MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda – Supplementary

Meeting: Board

Date: Tuesday 16 March 2021

Time: 10.00am

Place: Teams Virtual Meeting

Members
Sadiq Khan (Chair)
Heidi Alexander (Deputy Chair)
Cllr Julian Bell
Kay Carberry CBE
Prof Greg Clark CBE
Bronwen Handyside
Ron Kalifa OBE
Dr Alice Maynard CBE
Anne McMeel
Dr Mee Ling Ng OBE
Dr Nelson Ogunshakin OBE
Mark Phillips
Dr Nina Skorupska CBE
Dr Lynn Sloman
Ben Story

Government Special Representatives
Andrew Gilligan
Clare Moriarty

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair has agreed that these items should be considered as a matter of urgency. Members need to consider the proposed Budget and both the Scorecard and the Prudential Indicators draw on information in the Budget and have to be approved before the start of the new financial year. The development of the Budget was impacted by the ongoing discussions with Government on securing further funding.

Copies of the papers and any attachments are available on 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: 0343 222 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Monday 15 March 2021

7 TfL Budget 2021/22 (Pages 1 - 24)

Chief Finance Officer

The Board is asked to note the paper and approve the TfL Budget for 2021/22.

8 TfL Scorecard 2021/22 (Pages 25 - 36)

Chief Finance Officer

The Board is asked to note the paper and approve the TfL Scorecard for 2021/22.

11 TfL Prudential Indicators 2021/22 and 2023/24 (Pages 37 - 48)

Chief Finance Officer

The Board is asked to approve: the TfL Prudential Indicators for 2021/22 and the following two years; the Treasury Management Indicators for 2021/22 and the following two years; and the Annual TfL Policy Statement on Minimum Revenue Provision.

Board

Date: **16 March 2021**

Item: **TfL Budget 2021/22**

This paper will be considered in public. As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that this item should be considered as a matter of urgency. The reason for urgency is that Members need to consider the proposed budget for 2021/22, which is impacted by the ongoing discussions with Government on securing funding support for 2021/22 and beyond.

1 Summary

1.1 This paper provides an update on our 2021/22 Budget process and ongoing negotiations with the Government in relation to funding support for 2021/22 and beyond, in advance of our current funding and financing agreement expiring on 31 March 2021.

1.2 We have reviewed the Budget approved by the Board in December 2020 and propose changes for the 2021/22 Budget having updated assumptions where possible, with due consideration to the status of negotiations with Government.

1.3 In the event that negotiations have not concluded by 16 March 2021, we recommend that the Board agree the adjustments that need to be made to the Budget approved by the Board in December (as described in the paper). An update on this will be presented to the Board in July 2021.

2 Recommendations

2.1 **The Board is asked to note the paper and:**

(a) approve the adjustments described in the paper as the 2021/22 Budget and;

(b) note the update on the funding negotiations with Government and that a revised Budget will be presented to the Board for consideration in July 2021.

3 Proposed 2021/22 Budget Amendments

3.1 We submitted a draft Budget as part of the GLA Budget process on 30 November 2020. This submission was approved by the Board on 9 December 2020 (the December Budget).

3.2 This December Budget, over the period 2020/21 to 2022/23, demonstrated the ongoing funding support required in the medium term to meet our statutory obligations in relation to a balanced budget, including funding to continue to operate services and ensure our assets are maintained in a good and safe state of repair.

3.3 We have updated the December 2021/22 Budget with a forward look to 2022/23 as part of our annual budget setting process to reflect certain key amendments.

3.4 These amendments reflect a revised funding support requirement expected over 2020/21 to 2022/23 as compared to our December Budget and in particular:

(a) 2020/21: The funding support requirement is expected to reduce from £3.3bn to £3.2bn in 2020/21 largely due to improved revenue since the December Budget and a slowdown of capital spending due, in part, to uncertainty around future funding [impacting various aspects of the programme such as the ability to recruit to build delivery capability].

(b) 2021/22: The funding support requirement has reduced from £3.1billion as set out in the December Budget due to improvements in expected Business Rates Retention and Council Tax precept revenue. However, due to continued uncertainty as to expected passenger demand in the future, the funding support requirements range from £2.6 billion to £3.2 billion in different demand scenarios.

(c) 2022/23: The funding support requirement gap has been amended to £1.5 billion, improving by £0.3bn as compared to the December Budget due to an alignment of expected bus passenger income to the Financial Sustainability Plan (FSP) published on 11 January 2021, and specifically the phasing in of a 4 per cent service reduction from July 2021 and favourable Business Rates Retention and Council Tax precept rolled over from 21/22.

3.5 For all periods, we have also made amendments to reflect updated revenue scenarios as a result of the Government's published roadmap for easing of Coronavirus related restrictions.

3.6 In the event that negotiations have not concluded by 16 March, we recommend that the Board approve the proposed adjustments to the December Budget as described in the paper. A revised budget will be presented to the Board in July to reflect the implications of any funding agreement reached.

4 Funding negotiations

4.1 As part of the H2 funding agreement, and since then in ongoing discussions, the Department for Transport (DfT) asked us to investigate options for reducing our capital expenditure by up to 30 per cent. Using the capital prioritisation framework agreed with the Board and DfT in December, we have analysed the indicative impact of three different scenarios on our capital investment programme over the next four years to inform our planning in light of potential funding constraints. The scenarios reflect the need to meet our statutory and regulatory responsibilities in relation to safety, which would begin to be significantly impacted in scenarios where renewals cannot progressed at planned levels. These obligations, and the requirement to meet them, have been made clear to Government. The scenarios do not represent any decisions made; future decisions remain subject to assessment and consultation with all relevant parties as appropriate. The scenarios are set out in the appendix.

4.2 In relation to funding support that will be required following the expiry of the current funding agreement with DfT on 31 March, we have been in regular discussions with Government. The Government accepts that we will need access to additional funding support in order to continue to deliver essential transport services, maintain essential contracts needed to run these services and continue to support the investment programme, including critical renewals and contractually committed enhancement projects.

4.3 The underlying principle of the current agreement is that Government bears the risk of fluctuation in TfL's passenger revenues as these are closely linked to measures introduced by the Government to respond to the pandemic, including in relation to working from home and essential travel. The current agreement also provides comfort as to TfL's obligations in relation to a balanced budget, minimum cash and financial commitments made within the term of the agreement and beyond. We have placed great reliance on this comfort in order to be able to continue to operate and make financial commitments that extend beyond the current funding period.

4.4 It will be vital that these core principles continue to be adopted in any further funding agreement with Government in order to be able to manage ongoing financial risks to revenue, manage liquidity and to continue to maintain existing and expected financial commitments. Certainty of future funding is essential to TfL being able to continue to make commitments and to ensure long term decisions and plans can be made in a way that optimises value for money and financially efficiency.

4.5 A further funding agreement with Government is likely to require additional commitments and/or plans in key areas of activity. Government has yet to inform TfL of the precise requirements it believes are necessary to secure a funding agreement, these discussions continue with urgency. The majority of discussions with Government thus far have been in relation to core aspects of our FSP.

4.6 In relation to the Crossrail project, the funding and financing package agreed in November 2020 will continue to apply. TfL and DfT as Joint Sponsors will make all reasonable efforts to complete the project as soon as practicable and TfL and CRL will continue to work hard to try and deliver the project within the existing funding envelope.

5 Next Steps

5.1 TfL is working to urgently secure a funding agreement with Government for 2021/22 and beyond. Discussions are ongoing and an update will be provided at the meeting.

5.2 Once a new funding agreement is agreed and the implications worked through, a revised budget for 2021/22 will be presented to the Board in July for approval.

List of appendices to this report:

Proposed 2021/22 Budget (Amendments) presentation.

List of Background Papers:

Budget approved by Board on 9 December 2020

Contact Officer: Simon Kilonback, Chief Finance Officer
Email: simonkilonback@tfl.gov.uk

Proposed 2021/22 Budget

TfL Board
16 March 2021

Executive Summary

We are updating our proposed 2021/22 budget and forward look to 2022/23, using our submission to the GLA Budget process in Nov 2020 as the base.

This submission covered our budgets for 2020/21 to 2022/23 and was approved by the Board on 9 Dec 2020. It also formed the baseline for our Financial Sustainability Plan submitted to Government on 11 Jan 2021.

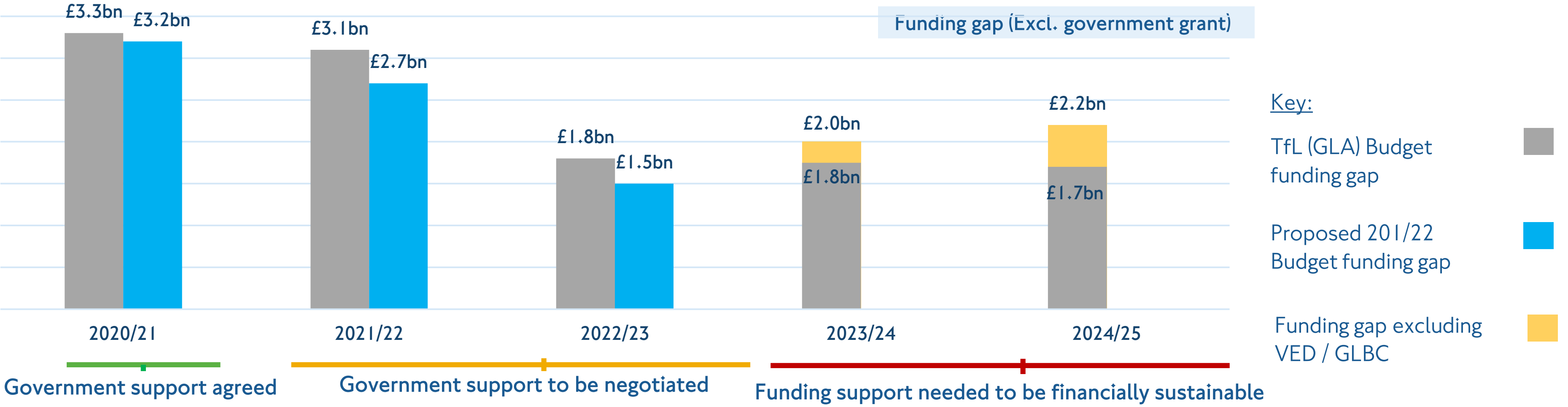
The GLA Budget was approved by the London Assembly on 25 February 2021.

We are legally required to produce a balanced budget

As funding negotiations with Government are still ongoing, we are updating our proposed 2021/22 budget based on our submission to the GLA Budget process, plus top-level material adjustments such as Business Rates Retention, Council Tax and a scrappage scheme which were included in the final approved TfL (GLA) budget. We are also updating our revenue scenarios in light of the roadmap for easing restrictions as recently published by Government. Once a new funding agreement is agreed and the implications worked through, a revised budget for 2021/22 will be presented to the Finance Committee and Board for approval.

Key changes compared to December 2020 TfL (GLA) Budget:

- In 2020/21, we expect to draw up to **£3.2 billion of government funding** as agreed in the H1 and H2 funding and financing agreements. The exact amount will depend on passenger revenues over the next few weeks. Funding requirement has reduced by c£0.1bn largely through improved revenue since the December budget and a slow down of capital spending due partly to uncertainty around future funding (impacting various aspects of the programme such as the ability to recruit to build delivery capability).
- **2021/22 assumes a funding gap of £2.7 billion,** a reduction from the £3.1billion set out in the TfL (GLA) Budget in December largely due to favourable passenger income, Business Rates Retention and additional Council Tax precept revenue. However, uncertainty around passenger revenue suggests a funding gap of **between £2.6 billion and £3.2 billion full year**. The longer lockdown at the end of 2020/21 leads to lower passenger volumes into the start of 2021/22 and some form of winter suppression whether by policy or public behaviour.
- The funding gap for 2022/23 is assumed to be **£1.5 billion.** This is an improvement of £0.3bn against the TfL (GLA) Budget due to aligning bus services to the FSP passenger income including the phasing in of a planned 4% service reduction from July 2021 and favourable Business Rates Retention and Council Tax precept rolled over from 21/22.
- **Beyond this, the gap remains around £1.6bn per annum** as set out in the Financial Sustainability Plan (FSP), and assumes £500m pa of retained VED or the introduction of a GLBC (subject to full assessment, consultation and Mayoral decision).
- These numbers will form the basis for ongoing funding discussions with Government



Our Financial Sustainability Plan balances the outcomes we need to deliver within a financially restrained envelope

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Our plan supports the Government's levelling up and decarbonisation agendas; our range of shovel-ready projects will boost the UK economy and aid recovery from the pandemic, and support investment in transport solutions and systems across the country.

Our plan to decarbonise transport in London by 2030 delivers operational breakeven by 2023/24, and requires on average £1.6bn of capital funding support p.a. between 2023-30 (at 2025 constant prices). This plan will achieve sustainability in financial, environmental, equality and inclusion terms:

£1.6bn capital funding p.a. to prioritise the national objective to decarbonise

This level of investment is the only option to meet the Government's 10-point plan for a Green Industrial revolution, of which the transport sector and London's economy are key components. It supports the Mayor's ambition to achieve zero carbon by 2030, which is in line with the Government's target for banning new petrol and diesel vehicles, and allow us to accelerate our plans to fully electrify London's bus fleet by 2030 and delivers operating cost efficiencies through fuel savings and efficient upgrades to garage power supplies.

Maintaining our assets is the bedrock of our continued safe and reliable operation

Ongoing renewal of all assets across the transport network supports reliable operations that give people confidence to make sustainable travel choices. It is essential for our financial sustainability that we don't allow an unsustainable 'bow wave' of investment to build up for the future.

