Supplementary Agenda

Meeting: Finance Committee

Date: Wednesday 10 March 2021

Time: 10.00am

Place: Teams Virtual Meeting

Members

Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Heidi Alexander
Prof Greg Clark CBE
Anne McMeel
Dr Nina Skorupska CBE

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 an update on the proposed budget for 2021/22, which is impacted by the ongoing discussions with Government on securing ongoing funding, ahead of the consideration of the Budget by the Board on 16 March 2021.

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: Jackie Gavigan, Secretariat Manager; Telephone: 020 7084 2954; email: v_JackieGavigan@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
Tuesday 9 March 2021

Supplementary Agenda
Finance Committee
Wednesday 10 March 2021

7 2021/22 Budget and Funding Discussion (Pages 1 - 16)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, note the update on the proposed 2021/22 budget and the funding negotiations with Government, and endorse the approach to the proposed 2021/22 budget process as set out in the paper.

21 Exclusion of the Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following item of business.

Agenda Part 2

22 2021/22 Budget and Funding Discussion (Pages 17 - 26)

Exempt supplemental information relating to the item on Part 1 of the agenda.

Finance Committee

Date: **10 March 2021**

Item: **2021/22 Budget and Funding Discussion**

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 an update on the proposed budget for 2021/22, which is impacted by the ongoing discussions with Government on securing ongoing funding, ahead of the consideration of the Budget by the Board on 16 March 2021.

1 Summary

1.1 This paper provides an update on our 2021/22 budget process and ongoing negotiations with the Government on funding support for 2021/22 and beyond as our current funding and financing agreement expires on 31 March 2021.

1.2 We are currently reviewing our proposed 2021/22 budget and updating the assumptions, 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 will make the known adjustments to the draft Budget approved in December and make financial authority that flows from the Budget subject to the outcome of the funding deal. An update on this will be brought to the July Board meeting

1.4 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and recommend that the Board:**

(a) note the update on the proposed 2021/22 budget and the funding negotiations with Government; and

(b) endorse the approach to the proposed 2021/22 budget process as set out in the paper.

3 The proposed 2021/22 Budget

3.1 We are currently updating our proposed 2021/22 budget with a forward look to 2022/23 as part of our annual budget setting process, and to meet our legal obligations to set a balanced budget.

3.2 We submitted a draft budget as part of the GLA Budget process on 30 November 2020. The submission was approved as our updated Budget by the Board on 9 December 2020.

3.3 As set out in our submission to the GLA budget, our Budget over 2020/21 to 2022/23 demonstrated the ongoing support required in the medium term to meet our statutory obligation to operate a balanced budget and ensure our assets are in a good and safe state of repair.

3.4 Since then, we submitted and published our Financial Sustainability Plan (FSP). The FSP includes assumptions which are incorporated into our proposed 2021/22 budget process as appropriate. This includes assumptions around achieving recurring savings of £730m between 2019/20 and 2024/25 and the phasing in of service reduction on our bus network from July 2021 to achieve a 4 per cent reduction by 2024/25.

3.5 In addition, the final approved GLA Budget included updates to our assumptions on the Business Rates Retention, Council tax and the scrappage scheme which we have reflected in our proposed 2021/22 Budget.

3.6 We have also updated our revenue scenarios in light of the roadmap for easing restrictions as recently published by Government. These updates are shown in the appendix.

4 Next Steps

4.1 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.

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

List of appendices to this report:

Proposed 2021/22 Budget presentation.
Exempt supplementary information is included in a paper on Part 2 of the agenda.

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

Finance Committee
10 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.

