TfL Business Plan

Finance Committee

18 December 2019

2019/20 – 2024/25 Business plan: Key messages

Maintaining financial resilience through rebuilding our cash, and better defining the minimum cost to continue operating our network safely and reliably

We continue to operate in a challenging climate

- The challenges we faced in the 2018 Business Plan remain.
- We built financial resilience over the past two years through robust cost control and made difficult decisions on our investment programme.

We are maintaining our commitment to breaking even by 2022/23, through:

- Continued focus on efficiency and reducing core costs.
- Growing alternative sources of income to reinvest in our transport services.
- A disciplined capital plan that delivers the same outcomes, but focus is to ensure safe, reliable services are delivered and covered by our existing funding sources.

We have a much clearer view of the investment we require in our assets:

- We evolved our capital prioritisation methodology to define our baseline – what is required to keep our assets safe and operating at their current level, replacing them when their life expires but not adding anything new to the network.
- We can afford to fund our baseline, but future enhancements will need to be supported by external funding sources, either from government or third party funding sources.

Section 1

The challenge

Our challenges remain

Our challenges

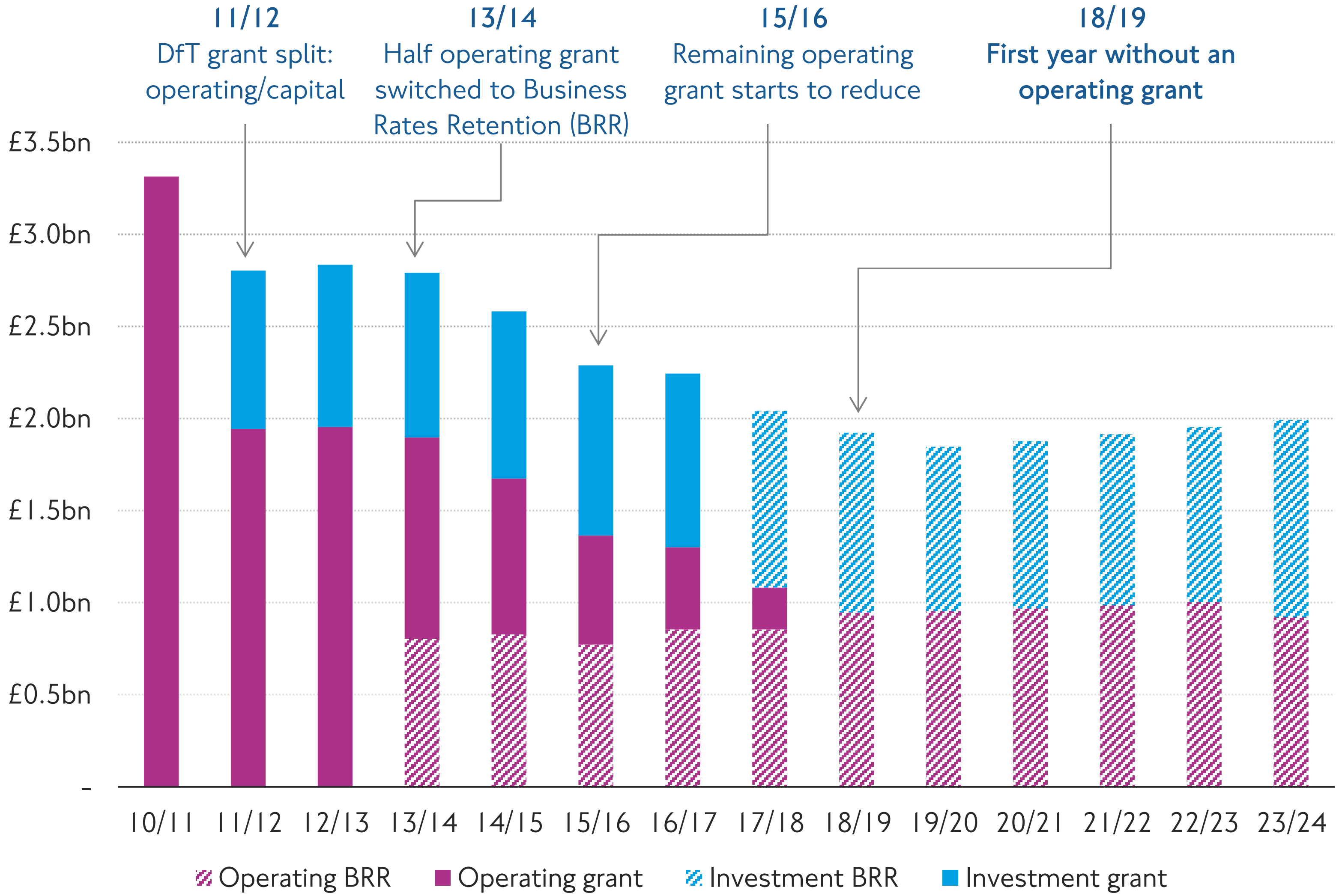
- Long term funding
- Economic downturn
- Crossrail

Our response

- Intensive operating cost control
- Cancelled / deferred projects
- Reduced renewals
- Asset sales

We are still adjusting to the loss of government grant

Changes in TfL's funding



11/12
DfT grant split:
operating/capital

13/14
Half operating grant
switched to Business
Rates Retention (BRR)

15/16
Remaining operating
grant starts to reduce

18/19
First year without an
operating grant

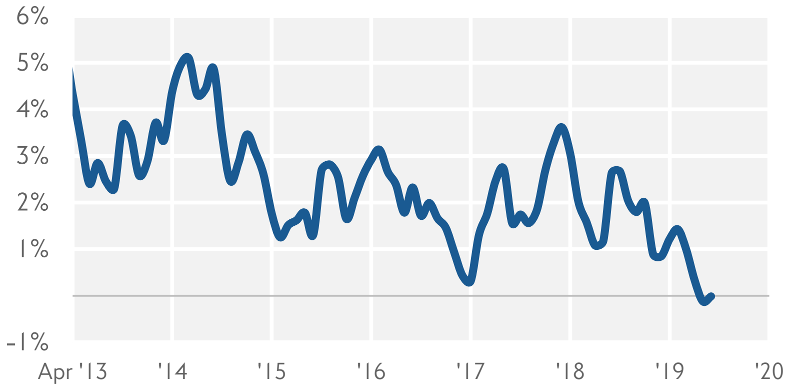
Excludes one-off / exceptional grants e.g. Metronet, Crossrail, Overground

The economic outlook gives us continued grounds to be cautious

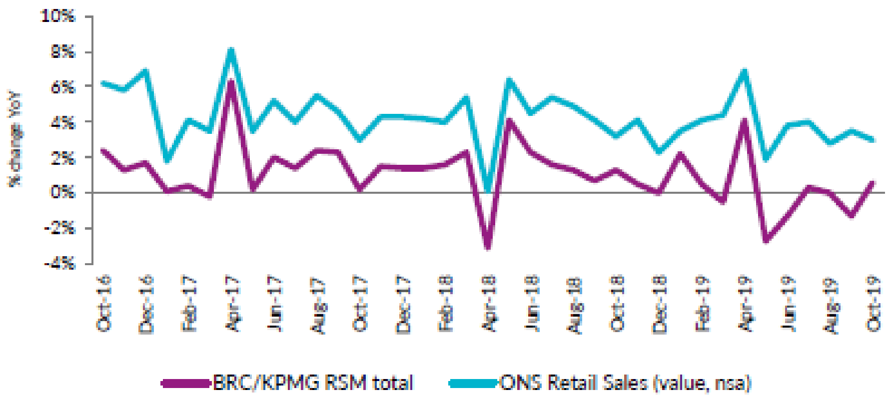
Growing household debt and low interest rates leave both households and the wider economy vulnerable to shocks

London Employment

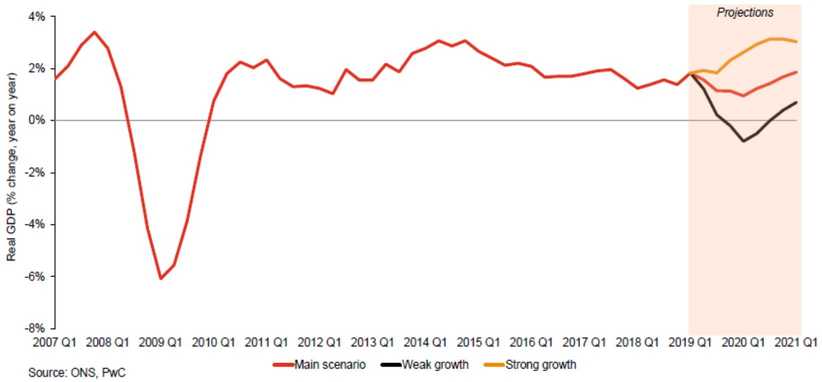
Year-on-year change



UK Retail Sales



UK GDP



Source: ONS, PwC

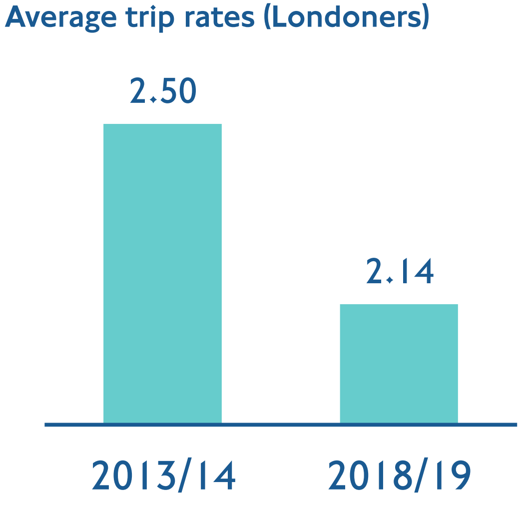
UK Saving Ratio

Sources: ONS data unless stated

Wider trends in London show short term low demand growth

Our forecasts adjusted to reflect more positive recent results, but underlying trends are not as positive as they were earlier in the decade

Declining overall transport demand

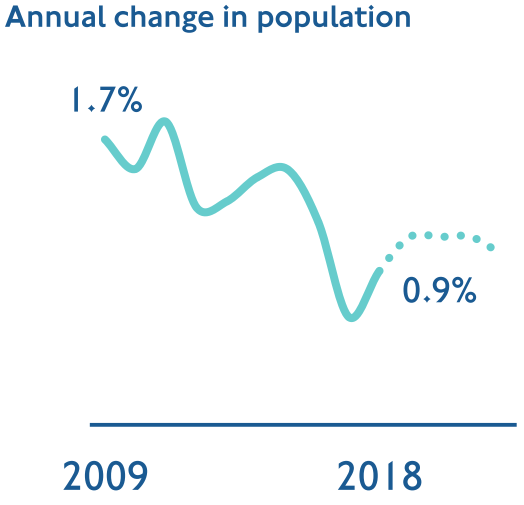


Average Londoner makes 14 per cent fewer transport trips than five years ago.

This is mirrored by similar national trends.

Trend has stabilised in past year, with very small increase relative to 2017/18

Steady population growth

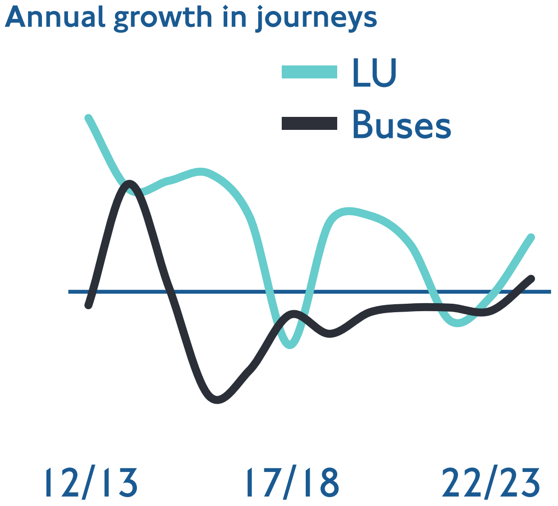


Short-term growth is lower than early 2010s

Population is still predicted to grow from 8.9 million to 10.5 million by 2030s

London is still the fastest growing region in the UK

Subdued overall demand trends



Year on year growth has slowed in the past few years.

However, Tube journeys have returned to growth.

Bus demand is still in decline but is forecast to stabilise.