This is also the only option to ensure we can modernise and advance technology

This plan works towards a zero carbon railway to decarbonise the Underground. New trains are more energy efficient, more accessible and have higher capacity to let more people travel. They are an essential component of a reliable rail network that gives people confidence to live car-free lives. Key investment to 2030 includes:

- New Bakerloo line trains to replace the oldest fleet in the UK
- Piccadilly line resignalling to increase frequency to 36tph
- DLR extension to Thamesmead to support 20,000 homes

Connectivity and affordable and accessible travel choices are vital to ensuring equity & inclusion

This is especially true in London where car ownership is 25% below England average. It also supports avoiding the damaging impacts of a car-led recovery on our economy, communities, inclusion, health, safety & environment. Active travel to support walking and cycling, and a good public transport service are vital to this.

Investment in London creates jobs and wealth that deliver tangible benefits across the UK

Our supply chain for London Underground already supports 43,000 jobs, 68 per cent of which are outside London. By accelerating investment in the decarbonisation of our network and renewable energy solutions, we will create thousands more jobs and produce innovative solutions, attracting international investment. For example, electrification of buses necessitates efficient investment in high quality UK manufacturing jobs in locations such as Leeds, Ballymena, Falkirk and Scarborough.

Our action plan

Our plan shows progressive steps we have committed to taking to achieve a position of financial self sufficiency, breaking even on an operating account basis in 2023/24, while still requiring support from government for major capital investments of £1.6bn on average per annum (at 2025 constant prices). This funding split is consistent with other major transport authorities

Decarbonise by 2030 assumes that we will need ongoing support in the short-term as passenger revenue begins to recover, to a point where we can cover the cost of operations, maintenance and financing by 2023/24, with ongoing support required for major capital investment. To achieve our trajectory to financial sustainability, we are:

Committed to doing everything we can to recover demand for services as quickly as possible
This includes actions to reinstate passenger confidence through extensive cleaning regimes, safety procedures and marketing campaigns. The opening and full running of services on the Elizabeth line will also impact on revenues, hence the early transfer of the project to us to achieve the earliest possible opening date.

Seeking options to generate new sources of income
Our assumptions in the FSP include additional revenue generation of net £500m a year from 2023/24 from either retaining London's Vehicle Excise Duty or introducing a Greater London Boundary Charge (subject to full assessment, consultation and Mayoral decision).

Progressing plans to achieve recurring savings of £730m over the period 2019/20 to 2024/25
Our current plan include a four per cent reduction in the bus kilometrage operated across London by 2024/25. We will continue to analyse the optimum size for our organisation to undertake its activities, taking into account emerging evidence on future demand and the scale of our capital investment plans.

Exploring ways to maximise our position as one of London's largest landowners to deliver thousands of homes and jobs
A sufficiently-funded third-party entity – owned by TfL – could deliver around 50,000 homes over a 25-year period; supporting us in achieving financial sustainability and supporting the wider economic recovery of London and the UK through our supply chain.

Delivering economic and efficient long term capital programmes
We are seeking a funding model from Government similar to the arrangements offered to Network Rail and Highways England, with multi-year control periods over four to five years. This is critical to becoming an economic and efficient operator. We are committed to delivering our capital projects efficiently, and such a funding framework would allow for further efficiencies and help us engage and maintain a UK-wide supply chain.

Our objectives align to national objectives

The government has set out its Ten Point Plan for a Green Industrial Revolution. TfL touches on many of the themes set out for this, and progress at a national level will be incomplete without committing to investment against these themes in London. Our expertise in many of these areas could help to support national progress.

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The Ten Point Plan for a Green Industrial Revolution

Point 1
Advancing Offshore Wind

Point 2
Driving the Growth of Low Carbon Hydrogen

Point 3
Delivering New and Advanced Nuclear Power

Point 4
Accelerating the Shift to Zero Emission Vehicles

Point 5
Green Public Transport, Cycling and Walking

Point 6
Jet Zero and Green Ships

Point 7
Greener Buildings

Point 8
Investing in Carbon Capture, Usage and Storage

Point 9
Protecting Our Natural Environment

Point 10
Green Finance and Innovation

Driving the Growth of Low Carbon Hydrogen

We introduced London's first hydrogen bus in 2002, and the world's first hydrogen double-decker in 2019. We continue to explore the potential for hydrogen in the future – particularly on longer routes where electrification may not be appropriate. We are well positioned to help others explore hydrogen.

Accelerating the Shift to Zero Emission Vehicles

We have plans to electrify our bus fleet at pace (subject to funding) and have installed the UK's largest network of rapid chargers. Our LEZ / ULEZ policies are encouraging the shift to cleaner vehicles and we are supporting boroughs on local initiatives. We are using our licensing powers to accelerate this shift for taxis.

Green Public Transport, Walking and Cycling

We have already reduced private vehicle mode share in London from 48% in 2000 to 37% in 2019, and aim to lower it further to just 20% by 2041. We have ambitious plans to keep making London's streets better for walking and cycling, and continued investment in public transport will deliver huge benefits.

Greener Buildings

We are supporting and directly delivering housing both on our own land and all across London. We have set out strong environmental principles for our own developments, including surpassing design standards for energy efficiency. We are reducing energy usage in our operational estate, and our Waste Heat initiative is delivering zero-carbon heat to 1,350 homes in Islington. We can do much more with adequate funding.

Protecting Our Natural Environment

We are improving London's standing as a National Park City and are committed to improving its environment. We have committed to increasing tree cover on our road network by 1 per cent each year – helping to improve urban temperature, drainage and biodiversity.

Green Finance and Innovation

We issued our debut sterling Green Bond in April 2015 to contribute to the financing of five eligible green project categories. We expanded on this, publishing the new Green Bond framework in February 2020. This framework is in accordance with the ICMA Green Bond Principles 2018.

Our plan to decarbonise by 2030 is the only plan that creates a growing and sustainable operating surplus by 2023/24 and is fully in line with both the Mayor and the Government's ambitions to deliver a green recovery

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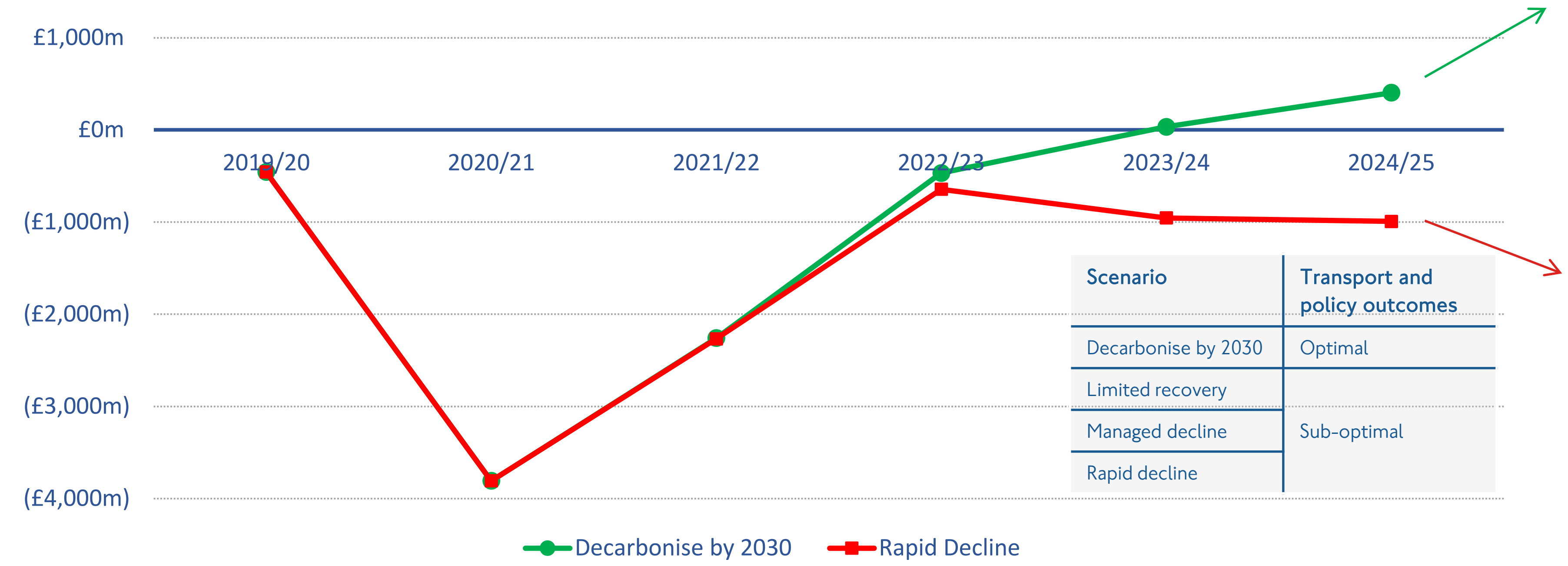
Net cost of operations – excluding renewals and new capital investment



Scenario	Transport and policy outcomes
Decarbonise by 2030	Optimal
Limited recovery	
Managed decline	Sub-optimal
Rapid decline	

- Decarbonise by 2030 **is the only scenario that is fully in line with government's ambition on decarbonisation**. It not only produces a surplus for investment by 2023/24 but includes significantly more funding for green recovery, active travel, decarbonisation and innovation, meaning rapid progress in these areas.
- Limited recovery – although this scenario would achieve steady progress against TfL's outcomes, ***there is less funding toward green recovery and mode shift away from vehicles***.
- Managed Decline and Rapid Decline do not achieve a surplus by 2023/24. **Critical investments are deferred leading to more expensive maintenance costs, service disruption and poor value for money**. Under Rapid Decline, TfL will need to significantly reduce its operations or close as it will be unable to fulfil its statutory obligations on safety and operability

Our proposed 2021/22 budget starts our journey to decarbonise by 2030 and continues our record on efficiencies

Healthier Streets

Decarbonising requires fewer vehicle journeys and more travel by walking, cycling and public transport. We are making the key changes on London's roads to encourage and accommodate this change.

Better Public Transport

As well as walking and cycling, we need people to return to public transport rather than their cars. We will properly renew our assets to maintain performance, extend our network, improve stations and introduce new trains on the Piccadilly line and DLR.

Electrification of buses

60 per cent of TfL's direct CO_2 comes from buses. We have London's largest electric fleet, but we must move at pace to decarbonise all 9000 buses. We have plans to do so but this requires adequate funding.

Focusing on clean energy

We have to do many things to clean energy supply and usage. This includes installing solar panels and LEDs, using waste heat and procuring cleaner energy. And we are supporting rollout of electric vehicle charging points.

Improving air quality

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, in October 2021.

Achieving efficiencies

We have already achieved recurring savings of £1bn between 2015/16 - 18/19, with a further £730m planned between 2019/20 - 24/25, including a total of £228m across 2021/22 and 2022/23

Our draft 2021/22 Budget is underpinned by the following assumptions

These have been updated since the TfL (GLA) Budget in December and are aligned to commitments made within the Financial Sustainability Plan

Revenue assumptions	• A COVID Impact Model developed by the Revenue Forecasting team is a revision of the revenue model created in the early stages of the pandemic • Submission assumes a revenue scenario which reflects the current government road map out of restrictions by 21 June 2021 overlayed by a gradual return of office workers, shopping and leisure, as well as a winter suppression assumption whether by policy or public behaviour • 21/22 demand starts the year at circa 30% of 2018/19 volumes compared to 55% in the TfL (GLA) Budget and ends the year on circa 90% vs 75% previously • Fares uplift has now been updated to RPI+1 from March 2021 (previously January 2021) • Both media and commercial rental income are also impacted by loss of footfall (approx. £30m reduction, not all directly linked to ridership)
BRR & Council Tax	• £88m additional Business Rates income passed to TfL • £43m Council Tax uplift to meet the costs of London-specific transport concessions
Congestion Charge, LEZ & ULEX	• Maintain current temporary congestion charge hours and rates as long as needed in response to the pandemic, which will be kept under review • LEZ tightening March 21, ULEX in October 21

LU / Rail services	• No material change to service levels assumed in the TfL (GLA) Budget
	    • Potential restart dates for Night Tube 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
	    • Northern Line Extension due to open Autumn 2021

Bus service levels	• Aligned to FSP with a bus service reduction of 4% (phased to start from July 2021)
Healthy Streets	• Total spend on Healthy Streets portfolio in line with TfL(GLA) Budget
Financial Assumptions	• No material change in RPI assumptions (2.8% for 21/22 and 3.1% longer term thereafter) • Maintain no new borrowing assumption from 2021/22 and throughout the plan period

Our latest Covid-19 demand suppression scenarios indicate a range of possible outcomes

We have used the Government's roadmap to model 4 different scenarios and reviewed the funding gap in H1 and H2 of 21/22.

