TfL Mayor's Budget 2019/20

GLA Consultation Extracts

December 2018

MAYOR OF LONDON

TRANSPORT FOR LONDON

EVERY JOURNEY MATTERS

About Transport for London (TfL)

Part of the Greater London Authority family led by Mayor of London Sadiq Khan, we are the integrated transport authority responsible for delivering the Mayor's aims for transport.

We have a key role in shaping what life is like in London, helping to realise the Mayor's vision for a 'City for All Londoners'. We are committed to creating a fairer, greener, healthier and more prosperous city. The Mayor's Transport Strategy sets a target for 80 per cent of all journeys to be made on foot, by cycle or using public transport by 2041. To make this a reality, we prioritise health and the quality of people's experience in everything we do.

We manage the city's red route strategic roads and, through collaboration with the London boroughs, can help shape the character of all London's streets. These are the places where Londoners travel, work, shop and socialise. Making them places for people to walk, cycle and spend time will reduce car dependency and improve air quality, revitalise town centres, boost businesses and connect communities.

We run most of London's public transport services, including the London Underground, London Buses, the DLR, London Overground, TfL Rail, London Trams, London River Services, London Dial-a- Ride, Victoria Coach Station, Santander Cycles and the Emirates Air Line. The quality and accessibility of these services is fundamental to Londoners' quality of life. By improving and expanding public transport, we can make people's lives easier and increase the appeal of sustainable travel over private car use.
We are moving ahead with many of London's most significant infrastructure projects, using transport to unlock growth. We are working with partners on major projects like Crossrail 2 and the Bakerloo Line Extension that will deliver the new homes and jobs London and the UK need. We are in the final phases of completing the Elizabeth line which, when it opens, will add 10 per cent to London's rail capacity.

Supporting the delivery of high-density, mixed-use developments that are planned around active and sustainable travel will ensure that London's growth is good growth. We also use our own land to provide thousands of new affordable homes and our own supply chain creates tens of thousands of jobs and apprenticeships across the country.

We are committed to being an employer that is fully representative of the community we serve, where everyone can realise their potential. Our aim is to be a fully inclusive employer, valuing and celebrating the diversity of our workforce to improve services for all Londoners.

We are constantly working to improve the city for everyone. This means freezing fares so everyone can afford to use public transport, using data and technology to make services intuitive and easy to use, and doing all we can to make streets and transport services accessible to all. We reinvest every penny of our income to continually improve transport networks for the people who use them every day.

None of this would be possible without the support of boroughs, communities and other partners who we work with to improve our services. We all need to pull together to deliver the Mayor's Transport Strategy; by doing so we can create a better city as London grows.

Chief Finance Officer's Foreword

This budget reflects our latest Business Plan, being presented to the Finance Committee (under delegated power) in December 2018. It will deliver the Mayor's Transport Strategy to make travel healthier, easier and more affordable for everyone in London. We are fully committed to making our transport network financially sustainable while still delivering a safe, high quality and reliable service alongside significant capital investment.

We are now more than half-way into the first financial year during which we will receive no Government operational grant for our day to day running costs, equating to a cut of 46 per cent in external funding. For the first time in our history we have reduced our year-on-year, like-for-like operating cost base for a second consecutive year. Despite losing on average £700m per annum in operating grant from the Government, fares remain frozen at 2016 prices to 2020, and travel concessions to Londoners have been maintained, whilst reducing our budgeted deficit from £968m in 2018/19 to a forecast £722m.

Our goal to break even on the cost of day-to-day operations, after the cost of renewals and financing will shift a year later to 2022/23 as we absorb the revenue impact of the Elizabeth line delay. We plan to continue making significant and sustainable savings through cost reductions in all business areas. These savings will not impact front line services, safety or reliability.

This will be achieved despite uncertain times for London and the UK economy. Lower than expected passenger numbers and no Government operational grant funding means we have less available income to subsidise public transport and carry out road maintenance. It also leaves us more exposed to volatility in the economy, uncertainty from leaving the European Union and other tough macroeconomic conditions.

This financial pressure is compounded by the extremely disappointing announcement from Crossrail Limited that the central section of the Elizabeth Line will not be open for passengers until later in 2019. This document reflects our latest forecasts for the additional capital cost, as well as lost fares and commercial income as a result of the delay.

The capital programme we have committed to is funded for the first five years, and in accordance with Section 25 of Local Government Act 2003, I confirm that the proposed reserves and the financial estimates are respectively prudent and robust.

Simon Kilonback
Chief Finance Officer
Transport for London

Sarah Bradley
Statutory Chief Finance Officer
Transport for London

The financial context

Our 2017 Business Plan set out how we would turn an operating deficit into a surplus by 2021/22 and restore a sustainable cash balance. We provided more detail on the first year of this plan in our 2018/19 Budget. In the last year, we have more than delivered on that Business Plan and Budget. We have continued to cut costs and expect to significantly beat our financial targets at the end of this financial year. This means that we will have made solid progress in reducing the operating deficit caused by the withdrawal of our operating grant from the Government and changing economic conditions.

However, in response to subdued national economy, we have had to revise our revenue forecasts down this year. This means that, over a five-year period, we are now forecasting to receive £2.1 billion less in revenue than we had in our 2016 Business Plan (excluding the Elizabeth line) – this is a reduction of seven per cent. We must also respond to the cost impact of the delay, announced by Crossrail Limited, to the opening of the Elizabeth line. This Budget continues to eliminate our operating deficit, but will achieve a net operating surplus one year later than previously planned, in 2022/23.

In this Budget, we set out a comprehensive programme of investment across London, to deliver safe and reliable transport services and continue our delivery of the Mayor's Transport Strategy. We are reliant on steady and sustained investment from the Government to support major capital projects. While we are planning to follow the roll-out of new trains on the Piccadilly line with new signalling and then to upgrade the rest of our deep Tube lines, such large-scale investment will not be possible without capital funding from the Government. We will therefore be discontinuing the current procurement while we work with suppliers to find the best way forward. These pressures have a similar effect on major station projects, including the work to transform Camden Town station.

We have no certainty of capital funding beyond 2020 and over the next twelve months we will be making the case to Government for confirmed capital support to enable these critical projects. At the same time, we will continue our successful programme of cost reduction across our organisation, and work to create new revenue streams.

Meeting the additional costs for Crossrail

On 31 August 2018, Crossrail Limited announced to the joint sponsors, Department for Transport and TfL that the Elizabeth line would not open until later in 2019. This is obviously a huge disappointment. Londoners and businesses had made plans on the basis of the new line opening at the end of this year, but the delay also has specific capital funding and revenue impacts. Crossrail Limited requires additional capital funding to complete much of the railway infrastructure. The interim findings of the KPMG review into Crossrail Limited's finances indicate the capital impact of the delay could be in the region of between £1.6bn and £2.0bn. That includes the £300m already contributed by the Department for Transport and us in July 2018.

The Mayor and the Government have agreed a financing package to cover these additional costs, which will see the Greater London Authority providing TfL with grant funding for £1.4bn of additional cost, and a loan facility from Government to provide further contingency if needed. This package will see London pay for the additional costs in full over time.

Separately, the delay means we will not start receiving fares and commercial revenue from the line until later than expected. We expect many customers to continue using existing Tube and DLR services until the Elizabeth line opens. Until a credible and robust schedule has been confirmed, we are making a cautious assumption that our revenue forecast will be approximately £600m lower over the five year plan period. This will be offset by our savings and revenue growth programmes, allocating a small proportion of our business rates funding to operating expenditure, and moving back by one year the date by which we expect to achieve an operating surplus. We will also explore with the DfT the possibility of beginning to operate Reading to Paddington services ahead of the completion of the Elizabeth line.

Our revenue assumption will be revised once the new management of Crossrail Limited have completed their work on a new delivery schedule.

Delivering Mayor's Transport Strategy

The focus of this Budget continues to be the delivery of a better and more affordable public transport experience, a healthier city by reducing pollution and encouraging more active modes of travel and creating new homes, jobs and communities.

■ Healthy Streets and healthy people

Our plan will create Healthy Streets that promote walking, cycling and public transport, and will ensure the safety and security of everyone in London.

Safety and Vision Zero

Safety is always our number one priority and we are working to eliminate death and serious injury from our transport network by 2041. We will do this by:

- Lowering speed limits on parts of the TfL Road Network where people are most at risk,
- Implementing a world-leading Bus Safety Programme to drive major improvements in safety across the bus network
- Launching the world's first Direct Vision Standard and an associated HGV Safety Permit Scheme to reduce the danger posed by HGVs
- Implementing comprehensive programmes to reduce customer and staff injuries and making particular progress in responding to the Rail Accident Investigation Branch's recommendations for our Tram network in Croydon

- Working in close collaboration with the Metropolitan Police Service and the British Transport Police to keep our network safe and secure

More efficient use of our streets

We will continue to improve our traffic control systems, which will help us tackle congestion, but we must also reduce demand on London's street space. By enabling safe, clean and more efficient freight trips and encouraging people to use more space-efficient methods of transport, we are aiming to reduce overall traffic levels by 10 to 15 per cent by 2041.

By working in collaboration with freight operators, London businesses and the boroughs we will ensure we are delivering the same or greater amount of goods with fewer deliveries, including by moving freight onto rail or water, and where possible helping the last mile of delivery to be made on foot.

We will work with the boroughs to implement plans to reduce traffic in their local areas, including by looking at more sophisticated models of road user charging, and encouraging the use of car clubs to reduce the need for private car ownership and parking.