Crossrail is delayed – but will bring huge benefits

We have modelled the impact of the additional revenue loss to be £750m which peaks in 2021/22 and 2022/23

Elizabeth line phasing

May 2018
Paddington and Heathrow Terminal 4

Dec 2019
Paddington and Reading open

As soon as practically possible 2021
Central section Paddington - Abbey Wood

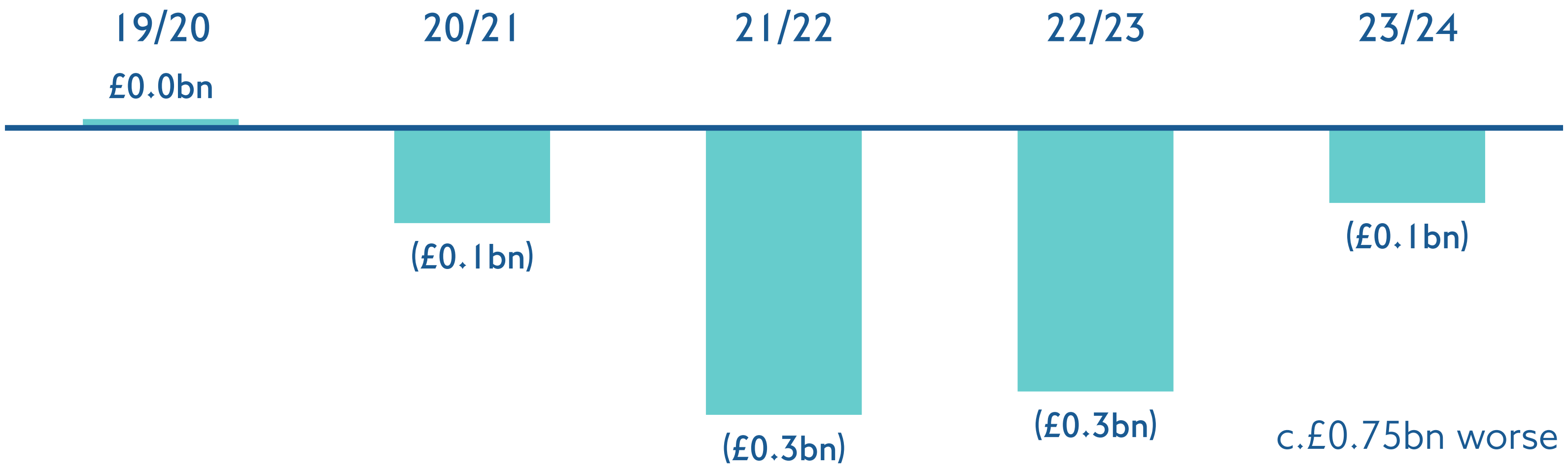
As soon as possible after Central section open
Reading & Heathrow T5 connected to central section

✓ **Open**

⌛ **Delayed**

Net operating impact of further Elizabeth line delay on our plan (compared to 2018 plan)

(net of income and cost)



c.£0.75bn worse over the plan mainly due to delayed passenger income. This is in addition to the c.£0.6bn included in last year's plan

Mitigating the impact of the Crossrail delay

Our strong budgetary performance means we are well placed to absorb the additional revenue losses

Construction costs

£1.4bn capital grant from GLA (made up of £1.3bn loan from DfT – paid back over 10 years using MCIL – and £100m cash contribution from the GLA.) This will be consumed by mid-2020

£750m loan facility from the DfT to TfL assumed to be received and fully utilised in 2020; discussions ongoing with DfT and GLA on funding of additional cost overruns

Operating account

£500m to 750m impact compared to 2018 plan spread over four years *(net impact, after accounting for the additional revenue from Reading to Paddington services starting in December 2019).*

Revenue loss will be managed through further savings , encouraging more people to use public transport, £100m business rates repurposing and use of cash reserves we have been building for this purpose

Governance and support

We continue to work closely with Crossrail's Board to support the successful completion of the project

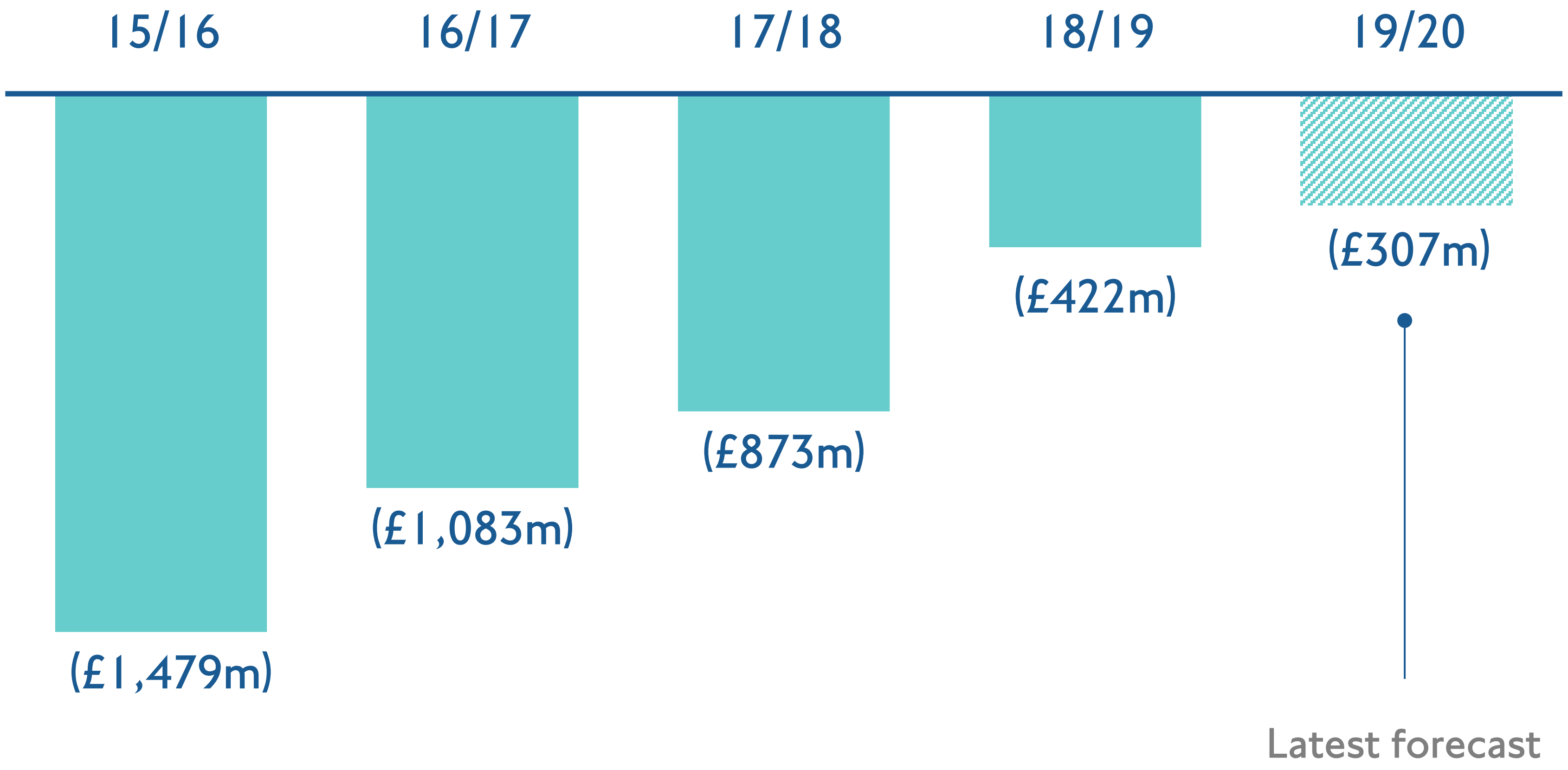
Section 2

Our approach

Strong historic performance

We have a great track record of delivery which sets us in a strong position to face the challenges ahead

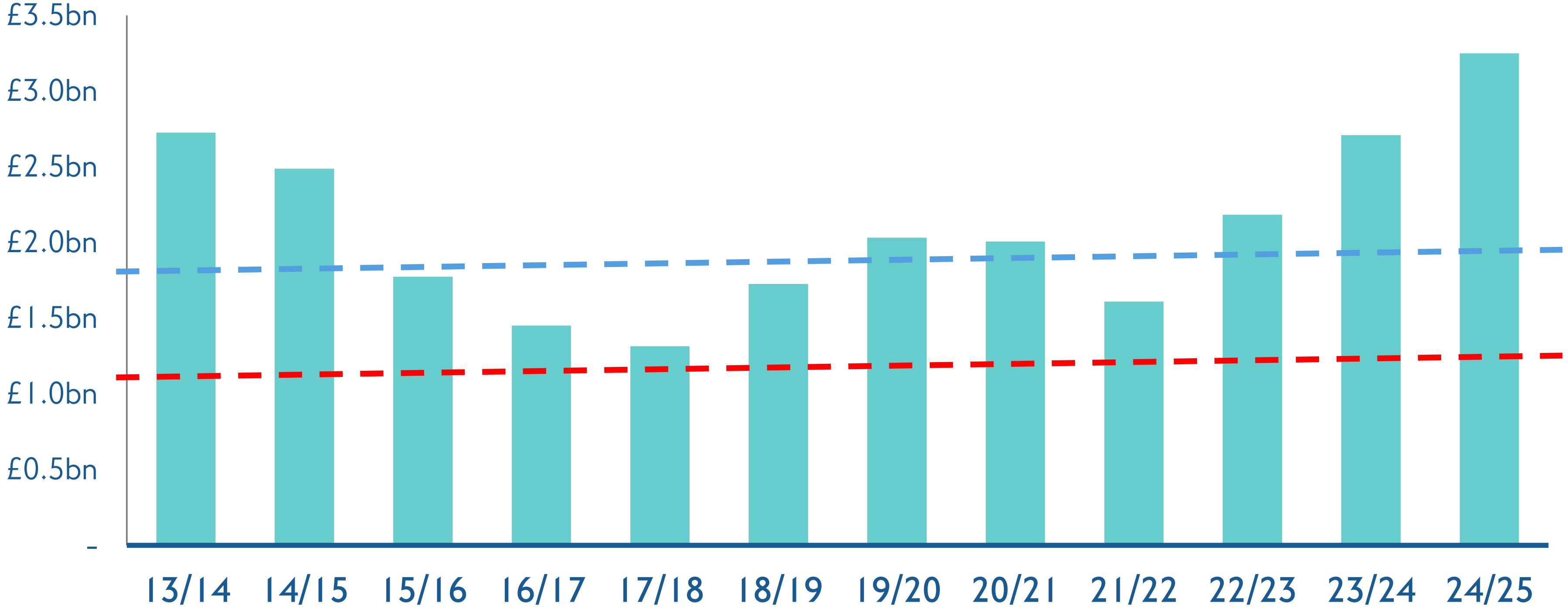
Net cost of operations (excluding former General Grant)



We will rebuild our cash reserves to increase resilience

Minimum cash reserves of £1.2bn which is the equivalent to 60 days of operating expenditure

TfL cash balance (excluding Crossrail account)



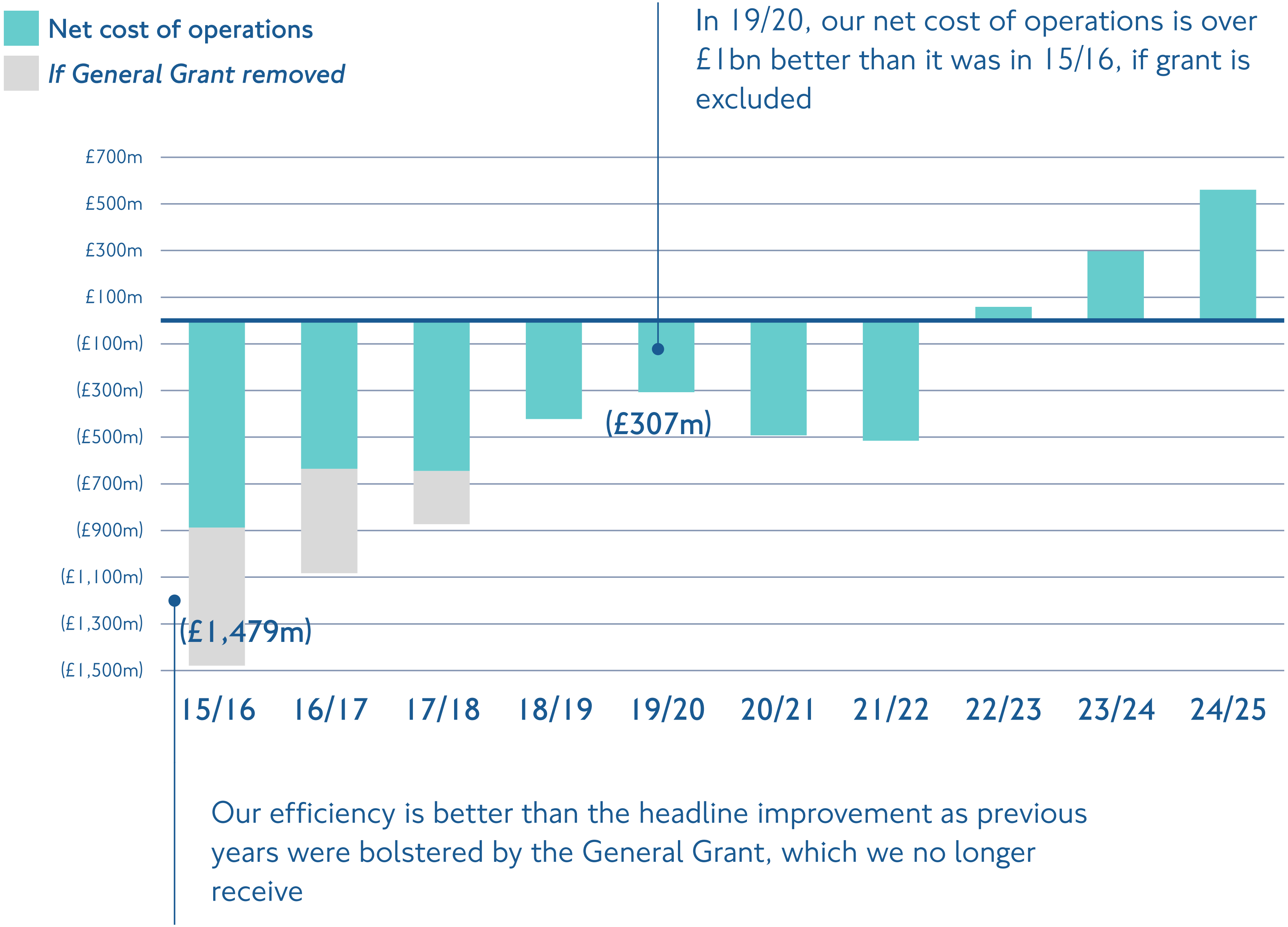
£1.2bn
Minimum cash reserve

£0.6bn
Risk buffer

Further investments, assuming we can afford critical safety spend and external risks don't materialise