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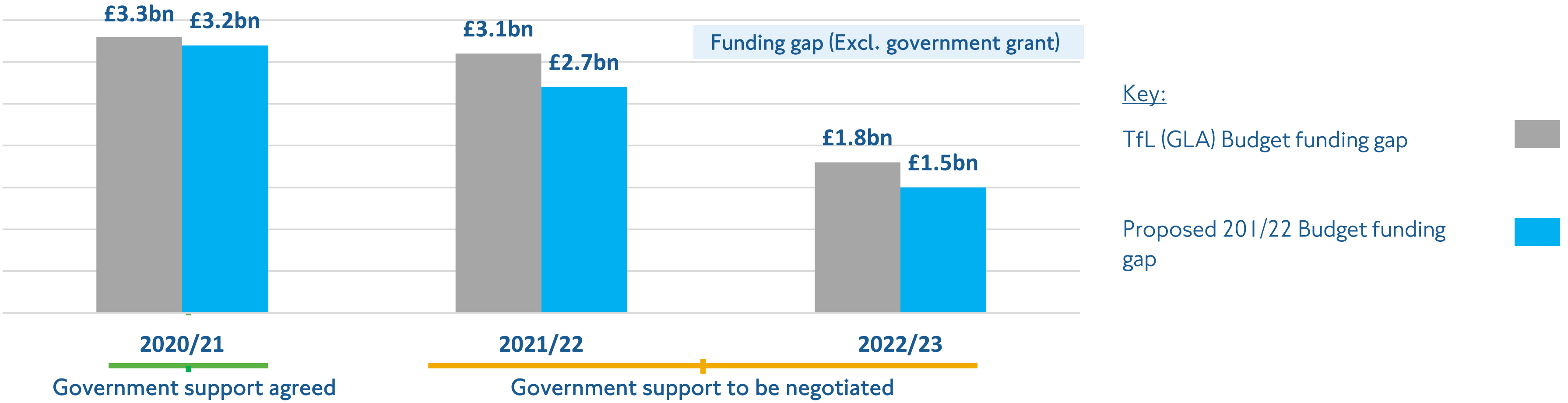
We are legally required to produce a balanced budget

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 scrappaged scheme which were included in the final approved 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 to date and a slow down of capital spending due to uncertainty around future funding.
- **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, passenger income 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 buses to the FSP passenger income including a 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.
- These numbers will form the basis for ongoing funding discussions with Government



What did the FSP recommend?

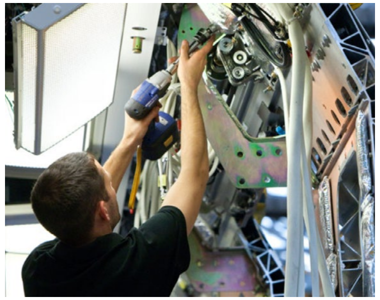
We strongly recommend the ‘Decarbonise by 2030’ scenario. This would require investment levels at £1.6bn capital funding per year between 2023-30, as part of our case for a new funding model less reliant on fares income

£1.6bn capital funding p.a. to deliver improvements and accelerate decarbonisation

- This level of investment would support 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. This capital funding would be invested in improvements such as modern trains and signalling

Long-term funding certainty over multi-year control periods

- We are making the case to be allocated financial support by Government over four to five years, similar to the arrangements offered to Network Rail and Highways England. Such a funding framework would allow for further efficiencies and help us engage and maintain a UK-wide supply chain which currently employs more than 43,000 people across the country



Key assumptions:

- Additional revenue generation, which assumes net additional £500m a year from 23/24 from either retaining London’s Vehicle Excise Duty or introducing a Greater London Boundary Charge.
- We are working to achieve recurring savings of £730m over the period 2019/20 to 2024/25
- In some cases, where demand will clearly be suppressed for some time, we propose to explore further savings – including through a four per cent reduction in the bus kilometrage operated across London by 2024/25.