Improving air quality

We will continue to invest significant resources to clean London's air, including:

- Introducing the Ultra Low Emission Zone (ULEZ) in central London in April 2019. This will replace existing T-Charge and will require all cars, vans, buses and HGVs entering central London to meet minimum exhaust emissions standards or pay a daily charge
- Extending the ULEZ to the North and South Circular roads in October 2021 for all vehicles, which will reduce NOx pollution by 28 per cent
- Continuing to invest in rapid charging points, delivering a total of 300 by 2020
- Delivering Europe's biggest electric double-deck bus fleet, helping us to achieve a zero-carbon city and improve air quality
- Working towards making all buses zero emission at tailpipe by 2037 - currently there are more than 100 zero emission buses in London and all newly licensed taxis are now required to be zero emission capable

■ A good public transport experience

The right investment will ensure that public transport becomes an increasingly attractive alternative to using a car. Proper planning for the whole journey will help integrate public transport and street-level investment. Making sure the right services are available where people need them, reducing overcrowding and keeping fares affordable will help to reduce car dependency.
Keeping London competitive

We will:

- Expand the public transport network to meet the needs of a growing world-class city
- Open the Northern Line Extension to Nine Elms and Battersea Power Station
- Extend London Overground from Barking to Barking Riverside in east London
- Continue work on proposals to build Crossrail 2 and to extend and upgrade the Bakerloo line, the DLR and tram networks

Transforming the world's oldest metro network

We will:

- Continue to overhaul the Tube to provide better, faster and more reliable journeys
- Deliver the modernisation of the Circle, District, Hammersmith & City and Metropolitan lines, significantly increasing capacity at peak times
- Move forward with the modernisation of the Piccadilly line, beginning with new trains and by running a more frequent service on the Jubilee and Northern Line.

Making London's railways work better

We will:

- Introduce new electric services on London Overground network from Gospel Oak to Barking and then on Barking Riverside
- Introduce new trains on the DLR, increasing overall capacity and helping more people to live and work in east London

Modernising the bus network

We will:

- Invest in the bus fleet and priority schemes to deliver better, more reliable journey times, by cleaner, greener buses
- Start the construction of the Silvertown Tunnel, which is expected to begin in late 2019 and will provide an opportunity to create new cross-river bus links in east London

Making travel more accessible

Currently there are 76 step-free Tube stations on the network which represents 28 per cent of all London Underground stations. To make our network even more accessible we will:

- Invest in improvements to make the Tube more accessible for all Londoners - Finsbury Park and South Woodford will be the next stations to benefit from investment in accessibility
- Have made 15 more stations step free by 2020 through the LU step-free programme and others delivered as part of other programmes such as new stations on the Northern Line Extension and the Elizabeth line

■ New homes and jobs

Transport improvements are vital to the creation of new homes and jobs, and can ensure that London's growth supports healthy lives. Our investment will help to create communities where local amenities are within walking and cycling distance and public transport is available for longer journeys, reducing car dependency and improving quality of life.

Embedding sustainable travel

We will:

- Encourage more journeys to be made by space-efficient modes, such as walking, cycling and using public transport.
- Continue to develop major new schemes to improve connectivity, increase the capacity and resilience of the transport network and reduce journey times between key destinations

Unlocking opportunities

We will:

- Continue to develop proposals for Crossrail 2 and the Bakerloo Line Extension
- Construct the Silvertown Tunnel, which will help to address the lack of cross-river connections and allow more cross-river bus links in east London
- Build the case for more public transport links across the River Thames, including a DLR extension to Thamesmead, which would unlock more than 15,000 new homes
- Develop proposals for a new West London Orbital rail link which will connect a number of major growth areas
- Work with the local authorities in South London to develop the Sutton Link, which would support growth between Morden and Sutton town centres
- Work closely with the Greater London Authority to develop bids to the Government's Housing Infrastructure Fund to provide additional funding to upgrade the transport network and unlock tens of thousands of new housing units and jobs

Long term Capital Plan

The Mayor's Transport Strategy shows how we can support London's growth by making the most of our existing infrastructure and assets, and investing in new infrastructure. To commit to large-scale projects we will need funding certainty in the long term as set out in the new Capital Strategy set out in Appendix C, alongside the Mayor's document.

GLA SECTION 1

Introduction

The Greater London Authority (GLA) is the strategic authority for London and supports the Mayor and the London Assembly in delivering their respective responsibilities and functions. The GLA's five functional bodies are its principal delivery arms: the Mayor's Office for Policing and Crime (MOPAC); overseeing the work of the Metropolitan Police Service (MPS); the London Fire and Emergency Planning Authority (LFEPA); Transport for London (TfL); the London Legacy Development Corporation (LLDC) and the Old Common and Park Royal Development Corporation (OPC).

GLA SECTION 6 - TfL Main Budget Section

Introduction

6.1 Transport for London (TfL) is responsible for the planning, delivery and day-to-day operation of the Capital's public transport system, including London's buses, Underground and Overground including the Elizabeth line, the Docklands Light Railway (DLR), Tramlink and London River Services. It is also responsible for managing the Congestion Charge, maintaining London's main roads and traffic lights, regulating taxis, making London's transport more accessible and promoting walking and cycling initiatives.

Key operating account deliverables

6.2 Full details of our priorities are set out in our 2018 Business Plan published in December 2018. The key deliverables over the next five years include:

- Investing £2.3bn in Healthy Streets, which will fund transformative projects to enable more walking and cycling across London. We plan to enable more than one million additional walking trips a day by 2024 which will put us on track to achieve our target of 80 per cent of trips made by walking, cycling or public transport by 2041
- Delivering Low Emission Bus Zones, which are a key part of reducing London bus emissions. This will ensure our entire fleet is raised to at least the ultra-clean Euro VI engine emission standard by 2020 in these areas
- Introducing a world-leading Bus Safety Standard for the city's entire bus fleet, which will be incorporated into new bus operator contracts from the end of 2018
- Driving forward the Vision Zero action plan to eliminate deaths and serious injuries on London's roads, through the delivery of more than half of the 73 Safer Junctions by spring 2020, the rollout of 20mph speed limits, enhanced policing and enforcement, and ensuring safety is at the heart of all our projects
- Expansion of the ULEZ to the North and South Circular roads, in October 2021.
- Continuing investment in the Liveable Neighbourhoods programme in local areas: improve London's cycle network, including major new high-quality cycle routes connecting communities between Brentford and Olympia, Tower Bridge and Woolwich, Tottenham and Camden, and Hackney and the Isle of Dogs
- Working with boroughs on the development of their Local Implementation Plans (LIP), which will include actions to reduce traffic in their local areas. Whilst formula funding has been maintained in line with the 2017 Business Plan, the Mayor's top-up fund only provided cover to 2018/19, and there will therefore be a decrease in LIP corridor funding in 2019/20
- Delivering a world-leading road management system to control London's traffic signals by 2020

Gross revenue expenditure

6.3 The Mayor is proposing an increase in TfL's gross revenue expenditure of £244.3m, which includes the Elizabeth line central operating section regulatory track charges, from £7,159.8m in the revised TfL budget for 2018/19 to £7,404.1m in 2019/20. This is predominantly due to increasing services on the Elizabeth line.

Net revenue expenditure and council tax requirement

6.4 After deducting passenger and commercial income, fees, charges, other income and its planned use of reserves, the Mayor proposes that TfL's net revenue expenditure for 2019/20 is £1,443.6m. An analysis of the revenue budget by service area is summarised in the table overleaf.

6.5 The Mayor is proposing that TfL's council tax requirement for 2019/20 remains at £6m. The balance of its net revenue expenditure is financed by £1,395m of resources allocated by the Mayor through business rates retention. There is no revenue grant from 2018/19 from the Department of Transport (DfT). Other specific revenue grants of £42.6m will be received.

6.6 TfL is increasingly covering its operating costs from fares and other income and has set the financial objective of breaking-even on the cost of day-to-day operations, which includes renewing and maintaining the network and covering the cost of financing, in 2022/23.

6.7 Lack of government funding makes TfL more exposed to macroeconomic factors affecting London. The first year without grant funding coincided with tough conditions that have meant passenger numbers are lower in the context of a subdued London and UK economy.

6.8 Less income is available to continue subsidies of public transport and road maintenance. Although TfL passenger income is forecast to grow over the plan years by 28 per cent from 2019/20 to 2022/23 these levels reflect lower growth forecasts due to reduced passenger demand. It has been assumed that the Mayor's freeze on TfL fares is maintained until 2020.

6.9 In 2019/20 passenger income is 6.5 per cent lower than in last year's plan. Demand on London Underground has been slightly above last year assumptions, while demand on buses has been lower. The delay in the opening of the Elizabeth line also means the uplift in passenger income will begin later than previously modelled. Additionally the uncertainty relating to the UK's exit from the European Union means that our forecast for passenger demand is more uncertain than in previous years.

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

TfL Objective Analysis	Revised Budget 2018/19 £m	Forecast 2018/19 £m	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
Income						
Passenger Income	(4,774.3)	(4,762.6)	(4,820.9)	(5,191.3)	(5,742.5)	(6,168.3)
Congestion Charge*	(231.8)	(230.1)	(225.7)	(225.0)	(238.1)	(238.2)
Other Income	(491.2)	(521.4)	(681.0)	(702.8)	(962.7)	(925.7)
Elizabeth line regulatory**	(102.0)	(2.0)	(168.6)	(346.7)	(353.4)	(364.7)
Interest Income	(12.7)	(10.8)	(11.4)	(8.9)	(8.8)	(13.9)
Sub total income	**(5,612.0)**	**(5,526.9)**	**(5,907.6)**	**(6,474.7)**	**(7,305.5)**	**(7,710.8)**
Operating costs						
London Underground	2,106.5	2,059.6	2,113.3	2,067.9	2,018.8	2,016.5
Buses	2,104.4	2,115.7	2,142.1	2,156.6	2,169.5	2,187.6
Streets	512.3	479.7	494.5	480.0	498.4	516.3
Rail	480.3	455.5	504.2	507.5	526.4	538.3
Elizabeth line	277.3	254.3	431.9	497.6	523.9	560.2
Elizabeth line regulatory**	102.0	2.0	168.6	346.7	353.4	364.7
Other Operations	909.0	898.2	905.1	888.6	939.0	916.0
Commercial Development	169.5	158.7	149.3	130.9	108.2	109.2
Sub total operating costs	**6,661.3**	**6,423.7**	**6,909.0**	**7,075.8**	**7,137.6**	**7,208.8**
Other						
Third-party contributions	(57.4)	(39.0)	(52.9)	(41.5)	(30.7)	(23.4)
Debt servicing	498.5	462.3	495.1	517.7	556.8	611.1
Sub total other	**441.1**	**423.3**	**442.2**	**476.2**	**526.1**	**587.7**
Net service expenditure	**1,490.4**	**1,320.1**	**1,443.6**	**1,077.3**	**358.2**	**85.7**
Revenue resources used to support capital	-	-	-	-	607.0	779.6
Financing requirement	**1,490.4**	**1,320.1**	**1,443.6**	**1,077.3**	**965.2**	**865.3**
Other Specific grants	63.1	68.1	42.6	6.6	4.9	5.0
Retained business rates	1,421.3	1,246.0	1,395.0	1,064.7	954.3	854.3
Council tax requirement	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**

*Congestion charging includes congestion charge income and related compliance income

**The table now reflects the Elizabeth line central operating section (COS) regulatory track charge, which is net nil at TfL Group level. These charges were not included in the 2017 submission.

