground

The Underground was forecast to hit over £1bn direct operating surplus by 21/22, and was targeting starting to cover its longer term capital costs for baseline renewals



Buses and Streets

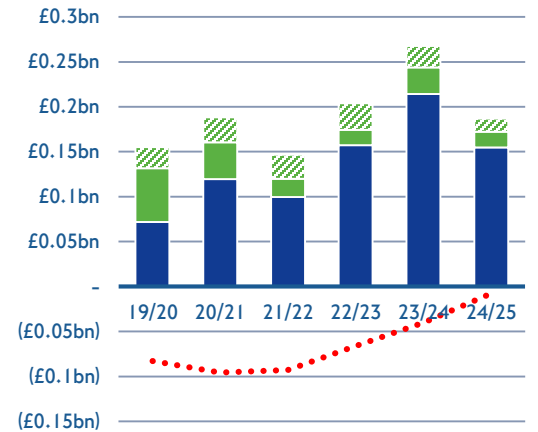
Bus costs require subsidy and we planned to apply full operating business rates to this area, which would cover critical capital cost and indirect costs



We have kept buses costs in line with inflation despite changes to the network: cost per operated kilometre +2.1% p.a. on average, improving safety, reliability and air quality without cost changes exceeding inflation (£)

Rail

Rail did not generate a surplus but we planned to continue investing in our assets from capital business rates to improve these services – including replacing DLR trains and trams

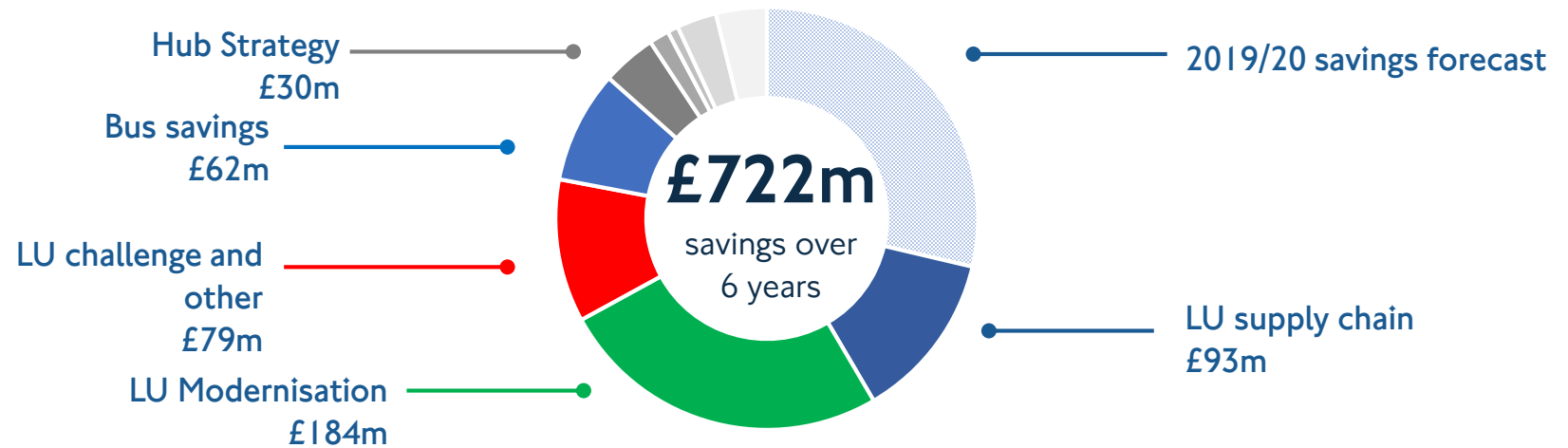


- Other capital (not committed)
- Other capital (committed)
- Baseline capital spend
- Net surplus/(cost) before baseline capital spend

Last year's plan had substantial savings embedded which will carry forward, but had delivery risks including LU modernisation plans

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Our savings plans, 2019/20 to 2024/25



Savings for 2020/21 increased to £324m, from £133m in last year's Business Plan. Not all of these additional savings are recurring; £119m from savings directly attributable to coronavirus (including reduced service levels) and other one offs of £56m

£539m savings expected in 2019/20 – 2020/21

Planned total savings of £340m* in 2019/20 and 2020/21 in 2019 Business Plan:

- £216m savings in 2019/20, including £186 recurring savings and one offs of £30m
- £149m of recurring savings in 2020/21, plus £56m from one offs, and a further £119m from savings as a direct result of the coronavirus

* (this was increased to £413m in the 20/21 Revised Budget set in July 2020)

LU Supply chain £93m

Focus of savings in 2020/21. Approx. £60m ramp up from last year, planned to increase at approx. rate of £10m per year over the Business Plan

LU Modernisation £184m

Operating savings of £184m over the Business Plan. Significant ramp up in 2021/22 (additional £60m savings included), subject to consultation in due course.

LU Challenge £79m

Savings targets and challenges currently with no plans. Largely at end of current BP years.

Bus savings £62m

Savings from contract savings (£28m); some savings in early years, but ramps up to £6m in 2022/23, to £9m in 2024/25. Due to the competitive tendering market we are currently outperforming these targets.

Hub Strategy £30m

£15m from 2022/23, with £30m from 2023/24. Planned savings based on significant capital investment in property.

Section 3

2020/21

Performance

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H1 scorecard

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Our purpose is to get London moving and working again, safely and sustainably, as quickly as possible



Theme	Short-term focus	Goal	Result
Safety	Ambition that nobody is killed or seriously injured on public transport. Continue progress towards 2022 Vision Zero goal	0.78 or fewer people killed and seriously injured in road traffic collisions per million journey stages	0.44
		0.28 or fewer customer & workforce killed and seriously injured per million passenger journeys	0.09
Operations	Ramp up service to normal levels	Average of normal service levels: (Period 3-7):	99% (bus)
		94% Bus	83% Tube
		98% Rail	98% (rail)
Customer	Restore customer confidence in our services	53% of Londoners agree we care about our customers	57%
People	Support our colleagues and strive for equality	3 percentage point boost in colleague wellbeing	+3 points
		No gender or ethnic disparity in colleague wellbeing (within a margin of error)	+2 BAME
			0 gender
Finance	Preserve our liquidity and control costs	Maintain our liquidity above £1.2bn	£1.6bn
		Do not exceed Budget costs for operating and capital	2% under
Delivery	Provide more space on our network for social distancing. Safely restart our investment programme to support economic recovery	90% or better delivery of restart milestones for our investment programme	98%
		Updated Elizabeth line signalling software to support dynamic testing	3 weeks before target
		57km of new cycling infrastructure	61.6km
		22,000m² of highway reallocated to pedestrians	22,516m ²

H1 Headlines

H1 covers the period from 1 April to the end of period 7, 17 October 2020.

Passenger journeys and income remain significantly down on last year; weekly income over £50m lower than last year. Journeys and passenger income up on prior periods, but plateaued in later weeks of September following Government's advice that people should work from home if they can. Impact of Tier 2 restrictions from 17 Oct and four-week lockdown from 5 Nov expected to filter through for period 8.

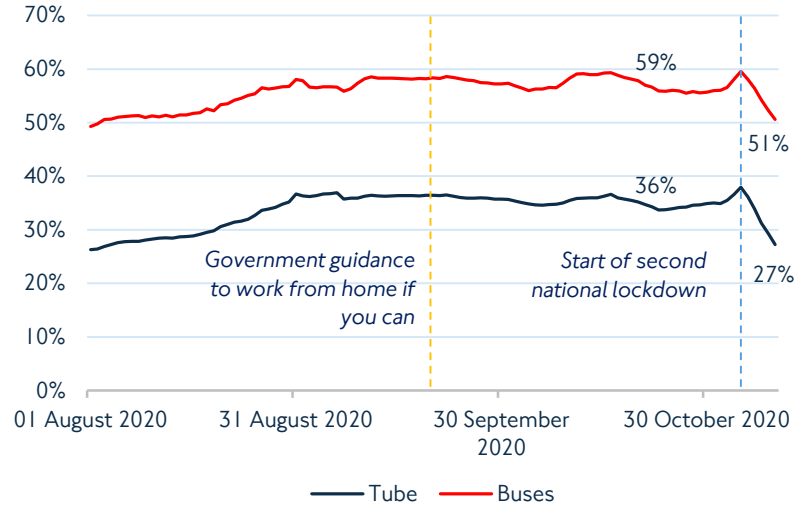
We have kept our costs down through planned savings, lower network costs at the height of the pandemic, as well as new savings this year.

As part of the agreement reached with government in May 2020, we received funding and financing support of £1.6bn in H1, 2020/21. Without this, our cash balances are declining at an average rate of £300m each period.

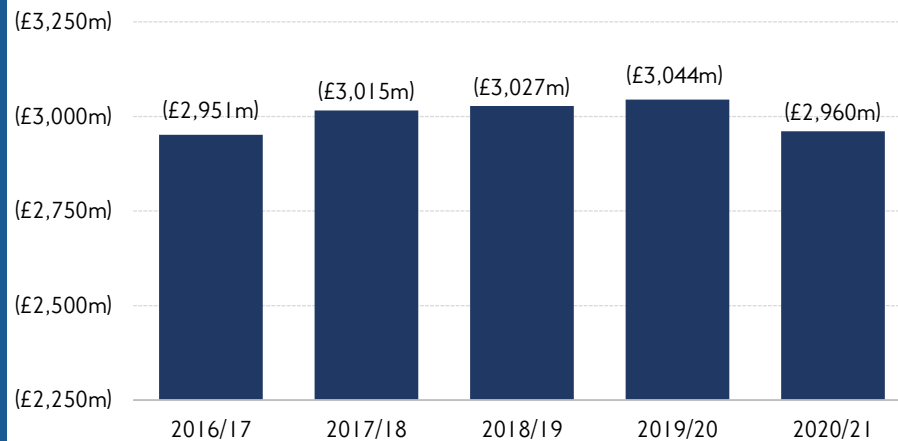


Headlines

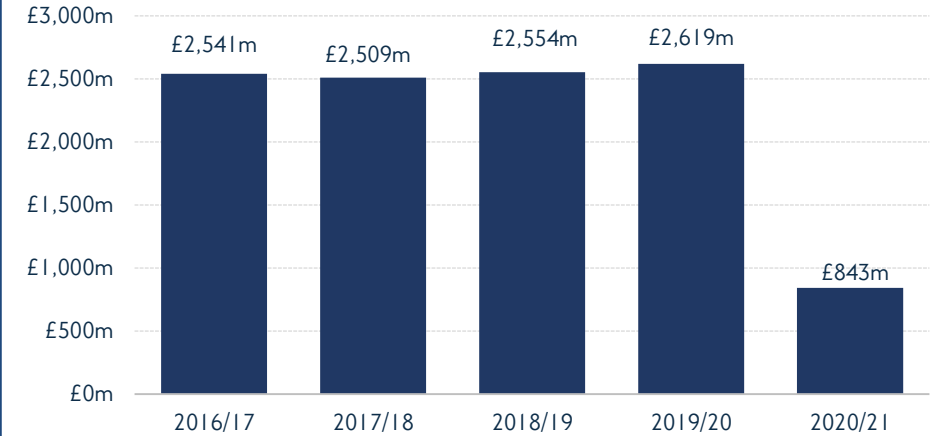
Slowing of journey growth towards the end of the Quarter; growth has stalled in recent weeks



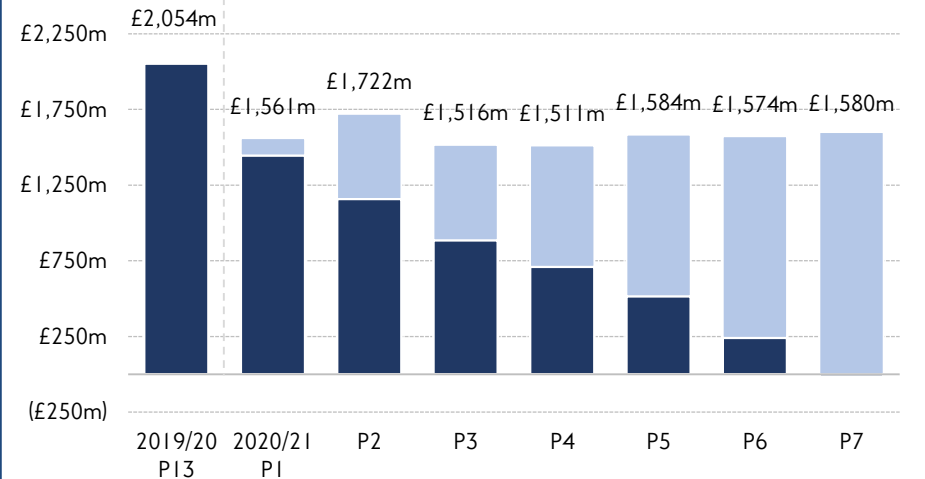
Core operating costs over £80m lower than last year, with savings and lower costs at the height of the pandemic mitigating inflation



Passenger income up on earlier in the year, but almost 70% lower than last year



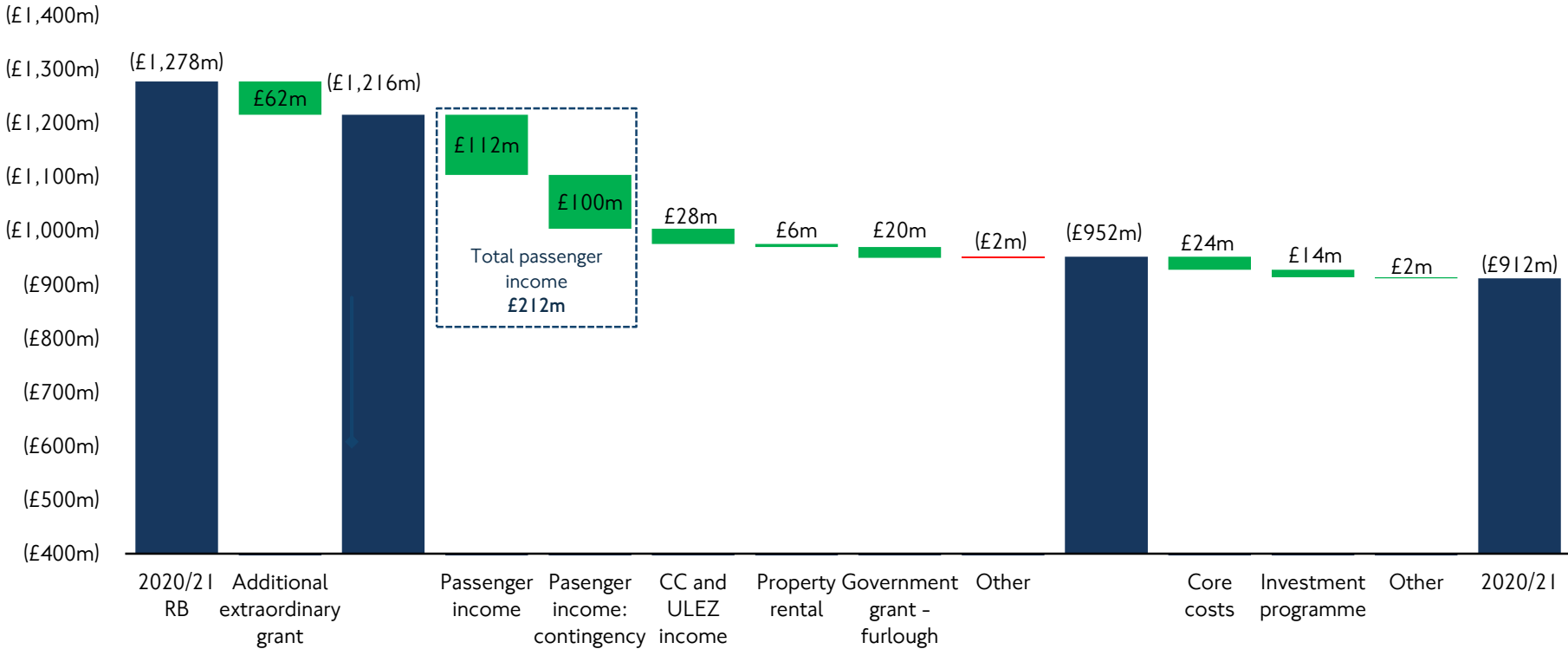
Cash balances down; without funding and financing from government, we are losing an average of £300m per period



Net cost of operations

Net cost of operations £66m better than Revised Budget, driven by additional funding from government, £112m higher passenger income, and £100m of revenue contingency.

Net cost of operations



H1 Capital expenditure

Capital expenditure by programme: year to date, 2020/21

<i>Capital renewals and new capital investment (£m)</i>	Year to date, 2020/21				Year to date, 2019/20		
	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Major projects	(234)	(249)	15	-6%	(347)	114	33%
Northern Line Extension	(53)	(55)	1	-3%	(85)	32	37%
Four Lines Modernisation	(46)	(55)	9	-17%	(145)	99	68%
Major Stations	(37)	(40)	3	-7%	(49)	12	24%
Railway Systems Enhancements	(6)	(7)	0	-7%	(7)	1	14%
Piccadilly line trains	(42)	(40)	(2)	5%	(26)	(16)	-60%
DLR Rolling Stock	(22)	(25)	3	-14%	(9)	(13)	-153%
Barking Riverside	(23)	(21)	(2)	9%	(21)	(2)	-9%
Silvertown Tunnel	(4)	(5)	1	-26%	(5)	1	20%
Elizabeth line - infrastructure	(16)	(15)	(0)	1%	(10)	(6)	-58%
LU	(90)	(97)	7	-8%	(177)	88	49%
Capital renewals	(74)	(77)	3	-4%	(154)	80	52%
New capital investment	(16)	(20)	5	-23%	(24)	8	34%
Surface Transport	(125)	(138)	13	-9%	(140)	15	11%
Healthy Streets	(22)	(26)	4	-14%	(51)	29	57%
Surface - assets	(34)	(36)	1	-4%	(17)	(17)	-99%
Surface Tech	(7)	(7)	1	-8%	(5)	(2)	-44%
Public Transport	(28)	(33)	5	-15%	(47)	19	40%
Air Quality and environment	(34)	(36)	2	-5%	(20)	(14)	-68%
Corporate programmes	(28)	(31)	4	-11%	(51)	23	46%
Professional Services	(35)	(35)	(0)	0%	(48)	13	27%
Media	8	4	4	90%	(3)	11	344%
Commercial Development	(16)	(21)	5	-25%	(28)	12	43%
Estates and facilities	(0)	(1)	1	-67%	(0)	0	15%
Property development	(16)	(20)	5	-23%	(28)	12	43%
Total TfL	(508)	(552)	44	-8%	(754)	246	33%

Total capital expenditure £14m lower than Revised Budget; spend to date is almost £250m lower than this time last year, reflecting safe stop of non-critical projects at the height of the pandemic



Despite the impact of the pandemic and a safe stop at worksites during the first national lockdown, we have continued delivering critical infrastructure projects across London

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LU renewals

We have commenced work on the Central Line Fleet overhauls with the prototype A/C traction motor installed. We have received the first new Engineering train wagon with more to follow and started work on Marylebone Escalator replacement. Full renewals delivered on 587m of track and new rail installed on 1.9km.



A new engineering wagon

We have also completed Step Free Access at Cockfosters station and progressed other priority sites for completion as soon as possible.

Four Lines Modernisation



Signalling software development work continued with contractor throughout the pandemic and continues to support testing and go-live plans for year 2020/21. The coronavirus pandemic resulted in the suspension of District line operator training for the new Communication Based Train Control. While this is being restarted there remains a risk on the availability of trained and familiarised operators to support service. This may result in a further delay of the planned go-live date.

Northern line Extension



On 25 October, we successfully completed high voltage energisation to the Northern Line Extension switch rooms, which will enable the start of commissioning key systems and dynamic systems testing later this year. We continue to work with Thales to progress the design of signalling software upgrades which are the key enablers for operating trains on the new line extension and being available for revenue service.

Surface renewals

Despite a global pandemic we have delivered significant projects, including refurbishment of Vauxhall Bridge, delivery of replacement Dial-a-Ride vehicles and Cycle Hire Scheme bicycles. We have continued our work on critical renewals for the Rail modes, which will see a number of key projects in 20/21, including a replacement asset management system for LO, replacement bogie frames and key IT updates for DLR, and renewal of Tram's track at Reeves Corner and Love Lane Curve. Across our Bus estate we have continued our annualised programme of stops and shelters, and delivered a safety critical fire system at Victoria Coach Station.



Love Lane track renewal

Bank Station Upgrade



The project continues to progress amid the pandemic. Following a return to comparable pre-pandemic site levels, social distancing measures along with increases in welfare capacity, are facilitating delivery. All tunnelling excavation works have now completed except Northern line southbound running tunnels. This marks a major milestone since tunnelling began in 2017. The project continues to make good progress on the remaining civil works which are due to be completed by the end of winter.

Healthy Streets: Walking, Cycling and public transport schemes

Our programme of Active Travel cycling and walking schemes delivered through the London Streetspace Plan saw the widest and fastest delivery of walking, cycling and public transport projects ever seen in London and helped guard against a car led recovery.

Despite the challenges of the lockdowns, many walking and cycling successes have been achieved across London



£57m in HI (DfT/ HMG settlement funding for Active Travel in London) to guard against a car led recovery with an **additional £3m** direct to boroughs. Notable achievements:

- 22,516sqm of space re-allocated to pedestrians
- 89km of new/ upgraded cycle infrastructure complete or under construction
- 86km of TLRN bus lanes converted to operate 24/7, Mon-Sun
- 6 new cycle hire docking stations
- 322 school streets
- 20km of 20mph speed limits
- 88 low traffic neighbourhoods across 18 London boroughs
- 20 new signal 'Green Man' authority installed

At the peak in June 2020, compared to June 2019, there was a 210% increase in weekend cycling flows.

Santander Cycle Hire also saw significant milestones:

- 6% increase in number of hires compared to 2019/20
- 50% increase in income compared to 2019/20
- May 2020 was a record month with 14 days of consistent hires of over 50,000 per day

Section 4

The challenge

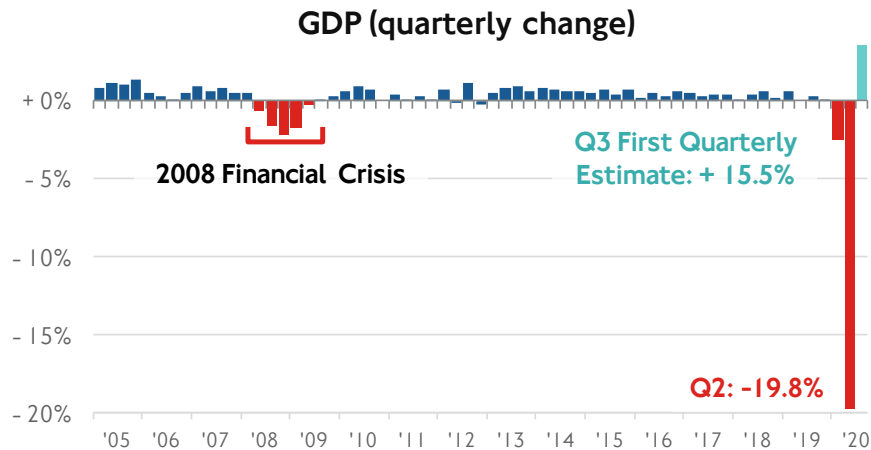
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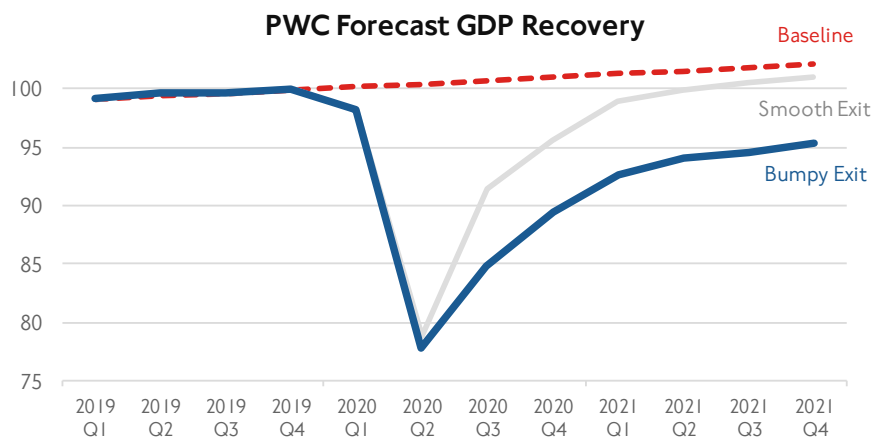
The pandemic has had a catastrophic economic impact and the trajectory of economic recovery is uncertain, as is future fiscal policy

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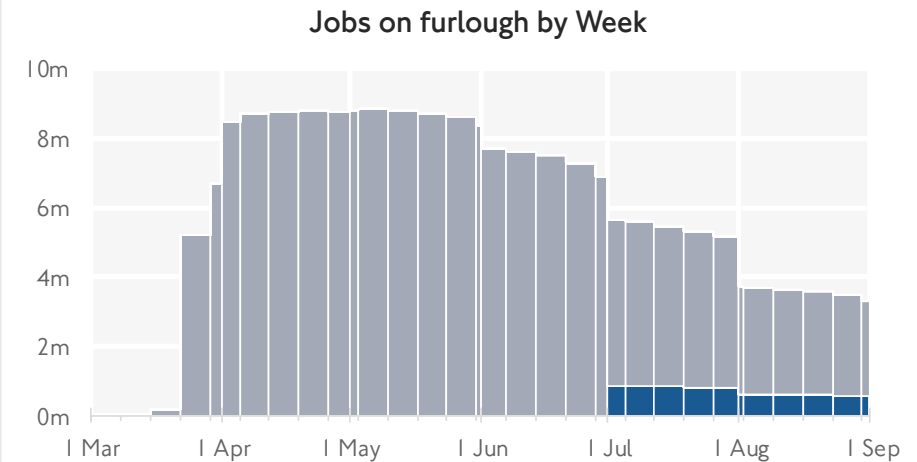
GDP Forecast



Q2 (Apr-Jun) saw GDP fall by **19.8%**. Even with a **15.5%** recovery in Q3, absolute GDP is back at **2013 levels**. In the 2008 financial crisis, GDP's worst quarter was **-2.1%**.