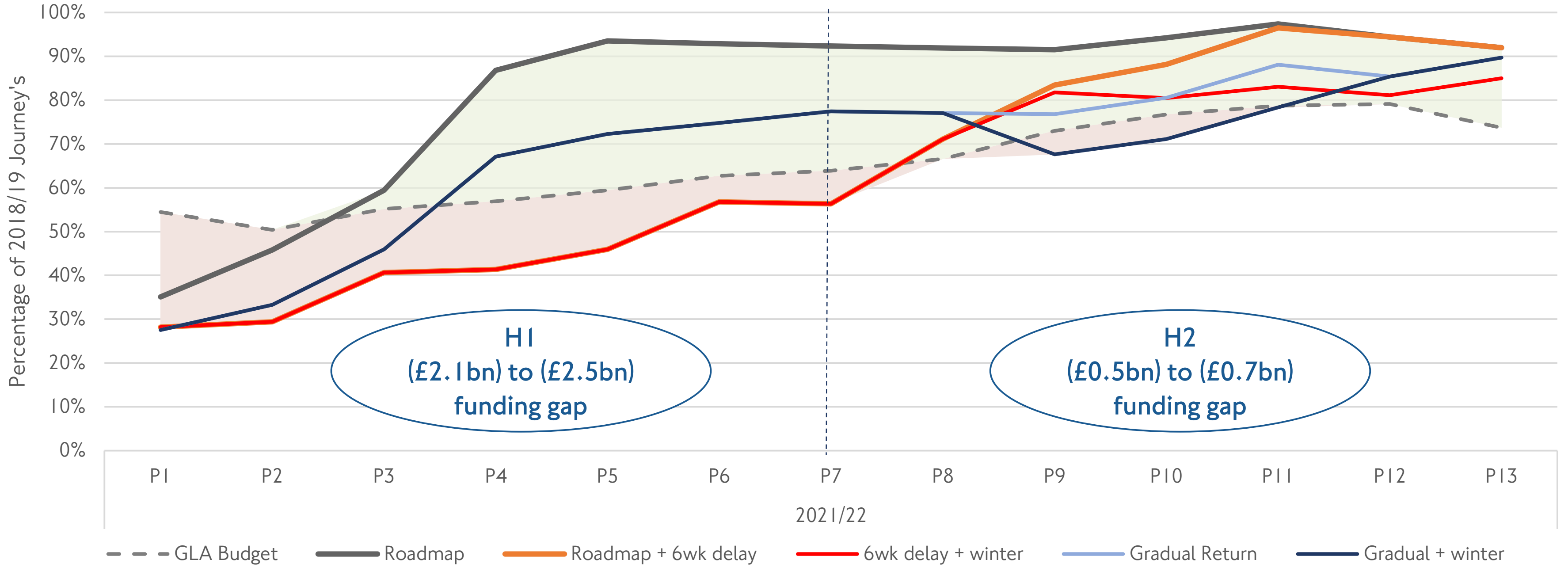
Other measures to explore:

- We will also 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 its capital investment plans.
- 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.

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

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

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	H2	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)
Variant 1 – 6 weeks delay	(£2.5bn)	(£0.5bn)	(£3.0bn)
Variant 2 – 6 weeks delay and winter suppression	(£2.5bn)	(£0.7bn)	(£3.2bn)
Variant 3 – gradual return	(£2.1bn)	(£0.5bn)	(£2.6bn
Variant 4 – gradual return and winter suppression (new baseline)	(£2.1bn)	(£0.6bn)	(£2.7bn)
Range of 4 variants	**(£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

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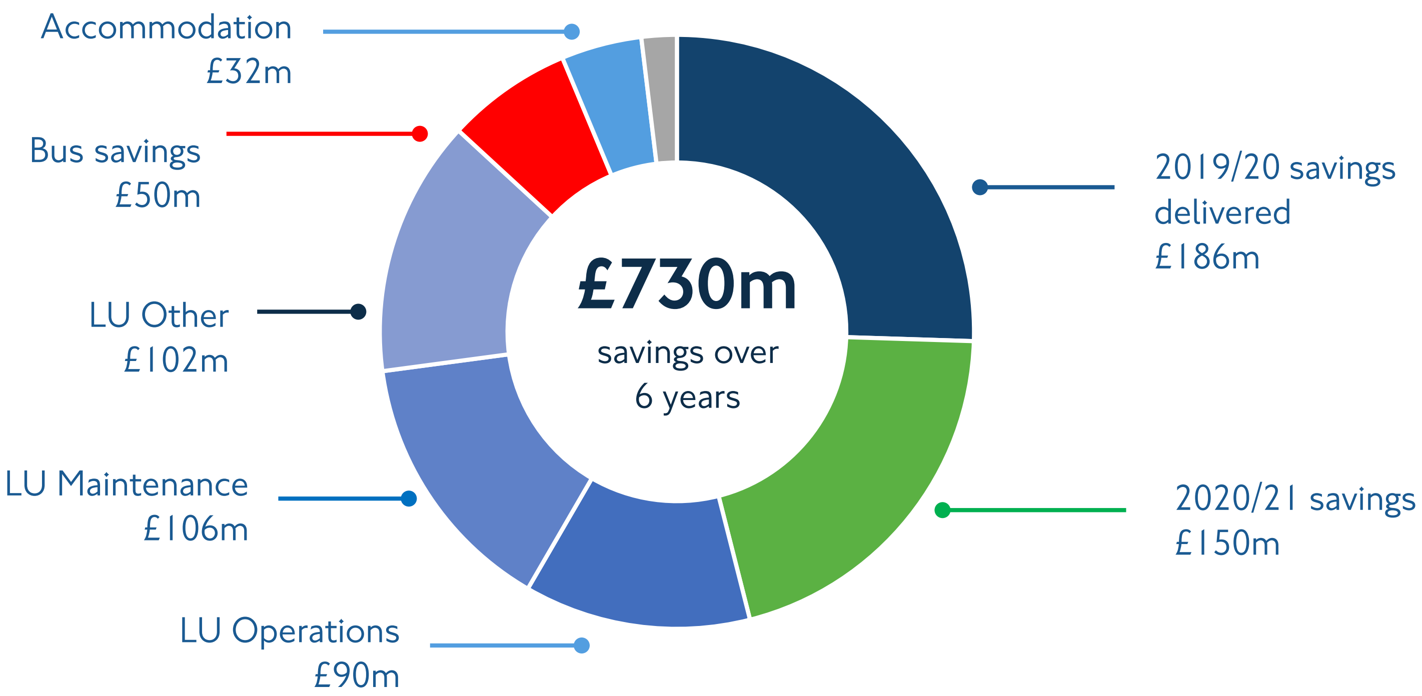
Our savings plans, 2019/20 to 2024/25