We remain on track to break even by 2022/23 despite the headwinds we face

TfL net cost of operations



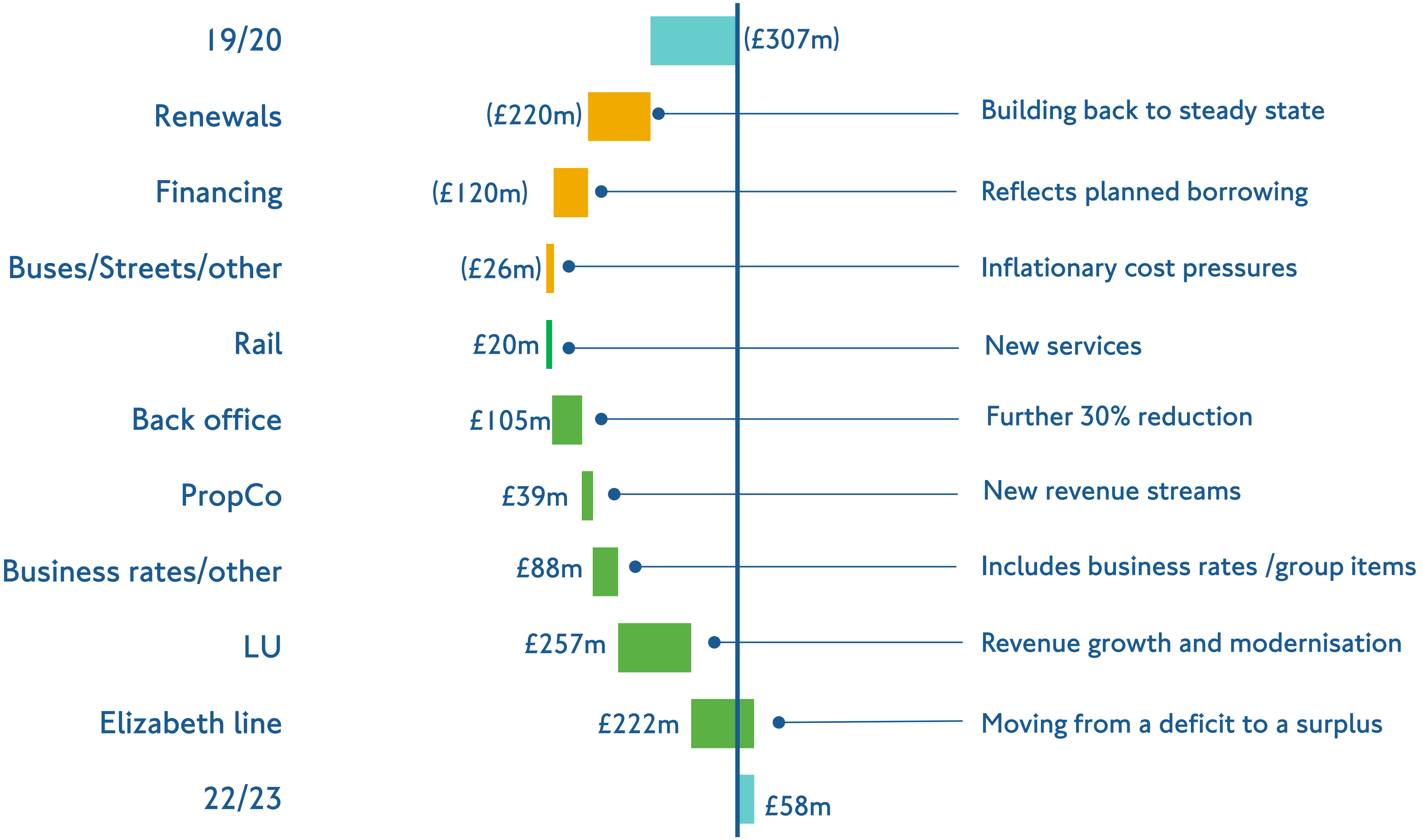
In 19/20, our net cost of operations is over £1bn better than it was in 15/16, if grant is excluded

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

How we will get there

The Underground and Elizabeth line are the largest contributors to turning a deficit into a surplus by 2022/23

What changes between 2019/20 and 2022/23



Building back to steady state

Reflects planned borrowing

Inflationary cost pressures

New services

Further 30% reduction

New revenue streams

Includes business rates /group items

Revenue growth and modernisation

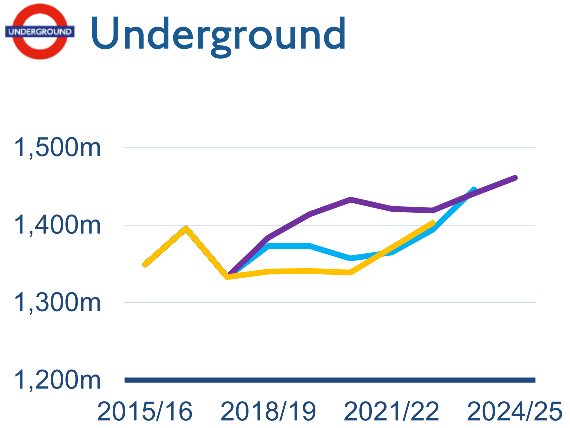
Moving from a deficit to a surplus

Key rail modes still growing but at a slower rate

Demand changes from last year reflect the revised assumptions on Elizabeth line opening date.

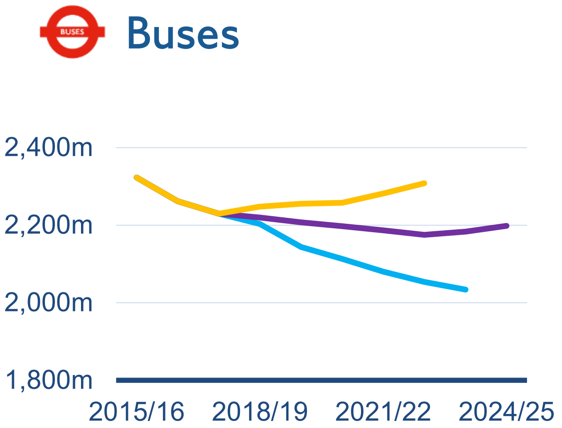
Passenger journeys: comparison of recent plans

2019 Plan 🟪
2018 Plan 🟦
2017 Plan 🟧



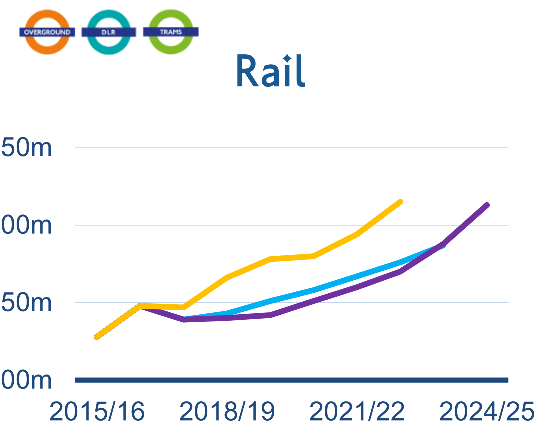
Demand higher than last year's plan reflecting current trend as well as delayed opening of Elizabeth line

▲3% journey growth by 2024/25



Demand stabilises driven by reliability improvements

— 0% journeys flat over the plan to 2024/25



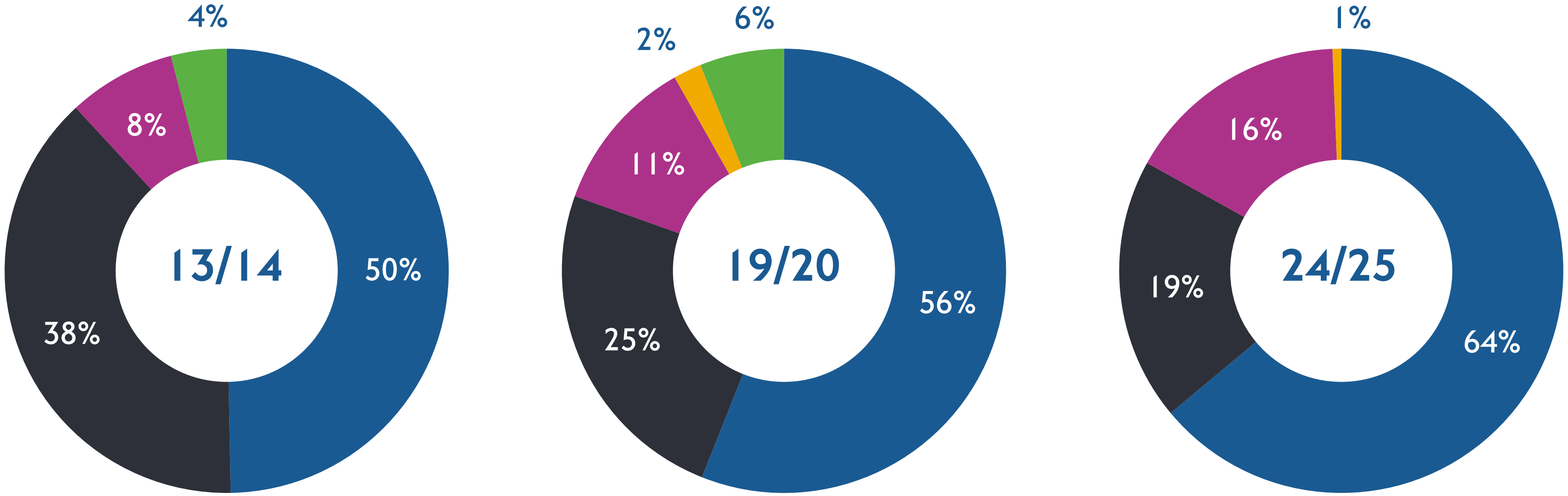
Slower growth based on latest trends

▲21% journey growth by 2024/25

We will diversify and grow our income

Fares will play an increasingly important role. We are growing our commercial income to diversify our revenue sources

Sources of funding (excluding Crossrail)



🟦 **Fares**

Fares will grow from half to two thirds of income – making us more exposed to changes in the economy

⬛ **Business Rates and Other Grants**

Loss of General Grant already reflected in 2019/20. Reduction in 24/25 owing to other specific grants

🟪 **Other income**

Commercial income doubles in importance to us

🟧 **Property/assets**

Sales of property assets to be re-invested in our housing development programme

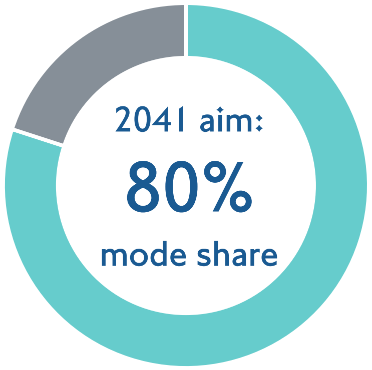
🟩 **Borrowing**

23/24 is first year TfL is not planning to borrow.