Explanation of budget changes

6.11 An analysis of the year on year movement in the Mayor's proposed council tax requirement for TfL compared to the revised budget for 2018-19 is set out below. An explanation of each change is provided in the paragraphs that follow.

Changes in the TfL's council tax requirement	£m
2018/19 council tax requirement	**6.0**
Changes due to:	
Inflation*	166.8
Savings and Efficiencies	(204.2)
Passenger & commercial revenue and other income changes**	(295.6)
Net change in operating expenditure, excluding inflation and savings**	289.6
Debt servicing	(3.4)
Government and other revenue grants	20.5
Retained business rates	26.3
2019/20 council tax requirement	**6.0**

* TfL does not separately account for inflation and so the numbers in this table are an estimate of the changes were the effects of inflation to be isolated. The paragraphs below reference the figures in the table above. These figures are an estimate of the year-on-year change with the effect of inflation isolated. TfL figures in this budget document have inflation included and may differ from the figures quoted in the above table.

** Income expenditure and net service expenditure variance includes the Elizabeth line COS regulatory track charges of £66.6m. This is net nil at TfL Group level.

Inflation

6.12 The Budget proposes that our net costs will increase by £166.8m as a result of inflation. This represents 2.4 per cent of operating costs, and is line with UK inflation rates. We will hold our operating costs broadly the same on a like-for-like basis, meaning we will absorb the impact of inflation.

Savings and efficiencies

6.13 We are continuing with the comprehensive review of our organisation and improving the way we work to ensure we deliver the Mayor's vision for London and meet our strategic objective of breaking-even on the cost of day-to-day operations - including financing costs and capital renewals, the latter ensuring our assets remains safe and reliable, by 2022/23.

6.14 Our cost reduction programme continues across all areas of our business, as we drive the development of a modern, efficient, high performing organisation to deliver our net operating surplus target in 2022/23. 2019/20 will be the fourth year of our cost reduction programme: between 2016/17 and 2018/19, while protecting safety, services and reliability, we will have delivered higher savings than planned, from a number of initiatives including:

- New operating model which has removed £111m of annual operating costs
- Refocusing the bus network on areas of greatest demand
- Commercial initiatives including improved contract negotiation
- New revenue streams, including a consulting arm that sells our skills, expertise and intellectual property around the world
- Improved maintenance regime within London Underground

6.15 We plan to make new savings of £204.2m in 2019/20. These are incremental to the savings already achieved from 2015/16 to 2017/18, and those forecast to be delivered in 2018/19. The programmes embedded in the business, which are all cashable are:

- London Underground will deliver additional savings of £102.9m in 2019/20 through their modernisation plan, with the target of delivering a £2bn railway (meaning operating costs are held to £2bn per annum) by 2021/22, through
  - The two phases of LU Operating model change – which have reduced organisational layers, but not impacted frontline services
  - Continuing the modernisation of the maintenance functions, including exiting a private partnership maintenance contract
- Surface Transport will deliver £74m through their savings plan, with the target of delivering an integrated Healthy Streets target subsidy of no more than £850m pa:
  - The continuous improvement of the Surface operating model
  - Reviewing, retendering and re-negotiating bus contracts and refocusing the network on outer London
- Corporate and Commercial Development will deliver new savings of £27.3m in 2019/20, with Professional Services operating costs targeted to go down to under £500m by 2021/22, including:

- Identifying new efficiencies to be realised by evolving the Professional Services operating model – for example a new Business Services directorate planned for 2019/20, that will bring together operational activity currently sitting in HR Operations and the Finance Services Centre to streamline common processes, standardise reporting and look for other ways in which to deliver a better service at reduced cost
- Consolidating our head office accommodation, vacating older buildings and co-locating staff

Passenger and commercial revenue and other income

6.16 Passenger, commercial and other income (including interest income) will increase by £295.6m (£66.6m relating to the Elizabeth line regulatory track charges), from £5,612.0m in 2018/19 revised TfL budget to £5,907.6m in 2019/20, reflecting predominantly the introduction of the ULEZ. This will improve air quality and contribute to making London a zero-carbon city in line with Mayor's Transport Strategy.

6.17 The Mayor announced an overall freeze on TfL fares to 2020. Single bus fares, single pay as you go fares on the Tube and DLR and Santander cycle hire charges, will be held at prices set in 2016.

6.18 In September 2016, the Hopper fare was introduced, allowing customers to make an extra bus journey free, as long as it is within one hour of touching in on the first bus. The Hopper fare was extended to allow unlimited bus and trams transfers within the hour. All TfL travel concessions will be protected during the Mayor's term, providing more than £300m of free or discounted travel every year to children, people over 60, those on income support, and other socially disadvantaged groups.

6.19 We are committed to preserving this range of concessions, including the 60+ Oyster photocard which bridges the gap for people over the age of 60 but below the age of eligibility for the Freedom Pass. However, this age gap is increasing over time and we will therefore be introducing a small annual fee for the 60+ Oyster photocard, in recognition of our growing administrative costs for providing this concession.

Net change in operating expenditure

6.20 The budget proposes a £289.5m net increase in service expenditure, which includes £66.6m of Elizabeth line track charges. This also includes £155m of operating expenditure due to increased services running on the Elizabeth line. The proposed budget also includes around £40m of costs related to introduction of ULEZ in April 2019. The budget also includes the introduction of new state-of-the-art trains on London Overground with an associated cost of about £25m. These new electric trains will increase capacity and reliability across network.

Debt servicing

6.21 Debt servicing decreases marginally by £3.4m in 2019/20 compared to the 2018/19 budget due to PFI interest payments reducing as contracts come to an end, such as the Connect PFI which is due to end in November 2019.

Other revenue grants

6.22 Our overall income from other grants will decrease by £20.5m in 2019/20 compared to the revised 2018/19 budget. The central government grant has now ceased, meaning London is one of the only major cities in the world to operate a public transport network without government subsidy to cover day-to-day running costs.

Retained business rates

6.23 Subject to consultation, the Mayor will allocate a total of £1,853.3m to TfL in 2019/20, which comprises of funding from the Mayor's council tax precept of £6m and business rates funding of £1,847.3m. This represents a reduction of £75m from TfL budget for 2018/19 owing to a one off repayment of TfL's share of business rates retention from 2015/16. Of the £1,847.3m business rates funding we have allocated £1,395m to the operating account and £452.3m to capital. Funding received under the business rate devolution proposals are not restricted to support capital investment and can be used to cover operating and financing costs.

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

6.24 The TfL Business Planning process began in June 2018 and followed a strict governance timetable that included engagement between the Mayor, the Deputy Mayor for Transport, TfL Finance Committee and TfL Board. Following the delegated authority from the Board, this will be presented for approval by TfL Finance Committee on 13 December.

6.25 The 2018 Business Plan sets out how we will deliver an efficient, affordable and modern transport network for London, and focus its commitment to implementing the Mayor's Transport Strategy to make London a fairer, greener, healthier and more prosperous city. Over the next five years we will deliver major investment in services across London, including capacity improvements on the Underground, and take forward an integrated investment programme across walking, cycling, air quality and buses. The TfL Business Planning team, The TfL Executive Committee and the Deputy Mayor for Transport have set this framework for the Business Plan process.

6.26 Initial prioritisation and optioneering took place during July - August 2018, including prioritisation meetings at Portfolio Board level. This enabled analysis to be undertaken at a local level (informed by subject matter and technical experts to validate scenarios), and a series of prioritised options to be presented for review and approval by the TfL Executive

Committee. The decisions here were subject to ratification by the TfL Executive Committee and the Deputy Mayor for Transport. Checkpoints for this decision making were also held with the Mayor in early October, and again in early November.

6.27 As part of the process, regular engagement took place on an informal basis with the Finance Committee and TfL Board to explain the assumptions underpinning the 2018 Business Plan. This included modelling to set out the impact of possible external scenarios affecting the plan to ensure proactive mitigations can be identified and implemented.

6.28 TfL Board formally delegated authority to approve the draft Business Plan 2018 to Finance Committee on 21 November 2018, required to facilitate the compliance with the statutory timeframes for the GLA Budget process. Following final meetings with the Mayor and his team in early November, the Business Plan document will be finalised and approved for publication by City Hall in December 2018.

6.29 The Plan is balanced given income from passengers and charges, together with government grant, secondary income, available reserves and borrowing fully meet the costs of operations and the capital programme.

6.30 The capital investment programme is aligned to the outcomes of the draft Mayor's Transport Strategy (MTS). As part of the annual business planning cycle, we have assessed and scored each individual project against MTS criteria, which were subsequently ranked following robust challenge sessions undertaken by our Executive Committee, and with extensive consultation with the TfL Finance Committee and Board. Based on the available funds, a series of prioritisation meetings with the TfL's Executive Committee and Deputy Mayor for Transport were held to agree a final Capital Investment Programme.

6.31 Capital receipts from the sale of property are inherently volatile in their value and timing. We have therefore planned on the basis of a portfolio of capital receipts and maintained headroom between the budgeted level of receipts and the value of transactions being progressed, in order to reduce this risk and increase confidence that at least the budgeted value of receipts will be delivered.