The FSP and December 2020 Budget set out a target to deliver £730m of recurring savings, with £228m to be delivered in 2021/22 and 2022/23; risks of almost £150m currently identified.

£228m of recurring savings to deliver in 2021/22 and 2022/23:

LU savings, £171m: Explore options for maintenance savings including supplier partnership savings, reviewing engineering standards, and utilising a data strategy to improve planning.

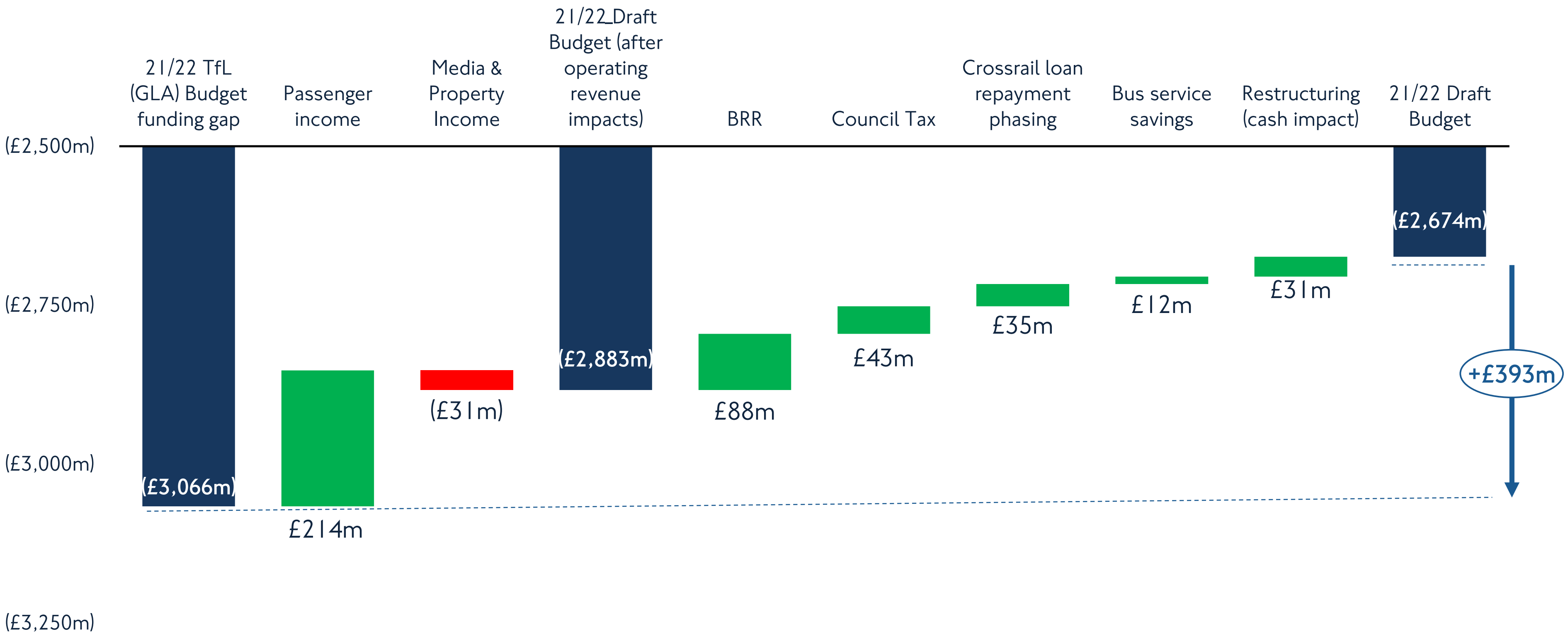
Bus savings, £36m: from reduced tender prices on buses, exploring a range of options that could help continue to reduce bus operating costs, continued review of service.