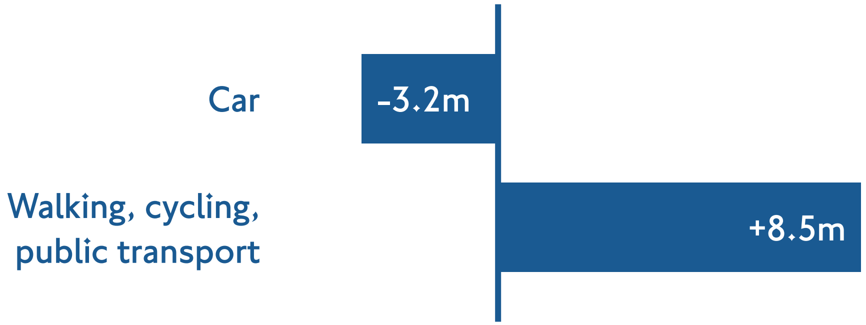
Delivering the Mayor’s strategy

Our financial goals allow us to efficiently direct our resources towards achieving the Mayor’s Transport Strategy. This has transport and environmental benefits – with mode shift the biggest opportunity to reduce carbon emissions

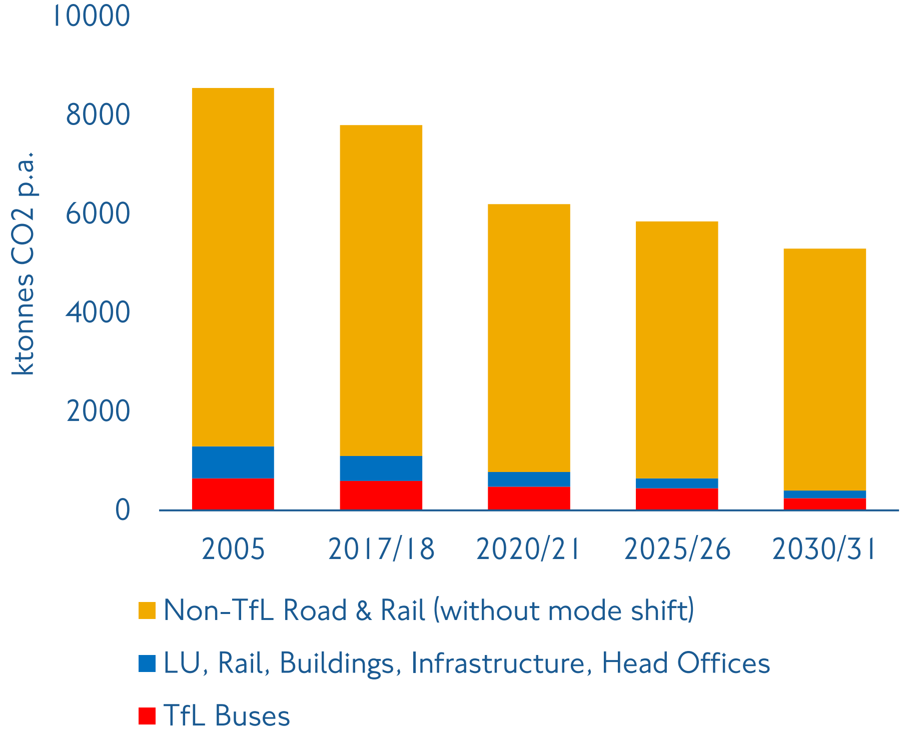
We are reducing carbon from our own transport services and estate. But at a London-wide level, the key driver of transport emissions is road transport – mode shift is needed if this is to substantially reduce



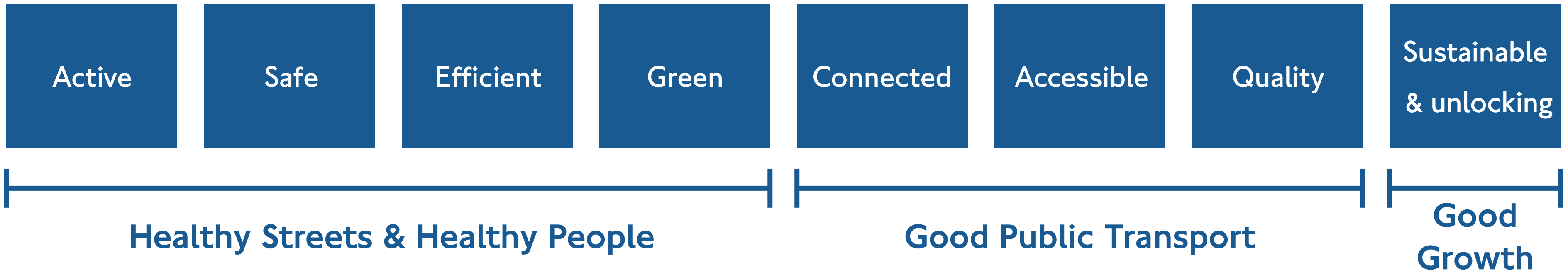
Change in daily trips by 2041 to achieve the 80% aim



London transport CO_2 emissions over time



MTS outcomes


Active
Safe
Efficient
Green
Connected
Accessible
Quality
Sustainable & unlocking

Healthy Streets & Healthy People
Good Public Transport
Good Growth

Section 3

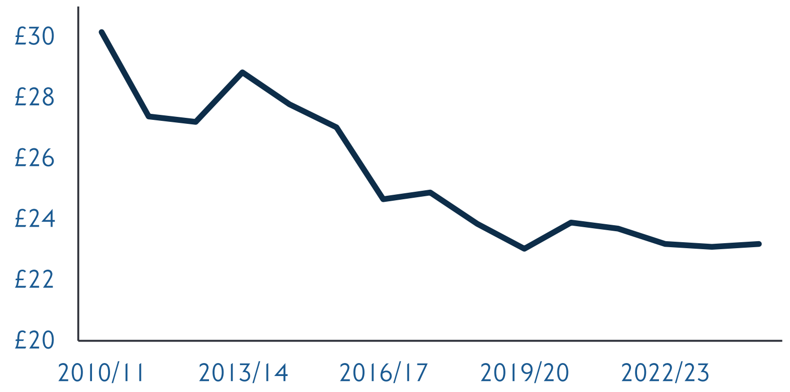
Getting the basics right

We are becoming more efficient, offsetting inflation

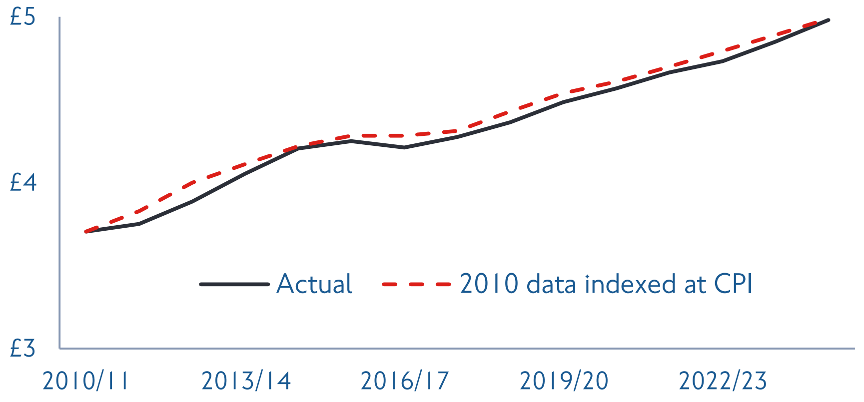
Our historic financial performance demonstrates sustained, continuous improvement.

Cost of running services

London Underground: cost per operated kilometre reduced 23% since 2010 (£)

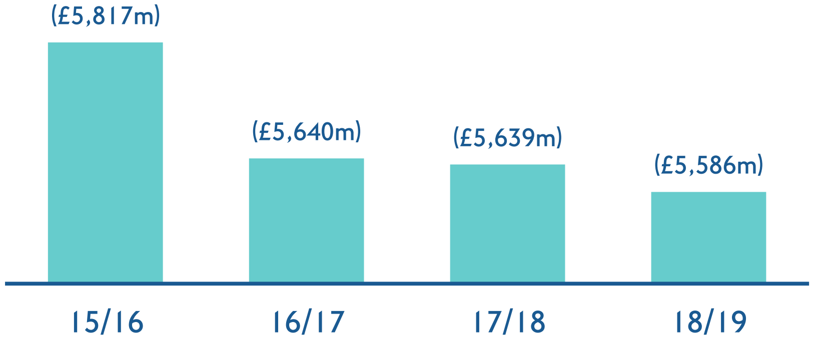


Buses: cost per operated kilometre +2.1% p.a. on average, improving safety, reliability and air quality without cost changes exceeding inflation (£)

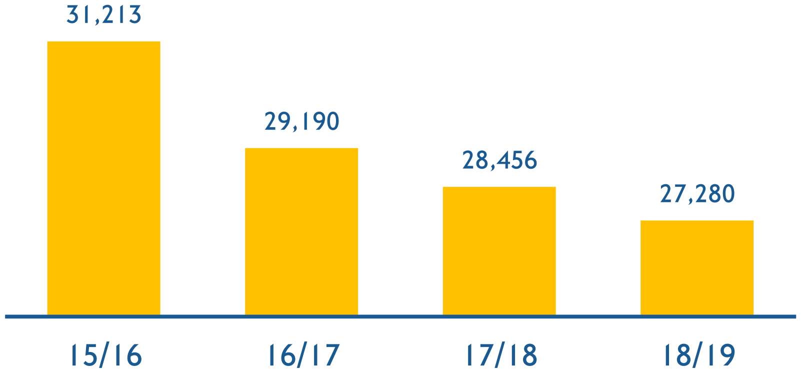


Size of our organisation

TfL's operating costs (like-for-like basis, £m) are £200m lower today than when compared to 2015/16



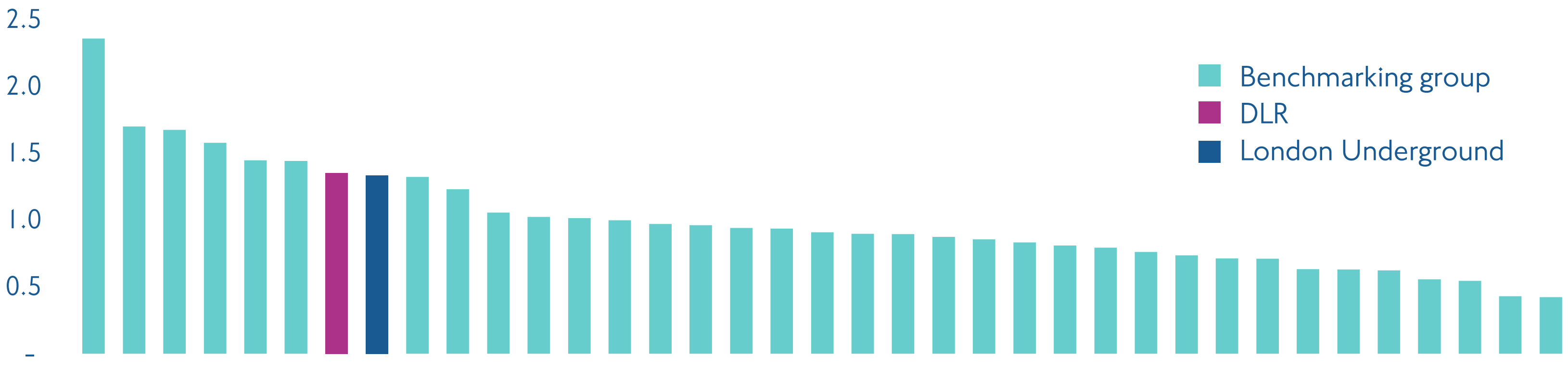
TfL's headcount (FTEs) reduced 13% since 2015/16



Our services rank amongst the best in the world in terms of revenue recovery

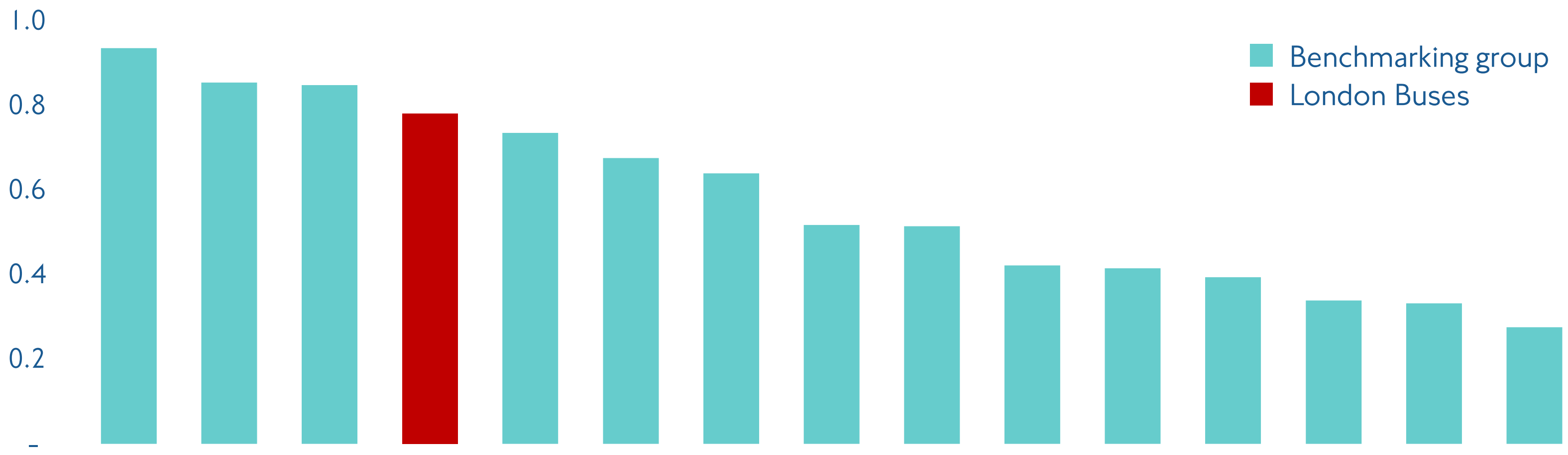
Only newer systems or networks with substantial commercial and retail operations perform better