Job Retention Scheme (Furlough)



The number of furloughed jobs has fallen steadily each month. Regionally, London has the most jobs on furlough with **557.4k** as of 31st August, or **9.25%** of jobs.

The number of jobs on furlough is also declining slowest in London, down **34.9%** between 1st July and 31st August (England down 40.1%; UK down 41.3%).

Weekly estimates of unemployment have risen from around 4.0% pre-COVID to **between 4.5% and 5.0%** as of the end of September.

Sources: [ONS GDP First Quarterly Est.](#), [PWC COVID-19 Update](#), [Gov.uk Coronavirus Job Retention Scheme Statistics](#), [ONS Labour Force Weekly Estimates](#)

Retail and recreation footfall has dropped significantly in Inner London boroughs

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Decline in “Retail and Recreation” Footfall



Google’s “Community Mobility Report” show five London Boroughs with “Retail and Recreation” footfall dropping **over 75%** from baseline; all Central Activity Zone, Inner London boroughs.

Baseline is median value from the 5-week period Jan 3 – Feb 6

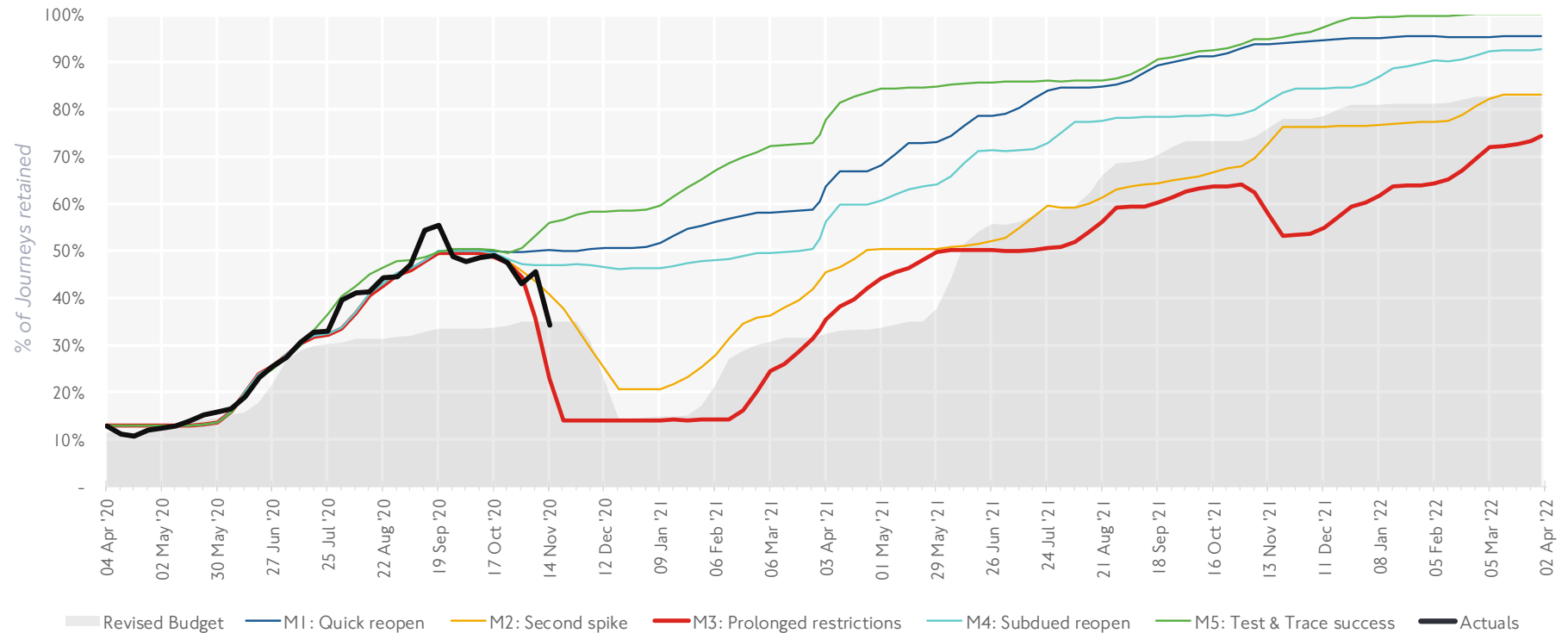
As of Week 32 (w/e 14th Nov) decline by borough varies from **90%** in City of London to **39%** in Barking and Dagenham

Sources: [Google COVID-19 Community Mobility Reports](#)

Demand therefore remains uncertain, and as we are so dependent on revenue from fares, this significantly impacts our financial planning

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Combined Bus & LU Demand Recovery Scenarios

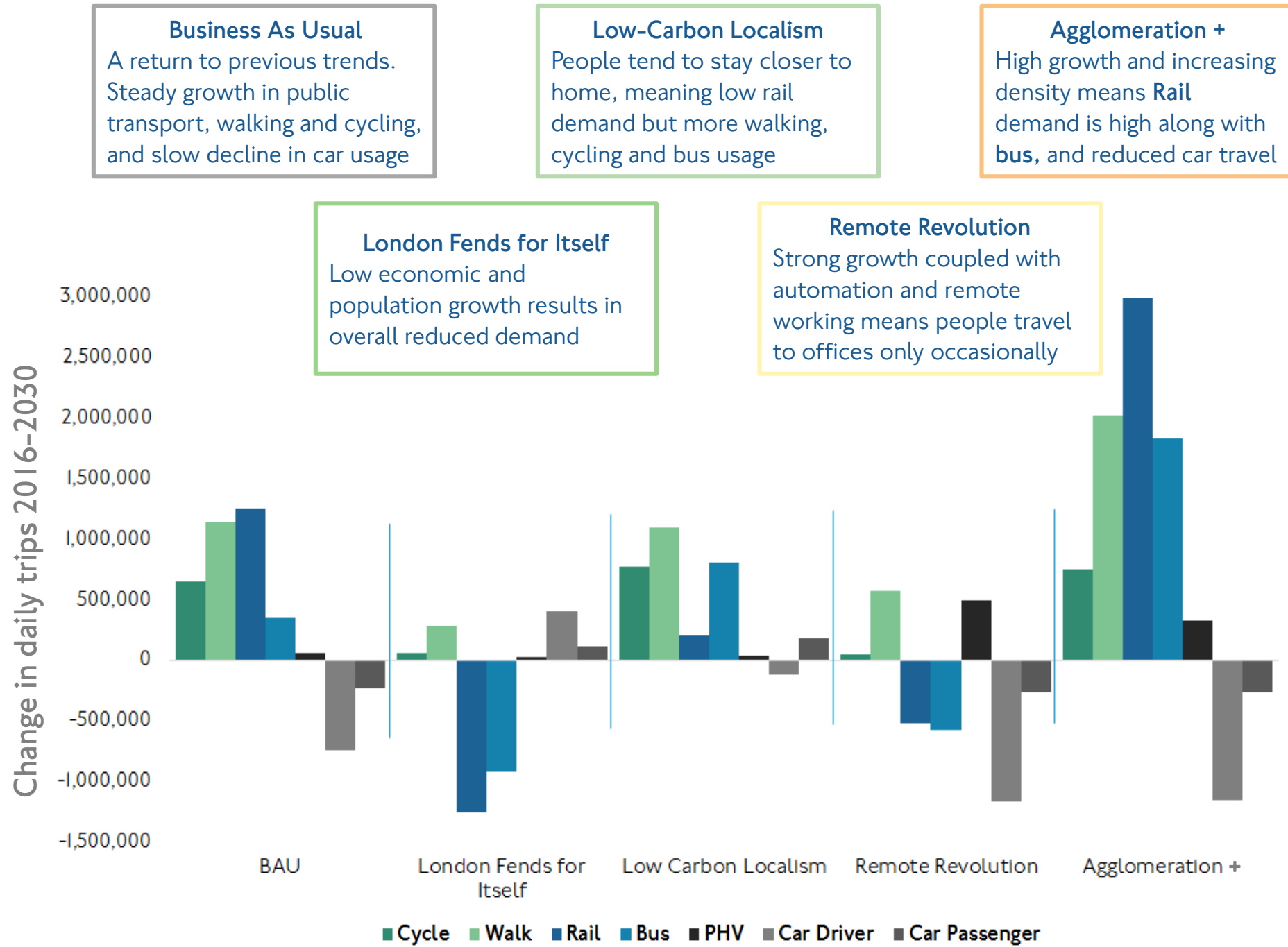


This chart shows the range of scenarios we have been considering pre-lockdown for our revenue over the next two years. These are indicative and reality is far more complex than we can model, but this shows the range of outcomes we have to be prepared for. **As a core scenario we have used the yellow line** above (revised from the grey shaded area that is our Revised Budget), but our views develop as we receive more actual data.

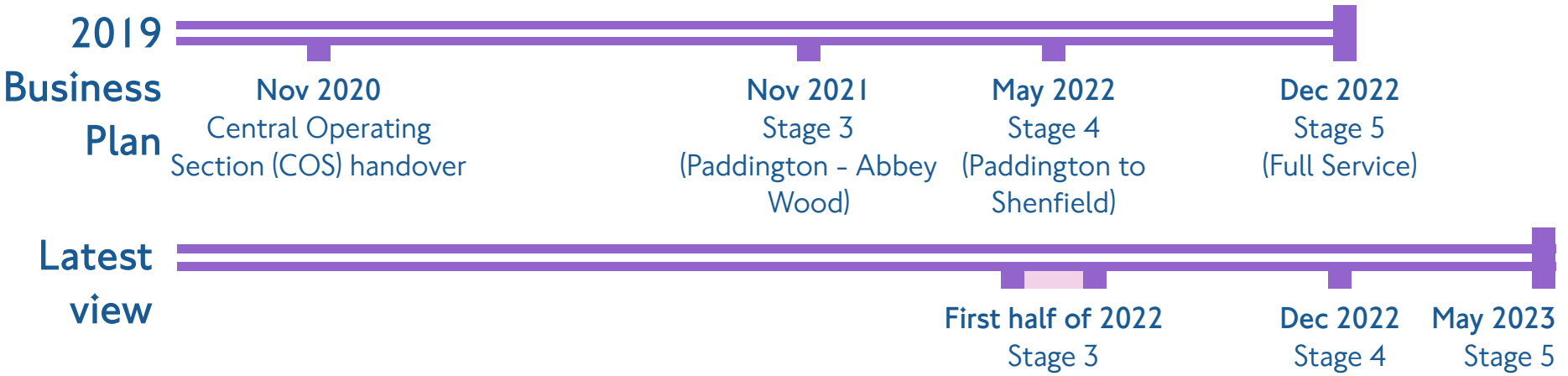
The second lockdown, which started on 5th November, has seen a smaller reduction in journeys compared to the first in large part due to schools being open and other restrictions being less severe. There is still significant uncertainty over the length and severity of the second wave and associated restrictions, as well as the speed of recovery and roll out timetable for vaccines.

Demand uncertainty also remains in the long run

We are using scenario planning to assess the range of potential future outcomes out to 2030 and beyond. Key variables within this include the future population and jobs in London, and travel choices by residents



Elizabeth line: Latest assumptions



Construction costs

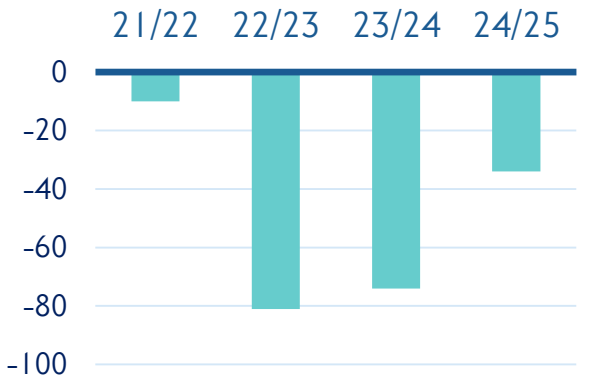
On 21 August 2020, Crossrail Limited announced that its latest cost forecasts indicate a further £1.1bn is required to complete the project. This replaced the £400m to £650m announced back in November 2019, and is in addition to the £2.15bn original funding top up agreed.

On 30 November 2020 a funding deal for £825m of the £1.1bn was reached.

London is bearing the full additional construction cost of c£3bn for the project

Revenue impact

£200m revenue impact from 6 month delay. This is in addition to the £1.35bn impact from the previous two business plans



Phasing of £200m revenue impact

Governance

Project governance has now transitioned fully to TfL, which will support the successful completion of the project

Stage 3 opening date assumption:

- 2019 Business Plan - November 2021
- Latest view – First half of 2022

Section 5

TfL submission to the GLA Budget

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Key assumptions in the TfL submission to the GLA Budget for 2021/22 and 2022/23

Revenue assumptions

- Average passenger demand for 21/22 is circa 60% compared to 2019 Business plan, and by the end of the year (Mar 22) we are forecasting to be 80% of 2019 Business Plan ridership. Average passenger demand is 80% compared to 2019 Business plan for 22/23
- RPI+1 from January 2021, and then a planning assumption of same uplift again each year (subject to annual Mayoral decision)
- Freedom pass and 60+ Oyster removed from AM peak continues as long as needed in response to the pandemic, which will be kept under review
- Freedom Pass income follows current agreement with London Councils using a two year demand average
- Business Rates Retention reduced by circa £200m per annum based on GLA Budget guidance

Congestion Charge, LEZ & ULEZ

- Maintain current temporary congestion charge days and hours as long as needed in response to the pandemic, which will be kept under review (value of £140m for 21/22)
- LEZ tightening March 21, ULEX in October 21
- Latest ULEX assumptions include higher daily unique vehicles (1.2m vs 0.4m in 2019 BP) based on more accurate traffic volume data gathered since 2019 BP

LU / Rail service levels

- Potential restart dates on Night Tube and Waterloo & City line being kept under review
- LU service reduction package of minor cuts to some weekend and off-peak services
- Elizabeth line stage 3 opening assumed to be the first half of 2022

Bus service levels

- Overall network level operated kilometres remain stable, with services continuing to be planned to match changes in demand – e.g. between central/inner and outer London

Financial assumptions

- Longer term RPI from 2022/23 returns to 3.1% (OBR forecast)
- No new borrowing assumed from 2021/22 and throughout the plan period

TfL Group: Operating Account

2020/21 improves by £400m to Revised Budget driven by improved revenues in H1 prior to the second national lockdown and further cost savings forecasted in H2

Projections for 2021/22 are broadly in line with our Revised Budget view with £3.1bn of grant funding required and 2022/23 requiring £1.8bn as passenger revenues stabilise around 80% of pre-pandemic forecasts

Operating account

(£m)	2019/20	2020/21	2021/22	2022/23
	Actual	Forecast	Plan	Plan
Passenger income	4,751	1,480	3,276	4,559
variance yoy		(3,271)	1,796	1,283
variance to RB & 2019 BP		165	(265)	(1,407)
Other operating income	1,023	768	1,267	1,992
variance to RB & 2019 BP		60	131	393
Total operating Income	5,774	2,248	4,542	6,551
Business rates retention	988	969	699	788
Revenue grants	117	88	18	19
Total income	6,879	3,305	5,259	7,358
variance to RB & 2019 BP		333	(205)	(1,222)
Total costs	(6,433)	(6,654)	(7,015)	(7,502)
variance yoy		(221)	(362)	(486)
variance to RB & 2019 BP		38	(8)	(252)
Direct operating surplus/(deficit)	446	(3,349)	(1,756)	(143)
variance yoy		(3,795)	1,593	1,613
variance to RB & 2019 BP		371	(213)	(1,474)
Capital renewals	(452)	(366)	(805)	(872)
variance to RB & 2019 BP		30	0	(173)
Net financing cost	(433)	(458)	(511)	(505)
variance to RB & 2019 BP		(1)	(7)	141
Net costs of operations	(439)	(4,173)	(3,071)	(1,521)
variance to RB & 2019 BP		400	(220)	(1,505)
Extraordinary revenue grant	0	2,589	3,066	1,755
Net surplus/(cost) of operations after extraordinary grant	(439)	(1,584)	(5)	234

Income

- Continued loss of passenger volumes into 21/22, stabilizing at around 80% of normal demand
- Other income grows primarily due to updated ULEX assumptions
- Business rates retention loss of c(£200m) of funding in 21/22 and 22/23

Operating costs

- Operating costs grow year on year as we add new Elizabeth line services and continue our enhanced cleaning and social distancing measures

Renewals

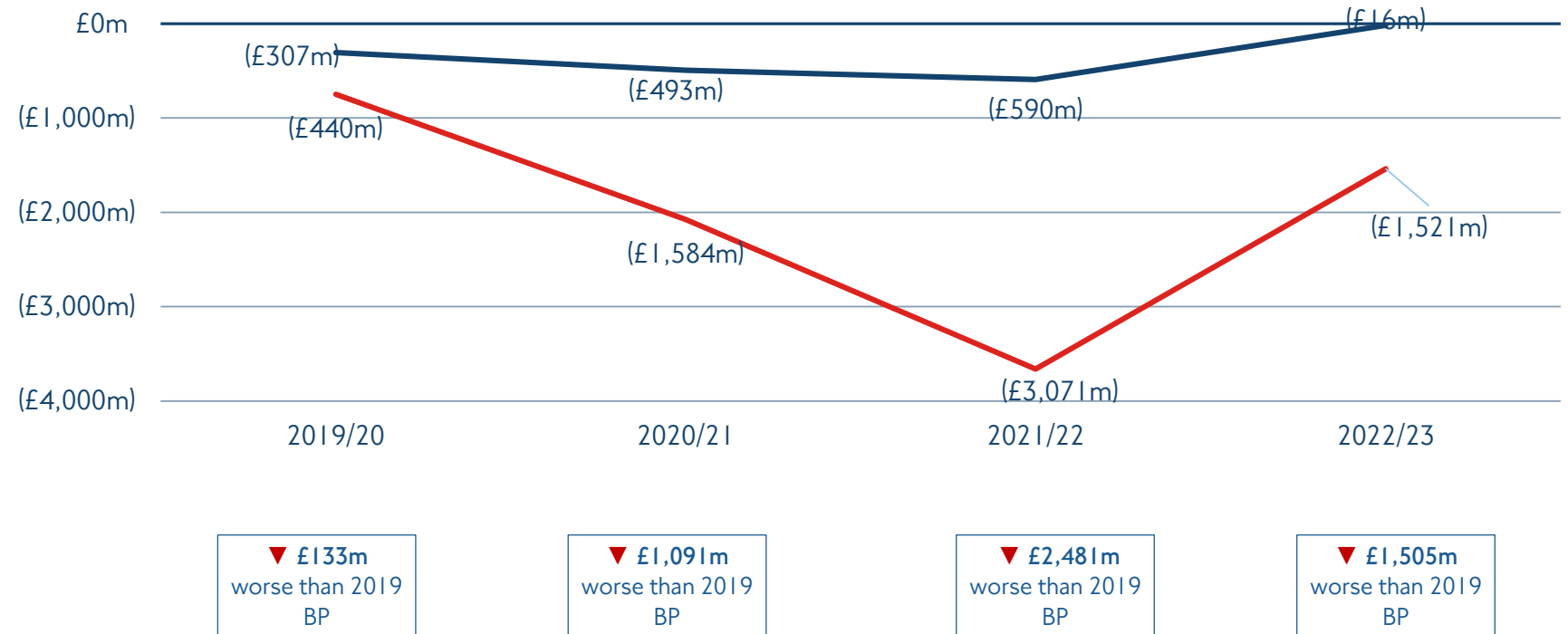
- Over the next two years, we need to catch up on our renewals underspend from prior years and the coronavirus impact in 2020/21

We need significant funding support in 21/22 and 22/23

Over the life of the plan, we no longer have a path to breakeven and financial sustainability

TfL net cost of operations

- Latest view (exc. Government support from 21/22)
- Business Plan 2019



- 2020/21 includes grant funding support of £2.6bn. The remainder of the deficit has been funded through our own cash reserves.
- Future years show a true funding gap with long term funding support yet to be agreed

TfL Group: Capital Account

TfL only:

Further savings have been made in H2 2020/21 as part of the £160m agreed in the H2 funding agreement. No new borrowing is assumed from 2021/22 onwards.