Other savings, £21m: Further options on operational savings will be explored across the business including Rail and Professional Services.

2021/22 Bridge from TfL (GLA) Budget (Dec 2020) to proposed Budget (March 2021)

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.

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 Governments 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
- 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

Our proposed 2021/22 Budget is aligned to the FSP over the medium term

Our updated forecast shows a reduction in extraordinary revenue grant funding requirement from £3.1bn to £2.7bn in 2021/22. However, there are a range of possible outcomes from £2.6bn to £3.2bn, depending on how quickly ridership returns under the Governments Roadmap.

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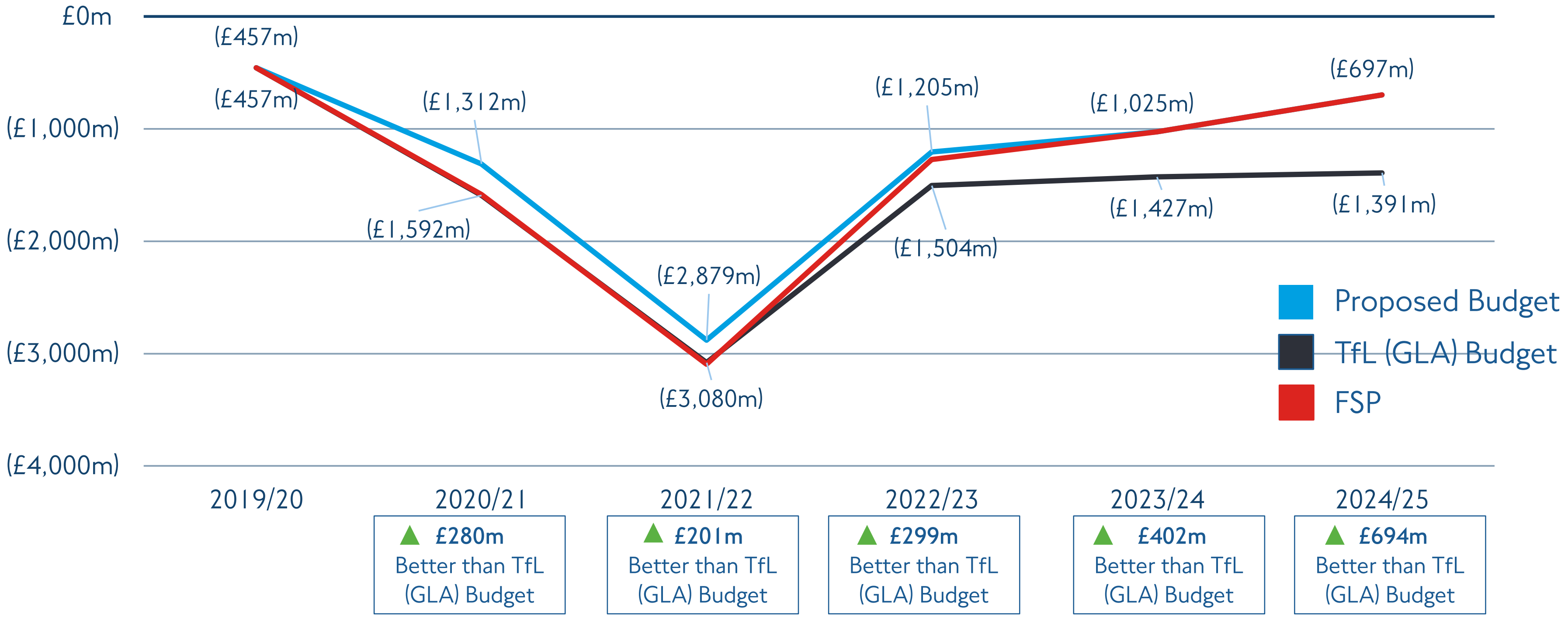
TfL net cost of operations – includes renewals but not new capital investment