London Underground and DLR – ranked eight and seventh respectively of the 37 members of our international benchmarking group in terms of revenue recovery ratio*



Source: CoMET / NOVA benchmarking groups. Data anonymised and indexed to an average of 1

Buses – ranked fourth of the 15 members of our international benchmarking group in terms of revenue recovery ratio



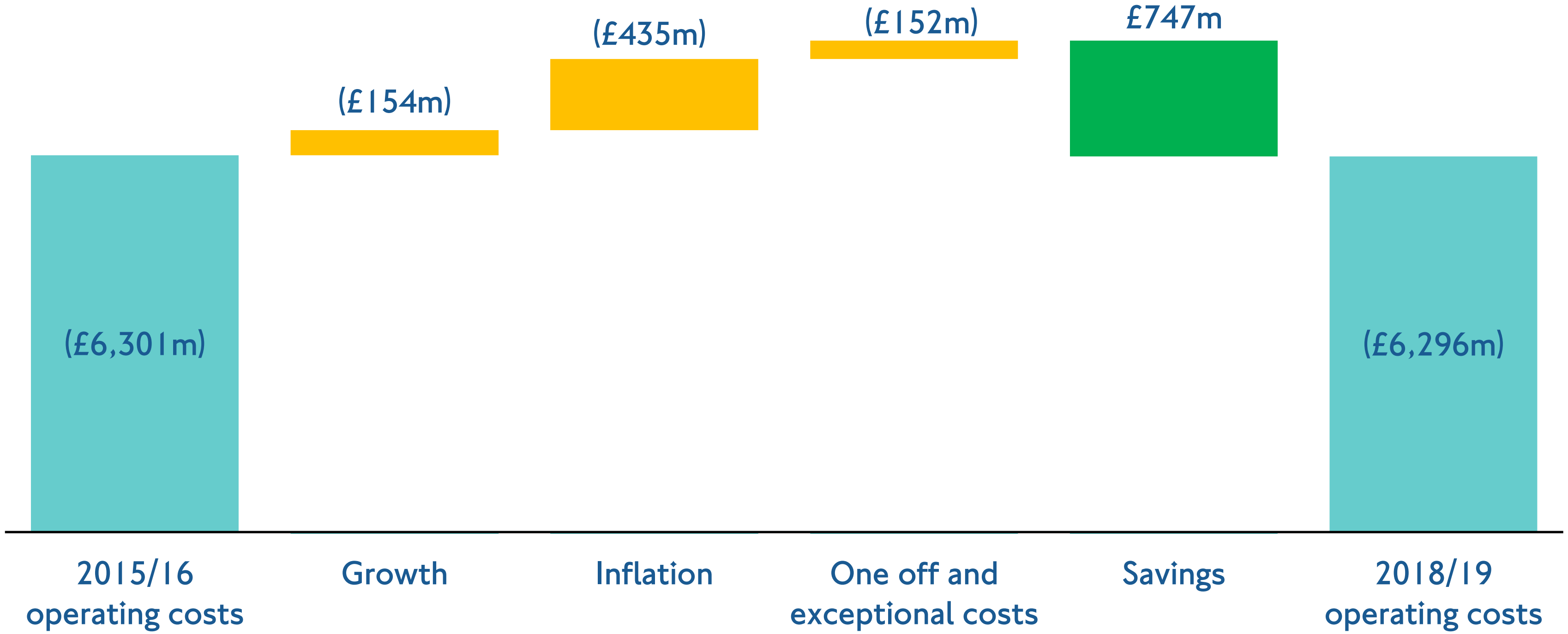
Source: International Bus Benchmarking Group. Data anonymised

*Revenue recovery ratio: proportion of operating cost that is covered by operating income

Controlling our day-to-day costs

Operating costs in 2018/19 were at the same level as 2015/16 while we have significantly grown and improved our network

Changes in TfL's operating cost: 2015/16 to 2018/19



Growth

Revenue generating services, mostly Elizabeth line

Savings

£747m

- Mitigated inflation
- > £200m reduction in like-for-like costs

Going further in our cost reduction

Our operating costs grow over the plan, a result of growth in our services – Elizabeth line, ULEZ and Streets initiatives – and strong inflationary pressures from operators’ contracts and wages.

Changes in TfL’s operating cost: 2018/19 to 2024/25

Growth

Revenue generating services

- Elizabeth line
- ULEZ introduction and expansion to North/South Circular

Savings

£722m mitigate 74% inflation

Section 4

Transforming our core

Our targets are designed to achieve long-term financial sustainability

Combined subsidy of £850m to cover indirect and critical capital cost

Cover in full its critical capital requirements

Cover own critical spend

Elizabeth line to open

Double surplus from Property

Affordable capital plan with sufficient renewals

30% reduction in back office cost

A disciplined capital plan

We prioritised our capital programme to protect our existing performance levels as well as progress the most-pressing MTS outcomes

Categorising projects:

⬛	**Critical**	Needed to maintain current safety, reliability, capacity or asset condition; or legally required	**c.60% of Plan**
🟦	**Central**	Projects that are financially positive or improve MTS outcomes that require short-term action, e.g. safety, reliability, capacity	**c.20% of Plan**
🟥	**Desirable**	Projects that improve MTS outcomes that require long-term action, e.g. unlocking homes, active travel	**c.20% of Plan**
🟩	**Deprioritise**	Projects with weaker business cases or that are more discretionary in nature	**Negligible**

£1.3bn

Average annual new capital investment over Business Plan

£670m

Average annual capital renewals over Business Plan

Evolved our methodology to define our long-term capital requirement

Our Baseline is what is needed to maintain today's performance and asset condition. Beyond this, Enhancements improve and grow the network

	BASELINE		ENHANCEMENTS	
Categories	Renewals	Rolling stock and signalling replacements*	General enhancements	Line extensions / CR2
Examples	Track replacement Bridge strengthening Road resurfacing Rolling stock overhauls Drainage replacement Tech renewals	New trains New signalling systems Enabling works for these	Healthy Streets Station upgrades Accessibility Air Quality Metroisation Tech and Data	Crossrail 2 Bakerloo extension DLR Thamesmead Sutton Link West London Orbital
These link to our prioritisation categories	**Critical** Necessary to maintain today's level of safety, reliability, capacity and asset condition		**Central** Deliver improvements against MTS outcomes that require short-term action, like safety, capacity, reliability and air quality	**Desirable** Deliver improvements against outcomes that require long-term action, like stimulating housing and shift to active travel

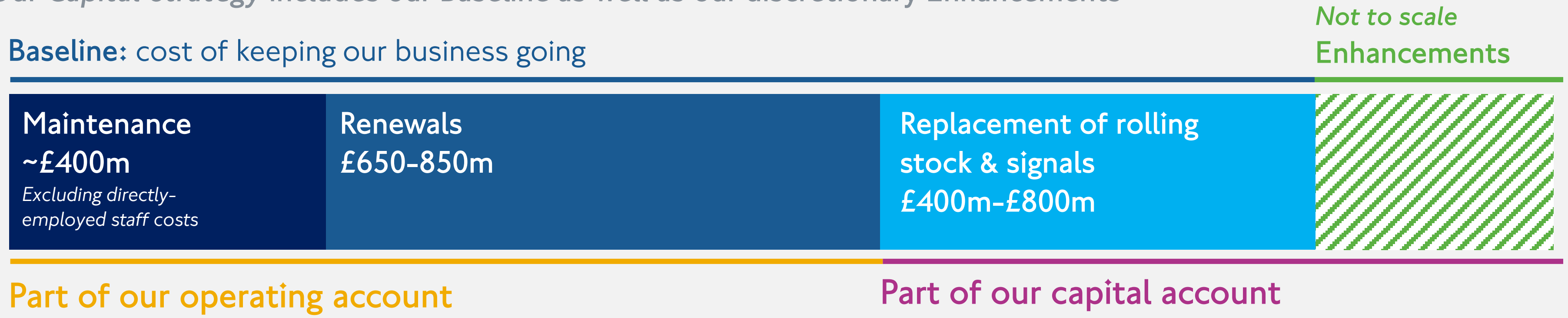
*While the majority of spend for replacements is part of Baseline (as it involves replacing life-expired assets), an element delivers capacity improvements. This is categorised as Line Upgrades and constitutes an Enhancement rather than Baseline.

Our long-term baseline

The way we articulate our long-term investment needs are evolving; we currently estimate the cost of running the network to be in the region of £1.4bn p.a. (2019 prices) plus maintenance

To keep our network safe and operable over the long term (25 years) we need to get to a level of steady state asset condition and we estimate this to be around £1.4bn p.a. plus maintenance.

Our *Capital Strategy* includes our Baseline as well as our discretionary Enhancements



We have approached this exercise by following a broad set of assumptions in order to allow us to try and understand the true run-rate cost of running our business.

- Cost estimates are not unnecessarily constrained by affordability
- Cost estimates are reflective of short term deliverability and any known commercial arrangements
- London Underground fleet reflects continuous production across Piccadilly, Bakerloo and Central lines (an action from a previous Investment Group)
- Surface baseline includes major asset renewals , Reliability and State of Good Repair and Trams fleet replacement (an action from a previous Investment Group)

How baseline informs our funding requirement

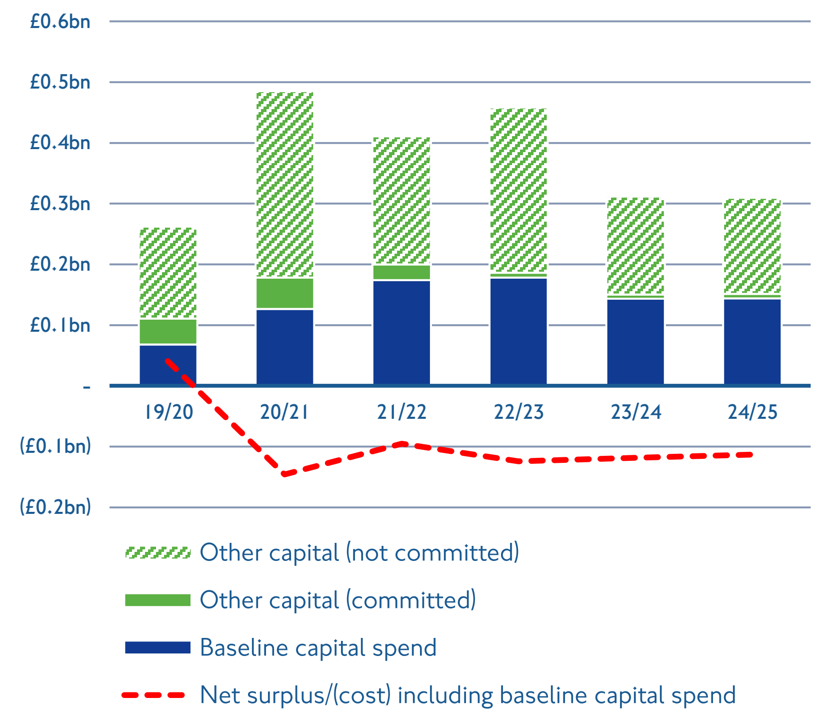
Streets, Buses and Other Surface

- The combined bus and streets network require an ongoing subsidy; we apply the £854m portion of operating business rates to this area
- Additional funding is required to cover baseline capital and any enhancements

2019 Business Plan

	19/20	20/21	21/22	22/23	23/24	24/25
Passenger revenue	*1,476*	*1,473*	*1,543*	*1,589*	*1,645*	*1,712*
Other operating income	*598*	*596*	*750*	*717*	*658*	*677*
Operating cost	*(2,824)*	*(2,886)*	*(3,029)*	*(3,082)*	*(3,129)*	*(3,224)*
Direct operating surplus / (cost)	**(750)**	**(817)**	**(736)**	**(776)**	**(826)**	**(835)**
Indirect costs	*(142)*	*(147)*	*(144)*	*(147)*	*(144)*	*(146)*
Financing costs	*(31)*	*(30)*	*(33)*	*(33)*	*(32)*	*(33)*
Net surplus / (cost) before Baseline capital spend	**(922)**	**(993)**	**(913)**	**(955)**	**(1,002)**	**(1,014)**
Baseline capital spend	*(68)*	*(127)*	*(174)*	*(179)*	*(144)*	*(144)*
Net surplus / (cost) including baseline capital spend	**(990)**	**(1,120)**	**(1,087)**	**(1,133)**	**(1,146)**	**(1,158)**
Operating BRR	*854*	*869*	*886*	*904*	*922*	*940*
Other revenue grants	*77*	*5*	*5*	*5*	*5*	*5*
Capital BRR funding (for LIPs)	*100*	*100*	*100*	*100*	*100*	*100*
Net surplus/(cost) including baseline capital [Target]	**41**	**(146)**	**(95)**	**(124)**	**(118)**	**(113)**
Other capital (committed)	*(43)*	*(52)*	*(26)*	*(8)*	*(7)*	*(7)*
Other capital (not committed)	*(151)*	*(307)*	*(211)*	*(272)*	*(161)*	*(158)*
Total funding (requirement) / surplus	**(154)**	**(504)**	**(332)**	**(404)**	**(286)**	**(278)**

Funding required for the capital programme



Key assumptions

- Surface receives c25% of indirect cost allocation based on its portion of professional services cost
- Baseline capital spend includes mainly the cost of renewing our road network, bus, coach and river infrastructure, bridges and tunnels.
- Other capital includes Silvertown, healthy streets and cycling spend, network schemes, transformational schemes, surface technology and air quality.