Crossrail:

Latest view prior to governance transitioning to TfL has been reflected

NB: Under statutory reporting, an element of capital grant would be repurposed to the operating account

Capital account

TfL (£m)	2019/20	2020/21	2021/22	2022/23
	Actual	Forecast	Plan	Plan
New capital investment	(1,085)	(913)	(1,366)	(1,533)
variance to RB & 2019 BP		119	(59)	(327)
Funded by:				
Business rate allocation	893	910	930	951
Property & asset receipts	173	110	291	320
Borrowings (TfL)	545	602	0	0
Other capital grants	206	128	125	134
Total	1,817	1,750	1,346	1,405
variance to RB & 2019 BP		5	99	(298)
Net capital account	732	837	(19)	(128)
variance to RB & 2019 BP		123	39	(625)

Crossrail (£m)	2019/20	2020/21	2021/22	2022/23
	Actual	Forecast	Plan	Plan
New capital investment	(1,026)	(800)	(651)	(114)
variance to RB & 2019 BP		(126)	(389)	(114)
Funded by:				
Borrowings (CR)	0	750	0	0
Crossrail funding sources	972	70	765	69
Total	972	820	765	69
variance to RB & 2019 BP		10	548	65
Net capital account	(54)	20	114	(45)
variance to RB & 2019 BP		(116)	159	(49)

New Capital Investment:

- Higher in 21/22 primarily as a catch up of underspend from 20/21 with greater investment in Tech & Data and City Planning projects

Property receipts:

- Driven higher in 21/22 by a catch up in asset sales originally planned in 20/21

Borrowing:

- No new borrowing assumed from 21/22 onwards

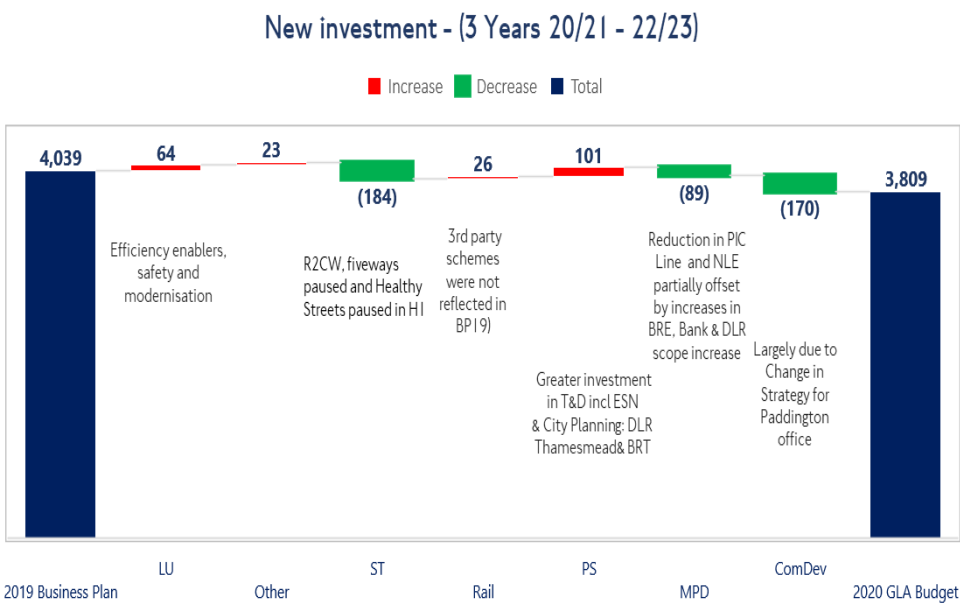
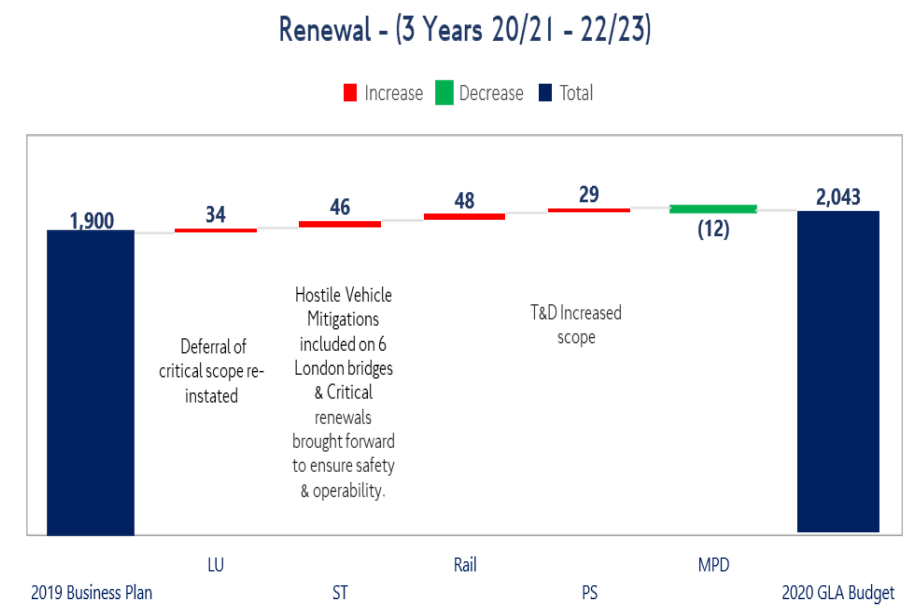
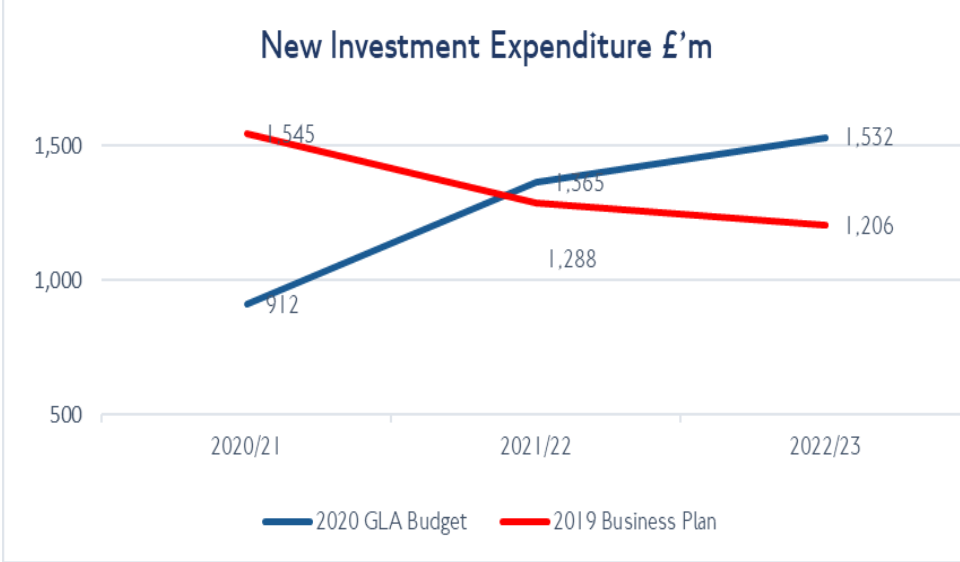
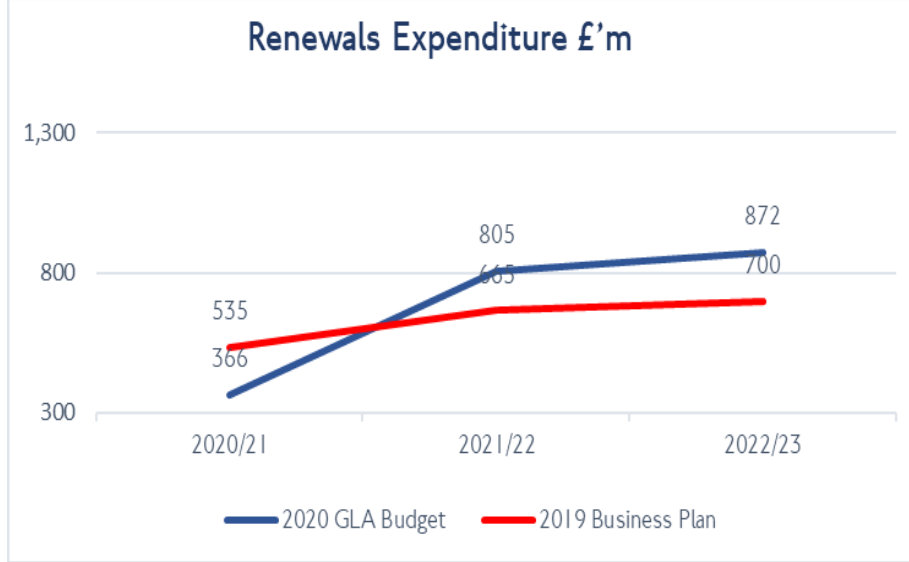
Crossrail:

- Capital programme spend reflects the latest P50 forecast from CRL with funding of £825m from the GLA

Capital Expenditure (exc. Crossrail)

Due to lack of funding in previous years, we now need to increase spend over the next two years to correct the backlog caused by underinvestment.

Whilst the three year total is lower than last year's Business Plan, this was driven by the significant reduction in spend this year needed to avert the funding crisis



H2 2020/21

£160m Savings

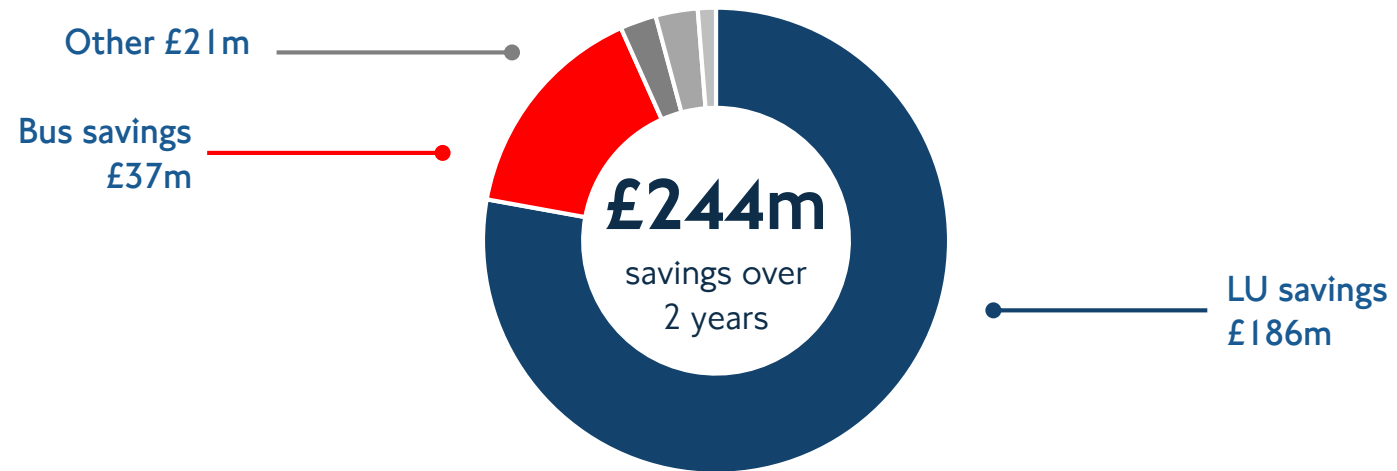
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per the commitments of the H2 funding agreement, we will deliver an additional £160m of savings or income compared to the 2020/21 Revised Budget through a mixture of Capex, Opex and financial control measures

	H2 opportunity
TfL-wide:	
<ul style="list-style-type: none"> Headcount controls on permanent, contract and temporary employees Financial Commitment Oversight Group to enforce tight spend controls Review of major projects capex delivery, sequencing and efficiencies Inventory and working capital management 	£25-30m
Surface: capex reductions / deferrals	
<ul style="list-style-type: none"> Maintain H1 level of overall active travel schemes including DfT dedicated funding Review and assess schemes for deliverability and scope, including Healthy streets, Streetspace, Retain borough LIPs corridor funding, Rephase liveable neighbourhoods, cycle hire bike renewals and other major schemes. 	£80-85m
London Underground: capex deferrals	
<ul style="list-style-type: none"> Slower ramp up and active slowdown, including deferrals of enhancements and renewals. Reduction of spend due to lower cost of implementing social distancing schemes and addressing risk in known areas, meaning this can be released 	c£30-35m
Technology and Data: capex reductions / deferrals	
Review of technology, data and digital programmes	c.£5-10m
TOTAL estimated cash savings in H2	c£140-160m

Savings plans: 2021/22 to 2022/23

Our savings plans, 2021/22 to 2022/23



We now plan to make £244m of savings over the next two years, with £228m of these recurring over future years

As part of the recent funding negotiations, we have identified £160m of savings – through income generation, further operating savings, and capital efficiencies and deferrals – in H2, 2020//21. These are one off and include a combination of slowed capital spend, deliverability assessment on some renewals, and tightened spend controls.

LU savings £186m

Building on savings in the current year, options are currently being explored to determine how these savings can be achieved.

A range of options are also being considered to release more savings through our supply chain with the enhancement of contract management, reviewing engineering standards to ensure modern standards are adopted and utilising a data strategy to improve demand and supply planning.

Once preferred options have been identified and a recommended way forward has been approved by the Executive Committee, we will engage with our people and would consult with our TU colleagues as appropriate.

Bus savings £37m

Savings from reduced tender prices on buses as we have maintained a competitive market. We are exploring a range of options that could help continue to reduce bus operating costs such as reducing mid contract changes and being flexible with our resources during periods such as school holidays when road conditions are better.

We will further review service levels once the requirement to support social distancing has ended and demand has stabilised.

Other savings £21m

Further operational savings will be delivered across the business including Rail and Professional Services.

Paused Projects and Major future Projects



Paused Projects due to financial constraints



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The major future transport schemes in the

MTS are still relevant and aligned to the DfT decarbonisation plan. We are primed to pivot our investment towards a green recovery, supporting sustainable travel and London's global position.

Paused projects	
Healthy Streets	<ul style="list-style-type: none"> • Croydon Fiveways - growth and development plans in the area are changing and we're in discussion with the Borough about future plans • King's Cross gyratory - works were paused for HS2 works; we will still complete key safety improvements as part of smaller, targeted schemes • Bow Vision - paused pending clarity on development plans for the site
Surface public transport	<ul style="list-style-type: none"> • Rotherhithe to Canary Wharf Ferry - scheme currently unaffordable in the context of other walking and cycling priorities • Sutton Tramlink - development work paused as transport case is poor and there remains a significant funding gap
LU enhancements	<ul style="list-style-type: none"> • South Kensington capacity upgrade – delivery of the full SCU remains under review, however short term improvement works has been mobilised to deliver localised works in the ticket hall. The pause will be further reviewed early 2021. • Solar roof installation - original projects paused in favour of development of larger strategic solar installations to be funded using third party investment
Major future Projects	These schemes would support MTS outcomes but delivery funding would need to be secured
Crossrail 2	This scheme would deliver the single largest boost to rail capacity in London. The scheme's affordability in the planned timescales has been further affected by current funding constraints and our immediate priority in discussions with government is updating safeguarding. Costs: £23bn / Homes: 200,000
Bakerloo line extension	This scheme would unlock one of the poorest connected areas in inner London by Tube. Significant funding support would be required to meet the capital costs of the scheme and our immediate priority is to safeguard the route. Costs: £5bn (2020 prices) to Lewisham) / Homes: 35,000
DLR to Thamesmead	This scheme would extend the Beckton branch of the DLR across the river improving connectivity across the river in some relatively deprived areas of London and increase capacity to support growth across the Thamesmead and Abbey Wood and Royal Docks and Beckton Riverside Opportunity Areas. Development work, third-party funded, is being undertaken with a feasibility study in conjunction with boroughs and developers, Costs: c.£800m / Homes: up to 20,000.
West London Orbital	This scheme offers a new service on currently underused rail lines, supporting Old Oak Common growth. We are working with the local boroughs on taking forward a feasibility study, including around funding options for the scheme. Costs: £0.5bn /Homes: c.14,000



Our view of total expenditure: significant funding gap from 21/22

We need to address a funding gap of £3.1bn in 2021/22 and between £1.5bn to £2.0bn per annum going forward by setting targets to balance each of our individual tills

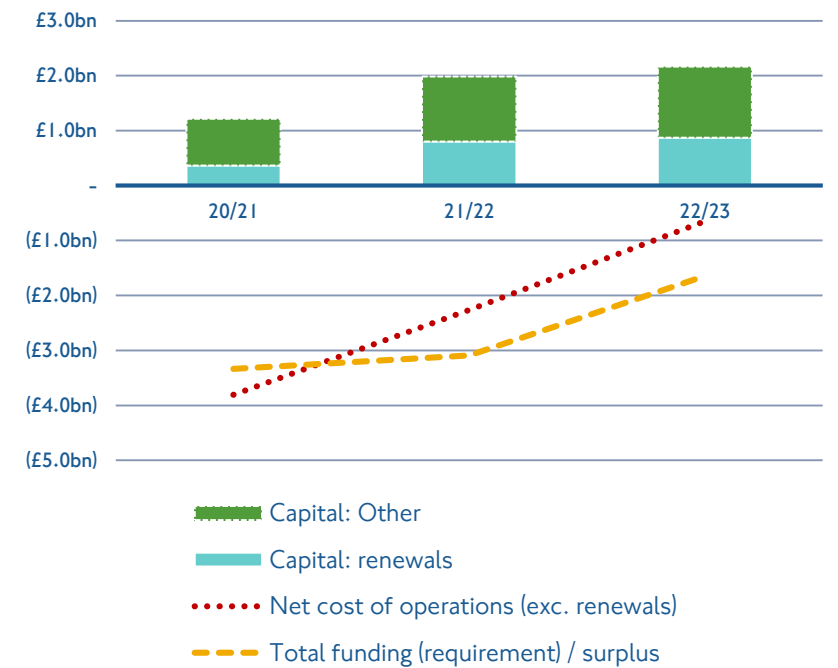
Draft plan

	20/21	21/22	22/23
Income	3,305	5,259	7,358
Operating cost	(6,654)	(7,015)	(7,502)
Financing costs inc. CR borrowing repayments	(458)	(511)	(505)
Net cost of operations (exc. renewals)	(3,806)	(2,266)	(649)
Capital: renewals	(366)	(805)	(872)
Capital: Other	(850)	(1,180)	(1,292)
Total capital spend	(1,216)	(1,984)	(2,164)
Net surplus (cost) inc. capital	(5,022)	(4,251)	(2,813)
Investment Grant	910	930	951
Borrowing	602	0	0
Net Devco	(46)	14	58
Other property & asset receipts	93	91	21
Other capital grants	128	125	134
Total funding (requirement) / surplus [Target]	(3,336)	(3,090)	(1,649)
Extraordinary grant funding	2,589	3,066	1,755
Cash balance and working capital movement	(747)	(24)	106

Key points:

- 2021/22 has a funding gap of £3.1bn broadly in line with the Revised Budget expectation
- From 2022/23, ridership returns to only circa 80% of 2019 BP levels and operating BRR is lower by circa £200m per annum resulting in an on-going funding gap of £1.5bn to £2.0bn per annum
- We assume no new borrowing beyond 2020/21 due to financial affordability (2019 BP assumed £500m)
- Capital spend requirement is driven by the need to renew critical assets after lower spend in recent years and is largely based on the Long-Term Capital Plan with some deliverability adjustments

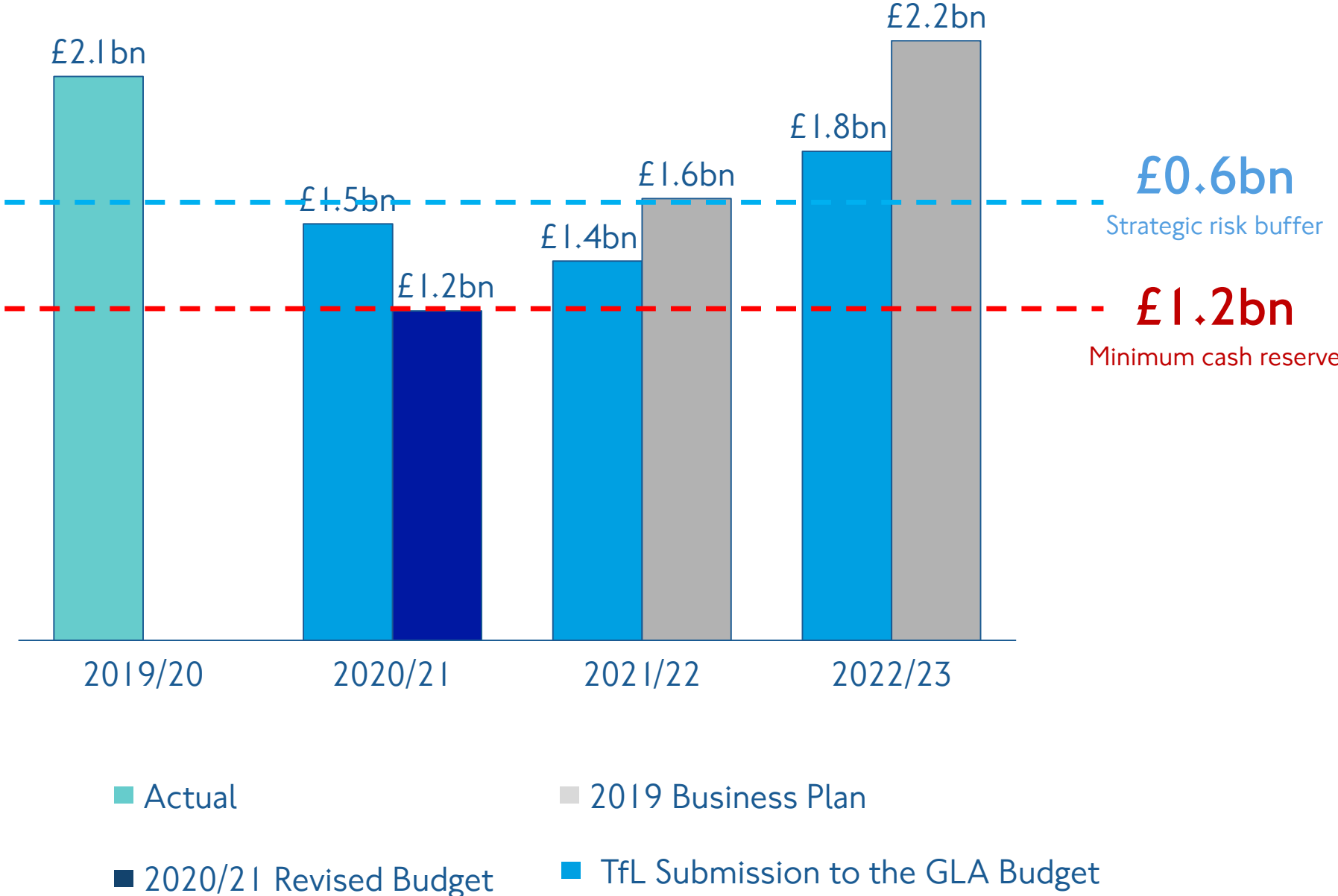
Funding requirements for capital programme



In the medium term, we need to start rebuilding our cash reserves to increase resilience

Cash in 2020/21 is better than our Revised Budget as we keep some of the benefit of savings we made in H1 and the H1 funding and H2 revenue true-up are finalised at the start of 2021/22. Latest discussions with rating agencies suggest we will need to rebuild to a level of at least four months cash reserves

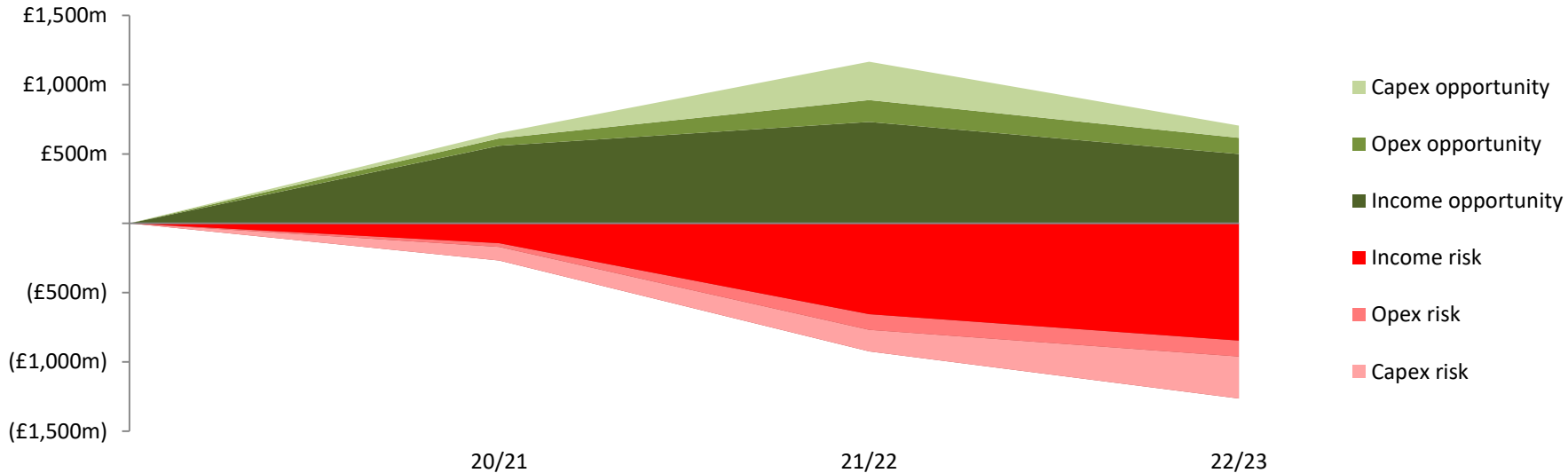
TfL Cash balance (excluding Crossrail account)



Key Risks and Opportunities

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

Risks and opportunities for remainder of 2020/21 and next two years



Income:

- There is a range of possible outcomes for the return of ridership to the network over 2021/22 and the new normal in the medium term. In 2020/21, passenger income volatility is protected through the H2 funding agreement (revenue true-up process). Other income and cost remain a TfL risk.
- Potential No Deal outcome from EU negotiations in January 2021

Operating costs:

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

Capital investment:

- Ability to invest in property developments and generate a future income stream is dependent on market conditions for asset sales
- Deliverability of our capital programme including supply chain and tariff risk with No Deal outcome from EU negotiations in January 2021

Section 6

Reshaping our business

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Streets, Buses and Other Surface operations

New sources of income required to fund critical asset renewals and safety related enhancements

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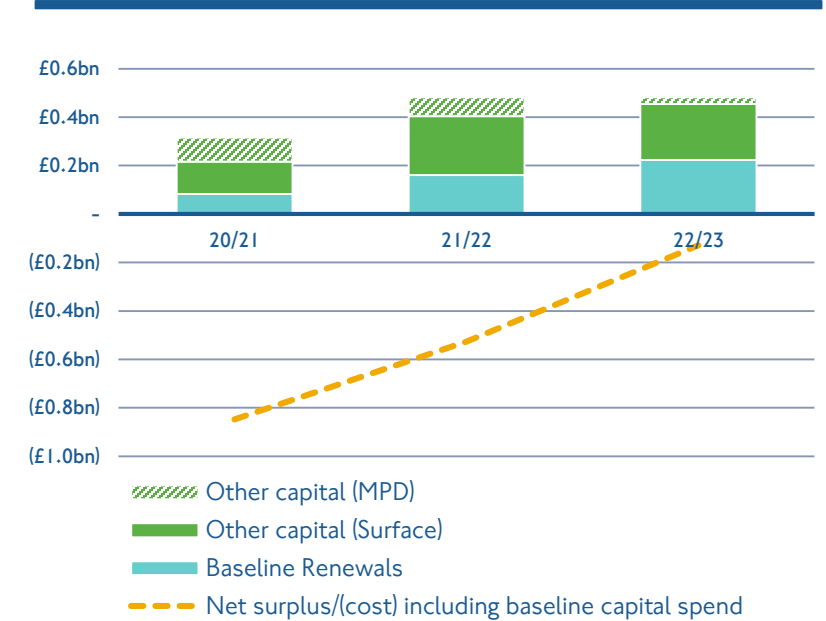
Draft plan

	20/21	21/22	22/23
Passenger revenue	679	1,128	1,294
Other operating income	531	860	1,274
Operating cost	(2,822)	(2,958)	(3,173)
Direct operating surplus / (cost)	(1,611)	(970)	(606)
Indirect costs	(138)	(125)	(108)
Financing costs	(32)	(33)	(32)
Net surplus / (cost) before Baseline capital spend	(1,781)	(1,127)	(746)
Baseline capital renewals	(83)	(160)	(223)
Net surplus / (cost) including baseline capital spend	(1,864)	(1,288)	(969)
Operating BRR	969	699	788
Other revenue grants	5	5	5
Capital BRR funding (for LIPs)	100	100	100
Net surplus/(cost) including baseline capital [Target]	(790)	(484)	(77)
Other capital (Surface)	(133)	(244)	(230)
Other capital (MPD)	(99)	(78)	(28)
Total funding (requirement) / surplus	(1,022)	(805)	(336)

Key points:

- The combined bus and streets network require an ongoing subsidy
- Even after we apply all of the operating BRR (which is significantly reduced) and an allocation from the investment BRR to continue LIPS and Borough funding such as liveable neighbourhoods the services cannot cover their renewal capital requirements or any enhancements
- This shortfall needs to be filled by new sources of income or revisiting the extent of the services we provide
- **ULEX income significantly reduces deficit in early years but as compliance increases after this budget period revenue is expected to fall again with deficit increasing to c.£500m**

Funding requirements for capital programme



Key assumptions

- Surface receives 20% of indirect cost allocation based on its portion of professional services cost
- Includes all CC, LEZ and ULEZ income including temporary CC measures and CC changes introduced over the life of the plan (subject to impact assessment, consultation and mayoral decision), LEZ tightening and ULEX
- Baseline capital includes the cost of renewing our road network, bus, coach and river infrastructure, bridges and tunnels.
- Other capital includes Silvertown, healthy streets and cycling spend, network schemes, transformational schemes, surface technology and air quality.