6.32 We have assessed the Group's overall exposure to inflation and interest rates which affect the commercial market (passenger levels, fare revenue and costs) and our financial activities (financial costs and investment returns on cash balances). We seek to manage our borrowings in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money while maintaining a conservative investment strategy. This ensures liquidity and protection from specific risks in market fluctuations.

Reporting against TfL's Budget

6.33 We monitor our Budget through regular public reporting which includes:

- A Quarterly Performance Report (QPR) that monitors financial and operational performance against the targets set out in the annual Budget, as well as against prior year. The report also includes key financial and operating performance over the last five quarters and the last five years to assess medium-term trends. This is reported to the TfL Board along with slides to accompany the Chief Finance Officer's presentation
- We produce a periodic Finance Report and slides which report financial progress against the annual budget. These are monitored each period by the TfL Executive Committee along with progress on our balanced scorecard. The finance report and slides are additionally reported to the TfL Finance Committee at each meeting.
- Project delivery is reported through the quarterly Investment Programme Report (IPR). This will monitor both project costs and milestone delivery against Budget. This report is provided to the Programmes & Investment Committee and the TfL Board.
- Quarterly performance review of financial, operational and capital results with City Hall, examining year-to-date and year-on-year variance analysis. These reports are available to the public within 35 working days (or 55 calendar days) after the end of the quarter.
- We set an annual TfL Balanced Scorecard. The progress against the measures on the TfL scorecard is reported every period or quarter, depending on the measure. It tracks business performance against the in year objectives derived from the MTS, the Business Plan and the Budget. The results are reported to the Executive Committee each period. The scorecard is presented in the Commissioner's report at Board meetings.

6.34 Project slippage is highlighted in the IPR; any slippage in project costs or schedule which are expected to roll over into future years will be assessed as part of our annual Budget setting process and will be incorporated into future Budgets subject to approval by the TfL Board.

Equalities, Diversity, Inclusion and Social Integration

6.35 Our 2018 Business Plan is committed to creating a more equal and inclusive London where regardless of your background you are able to access the transport network and be treated with dignity and respect. This aligns with the Mayor's equality objectives and manifesto commitments, and his vision as set out in 'A City for all Londoners'.

6.36 Our aim is to meet the Mayor's ambition to create a safe and inclusive transport network, fully accessible to everybody who lives and travels to London. We recognise the Mayors focus and prioritisation of equality, diversity, inclusion and social integration, and will continue to ensure we prioritise these in our plans.

6.37 We remain committed to ensuring that as an employer, we are fully representative of the city we service, harnessing the diverse talents within an inclusive organisation, and tackling underrepresentation at every level of the business. We will address the gender pay gap and monitor these trends via our Scorecard.

6.38 The Business Plan sets out planned expenditure for the whole of TfL from 2018/19 to 2022/23 and includes a number of projects and programmes, which aim to achieve the goals set out in Action on Equality and the MTS. Each of the individual projects and programmes will be subject to its own equality impact assessment.

6.39 Our budget proposals will seek opportunities to further address poverty, economic inequality and improve a social integration in London. Through reviewing our activities, we aim to reduce inequalities experienced by groups protected by equalities legislation, and those most vulnerable in society.

6.40 TfL aims to recruit, retain and develop a diverse workforce, harnessing the best talent from across London, and to make sure underrepresentation is tackled at every level of the business.

6.41 Through working with our suppliers, we are improving social and employment outcomes for Londoners. This includes placing diversity and inclusion requirements in contracts; hosting joint recruitment events for underrepresented groups in science, technology, engineering, maths careers, and co-producing joint initiatives to increase the recruitment of people from underrepresented groups.

6.42 Through working with our partners and suppliers we will also help to meet the Mayor's ambition to create a Dementia Friendly city, improve awareness about improving mental health and wellbeing, and improving the environment for disabled people to fully access London. The key themes in our 2018 Business Plan are:

- Affordable transport
- Shift towards healthier forms of transport – public transport, walking and cycling
- Safer London
- Creating attractive public spaces
- Increasing accessibility
- Helping business
- Improve air quality
- Increased housing and regeneration
- Raising more commercial revenue
- Harnessing technology to make journeys better
- Partnerships with boroughs and communities

6.43 These will be underpinned by TfL's equality objectives as published in Action on Equality: TfL's commitments to 2020. The key areas of focus are:

- Customer experience
- Customer information
- Accessible network
- Travelling safely and securely
- Value for money and affordability
- Health
- Workforce diversity
- Supporting current and future employees
- Engaging with employees and promoting an inclusive culture
- Our business partners
- Communication and engagement

Environmental Impact

6.44 We are committed to supporting the Mayor's environmental vision for London as set out in the London Environment Strategy and MTS. We are investing in initiatives to reduce emissions of air pollutants and greenhouse gases from transport in London. We are also undertaking actions to increase the resilience of transport in London to the impacts of climate change and deliver increased green infrastructure across the transport network.

6.45 The ULEZ will be introduced in central London in April 2019, and then expanded to the North and South Circular roads, in 2021. We will implement the infrastructure to support the ULEZ, which will require all vehicles to meet minimum emissions standards to travel in the zone, or pay a daily charge.

6.46 We are committed to reducing air pollution from our bus fleet. By 2020, our entire fleet will meet the ultra-clean Euro VI engine emissions standard. We will operate clean buses in both the ULEZ and in 12 Low Emission Bus Zones, tackling some of London's worst pollution hotspots. We will introduce more zero-emission buses, as part of the Mayor's commitment to a fully zero emission bus fleet.

6.47 We are assisting taxi drivers in making the transition to cleaner vehicles, through de-licensing payments, new vehicle grants and providing the electric charging infrastructure to enable mass uptake, helping to reduce harmful NOx emissions from taxis by 45 per cent in central London, by 2020. These taxis will support the introduction of zero emission zones from 2025.

6.48 To support the growing number of Zero-Emission-Capable (ZEC) taxis, and the take-up of electric vehicles, we are building a network of Rapid Charge Points across London. 300 Rapid Charge Points will be installed by December 2020.

6.49 We will support the Mayor's ambition to increase renewable energy in London by installing 1.1 MW of solar generation capacity on TfL buildings, and will explore opportunities to connect our network to local low carbon energy supplies.

Reserves

6.50 At 31 March 2019, our general reserves are expected to total £150.0m and are forecast to remain at the same level in each of the following financial years.

6.51 It is forecast that we will hold £745.6m of earmarked reserves at the close of 2019/20; these reserves will rise to £871m by the end of 2022/23. The expected movements in reserves over the planning period are set out in the following table.

6.52 Earmarked reserves have been established to finance future projects, consistent with TfL's approved Business Plan. We maintain a general fund to ensure liquidity and protect from short-term fluctuations in cash requirements.

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

Movement in reserves during financial year	Outturn 2017/18 £m	Forecast 2018/19 £m	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
Opening balances	1,212.6	1,098.6	1,564.9	895.6	497.5	740.9
Transfers to/from:						
Earmarked reserves	(114.0)	466.3	(669.3)	(398.1)	243.4	280.1
General reserves	-	-	-	-	-	-
TfL closing balances	**1,098.6**	**1,564.9**	**895.6**	**497.5**	**740.9**	**1,021.0**

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

Balance of reserves at end of financial year*	Outturn 2017/18 £m	Forecast 2018/19 £m	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
Earmarked reserves	948.6	1,414.9	745.6	347.5	590.9	871.0
General reserves	150.0	150.0	150.0	150.0	150.0	150.0
TfL closing balances	**1,098.6**	**1,564.9**	**895.6**	**497.5**	**740.9**	**1,021.0**

**The table is subject to change following the review of our reserve policy*

Draft Capital Spending Plan and Borrowing Limits

Introduction

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

9.2 The Mayor's Budget Guidance for 2019/20 requires the submission of a 20 year Capital Strategy incorporating a 20-year Capital Investment Plan and 20- year Capital Funding Plan. The funding and expenditures in first five years of the plan are presented annually below and are balanced. Thereafter from 2023/24 onwards, the expenditures and funding is grouped into five-year 'buckets', showing a shortfall. The Capital Strategy is set out in Appendix C.

9.3 TfL is responsible for the planning, delivery and day-to-day operation of the Capital's public transport system, including London's buses, Underground and Overground, the Docklands Light Railway (DLR), Tramlink and London River Services. It is also responsible for managing the Congestion Charge, maintaining London's main roads and traffic lights, regulating taxis, making London's transport more accessible and promoting walking and cycling initiatives.

9.4 We have scrutinised all capital projects to see where costs can be reduced through value engineering, while continuing to deliver the outcomes required in full. We have also reviewed project timing to ensure the programme can be delivered.

9.5 The investment in this plan, aligned to the draft Mayor's Transport Strategy will increase the quality and capacity of public transport. Our work on upgrading the existing network will serve important Opportunity Areas and lead to more homes and jobs.

Draft Capital Spending Plan

Under Section 122 of the GLA Act (for consultation)

9.6 Set out below is a summary of the Mayor's Draft Capital Spending Plan for 2019/20 which sets out the capital funding sources for the Capital Spending Plan in line with the format required under section 122 of the GLA Act. Further details on the GLA and each functional body's draft plan are set out below. More details of the key deliverables are set out in this section under each member of the Group and in the relevant Appendices.

Section		2019/20 £m
A	Total external capital grants	1,633.2
	Opening balance of capital receipts	-
	Total capital receipts during the year	309.2
	Total capital grants/ receipts	**1,942.3**
B	Minimum s.120(1) grant	-
	Total borrowings during the year	800.0
	Total borrowings	-
	Total borrowings and credit arrangements	**800.0**
C	Total capital expenditure anticipated during the year	3,168.6
	Total credit arrangements	-
	Total capital spending for the year	**3,168.6**
D	Funding: capital grants	1,633.2
	Funding: capital receipts/reserves	735.4
	Funding: borrowings and credit arrangements	800.0
	Funding: revenue contributions incl. BRS	-
	Total funding	**3,168.6**

9.7 TfL's Capital Spending Plan is fully funded and no new capital PFI/PPP schemes are reflected, other than those already committed.