Our baseline investment – Streets and Buses

Baseline costs across Surface are spread roughly evenly across several major areas.

Major highway structures

£15m-£80m p.a.
Major works on bridges and tunnels to keep them safe, reliable and operable. Examples include Rotherhithe Tunnel (where complete refurbishment is necessary). Activity is prioritised based on condition assessments.

All other assets

£10-15m p.a.
This includes assets such as coach, river and on-street bus infrastructure. We will be investing in Victoria Coach Station following our decision to retain it as a central hub, as well as improving river piers and maintaining the condition of bus infrastructure.

Other highway assets

£20-65m p.a.
This includes carriage and footway, signals and other highway assets (such as street lights). Each asset has a life varying from 5 to 40 years. Asset condition and cost of materials will determine the specific costs.

Surface Technology

£0-20m p.a.
Costs to keep our key operational systems going and replace them with modern equivalents when necessary, including maintaining the iBus system that manages bus information.

Buses

Part of our bus operating contracts
Over 9,000 buses support over six million daily journeys. As part of the continuing fleet replacement (buses are replaced about every 12 years) we will replace 1,800 diesel buses with electric buses, taking the electric total to 2,000.

Note: the ranges represent the lowest and highest spend points in our five year plan

Highlights

Refurbishment of Rotherhithe Tunnel
Returning to higher levels of roads reliability
2,000 new electric buses procured through our operators
Refurbishments at Victoria Coach Station

How baseline informs our funding requirement

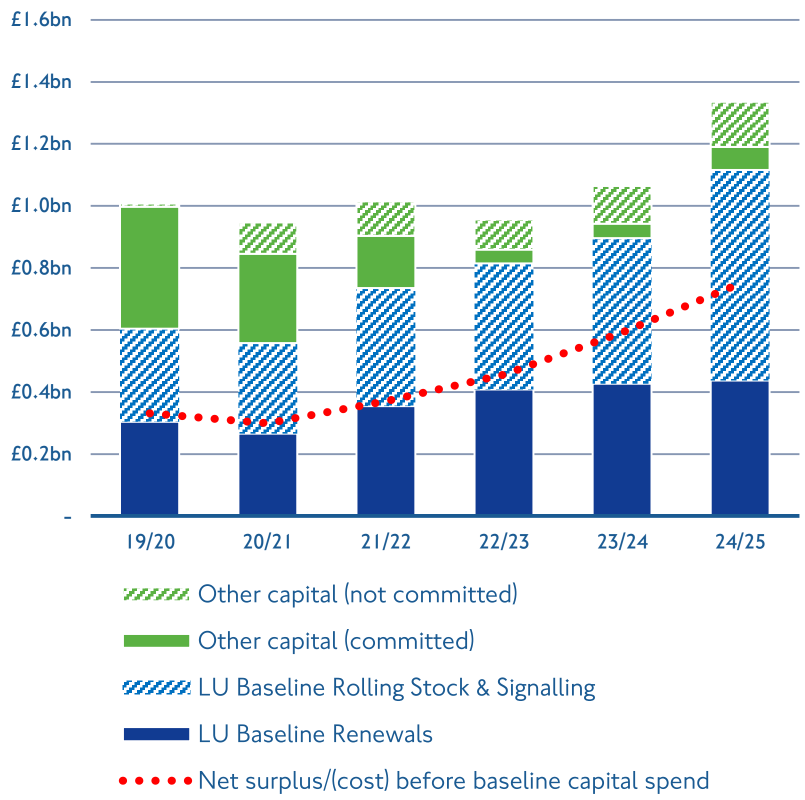
London Underground

- LU can cover its portion of baseline renewals from its own surplus after financing and indirect costs and start contributing towards the cost of replacing expired assets by the end of the plan
- Enhancements are funded through our borrowing programme

2019 Business Plan

	19/20	20/21	21/22	22/23	23/24	24/25
Passenger revenue	*2,880*	*2,978*	*3,108*	*3,241*	*3,381*	*3,557*
Other operating income	*32*	*22*	*14*	*13*	*14*	*14*
Operating cost	*(1,939)*	*(2,014)*	*(2,035)*	*(2,024)*	*(2,034)*	*(2,052)*
Direct operating surplus / (cost)	**973**	**986**	**1,087**	**1,230**	**1,361**	**1,519**
Indirect costs	*(346)*	*(380)*	*(358)*	*(388)*	*(379)*	*(379)*
Financing costs	*(296)*	*(308)*	*(358)*	*(386)*	*(389)*	*(390)*
Net surplus / (cost) before baseline capital spend	**331**	**299**	**370**	**456**	**593**	**750**
Capital: LU Baseline Renewals	*(303)*	*(266)*	*(355)*	*(408)*	*(426)*	*(437)*
Capital: LU Baseline Rolling Stock & Signalling	*(300)*	*(292)*	*(381)*	*(407)*	*(470)*	*(678)*
Net surplus/(cost) inc. all baseline capital [Target]	**(273)**	**(259)**	**(365)**	**(358)**	**(304)**	**(366)**
Other capital (committed)	*(393)*	*(288)*	*(167)*	*(44)*	*(46)*	*(74)*
Other capital (not committed)	*(10)*	*(100)*	*(112)*	*(97)*	*(122)*	*(146)*
Total funding (requirement) / surplus	**(676)**	**(647)**	**(644)**	**(499)**	**(472)**	**(586)**
Borrowing	*545*	*601*	*520*	*507*	*0*	*0*
Total funding (requirement) / surplus after borrowing	**(131)**	**(47)**	**(124)**	**8**	**(472)**	**(586)**

Funding required for our capital programme



Key assumptions

- LU receives 65% of indirect cost allocation based on its portion of professional services cost
- £7bn debt allocation (up to 2018/19) and the financing cost associated with incremental borrowings from 2019/20 to 2022/23
- LU Baseline is the equivalent of reported renewals spend plus a proportion of the rolling stock and signalling cost (reflecting like for like replacement of existing trains and signals)
- Other capital: Remainder (upgrade elements) of the tube upgrade rolling stock and signalling and accessibility

Our baseline investment – London Underground

LU baseline costs are dominated by Fleet. This includes both replacing life-expired fleets but also the substantial renewal costs of keeping our existing fleets going. Signalling and Track are the next two biggest areas

Rolling Stock

£0-600m p.a. replacement
£150-250m p.a. renewal

We have 620 LU trains with a life of c. 40 years. In the next five years we are replacing trains on the Piccadilly line and performing major renewal work on the Central line fleet.

Signalling

£100m p.a. replacement
£10-40m p.a. renewal

Completion of the upgrade of signalling on the Circle, District, Hammersmith & City and Metropolitan lines and, an allocation towards renewal works for Piccadilly line signalling

Track

£120-160m p.a.

The network is made up of c1,000km of track. Costs for maintaining at today's performance level average around £160m per year post-Business Plan.

Lifts & Escalators

£30-60m p.a.

Replacement and renewal of escalators and lifts. Escalators need refurbishing every 20 years and replacing every 40 years; lifts generally need refurbishing every five years and replacing every 10-20 years. We have over 440 escalators so there is always work onsite.

Note: the ranges represent the lowest and highest spend points in our five year plan

Structures

£5-15m p.a.

Civils structures includes bridges and lineside buildings. Spend is generally low, with structures having long lifespans, but when inspections reveal specific issues these can have a significant immediate cost.

Stations

£30-50m p.a.

Includes costs to maintain the condition and key assets within our 270 stations, many of them complex, underground structures. This includes civil works and replacements of life-expired fire, lighting and communications equipment.

Power, Cooling & Energy

£10-30m p.a.

Investment in renewing and replacing substations and power distribution equipment, alongside cooling apparatus such as fans and vent shafts.

Highlights

New fleet of air-cooled trains on Piccadilly line from 2024

Completion of new signalling system across 4 Tube lines

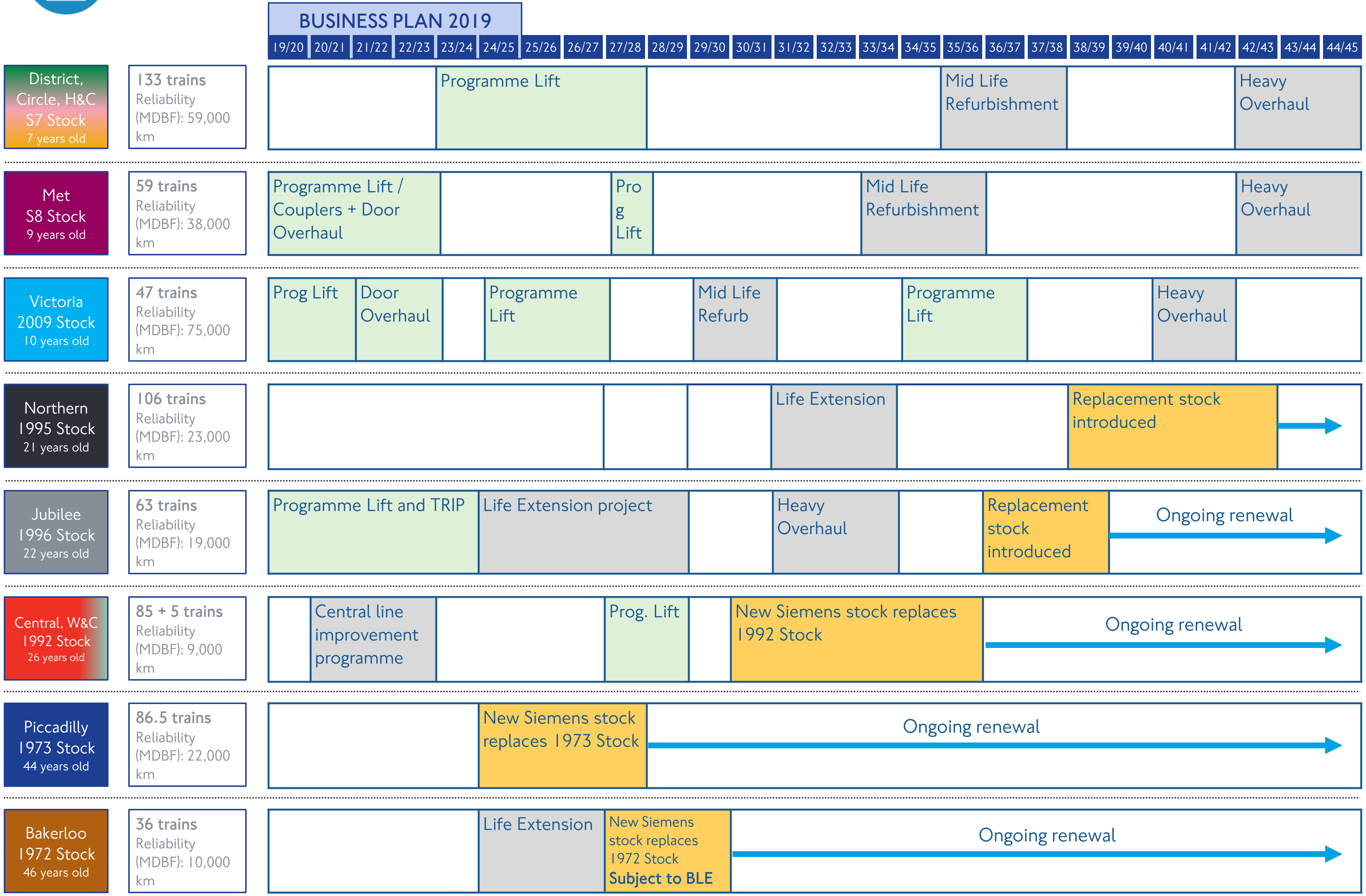
Replacing track at some of our most challenging junctions

Longer term Tube fleet requirements

This chart illustrates potential interventions that may be required across the LU fleet over the 25 year period.