Maintaining our assets: Streets, Buses, and Other Surface operations – 21/22 full year

Our priorities include proactive renewals following a 2.5 year pause. Focusing on critical highways tunnels and structures

TLRN infrastructure



£57m
Proactive renewals across signal modernisation, carriageways, footways, lighting, structures and other key assets across the TfL road network.

Major highway infrastructure



£32m
Progress design work for major renewals on bridges and tunnels to keep them safe, reliable and operable, including A40 Westway and Rotherhithe Tunnel.

Bus, coach & river infrastructure



£53m
Renewals include a focus on staff welfare facilities at bus stations and refurbishments at Victoria Coach Station. Also includes proactive renewals across our operations network including Hostile Vehicle Mitigation activity and Cycle hire renewals. Redevelopment of Cromwell Road Bus Station

Surface Technology



£20m
Costs to keep our key operational and maintenance systems going and replace them with modern equivalents when necessary.

Cycle Hire Modernisation



£16m
The Cycle Hire Modernisation project will deliver a back-office system solution compliant with the latest regulatory and Payment Card Industry standards

Key Deferrals

- 2021/22 reflects the necessary level of renewals expenditure. Much of the spend deferred from 2020/21 is still to be caught up in future years.

London Underground, Elizabeth line, TfL Rail

A combined Rail till (LU, Elizabeth line, TfL Rail) cannot cover any of its capital investment to 2022/23

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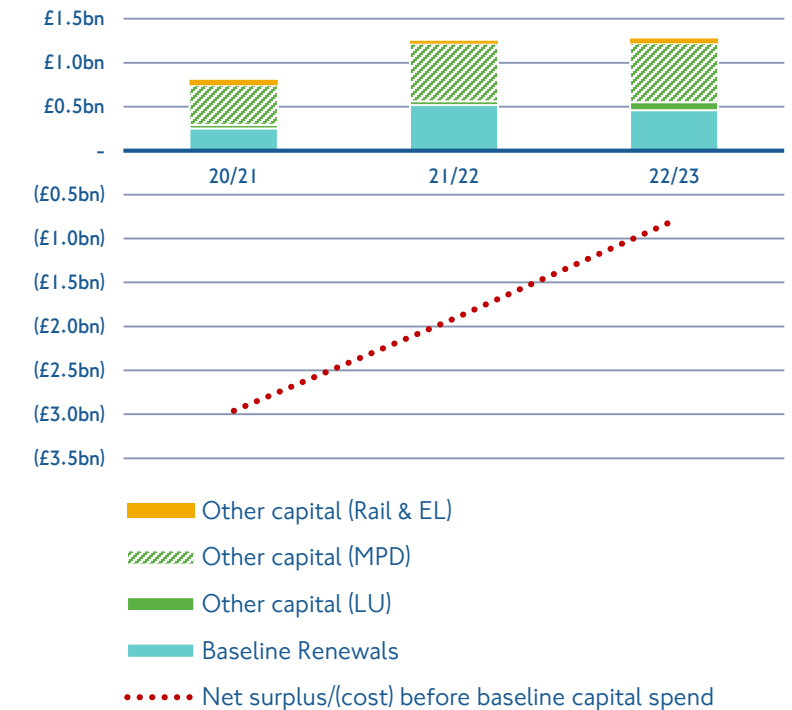
Draft plan

	20/21	21/22	22/23
By P&L			
Passenger income	835	2,107	3,225
Other operating income	29	103	372
Operating cost	(2,839)	(3,165)	(3,461)
By BU			
London Underground	(1,355)	(430)	468
Rail	(327)	(192)	(128)
Elizabeth line	(292)	(333)	(203)
Direct operating surplus / (cost)	(1,974)	(955)	136
Indirect costs	(523)	(407)	(394)
Financing costs inc. CR borrowing repayments	(424)	(477)	(474)
Net surplus / (cost) before baseline capital spend	(2,921)	(1,839)	(732)
Capital: LU Renewals	(208)	(517)	(460)
Capital: Rail & EL Renewals	(46)	(72)	(82)
Net surplus/(cost) inc. all baseline capital [Target]	(3,175)	(2,428)	(1,274)
Other capital: LU	(38)	(45)	(92)
Other capital: Rail & EL	(63)	(34)	(52)
Other capital: MPD	(451)	(653)	(670)
Net Crossrail construction	20	114	(45)
Total funding (requirement) / surplus	(3,707)	(3,047)	(2,133)

Key points:

- LU is significantly below its £1bn surplus target driven by passenger income predicted to be 80% of 2019 BP demand
- Elizabeth line stage 3 opening now first half of 2022 and therefore doesn't make a surplus within the plan years
- A combined Rail till cannot cover any of its capital expenditure over the life of the plan to 2022/23
- A targeted fare structure could maximise revenues when the Elizabeth line is fully open

Funding requirements for capital programme



Key assumptions

- Rail receives 70% of indirect cost allocation based on its portion of professional services cost
- £7bn debt allocation (up to 2018/19) and the financing cost associated with incremental borrowings from 2019/20 to 2020/21
- LU renewals: existing renewals forecast only
- Other capital: Tube upgrade including rolling stock and signalling, station upgrades and accessibility

Maintaining our assets: London Underground and Rail 21/22 full year renewals

The 21/22 Budget focuses on delivering the highest priority renewals projects which are critical for maintaining safety and reliability of the railway.

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Fleet

£178m

- Central Line Fleet renewal programme
- Heavy overhaul (life extension) of Piccadilly, Jubilee, Met and Bakerloo lines
- Engineering vehicles investment



Structures & civils

£36m

- Critical civils structures reinforcement including Grange Hill-Chigwell Embankment
- Ongoing civils asset resilience for priority locations



Track

£131m

- Track renewals at highest risk areas, including works for new Piccadilly line fleet
- Points and crossings at critical locations
- Noise mitigation, security and access fencing work



Signalling, Power, Cooling & Energy

£50m

- Essential electrical works and Power control system works to address obsolescence degradation and safety compliance
- Life Extension works to Central, Bakerloo and Piccadilly line signalling



Lifts & Escalators

£38m

- Continued delivery of priority escalator renewals (Liverpool Street, Marylebone and South Kensington)
- High priority lift works (including Borough and Holloway Road)



Rail

£54m

- Prioritised renewals across all asset groups at DLR, Overground and Trams
- Defining outcomes and optioneering for Trams replacement rolling stock and DLR signalling

LU Technology & Networks



£45m

- Connect Radio system essential upgrades
- Station security systems & Asset Management System developments

Key Deferrals

- 2021/22 reflects the necessary scope of renewals but on a “slowed down” spend basis across the whole portfolio. Much of the scope not delivered in 2020/21 and 2021/22 is still to be caught up in future years to maintain safety and reliability

Note: In addition to the renewals above is enhancement spend including Step Free Access (£6m in 21/22) and other station enhancements where exit costs exceed costs to complete. Technology for modernisation and efficiency enabling enhancements also not included, TfL Rail costs associated with the Elizabeth line (£11m) also not included.

Housing and Property Development

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

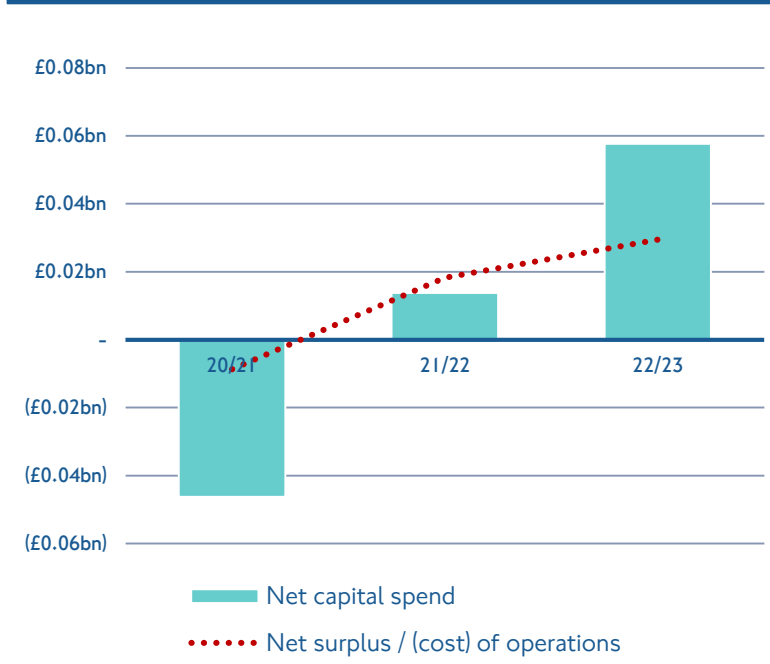
Draft plan

	20/21	21/22	22/23
Other operating income	42	74	86
Operating cost	(38)	(45)	(46)
Direct operating surplus / (cost)	4	29	40
Indirect costs	(13)	(14)	(14)
Financing costs	0	0	0
Net surplus / (cost) before capital	(9)	15	26
Capital: Investment	(64)	(186)	(241)
Capital: Receipts	17	199	299
Net capital investment [TARGET]	(46)	14	58
Total funding (requirement) / surplus	(55)	29	83

Key points:

- Property Development remains capital neutral over the life of the plan with no requirement for net investment from TfL
- This plan assumes targeted disposals of some significant assets which may be a challenge in the current market.
- Given market conditions, and need to generate long-term revenue, the plan assumes that TfL should not dispose of other revenue producing assets would not be commercially beneficial in the longer term
- Access to new non-TfL funding sources will be required to go beyond the initial 13,400 homes and to deliver accommodation strategy which can provide long-term cost savings for TfL and deliver a more ambitious homes and income plan

Funding requirements for capital programme



Key assumptions

- Property Development receives 2% of indirect cost allocation based on its portion of professional services cost

Housing and Property development projects

During 21/22 we will continue to bring housing projects through planning and invest in property assets like our significant Arch portfolio – all of which have potential to generate significant ongoing revenue streams or reduce TfL's cost base

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Section 7

Capital Strategy

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Our framework for investing in a sustainable recovery

We are developing plans that will help us support government objectives and decarbonise our public transport network by 2030, but this requires funding.

London has one of the most mature low-carbon transport systems in Europe. Further investment will ensure we can continue to deliver major economic, social and environmental benefits.

Transport is central to the recovery – not only to recover the economy but to make it more robust and sustainable than before to cope with the challenges ahead.

We have an offer that will support London and the UK, based around three key themes:

-  **Maintain**
Be a good custodian of London’s assets
-  **Adapt and Accelerate**
Transition to a net zero transport network and city as quickly as possible
-  **Regenerate**
Plan for the longer-term transport enhancements that London needs

Progress against all three themes can deliver substantial benefits both immediately and over a long timeframe. We have a proven track record of delivering results when adequately funded, and with support can continue to deliver progress against key priorities such as:



- Economic Recovery**
- Supporting the UK Supply Chain**
- Low-Carbon Lifestyles**

Earlier this year we worked on a Long-Term Capital Plan, which looked at a low, medium and high scenario for capital investment long term. Our Capital Strategy shows the high scenario and funding required to deliver this. In September, we submitted a Comprehensive Spending Review Document outlining potential schemes we could deliver with the appropriate investment. This work directly links to our Capital Strategy.

Updating our capital prioritisation criteria and focussing on value for money

As part of the work to develop a Financial Sustainability Plan, we are updating the criteria to prioritise our capital investment.

The following two slides summarise the criteria for categorising schemes and capital activities into four categories: Minimum, Minimum +, Central and Desirable.

However, it is important to note that this is only one step in the prioritisation process. There are important steps before and after categorisation, summarised below.

1. Before categorisation

An existing, draft capital forecast is needed for categorisation. This will usually be the previous iteration of TfL's Business Plan and Budget.

This should be reviewed for realism and future risks ahead of categorisation.

2. Categorisation

Assigning a category to each project within the draft Investment Programme.

Assessing the level of contractual commitment and 3rd party funding of each project.

See following two pages

3. After categorisation

Categorisation is not the end of prioritisation. More nuanced decisions can be made on whether investments should be paused, descoped, stopped or deferred.

The new Investment Programme also needs to be assessed and assured in the round.

We will also embed the following principles around value for money developed by the National Audit Office:

- **Economy:** minimising the cost of resources used or required (inputs) – **spending less;**
- **Efficiency:** the relationship between the output from goods or services and the resources to produce them – **spending well;** and
- **Effectiveness:** the relationship between the intended and actual results of public spending (outcomes) – **spending wisely.**
- **Equity:** the extent to which services are available to and reach all people that they are intended to – **spending fairly.** Some people may receive differing levels of service for reasons other than differences in their levels of need.

Strategic principles for prioritising our renewals

We are refining how we prioritise our capital investments to ensure we maximise our achievement of the most important outcomes. This shows our current approach, which we will continue to develop

Categories

Definitions for Renewals

Minimum

Legal, safety and corrective works

- Renewals required to maintain safety; operational interventions alone cannot ensure safety
- Legal requirement well-established industry in relation to safety accessibility, human resource and environment.
- Mitigates closures/failures causing major disruption in 6-18 months
- Disproportionate impact on operational costs/revenue/reputation
- Deferral causing major issues in 3-5 years due to backlogs/lead times
- Condition assessment places asset in highest risk category
- Maintain at least 50% run rates compared to steady state sustainable level
- Renewals required to mitigate Cyber Security vulnerabilities and continued support of critical systems
- Renewals to prevent State of Good Repair (SOGR) for a group of assets falling below the lowest acceptable level

Minimum +

Target critical asset renewal

- Renewals required to maintain an operable network and mitigate escalating disruptions caused by unplanned/emergency work
- Renewals required for service continuity and compliance
- Mitigate closures/failures causing major disruption in 1-3 years
- Mitigate closures/failures causing moderate disruption in 6-18 months
- Deliver contractually committed renewals
- Condition assessment places asset in a high-risk category
- Maintain at least 75% run rates compared to steady state sustainable level
- Projects that are financially positive (based on TfL contribution) within a 5- to 10-year payback period
- Renewals to manage the SOGR decline for a group of assets to slightly above the lowest acceptable level (a small to moderate decline on today).

Central

Renewal to maintain condition and performance

- Mitigates asset closure/failure risks to acceptable levels
- Delivers appropriate service levels, i.e. operability and reliability
- Maintains patronage e.g. accessibility, ambience, safety perception
- Planned preventative interventions to optimise whole life costs
- Condition assessment places asset in a medium/moderate risk category
- Maintain run rates at the steady state sustainable level
- Renewals to support new ways of working and support future savings
- Renewals to hold / return SOGR for a group of assets at a level to support ongoing reliable network/service

Desirable

Asset investment beyond categories above

- All other expenditure within renewals not defined above
- SOGR for a group of assets will be held at a level that supports high levels of reliability and customer satisfaction
- *Note: additional renewals activities that are driven by other priorities beyond TfL's asset management objectives should be assessed against the enhancements criteria*

Strategic principles for prioritising our enhancements

This slide shows the categories for enhancements to complement the previous slide on renewals

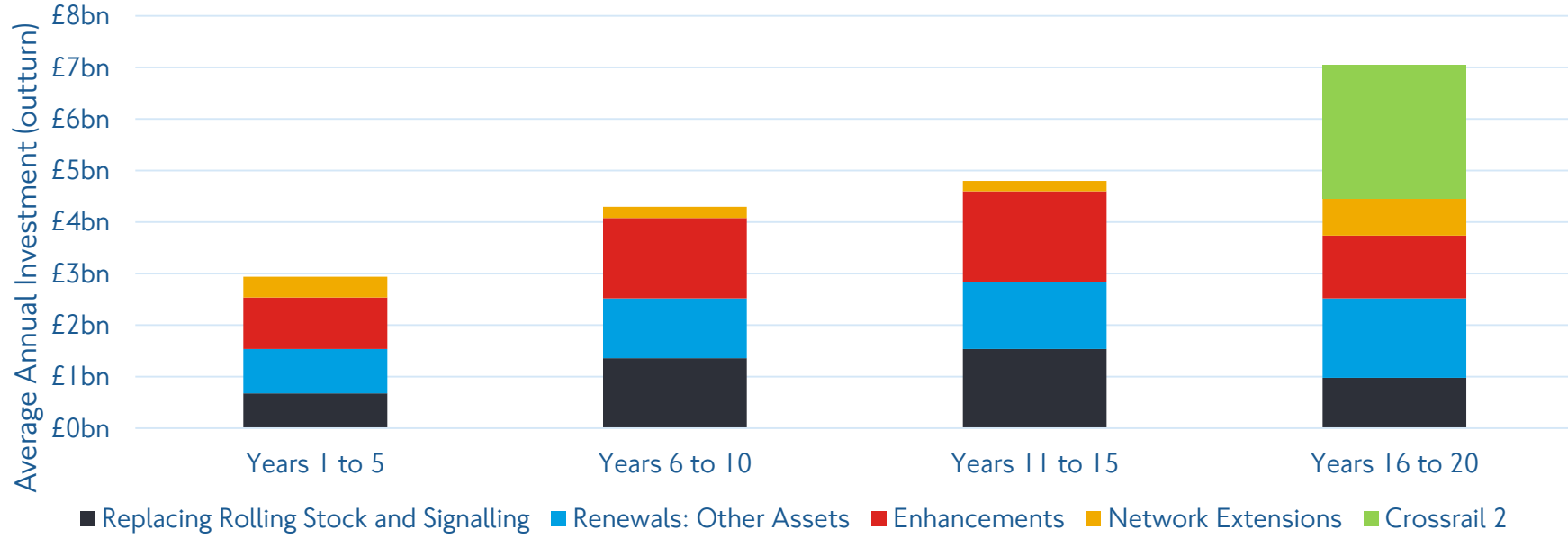
Note that we consider contractual commitment of projects separately from these criteria

Categories	Definitions for Enhancements
<p>Minimum Necessary enhancements to meet legal obligations</p>	<p>Minimum cost to maintain safety & operability. No improvements above legal requirements. Should only include:</p> <ul style="list-style-type: none"> Projects that are required to meet our legal obligations in relation to issues such as safety, accessibility, human resource and environment, including staff facilities. Projects essential for maintaining current safety and operability levels Projects that are financially positive (based on TfL contribution) under 2 years
<p>Minimum + Support for critical renewals and regulatory improvements</p>	<ul style="list-style-type: none"> Any remaining projects that are directly tied to critical asset renewal, but which do not meet the Minimum criteria Safety improvement projects that relate to regulatory notice for improvements, or that deliver highly evidenced life-saving benefits at specific locations with poor safety records Projects that are financially positive (based on TfL contribution) within a 2- to 5-year payback period
<p>Central Enhancements focused on resilient outcomes and near-term priorities</p>	<p>Overall:</p> <ul style="list-style-type: none"> Projects whose primary purpose is to improve safety above current levels (but not meeting definitions above) Projects that make a strong contribution within 5-10 years to the post-COVID Green Recovery (covered by the four themes of Healthy & Inclusive City, Climate Emergency, Green Economy, Supporting Low-Emission Lifestyles). Projects that are financially positive (based on TfL contribution) within a 25-year payback period Projects which directly enable new housing supply in London <p>Central High: Projects that meet above definitions AND perform strongly against factors such as:</p> <ul style="list-style-type: none"> Schemes that leverage a high proportion of committed / time-limited third-party funding Projects with unusually strong business cases relative to the norm for their portfolio Projects that are essential for achieving publicly stated commitments or targets between now and 2030 <p>Central Low:</p> <ul style="list-style-type: none"> Projects which unlock live planning applications or consented developments Schemes which have potential (but not committed) significant third party funding Remaining Central projects
<p>Desirable Longer-term MTS priorities catering for growth</p>	<p>Overall: All projects not meeting criteria above but delivering against other MTS outcomes. This will include projects focused on expanding public transport capacity or stimulating growth are expected to be categorised here</p> <p>Desirable High:</p> <ul style="list-style-type: none"> Projects which have a high likelihood of being impossible to deliver later due to blighting Projects with substantial and committed (or very high likelihood) third-party funding <p>Desirable Low: All remaining</p>

Our 2020 Capital Strategy

- The Capital Strategy is a required portion of the GLA Budget to set out what is required to deliver the MTS over 20 years, as well as the required investment in our asset base to maintain its condition.
- We have refreshed the Capital Strategy this year through our Long-Term Capital Plan process, and aligned it with our Spending Review submission. The first 3 years are constrained by affordability – afterwards sets out our required vision without financial constraint.
- This is an ambitious vision requiring increased, secure long-term funding. This is the type of vision required to support future prosperity in London and the UK economy.
- Figures are reported in outturn terms so include future inflation. This explains part of the increase over time; the rest of the increase is due to the need to meet our existing obligations to replace and renew infrastructure while also investing to address critical priorities like decarbonisation, road danger reduction and stimulating the economy.

Draft Capital Strategy



Consequences of not investing in renewals

Our prioritisation has been designed to ensure we maintain sufficient renewals of our key assets to run a safe and reliable network across all modes. Failure to do this would have severe consequences

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Safety

- We will not compromise on safety. Renewals are vital for maintaining this on both a large and small scale.
- We need to invest in ongoing, proactive renewals across our whole asset base to minimise safety dangers from the likes of potholes and track failures.
- Vulnerable road users such as pedestrians and cyclists are particularly affected by poor carriageway and footway condition, emphasising the safety case for investing in proactive renewals

Reliability

- Good asset condition underpins reliable operation of our public transport services and road network
- Tube reliability improved during the 2010s, with asset-related delays reducing substantially due to investment in their condition. This trend will reverse if we allow the assets to degrade again
- Poor reliability deters passenger usage of public transport, and if standards are allowed to fall this would discourage the return of passengers and the necessary income they contribute to TfL

Operability

- Because we won't compromise on safety, failing to proactively renew assets will eventually mean restricting or closing them.
- This is not hypothetical: it can already be seen at Rotherhithe Tunnel which is restricted to cars only, and we have had to impose interim measures or increased inspections at dozens of other sites.
- Asset restrictions have wide impacts as passengers and traffic reallocate to other routes, affecting the network as a whole and not just the location of the original problem.