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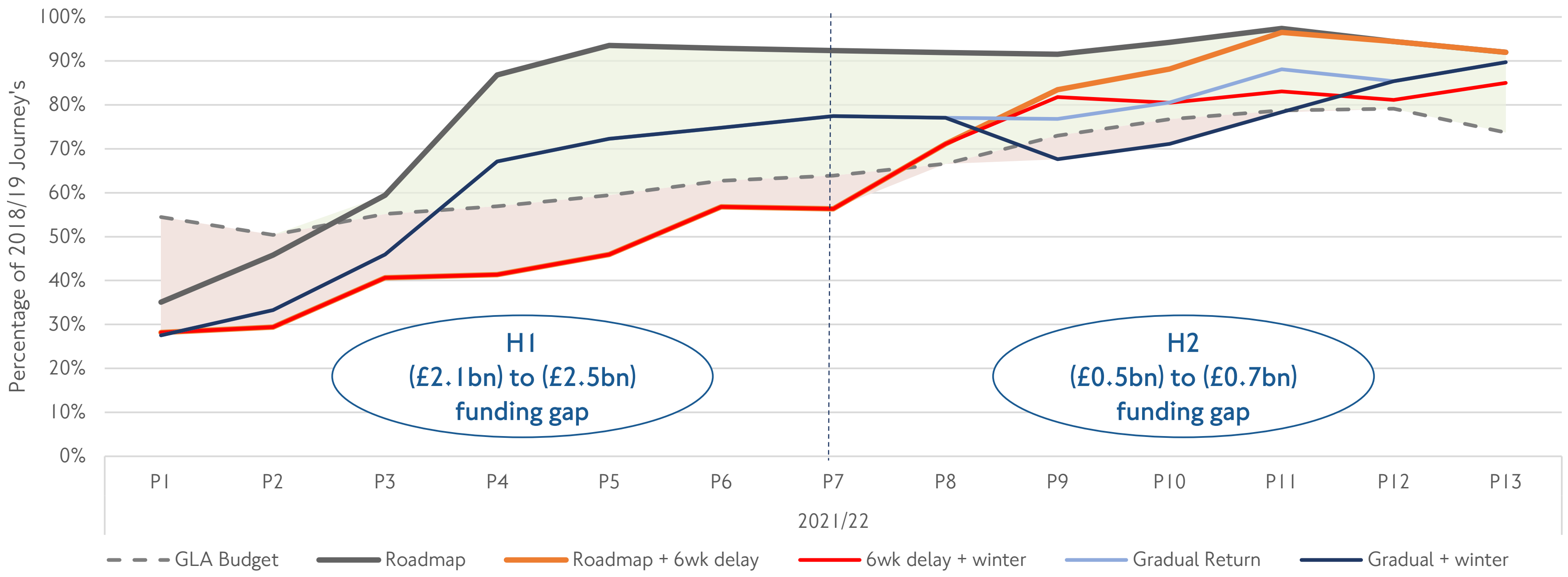
There is still significant uncertainty over the length and severity of current restrictions, as well as the speed of recovery.

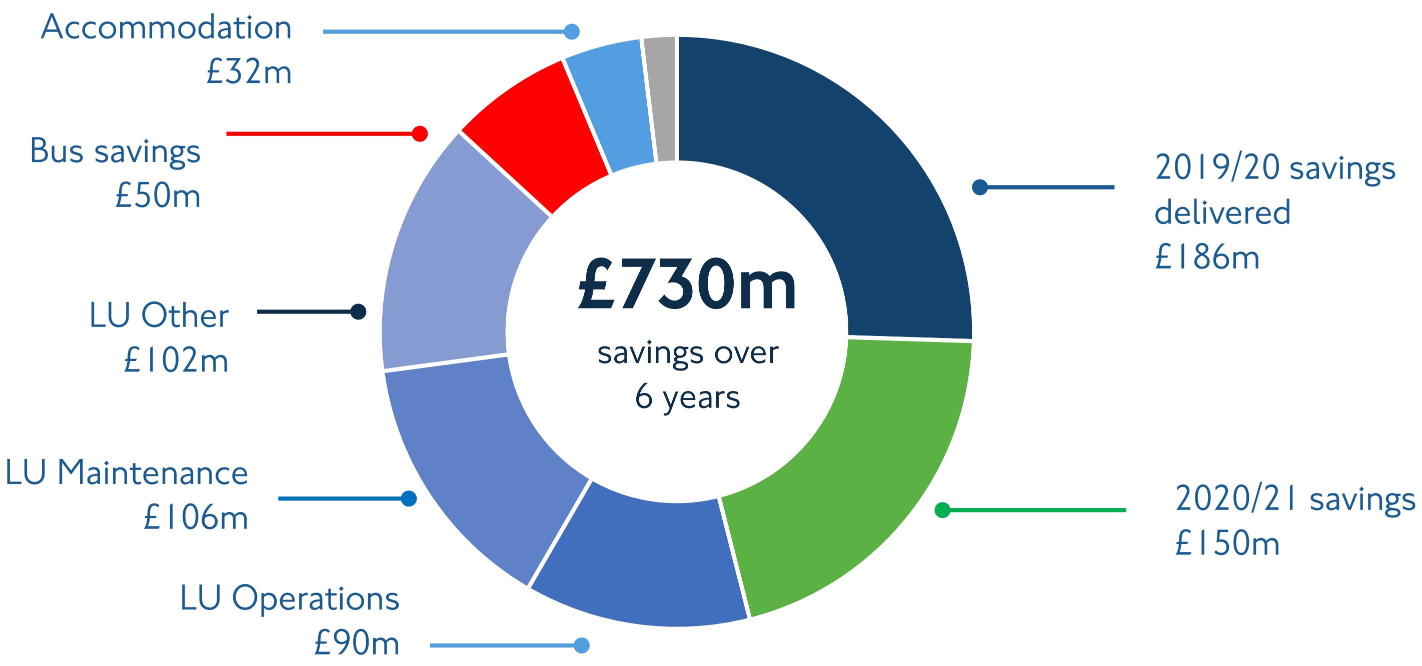


Revenue scenario	Funding Gap H1	Funding Gap H2	Funding Gap FY
December 2020 TfL Budget	(£2.1bn)	(£1.0bn)	(£3.1bn)
December 2020 TfL Budget updated for BRR/Council Tax plus other smaller items	(£2.0bn)	(£0.9bn)	**(£2.9bn)**
Roadmap – 4 steps with no COVID suppression from 21 June	(£1.7bn)	(£0.2bn)	(£1.9bn)
Scenario 1 – 6 weeks delay	(£2.5bn)	(£0.5bn)	(£3.0bn)
Scenario 2 – 6 weeks delay and winter suppression	(£2.5bn)	(£0.7bn)	(£3.2bn)
Scenario 3 – gradual return	(£2.1bn)	(£0.5bn)	(£2.6bn)
Scenario 4 – gradual return and winter suppression (new baseline)	(£2.1bn)	(£0.6bn)	(£2.7bn)
Range of 4 scenarios	(£2.1bn) to (£2.5bn)	(£0.5bn) to (£0.7bn)	(£2.6bn) to (£3.2bn)

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

By the end of 2020/21, we will have delivered c.£540m of recurring and one-off savings (£454m after deducting coronavirus costs incurred), compared to a H2 funding agreement target of £413m

Our savings plans, 2019/20 to 2024/25



The December 2020 TfL (GLA) Budget set out a target to deliver **£730m of recurring savings by 2024/25**; of which **£336m will be delivered by the end of 2020/21** *in addition to one-off savings of £118m**.
Of the remaining £394m recurring savings to be delivered, **£228m is forecast in 21/22 & 22/23**, this includes currently identified risks of almost £150m over this 2 year period.

£228m of recurring savings to be delivered over the 2-year period 2021/22 and 2022/23:

- **LU £171m:** Explore options for maintenance savings including supplier partnership savings, reviewing engineering standards & utilising a data strategy to improve planning.
- **Bus £36m**: reduced tender prices on buses, exploring a range of options that could help continue to reduce bus operating costs, continued review of service.
- **Other savings £21m**: further options on operational savings will be explored across the business including Rail & Professional Services.

** net of one-off coronavirus related costs incurred*

Movements between our December submission to draft GLA Budget to our proposed Budget for 2021/22

2021/22 assumes a funding gap of £2.7bn, a reduction from the £3.1bn set out in our TfL (GLA) Budget. However, this could be between £2.6bn and £3.2bn depending on passenger income.

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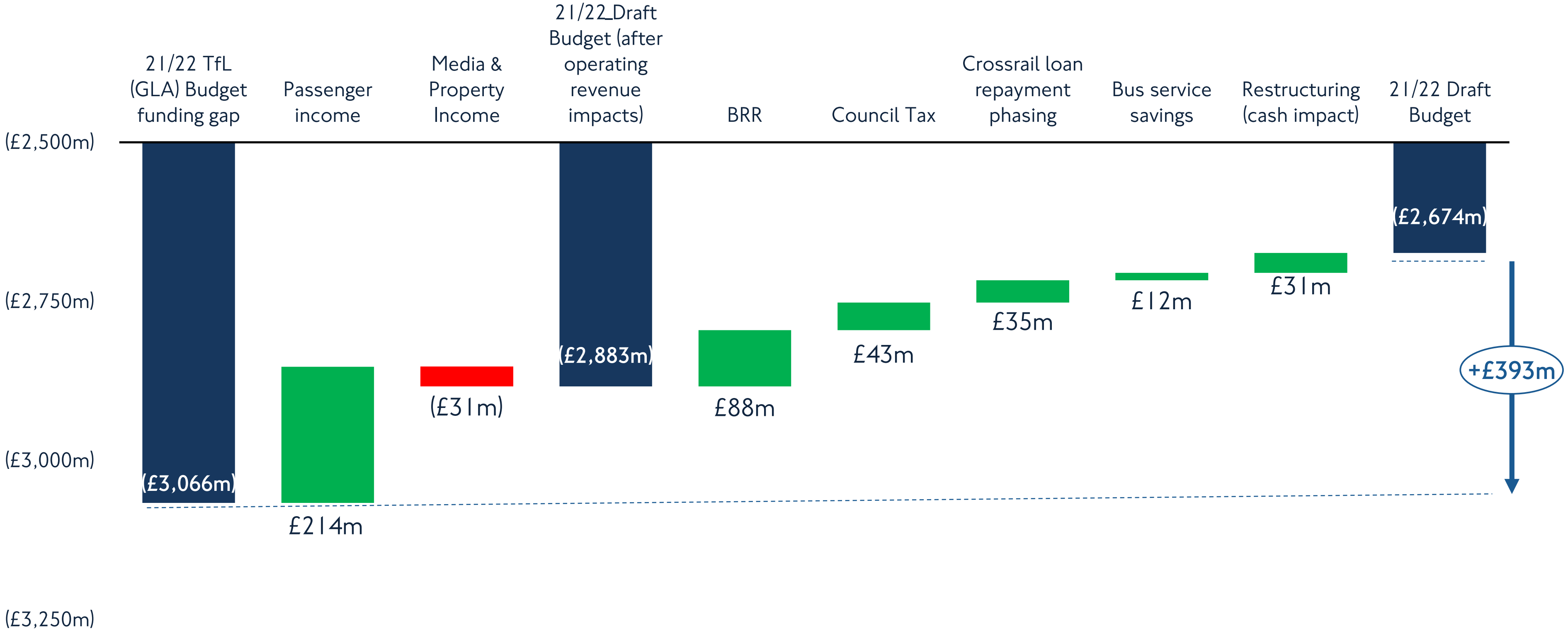
TfL (excluding Crossrail project) funding gap



- The funding gap improves by £0.4bn, however, there is a range of possible outcomes from £2.6bn to £3.2bn depending on how quickly ridership returns under the Government's Roadmap. This is heavily negative in H1 of 21/22 due to a longer lockdown than anticipated in our December 2020 Budget.
- Any funding deal will need to have a mechanism to cover this uncertainty in ridership and thus passenger revenue
- Crossrail capital expenditure and funding profile have also been updated to reflect latest schedule from CRL but do not impact on TfL cash and funding requirement other than the loan repayment show above

TfL Group: Operating Account

Expected current full year out-turn is a deficit of almost £3.8bn before funding and financing support from the Government.

Compared to our forecast in December 2020, this is an improvement of just over £420m driven by higher passenger income and lower operating costs.

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Projections for 2021/22 show an improvement of £200m driven by updated passenger income forecast and favourable business rates retention and council tax precept, leading to a funding support requirement of £2.7bn.

(£m)	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget
Passenger income	4,751	1,606	3,490	4,719
variance yoy		(3,145)	1,884	1,229
variance to TfL (GLA) Budget		126	214	160
Other operating income	1,023	755	1,236	1,992
variance to TfL (GLA) Budget		(13)	(31)	(0)
Total operating Income	**5,774**	**2,361**	**4,726**	**6,711**
Business rates retention	988	969	787	876
Revenue grants	117	112	66	66
Total income	**6,879**	**3,442**	**5,579**	**7,653**
variance to TfL (GLA) Budget		138	320	295
Total costs	**(6,473)**	(6,414)	(7,194)	(7,498)
variance yoy		59	(780)	(304)
variance to TfL (GLA) Budget		264	(153)	4
Direct operating surplus/(deficit)	**407**	**(2,971)**	**(1,615)**	**155**
variance yoy		(3,378)	1,356	1,770
variance to TfL (GLA) Budget		402	166	298
Capital renewals	**(453)**	**(348)**	**(805)**	**(872)**
variance to TfL (GLA) Budget		18	(0)	0
Net financing cost (inc borrowing repayment)	(411)	(440)	(460)	(490)
variance to TfL (GLA) Budget		2	34	(1)
Net costs of operations	**(457)**	**(3,759)**	**(2,880)**	**(1,207)**
variance to TfL (GLA) Budget		422	200	297
Extraordinary revenue grant	**0**	2,447	2,674	1,487
Net surplus/ (cost) of operations after extraordinary grant	(457)	(1,312)	(206)	**280**

Income

- Our revenue scenario reflects the current government road map out of restrictions with 2021/22 ridership averaging two thirds of 2018/19 pre-pandemic demand
- Lower footfall impacts on other income streams such as advertising and property.
- Income growth is primarily driven by ULEZ expansion in October 2021
- Business rates retention remains uncertain with reduced funding expected in 21/22 and 22/23

Operating costs

- 20/21 includes non-repeatable savings made through running fewer services at the height of the pandemic
- Operating costs grow year on year as we add new Elizabeth line services, bring the Northern Line Extension into service, expand ULEZ in October 2021 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 impact of the pandemic in 2020/21

TfL Group: Capital Account

TfL only:

There is a slower ramp up in capital spending due to current uncertainty around future funding.

No new borrowing is assumed from 2021/22 onwards.

