

Chair's Action exercised in relation to TfL Funding

This document contains the three papers that approved TfL's funding arrangements with government between March and May 2021.

The first paper extended the H2 funding arrangements from 29 March to 18 May 2021.

The second paper extended the H2 funding arrangements for a further ten days to 28 March 2021.

The third paper was used to approve the new funding arrangements up to 11 December 2021.

A paper on the 2021/22 funding agreement is on the agenda for the meeting of the Board on 9 June 2021.

Finance Committee

Chair's Action



Date: 21 March 2021

Item: Funding Update

This paper will be published with the papers for the next meeting of the Finance Committee.

1 Summary

- 1.1 This paper addresses the recent proposal for a short term roll forward of the current "H2" extraordinary funding and financing agreement set out in the Secretary of State's letter of 31 October 2020. It makes proposals for agreement with Government on a short term funding solution for around seven weeks while discussions on funding support for a longer period continue.
- 1.2 TfL's financial position has been considered at length at the meeting of the Finance Committee on 10 March 2021 and the meeting of the Board on 16 March 2021 and those considerations provide the context for this paper.
- 1.3 The use of Chair's Action by the Chair of the Finance Committee is considered appropriate as consideration of this matter is required immediately, outside the meeting cycle; given the immediacy of the issue and recognising the recent, lengthy discussion on financial matters at the Board on 16 March. All Board Members are being provided with a copy of this paper but it is recognised given the short timescales that not all Members may have the opportunity to comment before the Chair's decision is made.

2 Recommendations

- 2.1 The Chair of the Committee is asked to note the paper and accept the recommendation of a short term roll forward of the existing H2 funding agreement for TfL described in this paper.**

3 Background

- 3.1 TfL's financial position has been considered at length at the meeting of the Finance Committee on 10 March 2021 and the meeting of the Board on 16 March 2021 and those considerations provide the context for this paper.
- 3.2 The considerable efforts that have gone into engagement with the Department for Transport (DfT) since the 31 October 2020 and, in particular, since the submission of the Financial Sustainability Plan in January 2021 were described to the Board at its meeting on 16 March. We have continually striven to secure a longer term funding solution for TfL with Government; despite those strenuous efforts at all levels of TfL and the Greater London Authority, DfT is proposing a short term rollover arrangement until 18 May 2021.

4 Proposed funding terms

- 4.1 Government has offered TfL a short term roll forward of the current "H2" extraordinary funding and financing agreement set out in the Secretary of State's letter of 31 October 2020.
- 4.2 This roll forward extends the current period end date of "H2" from 31 March 2021 to 18 May 2021, an extension of seven weeks. The terms of the proposed extension are set out in a draft letter from the Secretary of State which is included in Appendix 1.
- 4.3 Government has also confirmed that the comfort concerning TfL's future financial position from the H2 funding agreement will continue. Government has confirmed that it expects us to manage expenditure in line with the Financial Sustainability Plan and that the financial commitments that we need to make during the period of this rollover will be recognised in future funding agreements, so it is understood that those commitments affect our ability to meet any savings targets requested in future.

5 Balanced budget considerations

- 5.1 We described to the Finance Committee at its meeting on 30 September 2020 and subsequently referred to at the Finance Committee's meeting on 16 October 2020, when a two-week rollover was proposed at the end of "H1", the position that would apply if we no longer have certainty of Government support or other funding to be able to meet our obligation to operate to a balanced budget. That position remains a constant backdrop to our funding discussions with Government.
- 5.2 At those meetings, we described the process for and implications of section 114 of the Local Government Finance Act 1988 (s114). If the Chief Finance Officer were to consider it necessary to prepare a report under s114, careful

consideration would need to be given to what services TfL is able to continue to run within available funds, taking into account our general financial obligations and our core statutory duty to provide safe and efficient public passenger transport services as well as those services specified in statute and the significant contractual and statutory consequences which would be presented to Board Members to consider.

5.3 The proposal to accept the rollover proposed will avoid the need to consider invoking s114 at this stage.

List of appendices to this report:

Funding letter from the Secretary of State

Background papers:

Finance Committee paper 30 September 2020 – Update on funding negotiations

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Date issued: 17 May 2021

Item: Funding Update

This paper will be published with the papers for the next meeting of the Board

4 Summary

- 1.3 This paper addresses the recent proposal for a short term roll forward of the current “H2” extraordinary funding and financing agreement set out in the Secretary of State’s letter of 31 October 2020 and extended to 18 May 2021. It makes proposals for agreement with Government on a short term funding solution for 10 days while discussions on funding support for a longer period continue.
- 1.4 TfL’s financial position has been considered at length at the meeting of the Finance Committee on 10 March 2021 and the meeting of the Board on 16 March 2021. Available Members have also been briefed on the proposed short term funding proposal.
- 1.3 The use of Chair’s Action by the Chair of the Board is considered appropriate as consideration of this matter is required immediately, outside the meeting cycle, given the immediacy of the issue and given the short term nature of the arrangement. All Board Members are being provided with a copy of this paper but it is recognised, given the short timescales, that Members who were unable to attend the briefing may not have the opportunity to comment before the Chair’s decision is made.