Financial and Wider Impacts

- Cutting renewals is often a false economy. Costs rise later as the backlog has to be caught up: this leads to peaks and troughs of investment that are harder to resource and deliver, increasing long-term costs.
- Reduced renewals leads to increased day-to-day maintenance costs. We estimate reducing from an optimal renewal profile to the bare minimum could increase maintenance by £50m per year.
- Asset restrictions have direct costs to manage and often lead to lost revenue.
- Many wider benefits are embedded into our renewals: e.g. replacing older assets with energy-efficient alternatives like LEDs. Reducing renewals means such progress would slow.

Projects in first 5 years

While we are in a constrained position, we will continue to deliver the critical investments in our transport network to support the economy and a green recovery from the pandemic. This slide gives a snapshot of some of the schemes we will deliver

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London Underground



Continued replacement and modernisation of assets:

- Four Lines Modernisation
- New Piccadilly line trains

Completing capacity and connectivity schemes:

- Station upgrades at Bank, Elephant & Castle, Tottenham Hale, Colindale
- Northern Line Extension

Improving the network:

- Completing current step-free access schemes
- Continuing rollout of 4G

Surface Transport



Renewing our critical assets:

- Rotherhithe Tunnel, A40 Westway
- Continued investment across highways and rail assets

Extending and improving our network:

- Starting work towards electrification of bus fleet by 2030
- Barking Riverside Extension
- Silvertown Tunnel
- New DLR trains and capacity uplift
- East London line upgrade
- Commencing work on DLR to Thamesmead (subject to securing third-party funding)

Transforming our streetspace:

- Ultra Low Emission Zone
- Old Street, Wandsworth Gyratory
- Cycle network expansion

Corporate / Growth Fund



Upgrading our technology:

- Supporting the Emergency Services Network, investing in our systems to support customer experience, payments and internal capacity

Investing in our property estate:

- Unlocking new homes and generating new income streams (see Slide 40)

Supporting key growth areas:

- Interventions to unlock housing in Walthamstow, Tolworth, Morden, Erith and others

Projects within our 2020 Capital Strategy

The Capital Strategy offers a broad view of the investments required to deliver the MTS, and the funding required to achieve this. This slide is far from exhaustive but gives a sense of what has informed our strategy.

Replacing Rolling Stock and Signalling

LU trains replaced on Piccadilly, Bakerloo, Jubilee, Central, Waterloo & City lines. Cascade trains onto Northern line to expand capacity. All current DLR trains and Trams replaced

Overground and Elizabeth line leased so not included here

Upgrade Piccadilly line signalling, incrementally improve Central and DLR signalling and address obsolescence on all other lines

Renewals of Other Assets

Optimal profiles, catching up backlogs and effectively managing whole-life costs
Includes renewals of major structures such as Rotherhithe Tunnel and Westway

Enhancements

Progressing towards the wide range of MTS objectives to improve our network and enable more journeys to be made by sustainable modes. Includes (among others):

- Progressing towards Vision Zero
- Decarbonising our rail and bus networks, and supporting shift to electric vehicles and much better air quality
- Supporting more active travel, better bus journeys and less car travel
- Upgrading our tech systems to support internal capacity and customer experience
- Supporting growth both on our own property and in London more generally
- Enhancing Tube / Rail stations to be more accessible and have more capacity

Network Extensions

Complete in-progress schemes (NLE, Barking Riv., Silvertown). Assumed contributions (subject to 3rd party funding) to schemes such as in Thamesmead, west London and extending the Bakerloo line. Crossrail 2 assumed to commence mid-2030s



The start of a new investment cycle

TfL's investment has reduced in recent years at the end of a substantial investment cycle. This cannot last indefinitely – there is a new cycle that must be committed to if the network is to support higher ambitions for a greener, healthier city and a strong UK economy

TfL's first investment cycle

TfL's investment since 2000 has focused on:

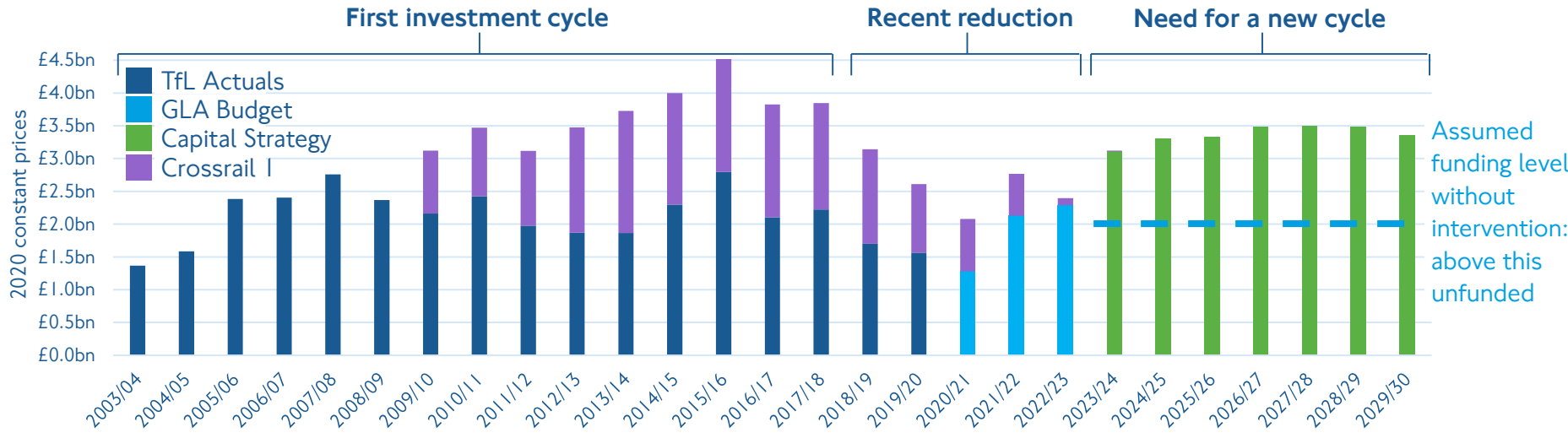
- Improving the asset condition of the network – *which was achieved but is now in reverse*
- Increasing the capacity of the network, partly through the introduction of more modern assets – *but many ageing assets remain*
- Increased connectivity, most notably through extensions such as Crossrail – *but key opportunity areas still need to be opened up*
- Improving broader outcomes including active travel and air quality – *but there is more to do*

TfL's next investment cycle

Our investment has dropped in recent years because a cycle of projects has been ending and we don't have the funding certainty to commit to the next cycle.

We still have the same responsibilities as before to replace trains, maintain structures and keep all our network in good condition. We also now must meet essential higher ambitions in areas like decarbonisation, road danger reduction and housing delivery. This requires a new investment cycle to continue what we've done before and secure the continuing health and prosperity of London and the UK economy. This will require committing to a new investment cycle.

TfL historic / planned Capital Investment



Supporting the UK's Green Industrial Revolution



Bus Electrification: Falkirk



Road technology: Yorkshire, Birmingham, Coventry



Major projects: Manchester Rail: Redhill, Surrey



Manufacture: Derby



HQ: Frimley, Surrey
Transport: Ashby
Mobility: Poole & Goole



Investment in London helps support investment in transport solutions and systems across the country

- € **£39bn tax surplus for the UK**

Our continued ability to support London's economy will protect the £39bn tax surplus London produces each year
- € **Supporting UK industry**

TfL's critical infrastructure **currently supports 43,000 jobs** across the UK. For every £1 spent on LU investment programme, 55p is paid to UK workers outside of London. Investment is needed to safeguard London and the UK's attractiveness as a place to live, work, visit and do business in future.
- € **Greater productivity from existing infrastructure**

Relatively small investments can ensure critical UK infrastructure is ready for future demands of customers and resilient to changes in climate. By investing in existing assets, we are protecting our heritage while driving scientific innovation
- € **Accelerating the UK's Green Industrial Revolution**

The MTS is still highly relevant and is well aligned to the government's Transport Decarbonisation Plan. Investment in public transport, walking and cycling is critical to preventing a car led recovery, which would stifle any city's recovery. A third of all buses in the UK are based in London meaning we can accelerate ambitious net zero targets while shifting towards more sustainable and regenerative practices with UK industry partners. This is critical to tackling London and the UK's contributions to climate change and air pollution

Examples of projects with far-reaching UK benefits:



Zero Emission Buses

The transition to a zero emission bus fleet can secure 3000 jobs around the UK. A more ambitious target completion year could see that grow by another 20%.



Clean Energy

TfL Power Purchase Agreements could add significant demand for clean energy and create additional jobs in the UK renewables sector outside London.



Rolling stock contracts

Our recent order of new Piccadilly line trains built by Siemens has enabled a new construction facility in East Yorkshire.

Section 8

Conclusion

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Funding

Our funding gap to maintain our 2020/21 exit cash levels remains broadly in line with the Revised Budget. We need £3.1bn in 2021/22 and this highlights the need for ongoing Government support into 2022/23 in order for us to continue operating essential transport services

Tfl's submission into the GLA Budget sets out a funding requirement of £3.1bn for 2021/22 and £1.8bn for 2022/23

£bn	2020/21			21/22	22/23
	H1	H2	FY		
Base funding	1.6	1.3	2.9		
Additional facility	0.3	-	0.3		
Total Emergency Budget	1.9	1.3	3.2		
Base funding	1.6	1.6	3.2	2.9	
Additional facility	0.3	-	0.3		
Re-phased	(0.4)	0.4	-		
Total Revised Budget	1.5	2.0	3.5	2.9	
Base funding	1.6	1.0	2.6	3.1	1.8
Revenue true-up	-	0.8	0.8		
H1 true-up*	-	-	-	(0.3)	
Total TfL GLA's Budget	1.6	1.8	3.4	2.8	1.8

There is a large degree of uncertainty around future social distancing assumptions, the threat of further virus spikes and the viability of vaccines. This could produce a revenue range of approximately +/- £500m for 21/22. **Any funding deal will need to cover our relatively fixed operating costs and capital expenditure, dependent on what the revenue outcome is.**

* We agreed with Government to extend the H2 funding negotiations by two weeks and therefore drawdown the full amount of £1.6bn base funding agreed as part of the H1 funding agreement to cover this period. The cash true-up for this and the passenger revenue for H2 is assumed to take place in P1 of 2021/22 (although accounted for in 2020/21).

A sustainable funding model is required to ensure London has the transport network it needs to support economic recovery and growth

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We are managing our core financial position and working on a financially sustainable way forward

Our submission to the GLA Budget is prudent and built on tight spend control on our operating and capital account. We continue to be exposed to a high degree of uncertainty in the economic outlook and on our income streams, in particular passenger revenue.

Securing Government support for a financially sustainable plan is key to further medium and long-term planning.

Our position as an integrated transport authority brings benefits to London and the UK



An integrated authority gives the best user experience between all modes, improves efficiency and saves journey time. It means we can:

-  - prioritise and operate strategically across transport modes London-wide;
-  - deliver wider outcomes such as London-wide development of environmental policy, regulation of non-public transport modes and integrate infrastructure planning and investment.
- 
- 
-  - deliver jobs and skills across the UK through our supply chain

We need certainty on funding to ensure our operations are efficient, effective and provide value for money

A stable and sustainable long-term funding model will allow us to plan and deliver in the most efficient and effective way, ensuring we can harness the best value for money and fulfil our financial stewardship duties

We have a proven track record of delivering schemes that:

-  Grow the economy
-  Supporting the UK Supply Chain
-  Encourage the transition to low-carbon lifestyles

Continuing to deliver these benefits is entirely dependent on secure, long-term funding.

TfL Mayor's Budget 2021/22

GLA Consultation Extracts

December 2020

About Transport for London (TfL)

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' and helping to create a safer, fairer, greener, healthier and more prosperous city. The Mayor's Transport Strategy 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 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 Emirates Air Line. 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, the Ultra Low Emission Zone

scheme and more environmentally friendly bus fleets are helping to tackle London's toxic air.

During the coronavirus pandemic we have taken a huge range of measures to ensure the safety of the public. This includes enhanced cleaning using hospital-grade cleaning substances that kill viruses and bacteria on contact, alongside regular cleaning of touch points, such as poles and doors, and introducing over 1,000 hand sanitiser points across the public transport network. Working with London's boroughs we have also introduced Streetspace for London, a temporary infrastructure programme providing wider pavements and cycle lanes so people can walk and cycle safely and maintain social distancing. At the same time, we are constructing many of London's most significant infrastructure projects, using transport to unlock much needed economic growth.

We are working with partners on major projects like the extension of the Northern line to Battersea, Barking Riverside and the Bank station upgrade. Working with Government, we are in the final phases of completing the Elizabeth line which, when open, will add 10 per cent to central London's rail capacity. Supporting the delivery of high-density, mixed-use developments that are planned around active and sustainable travel will ensure that London's growth is good growth. We also use our own land to provide thousands of new affordable homes and our own supply chain creates tens of thousands of jobs and apprenticeships across the country.

We are committed to being an employer that is fully representative of the community we serve, where everyone can realise their potential. Our aim is to be a fully inclusive

employer, valuing and celebrating the diversity of our workforce to improve services for all Londoners. We are constantly working to improve the city for everyone. This means using data and technology to make services intuitive and easy to use and doing all we can to make streets and transport services accessible to all. We reinvest every penny of our income to continually improve transport networks for the people who use them every day. None of this would be possible without the support of boroughs, communities and other partners who we work with to improve our services. By working together, we can create a better city as London recovers from the pandemic and moves forward.

Chief Finance Officer's foreword

The coronavirus pandemic has resulted in TfL facing significant and unprecedented challenges this year, for our people, our supply chain and our customers. Like many other industries, a pandemic of this magnitude has led to a level of uncertainty we have not experienced before with a catastrophic impact on our finances. From May 2020, ridership on our network has been slowly recovering from a low of 90 per cent down on the previous year, which was seen at the start of the pandemic. This has resulted in an immediate and significant impact on our cash flow, with an expected revenue loss approaching £4bn over the full year, and equally material impacts expected in 2021/22 and beyond.

Our funding model, set by the Government in the 2015 Spending Review, principally places a very high reliance on passenger fares which makes up 72 per cent of total income (compared to 38 per cent in Paris and 47 per cent in Madrid). This leaves us highly exposed to the short- and long-term impacts of the pandemic. The return of passengers and economic recovery remain a key challenge for our future sustainability, making it difficult to plan beyond a single financial year.

As an immediate response we have been closely managing our costs, restricting spending through more stringent and centralised cost control measures. The focus has rightly been on near-term cost control to see us through the early stages of the pandemic and ensuring we are only spending on critical projects or activities that keep our networks safe and protect our people and customers from the impacts of the coronavirus.

Going forward we will have to continue to rely on Government funding in order to maintain the required level of investment in the network and maintain a balanced budget in-line with our statutory obligations for at least the short to medium term.

A key condition of the recent funding agreement with the Government on 31 October 2020 (the funding agreement) is for TfL to be able to show a path to achieving financial sustainability by April 2023. With ridership not expected to recover beyond 80 per cent of previous levels in the medium term, this financial gap is expected to be in the range of £1.5-£2.0bn per annum.

This has forced a fundamental rethink as to how the business could operate going forward compared to what was outlined in the 2019 Business Plan. Before the coronavirus pandemic, and in line with last year's Business Plan, we were on track to eliminate our operating deficit and operationally break even by 2022/23, including the covering the cost of financing and asset renewals.

The steps that could be taken to achieve financial sustainability post pandemic are currently being evaluated and will be presented to the Greater London Authority (GLA) and Department for Transport in mid-January 2021. As a result, the Budget presented here is limited to a two full year time horizon beyond 2020/21 and will form the baseline as we consider the additional actions that could be taken to achieve longer term financial sustainability. We will look to update our five-year

Business Plan during the course of next calendar year when it is clearer which actions are agreed upon to help achieve this target.

Despite the significant operational and financial challenges faced in the year we continue to prioritise investment to ensure we maintain a safe and reliable network; in addition, we have:

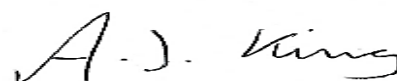
- invested £75m in the first half of 2020/21 on Active Travel initiatives including Streetspace for London which saw the delivery of additional cycle lanes, pedestrian spaces and school streets ensuring that safety and public health were not compromised and that air quality was not worsened by a car led recovery - with a similar amount planned for the second half of the year
- managed the successful return of children to school in September, following many months of planning and preparation, along with a high number of returning office workers
- successfully completed high voltage energisation to the Northern Line Extension switch rooms, which will enable the start of commissioning of key systems and dynamic systems testing later in the year
- completed all piling work at Barking Riverside (1,195 piles) in October
- completed all tunnelling excavation works at Bank Station, apart from the two 'tie ins' between the new and existing Northern line southbound running tunnels to be excavated during the Bank blockade complete, marking a major milestone since tunnelling began in 2017
- awarded a key contract for the supply of One Person CCTV Systems for the Piccadilly Line upgrade to Panasonic in September, after a competitive procurement process. The project is well placed to progress into the design stage

We have also transitioned responsibility for Crossrail programme governance to sit directly with TfL, effective from 1 October 2020. This follows a very successful construction blockade between 3 August and 17 September, achieving 96 per cent productivity against plan and delivering a major programme of works across the central section routeway.

Following the funding agreement for the second half of the year with Government, which refers to a combination of future measures involving TfL, GLA and Her Majesty's Government to meet its obligations and commitments during this Funding Period and beyond, and in accordance with Section 25 of Local Government Act 2003, I confirm that the proposed reserves are adequate and the financial estimates are prudent and robust.



Simon Kilonback
Chief Finance Officer
Transport for London



Antony King
Group Finance Director
Transport for London

Coronavirus

From the very start of this crisis, we have worked tirelessly to make using our network as safe as possible for our customers, staff and contractors, while following advice from the Government. Nothing is more important to us.

In March, the Government asked the country to stay at home and make only essential journeys. Almost overnight, we changed our messaging: instead of encouraging greater public transport use, we used every communication channel available to us to ask Londoners only to use our services if they absolutely had to. As a result, we quickly saw a 95 per cent reduction in passengers using Tube and rail services, and an 85 per cent reduction in passengers travelling on London Buses. Our focus was on providing transport for NHS and key workers, while also dealing with absences among our own staff due to shielding, self-isolation and illness.

At the time of writing, we have tragically lost 48 colleagues to coronavirus, and our thoughts continue to be with their family, friends and colleagues.

In the last year, we have had to be agile and able quickly to respond to changing circumstances. At the start of the coronavirus pandemic, we introduced an enhanced cleaning regime and reduced service levels, in response to falling demand, as well as increasing coronavirus-related staff absence. Our road user charging schemes were suspended to support critical workers' journeys and our construction sites were brought to a Safe Stop. Stickers and signage encouraging social distancing were installed across the network and measures were put in place to ensure the safety of bus drivers. This was all achieved while being told by the Government to make full use of the Coronavirus Job Retention Scheme, meaning we had put roughly a quarter of our workforce on furlough.

With London's public transport capacity significantly reduced owing to social distancing requirements, millions of journeys previously made on our network need to be made by other means. In May, working with London Boroughs, we began rapidly repurposing London's streets as part of the Mayor's ambitious Streetspace for London programme by implementing temporary measures in response to the pandemic including, rapidly constructing a temporary strategic cycling network, transforming local town centres and reducing traffic on residential streets through the creation of low-traffic neighbourhoods.

As restrictions on travel were gradually eased by the Government in the summer, we worked hard to restore our services to pre-pandemic levels as quickly as possible within the constraints of the staffing resource available to us. Although operating a near full service across all modes, ridership remains significantly down on pre-pandemic levels, and uncertainty remains around future passenger numbers given evolving Government guidance on working from home and socialising, as well as the wider reopening of the tourism, retail, leisure, hospitality and culture sectors.

It is clear that our way of life may be disrupted for some time to come and that we may not see in the short to medium term a return to levels public transport use seen before the pandemic. Our recovery from the crisis – like the nation's as a whole – will be gradual. But we know that

Londoners are more reliant on public transport than any community in the country, and we will help the economic recovery by providing safe, clean, reliable and well-managed transport services.

Delivering the Mayor's Transport Strategy

The Mayor's Transport Strategy sets the priorities and direction for this plan. The strategy aims for a significant shift in travel behaviour to active, space-efficient and environmentally sustainable modes so that by 2041, 80 per cent of trips in London will be made on foot, by cycle or using public transport.

The coronavirus pandemic has had a significant impact on the extent and ways in which people – and goods – have moved around in London over the last nine months. Even with a vaccine on the horizon, the coronavirus is likely to continue to have a significant impact on travel over the period of this plan.

Despite this uncertainty, continued prioritisation of activities to achieve mode-shift to walking, cycling and public transport is required to ensure a sustainable, inclusive recovery in the short term as well as achieving the aims of the Mayor's Transport Strategy in the longer term. Our plan to achieve this over the next year is summarised below:

■ Healthy Streets and healthy people

Active travel:

In 2020/21, many of our Healthy Streets programmes were put on hold while we developed and delivered the London Streetspace Programme. The primary aims of the London Streetspace Programme are to enable Londoners to travel safely, support the economic recovery and avoid an unnecessary burden on the NHS. Using an accelerated approach and temporary materials we have delivered walking and cycling schemes at an unprecedented pace.

Encouraging more Londoners to travel actively will be an important part of London's recovery from the coronavirus pandemic. Many of these schemes have the potential to contribute to the long-term aims of the Mayor's Transport Strategy and have an important role in regeneration and housing delivery. Working with the boroughs, we will assess whether any of the temporary projects should, subject to engagement and due process, be converted to permanent changes, incorporating changes in response to feedback.

In addition to the London Streetspace Programme, we are restarting some key Healthy Streets and other programmes, including:

- Growing our cycle network – building on the rapid rollout of cycle routes through the London Streetspace Programme, we will restart the delivery of permanent schemes, aiming for 28 per cent of Londoners to live within 400 metres of the London-wide cycle network by 2024
- Cycle parking – working with boroughs and other partners to introduce convenient cycle parking in town centres, high streets and secure cycle parking in residential areas

- Transforming places – continue to transform areas around some of London’s busiest junctions to make them safer, healthier and more pleasant places to be
- Reducing car dominance in residential neighbourhoods – working with boroughs to deliver and monitor Low Traffic Neighbourhoods and School Streets, and restart some work on Liveable Neighbourhood projects
- Expanding Santander Cycles to cater for unprecedented demand and to attract new users
- Providing Local Implementation Plan funding for borough schemes, continuing schools engagement and cycle training, and supporting the Mayoral ‘High Streets for All’ recovery mission

Vision Zero:

Our Vision Zero commitment is our shared vision that no one would be killed or seriously injured on our network by 2041. We will continue to work to ensure our structures and assets remain safe. Beyond this, our priorities for 2021/22 include:

- Safe speeds – we will continue our programme to lower speed limits on our roads. This follows the introduction of 20mph speed limits on all our roads in the Congestion Charging zone in March 2020, and the current programme which is lowering speed limits by 10mph on over 140km of TfL Road Network
- Safe streets – we aim to have completed 41 out of the 73 Safer Junction schemes by May 2021. Recently completed schemes have led to a significant reduction in collisions
- Safe freight vehicles – the Direct Vision Standard and Heavy Goods Vehicle (HGV) Safety Permit Scheme requires all lorries over 12 tonnes (GVW) entering or operating in Greater London to hold a valid HGV safety permit. Enforcement of this scheme will be introduced from 1 March 2021. This was postponed (from October 2020) to give affected businesses more time to meet the new standards as they face intense demands from the coronavirus pandemic
- Safe buses – there are now 350 Bus Safety Standard (BSS) 2019 specified buses in the TfL fleet. BSS 2021 requirements have now been written into route contracts meaning first BSS 2021 buses are expected to be on-street in 2021. In addition, we aim to retrofit about 1,500 of our existing fleet of buses with Intelligent Speed Assistance during 2021/22. Our Bus Safety Programme will continue to drive major safety improvements, helping us reach our target of no-one being killed on or by a bus by 2030
- Safe trams – we have implemented the recommendations made by the Rail Accident Investigation Branch following the tragic overturning of a tram at Sandilands in 2016. In November 2020 we installed devices to bring trams to a controlled stop if they are travelling above the speed limit on the approach to high-risk-curves
- Safe behaviours – our partners in the Metropolitan Police Service and City of London Police will continue to take a Vision Zero approach to roads policing, with a more intense focus on the riskiest locations and most dangerous drivers

Making more efficient use of the street network:

Temporary Congestion Charge changes came into effect on 22 June 2020. These changes temporarily widen the scope and level of the Congestion Charge, in response to the pandemic and in accordance with the condition of the Government's funding deal that such proposals be brought forward. They seek to ensure the Capital's recovery from the pandemic is not restricted by the use of cars and the consequent emission of pollutants while providing new reimbursements arrangements to ensure that those in pandemic response roles are not affected by the charge.