This programme will continue indefinitely

Fleet Interventions: Summary



BUSINESS PLAN 2019

		19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	36/37	37/38	38/39	39/40	40/41	41/42	42/43	43/44	44/45
District, Circle, H&C S7 Stock 7 years old	133 trains Reliability (MDBF): 59,000 km					Programme Lift												Mid Life Refurbishment							Heavy Overhaul		
Met S8 Stock 9 years old	59 trains Reliability (MDBF): 38,000 km	Programme Lift / Couplers + Door Overhaul								Prog Lift						Mid Life Refurbishment									Heavy Overhaul		
Victoria 2009 Stock 10 years old	47 trains Reliability (MDBF): 75,000 km	Prog Lift		Door Overhaul			Programme Lift					Mid Life Refurb					Programme Lift						Heavy Overhaul				
Northern 1995 Stock 21 years old	106 trains Reliability (MDBF): 23,000 km													Life Extension							Replacement stock introduced					→	
Jubilee 1996 Stock 22 years old	63 trains Reliability (MDBF): 19,000 km	Programme Lift and TRIP					Life Extension project							Heavy Overhaul					Replacement stock introduced			Ongoing renewal →					
Central, W&C 1992 Stock 26 years old	85 + 5 trains Reliability (MDBF): 9,000 km		Central line improvement programme							Prog. Lift			New Siemens stock replaces 1992 Stock						Ongoing renewal →								
Piccadilly 1973 Stock 44 years old	86.5 trains Reliability (MDBF): 22,000 km						New Siemens stock replaces 1973 Stock				Ongoing renewal →																
Bakerloo 1972 Stock 46 years old	36 trains Reliability (MDBF): 10,000 km						Life Extension			New Siemens stock replaces 1972 Stock **Subject to BLE**			Ongoing renewal →														

How baseline informs our funding requirement

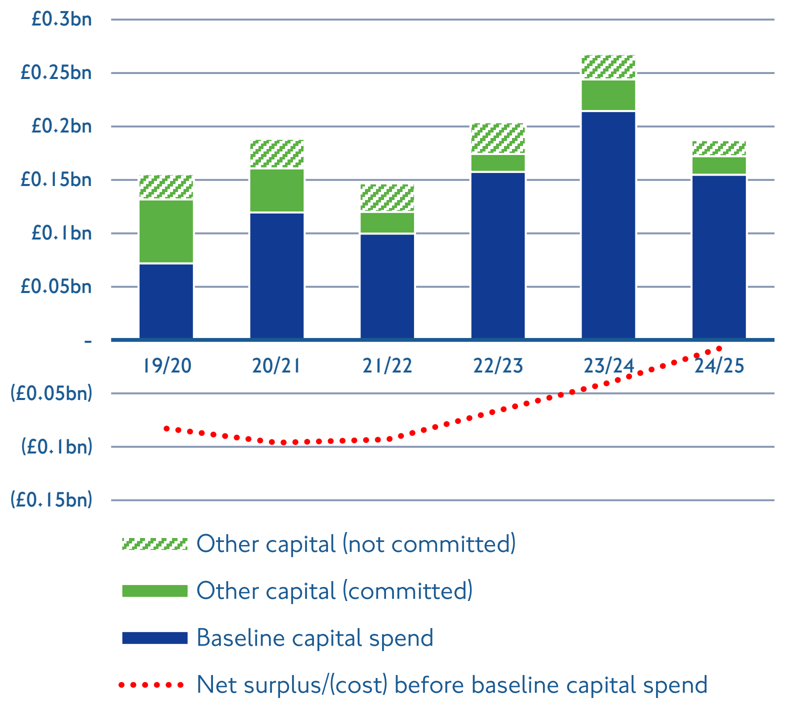
Rail (excluding Elizabeth line)

- As Rail does not generate a surplus after all financing and indirect costs are taken into account, all capital investment must be funded from capital business rates

Draft plan

	19/20	20/21	21/22	22/23	23/24	24/25
Passenger revenue	*436*	*455*	*481*	*516*	*564*	*625*
Other operating income	*21*	*9*	*10*	*12*	*12*	*12*
Operating cost	*(475)*	*(496)*	*(516)*	*(526)*	*(548)*	*(576)*
Direct operating surplus / (cost)	**(18)**	**(32)**	**(25)**	**2**	**28**	**61**
Indirect costs	*(20)*	*(20)*	*(19)*	*(20)*	*(19)*	*(20)*
Financing costs	*(46)*	*(44)*	*(49)*	*(49)*	*(49)*	*(49)*
Net surplus/(cost) before baseline capital	**(83)**	**(96)**	**(93)**	**(66)**	**(40)**	**(8)**
Baseline capital spend	*(72)*	*(119)*	*(100)*	*(157)*	*(214)*	*(155)*
Net surplus/(cost) including baseline capital spend [Target]	**(155)**	**(215)**	**(192)**	**(223)**	**(254)**	**(163)**
Other capital (committed)	*(60)*	*(41)*	*(20)*	*(17)*	*(30)*	*(17)*
Other capital (not committed)	*(24)*	*(28)*	*(27)*	*(30)*	*(24)*	*(15)*
Total funding (requirement) / surplus	**(238)**	**(284)**	**(239)**	**(270)**	**(308)**	**(195)**

Funding required for our capital programme



Key assumptions

- Rail receives 3% of indirect cost allocation based on its portion of professional services cost
- Baseline capital spend includes the current estimate of cost to replace life expired assets on the DLR, Trams and Overground
- Other capital includes Barking Riverside

Our baseline investment – Rail

The principles of an ongoing need to replace rolling stock applies for our other rail services; as they are smaller this appears as a more peaky need when fleets reach their design life.

DLR Trains replacement	**£70-170m p.a.** We have signed a contract with CAF to replace all B90, B92 and B2K trains on the DLR. CAF will supply 43 full-length trains to replace these vehicles and expand capacity. We will subsequently need to replace the B07s in the 2030s.
Trams replacement	**£0-30m p.a.** The 24 original trams from the Croydon Trams opening in 2000 are approaching life expiry and we will replace them during this Business Plan. Our other 12 Trams date from the early 2010s and should run into the 2030s.
Other rail assets	**£30-90m p.a.** As with the Tube, signalling, station, track and structures must be renewed and replaced. Some costs are amortised through Network Rail access charges or concessionaires charges (the above is only the TfL direct capital amount). We will also complete the rollout of our new London Overground trains on lines out of Liverpool Street.

Note: the ranges represent the lowest and highest spend points in our five year plan

Highlights

New walk-through DLR trains introduced from 2023

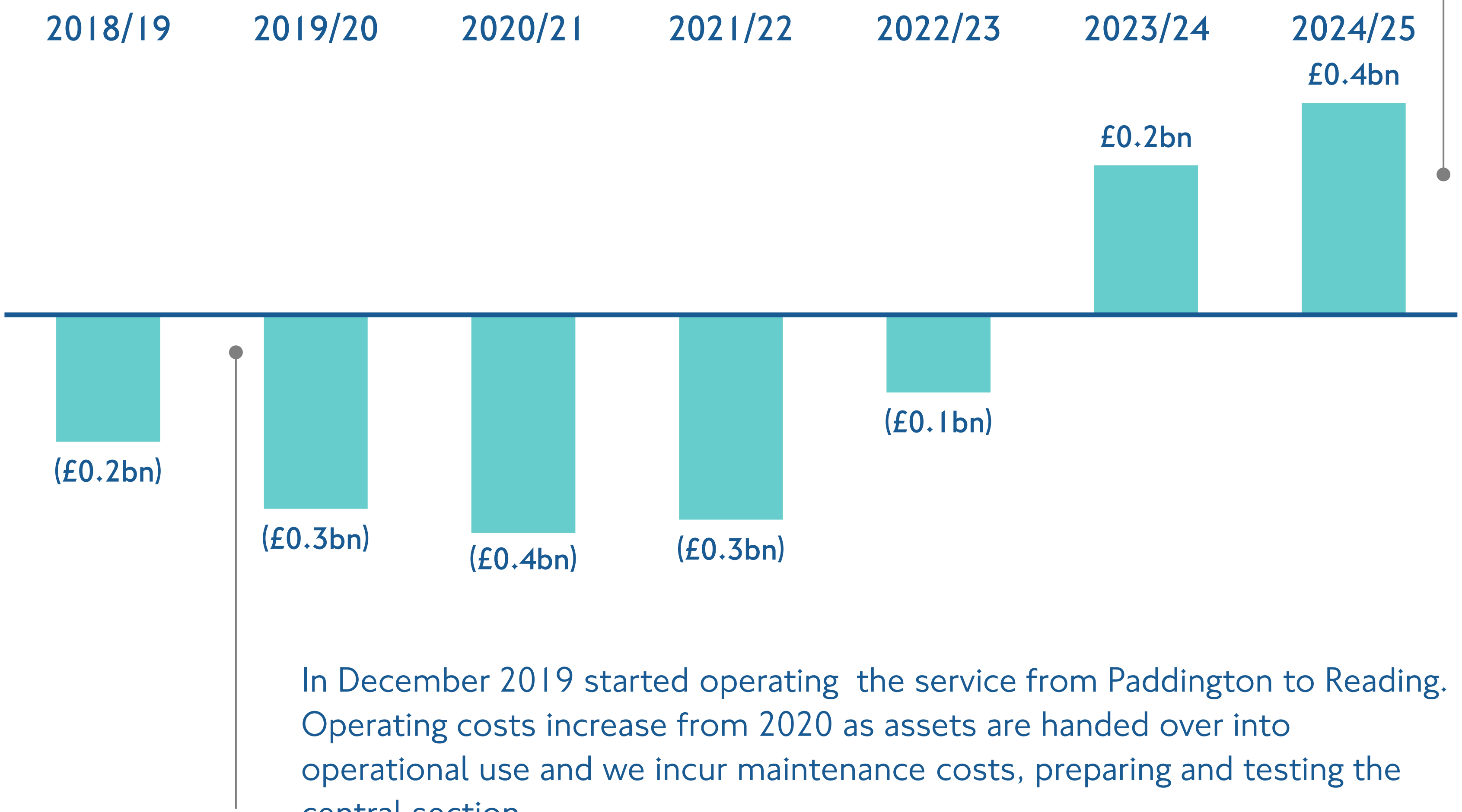
Replacing our oldest trams

Rollout of new London Overground trains on lines out of Liverpool Street

Elizabeth line to open as soon and safely as possible

- c.£300m p.a. average operating losses over the next three years
- > £250m p.a. surpluses available to fund the rest of the network once the line opens

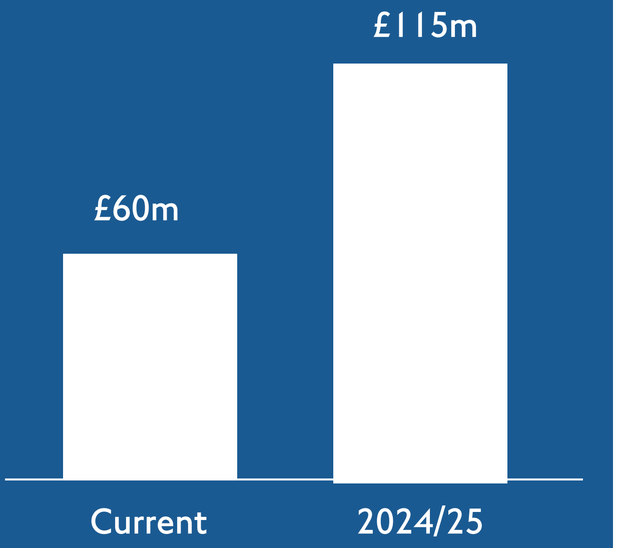
Net cost of operations



Once operational Elizabeth Line will have no capital programme. It will be able to service its own debt cost and the remaining surpluses > £250m p.a. will contribute to funding the rest of the network