9.8 Set out below is a summary of the TfL's draft Capital Plan to 2022/23 and how this is financed. This shows that overall the TfL Group will be investing £133.8m less in 2019/20 than is forecast in 2018/19.

Summary of the Capital Plan Plan 2018/19 to 2022/23	Forecast 2018/19 £m	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
TfL	3,302.4	3,168.6	2,051.2	1,881.2	1,905.8

Table 3: TfL's Draft Capital Strategy - years 1-5

TfL's Capital Strategy	Forecast 2018/19 £m	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
Crossrail construction programme	1,403.0	1,196.0	-	-	-
Elizabeth Line trains and enabling work	329.1	67.9	-	-	-
Line extensions*	165.3	242.5	177.3	116.5	-
Line upgrades**	419.9	448.5	440.3	455.6	540.1
London Underground enhancements	161.5	156.2	137.1	104.7	60.1
Buses enhancements	13.7	13.8	0.4	0.0	0.0
Streets enhancements	122.7	206.2	324.5	325.5	353.7
Rail enhancements	30.8	28.3	0.4	3.0	1.0
Other Surface operations enhancements	29.5	29.6	52.3	32.7	0.5
Corporate Projects enhancements	201.6	323.5	342.9	189.9	315.5
Renewals****	425.3	456.1	576.0	653.3	634.9
Total capital expenditure	**3,302.4**	**3,168.66**	**2,051.2**	**1,881.2**	**1,905.8**
Funding:					
Capital Receipts	719.7	211.2	299.1	53.0	206.7
Retained Business Rates	677.5	452.3	799.6	930.2	1,050.8
Capital Grants	210.2	274.9	119.8	11.8	15.0
Borrowing	820.0	800.0	580.0	500.0	500.0
Crossrail Funding Sources	777.7	906.0	5.0	5.0	4.0
Crossrail Funding Sources - OSD	221.5	97.9	14.8	79.7	47.1
Revenue Contributions	-	-	-	607.0	779.6
Working Capital and Reserve Movements	(124.2)	426.3	232.9	(305.5)	(697.4)
Total funding	**3,302.4**	**3,168.6**	**2,051.2**	**1,881.2**	**1,905.8**

*Line extensions includes Northern Line Extension and Barking Riverside Extension
** Line upgrades includes Four Lines Modernisation, Deep Tube Upgrade, World Class Capacity and Docklands Light Railway new Rolling Stock
*** Enhancements includes the balance of TfL's New Capital Investment expenditure across all parts of TfL
****Renewals expenditure is necessary to ensure the continued safe operation of transport services

Key Deliverables

9.9 Our total capital spend for 2019/20 will be £3,168.7m including Crossrail construction. Key investment programmes in 2019/20 include:

- Modernisation of Circle, District, Hammersmith and City and Metropolitan lines - £283m
- Elizabeth line (trains and enabling works) - £68m
- Major Station Upgrades including Bank - £97m
- Northern Line Extension - £213m
- Healthy Streets and Air Quality - £252m
- Barking Riverside extension - £29m
- Deep Tube Upgrade Programme (Piccadilly line) - £87m
- Docklands Light Railway Fleet replacement - £67m

9.10 In April 2019 we will introduce the world's first ULEZ. This will operate 24 hours a day, 365 days a year in central London and will make a significant contribution to improving air quality. We will also be working in 2019/20 to prepare for the tightening of standards in the London-wide Low Emission Zone, which will come into force in October 2020, and for the expansion of the ULEZ to the North and South Circular Roads in October 2021.

9.11 We will complete construction at Highbury Corner and progress work at Old Street. At both locations, we are removing outdated roundabouts to create new space for pedestrians and protected routes for cyclists.

9.12 We will commence construction on eight major new cycle routes while continuing to progress our programme of Quietways, Mini-Hollands and the Central London Grid.

9.13 We will progress step-free access schemes across the London Underground network towards delivering 15 new step-free stations by spring 2020.

9.14 We will continue work on London Underground's Northern Line Extension to Battersea and Four Lines Modernisation programme on the Circle, District, Hammersmith & City and Metropolitan lines. Work will also continue on the major upgrade of Bank station. We will complete work on the upgrade of Finsbury Park station.

9.15 We will begin construction on the Barking Riverside extension, a 4.5km extension to the Gospel Oak to Barking line that will serve one of east London's largest new housing developments. Services on the new line will commence in 2021.

9.16 We will open the reconstructed White Hart Lane station on London Overground, with step-free access and significant expanded capacity.

9.17 New management team at Crossrail is currently reviewing operational plans and the updated opening schedule will be announced in due course.

9.18 Our capital spending is financed from six main sources:

- Fares and ticket income;
- Charges under the Congestion Charging Scheme;
- Secondary revenue (such as advertising and property rentals);
- Third party funding for specific projects, such as the Home Office's contributions towards the Emergency Services Network project;
- Surplus revenue resource from the capital grant funding through the business rates devolution
- Prudential borrowing and related financing (including bond issuances)

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

Appendix A

Table 1: TfL - Subjective analysis

Subjective analysis	Revised Budget 2018/19 £m	Forecast 2018/19 £m	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
Income						
Passenger Revenue	(4,774.3)	(4,762.6)	(4,820.9)	(5,191.3)	(5,742.5)	(6,168.3)
Congestion Charging*	(231.8)	(230.1)	(225.7)	(225.0)	(238.1)	(238.2)
Enforcement Income	(48.4)	(52.9)	(53.9)	(58.4)	(67.0)	(67.0)
Taxi & Private Hire and VCS fees	(48.8)	(41.0)	(41.6)	(46.7)	(49.7)	(50.9)
Advertising Income	(165.2)	(148.7)	(151.7)	(170.3)	(184.1)	(194.4)
Rental Income	(80.6)	(90.4)	(94.0)	(105.8)	(116.8)	(135.6)
Other Income**	(307.6)	(229.4)	(561.3)	(709.7)	(929.2)	(865.9)
Total Income	**(5,656.7)**	**(5,555.1)**	**(5,949.1)**	**(6,507.2)**	**(7,327.4)**	**(7,720.3)**
Operating Expenditure						
Employee Expenses	2,196.4	2,128.0	2,197.4	2,192.7	2,152.2	2,125.8
Premises	362.7	330.8	329.7	348.8	347.3	354.6
PFI Service Charge	**78.3**	**81.6**	**94.6**	**54.5**	**55.9**	**61.4**
Bus Contract Payments	1,992.9	1,996.2	2,005.2	2,025.3	2,046.3	2,071.8
CCS Income and other road contracted services	382.6	343.3	344.4	362.3	440.8	447.9
Asset Maintenance and Local Authority Payments	547.3	527.3	657.0	676.8	656.7	661.4
Professional and consultancy fees	144.9	140.4	120.1	86.2	88.0	95.2

Subjective analysis	Revised Budget 2018/19 £m	Forecast 2018/19 £m	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
Ticket Commissions	51.9	50.1	53.7	54.2	53.3	55.7
Customer Information	37.8	37.1	38.1	36.1	36.2	36.3
National Rail Payments	32.3	30.4	71.7	74.0	76.2	78.4
Franchise Payments**	592.8	474.0	708.7	921.8	947.9	986.3
Information and Communication Technology	194.4	194.7	204.5	198.7	201.7	208.2
Insurance	27.3	20.4	33.9	33.9	34.1	34.1
Traction Current	132.5	129.8	131.0	151.5	163.9	174.2
Other operating expenses	147.5	174.8	150.5	100.0	73.0	81.6
Capital resources and other recharges	(306.1)	(289.0)	(318.0)	(314.0)	(334.2)	(339.1)
Bad debt provision	45.8	53.8	86.5	72.9	98.3	75.0
Total Operating Expenditure	**6,661.3**	**6,423.7**	**6,909.0**	**7,075.7**	**7,137.6**	**7,208.8**
Net Operating Expenditure	**1,004.6**	**868.5**	**959.9**	**568.5**	**(189.8)**	**(511.5)**
Group Items	485.7	451.6	483.7	508.8	548.0	597.2
Revenue resources used to support capital investment	-	-	-	-	607.0	779.7
Financing Requirement	**1,490.4**	**1,320.1**	**1,443.6**	**1,077.3**	**965.2**	**865.3**
Specific grants	63.1	68.1	42.6	6.6	4.9	5.0
Retained Business Rates	1,142.3	1,246.0	1,395.0	1,064.7	954.3	854.3
Council tax requirement	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**

*Congestion charging includes congestion charge income and related compliance income

** Other income / Franchise payments: Elizabeth line operations now reflect the regulatory track charge, which is net nil at TfL Group level. These charges were not included in the 2017 plan

Table 2: TfL - Capital financing costs

Capital financing costs	Budget 2019/20 £m	Plan 2020/21 £m	Plan 2021/22 £m	Plan 2022/23 £m
Provision for repayment of debt	26.3	26.3	26.3	26.8
External interest	485.2	513.7	551.4	598.8
Total	**511.5**	**540.0**	**577.7**	**625.6**

Prudential borrowing

The TfL Board approves prudent treasury strategies and policies that have regard to both the principles of the revised CIPFA Prudential Code and the revised investment guidance (effective 1 April 2018) issued by the Department for Communities and Local Government.

Borrowing is undertaken within prudent limits set out in our funding agreement with central Government and approved by our Board and the Mayor. The maximum amounts of borrowing in each financial year are set out in the table below. We constantly assess our financial position and will only borrow where it is prudent to do so.

We borrow from a variety of sources, with consideration given to the cost of borrowing, market conditions and the level of flexibility offered. These sources include:

- The Public Works Loan Board
- A £5bn Medium Term Note programme
- A £2bn Commercial Paper programme
- The European Investment Bank and Export Development Canada, with loans linked to specific infrastructure projects
- Finance leasing arrangements, used for specific assets such as rolling stock
- Bank loans, including a £200m bank overdraft facility that is in place to provide contingent liquidity

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

Annual Minimum Revenue Provision (MRP)

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

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

For the debt used to finance capital expenditure within the Corporation, an Annual MRP is made. This has been calculated to build up a provision over the average expected useful economic life of the assets funded. This has been calculated at 35 years.