Specific changes include expanded reimbursement schemes for NHS staff, care home staff and patients as well as new arrangements that allow local authorities and charities performing pandemic response roles to be reimbursed for associated journeys, for example, delivering food to vulnerable residents. The changes to the Congestion Charge are temporary and will be kept under review to ensure their continued effectiveness in light of the changing response to the pandemic.

With home deliveries increasing as a result of lockdown, we will continue to work with the freight industry to achieve cleaner, safer and more efficient freight journeys in London. We will also continue to focus on keeping the newly modernised, cleaner Woolwich Ferry service – a vital crossing for road vehicles – as reliable as possible.

Improving air quality and the environment:

We are committed to cleaning London's air and making London a zero-carbon city by 2050, with an aspiration to accelerate these ambitions where feasible. We are investing in initiatives to reduce emissions of air pollutants and greenhouse gases from all transport sources in London. Reducing car use will be an important part of reducing emissions. We will continue to apply Good Growth principles to support development in the best-connected places and reduce London's future carbon footprint. We are also working to increase the resilience of transport in London to the impacts of climate change and deliver increased green infrastructure across the transport network. Our current delivery priorities include:

- Expanding the Ultra Low Emission Zone (ULEZ) – in October 2021, the ULEZ will be expanded up to the North and South Circular roads and March 2021 will see Low Emission Zone (LEZ) standards for HGVs, buses and coaches toughened to Euro VI
- Greener buses – around 99 per cent of TfL's core bus fleet will be Euro VI compliant by the end of 2020. We continue to introduce zero emission buses as part of the Mayor's ambition for a zero-emission bus fleet by 2037 at the latest; 380 in the fleet now and 700 estimated at the end of 2021
- Cleaner energy – working to reduce carbon emissions from our entire operations including our buildings, stations and infrastructure following the Mayor declaring a climate emergency. A cornerstone of this ambition is using Power Purchasing Agreements as a key mechanism for switching to renewable energy supply and helping meet our ambition for zero carbon rail by 2030

- Rapid charging – we are on track to reach a target of 300 rapid charging points by the end of December 2020 and exploring further opportunities to extend the rapid charging network. We are also supporting the Mayor’s Electric Vehicle Infrastructure Taskforce Delivery Plan, assisting taxis, private hire vehicles and other commercial drivers to switch to electric vehicles
- Climate change adaptation – we will continue to assess the impact of current severe weather events on our transport system, and make improvements to support climate change resilience and biodiversity

■ A good public transport experience

Improving customer service, public transport accessibility and inclusivity:

We have supported customers well and communicated clearly during the coronavirus pandemic, and we will continue to focus on the core experience to enable a customer-led recovery. Safety and reliability remain top customer priorities and during 2021/22 we will focus on:

- Rebuilding confidence through our ‘We’re ready when you are’ campaign providing empathy, information and guidance for those who are ready to travel
- Encouraging and enforcing face coverings, managing our capacity to help customers avoid crowding and maintain social distancing, and maintaining high standards of cleanliness including use of anti-viral products across stations and vehicles
- Providing better real-time information to support decision-making, especially during disruption, reducing customer pain points
- Further roll out of TfL Go, with an Android version available by end December 2020

We will improve the accessibility of the transport system through a programme including:

- Continuing to deliver Disability Equality Training across the organisation to both London Underground frontline and Professional Services staff
- Rolling out new Diversity and Inclusion Training to all 25,000 bus drivers
- Providing more real-time information on lift availability
- Make seven further stations step-free by the end of 2021

Shaping and growing the bus network:

London’s buses remain the most relied upon form of transport in the Capital, providing convenient, affordable and accessible travel. Although coronavirus has reduced bus demand, large numbers of essential journeys continue to be made and when schools returned in September demand was at 60 per cent of normal levels.

Our priorities are to improve bus journey times and adjust the network in response to demand ensuring that we have the right number of buses in the right places, at the right times. We have, on a trial basis, increased bus lane hours to 24 hours on the TfL Road Network to improve journey

times and will continue to work with boroughs to improve the efficiency of buses moving along our main roads, including introducing longer operational hours and new bus lanes where appropriate.

Bus service changes planned for the next two years include:

- Implementing bus measures to support the ULEZ extension to North and South Circular roads
- Implementing the Croydon/Sutton area changes that we are currently consulting on – some of the changes would better serve the London Cancer Hub at the Royal Marsden site in Sutton
- Route 324 extension to Elstree via the Royal National Orthopaedic Hospital Stanmore

Improving rail service safety, reliability and tackling crowding:

We will continue to ensure that our extensive asset base is maintained to provide a safe and reliable service. To keep our network safe and operable over the long term we need to get to a level of steady state asset condition. This is our baseline level of investment, which is what we need to do to keep our existing system safely operating and reliable and which is core to continuing to provide a good public transport experience.

The current programme to enhance and modernise the Tube network includes:

- Signalling – replacing the legacy signalling system on the Circle, District, Hammersmith & City and Metropolitan lines with a modern, digital system which covers 40 per cent of the Tube network and replaces some of our oldest signalling assets
- Piccadilly line trains – the new trains for the Piccadilly line are expected to enter service from 2024 and will replace the existing 1970s fleet, will boost reliability and provide the ability to increase frequency during peak times, from 24 to 27 trains per hour

We are investing to improve our services and extend the capacity and reach of the transport network.

- Bank station – tunnelling work at the project to modernise and expand Bank Underground station has recently been completed. By the end of winter, the civil work on the new station entrance on Cannon Street will also be completed, with work on the new platforms also well underway. Improvements to this vital transport hub will be finished by 2022.
- DLR – potential service enhancements in the lead up to the delivery of new trains being delivered in the mid-2020s
- London Overground – additional off-peak services between Clapham Junction and Shepherd's Bush
- Elizabeth line – work continues to progress the Elizabeth line pending funding being agreed

■ New homes and jobs

Supporting Good Growth:

Transport has a key role in unlocking housing delivery in London and tackling the housing crisis. TfL will continue to work with boroughs to ensure that reducing car use and enabling active, efficient and sustainable travel is at the heart of new development. The spatial framework for this is provided at a strategic level by the new London Plan, and TfL works with boroughs to implement this in local plans and individual planning applications. Through applying the London Plan, we can deliver less car-dependent growth to reduce the impact of developments, allowing more new homes to be delivered.

TfL will continue to unlock good growth in Opportunity Areas, including at Vauxhall-Nine Elms, enabled by an extension of the Northern line, and Barking Riverside, enabled by an extension of the London Overground. We are continuing to work with Government on securing Housing Infrastructure funded upgrades to the East London Line and DLR which will unlock thousands of homes in east London. We will continue to develop proposals to enable growth in London's other Opportunity Areas, including targeted transport improvements which can unlock housing and more major investments such as a new West London Orbital rail link and public transport investment in Beckton Riverside and Thamesmead.

Providing new homes on TfL land:

- We are working with our development partners to bring forward 10,000 new homes on our land. This will also include creating retail and commercial space and opportunities for small and independent businesses. Sites include Blackhorse Road, Kidbrooke and South Kensington.

Capital Strategy

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

This year's strategy is an evolution on prior years. It sets out the steady and sustained investment required to ensure London remains a competitive global city by improving capacity, connectivity, health and the environment. This year's strategy has been updated to reflect our latest understanding of the need to invest in renewing and replacing our assets to maintain their condition. As well as this, it is aligned to emerging work to ensure we deliver a green and just recovery from the coronavirus pandemic. It 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, alongside the Mayor's document.

GLA SECTION I

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 Common and Park Royal Development Corporation.

GLA SECTION 6 - TfL Main Budget Section

Introduction

- 6.0 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 walking and cycling initiatives.

Producing the TfL Business Plan to inform the Mayor's budget

- 6.1 The coronavirus pandemic has created significant uncertainty for a number of industries across the country. For TfL specifically, it has decimated fares income, with the return of passengers and economic recovery remaining a key challenge to future sustainability. The rapidly changing policies around local tiered and national lockdowns has had a disproportionate impact on different commercial and leisure sectors in London. This has altered the behaviours of the travelling public which has made it increasingly challenging for us to extrapolate future travel patterns.
- 6.2 In recent years, TfL has produced a detailed five-year Business Plan on an annual basis each December. Given the high level of revenue uncertainty caused by the pandemic, we will not be publishing a similar document this year. Instead we have incorporated a forward look into the Mayor's Budget which includes a detailed view of 2020/21 and 2021/22 and in addition looks at one further year to 2022/23 at a less granular level. In parallel, TfL has produced a Capital Strategy, which shows at a high level the ambitious longer-term capital plan for London. This complements the Comprehensive Spending Review submission made to the Government and published in September.

GLA collaboration

- 6.3 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.
- 6.4 The programme is looking at options for realising benefits from greater collaboration, including potential financial efficiencies arising from how we buy our energy more efficiently; leveraging our procurement processes; utilising our estates better and removing duplication in back and middle office support service and policy/delivery areas not provided exclusively by a member of the GLA Group.

- 6.5 Development work is proceeding at pace with clear governance and methodology framework, and a programme in place. Resources are committed to develop the initiatives identified as possible areas of opportunity.
- 6.6 The results of this work will be included in the budget process as they are available on an ongoing basis. At this stage initiatives that are included in these figures are ones that will have a material impact in 2021/22

Key operating account deliverables

6.7 The key deliverables over the next year include:

- Investing significant amounts in continuing the extensive cleaning regime we introduced at the start of the pandemic to ensure the transport network is cleaner than ever before and keeping customers and staff safe. Other measures to keep people safe include social distancing signage and the mandatory wearing of face coverings. These will continue in line with Government policy
- Continuing the electrification of London Buses, which with currently 380 zero-emission buses is one of the largest electric fleets in Europe, so that all are zero emission by 2037 at the latest. TfL will also work with bus operators to implement a world-leading BSS, including all new buses purchased from August 2019 requiring Intelligent Speed Assistance as standard
- Continue to optimise the bus network in response to changing demand, and TfL and partner authorities' plans for other modes. In outer London, service volume will grow by six million kilometres by 2022/23 compared to pre-pandemic levels in 2019/20. In inner London, where there are more sustainable alternatives and many instances of bus congestion, we will reduce the network in a targeted way by removing excess capacity on some routes
- Driving forward the Vision Zero action plan to eliminate deaths and serious injuries on London's roads, through the delivery of more Safer -Junctions, continued rollout of 20mph speed limits, enhanced policing and enforcement, and ensuring safety is at the heart of all projects undertaken
- Helping to clean up London's toxic air quality by toughening the LEZ standards for HGV in March 2021 and, in October 2021, expanding the ULEZ - the toughest air quality standard of any city in the world - to cover all roads within the North and South Circular roads
- Delivering a world-leading road incident management system expected to launch in March 2022

- A material year-on-year increase in funding for renewal of borough roads and bridges. Following the long-term capital plan review we are allocating £40m to these crucial structures, and we will award funding to those structures most in need of repair
- Borough funding for the Local Implementation Plan programme is retained at the same level as agreed in last years plan, however, any future schemes are dependent on our ability to secure robust funding

Gross revenue expenditure

- 6.8 Gross revenue expenditure reduces by £36.1m, from £7,152.3m in the Revised Budget for 2020/21 to £7,116.2m in the latest forecast driven by additional operating cost savings as part of the £160m of savings agreed in the funding agreement with the Government.
- 6.9 Gross revenue expenditure in 2021/22 will increase by £410.9m compared to the latest forecast for 2020/21, a result of new initiatives – including ULEZ expansion in October 2021 and activities related to the planned opening of the Elizabeth line – and inflationary pressures, as well as non-repeatable savings made from running fewer services at the height of the pandemic.

Net revenue expenditure and council tax requirement

- 6.10 The pandemic has exposed TfL's increasing reliance on covering its operating costs from fare revenue (72 per cent) compared to other similar authorities. We expect passenger journeys to only return to 80 per cent of pre-pandemic forecasts by the end of 2021/22 and throughout 2022/23. The delay in the opening of the Elizabeth line to the first half of 2022 means the uplift in passenger income will begin later than previously modelled.
- 6.11 In 2021/22, we expect ridership to continue building as coronavirus restrictions are slowly lifted but only 60 per cent on average to that envisaged in last year's plan (80 per cent by March 2022). This results in a loss of passenger income of £2,136.4m compared to last year's plan. Therefore, 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 2021/22 is £2,983.6m. An analysis of the revenue budget by service area is summarised on page 18.
- 6.12 The Mayor proposed in his Budget Guidance that as a planning assumption, as a result of the pandemic, TfL's council tax requirement for 2021/22 would reduce to £5.6m from £6.0m and business rates retention would reduce to £774.1m from £893.9m. The balance of its net revenue expenditure will be financed by £3,066.4m of extraordinary grant income currently assumed to come predominantly from the Government but includes an element of Mayoral funding to deliver fares concessions above those available nationally. The nature and extent of the funding required will depend on the returns provided by billing authorities to the GLA in late January 2021, and consequent Mayoral and Government decisions, as well as how the Government proposes to implement certain local government funding decisions announced

in the 2021/22 Spending Review. Other specific grants will reduce by £36.1m in 2021/22 TfL compared to the 2020/21 Revised Budget due to one off benefits in 2020/21 from the Government's Coronavirus Job Retention Scheme.

- 6.13 From January 2021, this plan assumes that fares rise by the July 2020 retail price index plus one per cent (total 2.6 per cent), helping to support vital investment in public transport. While this level of fares rise is assumed to continue throughout the life of the plan, TfL fares are set by the Mayor on an annual basis.

TfL's operating budget is summarised in the following table.
(Revised budget represents the TfL Budget published in July 2020)

TfL Objective Analysis	Revised Budget 2020/21 £m	Forecast 2020/21 £m	Budget 2021/22 £m	Plan 2022/23 £m
Income				
Passenger Income	(1,315.3)	(1,480.1)	(3,275.6)	(4,559.1)
CC, LEZ and ULEZ income*	(354.0)	(408.0)	(762.9)	(1,157.5)
Other Income	(318.4)	(325.6)	(411.3)	(477.1)
Elizabeth line regulatory**	-	-	(69.6)	(338.4)
Interest Income	(4.5)	(5.0)	(1.2)	(1.6)
Sub total income	(1,992.2)	(2,218.7)	(4,520.6)	(6,533.7)
Operating costs				
London Underground	2,071.8	2,075.3	2,164.9	2,118.4
Buses, Streets and other Surface	2,804.6	2,821.7	2,958.3	3,173.1
Rail	476.0	465.2	498.2	546.5
Elizabeth line	337.7	337.0	432.0	457.6
Elizabeth line regulatory**	-	-	69.6	338.4
Other Operations	963.5	916.0	847.2	821.5
Property Development	38.0	38.4	45.1	46.1
Sub total operating costs	6,691.6	6,653.6	7,015.3	7,501.6
Other				
Third-party contributions	(35.9)	(34.4)	(22.9)	(19.2)
Debt servicing	460.7	462.6	511.8	507.1
Sub total other	424.8	428.2	488.9	487.9
Net service expenditure	5,124.2	4,863.1	2,983.6	1,455.8
Revenue resources used to support capital	(399.4)	(643.9)	959.0	776.7
Transfer to/(from) reserves	(911.2)	(648.5)	(83.9)	329.5

Financing requirement	3,813.6	3,570.7	3,858.7	2,562.0
Other specific grants	48.7	81.8	12.6	13.8
Retained business rates	893.9	893.9	774.1	787.6
Extraordinary grants***	2,865.0	2,589.0	3,066.4	1,755.0
Council tax requirement	6.0	6.0	5.6	5.6

* Any changes to these Schemes which result in additional income are subject to impact assessment, consultation and mayoral decision.

** The table reflects the Elizabeth line central operating section regulatory track charge, which is net nil at TfL Group level

*** Extraordinary grant for 2021/22 and 2022/23 is assumed to come predominantly from the Government but includes an element of Mayoral funding to make whole on fares concessions above those available nationally

Explanation of budget changes

6.14 An analysis of the year-on-year movement in the Mayor's proposed council tax requirement for TfL compared to the Revised Budget for 2020-21 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
2020/21 council tax requirement	6.0
<i>Changes due to:</i>	
Inflation*	131.6
Savings and Efficiencies	(100.5)
Passenger and commercial revenue and other income change	(2,528.4)
Debt servicing	51.1
Net change in service expenditure (excluding inflation and savings)	305.6
Transfer to/(from) reserves	827.4
Revenue surplus / deficit	1,358.3
Government and other revenue grants	36.0
Extraordinary grant	(201.4)
Retained business rates	119.8
2021/22 council tax requirement	5.6

* TfL does not separately account for inflation and so the numbers in this table are an estimate of the changes were the effects of inflation to be isolated. The paragraphs below reference the figures in the table

above. These figures are an estimate of the year-on-year change with the effect of inflation isolated. TfL figures in this budget document have inflation included and may differ from the figures quoted in the above table

Inflation

6.15 The Budget proposes that net costs will increase by £131.6m as a result of inflation. This represents 2.0 per cent of operating costs and is line with UK inflation forecasts. TfL's savings programme aims to offset the impact of inflation as much as possible, maintaining like-for-like operating costs broadly at the previous year's levels.

Savings and efficiencies

6.16 The total savings and efficiencies to 2022/23 which have been identified across the Group are summarised below. The figures are presented on an incremental basis and do not include any savings still to be identified.

Savings and efficiencies	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
TfL	215.9	323.6	100.5	143.3

6.17 Total savings in 2020/21 are forecast to increase by £323.6m compared to 2019/20, which includes efficiencies where savings will reoccur in future years, one off savings, and lower costs as a result of operating lower service levels directly as a result of the impact from coronavirus, as well as other indirect cost savings.

6.18 Efficiencies in 2020/21 are forecast to be £149.1m, which include:

- London Underground supply chain savings of £83m, including: new contract for network radio infrastructure, which will reduce annual contract spend by 50 per cent; one off supplier settlement with costs reimbursed from earlier years; review of non-critical spend in Asset Operations
- Savings from bus operating contracts, from negotiating lower tender prices and other planned service efficiencies
- Back office savings following successful reorganisation of Finance and HR functions at the end of 2019/20 and other staff savings

6.19 Other one-off savings include recruitment freeze and financial control, totalling £55.5m. Savings include £30m from London Underground cost control measures.

6.20 We have also made cost savings of £119.0m during the coronavirus pandemic, with savings from:

- £22m in London Underground from lower traction current costs and Asset Operations materials

- £47m lower bus costs from operating fewer bus services at the height of the pandemic, with savings from furloughed bus employees passed on to TfL
- £20m from lower Rail costs from reduced service levels and furloughed employees
- £26m from back office volume-based costs, including lower bank charges (as a result of fewer contactless transactions) and lower property costs

6.21 We are continuing with the comprehensive review of the organisation and improving the way we work to ensure we deliver the Mayor's vision for London.

6.22 The cost reduction programme continues across all areas of the organisation, as we drive the development of a modern, efficient, high-performing organisation. 2021/22 will be the sixth year of the cost reduction programme: by the end of 2018/19, we had made annualised gross savings of £747.0m - mitigating inflationary pressures - while protecting safety, services and reliability. In 2019/20 we delivered further incremental savings of £185.5m (as well as £30.4m one off savings), with a further £149.1m of recurring savings forecast for 2020/21 - this takes annualised gross and recurring savings (before inflation and other cost pressures) up to £1,082.0m by March 2021.

6.23 We plan to make new savings of £100.5m in 2021/22. These are incremental to the savings already achieved from 2015/16 to 2019/20 and those forecast to be delivered in 2020/21. These savings, all of which deliver cashable benefits, are embedded in the divisions:

- London Underground will deliver additional savings of £73.7m in 2021/22 through their modernisation plan:
 - Savings by reviewing and modernising asset planning activities, covering recruitment management, demand and supply management, improved data strategy
 - Further supply chain savings in Asset Operations, where plans are currently being developed
 - Development of engineering standards and maintenance regimes to ensure modern standards are adopted across the organisation.
- Surface Transport – Buses, Streets and Other Operations, and Rail - will deliver £24.8m of new incremental savings in 2021/22:
 - Commercial savings on the bus network through revised contracts
 - Further commercial savings from Rail operators.

Passenger and commercial revenue and other income

6.24 Passenger, commercial and other income (including interest income) is estimated to increase by £2,528.4m, from £1,992.2m in the Revised Budget 2020/21 to £4,520.6m in 2021/22. To illustrate the uncertainty around how travel patterns may recover to pre-pandemic levels, we developed five different passenger travel models using consistent assumptions. The credible range of possible revenue outcomes for 2021/22 is +/- £500m. The central scenario in this plan

assumes a winter 2020 lockdown and then a cautious reopening in line with the recovery seen through summer 2020, but with no further lockdowns.

- 6.25 With the Night Tube and Waterloo & City line suspended from the outset of the coronavirus outbreak to enable the organisation to concentrate resourcing the day tube to maintain appropriate service levels, work continues to confirm a date for their restart. Other small service level reductions are planned to be implemented throughout 2021/22 where it is economically viable and where demand levels are expected to be circa 20 per cent lower than pre-coronavirus levels. The service reach will, however, be enhanced with the Northern Line Extension due to open in Autumn 2021.
- 6.26 We continue to run a bus network with a high level of service reflected in operated kilometres and stable average speeds as we know lower journey times encourages bus travel and reduces reliance on less sustainable options like the private motor car. Following a review of bus services in central London to optimise our use of funds and trialling 24/7 bus lanes during lockdown to see if this can enhance reliability of journey times, we will continue to reshape services around patronage changes and maintain a similar level of operated kilometres beyond 2020/21.
- 6.27 Rail demand is expected to be boosted by the continuing introduction of new trains and peak and off-peak service improvements on London Overground over the plan. In the medium term DLR demand will be impacted by the abstraction of journeys to the Elizabeth line. However, towards the end of the plan, the DLR will benefit from new trains and service improvements supported by new housing and office development in Docklands. No service changes are planned for London Trams with journeys forecast to increase in-line with the expected recovery levels across all TfL modes.
- 6.28 The 2020/21 funding agreement for the second half of the year includes a commitment to increase Mayoral controlled fares in January 2021 overall by the July 2020 retail price index plus one per cent (2.6 per cent), providing vital investment in public transport.
- 6.29 We have a comprehensive range of travel concessions, which are an important part of providing affordable travel and we will continue to fund these. Freedom pass and 60+ Oyster has been removed from the AM peak, as required by the Government, and this suspension will continue as a response to the pandemic, as social distancing requirements will remain.
- 6.30 Congestion Charge, LEZ and ULEZ income includes expanding the ULEZ in October 2021 which drives the increased income in 2021/22 (partial year of operation) and 2022/23. Any changes to these schemes which result in additional income are subject to impact assessment, consultation and mayoral decision.

Net change in operating expenditure

6.31 The net change in operating expenditure, excluding inflation and savings is an increase of £305.6m. The plan for 2021/22 fully covers the cost of debt servicing allowing for the transfer of revenue resources to support the capital plan.

Debt servicing

6.32 Debt servicing increases by £51.1m in 2021/22 compared to the revised 2020/21 budget owing to £35.0m Crossrail borrowing repayment commencing in 2021/22 and £16.1m interest costs from £1,352m of net incremental borrowing undertaken in 2020/21, partially offset by lower interest costs on refinanced debt. No new borrowing is planned for 2021/22 and 2022/23.

Other revenue grants

6.33 Overall income from other grants will decrease by £36.1m in 2021/22 compared to the revised 2020/21 Budget. This is primarily due to a one-off allocation received from the Government through the Coronavirus Job Retention Scheme in 2020/21.

Retained business rates

6.34 Subject to consultation and billing authority forecasts due in late January 2021, the Mayor will allocate a total of £1,709.9m to TfL in 2021/22, which comprises of funding from the Mayor's council tax precept of £5.6m and business rates funding of £1,704.3m. Of the £1,704.3m business rates funding we have allocated £774.1m to the operating account and £930.2m to capital. 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. The business rate allocation in this plan is fully indexed from 2020/21.

Reporting against TfL's Budget

6.35 TfL monitor 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
- We 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 & 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 (or 55 calendar days) after the end of the quarter.
- We normally set an annual TfL scorecard that tracks performance against in-year objectives derived from the Mayor's Transport Strategy, the Business Plan and the Budget. However, this year we have split the scorecard into Half 1 and Half 2 to compensate for the uncertainty created by the pandemic and to delineate between the immediate response phase in Half 1, and the recovery phase in the second half of this year. Progress against the measures is reported every period or quarter (depending on the measure) and the results are reported to the Executive Committee each period. The scorecard is also presented in the Commissioner's report at Board meetings. For the 2021/22 performance year we will return to a normal approach of having one, annual scorecard.