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Crossrail:

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

TfL (£m)	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget
New capital investment	(1,084)	(879)	(1,366)	(1,533)
variance to TfL (GLA) Budget		34	0	0
Funded by:				
Business rate allocation	893	910	930	951
Property & asset receipts	173	70	291	320
Borrowings (TfL)	545	602	0	0
Other capital grants	206	127	125	134
Total	1,817	1,709	1,346	1,405
variance to TfL (GLA) Budget		(42)	0	0
Net capital account	733	830	(19)	(128)
variance to TfL (GLA) Budget		(7)	0	0

Crossrail (£m)	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget
New capital investment	(1,026)	(736)	(610)	(193)
variance to TfL (GLA) Budget		65	41	(79)
Funded by:				
Borrowings (CR)	0	677	74	0
Crossrail funding sources	972	72	686	148
Total	972	749	760	148
variance to TfL (GLA) Budget		(72)	(6)	79
Net capital account	(54)	13	149	(45)
variance to TfL (GLA) Budget		(7)	36	(0)

TfL New Capital Investment:

- 20/21 slower ramp up in capital spending due to uncertainty around future funding
- Higher in 21/22 primarily as a catch up of underspend from 20/21

Property receipts:

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

TfL Borrowing:

- No new borrowing assumed from 21/22 onwards

Crossrail:

- Lower expenditure than was expected in December 2020, offset by timing of borrowing requirement which is pushed into 21/22

Supporting London's recovery with a frequent and reliable public transport service will maximise economic activity

Passenger demand is uncertain, but in all scenarios we expect demand to return to a point where the network will be busy again. Committing now to large-scale service changes will stunt recovery, push London to a damaging car-led recovery and not make economic sense

We have made sensible service level reductions which are necessary in the short-term, but to go beyond these at this time will hurt our ability to support the recovery. A safe, clean network with 'turn up and go' service frequencies are our core customer proposition – they are essential in driving the attractiveness of public transport. Erosion of this would reduce revenue and increase use of cars. Maintaining frequent, reliable service levels in the short to medium term will:

Build public and business confidence	• Attract passengers back to the network when the time is right, supporting London's recovery, including the economically vital Central Activity Zone • Support social distancing, especially when attitudes to crowding are different due to the pandemic • Signal to businesses, our supply chain & investors that London will be supported by frequent, reliable public transport **Cutting will tell the world that central London won't be returning to anywhere close to its previous strength, with severe consequences for the whole UK economy and public finances.**
Help achieve Government and Mayoral objectives for a green recovery	• Encourage greater mode shift towards public transport will counteract the dangers of a damaging car-led recovery. Both Rail and Bus services are needed for this. **Cutting services at a time when new journey patterns are being worked out will only encourage more car journeys and more pollution. This will undermine shared TfL and government objectives of promoting cleaner, healthier and safer modes of transportation.**
Make economic sense in the short term	• Direct our resources most effectively - it takes time to reduce service, and the potential savings from it in 2021/22 are minimal, beyond those already made and our planned 4% reduction in bus services phased in from July 2021. • Ensure lower income and BAME communities who rely the most heavily on bus services for connectivity are not disproportionately negatively impacted, which would be likely should there be further cuts to bus services. **Cutting service leads quickly to lost revenue with cost savings coming only over time. In the first few years this is a net cost rather than a saving as our cost base is largely fixed in the short term – for LU in 2021/22, 12% of costs are variable. Furthermore, LU returns to making a surplus in our Budget and FSP time horizon, so with the exception of the changes we have already identified, cutting services will reduce income.**
Make economic sense in the long term	We are planning on the basis of five scenarios, some of which show an increase in demand over the next few years, others a reduction. If it becomes clear that demand has permanently reduced then we will review service levels in light of this. We also do not know how public behaviour may change, including tolerance towards the levels of crowding we were used to pre-pandemic. At present it is too early to make this judgment. **Mothballing assets could turn out to be very expensive if demand recovers.**

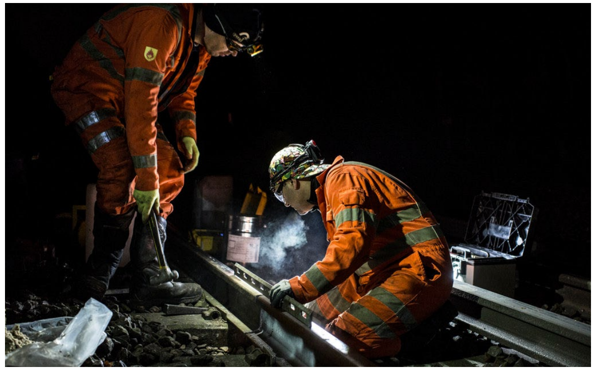
As outlined in our FSP, we have committed to reviewing service levels after October, when we will be better able to make informed, rational choices that reflect an understanding of how London is recovering.

Our Baseline Capital Position

Our proposed Budget includes £2bn of capital investment. This includes asset renewals, where we have a critical need to increase activity to address the backlog of work after pauses / slowdowns of recent years.

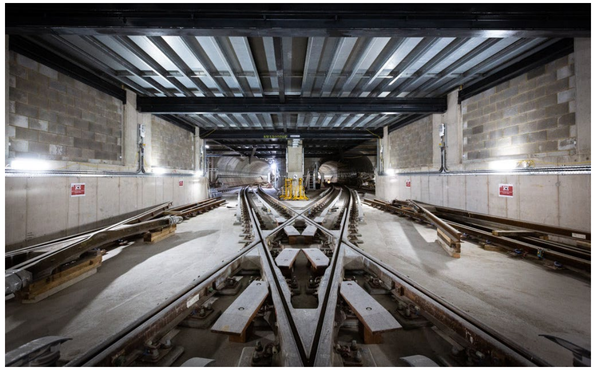
We are also delivering on the key enhancement priorities mentioned here and across many other areas. This positions us to progress towards key MTS aims including Vision Zero, decarbonisation and 80% sustainable mode share.

This page includes the capital element of Healthy Streets (schemes on the TLRN), there is additional funding through operating cost for borough schemes



Capital Renewals

Rebuilding towards a sustainable level. This is essential to maintain safety, operability and reliability after recent slowdowns



Major Projects

Opening the Elizabeth line, Northern Line Extension, Bank upgrade, Barking Riverside, and Silvertown

Better Rail Service

New trains on the Piccadilly line and DLR, completing 4LM and higher frequency on the Jubilee line and East London line

Healthy Streets

£125m p.a. to promote active travel, improve road safety, and improve bus performance

Cleaning Our Air

Expanding ULEZ and investment to install charging facilities in garages for bus electrification

Growth Fund

Investment to unlock new homes and attract 3rd party funding

We agreed a capex prioritisation framework with the TfL Board and DfT in December

This slide summarises the approach to prioritising capital investment we confirmed in December and which was used in the FSP (full definitions of each category available elsewhere). The percentages show the total of our 4-year baseline capex in each category.

Note: contractual commitment is considered separately

Categories	Enhancements	Renewals
Minimum Legal requirements and maintaining safety and operability	**3% of baseline** Projects required to meet legal standards or maintain current level of safety/operability e.g. post-Sandilands tram overturning safety works, ULEZ, Emergency Services Network	**28% of baseline** Essential renewals without which there will be major safety risks or closures within 6-18 months e.g. Westway refurb; our most essential LU track, signalling and fleet renewals to prevent imminent service restrictions
Minimum + Critical work to maintain operability and regulatory improvements	**31% of baseline** Projects supporting critical asset renewals, delivering life-saving safety improvements or strongly financially positive e.g. Direct Vision Standard, Old Street, DLR/Piccadilly replacement trains	**13% of baseline** Renewals to manage reliability and prevent major interruptions to service within 1-3 years e.g. The next round of renewals needed to prevent restrictions in 1-3 years; Central Line traction motor upgrades
Central Maintaining performance and enhancing to progress our most important outcomes	**18% of baseline** Projects that support a green recovery, directly enable new homes, deliver more minor safety benefits or are financially positive over a longer timeframe e.g. most Healthy Streets schemes, Barking Riverside, bus electrification	**4% of baseline** Renewals to manage lower risk issues, maintain asset condition, prevent future backlogs of works and maintain a good customer experience e.g. street lighting renewals where no immediate safety issue noted, track noise mitigation
Desirable Longer-term MTS priorities catering for growth	**2% of baseline** Projects supporting longer-time goals or which increase public transport capacity e.g. unallocated future Growth Fund, Holborn station upgrade, Jubilee line capacity increase	**<1% of baseline** Very little categorised here. Mostly small renewals linked to longer-term customer benefits rather than operability

As part of the H2 funding deal, DfT asked us to look at reducing our capital expenditure by 30%

We have analysed the impact of three different scenarios on our capital investment programme over the next four years to inform our planning in light of funding and financial constraints.

Note the savings shown here are only gross capital expenditure – much of the savings would be eroded by lost revenue, higher maintenance and lost 3rd party funding

Scenario 1: Renewals Protected, Enhancements cut by 10%
-£0.4bn vs TfL (GLA) Budget over 4 years
Rationale: this is aligned to the settlement that Network Rail received in the Spending Review, recognising the importance of renewals

Investment	21/22	22/23	23/24	24/25
Renewals	As per baseline	As per baseline	As per baseline	As per baseline
Enhancements	5% reduction	10% reduction	10% reduction	10% reduction

Scenario 2: Renewals cut by 10% and Enhancements by 20%
-£1.3bn vs TfL (GLA) Budget over 4 years
Rationale: this is in between Scenarios 1 and 3.

Investment	21/22	22/23	23/24	24/25
Renewals	5% reduction	10% reduction	10% reduction	10% reduction
Enhancements	10% reduction	10-30% reduction	10-30% reduction	10-30% reduction

Scenario 3: Full 30% Scenario
-£3.3bn vs TfL (GLA) Budget over 4 years
Rationale: this meets the high point of the specification from DfT funding agreement, from 21/22 onwards.

Investment	21/22	22/23	23/24	24/25
Renewals	20% reduction	20% reduction	20% reduction	20% reduction
Enhancements	20-80% reduction	20-80% reduction	20-80% reduction	20-80% reduction

Our scenarios reflect the legal and regulatory responsibilities we have for safety which must be maintained and complied with. We have reiterated this to DfT.

None of these scenarios are preferable and represent investment levels far below those set out in TfL's long term capital plan scenarios. They undermine the shared priorities of an economic recovery based in active travel and decarbonisation.

Capital scenarios: indicative changes

Note: These pages show indicative changes to demonstrate the magnitude of the impact of these scenarios. These are not definitive and reflect current planning thinking in response to the government's request. Scenarios could be formulated in different ways, but there is no way to reduce investment without large impacts. TfL have clear legal and regulatory requirements in relation to maintaining asset safety and reliability which cannot be compromised. Once an outcome on funding from government is known TfL will need to further review impacts to ensure there are no safety implications. Consultation would be required before implementing changes.

All scenarios would impact operations and put recovery at risk, lead to higher operational and commercial costs. S2 and S3 are entirely unacceptable

Scenario	High level impacts
1. Renewals Protected, Enhancements cut by 10% **-£0.4bn vs TfL (GLA) Budget over 4 years**	Scenario 1 would require a reduction in enhancements, delaying improvements to London's transport network, as well as the economic, social and public health recovery from COVID. This would particularly impact improvements to the road network, with Healthy Streets investment scaled back, increasing the risks of a damaging car-led recovery. Tube and rail enhancements would also be hit, including delaying or cancelling some long-planned Tube frequency enhancements and step-free access schemes, as well as deferring investment in commuter rail infrastructure to enable services to be transferred to TfL. TfL contributions to housing and regeneration schemes would also need to be slowed down. **Scenario 1 forgoes the opportunity to fully support London and the UK in a green, sustainable recovery**
2. Renewals cut by 10% and Enhancements by 20% **-£1.3bn vs TfL (GLA) Budget over 4 years**	Scenario 2 would start to affect current capacity on key Underground lines with a slow down in the fleet Heavy Overhauls, so we would not be able to keep all our trains in service. Procurement of new trains would need to be delayed or scaled back, even where there are commercial agreements in place. One or two major structural renewals on the road network would need to be deferred, potentially leading to closures and restrictions. We would have to reassess schemes designed to support new housing, even where they are part-funded by third parties (including government); and here would be further delays to station upgrades and other regeneration-focused schemes funded through TfL's Growth Fund. London's transport network would not be positioned to support London's economic and social recovery, including putting at risk bus electrification, Healthy Streets investment would be further reduced and deferral of renewals works would make more roads asset closures likely. **This is not a moderate scenario – it would represent a managed decline of London's public transport network**
3. Full 30% Scenario **-£3.3bn vs TfL (GLA) Budget over 4 years**	Scenario 3 meets the requirement from the funding agreement, **but it is not a scenario we would consider implementing**. The impacts would be grossly disproportionate to the upfront financial saving and would represent a fundamental retrenchment of TfL's activities. The reductions in renewals would effectively reduce the capacity of the Underground as not all trains would be available for service. A similar impact would occur on the road network due to the likelihood of restrictions and closures on major multiple structures due to deferral of works. Major commitments would have to be cancelled or re-negotiated. The replacement of rolling stock and signalling on the Underground would effectively stop, only to inefficiently restarted soon after out of necessity. Streets investment would fall to the minimum legally required – vacating TfL's role in active travel, housing development and the post-pandemic social recovery . TfL's own housing development projects would need to be sold. **This scenario would reverse many of the benefits that TfL have built up of over 20 years, including undermining the safety, operability and reliability of the network, endangering London's economic contribution to the UK.**

Risks and Opportunities

We are assuming passenger income is protected in any future funding deal but we still have significant other income risks linked to ridership, uncertainty on business rates retention and pressures on our costs