Borrowing Limits

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

Table 3: TfL - Authorised limit for external debt

Operational limit for external debt	Current Approval 2018/19 £m	Revised Approval 2018/19 £m	Proposed 2019/20 £m	Proposed 2020/21 £m	Proposed 2021/22 £m	Proposed 2022/23 £m
Borrowing	12,382.1	12,382.1	13,621.6	14,201.6	14,701.6	15,201.6
Long term liabilities	200.3	200.3	213.4	228.5	249.2	235.0
TfL closing balances	**12,582.4**	**12,582.4**	**13,835.0**	**14,430.1**	**14,950.8**	**15,436.6**

Table 4: TfL - Operational limit for external debt

Operational limit for external debt	Current Approval 2018/19 £m	Revised Approval 2018/19 £m	Proposed 2019/20 £m	Proposed 2020/21 £m	Proposed 2021/22 £m	Proposed 2022/23 £m
Borrowing	11,339.9	11,359.9	12,159.9	12,739.9	13,239.9	13,739.9
Long term liabilities	200.3	538.2	444.4	413.6	414.1	382.7
TfL closing balances	**11,540.2**	**11,898.1**	**12,604.3**	**13,153.5**	**13,654.0**	**14,122.6**

Appendix B

GLA Group Four-Year Efficiency Plan

Savings and efficiencies across the GLA Group

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

Savings and efficiencies	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
TfL	204.2	317.1	150.3	152.0

Appendix C: DRAFT TfL Capital Strategy

1. Intention

1.1. The purpose of the TfL Capital Strategy is to set out the investment required to help deliver the Mayor's vision for London. The Mayor's Transport Strategy (MTS), aims to reduce Londoners' dependency on cars in favour of active, efficient and sustainable modes of travel, with the central aim for 80 per cent of all trips in London to be made on foot, by cycle or using public transport by 2041. This Capital Strategy covers the majority of this period, and the investment included here is designed to contribute to this aim.

1.2. This Capital Strategy is produced in the financial context described earlier in this document. It is important that, while we address our immediate priorities to generate an operating surplus and complete Crossrail, we continue to look ahead and identify what is needed to improve the transport network as required by the population and economic growth of London.

1.3. Producing this Capital Strategy enables a clear view to be taken of the various capital investments that will need to be made by TfL, alongside other bodies, to achieve the Mayor's ambitions for transport in London. It also shows that a funding gap exists between current sources of funding and that required to ensure sustainable growth and a high quality of life in London. Establishing more secure, long-term funding streams will be essential to enable TfL to improve London's transport over the next 20 years, and we will be lobbying central government as part of the 2019 Spending Review to reflect this.

2. Benefits

2.1. The TfL Capital Strategy will enable clearer and more transparent long-term decisions to be made on the investment needs of London. Many transport schemes take an extremely long time to develop and deliver: for example Crossrail was first proposed in the 1970s, but is only now nearing its final delivery. As such, a long view is extremely useful, as the full vision for enhancing London's transport network requires a long delivery period.

2.2. The TfL Capital Strategy sets out a pipeline of investment for 20 years. Giving clear sight of how our investment will progress over this period is useful for a variety of audiences, including our supply chain who will be able to resource accordingly to meet the demand for construction in London.

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

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

3. Approach

3.1. The TfL Capital Strategy has been prepared reflecting the Mayor's policy priorities and the needs of running services safely and reliably.

3.2. TfL's Capital Strategy has been sourced primarily from the MTS and information previously provided to the National Infrastructure Commission (NIC) (years 7-20) and the TfL Business Plan (years 1-6). Each of these documents has already undergone a rigorous approval process.

3.3. The underlying MTS/NIC figures have been adjusted to reflect:

- Estimates of future inflation (from constant prices to outturn)
- Addition of items intentionally not included within the MTS/NIC figures such as TfL Capital Renewals as well as capital spend in non-transport areas such as IT and Commercial Development
- Removal of spend that is not likely to be incurred by TfL directly
- Removal of spend that TfL is unlikely to be able to capitalise under current accounting rules. For example capital projects delivered on borough roads are excluded since they are accounted as TfL operating expenditure through the Local Implementation Plans (LIPs) process
- Most recent cost estimates where available

3.4. The complete TfL Capital Strategy has been further reviewed by TfL's Executive Committee.

4. Influences

4.1. The breadth of TfL's activities and the close relationship between transport and many other parts of society means that this Capital Strategy has an extremely wide set of influences. Most importantly, the strategy emerges out of the Mayor's Transport Strategy (MTS), which has set out a vision for how London's transport should develop over the period to 2041. Work as part of the development of the MTS identified the broad delivery profile and cost of the investment it sets out, and this work has been updated for this Capital Strategy (as explained in the Approach section).

4.2. The MTS itself has been influenced by many drivers of change in London, including changes in the economy and population of London, environmental issues such as air pollution and climate change, the need to increase housebuilding across the capital, the health needs of Londoners and the performance of London's current transport network. For a full description of the background to the MTS, please consult that document. As well as the MTS, other key policy documents including the London Environment Strategy, draft London Plan and National Infrastructure Assessment have informed the strategy presented here.

4.3. Going forward, economic and demographic changes will have a significant impact on the delivery of this strategy. Economic uncertainty brought on by various external events such as Brexit has a negative impact on our ability to plan investment in the long term. Any changes to projections of London's economic or population growth will have a significant impact both on the need to invest, with faster growth requiring investment to be brought forward and slower growth possibly having the opposite effect.

4.4. Policies of central government will also have a significant impact on this strategy, including through their ongoing support for investment and major projects, granting of new powers to London (and other cities) to raise funding from new sources to invest in transport and devolution of London's suburban rail services.

4.5. A key influence both on the MTS and on this strategy is the availability and nature of funding to invest in transport. TfL's Business Rates Retention allocation is reviewed during each Spending Review. While this gives us certainty over the Spending Review period, it limits our ability to plan long-term capital investment. For this strategy we assume throughout the 20 years that the current level of retained business rates is maintained (growing with inflation), but this is dependent on the outcome of a series of Spending Reviews. Replacement of this form of funding with another during the 20 years would have a significant impact on delivery of this strategy.

5. Policies

5.1. TfL's Capital Strategy is fully aligned to the Mayor's policies as are the MTS/NIC figures and the TfL Business Plan on which the Capital Strategy is based.

5.2. TfL acknowledges that any activity in delivering the Capital Strategy will be executed within the parameters of Board approved policies and both statutory and regulatory frameworks. The most important of these policies and frameworks are outlined here.

5.3. In adherence with the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017, the Capital Strategy references key principles underpinning TfL's approval and governance processes on capital expenditure, commercial activity (including long term liabilities) and treasury management. For detailed aspects, the documents referenced below and TfL Standing Orders are published on TfL's website.

5.4. Capital spend on transport infrastructure and commercial/investment activity is budgeted for and included in the TfL Group Budget and TfL Business Plan, both of which are produced annually and approved by the Board. The TfL Business Plan outlines the medium term plan that aligns to delivery of the overall MTS, whereas the TfL Group Budget sets out the more detailed, shorter-term target.

5.5. The TfL Business Plan is a balanced plan, integrating capital spend inclusive of commercial activity and investment strategies with the financing strategy for planned expenditure. The approved TfL Business Plan encompasses a complete forecasted balance sheet including reserve positions, demonstrating that the capital and financing strategy is prudent and affordable – principles advocated within the Prudential Code.

5.6. TfL Group Budget and TfL Business Plan are produced reflecting the Treasury Management Strategy (TMS), which is updated at least annually and approved by the Finance Committee prior to submission to the Board for final approval.

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

5.8. Unbudgeted activity is monitored by various means, and is explicitly captured through monitoring of the Prudential Indicators which are aligned to the TfL Group Budget and TfL Business Plan, and define an operational boundary and authorisation limit of external borrowings including long term liabilities for the following year. The Prudential Indicators set an expected estimate of capital financing costs and capital expenditure for the following year. The Prudential Indicators are approved by the Finance Committee prior to submission to the Board for final approval annually.

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

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

Investment Strategy:

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

5.12. TfL considers the risk of its overall portfolio as well as individual investments, seeking to diversify its investments and has regard to the exposure to any one counterparty, country, industry, investment type, and credit. TfL targets allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time.

5.13. TfL has regard to expected cash flow requirements and maintains an investment portfolio with a range of maturities (an investment can have a maximum tenor of one year).

5.14. TfL seeks to achieve year-to-date returns greater than the year-to-date average benchmark of seven day London Interbank Bid Rate (LIBID), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as Money Market Funds.

Borrowing Strategy:

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

5.16. TfL's annual borrowing requirement is driven by the financing requirement of its capital investment programme and the refinancing of its maturing debt. TfL plans to raise incremental borrowing in each year to 2022/23, supported by increases in the operating surplus. In future years, additional borrowing is only an option where the capital spend results in an increase in future operating surplus that can service the operating and financing costs, as discussed in the ambition gap section below.

5.17. In addition to the Public Works Loan Board (or any future body replacing it) being a readily available source to raise funds, TfL seeks to achieve its borrowing objectives by maintaining access to capital markets and complementing this with loans and other facilities from financial institutions where appropriate.

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

5.19. The Prudential Indicators document incorporates limits on fixed and variable interest rates exposures. As debt service represents a relatively significant part of TfL's annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement.

6. 20 Year Capital Ambition

6.1. TfL's Capital Ambition is to fully deliver the TfL capital investment elements of the Mayor's Transport Strategy while continuing to fund renewals activity to ensure the continued safe operation of transport services. The MTS represents the Mayor's transport vision for the period to 2041 and delivering it will create a future London that is not only home to more people, but is a better place for all of those people to live.