6.36 Project slippage is highlighted in the IPR; any slippage 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.

Equalities, Diversity, Inclusion and Social Integration

6.37 The health, social and economic challenges from the coronavirus pandemic and lockdowns have exacerbated existing inequalities in London, with a greater impact on many Londoners with protected characteristics. In addition, the Black Lives Matter movement, building on the anger and pain caused by racism, provides a catalyst to lead by example and deliver a representative workforce that harnesses London's diversity. The Mayor has stated his commitment to securing a better future for Londoners, ensuring that nobody is left behind in London's recovery from coronavirus.

6.38 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. They set out a bold and ambitious vision for maximising the opportunities available to Londoners, while also building stronger, thriving and connected communities by making London more accessible and inclusive.

6.39 TfL's plans are underpinned by a commitment to inclusion, diversity, equality and accessibility, which will be set out in a statement of intent in early 2021.

- This will build on our existing customer facing work and our Action on Equality strategy

- It will have a short-term focus, recognising current workforce and customer diversity and inclusion challenges
- It will consider the social impacts of the pandemic, how we have responded and our ambition for an inclusive recovery, to enable a conversation with stakeholders and Londoners
- It will set out how TfL will be actively anti-racist as an organisation and ensure our workforce becomes more representative of Londoners at all levels through diverse recruitment and inclusive leadership, cultures, systems and behaviours
- We will ensure considerations around inclusion are the very heart of our decision-making. The statement of intent will be underpinned by a more detailed diversity and inclusion programme plan with metrics focused on closing the gaps in outcomes between minority groups and others.

6.40 This year, the approach to financial management has been very different to previous years. As the pandemic hit the UK in March, we were due to publish both the annual Budget and Scorecard for 2020/21. Given the circumstances, the Budget was approved by Chair's Action to allow essential services to continue while an Emergency Budget was put together. The scorecard, however, was not approved, as we undertook emergency planning to ensure Londoners could travel safely on the TfL network. We subsequently published an Emergency Budget in May 2020, a Revised Budget in July 2020 and following the Extraordinary Funding and Financing Agreement with Department for Transport on 31 October 2020, we are now working to produce a Financial Sustainability Plan in January 2021.

6.41 This Financial Sustainability Plan will be delivered in line with TfL's approach to equality, inclusion, diversity, and accessibility. We will prioritise spend to meet the conditions set out by the Department for Transport and equality impacts will be assessed as part of the decision-making process. Our plans will include a number of projects and programmes, which aim to achieve the goals set out in our Action on Equality and the Mayor's Transport Strategy. The key changes will be assessed as part of the development of this plan.

6.42 The TfL Scorecard provides measures for tracking progress against our key priorities. During 2020/21 we have implemented two scorecards – one during the first half of the year and another in the second half. This reflects the rapidly changing environment we find ourselves in – but our main focus as always, is the safety of our customers, staff and supply chain. Both scorecards reflect our equality priorities. During the first half of the year we targeted no gender or ethnic disparity in staff wellbeing and during the second half of the year, we are targeting to reduce our existing inclusion disparity gap. Our 2021/22 scorecard will follow the same approach.

6.43 TfL will continue to prioritise investment in maintaining and renewing its assets, including lifts and escalators, reducing the likelihood of disruption to journeys and/or making them impractical to make. Renewal of assets on the road network helps keep the streets safe for all users, including buses and Dial-a-Ride. Funding to Boroughs will enable other roads and streets to be made safer on the 95 per cent of the network that is not managed by TfL.

- 6.44 The continued delivery of healthy streets and active travel programmes including funding for London boroughs will allow TfL to continue the progress made in 2020 to create more space for people to safely walk or cycle as London deals with the coronavirus pandemic. Initial interventions have included temporary cycle lanes and wider pavements. Moving forwards, we will seek to make some of these changes permanent to build on the increase in active travel to continue the push towards 80 per cent sustainable mode share by 2041.
- 6.45 Planned improvements on the rail network, such as the upgrade to Bank station and the new Northern Line Extension, will provide further step-free connectivity and reduce crowding across the network.
- 6.46 We will continue to make further strides in improving London's air quality through the tightening of the LEZ in March 2021 and expanding the ULEZ in October 2021. Tackling poor air quality has disproportionately positive impacts on deprived communities as well as school age children, older people and pregnant women.
- 6.47 The new TfL Go app will provide improved live accessibility information. The app already has a 'step-free mode' for planning accessible journeys, while further features will be added in the future, including toilet availability, platform access and live lift status.
- 6.48 A commitment to increase transport fares in January 2021 by RPI+1 per cent, was agreed with the government as part of the funding agreement. Above inflation fare increases can lead to negative impacts on the ability of all users to access London's transport network. However, these impacts are outweighed by the benefits of this change. The additional income from the fare rise (directly from passengers and indirectly from the DfT funding agreement) allows TfL to continue to provide a public transport system that provides access and connectivity to all Londoners.

Environmental Impact

- 6.49 TfL is committed to investing in initiatives which reduce emissions of air pollutants and greenhouse gases from all transport sources in London. We are also undertaking actions to increase the resilience of transport to the impacts of climate change and deliver increased green infrastructure across the transport network.
- 6.50 The ULEZ came into effect in central London in April 2019 and has had a significant impact in air quality in its first 18 months of operation. In the first ten months of operation, the average compliance rate with the ULEZ standards was 77 per cent in Congestion Charging hours, which is significantly higher than in February 2017, when only 39 per cent of vehicles would have met the future ULEZ standards. In the same period, there was a 44 per cent reduction in NO₂ at roadside sites in the ULEZ. From 25 October 2021, the ULEZ will be expanded to an area bounded by the North and South Circular roads. In August 2020, we began work to install the on-street camera infrastructure required to enforce the scheme and all other

delivery remains on track. A multi-channel marketing campaign to raise awareness of the expansion began in October 2020.

- 6.51 From the 1 March 2021, we will toughen the LEZ standards for HGVs so that they are required to meet Euro VI standards to travel in the zone or pay a daily charge. The tougher standards were previously set to come in at the end of October 2020 but, in response to the impact of the coronavirus pandemic, were delayed by four months.
- 6.52 We are committed to reducing air pollution from the bus fleet. Prior to coronavirus we were on track to achieve full Euro VI compliance by end of Oct 2020. However, the pandemic has delayed bus retrofits and new deliveries, and we have had to increase and reallocate the fleet to meet the needs of children returning to school. Currently, 97 per cent of the bus fleet meets Euro VI compliance. By the end of December 2020, we expect around 99 per cent of the core bus fleet (excluding additional school buses) to be compliant. We have one of the largest electric bus fleet in Europe, with 380 electric buses. We will introduce more zero-emission buses over the budget period as part of the Mayor's ambition for a zero-emission bus fleet by 2037.
- 6.53 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 London Environment Strategy for vehicles in the GLA group fleet.
- 6.54 Through licensing requirements, we set standards for taxis and private hire vehicles which will result in reduced emissions from these fleets. We will also continue to assist taxi owners in making the transition to cleaner vehicles, through ZEC taxi vehicle grants, 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.
- 6.55 TfL will reduce operational carbon emissions to meet the carbon budgets set out in the LES, through measures to improve energy efficiency and increasing the volume of renewable energy that we consume. In Spring 2021 we will begin procurement for up to 20 per cent of our electricity to be sourced from renewables via direct contracts with renewable energy developers. This will represent a significant step towards the target for TfL rail services to be zero carbon by 2030 and if successful, will reduce TfL's carbon emissions by seven per cent.
- 6.56 We will continue to support achievement of the Mayor's target for London to be at least 50 per cent green cover by 2050, by seeking to incorporate green infrastructure into Healthy Streets and, London Streetspace Programme schemes. We will seek to meet the Mayor's Transport Strategy requirement of a one per cent annual increase in street tree numbers on the Transport for London Road Network as part of maintenance activities on the network.

- 6.57 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 line with the LES commitment to identify thresholds for disruption.
- 6.58 TfL is aiming to reduce waste, including single use plastics, and support the LES target of a 65 per cent municipal waste recycling rate. TfL's Commercial and Industrial waste collections in Zones 3+ were awarded in 2020 to external service provider Biffa. The new service provider is incentivised to put in place actions to help meet the LES target.

Reserves

- 6.59 At 31 March 2021, general reserves are expected to total £500.0m and are budgeted to remain constant at this level in each of the following financial years.
- 6.60 It is forecast that we will hold £848.0m of earmarked and general fund reserves at the close of 2020/21; these reserves will rise to £1,299.0m by the end of 2022/23. The expected movements in reserves over the planning period are set out in the following table.
- 6.61 Earmarked reserves have been established to finance future projects. We maintain a general fund to ensure liquidity and protect from short-term fluctuations in cash requirements.
- 6.62 The expected movements in reserves over the planning period are set out in the table below.

Movement in reserves during financial year	Outturn 2019/20 £m	Forecast 2020/21 £m	Budget 2021/22 £m	Plan 2022/23 £m
Opening balances	1,606.5	1,580.7	848.0	1,120.0
<i>Transfers to/from:</i>				
Earmarked reserves	(375.8)	(732.7)	272.0	179.0
General reserves	350.0	-	-	-
TfL closing balances	1,580.7	848.0	1,120.0	1,299.0

- 6.63 The expected total reserves at the end of each financial year are summarised in the following table. The unused earmarked reserves as at the end of 2022/23 include funding that has been put aside for the Investment Programme.

Balance of reserves at end of financial year	Outturn 2019/20 £m	Forecast 2020/21 £m	Budget 2021/22 £m	Plan 2022/23 £m
Earmarked reserves	1,080.7	348.0	620.0	799.0
General reserves	500.0	500.0	500.0	500.0
TfL closing balances	1,580.7	848.0	1,120.0	1,299.0

Draft Capital Spending Plan and Borrowing Limits

Introduction

- 8.0 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 GLA Act. 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.
- 8.1 The Mayor's Budget Guidance for 2021/22 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 and are balanced based on assumptions regarding the level of future funding to be agreed with Government. Thereafter from 2025/26 onwards, the expenditure and funding is grouped into five-year 'buckets', showing a shortfall. The Capital Strategy is set out in Appendix C.
- 8.2 TfL is responsible for the planning, delivery and day-to-day operation of the Capital's public transport system, including London's buses, Underground and Overground, the DLR, London Trams and London River Services. It is also responsible for managing the road user charging schemes (Congestion Charge, LEZ and ULEZ), maintaining London's main roads and traffic lights, regulating taxis and private hire vehicles, making London's transport more accessible and promoting walking and cycling initiatives.
- 8.3 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. We have also reviewed project timing to ensure the programme can be delivered.
- 8.4 The investment in this plan, aligned to the draft Mayor's Transport Strategy will increase the quality and capacity of public transport. The work on upgrading the existing network will serve important Opportunity Areas and lead to more homes and jobs.

Draft Capital Spending Plan

Under Section 122 of the GLA Act (for consultation)

- 8.5 Set out below is a summary of the Mayor's Draft Capital Spending Plan for 2021/22 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		2021/22 £m
A	Total external capital grants	1,820.2
	Opening balance of capital receipts	-
	Total capital receipts during the year	290.9
	Total capital grants/ receipts	2,111.1
B	Minimum s.120(1) grant	
	Total borrowings during the year	-
	Total borrowings	-
	Total borrowings and credit arrangements	-
C	Total capital expenditure anticipated during the year	2,821.5
	Total credit arrangements	
	Total capital spending for the year	2,821.5
D	Funding: capital grants	1,820.2
	Funding: capital receipts/reserves	126.1
	Funding: borrowings and credit arrangements	-
	Funding: revenue contributions incl. BRS	875.1
	Total funding	2,821.5

- 8.6 TfL's Capital Spending Plan is fully funded based on assumption regarding the level of future funding to be agreed with Government. No new capital PFI/PPP schemes are reflected, other than those already committed.

Below is a summary of the TfL's draft Capital Plan to 2024/25 and how this is financed. The plan assumes DfT provides grant funding to make up for income shortfalls resulting from coronavirus – however TfL has no funding agreement in place beyond the 2020/21

Summary of the Capital Plan	Forecast	Budget	Plan	Plan	Plan
	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
TfL	2,080.2	2,821.5	2,519.0	3,478.5	3,837.0

Table 3: TfL's Draft Capital plan

TfL's Capital plan	Forecast 2020/21 £m	Budget 2021/22 £m	Plan 2022/23 £m	Plan 2023/24 £m	Plan 2024/25 £m
Crossrail construction programme*	800.5	651.4	114.0	13.0	-
Elizabeth line trains and enabling work	38.1	10.7	-	-	-
Line extensions **	150.9	102.1	6.0	72.1	80.4
Line upgrades ***	266.2	478.0	610.2	932.9	1,114.6
London Underground enhancements	113.1	151.4	151.9	385.5	409.8
Buses enhancements	9.3	22.7	32.0	122.4	157.6
Streets enhancements	132.6	195.2	176.5	234.4	234.2
Rail enhancements	24.9	23.8	52.4	53.5	54.5
Other Surface operations enhancements	49.2	70.5	44.4	244.6	288.0
Corporate Projects enhancements	129.1	311.1	459.3	302.0	365.9
Renewals ****	366.3	804.6	872.3	1,118.1	1,132.0
Total capital expenditure	2,080.2	2,821.5	2,519.0	3,478.5	3,837.0
Funding:					
Capital Receipts	110.4	290.9	320.1	199.0	248.0
Retained Business Rates	910.0	930.2	950.8	1,071.8	1,093.3
Capital Grants	128.2	125.0	134.0	107.5	93.7
Extraordinary Capital Grant*****	-	-	-	1,182.1	1,470.0
Borrowing	1,351.9	-	-	-	-
Crossrail Funding Sources	70.4	765.0	69.0	-	-
Revenue Contributions	(1,292.4)	875.1	1,106.2	918.1	932.0
Working Capital and Reserve Movements	801.7	(164.7)	(61.1)	-	-
Total funding	2,080.2	2,821.5	2,519.0	3,478.5	3,837.0

* Crossrail construction programme totals £1.6bn which includes £0.7bn in 2020/21 agreed as part of the funding package in December 2018. In August 2020, Crossrail Limited announced their latest cost forecast. Whilst the pessimistic case is £1.1bn (P80), for planning purposes, we have included the central case (P50) of £0.9bn in our budget. These estimates are being independently verified and a range of further efficiencies are being examined. £825m of grant funding from the GLA is being provided once TfL's £750m loan is exhausted. Any further funding amounts required would need to be subject to further discussions between TfL, GLA, and HM Government.

** Line extensions includes Northern Line Extension and Barking Riverside Extension

- *** Line upgrades includes Four Lines Modernisation, Piccadilly line rolling stock, Railway systems enhancements and DLR rolling stock
- **** Renewals expenditure is necessary to ensure the continued safe operation of transport services
- ***** Assumption for last two years is that capital expenditure is funded by extraordinary capital grant, rather than borrowings subject to the level of future funding to be agreed with Government

Key Deliverables

10.0 In line with the Mayor's transport strategy the investment outlined in this plan will enhance the capacity and quality of the public transport network to improve connectivity, boost economic productivity, make travel more accessible and inclusive and facilitate growth in jobs and homes. We will reduce the environmental impact of the transport network by cutting emissions and using less carbon, while becoming more resilient to climate change.

10.1 Total capital expenditure for 2021/22 will be £2,821.5m including the Crossrail construction programme. The key investment areas in 2021/22 include:

- Crossrail construction programme - £651.4m
- Modernisation of Circle, District, Hammersmith and City and Metropolitan lines - £168.6m
- Elizabeth line (trains and enabling works) - £10.7m
- Major Station Upgrades including Bank - £106.2m
- Northern Line Extension - £68.9m
- Healthy Streets and Air Quality - £221.6m
- Barking Riverside extension - £33.3m
- Piccadilly line rolling stock - £195.7m
- DLR fleet replacement - £122.0m

10.2 Key deliverables over the next year include:

- Continue work on the signalling upgrade and delivering improved timetabling on the Circle, Hammersmith & City, Metropolitan and District lines, as well as refurbished trains on the Central line and new, spacious state-of-the-art trains on the Piccadilly line. TfL will also continue to make the case for investment to replace the life-expired signalling system on the Piccadilly line. It remains TfL's intention to press ahead with this essential renewal as soon as the finances are available
- Complete the Northern line extension programme, and complete the upgrade of Bank station
- Progressing the highly skilled and technical work required to allow for the Elizabeth line stage 3 to open in the first half of 2022

- Helping to clean up London's toxic air quality by toughening the LEZ standards for heavy vehicles in March 2021 and, in October 2021, expanding the ULEZ - the toughest air quality standard of any city in the world - to cover all roads within the North and South Circular
- The design and initial infrastructure work for the introduction of new trains on the DLR will commence during 2021/22 and 2022/23 supporting jobs and homes
- Continuing construction on the Barking Riverside extension, a 4.5km extension to the Gospel Oak to Barking line that will serve one of east London's largest new housing developments. Services on the new line will commence in 2022
- Developing plans to introduce new trams to keep the network safe and reliable
- Work with the City of London and London boroughs on roads and assets and support Vision Zero
- Complete construction at Old Street Roundabout in 2022, which includes two complex traffic switches, and will deliver step free access and improved safety for vulnerable road users
- Restart delivery of our network of quality cycle routes, following the pause on activity in 2020 due to the coronavirus pandemic. In the second half of 2020/21 we will deliver 40km of improved cycling infrastructure
- Work toward delivering world-class hostile vehicle mitigations on London's bridges. We expect to have achieved the necessary approvals with Historic England to enable works to start on Westminster Bridge in 2021
- To improve safety for our front-line staff, in partnership with London Underground we will deliver body worn camera technology to all staff in scope by the end of 2020/21
- Restart our proactive road renewals from the second half of 2020/21, including works to carriageways, footways, traffic signals, lighting, bridges, tunnels and drainage. In 2020, we plan to resurface more than 40km of road and replace the expansion joints and waterproofing on Vauxhall Bridge. We are also starting a multi-year programme of renewal works on the Westway (A40) and developing plans to refurbish Rotherhithe Tunnel
- Increased focus on keeping the London Underground network safe and reliable. This plan establishes a critical level of spend for our renewals plus asset replacement as part of our modernisation work. Continue our investment in renewals to maintain safety and reliability on the London Underground network

- Progress step-free access schemes across the London Underground network towards making seven further station step-free by the end of 2021
- During 2021/22 we will continue to bring housing projects through planning and invest in property assets like our significant Arch portfolio – all of which have potential to generate significant ongoing revenue streams or reduce TfL’s cost base

10.3 Our capital spending is financed from seven main sources. Due to coronavirus, in the short term, Government grant has become a bigger element of overall funding as fares and ticket income has diminished:

- Government grant as a consequence of coronavirus
- 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, such as the Home Office’s contributions towards the Emergency Services Network project
- 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

TfL Subjective analysis	Revised Budget 2020/21 £m	Forecast 2020/21 £m	Budget 2021/22 £m	Plan 2022/23 £m
Income				
Passenger Revenue	(1,315.3)	(1,480.1)	(3,275.6)	(4,559.1)
CC, LEZ and ULEZ income*	(354.0)	(408.0)	(762.9)	(1,157.5)
Media Income	(45.8)	(49.1)	(111.4)	(125.8)
Rental Income	(49.5)	(49.5)	(76.6)	(94.9)
Elizabeth line regulatory**	-	-	(69.6)	(338.4)
Other Income	(259.0)	(261.4)	(246.1)	(275.6)
Total Income	(2,023.6)	(2,248.1)	(4,542.2)	(6,551.3)
Operating Expenditure				
Employee Expenses	2,236.9	2,218.5	2,168.6	2,029.9
Premises	287.9	288.7	321.9	335.5
Bus Contract Payments	2,007.3	2,040.3	2,083.5	2,128.8
CCS Income and other road contracted services	428.5	369.7	398.1	403.9
Asset Maintenance and Local Authority Payments	425.6	412.4	548.8	639.4
Professional and consultancy fees	134.6	118.5	109.3	107.0
Franchise Payments	326.7	423.1	474.9	492.6

Elizabeth line regulatory**	-	-	69.6	338.4
Information and Communication Technology	225.4	223.4	234.1	241.8
Traction Current	131.3	132.0	162.8	164.1
Other operating expenses	656.2	649.4	645.0	712.8
Capital resources and other recharges	(262.8)	(325.1)	(360.6)	(382.9)
Bad debt provision	94.0	102.7	159.3	290.3
Total Operating Expenditure	6,691.6	6,653.6	7,015.3	7,501.6
Net Operating Expenditure	4,668.0	4,405.5	2,473.1	950.3
Net financing costs	456.2	457.6	510.5	505.5
Revenue resources used to support capital investment	(399.4)	(643.9)	959.0	776.7
Transfer to/(from) reserves	(911.2)	(648.5)	(83.9)	329.5
Financing Requirement	3,813.6	3,570.7	3,858.7	2,562.0
Specific grants	48.7	81.8	12.6	13.8
Retained business rates	893.9	893.9	774.1	787.6
Extraordinary grant***	2,865.0	2,589.0	3,066.4	1,755.0
Council tax requirement	6.0	6.0	5.6	5.6

* Any changes to these schemes which result in additional income are subject to impact assessment, consultation and mayoral decision.

** The table reflects the Elizabeth line central operating section regulatory track charge, which is net nil at TfL Group level

*** Extraordinary grant for 2021/22 and 2022/23 is assumed to come predominantly from the Government but includes an element of Mayoral funding to make whole on fares concessions above those available nationally

Table 2: TfL - Capital financing costs

Capital financing costs	Budget 2021/22 £m	Plan 2022/23 £m	Plan 2023/24 £m
Provision for repayment of debt	56.1	56.1	56.1
External interest	541.7	537.6	522.8
Total	597.8	593.7	578.9

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) and the Prudential Code for Capital Finance in Local Authorities (the “Prudential Code”) both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and last updated in 2017. The strategies and policies also have regard to the Statutory Guidance on Local Authority Investments (the Investments Guidance) issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in March 2018.

Borrowing is undertaken within prudent limits set out in our funding agreement with central Government and approved by our Board and the Mayor. 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. We do not expect to increase our borrowing in 2021/22 or 2022/23. We constantly assess our financial position and will only borrow where it is prudent and affordable to do so.

We borrow 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
- Bank loans, including a £200m bank overdraft facility that is in place to provide contingency liquidity

We also have a £750m loan facility from the Department for Transport to support the completion of the Crossrail project. We are currently assuming that we will draw the full amount in 2020/21.

Access to new loan facilities from the European Investment Bank will be considered in the context of the UK leaving the European Union. We believe our proposed levels of borrowing remain affordable and consistent with prudent financial management.

Annual Minimum Revenue Provision

As we 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. This has been calculated at 35 years.

Borrowing Limits

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 2020/21 £m	Revised Approval 2020/21 £m	Proposed 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m
Borrowing	14,029.3	14,029.3	13,994.8	13,994.8	13,994.8
Long term liabilities	415.8	3,266.5	3,161.2	3,082.6	3,001.7
TfL closing balances	14,445.1	17,295.8	17,156.0	17,077.4	16,996.5

Table 4: TfL Group - Operational limit for external debt

Operational limit for external debt	Current Approval 2020/21 £m	Revised Approval 2020/21 £m	Proposed 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m
Borrowing	13,164.3	13,164.3	13,127.5	13,092.5	13,022.5
Long term liabilities	600.9	2,883.6	2,766.5	2,578.6	2,481.3
TfL closing balances	13,765.2	16,047.9	15,894.0	15,671.1	15,503.8

Table 5: TfL Corporation - Authorised limit for external debt

Authorised limit for external debt	Current Approval 2020/21 £m	Revised Approval 2020/21 £m	Proposed 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m
Borrowing	14,029.3	14,029.3	13,994.8	13,994.8	13,994.8
Long term liabilities	209.0	862.5	820.8	778.9	735.5
TfL closing balances	14,238.3	14,891.8	14,815.6	14,773.7	14,728.3

Table 6: TfL Corporation - Operational limit for external debt

Operational limit for external debt	Current Approval 2020/21 £m	Revised Approval 2020/21 £m	Proposed 2021/22 £m	Proposed 2022/23 £m	Proposed 2023/24 £m
Borrowing	13,164.3	13,164.3	13,127.5	13,092.5	13,022.5
Long term liabilities	209.0	612.5	570.8	528.9	483.5
TfL closing balances	13,373.3	13,776.8	13,698.3	13,621.4	13,506.0

Appendix B: GLA Group Four-Year Efficiency Plan

Savings and efficiencies across the GLA Group

The total savings and efficiencies to 2022/23 which have been identified across the Group are summarised below. The figures are presented on an incremental basis and do not include any savings still to be identified. Savings for 2020/21 include one off savings, from running fewer services at the height of the pandemic, as well as other volume based savings, which will not repeat in future years as passenger journeys increase.