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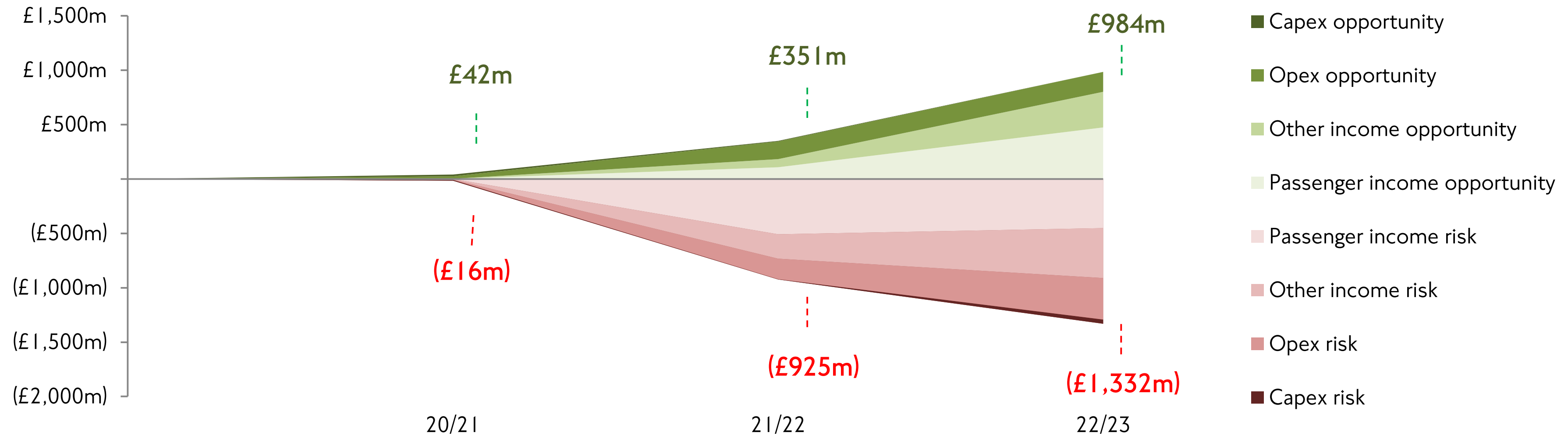
Risks and opportunities for remainder of 2020/21 and next two years



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. Our modelling is aligned to the recent Government Roadmap (Feb 22nd) and suggests a range of +£0.1bn to (£0.5bn) for 2021/22 from our central scenario of a gradual return with a winter suppression.
- There is significant uncertainty around ULEZ expansion on the volumes and compliance levels
- We face uncertainty on Business Rates Retention with the potential for a high level of appeals and refunds related to 2020/21. We have no certainty whether this will be underpinned by the Government.

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

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Board

Date: **16 March 2021**

Item: **TfL Scorecard 2021/22**

This paper will be considered in public

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that this item should be considered as a matter of urgency. Members need to approve the Scorecard, which draws on information in the Budget, before the start of the new financial year. The development of the Budget was impacted by the ongoing discussions with Government on securing further funding.

1 Summary

1.1 The 2021/22 TfL scorecard has been developed which continues the focus of the second scorecard for the second half of the financial year 2020/21 scorecard, to support the continued recovery of the organisation and the city from the coronavirus pandemic. This means maintaining our focus on the key priorities that are critical to us as a business in the current environment: prioritising safety across our network and carving out a path to financial sustainability. We are determined to do this while continuing to provide travel services to support London's public health and economic recovery, encouraging customers back on to our network and pivoting our capital investment to green recovery.

1.2 The targets in this paper are aligned to the assumptions in TfL's draft 2021/22 Budget. As there is currently no detailed funding agreement yet in place with government for the coming financial year, these Budget assumptions might change. If the assumptions are materially different then it may be necessary to return to the Board and seek approval for changes to relevant targets.

2 Recommendations

2.1 **The Board is asked to note the paper and:**

(a) approve the 2021/22 TfL scorecard; and

(b) note the approach to managing changing assumptions through 2021/22.

3 2021/22 TfL Scorecard

3.1 In response to the pandemic, our priority remains to provide safe travel services at levels that will support social distancing, public health and subsequently, London's economic recovery.

3.2 The 2021/22 TfL scorecard is focused on providing the maximum service possible and improving the reliability of our service to continue to support London's public health, London's economy and our recovery, enabling customers to return to our network as it is safe to do so, and encouraging walking and cycling for shorter journeys to discourage a car-led recovery.

3.3 Safety is paramount to running a service and encouraging customers back onto our network. Our goal remains to run normal London Underground (LU) service levels and improve the reliability of our bus service, as traffic returns. We will be doing this against a backdrop of an increasing renewals backlog and continued degradation in the condition of our assets. As such we need to continually monitor the condition of our assets and have introduced a measure onto the scorecard this year to ensure that there is full visibility of pan-TfL asset condition for the Board and TfL's Executive.

3.4 The safety and wellbeing of our workforce and customers continues to be our top priority, with a continued focus on the number of fatalities and serious injuries on the road network and on public transport. As many of our people are currently working from home, we will be focussing on the mental health and wellbeing of our people and striving to make the organisation a more inclusive place in which to work.

3.5 We are committed to reducing carbon emissions across all our operations and we will be tracking this through 2021/22.

3.6 All activity will be underpinned by strict financial management to preserve our liquidity and to keep our operating and capital costs within the 2021/22 Budget.

Link between the scorecard to the Mayor's Transport Strategy (MTS)

3.7 The MTS continues to be TfL's guide to the transport outcomes it delivers for the city. While the 2021/22 scorecard is grouped around corporate themes, many of the metrics strongly support the delivery of MTS outcomes. This includes a focus on Vision Zero (through the safety metrics), net-zero carbon emissions (through the carbon emissions metric), as well as the importance of public transport and avoiding a car-led recovery (directly through passenger journeys, and indirectly through supporting metrics on operational reliability / availability and customer care). The delivery metrics also ensure that the infrastructure enhancements needed to progress the outcomes are delivered on time.

3.8 The annual scorecard alone has limitations in tracking progress towards a long-term transport strategy. TfL will continue to optimise progress against the MTS outcomes through reviewing progress against MTS outcomes and reflecting this in the prioritisation of its investment programme. Additionally, TfL will create a separate MTS tracker by autumn 2021 which assesses status against outcomes and sets out medium-term trajectories against the long-term goals set out in the Mayor's transport strategy. This would provide the MTS outcomes with greater visibility to inform TfL's decision making, while being separate from the scorecard, which acts as an in-year performance management tool. Meaningful progression towards these long-term outcomes – many of which are shared local and national priorities – requires long-term sustainable funding.

Purpose: Continue to drive both London's recovery and future success and that of our organisation		
Theme	**Aim**	**Target**
Safety	Continue progress towards 2022 Vision Zero goal	**0.43** or fewer people killed and seriously injured in road traffic collisions per million journey stages
	Ambition that nobody is killed or seriously injured on our transport network	**2.54** or fewer customer injuries per million passenger journeys and **233** fewer workforce injuries on 2019/20
Operations & Carbon	Maximise Underground service levels and manage the reliability of the Bus service to continue to support recovery	**91 per cent** of Underground service delivered compared to timetable, and manage average Bus journey similar to 2019/20 levels
	Maintain the condition of our assets to ensure safety, reliability and operability	**77 per cent of our assets achieving State of Good Repair** and being managed against an increasing level of renewals debt being accumulated, in 2021/22
	Encourage a carbon-conscious culture on the road to net zero emissions	**11 per cent reduction** in carbon emissions on 2019/20, down to **915 ktonnes CO_2e**
Customer	Continue to provide customer confidence in our services	**56 per cent** of Londoners agree we care about our customers
	Encourage customers back on to our safe network, away from a car-led recovery	**Increase** ridership on our transport network in line with our Budget
People	Improve engagement across our people, embed an inclusive culture and strive for equality Monitor the wellbeing and mental health of our people	**Maintain 2020 level** Total Engagement at **62 per cent**
		2 percentage point increase in the level of our people feeling involved, included and safe at work, up to **54 per cent**
		2 percentage point increase in the overall wellbeing of our people, up to **59 per cent**
Delivery	Continue delivery of our Investment programme to support economic recovery	Achieve at least **90 per cent** delivery of our milestones
	Trial operations to commence on the Elizabeth Line, to unlock pathway to passenger service	Commence Elizabeth line **trial operations by October 2021**, to ensure readiness for passenger service
	Complete the Northern Line extension	Northern Line extension **complete by September 2021**
	Commence operation of the expanded ULEZ, to contribute to London's green recovery	The expanded ULEZ **operational from 25 October 2021**
Finance	Preserve our liquidity and control costs	Maintain our liquidity above **£1.2bn** **Do not exceed budget** for operating costs and capital expenditure

4 Detail on Measures and Targets

4.1 The majority of measures are consistent with TfL's current scorecard. New or altered measures are summarised in this section. Stretching but realistic targets have been developed against these measures by considering recent trends and management actions that can be taken to in-year to influence these metrics, as well as other factors outside TfL's control that could impact performance.

4.2 If there are material changes to the scorecard during the financial year, we will manage these through the change control process:

(a) for the TfL scorecard, the Board will review and approve any changes.

(b) for divisional scorecards, the Commissioner and Chief Finance Officer will review and approve any changes.

Safety measures

4.3 The ‘road safety KSIs’ and ‘customer all injuries’ measures are normalised by journeys and displayed as rates, to allow comparability with historic trends and mitigate the impact of unpredictable demand levels. The ‘workforce all injuries’ measure is unaffected by demand levels and is recorded as absolute numbers as our services and construction works are being run at full capacity, despite accommodating the impact of the coronavirus pandemic on our workforce and supply chain.

Passenger journeys – (Tube, bus, Surface Rail, TfL Rail)

4.4 The passenger journey metric will measure the number of passenger journeys across our public transport network: Tube, bus, London Overground, DLR, trams and TfL Rail, as this is key to measuring the health of London’s recovery, TfL’s recovery and therefore our revenue. It will be influenced by our proactive measures to create a safe environment and encourage our customers back on to our network: enhanced cleaning regimes, air and surface sampling in stations and trains and periodic inspection and maintenance of LU ventilation systems.

Carbon Emissions Measure

4.5 To demonstrate our commitment to addressing the global climate emergency, we will continue to measure emissions across the whole of our operations. We will measure the levels of carbon emitted from burning fuel on buses and the Dial-a-Ride fleet, as well as our direct electricity usage through LU, rail and our buildings.

Asset Condition Measure

4.6 TfL is responsible for maintaining the safety, operability and performance of its transport infrastructure across a broad range of asset classes. This requires close monitoring, especially after several years of lower renewals levels. We have introduced a new asset condition metric that will track the condition of our assets and show us the impacts of our investment decisions at senior management level, thereby providing a route to deep-dive discussions at divisional level. We have introduced it as a zero-weighted metric to recognise its experimental status, but to provide visibility to the Board and TfL’s Executive. The 2021/22 target will reflect the outcome of our affordable, budgeted interventions and the increasing level of renewals debt being accumulated on some asset groups; however, the exact target is dependent on the final agreed Budget.

Wellbeing and Inclusion Measures

4.7 In addition to measuring how engaged our people feel with working life at TfL, we will be monitoring the wellbeing and mental health of our people and tracking the progress of our work on embedding inclusive cultures, behaviours, line management, systems and processes. This will be crucial to ensuring our people feel supported during these uncertain times.

Service Delivery Measures

4.8 We are focusing on bus and Tube service delivery as these services account for around 90 per cent of TfL journeys, while rail performance will continue to be monitored on the respective divisional scorecards.

4.9 For Buses, we will be measuring the bus journey time which is an accumulation of all the elements of a customer's journey experience, measured in minutes. It is calculated for all high frequency routes and in 2021/22 it is expected to be influenced by seven main drivers: number of bus kilometres scheduled and operated, driver absence, road traffic volumes, passenger demand, reduced bus speeds due to the impact of school return and uncertainty linked to the pandemic. The measure will enable us to monitor the performance of our bus service from the perspective of our customers, which will help us to better understand how to encourage customers back on to our network.

4.10 For LU, we will be measuring the percentage of our scheduled service that we operate. This remains the most meaningful measure to support our continued aim of providing the maximum service available to support social distancing measures. The vaccine roll-out is likely to support the achievement of this metric by reducing absence rates, however there are significant resourcing challenges, especially for train operators due to the hire-to-licence period restricting the number of new operators available, annual leave backlog and ongoing retirement.

5 Weightings

5.1 The weightings in the TfL scorecard reflect the importance of our financial management and delivery, and safety as our continuing number one priority. Engagement and wellbeing of our people are also critical, and we are determined to support customers back on to our network in a safe way. Our rationale for the specific measures within these pillars is broadly as follows:

(a) primary weightings – measures allocated 10 per cent each, including the combined operational metric split by mode (Tube and bus);

(b) secondary weightings – measures allocated 5 per cent each, as they tend to support the primary measures; and

(c) other – measures allocated 2.5 per cent because they are more difficult to control in year (i.e. carbon) or are influenced by a smaller number of employees (e.g. the specific public-facing milestones).

6 Supporting Information

6.1 Full details on the measures, targets and weightings can be found in appendices 1, 2 and 3 respectively. Divisional scorecards for LU, Surface Transport, Commercial Development and Major Projects will be approved by the Commissioner and the Chief Finance Officer. Proposed measures contained on divisional scorecards are included in Appendix 4.