6.2. London's population is growing – it is forecast to be 10.8 million by 2041, generating an additional six million trips each day – and as such significant investment is needed to ensure that the transport network is capable of accommodating this growth in a sustainable manner.

6.3. For London to continue to be successful, it is fundamental that the city becomes a city where walking, cycling and public transport are the most appealing and practical modes of transport for the majority of journeys. Only this way will London achieve the mode share aim set out within the MTS. To achieve the vision, the MTS has three themes:

- 'Healthy Streets and healthy people' – street environments and the wider street network will be planned to promote healthier, more efficient and more sustainable transport options. This includes the better planning and operation of freight and servicing trips to reduce their impact on people.
- 'A good public transport experience' – consideration of the whole journey will improve quality of life and reduce car dependency by providing attractive and accessible alternatives to car use. This includes providing higher-quality public transport services, better planned transport networks and the extension of public transport links to new areas.
- 'New homes and jobs' – applies the Healthy Streets Approach to London's future development, creating the principles of Good Growth. This will ensure that regeneration and future development are planned around walking and cycling for shorter trips, and cycling and public transport for longer ones

6.4. Some of the key projects and portfolios required to achieve these ambitions are described below.

Crossrail 2:

6.5. London's Central Activities Zone (CAZ) is home to over two million jobs of which 600,000 are highly productive Knowledge Intensive Business Services jobs. The agglomeration benefits associated with such a dense cluster of employment means that London has been extremely successful at attracting talent and population has been growing steadily over the past couple decades. Housing supply has not kept up and as a result London's housing market has become unaffordable for many. To safeguard London's 'World City' status and to continue to grow, London needs a transport network that can help unlock housing while providing fast and reliable service between homes and jobs.

6.6. Crossrail 2 has been designed to achieve this. The project is expected to open in the 2030s and unlock 200,000 new homes as well as providing a new southwest-northeast rail connection that will alleviate severe congestion at key interchange stations in central London, including the HS2 terminus at Euston. Its benefits will extend well beyond London into the wider South East, and it will significantly address congestion and connectivity issues on Network Rail's South West Main Line and West Anglia Main Line. These wide-ranging strategic benefits have led to the project being named a priority scheme by the National Infrastructure Commission.

6.7. The overall cost of Crossrail 2 (CR2) represents a large proportion of the Capital Ambition total cost. The scheme is vital in order to safeguard London's competitiveness and future prosperity. An Independent Affordability Review has recently been completed and its costs included within the Capital Strategy. Its recommendations will inform the delivery of the scheme and its funding package.

6.8. The Governance and Delivery arrangements for CR2 are still to be fully determined; it is shown in this Capital Strategy as a TfL project, with 50 per cent DfT funding.

Line extensions:

6.9. This heading includes extensions to the Northern and Bakerloo lines, Elizabeth line, DLR and Tram networks.

6.10. Extensions to existing services will be particularly important in stimulating growth in London's Opportunity Areas. The two largest schemes covered here, the Bakerloo Line Extension to Lewisham and beyond and the Elizabeth line extension to Ebbsfleet, would both stimulate the construction of tens of thousands of new homes, while improving public transport connectivity and accessibility.

6.11. To proceed, these schemes would require full funding packages reflecting the benefits of the extensions to the areas they run through. These funding packages could be assembled in a similar way to Crossrail, with grant from central government and innovative funding sources linked to development stimulated by the extensions.

Line upgrades:

6.12. This includes the Deep Tube Upgrade Programme work on the Piccadilly, Central and Waterloo & City lines; increasing frequency on the Elizabeth line; acquisition of new rolling stock for the DLR; and enhanced timetables on the Northern and Jubilee lines.

6.13. The upgrade to the Bakerloo line, connected to proposals to extend it to Lewisham and beyond, is in this strategy grouped under line extensions.

6.14. The upgrade to the Deep Tube lines is key to the future of the Underground network. Together, the Bakerloo, Central, Piccadilly and Waterloo & City lines carry around two million passengers per day, serving major locations across London, including the City, West End, Stratford, Kings Cross and Heathrow Airport. Growth in these areas requires reliable and high-capacity services running on these lines. Some of the trains on these lines date back to the 1970s and some signalling equipment to the 1950s and 60s. Delivering a full scope of enhancements to these lines will require additional resources beyond TfL's existing retained business rates if the upgrades are to be delivered to a reasonable timescale. Failure to do so will mean less reliable services for customers, constrained growth in key parts of London and deferral of important benefits, including air-conditioning.

6.15. The upgrade to the Piccadilly line will commence within our current five-year Business Plan with the delivery of the first of 94 new trains for the line. Ideally we would also be able to commence an upgrade of the line's signalling system within the next five years. However, at this stage we are not able to commit to this more comprehensive and efficient upgrade timeline because we lack sufficient certainty of our long-term funding settlement. A return to ten-year funding settlements with central government would improve our ability to commit to these kinds of long-term undertakings.

6.16. We will be lobbying central government to reflect the importance of delivering this programme, including funding the resignalling of the Piccadilly line, during the 2019 Spending Review, particularly in the context of the pressure an expanded Heathrow would place on Piccadilly line capacity.

Enhancements – London Underground:

6.17. Beyond line upgrades and Line extensions, further enhancements on London Underground will focus on improving stations. This includes both increasing capacity, as is currently underway at Bank, and enhancing accessibility so that a majority of Tube stations become step-free to all platforms.

Enhancements – Buses:

6.18. Most enhancements to buses are delivered through TfL's operating account and investment by private bus operators, and are thus not included in this strategy. The streets enhancements line includes plans to develop bus priority corridors and targeted interventions to improve bus performance.

Enhancements – Streets:

6.19. Fundamental to the MTS is the shift from car to public transport and active modes. As public transport and active travel become the go-to modes of transport, investment will need to match this. Using the Healthy Streets Approach, road junctions will be treated to reduce danger facing the most vulnerable users. Similarly, road space may be prioritised so that movements can take place in the most efficient manner. We will develop a strategic cycle network so that 70 per cent of Londoners live within 400m of it by 2041.

Enhancements – Rail:

6.20. Londoners need to be able to trust in the reliability of the public transport network, but for many rail users this is not currently the case. TfL will seek to obtain powers from Government to operate the complex suburban London rail network. In doing so, TfL will upgrade the current network and bring in a metro style service across lines, modernising stations, ensuring that passengers benefit from a reliable service. We have included estimated costs to achieve these goals, but this is dependent on government granting the required powers to devolve services to TfL.

6.21. As well as expanding the remit of London Overground, the existing network will be enhanced, including through frequency improvements on the East London line. Capacity will be increased on the DLR and London Trams to boost growth in the Opportunity Areas they serve.

Enhancements – Other Surface:

6.22. To clean up London's air, the Capital Ambition includes a number of air quality related projects and programmes in years 6-20. These will include providing charging and refuelling infrastructure to support the transition from diesel and petrol to ultra low emission vehicles. The transition to cleaner vehicles will be complemented with the introduction of zero emission zones in town centres across London.

Enhancements - Corporate:

6.23. In addition to the requirements of the MTS, TfL will incur capital expenditure in the running of the organisation including replacements of IT infrastructure and hardware, enhancements and renewals of commercial property and other Commercial Development investments designed to increase incomes.

6.24. Also included is TfL's Growth Fund capital expenditure.

Renewals:

6.25. In addition to the capital enhancements above, TfL will continue to carry out capital renewals of its existing, and growing, asset base in order to continue to deliver safe and reliable services. The level of renewals expenditure in the latter years of the Capital Ambition is higher than the average of the five year Business Plan allowing for works to enhance and improve reliability as well as to reflect a growing asset base.

7. 20-Year Capital Investment Plan

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

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

7.3. The combined Capital Investment Plan and Capital Funding Plan are presented in Table 1.

8. 20-Year Capital Funding Plan

Funding Renewals:

8.1. From 2022/23 TfL will break even on its operating account, including capital renewals, subject to continuing levels of retained business rates. The funding for renewals will therefore come from operating revenue.

Funding Commercial Development:

8.2. TfL requires its commercial activities to be self-financing, with the capital expenditure needed to renew and enhance TfL's commercial assets funded by asset disposals and increased operating income.

Funding line upgrades and enhancements:

8.3. This tranche of our investment programme contains the largest number of schemes, including all streets investment and much of our London Underground and Rail investment.

8.4. The main funding source for these enhancements is the capital element of retained business rates (formerly paid as an Investment Grant direct from central government). This is insufficient to cover all investment included here, particularly given the need to upgrade the Deep Tube lines to replace rolling stock dating back to the 1970s and signalling in some cases even older. Delivering all of the investments London needs to replace and upgrade its infrastructure will require further funding beyond that currently identified.

8.5. Options for closing this gap are discussed in the ambition gap section below.

Funding Crossrail 2 and line extensions:

8.6. A small number of large projects should be considered separately from the enhancements covered above. This includes Crossrail 2, the Bakerloo Line Extension to Lewisham and beyond, and the Elizabeth line extension to Ebbsfleet.

8.7. The purpose of such schemes is not merely to improve transport but also to stimulate a step change in development in the areas they run through, and they are of particular strategic importance to the future of London and the wider South East. Due to their size, complexity and expense, they require bespoke funding and delivery plans, as was the case for Crossrail 1 and the Northern Line Extension.

8.8. Sources of funding for these projects would be expected to include grant from central government, the Community Infrastructure Levy, Business Rates Supplements, contributions from developers and other forms of land value capture. Elements of some projects would be expected to be delivered by bodies other than TfL, including Network Rail.

8.9. Given the early stages of development of these schemes, it is natural that their funding packages have not yet been fully agreed. These schemes could only be progressed once their funding packages are assembled in full. This Capital Funding Plan includes assumed amounts from a number of sources that have already been identified. These sources do not amount to the full costs of these extension projects, and the ambition gap section below discusses further funding options.

8.10. It should be noted that we are not including any provision for borrowing in this Capital Funding Plan beyond the first five years. Our assumption at this stage is that all existing borrowing will be able to be refinanced, but no further incremental borrowing is included. This issue is discussed further in the ambition gap section below.