Savings and efficiencies	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
TfL	215.9	323.6	100.5	143.3

Appendix C: TfL Capital Strategy 2020

Background

- 1.1. The Prudential Code 2017 requires all local authorities including Transport for London (TfL) to prepare and publish a Capital Strategy. This 2020 Capital Strategy updates TfL's Capital Strategy published in previous years.
- 1.2. This Capital Strategy is produced in a period of exceptional uncertainty. The coronavirus pandemic has resulted in TfL facing significant and unprecedented challenges this year. Like many other industries, the effects of a pandemic of this magnitude and scale have not been experienced before. As a result, ridership on our network has been slowly recovering from a low of 90 per cent down on the previous year at the start of the pandemic. This has resulted in an immediate impact on our cash flow, with an expected revenue loss approaching £4bn over the full year, and a material impact is expected in 2021/22.
- 1.3. TfL continues to discuss its short- and long-term financial requirements and plans with the Government and hopes to identify more secure long-term funding arrangements that are resilient to the wide range of potential future economic and transport demand outcomes. While the short-term outlook is particularly unclear at the present time, it remains important to look ahead and identify what investment is needed to renew and improve the transport network to support the future success of London and the UK, as we recover from the pandemic. Such future plans may be subject to increased uncertainty at present, but there still remains significant value in setting out a vision for the future.
- 1.4. Our Capital Strategy sets out the steady and sustained investment required to support the growth of London, stimulate the UK economy and improve quality of life, as set out in the Mayor's Transport Strategy. The Mayor's Transport Strategy, published in 2018, aims to reduce Londoners' dependency on cars in favour of 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 the majority of this period.
- 1.5. We continue to make the case to the Government for confirmed capital funding to support the level of investment described here. We are unable to commit to long-term projects without long-term certainty of funding, which we do not currently have.
- 1.6. 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. As estimates continue to evolve, these assumptions will be refined and the Capital Strategy will be reviewed and developed year on year.

Benefits

- 2.1. 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: for example Crossrail 1 was first proposed in the 1970s, but is only now nearing its

final delivery. A long-term view is critical to ensure enhancements to London's transport network are delivered when they are needed.

- 2.2. 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.
- 2.3. 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 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.
- 2.4. 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 start of essential improvements. A key benefit of the Capital Strategy is that it enables these funding requirements to be identified in enough time for them to be addressed.

Approach and Updates in 2020

- 3.1. Our Capital Strategy reflects the Mayor's Transport Strategy and the Mayor's policy priorities, including the need to run services safely and reliably. This is set in the context of greater uncertainty over the ridership on our networks and the financial impacts of the coronavirus pandemic.
- 3.2. This strategy builds from our 2019 Capital Strategy, which was approved by the TfL Board in December 2019. That strategy was based in part on work from the development of the Mayor's Transport Strategy and the National Infrastructure Commission's National Infrastructure Assessment, and set out our view at the time of the capital costs necessary to deliver the current Mayor's Transport Strategy through the 2020s and 2030s.
- 3.3. To develop this year's Capital Strategy, TfL has developed a flexible Long-Term Capital Plan process, which identifies the optimal investment required to keep our existing assets safe, operable and reliable and considers how our capital ambitions can be optimised to deliver enhancements at different funding levels. This Capital Strategy is based on a scenario from the Long-Term Capital Plan that delivers the maximum possible performance against Mayor's Transport Strategy objectives within a long-term investment programme of around £3bn per year (in 2020 prices).
- 3.4. Other updates within this year's Capital Strategy include aligning to emerging work, where available, on how to deliver a green and just recovery from the coronavirus pandemic and updating specific project costs and timelines to reflect latest information. This work will

continue to be refined as the future environment becomes clearer, but this Capital Strategy presents the best view available at this uncertain time.

- 3.5. Major projects within the Capital Strategy are aligned to TfL's submission to the Government's 2020 Spending Review. The outcome of that review is unknown at the time of producing this Capital Strategy. Any significant changes to TfL funding from it would be incorporated into future financial planning processes.
- 3.6. Forecasts of future inflation as well as risk allowances have been updated. Funding assumptions are particularly indicative at this time and are subject to ongoing discussions with the Government. We hope that future Capital Strategies will be able to present greater clarity in this area.

Influences

- 4.1. Our Capital Strategy is directly influenced by:
 - a) the Mayor's statutory policies for London, including the Mayor's Transport Strategy, the draft London Plan, and the London Environment Strategy
 - b) the UK's infrastructure requirements, as set out in the National Infrastructure Assessment
 - c) our near-term delivery plans and financial position, as set out in our Revised Budget for 2020/21
 - d) the condition and lifecycle of our asset base
 - e) underlying behaviour trends in London, as analysed in documents such as our annual Travel in London report
- 4.2. Our Capital Strategy will be directly or indirectly influenced over time by:
 - a) central government policy, in areas such as direct infrastructure funding and devolution, as well as other specific policies such as the Transport Decarbonisation Plan
 - b) external events with the potential to impact on the national economy, London's growth and/or our financial position, such as the UK's exit from the European Union and the continuing impacts of the coronavirus pandemic
 - c) the Mayor's future decisions on allocation of devolved business rates to functional bodies of the Greater London Authority (GLA)
- 4.3. The short- and long-term effects of the coronavirus pandemic will be complex and wide-ranging and are impossible to fully project at this time. This Capital Strategy continues to set out the capital costs required to deliver the Mayor's Transport Strategy, which was written and approved before the pandemic. The broad objectives of the Mayor's Transport Strategy are almost certain to remain applicable in all potential future circumstances, and the

importance of many of its aspirations (such as supporting people to move to more sustainable ways of travel and improving public health through increasing walking and cycling) have been shown to be more important than ever this year.

- 4.4. The specific applications of the Mayor's Transport Strategy may occur at different times or to different extents than previously thought if travel demand does change in a sustained way after the pandemic. 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.

Policies

- 5.1. Our Capital Strategy is fully aligned to the Mayor's policies, as are the Mayor's Transport Strategy policies and TfL's submission to the GLA's Budget, on which the Capital Strategy is in part based.
- 5.2. We acknowledge that any activity in delivering the Capital Strategy will be executed within the parameters of statutory frameworks and Board approved policies. The most important of these policies and frameworks are outlined here.
- 5.3. In adherence with the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017, 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.
- 5.4. Capital spend on transport infrastructure and commercial/investment activity is budgeted for and included in the TfL Group Budget and TfL Business Plan, which is typically produced annually and approved by the Board (or, under delegation, the Finance Committee). The TfL Business Plan outlines the medium-term plan that aligns to delivery of the overall Mayor's Transport Strategy, whereas the TfL Group Budget sets out the more detailed, near-term targets. Preparation of a 2020 TfL Business Plan has been deferred due to ongoing uncertainty around the coronavirus pandemic and associated discussions with the Government. In the interim, TfL's submission to the GLA's Budget outlines the medium-term plan.
- 5.5. 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 has been provided by the Government during the coronavirus pandemic and discussions are ongoing in relation to medium- and long-term sustainable funding of TfL's capital spending plans.
- 5.6. TfL's commercial activity plans are produced reflecting the Investment Management Strategy 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.

- 5.7. The Investment Management Strategy outlines the strategic objectives of the commercial activities, long-term direction of the investment programme, metrics to inform the decision-making framework, risk management policies and the use of independent and specialist experts.
- 5.8. TfL's financial plans are produced reflecting the Treasury Management Strategy (TMS), which is updated at least annually and considered by the Finance Committee prior to submission to the Board for final approval.
- 5.9. 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 Board approved Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments.
- 5.10. Within 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 authorisation 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.
- 5.11. 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 Financial Statements.
- 5.12. 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

- 5.13. 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.
- 5.14. 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.

- 5.15. 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.
- 5.16. TfL seeks to achieve year-to-date returns greater than the year-to-date average benchmark of the seven day London Interbank Bid Rate (LIBID), 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

- 5.17. 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.
- 5.18. TfL's annual borrowing requirement is driven by the financing requirement of its capital investment programme, the refinancing of its maturing debt and its overall financial position. Due to the current uncertainty around future passenger revenues and other funding streams, TfL has revised its previous plans to raise incremental borrowing in each year to 2022/23 and is currently not planning to increase its outstanding borrowing after this financial year. In future, additional borrowing will only be an option where it is deemed affordable and the capital spend results in an increase in future operating surplus that can service the operating and financing costs, as discussed in the Ambition Gap section below.
- 5.19. 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. Limits for total external debt for 2020/21 will be formally amended through the approval process for the Mayor's Budget to reflect increases in TfL's long-term liabilities resulting from the application of the new accounting standard, IFRS 16 leases. These liabilities were not included in the originally approved limits for 2020/21 as TfL had not been formally granted approval for the early adoption of IFRS 16 at the time those limits were approved.
- 5.20. In addition to the Public Works Loan Board being a readily available source to raise funds, TfL seeks to achieve its borrowing objectives by maintaining access to capital markets and complementing this with loans and other facilities from financial institutions where appropriate.
- 5.21. 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.
- 5.22. Recent revisions to accounting rules have impacted on the Capital Strategy by changing how leases are accounted for. The implementation of IFRS 16, from 1 April 2019 for TfL, required the recognition of a 'right-of-use asset' and a related liability in respect of assets leased under operating leases. This resulted in the recognition of additional assets and financing liabilities as at 31 March 2020 of around £2.4bn. It is possible that TfL may take responsibility

for additional National Rail services in the future, and it is likely that rolling stock on these lines would also be leased. We have not made allowance here for any balance sheet impact of potential future leases such as these, and any such change would be subject to negotiations relating to the devolution of rail services.

20 Year Capital Ambition

- 6.1. Our Capital Ambition is to deliver optimal asset renewals and replacements to maintain high levels of safety, operability and reliability, while investing to improve London's transport network, transform London into a safer and greener city and meet the ambitious goals of the Mayor's Transport Strategy.
- 6.2. We estimate that delivering this Capital Ambition beyond the next five years would require an average annual spend of £4.5bn in outturn terms (including inflation), of which, £2.6bn is the required cost to renew and replace existing assets. The remainder is required to deliver enhancements and extensions that will support the growth of the city as well as critical improvements such as reducing carbon emissions, eliminating death and serious injury from the transport network and cleaning London's air.
- 6.3. These priorities are also reflected in our submission to the Government's 2020 Spending Review, which outlined some of the most important projects within this Capital Strategy that are needed to get London and the UK moving again.
- 6.4. Our Capital Ambition can be divided into four substantial categories, detailed below.

Renewal and Replacement of Rolling Stock and Signalling (Line Upgrades; £1.3bn per year)

- 6.5. Across our rail services, TfL owns more than 800 trains, as well as signalling systems across each rail service and line. London 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. 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.
- 6.6. Investment in replacing rolling stock and signalling is a necessity for TfL to maintain today's level of performance. Our Capital Ambition clearly articulates the need for ongoing investment to maintain the service that we operate today, before the investments required to improve the service that are outlined in the Mayor's Transport Strategy.
- 6.7. 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.
- 6.8. Included in this category are costs for replacement of all current rolling stock on the Piccadilly, Bakerloo, Central, Jubilee and Waterloo & City lines to minimise whole-life costs.

Costs are also included for cascade of some trains to the Northern line and the beginning of a replacement programme on that line that would continue into the 2040s. Replacement of all current rolling stock on the DLR and London Trams is also included. Rolling stock for London Overground and the Elizabeth line is leased and not owned by TfL, so is not included here.

- 6.9. For signalling, costs are included for a replacement system on the Piccadilly line, incremental upgrades across the Central line and DLR, and ongoing management of existing systems on all other lines. These investments would deliver both performance and capacity benefits, supporting communities all along these important routes.

Renewals of Other Assets (£1.3bn per year)

- 6.10. 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.
- 6.11. We continually assess asset condition to ensure we can maintain safe and reliable services. The level of renewals planned over the period of the Capital Strategy is higher than has been carried out in recent years, reflecting a growing asset base, a return to proactive road renewals and the inclusion of spend to maintain the necessary higher levels of asset condition and reliability.
- 6.12. 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 and reliability that we must deliver, as well as enabling the best whole-life cost for maintaining assets to be achieved. Failing to renew assets in an efficient way leads to more maintenance and higher costs in the long term for emergency works and sub-optimal repairs.

Enhancements (£1.5bn per year)

- 6.13. As well as maintaining the service performance we provide today, we need to improve London's transport network to ensure London is on the path to a more sustainable future and transform it into a safer city, with cleaner air and greener, more pleasant environments. To ensure London's continued competitiveness as a world-leading city for living, working and visiting, our capital investment is also aimed at delivering a transport network that will unlock growth and support future housing and jobs growth.
- 6.14. The Enhancements category includes investment priorities that are required to deliver the wide range of improvements set out in the Mayor's Transport Strategy. 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 increasing capacity 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 meet customer expectations.

6.15. As well as the capital investment on TfL's own assets included in this category, it is expected that TfL will continue to contribute 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. It is important that a fair funding model for such streets improvements is identified to enable TfL to continue to support such improvements.

Network Extensions (£0.4bn per year)

- 6.16. This category covers new-build schemes to extend existing lines or build completely new routes. We are developing several such schemes that will unlock housing and growth across London, relieve crowding on the existing network and stimulate development in Opportunity Areas.
- 6.17. The schemes included here are the Northern Line Extension to Battersea Power Station, the extension of the London Overground to Barking Riverside, the Silvertown Tunnel that will connect west Silvertown to the Greenwich Peninsula, the Bakerloo Line Extension to Lewisham, an extension of the DLR to Beckton Riverside and Thamesmead along with bus transit links, and an allowance to support further extensions such as the West London Orbital, meaning this list is not comprehensive.
- 6.18. All planned schemes in this area will be dependent on third-party funding to support their affordability, reflecting the various beneficiaries such schemes deliver.
- 6.19. 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.

Crossrail 2

- 6.20. Crossrail 2 is a new railway that would link National Rail services in Surrey and Hertfordshire with the Underground network via a tunnel under central London. It would transform capacity and connectivity across London and the South East, thereby relieving overcrowded lines and stations and opening up more opportunities to develop housing and create new jobs.
- 6.21. The project is not expected to move to a delivery phase in the near future. We have included the construction of the project commencing in the later stages of the 20-year period covered by this Capital Strategy, but this would leave the majority of its cost to be delivered beyond the end of this strategy. This is an indicative position that will be reviewed in future.

20-Year Capital Investment Plan

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

- 7.2. While the Mayor's Transport Strategy objectives 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.
- 7.3. The early years of the Capital Investment Plan have been constrained by assumptions on short-term funding availability and deliverability of accelerating portfolios of work where activity has recently been deferred. Increased funding availability may mean that this acceleration could be started earlier, though this would require increasing our delivery capacity.
- 7.4. 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 Mayor's Transport Strategy, 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 Mayor's Transport Strategy 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.
- 7.5. The combined Capital Investment Plan and Capital Funding Plan are presented in Table I.

20-Year Capital Funding Plan

Funding Renewals

- 8.1. TfL had been making good progress towards its goal of covering all operating expenditure (including capital renewals) from operating income by 2022/23. The impact of the coronavirus pandemic has meant that this target will no longer be achieved. TfL is currently in discussions with the Government as to how it will move to a financially sustainable position as soon as possible. This will, among other things, help to show how future capital renewals should be funded. While this work is progressing, our interim assumption at this stage is that capital renewals in the early years are supported by additional grant funding, but this is subject to future agreements and reflects an interim view rather than any agreed position.
- 8.2. In the later years of this plan, we assume that TfL will be able to fund capital renewals out of operating income, although at this stage this is purely a planning assumption and subject to future modelling of TfL's long-term financial position.

Funding Replacement of Rolling Stock and Signalling, and Enhancements

- 8.3. These 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.

- 8.4. The main 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. Delivering all of the investments London needs to replace and upgrade its existing infrastructure will require further funding beyond that currently identified.
- 8.5. Possible funding sources to meet this requirement are considered in the next section.

Funding Network Extensions

- 8.6. Network extensions not only improve transport but also stimulate a step change in development in the areas they run through, and they are of particular strategic importance to the future of London and the wider South East. Due to their size, complexity and expense, they require bespoke funding and delivery plans, as was the case for Crossrail 1 and the Northern Line Extension.
- 8.7. 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.
- 8.8. 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. Possible funding sources for additional funding requirements are considered in the next section.
- 8.9. Previous funding assumptions for Crossrail 2 have been based on a 50:50 split between London and central government. This assumption has been maintained in this strategy, but given the current climate, the assumptions here are particularly indicative at this stage and only a portion of the project is reflected here. Over the full timeframe of project development, it is likely that local funding sources would be required to make a substantial contribution to the scheme, but the specific balance of funding sources over time may be flexible.
- 8.10. We are not including any provision for borrowing in this Capital Funding Plan beyond the current financial year. Our assumption at this stage is that all existing borrowing will be able to be refinanced, but no further incremental borrowing is included. This issue is discussed further in the next section.

Table 1: Capital Investment and Funding

All figures are adjusted for future forecasts of inflation.

TfL's Capital Strategy	2020/21 to 2024/25	2025/26 to 2029/30	2030/31 to 2034/35	2035/36 to 2039/40	Total Yrs 6-20	Average pa Yrs 6-20
	£bn	£bn	£bn	£bn	£bn	£bn
Capital Investment						
Extensions to Network:	(2.0)	(1.1)	(1.0)	(3.6)	(5.7)	(0.4)
<i>Crossrail 1*</i>	(1.6)	-	-	-	-	-
<i>Line Extensions</i>	(0.4)	(1.1)	(1.0)	(3.6)	(5.7)	(0.4)
Enhancements	(5.0)	(7.8)	(8.8)	(6.1)	(22.7)	(1.5)
Line Upgrades	(3.4)	(6.8)	(7.7)	(4.9)	(19.4)	(1.3)
Renewals	(4.3)	(5.9)	(6.4)	(7.7)	(20.0)	(1.3)
Total capital expenditure	(14.7)	(21.6)	(23.9)	(22.3)	(67.8)	(4.5)
Funding						
Capital Receipts	1.2	0.5	0.5	0.7	1.7	0.1
Retained Business Rates	5.0	5.8	6.4	7.1	19.3	1.3
Revenue Contributions	2.5	5.5	6.5	7.7	19.7	1.3
Borrowing	1.3	-	-	-	-	-
Working Capital and Reserve movements	0.6	-	-	-	-	-
Capital Grants	3.2	4.9	0.4	1.1	6.4	0.4
Crossrail 1 Funding	0.9	-	-	-	-	-
Total funding	14.7	16.7	13.8	16.6	47.1	3.1
Overall additional funding required	-	(4.9)	(10.1)	(5.7)	(20.7)	(1.4)

Crossrail 2	2020/21 to 2024/25	2025/26 to 2029/30	2030/31 to 2034/35	2035/36 to 2039/40	Total Yrs 6-20	Average pa Yrs 6-20
	£bn	£bn	£bn	£bn	£bn	£bn
Crossrail 2 Capital Expenditure	-	-	-	(13.0)	(13.0)	(0.9)
<i>Grant - CR2</i>	-	-	-	6.5	6.5	0.4
<i>Potential devolved and third-party funding sources</i>	-	-	-	-	-	-
Total CR2 funding	-	-	-	6.5	6.5	0.4
Overall additional CR2 funding required	-	-	-	(6.5)	(6.5)	(0.4)

* Crossrail construction programme totals £1.6bn which includes £0.7bn in 2020/21 agreed as part of the funding package in December 2018. In August 2020, Crossrail Limited announced their latest cost forecast. Whilst the pessimistic case is £1.1bn (P80), for planning purposes, we have included the central case (P50) of £0.9bn in our budget. These estimates are being independently verified and a range of further efficiencies are being examined. £825m of grant funding from the GLA is being provided once TfL's £750m loan is exhausted. Any further funding amounts required would need to be subject to further discussions between TfL, GLA, and HM Government.

Ambition Gap

- 9.1. The Capital Strategy is balanced in the first five years based on the assumption of further grant funding, but this remains subject to future agreements with the GLA and the Government. Both costs and funding within this period will be subject to these agreements.
- 9.2. 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 ability to identify new, sustainable sources of funding.
- 9.3. The main funding source in recent years for investment has been 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.
- 9.4. 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 the 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**

Though this is subject to ongoing discussions with the Government, we hope to return to a position where we can break even or generate a surplus on our operating account in due course. Any such surplus could then be used to fund further investment

d) **Generating new commercial income**

We have in recent years increased the income we raise 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 be reinvested in capital investment

e) **Funding from new income sources**

This could include addressing the unsophisticated way in which road use is paid for in London, and developing new methods of land value capture where specific projects can generate benefits for local landowners

f) **Bidding for targeted support from central government**

This could come from existing sources such as the Housing Infrastructure Fund and Major Road Network funding, or from new sources

g) **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

h) **Borrowing**

We have not included any provision for incremental borrowing beyond the current financial year. If our operating revenues increase sufficiently, it may be possible in future to use 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

i) **Funding contributions from developers and other third parties including boroughs**

We seek such funding for all appropriate projects

Risks to the Capital Investment Plan

10.1. TfL manages an identified set of strategic risks through a defined framework. Some particular risks relevant to the capital account over a 20-year horizon are noted here.

- 10.2. The short-term impacts of the coronavirus pandemic have been the most significant event in TfL's history, but the long-term impacts of the pandemic remain to be fully understood. It is likely that the pandemic and its aftereffects will influence the development of London, travel demand within it and the financial position of TfL 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 coronavirus pandemic but would also be true regardless of it.
- 10.3. Lack of long-term certainty of funding: It is not possible 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 beginning. This risk can be best managed by early identification and sharing of funding requirements with stakeholders.
- 10.4. 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.
- 10.5. Delivery Risk: delivery of a significant capital programme is not without risks, particularly where cost estimates are being made many years in advance of when projects would begin 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.
- 10.6. 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. As an illustration, if the rate of inflation is one per cent higher every year than we forecast here, it would increase our total costs over the 20 years by £10bn, or around 12 per cent of the overall costs projected.
- 10.7. Risk that pressures on TfL's operating account require funding to be diverted away from capital expenditure. This could include for issues such as funding investment on non-TfL assets (including borough roads) or higher operating costs for necessary staffing and maintenance levels.
- 10.8. Risk related to asset condition: We have estimated the costs to maintain the condition of our assets at their current performance levels. This is based on current assessment of condition and likely asset life expiry, but these could change over time leading to revised levels of investment being required.
- 10.9. Commercial risk: the value of TfL's commercial properties is exposed to market volatility as are property purchase costs within large projects. Over time, market conditions could make such transactions better or worse than expected, creating a source of uncertainty.
- 10.10. 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 risk: Over 20 years, politics at every level can impact on the availability of funding and support for TfL capital projects
- Economic risk: Over 20 years many economic conditions and factors could change demand for TfL services, and therefore indirectly on 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 dockless cycle hire. 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 risk: 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 risk: Climate change, including rising sea levels, could have a significant impact on our infrastructure, much of which is low lying. Changes in temperature could impact our requirement to invest in cooling our infrastructure. Attempts to reduce the impact of climate change will require us to invest in decarbonising our services, which we are already including in this Capital Strategy, but the specific requirements of this could change

Appraisal

- 11.1. 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. Although this year the process has been altered to reflect ongoing discussions with the Government on future funding, the production of this Capital Strategy is part of the process that will lead to a new TfL Business Plan, which will include the production of an Equality Impact Assessment. This Business Plan will develop more specific plans for the early years of the period covered by this Capital Strategy, and will be appraised against safety, maintenance and operations requirements.
- 11.2. Similarly, the Mayor's Transport Strategy underwent a thorough review and approval process. This included substantial stakeholder engagement during its development followed by a 15-week public consultation in the summer of 2017. An Integrated Impact Assessment and substantial evidence base were also developed and published alongside the strategy. Following incorporation of many comments received during this consultation, the final Mayor's Transport Strategy was approved by the Mayor in February 2018, then reviewed and noted by the London Assembly in March 2018.
- 11.3. The Capital Strategy has been developed in part from the 2019 Capital Strategy that was published for consultation as part of the Mayor's Consolidated 2020-21 Budget and

approved by the TfL Board in December 2019. Its development has been undertaken in consultation with the TfL Executive Committee and TfL Programmes and Investment Committee.

- 11.4 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 Mayor's Transport Strategy to ensure that the desired outcomes are delivered.

Statutory Chief Finance Officer sign off

The affordability of the Capital Strategy is dependent on TfL obtaining significant additional funding which cannot be considered certain at this point in time. This is particularly challenging to predict this year as a result of the coronavirus pandemic. 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 beginning. 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.