List of appendices to this paper:
Appendix 1: Proposed measures and rationale
Appendix 2: Proposed targets, floor targets and rationale
Appendix 3: Proposed weightings and rationale
Appendix 4: Draft divisional scorecards
List of Background papers:
None

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Appendix 1: Proposed measures and rationale

Measure	Metric description	Rationale for inclusion
Safety, Operations and Carbon		
People killed and seriously injured in road traffic collisions per million journey stages	This is an established metric and it is displayed as a risk rate (per million journey stages) to allow comparability with historic trends and to mitigate the impact of unpredictable demand levels.	Our ambition is that no one is killed or seriously injured on the transport network. This metric allows TfL to closely monitor safety levels and measure progress in achieving our objective of facilitating London's economic recovery.
Customers all injuries per million passenger journeys	This is an established measure which is also displayed as a risk rate (per million passenger journeys) to mitigate the impact of unpredictable demand levels during the pandemic. It is normalised by the number of journeys travelled across our different modes - LU, bus, LO, DLR, Trams and TfL Rail.	Keeping our workforce and customers safe remains our top priority, in line with Vision Zero and will be a focus as TfL goes through its second round of funding.
Workforce all injuries	This measures all injuries experienced by our workforce and it excludes injuries arising from medical issues and intentional self-harm. It is displayed as an absolute number of injuries, reflecting that our services and construction works are being run at full capacity, despite accommodating the impact of coronavirus on our workforce and supply chain.	
% of normal LU service delivered (compared to LU timetable)	This measures the percentage of our scheduled services that we operate, compared to the LU timetable. We aim to provide the maximum service possible to enable social distancing on the tube, as the pandemic continues.	One of our key priorities is to continue to support public health by delivering a service that ensures public transport is not a constraint on public health or the economy.
Bus customer journey times (minutes)	This metric provides a measure of bus performance and the customer journey experience. It is the average bus journey time perceived by customers, weighted by demand and is described in weighted minutes, to reflect passengers' differential perception of the time taken to wait for and travel on a bus, including the experience of crowding, interchanges and (un)reliability. It will enable us to monitor the performance of our bus service from the perspective of our customers, and it will help us to understand which levers need to be influenced to improve it.	One of our key priorities is to encourage customers back on to our network. This metric will enable us to monitor the performance of our bus service from the perspective of our customers, giving us better insight into how to encourage customers back on to our network.
CO_2 emissions from TfL Operations & Buildings (tonnes CO_2e)	This is a metric that we have retained on the scorecard as a demonstration of our commitment to addressing the global climate change emergency. It measures the level of emissions across the whole of our operations - burning fuel (Buses, Dial-a-Ride fleet) and our direct electricity use (our buildings, LU, Rail). LU energy and Buses emission forecasts are aligned to % service operated and revised budget operated km targets respectively, while electricity usage, gas and support fleet emissions assume 2020/21 levels.	The purpose of this is to track and show the TfL-wide carbon decreases that we intend to achieve, keep us on track of the commitments and in the long-term, encourage a carbon-conscious culture.
Asset condition – State of Good Repair (%)	This is a pan-TfL metric that will show the impact of our investment decisions and can directly inform other key planning activities. The metric will provide an overall State of Good Repair (SOGR) score and a view of the movement of selected asset groups that will be representative of pan-TfL services and networks. It has been introduced it as a zero-weighted metric to recognise its experimental status, but to provide visibility to the Board and Executive. Reporting will be quarterly with the intention to reassess, to ensure frequency is suitable for level of in-year movement.	It will show the impact of our investment decisions at Executive level and provide a route to deep-dive discussions at divisional level. It will also provide transparency to a key part of TfL's management responsibility.
Customer		
Percentage of Londoners who agree TfL cares about its customers (%)	This is our key customer metric which tells us how well we are meeting our customers' expectations during every interaction with us, not just their last journey experience. In response to the pandemic, it is providing an insight into our customers' perception of how we are responding to the pandemic. To enable these, there are specific questions that ask customers about how we are responding to the pandemic.	Meeting our customers' expectation of providing safe travel services, especially in a prolonged crisis, is very critical to ensure we can encourage our customers to return to our network.
Passenger journeys (Tube, Bus, Surface Rail, TfL Rail), compared to pre-COVID	This will measure the number of passenger journeys across our transport network: Tube, Bus, London Overground, DLR, Trams and TfL Rail, as a way of measuring the health of our recovery and therefore our revenue. It will indicate the progress of our efforts at proactively providing a safe environment through social distancing measures, enhanced cleaning regimes etc. It will also indirectly inform our efforts at preventing a car-led recovery.	It will enable us to measure the health of recovery and therefore our revenue.
People		
Viewpoint Total Engagement (%)	This measures the different aspects of people's working lives to give a holistic measure of what it's like to work here and where we need to improve – engagement with work, management, change and leadership, customers, team and wider business and brand.	As many of our colleagues are working from home, ensuring that they are engaged with working life at TfL despite the uncertain times, is a key priority.
Inclusion index (%)	This will be the key measure of progress for diversity and inclusion in our organisation. It measures how staff feel about the inclusiveness of TfL's cultures, behaviours, line management and systems and processes. We launched our anti-racism charter in February 2021 and in 2021/22, we will be implementing other measures: anonymous CVs, development of People and Diversity and Inclusion plans in many departments across the organisation and the 'Inspiring a Fairer Future' sessions, the content of which will inform Action on Inclusion, our new Diversity and Inclusion strategy.	Inclusion, alongside diversity, is a key focus for TfL; this will continue in 2021/22. This is one of the reasons why it is crucial to focus on and monitor the progress of our work on embedding inclusive cultures, behaviours, line management and systems and processes across our organisation.
Wellbeing index (%)	This metric will help us to understand our people's mental and emotional wellbeing. It will help us to understand how our people feel about the support they are receiving from the organisation, their managers and colleagues, how much say they have in the way they do their work, workload demands, relationships with their colleagues and how change is managed within the organisation.	A significant effort has gone into supporting people's health and wellbeing during the crisis and homeworking, with the provision of various resources – 'Tea and talk sessions', Mental Health Awareness at Work training etc. This focus will continue into 2021/22.

Measure	Metric description	Rationale for inclusion
Finance		
Maintaining liquidity	This is essential, to track our cash position and indicate where management action is required to keep TfL operating above minimum cash levels. On the scorecard cascade, this will be tracked and targeted through adherence of operating and capital costs to the Budget.	Our cash position is key to us being sustainable during this extended period of uncertainty. It will give our external stakeholders, lenders and credit agencies confidence in our ability to live within our means and generate enough cash flow to service existing debt, and cover the cost of day to day operations.
Opex vs budget **Capex vs budget**	This is to ensure we control our operating and capital costs in line with the 2021/22 budget.	Strict management of our capital and operating expenses is an essential priority for 2021/22.
Delivery		
Investment Programme Milestone delivery	The delivery of our Investment programme is vital to stimulate the economy and support our supply chain. To that end, construction is safely ongoing on our major projects. This measures the delivery of project milestones up to the end of the financial year.	This is an established scorecard measure and given the extended uncertainty, we will need to monitor it as we enter the second round of funding, given these projects play a vital role in stimulating the economy and supporting our supply chain.
Elizabeth line: Trial Operations	Trial Operations is the final phase of Intensive Operational Testing, which is vital to unlocking the pathway to passenger service. Trial Operations will involve people being invited onto trains and stations, to test real-time service scenarios to ensure the readiness of the railway.	This has been kept as an individual delivery milestone to reflect both the size and importance of the project to TfL and London, in increasing capacity and improving accessibility across the rail network and unlocking growth in London.
ULEZ expansion	The aim of the expansion of the Ultra Low Emissions Zone is to reduce carbon emissions in London. Four out of five cars already meet the ULEZ emissions standards, but this push will ensure that owners of older polluting cars, motorcycles, lighter vans and minibuses will act.	This measure will play a critical role in our future funding and London’s green recovery. Its successful delivery will strengthen our funding position as we enter negotiations over the second funding deal with the government.
Northern line extension	The Northern line extension between Kennington and Battersea will help regenerate the Vauxhall, Nine Elms and Battersea areas by supporting new jobs and homes.	This project will contribute to London and the UK’s wider recovery from the pandemic, by unlocking the homes and jobs that London needs.

Appendix 2: Proposed targets, floor targets and rationale

Measure	Target	Target rationale	Floor target	Floor target rationale
Safety, Operations and Carbon				
People killed and seriously injured in road traffic collisions per million journey stages	0.43 KSIs per million journey stages	The Road KSI risk rate has fluctuated considerably in 2020/21 due to the impact of the pandemic, local and national restrictions and changes to travel behaviour: significant reduction in journey stages, changes in modes being used and response to changing road conditions (e.g. less congestion, more space provided to enable social distancing through Streetspace). We are continuing to deliver priority areas of Vision Zero Action plan throughout 2021/22, but these have had to be adapted in part, in order to respond appropriately to changes we have seen and will continue to see, post-pandemic. Absolutes and fatalities will be called out in the commentary, to ensure adequate focus.	0.45 KSIs per million journey stages	The floor targets assume a potential marginal decrease in performance in recognition of the likely sharp return to the network by passengers and traffic, in light of future lockdown relaxation leading to uncertain outcomes.
Customers all injuries per million passenger journeys	2.54 per million passenger journeys	The target assumes safety intervention schemes are maintained at current levels. In 2021/22, customer safety plans are focussed on influencing behaviour which should contribute to reducing the number of injuries but may not create a step change due to the wider uncertainty around the pandemic and the greater focus on higher risks in LU: fire safety and track access. Some planned 2021/22 interventions include rollout of the Bus safety standard, enabling processes like review of the SHE management system to improve risk management and improved reporting. Absolutes and fatalities will be called out in the commentary, to ensure adequate focus.	2.65 per million passenger journeys	
Workforce all injuries	1,792	Historic trends show that workforce injuries are increasing on the Tube but decreasing on the Surface modes. In LU, there will be a continued focus on influencing behaviour and culture as behaviour has been recognised as a significant factor in injuries, accounting for over 60 per cent of colleague injuries. These interventions will be integrated into the LU People plan. E.g. roll out of FAIR (culture where people are treated with equal value and are not blamed for mistakes and mistakes are viewed as learning opportunities), delivery of Asset Operations Safety Awareness Days etc. In Surface there are planned interventions, detailed within the Surface Safety summary plan, to manage the common causes of injuries (slip, trip, falls, assaults). These include the work of CPOS to address assaults on staff. Absolutes and fatalities will be called out in the commentary, to ensure adequate focus.	2,090	This target represents a reduction in performance in line with pre-pandemic trend due to post pandemic risk factors: potential impact of funding settlement on operations, return to work / fatigue / distraction after the pandemic and potential reduced focus on colleague safety plans due to focus on LU organisation changes (specific to LU).
% of LU service delivered (compared to LU timetable)	91%	The target represents an overall improvement on 2020/21, with a forecast end of year performance of 82 per cent. Despite some positive trends (vaccine rollout, reduced customer incidents due to lower demand), risks include resourcing challenges around driver availability which is due to the hire-to-licence period restricting the number of new drivers available, annual leave backlog and ongoing retirement. The target is intended to drive performance and continue recovery towards a pre-pandemic service level.	84%	Although we expect some improvement on 2020/21, we acknowledge that there are significant risks to monitor/mitigate around resourcing (training, A/L backlog, NLE closures and training), potential lockdown next winter and uncertainty around the assumed level of demand.
Bus customer journey times (minutes)		To be presented at meeting – target being updated to account for latest demand forecasts		To be presented at meeting – floor target being updated to account for latest demand forecasts
CO_2 emissions from TfL Operations & Buildings (ktonnes CO2e)	915	The target represents a 11 per cent reduction on 2019/20 emissions. Buses emissions are based on current electrification assumptions while energy consumption from Rail modes are based on 2019/20 data rather than 2020/21, due to the impacts of reduced service levels on energy consumption. Energy use from head office buildings emissions are likely to be lower than current forecast if low building occupancy occurs for a prolonged period during the year.	950	The floor target is conservative to allow for the level of uncertainty over emissions and operated kilometres. It assumes 4 per cent more carbon emissions than the target, is observed in 2021/22.
Asset condition – State of Good Repair (%)	77%	The target is aligned to the maintenance and renewal spend in the 2021/22 budget and reflects the outcome of our affordable, budgeted interventions and the increasing level of renewals debt being accumulated during the year, on some asset groups.	75%	The floor target recognises that this is a developing measure and that there may be movements as the measure matures. A sensitivity analysis has been undertaken to inform the floor target.
Customer				
Percentage of Londoners who agree TfL cares about its customers (%)	56%	The Care metric has performed consistently well throughout the 2020 uncertainties, with a current H2 score of 57 per cent against the H2 target of 55 per cent. In 21/22, various factors may come into play – positive impacts on perception through TfL securing a long-term funding deal, transformative projects (EL, NLE), potential negative impacts through restrictions still limiting ridership and customer confidence, fares increase in March. The target is to maintain a score slightly below the H2 current score.	53%	The floor target assumes a scenario where the negative factors outweigh the positive factors to negatively impact our customers' perception of us.