NB: The proposed 2021/22 budget will publish to 2022/23. Latter two years provided here for context and to show alignment to FSP

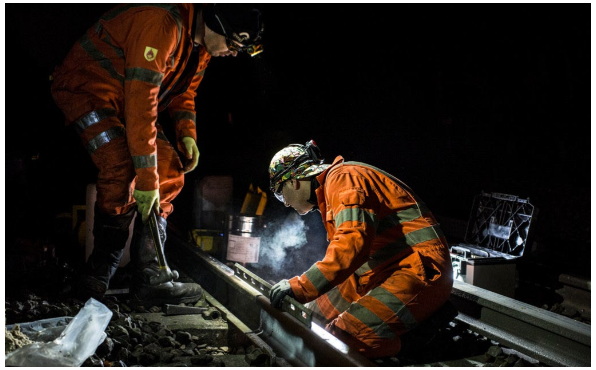
- 2020/21 includes grant funding support of £2.4bn. The remainder of the deficit has been funded through our own cash reserves and borrowings through the PWLB.
- Future years show a true funding gap with no external support agreed at this time
- 2020/21 improves by £0.3bn due to passenger revenue improvement of £0.1bn (handed back through revenue true-up process), £0.1bn cost reductions and £0.1bn other non-cash movements.
- From 2022/23, ridership returns to only circa 80% of 2019 BP levels (90% for buses) and operating BRR is lower by circa £200m per annum resulting in an on-going funding gap of £1.6bn reducing to around £1bn per annum with the retention of VED or introduction of a Greater London Boundary Charge, which is expected to raise £500m pa
- We assume no new borrowing from 2021/22 due to financial affordability (2019 BP assumed £1bn over 21/22 & 22/23)

Our Baseline Capital Position

Our proposed Budget includes £2.17bn of capital investment. This includes £805m of asset renewals, where we have a critical need to increase activity to address the backlog of work after pauses / slowdowns of recent years.

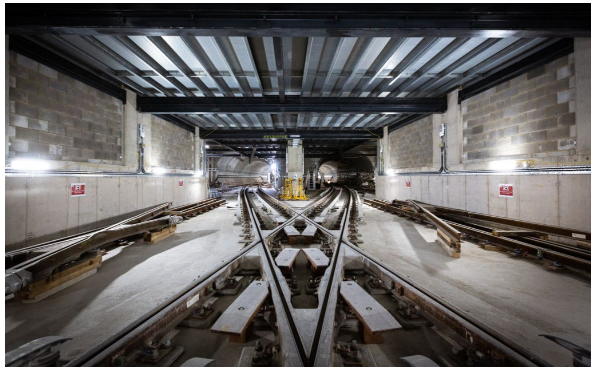
We are also delivering on the key enhancement priorities mentioned here and across many other areas. This positions us to progress towards key MTS aims including Vision Zero, decarbonisation and 80% sustainable mode share.

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.