Table 1: TfL's 20-Year Capital Investment Plan

TfL's Capital Strategy	2018/19 to 2022/23 £m	2023/24 to 2027/28 £m	2028/29 to 2032/33 £m	2033/34 to 2037/38 £m
Crossrail 2		10,427.0	18,357.0	12,509.0
Crossrail 1 (including Elizabeth line trains and enabling work)	2,996.3	-	-	-
Line extensions*	701.6	10,176.8	7,469.0	1,178.6
Line upgrades**	2,304.4	3,849.3	2,861.4	5,400.4
Enhancements***	3,561.3	4,067.4	4,761.2	4,460.9
Renewals****	2,745.6	3,952.6	4,925.9	5,993.2
Total capital expenditure	**12,309.2**	**32,473.1**	**38,374.5**	**29,542.1**
Funding:				
Capital Receipts	1,489.7	238.0	45.0	-
Retained Business Rates	3,910.4	5,577.0	6,156.4	6,797.1
Revenue Contributions	1,386.6	4,358.9	5,055.3	6,205.2
Borrowing	3,200.0	-	-	-
Working Capital and Reserve movements	(467.9)	-	-	-
Total Funding available for line upgrades and enhancements	9,518.8	10,173.9	11,256.7	13,002.3
Capital Grants	631.7	6,545.0	13,481.4	3,127.3
Crossrail 2 Funding Sources	-	863.0	1,231.0	3,316.0
Crossrail 1 Funding Sources	2,790.4	-	-	-
Total assumed funding for CR2 and line extensions	3,090.4	7,408.0	14,712.4	6,443.3
Total funding	**12,309.2**	**17,581.9**	**25,969.1**	**19,445.6**
Anticipated shortfall (upgrades + enhancements)	**-**	**(1,695.4)**	**(1,291.8)**	**(2,852.2)**
Anticipated shortfall (Line extensions / CR2)	**-**	**(13,195.8)**	**(11,113.6)**	**(7,244.3)**

Notes:
*Line extensions includes Northern Line Extension, Bakerloo Line Extension and upgrade, Elizabeth line extension, Barking Riverside, DLR and Tram network extensions
**Line upgrades includes the Piccadilly line upgrade, together with the Central and Waterloo & City line upgrades, increasing frequency on the Elizabeth line as demand requires, as well as costs to complete the acquisition of new rolling stock for the DLR and enhance timetables on the Northern and Jubilee lines
***Enhancements encompass the balance of TfL's New Capital Investments expenditure across all parts of TfL
****Renewals expenditure is necessary to ensure the continued safe operation of transport services

9. Ambition gap

9.1. As discussed in the Capital Funding Plan section, our capital ambition can effectively be segmented into four: Renewals, Commercial Development, line upgrades / enhancements, and Crossrail 2 / line extensions. Renewals are funded out of TfL's operating revenue, which is not fully modelled here, but it is expected to cover the cost of renewals from 2022/23 onwards. Commercial activities will be self-financing. The two parts of our investment programme where an ambition gap is apparent are therefore line upgrades / enhancements and Crossrail 2 / line extensions.

Line upgrades and enhancements:

9.2. TfL's main ongoing capital funding source, retained business rates devoted to the capital account, is insufficient to cover the full costs for line upgrades and enhancements set out in our Capital Investment Plan. The plan is fully balanced in the first five years, reflecting the greater certainty over this period and the difficult decisions we have taken to defer important investments. But if we are to deliver sufficient investment to support London's growth beyond this period, further funding beyond that so far identified will be required.

9.3. Various mechanisms exist for raising this additional funding, including:

- Further government support beyond the current business rates arrangements. This could include a larger allocation to London, reflecting its contribution to the national economy, and/or a longer-term settlement enabling us to plan with more certainty for investments that will take many years to deliver. We will be lobbying central government to reflect the importance of our full programme of line upgrades and enhancements as part of the 2019 Spending Review
- Devolution of financial powers to London (and other cities). London controls relatively little of the tax raised within it and this means it can appear over-reliant on national government. Devolving powers over taxes such as stamp duty and vehicle excise duty could allow London to better manage its own growth
- Generating a larger than expected operating surplus and devoting this to investment. It should be noted that TfL is making extensive savings as part of its current Business Plan to enable a small operating surplus to be delivered by 2022/23, and it is not realistic to expect further savings on this scale to continue to be delivered indefinitely
- Further commercial income beyond that already planned, including from developing TfL land and new commercial ventures, although again significant progress will be made on this issue over our five-year Business Plan and further growth may require new approaches
- Funding from new income sources such as addressing the fundamentally inadequate and unfair way in which road use is paid for in London, with motorists paying too little, and in effect being subsidised by public transport fare payers
- Bidding for targeted support from central government, from sources such as the Housing Infrastructure Fund or Major Road Network

- Private financing on a case-by-case basis where it delivers value for money. Such financing would generally have to be paid back over time through the operating account, so this option should only be considered as a short-term financing solution where circumstances justify it
- Funding contributions from developers and other third parties including boroughs, which we seek for all appropriate projects

Crossrail 2 and line extensions:

9.4. For Crossrail 2 and line extensions, funding packages need to be assembled on a case-by-case basis. These projects are at varying stages of development, with Crossrail 2 particularly advanced in identifying funding options.

9.5. The Capital Funding Plan has included funding that we expect to be available if suitable strategic projects to justify them are progressed. As for the line upgrades and enhancements described above, we will be lobbying the government as part of the 2019 Spending Review to provide funding towards these important strategic schemes.

9.6. The options listed in 9.3 above could contribute to such projects as well as to regular enhancements and line upgrades. Beyond these options, some project-specific funding sources that could be further developed include:

- New methods of land value capture, reflecting the significant benefits projects can have for local landowners
- Asset sales related to the projects, for example of over-site development upon the conclusion of construction work
- Developer contributions. Contributions are case-specific, and we are thus not able at this time to identify sums that would be generated from this, but it would be expected that they are included in project funding packages
- Borrowing. Given this strategy does not model our operating account; it is not possible to assess whether these projects could be expected to deliver an operating surplus upon completion. If they were anticipated to run an operating surplus, this may justify some additional incremental borrowing as part of their funding packages. It should be noted that, while borrowing can be used to help finance projects, it is not a form of funding and will need to be repaid over the following years. TfL will continue to take a prudent, affordable and sustainable approach to funding appropriate investment through borrowing

9.7. If the above options do not prove sufficient to close our ambition gap, the result will be that projects will be deferred or not take place at all. This would reduce our ability to meet the targets set out in the MTS and negatively impact quality of life, health, social integration, economic growth, ability to deliver new housing and resilience to climate change.

10. Risks to the Capital Investment Plan

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

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

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

10.4. Delivery Risk: delivery of a significant capital programme is not without risks. In particular for this 20 year ambition where cost estimates are being made many years in advance of when projects would commence and in some cases there is little detail of the scheme available on which to base an estimate.

10.5. Risk of underestimating future costs: It is very difficult to predict construction cost inflation over 20 years. Coupled with the possibility for project cost estimates to rise over time, there is a risk that costs will become higher than currently estimated.

10.6. Risk that pressures on TfL's Operating Account require funding to be diverted away from Capital Expenditure. This could include for issues such as funding investment on non-TfL assets or higher operating costs for necessary staffing and maintenance levels.

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

- Political Risk: Over 20 years, politics at every level can impact on the availability of funding and support for TfL capital projects
- Economic Risk: Brexit is the most obvious current single risk in this context, but over 20 years many economic conditions and factors could change demand for TfL services, and hence indirectly funding available and the need to invest
- Social Risks: Known risks include reductions in the requirement for travel such as increases in home working, internet shopping and alternatives to conventional public transport such as private hire apps, ride sharing, car clubs and dockless cycle hire. Such trends if accelerated could require a reprioritisation of the strategy
- Technology Risks: Known risks include cyber security, the impacts of AI and autonomous vehicle technology – but there may be others yet to be invented. These could have favourable or unfavourable impacts on TfL and might conceivably challenge today's public transport model

- Legal Risk: TfL may be compelled to undertake new activity as a result of law changes, which may increase costs of projects or require additional ones. Legal challenges may delay TfL activity.
- Environmental Risk: Climate change, including rising sea levels, could have a significant impact on our infrastructure, much of which is low lying. Changes in temperature could impact our requirement to invest in cooling our infrastructure. Attempts to reduce the impact of climate change will require us to invest in decarbonising our services, which we are already including in this Capital Strategy, but the specific requirements of this could change

11. Appraisal

11.1. The standard Business Planning process involves monitoring by TfL's Executive Committee and Executive Committee as well as the non-executive Finance Committee and TfL Board. This process includes the production of an Equality Impact Assessment. Projects included in the Business Plan have been appraised against "fit" with the MTS, other mayoral priorities, TfL Strategy and affordability.

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

11.3. The two combined in the format of the Capital Strategy have been further reviewed by TfL's Executive Committee as well as the Chief Finance Officer.

11.4. As projects and programmes progress, the 'Five Cases' business cases will continue to evolve to ensure optimum choices are made at each lifecycle stage and to assess that value for money is still being delivered. The TfL project and programme management methodology "Pathway" allows for key governance intervention points to ensure effective governance oversight and control. Monitoring and evaluation is in place across the MTS to ensure that the desired outcomes are delivered.

12. Chief Finance Officer sign off

12.1. The affordability of the Capital Strategy beyond the five year Business Plan is dependent on TfL obtaining significant additional funding which cannot be considered certain at this point in time. The characteristics of the funding source(s) could influence the timing, cost and capitalisation of projects within the Capital Strategy. The nature of these large projects is such that they require a certainty of funding over a number of years prior to commencement. The risks noted above are a comprehensive but not exhaustive list. Significant known risks have been listed, however, it is possible that unpredictable future events and opportunities would result in an amendment to the TfL Capital Strategy. Readers of the Capital Strategy should note the considerable risk in estimating costs up to 20 years into the future, especially for novel projects.