Measure	Target	Target rationale	Floor target	Floor target rationale
Passenger journeys (Tube, Bus, Surface Rail, TfL Rail), compared to pre-COVID	67% of 2018/19 demand	The target is a comparison of our 2021/22 forecast demand of 2.7bn passenger journeys, to the 2018/19 demand level of 4bn passenger journeys. The 2021/22 forecast assumes a gradual recovery in certain journey types such as office workers and leisure on our network as well as a winter suppression due to a potential resurgence of the virus and the likelihood that people will exhibit additional caution during cold and flu season. The target reflects our ambition to encourage customers back on to our network in 2021/22 through pro-actively providing a safe environment through social distancing measures, enhanced cleaning regimes etc.	60% of 2018/19 demand	The floor target represents the most cautious of the four demand scenarios modelled around the Government's roadmap, which assumed a six-week delay in restrictions being lifted at each of the three steps in the Government's recovery roadmap, as well as a winter suppression.
People				
Viewpoint Total Engagement (%)	62% Maintain 2020 score	Total engagement jumped from 57 per cent in 2019 to 62 per cent in 2020. We should solidify this momentum and set this as our new benchmark. This is ambitious, but planned engagement activities during 2021/22 around Our Vision and Values and Diversity and Inclusion should help make this possible. Given the target already contains stretch, the floor is set at 2019 level.	57% Maintain 2019 score	The floor target assumes no change in the 2019 Viewpoint result in H2, while a decrease is unacceptable.
Inclusion index (%)	54% 2.0 % points improvement	We have been focussed on our ambition for equality across the organisations with the 'Inspiring a fairer future' sessions being a key example. This focus continues into 21/22 and as a result, a 2 per cent improvement on the current Inclusion score is expected.	52% Maintain 2020 score	The floor target assumes no improvement in the 2020 Viewpoint result, while a decrease is unacceptable.
Wellbeing index (%)	59% 2.0 % points improvement	We have been focussed on the mental health and wellbeing of our people during these uncertain times, with various resources available to facilitate this (Tea and talk sessions, supporting colleague network etc). These will continue into 21/22 and as a result, a 2 per cent improvement on the current wellbeing score is expected.	57% Maintain 2020 score	The floor target assumes no improvement in the 2020 Viewpoint result, while a decrease is unacceptable.
Finance				
Maintaining liquidity	£1.3bn	The target is to remain above our minimum cash level which is enough to cover approximately two months of operating expenditure in the event of an external shock and offers reassurance to our external stakeholders and credit agencies.	We cannot fall below target	There is no floor target for this as we simply cannot fall below £1.2bn at any period end date.
Opex vs budget	£7,194m	The target is not to exceed the 2021/22 Budget.	Must be under budget	Our operating expenses can be under Budget to be on target but not over Budget.
Capex vs budget	£2,171m	The target is not to exceed the 2021/22 Budget and not to be more than 3 per cent below Budget.	Up to 3% under Budget	Our capital expenditure can be less than Budget by up to 3 per cent and still achieve full target.
Delivery				
Investment Programme Milestone delivery	90%	These are the top-level TfL milestones for completion by the end of period 13. A target of 90 per cent reflects the importance of achieving each milestone on time.	75%	The floor target has been increased to 75 per cent to increase the level of ambition for our milestone delivery.
Elizabeth line: Trial Operations	October 2021	It is the final phase of Intensive Trail Operations, which is vital to unlocking the pathway to passenger service and is a key enabler for ensuring readiness for passenger service.	January 2022	Critical that this milestone is met on time, as it is one of the key enablers for the programme opening for passenger service.
ULEZ expansion	25 October 2021	This plays critical role in our future funding and London's green recovery. Its successful delivery will strengthen our funding position with the government.	Pass/Fail	It is critical that this milestone is met on time. The specific date is already public.
Northern line extension	September 2021	It is crucial for regeneration in the Vauxhall, Nine Elms and Battersea areas.	October 2021	It is significant to London's recovery, given the ongoing pandemic. The limited time between the target and floor target represents the current understanding of project risk.

Appendix 3: Proposed weightings and rationale

Internal theme	Metric	2021/22 weighting	Rationale
Safety	Road KSI rate (by passenger journey)	10.0%	KSIs and C&W primary measures - 10% allocated.
	Customers all injury rate (by passenger journey)	5.0%	
	Workforce all injuries	5.0%	
Operations & Carbon	Availability: % of LU service delivered (vs. LU timetable)	5.0%	Operational performance primary measures receiving 10% in total. Carbon less within control so 2.5%, asset experimental measure so 0%.
	Reliability: Bus Journey Time (minutes)	5.0%	
	Asset condition: State of Good Repair (%)	0.0%	
	Carbon emissions from TfL Ops & Buildings	2.5%	
Customer	% Londoners who agree we care about our customers	10.0%	Care primary measure at 10%, passenger journeys secondary at 5%.
	Passenger journeys (Bus and Tube)	5.0%	
People	Total engagement (%)	10.0%	Engagement primary measure at 10%, other measures secondary at 5% each.
	Inclusion Index (%)	5.0%	
	Wellbeing index (%)	5.0%	
Delivery	Investment programme milestone delivery	5.0%	All milestones are important - overall IP allocated 5% with public facing measures receiving 2.5% each. Specific milestones influenced by smaller number of employees.
	Elizabeth Line milestone	2.5%	
	Northern line Extension	2.5%	
	ULEZ expansion	2.5%	
Finance	Maintaining liquidity	10.0%	Maintaining liquidity primary measure at 10% with capex and opex secondary at 5% each.
	Capex vs budget	5.0%	
	Opex vs Budget	5.0%	

Appendix 4: Draft divisional scorecard measures

London Underground scorecard

Pillar	Measure
Safety and Operations	Colleagues – all injuries
	Customers - all injuries
	Service Operated % (all week)
Customer	Care #1 driver question: “LU supports customers when things go wrong”
People	Viewpoint – Engagement with Management
	Workforce Representative Index - B3 and above
	Absence
Finance	Capex vs Budget
	Opex vs Budget
Delivery	Capital Milestone Delivery (LU & Elizabeth line)

Surface scorecard

Pillar	Measure
Safety	General Public - Killed or Seriously Injured Risk Rate
	General Public - Total Killed or Seriously Injured
	Customers - Total Injuries
	Customers - Injury Risk Rate
	Workforce - Total Injuries
Customer	Time Saved for Pedestrians, Cyclists & Bus Passengers at Traffic Lights
	Passenger Journeys (Bus, LO, Trams, DLR) as a % of pre-COVID levels
	Bus Care (score)
Operations	Bus Journey Time
	London Overground - Time to 3
	Roads Disruption
People	People Delivery Milestones
	Total Engagement
	Inclusion Index (score)
	Wellbeing Index (score)
Affordability	Opex vs Budget £m
	Capex vs Budget £m
Delivery	Surface Milestone Delivery including ULEX

Major Projects Directorate Scorecard – Draft measures, not finalised

Pillar	Measure
Safety	Killed or Seriously Injured
	Accident Frequency Rate (number RIDDOR's / 100,00 hours worked)
	Workforce injuries
Customer	Deliver Tier 1 and Tier 2 strategic milestones on time
People	Engagement index
	Inclusion Index
	Wellbeing Index
Financial	Capex actual spend within 21/22 Budget
	Opex spend within 21/22 Budget

Commercial Development Scorecard

Pillar	Measure
***Safety, Operations and Carbon**	Total Killed and Seriously Injured
	Documentary evidence complete for Statutory testing
	GRESB – Property Development (PD)
	Urban Greening Factor
	% Reduction in Lifecycle Carbon Emissions - PD
	% of SDF Information Reporting - PD
Customer	Overall Customer Satisfaction
People	Total Engagement
	Lost work time due to injury, sickness or mental health (%)
	GLA Diversity Measure
	Volunteering (number of hours)
Finance	Net Operating Surplus
	Capital Receipts
	Capital Expenditure
	Property Operating Margin
Delivery	% Affordable homes start on Sites
	Number of homes start on sites

*More Safety & Risk measures to be added, still under development

Board

Date: **16 March 2021**

Item: **TfL Prudential Indicators 2021/22 to 2023/24**

This paper will be considered in public

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that this item should be considered as a matter of urgency. Members need to approve the Prudential Indicators, which draw on information in the Budget, before the start of the new financial year. The development of the Budget was impacted by the ongoing discussions with Government on securing further funding.

1 Summary

1.1 This paper sets out the proposed TfL borrowing limits and other Prudential Indicators under the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code (the Code), which are consistent with the proposed Treasury Management Strategy for 2021/22 and the principles underpinning the proposed long-term TfL Capital Strategy. These limits and indicators are based on figures in TfL's Budget and Business Plan as approved by the Board on 9 December 2020, adjusted for known significant changes in assumptions relating to revenue, cost and funding where relevant, and which are subject to assumptions on future government funding, as noted in paragraph 1.4 below.

1.2 Under the Prudential Code, TfL is required to adopt Prudential Indicators which support decision making on planned capital expenditure, borrowing and treasury management activities. The proposed Prudential Indicators for 2021/22 and the following two years are attached to this paper as Appendix 1. In line with guidance from CIPFA, Treasury Management Indicators are shown separately in Appendix 2.

1.3 Under Capital Finance regulations, local authorities are also required each year to set aside some of their revenues as provision for debt. TfL has a statutory duty to make an annual statement as to its policy for the calculation of this provision. This paper, therefore, sets out and asks the Board to approve the TfL Policy Statement on Minimum Revenue Provision, as set out in section 7.

1.4 TfL's Extraordinary Funding and Financing Agreement with the Department for Transport (DfT), dated 31 October 2020, expires on 31 March 2021. TfL's Budget and Business Plan has therefore been prepared using assumptions in respect of levels of future government support that may not, in the event, prove accurate. Any future financing agreement from the DfT could, in addition, contain conditions attached to further funding which may impact more widely on TfL's operations and capital investment activities.

1.5 In the event that a new funding agreement is put in place during 2021/22 that materially impacts on the assumptions underlying TfL's approved Budget and Business Plan, a revised Budget and Plan will be presented to the Board in July 2021, to reflect the implications of any funding agreement reached. Amendments to the prudential indicators will be submitted for approval accordingly.

1.6 Capital structure options are being explored in relation to TfL's commercial development subsidiary, including whether there is potential to raise commercial funding for future investment in housing. The borrowing limits set out in this paper make no allowance for potential future debt arising from this activity and therefore any future capital structure agreed would require a separate approval of TfL's borrowing limits at the appropriate time.

1.7 TfL operates a structure of parent company guarantees across most companies within the Group, with the guarantees being registered at Companies House. This has the benefit of allowing the accounts of guaranteed companies an exemption from audit. However, to allow for the proposed capital structuring outlined in paragraph 1.6 above to be undertaken, and for any debt drawn down within subsidiary companies to be non-recourse to TfL, it is proposed that, for the financial year 2021/22, the guarantees of TTL Properties Limited and, possibly, its subsidiaries which enter into development-specific joint ventures should not have their guarantees renewed. This means that their accounts for 2021/22 will need to be audited. The position will be reviewed and further described when the TfL Group accounts are brought to the Board for approval in Summer 2021.

2 Recommendations

2.1 **The Board is asked to note the paper and:**

(a) approve the TfL Prudential Indicators as set out in Appendix 1;

(b) approve the Treasury Management Indicators as set out in Appendix 2 for 2021/22 and the following two years; and

(c) approve the annual TfL Policy Statement on Minimum Revenue Provision set out in section 7 of the paper.

(d) note the update on the funding negotiations with Government and that a revised Budget and amended Prudential Indicators will be presented to the Board for consideration in July 2021.

3 Background on the Prudential Code

3.1 The Code plays a key role in capital finance in local authorities. It was developed as a professional code of practice to support local authorities in their decision-making processes for capital expenditure and its financing.

3.2 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

3.3 The framework of Prudential Indicators established by the Code aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the Statement of Accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management.

3.4 A revised Code was published in 2017, which stated that authorities that prepare Group accounts, in setting indicators, must include all items where a residual interest remains with the authority.

3.5 The Corporation is made up of London Streets, Taxi and Private Hire and the corporate centre which, for legal and accounting purposes, constitutes TfL – a local authority. TfL Group is made up of the Corporation and its subsidiaries.

3.6 As required by the Code, TfL prepares Prudential Indicators at both the Corporation and TfL Group level.

3.7 TfL's Budget and Business Plan as approved by the Board on 9 December 2020, adjusted for known significant changes in assumptions relating to revenue, cost and funding where relevant, and which are subject to assumptions on future government funding, has been used to calculate the proposed indicators (see Appendix 1).

3.8 The Capital Expenditure and External Debt Indicators relevant to TfL are the:

(a) Authorised Limit;

(b) Operational Boundary;

(c) Capital Financing Requirement;

(d) Capital Expenditure; and

(e) Ratio of Financing costs to Net Revenue Stream.

Definitions for each of these are included in Appendix 3.

4 Treatment of PFI Liabilities in the Calculation of External Debt Limits for 2021/22

4.1 In setting the direct borrowings element of the authorised limit an allowance was made for the Corporation to refinance certain PFI transactions held as long-term liabilities in subsidiary entities as and when it becomes commercially advantageous to do so. The long-term liabilities element of the authorised limit for the Group was adjusted down by the same amount to ensure that there was no overall increase in the total authorised limit for the Group.

4.2 The draft 2021/22 Budget assumes that only the portion of PFI liabilities outstanding at the start of any particular year that is scheduled to be repaid within that year will be refinanced; and the Operational Boundary has been calculated to reflect this.

4.3 For the Group indicator, so long as total debt remains within the overall authorised limit, movement may be made between direct borrowings and other long-term liabilities without penalty. These debt reclassifications are accordingly not considered to be a matter for concern as they have no net effect on the overall total limit for external debt.

5 Changes to Prudential Indicators for 2020/21 to 2022/23

5.1 Changes to Borrowing Limits for Future Years

Prudential Indicators for the years 2020/21 to 2022/23 were approved by the Board in March 2020.

(a) The Prudential Indicators approved in March 2020 were prepared on the basis of existing accounting standards at that time. Since, TfL has adopted the new accounting standard, IFRS 16 Leases, superseding IAS 17 Leases. The impact of the application of this standard was the recognition of an additional c. £2.4bn of lease liabilities and related right-of-use assets on the Balance Sheet as at 31 March 2021.

Certain contracts TfL enters into in the ordinary course of business may result in the recognition of lease liabilities where prior to IFRS 16 these contracts were not so classified. Classification is highly technical and dependent on the specifics of each contract which may not be known in advance of that contract being entered into. An increase in the Authorised Limit has been deemed necessary, to provide headroom against the risk that items included in the Budget and Business Plan may have been incorrectly classified.

A part of the process the approval process of the GLA Group Budget for 2021/22, TfL’s debt limits have been restated and approved for financial year 2020/21 to reflect these revisions.