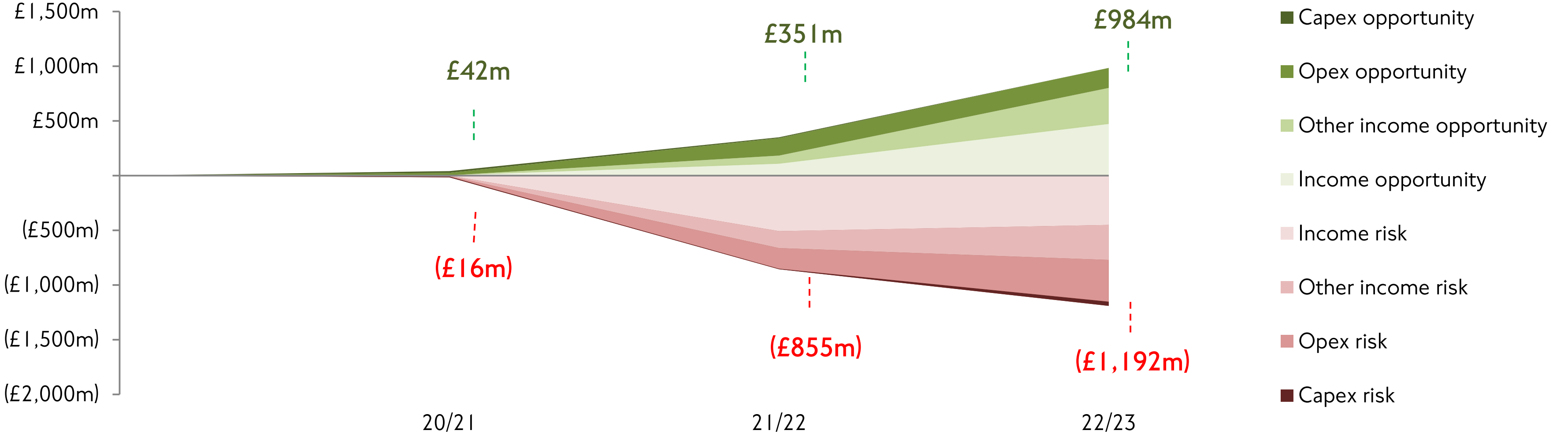
Note: contractual commitment is considered separately

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	**0.3% of baseline** Very little categorised here. Mostly small renewals linked to longer-term customer benefits rather than operability

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 and pressures on our costs

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

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

Appendix

Projects in first 5 years (contingent on funding support)

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

London Underground

Continued replacement and modernisation of assets:
Four Lines Modernisation
New Piccadilly line trains

Completing capacity and connectivity schemes:
Station upgrades at Bank, Elephant & Castle, Tottenham Hale, Colindale
Northern Line Extension

Improving the network:
Completing current step-free access schemes
Continuing rollout of 4G

Surface Transport

Renewing our critical assets:
Rotherhithe Tunnel, A40 Westway
Continued investment across highways and rail assets

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

Transforming our streetspace:
Ultra Low Emission Zone
Old Street, Waterloo, Vauxhall
Cycle network expansion

Corporate / Growth Fund

Upgrading our technology:

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

Investing in our property estate:

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

Supporting key growth areas:

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

Projects within our 2020 Capital Strategy (contingent on funding support)

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

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Replacing Rolling Stock and Signalling

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

Overground and Elizabeth line leased so not included here

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

Renewals of Other Assets

Optimal profiles, catching up backlogs and effectively managing whole-life costs

Includes renewals of major structures such as Rotherhithe Tunnel and Westway

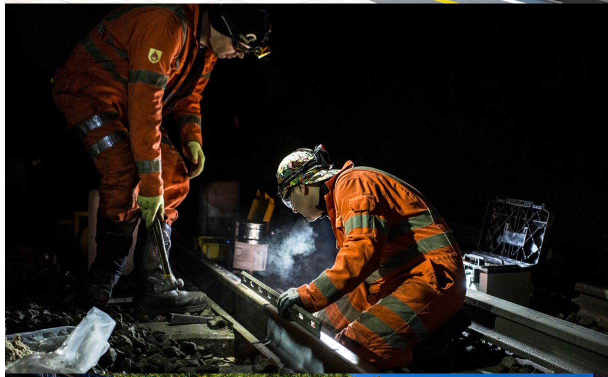
Enhancements

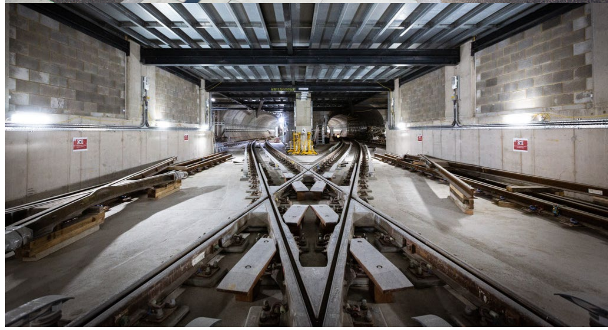
Progressing towards the wide range of MTS objectives to improve our network and enable more journeys to be made by sustainable modes. Includes (among others):

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

Network Extensions

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





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