In December 2019 started operating the service from Paddington to Reading. Operating costs increase from 2020 as assets are handed over into operational use and we incur maintenance costs, preparing and testing the central section

Property: operating surplus to double by 2024/25



Target

To be profit making and generate capital receipts to reinvest in the core transport business

Our Plan

10,000 homes initial committment

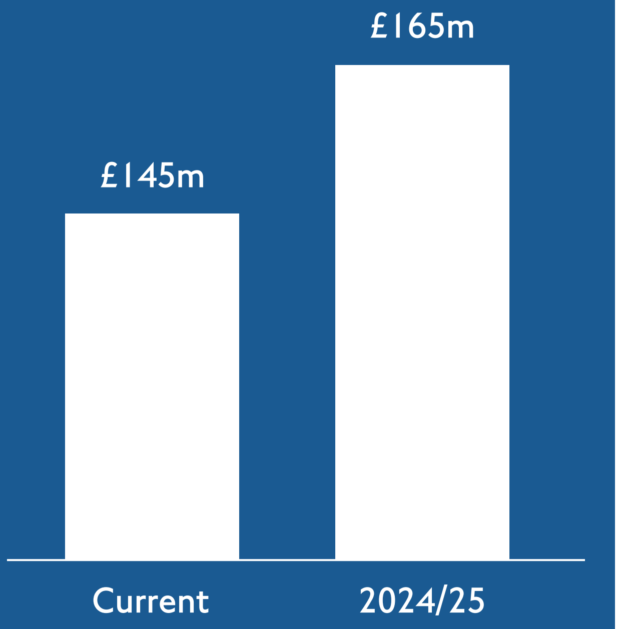
7-15% return

£0.5bn cumulative surpluses in this plan (£1.2bn cumulative over 10 years)

Funding

Capital neutral – investment £1.1bn funded from asset and land sales and development profits

Media: operating surplus to grow 14% by 2023/24



Ambition

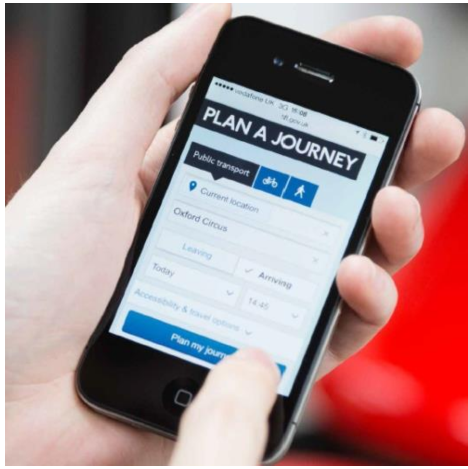
The best partner to promote & understand business in London

£82m investment in new digital advertising completed by 2020

54 new large-format advertising screens installed on our estate

2,400 new, high-format digital screens installed by early 2020

10% increase in gross advertising revenue from the Elizabeth line, despite competing advertising space on the existing network



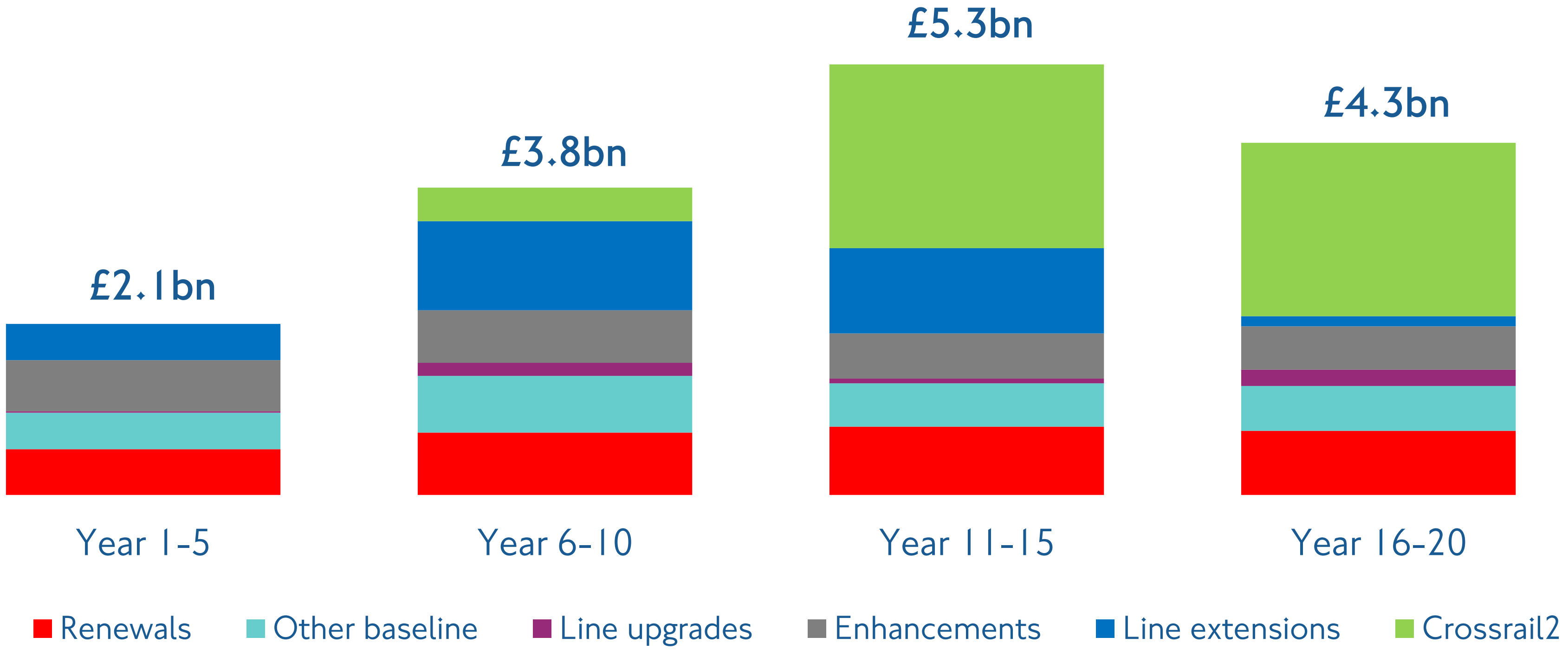
Section 5

Long term Capital Strategy

Our 2019 Capital Strategy

Our Capital Strategy quantifies the costs to deliver the MTS over 20 years

Capital Strategy – annual averages (2019 constant prices)



£1.4bn

Average annual investment required after this Business Plan to maintain existing performance – our Baseline

£3bn

Additional average annual investment required after this Business Plan to improve performance, grow our network and achieve the MTS

£1.4bn p.a. baseline at a glance

This chart shows estimated annual averages for major assets each year after this Business Plan

LU	New trains, incl. enabling work	Trains / signals	£410m	■■■■■■■■■■■■■■■■■■■■
LU	Fleet renewals	Renewals	£190m	■■■■■■■■■
LU	New signalling	Trains / signals	£140m	■■■■■■■
LU	Track	Renewals	£120m	■■■■■■
Pan-TfL	Technology	Renewals	£120m	■■■■■■
Streets / Buses	Highways	Renewals	£70m	■■■■
Rail	General Rail renewals	Renewals	£70m	■■■
LU	Stations / civils	Renewals	£60m	■■■
Streets / Buses	Major structures	Renewals	£40m	■■
Rail	New DLR trains/Trams	Trains / signals	£30m	■■
LU	Signalling renewals	Renewals	£30m	■■
LU	Lifts and escalators	Renewals	£30m	■■
Other	Other pan-TfL	Renewals	£20m	■
LU	Power, cooling, energy	Renewals	£20m	■
Streets / Buses	Streets/Buses other	Renewals	£10m	■

■ = £20m. Annual averages in 2019/20 constant prices

Key MTS goals by 2041

Delivering all the investment London needs to keep will require c£3bn p.a. of enhancements in addition to what's needed to cover the baseline. It will only be possible to achieve these levels of investment if the funding available to us increases

By 2041, London's transport network will be transformed, with:

No road deaths or serious injuries

72% less CO_2 emitted, and better air quality

Faster bus journeys

80% increase in rail capacity

A city-wide cycle network

3m fewer car journeys each day

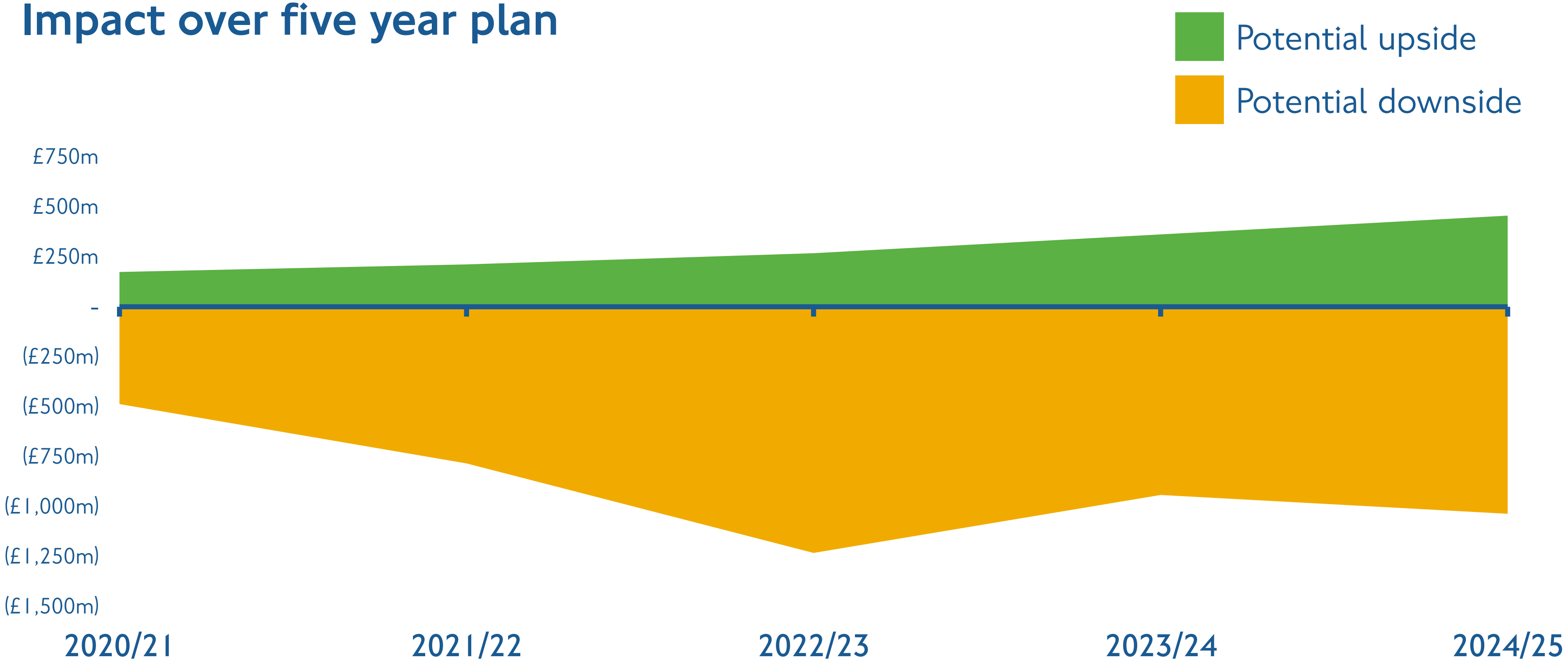
Section 6

Managing our risks

Planning for uncertainty

We use stress tests to understand how external changes could impact our financial position and delivery of our Business Plan. We know we face a number of significant financial risks.

Impact over five year plan



Stress tests

Our stress tests consider a range of impacts on London, including both discrete events and long-term changes in London's economy and travel behaviour. This includes the impact of a potential Hard Brexit in 2020.

Section 7

Conclusion

By 2025, TfL will be more efficient, sustainable and resilient

We face challenges today, but we are addressing them and seizing opportunities for growth

We are addressing our core financial position

We are effectively managing day-to-day costs and are well ahead of budget this year.

The Crossrail delay and economic factors outside our control force us to go further in transforming our business. We are managing these risks but must address our core business.

To do this, we will:

- Grow the LU surplus to reinvest in the network
- Keeping road network safe
- Developing policy and funding solutions for roads
- Make our back and middle office as efficient as possible

We are investing to improve our core service

We will make London's streets healthier

We will give customers a better public transport experience

We will encourage development of new homes and creation of new jobs

Together, these investments will

- Improve quality of life in London
- Encourage economic growth
- Increase housing delivery
- Attract more customers onto our services

We are growing our business

We have four key growth areas with a clear ambition for each:

Property: London's leading operator and owner of build-to-rent

Media: The best partner to promote & understand business in London

Retail: A top-five player in convenience and small retail

Commercial Consulting and International Operations: The world's preeminent transport authority consultancy