(b) It had previously been assumed that incremental direct borrowing would be drawn to support TfL’s capital expenditure plans in each of the years 2021/22 and 2022/23. This assumption has been revisited, and the debt removed, as affordability metrics in respect of the Group’s capability to service further debt commitments have been impacted by the Coronavirus pandemic and consequent uncertainty around growth of future income streams.

(c) The Operational Boundary for long-term liabilities (and the total Authorised Limit for External Debt) in both the Corporation and Group have been amended to reflect, the revised settlement profile for long term capital provisions.

(d) The phasing of the Crossrail funding package agreed with the Department for Transport in December 2018 has been updated. Within this package, TfL may make drawdowns under a £750m loan facility provided by the Department for Transport. TfL’s debt limits have been amended to reflect the latest assumptions in respect of the drawdown and repayment profile of this facility.

(e) As noted in section 4.1, the calculation of the Corporation's authorised limit for direct borrowings includes an amount of headroom to allow for the refinancing in the Corporation of certain PFI contracts currently held by subsidiary companies. In the Group, the authorised limit for long-term liabilities is reduced correspondingly to avoid double counting these liabilities. The calculation for this adjustment has been revised to reflect the fact that subsidiary PFI liability amounts outstanding (and hence the balances that could potentially be refinanced) have changed since the Prudential Indicators were last approved.

(f) In the Group, the reduction to the authorised limit for long-term liabilities for the possible refinancing of PFI liabilities has been similarly amended, reflecting the change in the outstanding liabilities under these contracts since the Prudential Indicators were last set.

(g) The allowance within the Authorised Limit to avail of favourable market conditions in relation to refinancing activities has been uplifted for future years to provide adequate coverage in the years where we have greater debt maturities occurring.

Reconciliation of Changes in External Debt Limits for the Corporation for 2020/21 to 2022/23

	Paragraph reference	2020/21	2021/22	2022/23	2023/24
		£m	£m	£m	£m
Corporation:					
Previous Operational Boundary for Gross External Debt		**13,373.3**	**13,807.2**	**14,227.1**	**n/a**
Lease liability restatement	5.1 (a)	413.7	383.3	352.3	n/a
Removal of incremental borrowing assumption	5.1 (b)		(520.8)	(1,026.8)	n/a
Re-phasing of provisions and liabilities	5.1 (c)	(10.2)	(11.4)	(11.2)	n/a
Department for Transport loan facility[4]	5.1 (d)		75.0	115.0	n/a
Proposed Operational Boundary for Gross External Debt		**13,776.8**	**13,733.3**	**13,656.4**	**13,576.0**
Overdraft facility [1]		200.0	200.0	200.0	200.0
Refinancing of PFIs [2]	5.1 (e)	165.0	132.3	132.3	132.3
Refinancing of short-term borrowings [3]	5.1 (g)	500.0	1,000.0	1,000.0	1,000.0
Department for Transport loan facility [4]	5.1 (d)	-	-	35.0	70.0
Leases [5]	5.1 (a)	250.0	250.0	250.0	250.0
Proposed Authorised Limit		**14,891.8**	**15,315.6**	**15,273.7**	**15,228.3**

Reconciliation of Changes in External Debt Limits for the Group for 2020/21 to 2022/23

	Paragraph reference	2020/21	2021/22	2022/23	2023/24
		£m	**£m**	**£m**	**£m**
Group					
Previous Operational Boundary for Gross External Debt		**13,765.3**	**14,162.5**	**14,550.1**	**n/a**
Lease liability restatement	5.1 (a)	2,300.0	2,220.5	2,171.3	n/a
Removal of incremental borrowing assumption	5.1 (b)		(520.8)	(1,026.8)	n/a
Re-phasing of provisions and liabilities	5.1 (c)	(17.4)	(13.8)	(11.1)	n/a
Re-phasing of Department for Transport loan facility [4]	5.1 (d)	-	75.0	115.0	n/a
Proposed Operational Boundary for Gross External Debt		**16,047.9**	**15,923.5**	**15,798.5**	**15,669.8**
Overdraft facility [1]		200.0	200.0	200.0	200.0
Refinancing of PFIs [2]	5.1 (f)	47.9	27.0	40.5	55.4
Refinancing of short term borrowings [3]	5.1 (g)	500.0	1,000.0	1,000.0	1,000.0
Department for Transport loan facility [4]	5.1 (d)	-	-	35.0	70.0
Leases [5]	5.1 (a)	500.0	500.0	500.0	500.0
Proposed Authorised Limit		**17,295.8**	**17,650.5**	**17,574.0**	**17,495.2**

Notes

1. An overdraft facility is in place to mitigate short term adverse cash flow variances and this is included in the authorised limit.
2. In setting the Prudential indicators in March 2012, the Board approved an increase in the authorised limit to allow for the refinancing of certain PFI contracts (as permitted in annex C of TfL's SR2013 settlement letter) as and when commercial opportunities arise and value for money can be demonstrated.
3. In setting the Prudential indicators in March 2012, the Board also approved an increase in the authorised limit to provide flexibility in refinancing of borrowings, to ensure that the most advantageous rates can be secured.
4. Facility made available as part of the funding package to deliver Crossrail agreed with the Department of Transport in December 2018, draw down is subject to conditions precedent.
5. The Authorised Limit has been uplifted to capture the potential for commercial contracts to be entered into that are classified as long term lease liabilities under IFRS 16.

5.2 **Changes to Other Prudential Indicators for Future Years**

Further amendments to reflect TfL's Budget have been applied to the other Prudential Indicators for 2020/21 to 2022/23 for the Corporation and Group. The tables in Appendix 1 set out the revised indicators.

6 Treasury Management Indicators

6.1 In addition to the Prudential Indicators, there are a number of treasury indicators that outlined in CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the TM Code), published in December 2017. Local authorities are required to have regard to these Treasury Management Indicators.

6.2 The TM Code recommends that local authorities should adopt the following Treasury Management Indicators:

(a) upper and lower limits on the maturity structure of borrowing, including variable as well as fixed rate debt; and

(b) the period for upper limits to the total of principal sums invested longer than one year.

6.3 While there is not a specific recommended indicator in respect of interest rate exposures, the TM Code suggests that authorities should explain the strategy for managing their interest rate risk as part of the investment and/or capital strategies. We cover our targets for fixed and floating rate debt, as well as general approach to interest rate risk, in our Treasury Management Strategy.

6.4 The proposed Treasury Management Indicators are detailed in Appendix 2.

7 TfL Policy Statement on Minimum Revenue Provision

7.1 Local authorities are required each year to set aside some of their revenues as provision for debt. TfL has a statutory duty to determine for the current financial year an amount of minimum revenue provision which it considers to be 'prudent' in relation to debt service obligations.

7.2 While statutory guidance suggests four potential methods for calculating Minimum Revenue Provision (MRP) it also allows for other methods and approaches to be used. Since 2016/17 TfL has applied the principles inherent in the statutory guidance on MRP, to make an annual provision in the Transport for London (the Corporation), that aims to build up a reserve on the Balance Sheet over the average useful economic life of the assets funded by borrowings in the Corporation, such that, at the end of that useful economic life, that reserve may be employed to either repay borrowings or to finance replacement capex for those assets that have reached the end of their lives. An MRP is effectively already made for borrowings passed down to the subsidiaries through TfL's existing processes for funding those entities.

7.3 Given current levels of debt (including finance leases) retained within the Corporation the MRP is anticipated to be approximately £56m per annum throughout the business plan period and will result in an annual transfer of this amount from usable reserves (i.e. the General Fund) to unusable reserves (namely the Capital Adjustment Account).

List of appendices to this report:

Appendix 1: For Approval: TfL Prudential Indicators for 2020/21 to 2023/24
Appendix 2: Treasury Management Indicators
Appendix 3: Definitions for Prudential Indicators

List of Background Papers:

None

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Appendix 1

FOR APPROVAL: PRUDENTIAL INDICATORS FOR 2020/21 TO 2023/24
TRANSPORT for LONDON

Operational Boundary for External Debt*	Paragraph reference	Approved Indicators 2020 - 21 (restated) £millions	Proposed Revised Indicator 2021 - 22 £millions	Proposed Revised Indicator 2022 - 23 £millions	Proposed Indicator 2023 - 24 £millions
TfL Corporation					
Borrowing		13,164.3	13,162.5	13,127.5	13,092.5
PFI and long term liabilities		612.5	570.8	528.9	483.5
Total Operational Boundary for External Debt in TfL Corporation	5.1	**13,776.8**	**13,733.3**	**13,656.4**	**13,576.0**
TfL Group					
Borrowing		13,164.3	13,162.5	13,127.5	13,092.5
PFI and long term liabilities		2,883.6	2,761.0	2,671.0	2,577.3
Total Operational Boundary for External Debt TfL Group	5.1	**16,047.9**	**15,923.5**	**15,798.5**	**15,669.8**
Authorised Limit for External Debt**					
TfL Corporation					
Borrowing		14,029.3	14,494.8	14,494.8	14,494.8
PFI and long term liabilities		862.5	820.8	778.9	733.5
Total Authorised Limit in for External Debt in TfL Corporation	5.1	**14,891.8**	**15,315.6**	**15,273.7**	**15,228.3**
TfL Group					
Borrowing		14,029.3	14,494.8	14,494.8	14,494.8
PFI and long term liabilities	5.1	3,266.5	3,155.6	3,079.2	3,000.4
Total Authorised Limit for External Debt in TfL Group		**17,295.8**	**17,650.5**	**17,574.0**	**17,495.2**
Estimates of Capital Expenditure (Annual)					
TfL Corporation	5.2	**2,280.5**	**2,671.2**	**2,107.5**	**2,629.8**
TfL Group	5.2	**2,754.6**	**3,634.9**	**3,026.9**	**3,287.4**
Estimates of Capital Financing Requirement (Cumulative)***					
TfL Corporation	5.2	**14,631.8**	**14,740.5**	**14,620.1**	**14,398.4**
Total TfL Group	5.2	**18,723.5**	**18,941.3**	**18,899.0**	**18,346.1**

* The Operational Boundary is a calculation based upon the cash flows in the Budget and Plan. If breached, it is a warning that financial plans may require review and amendment.

** The Authorised Limit is the maximum amount that TfL may borrow legally.

*** The Capital Financing Requirement is the amount of capital expenditure to be financed by means other than grant or asset sales proceeds.

Prudential Indicators for Prudence and Affordability

Estimates of ratio of financing costs to net revenue stream	Paragraph reference	Approved Indicator (restated) 2020 - 21	Proposed Revised Indicator Budget 2021 - 22	Proposed Revised Indicator Plan 2022 - 23	Proposed Indicator Plan 2023 - 24
TfL Corporation	5.2	**10.0%**	**11.0%**	**16.4%**	**20.3%**
TfL Group	5.2	**21.3%**	**16.6%**	**12.5%**	**15.2%**

Gross Debt and the Capital Financing Requirement*	**TfL Group* £millions**	**Corporation £millions**
Authorised Limit for total debt at 31 March 2022	17,650.5	15,315.6
Less headroom for refinancing of short-term debt	(1,000)	(1,000)
Adjusted Gross Debt at 31 March 2022	**16,650.5**	**14,315.6**
Capital Financing Requirement at 31 March 2024	**18,346.1**	**14,398.4**

* The Prudential Code stipulates that Gross Debt at 31 March 2022 should not generally exceed the Capital Financing Requirement at 31 March 2024. Headroom included in the calculation of the Authorised Limit for External Debt has been stripped out for the purposes of this comparison, as this represents a uplift of debt limits solely to allow flexibility in the timings of drawdown of debt such that TfL is able to obtain the most favourable rates on its borrowings. It does not represent debt that could be used to fund the capital activities of the Group.

Appendix 2

For Approval: Treasury Management Indicators

Maturity Structure of Borrowing	**Budget 31 Mar 2022**	
	Upper	Lower
< 1year	35%	0%
1 year to < 2 years	35%	0%
2 years to <5 years	50%	0%
5 years to <10 years	75%	0%
10 years and above	100%	20%

This indicator represents limits of the percentage of borrowing maturing in the future periods above as a total of fixed rate borrowing outstanding.

Actual amounts will depend on the projects financed and which ones have been converted into long-term obligations

Maximum Outstanding Principal sum Invested for more than 365 days	**Budget** **31 Mar 2022** £millions	**Plan** **31 Mar 2023** £millions	**Plan** **31 Mar 2024** £millions
Forward Financial Year 1	**0**	**0**	**0**
Forward Financial Year 2	**0**	**0**	**0**

Appendix 3

Definitions for Prudential Indicators used by TfL

1. External Debt - Operational Boundary

The Operational Boundary is a sum of external borrowings and long term capital liabilities, including finance lease creditors and provisions, as shown in the Budget and Plan. If breached, it is a warning that financial plans may require review and amendment.

2. External Debt - Authorised Limit

The authorised limit is the maximum amount that TfL may borrow legally.

It is comprised of the Operational Boundary plus an element of headroom to allow for unexpected cashflow fluctuations.

3. Capital Expenditure

For the Group this is the total of fixed asset additions for the given period.

For the Corporation this is the Corporation's own fixed asset additions plus any loans or capital grants passed to the subsidiaries for the given period.

4. Capital Financing Requirement

The Capital Financing Requirement (CFR) is the amount of capital expenditure to be financed by means other than grant or asset sales proceeds. It is calculated from the balance sheet of the Group and Corporation by deducting deferred grant, and capital reserve balances from the total fixed asset balance.

There is a requirement in the Code to ensure that the estimate for the CFR at the end of 2024 is not exceeded by gross debt budgeted at the end of 2022. This requirement seeks to ensure that over the medium term, debt will only be for a capital purpose.

5. Ratio of financing costs to net revenue streams

Indicator expresses the interest costs, net of interest income as a percentage of TfL's Revenue Grant and fares income plus or minus transfers to reserves.