5 Recommendations

- 2.2 The Chair of the Board is asked to note the paper and, following consultation with available Members, accept the recommendation of a short term roll forward of the existing, extended H2 funding agreement for TfL described in this paper.**

6 Background

- 5.4 TfL’s financial position has been considered at length at the meeting of the Finance Committee on 10 March 2021 and the meeting of the Board on 16 March 2021 and those considerations provide the context for this paper, together with the briefing provided to available Members.
- 5.5 Despite significant efforts to secure a longer term funding solution for TfL with Government, particularly since the submission of the Financial Sustainability Plan

in January 2021, DfT has, to date, provided short term funding arrangements most recently for seven weeks, until 18 May 2021.

- 5.6 It had been anticipated that DfT would offer funding support at least until the Comprehensive Spending Review planned for this autumn before the expiry of the current arrangements. Instead, DfT has proposed funding support until 28 May 2021 as it continues to develop its proposal for funding for a longer period and requires this additional 10-day period to complete that work.

6 Proposed funding terms

- 6.1 Government has offered TfL a short term roll forward of the current “H2” extraordinary funding and financing agreement set out in the Secretary of State’s letter of 31 October 2020 and extended to 18 May 2021.
- 6.2 This roll forward extends the current period end date of “H2” from 18 May 2021 to 28 May 2021, an extension of 10 days. The terms of the proposed extension are set out in a draft letter from the Secretary of State which is included in Appendix 1; they include additional base funding of £65m and a continuation of the true-up mechanism on revenues.
- 6.3 Government has confirmed that the comfort concerning TfL’s future financial position from the H2 funding agreement will continue. Government has also confirmed that it expects us to manage expenditure in line with the Financial Sustainability Plan and that the financial commitments that we need to make during the period of this extension will be recognised in future funding agreements, so it is understood that those commitments affect our ability to meet any savings targets requested in future.
- 6.4 Government’s proposed draft extension letter also includes a commitment to share, by 20 May 2021, a proposal for a funding package to commence on 29 May 2021.

7 Balanced budget considerations

- 7.1 We described to the Finance Committee at its meeting on 30 September 2020 and subsequently referred to at the Finance Committee’s meeting on 16 October 2020, when a two-week extension was proposed at the end of “H1”, the position that would apply if we no longer have certainty of Government support or other funding to be able to meet our obligation to operate to a balanced budget. That position remains a constant backdrop to our funding discussions with Government.
- 7.2 At those meetings, we described the process for and implications of section 114 of the Local Government Finance Act 1988 (s114). If the Chief Finance Officer were to consider it necessary to prepare a report under s114, careful consideration would need to be given to what services TfL is able to continue to run within available funds, taking into account our general financial obligations and our core statutory duty to provide safe and efficient public passenger transport services as well as those services specified in statute and the significant contractual and statutory consequences which would be presented to Board Members to consider.

7.3 The proposal to accept the extension proposed will avoid the need to consider invoking s114 at this stage.

List of appendices to this report:

Draft funding letter from the Secretary of State

Background papers:

Finance Committee paper 30 September 2020 – Update on funding negotiations

Contact Officer: Simon Kilonback, Chief Finance Officer

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Board

Chair's Action

Date: 31 May 2021

Item: Funding Agreement

This paper will be published with the papers for the next meeting of the Board.

7 Summary

- 1.5 This paper sets out the Secretary of State's proposed terms sent in draft to the Mayor for a further extraordinary funding and financing agreement to replace the current agreement, first agreed in the Secretary of State's letter of 31 October 2020 and since extended to 28 May 2021. It provides for agreement with the Department for Transport (DfT) on funding until 11 December 2021 and includes a number of conditions beyond those included in previous funding agreements.
- 1.6 TfL's financial position has been considered at length at the meeting of the Finance Committee on 10 March 2021 and the meeting of the Board on 16 March 2021, Members have also been briefed on the terms of the proposed further extraordinary funding and financing agreement and those considerations provide the context for this paper.
- 1.3 The use of Chair's Action by the Chair of the Board is considered appropriate as consideration of this matter is required immediately, outside the meeting cycle, given the immediacy of TfL's funding position. All available Board Members have been briefed on the emerging funding offer and support accepting it in the circumstances.

8 Recommendations

- 2.3 The Chair of the Board is asked to note the paper and, subject to receipt of a signed letter from the Secretary of State in the terms described in this paper, accept the recommendation of a further funding agreement with the Department for Transport for TfL as described in this paper.**

9 Background

- 7.4 TfL's financial position has been considered at length at the meeting of the Finance Committee on 10 March 2021 and the meeting of the Board on 16 March 2021 and those considerations provide the context for this paper, together with the briefing provided to available Members.
- 7.5 Despite significant efforts to secure a longer-term funding solution for TfL with Government, particularly since the submission of the Financial Sustainability Plan

in January 2021, DfT has, to date, provided short-term funding arrangements most recently for ten days, until 28 May 2021.

- 7.6 The further extraordinary funding and financing agreement terms, which are included at Appendix 1, covers the period to 11 December 2021 with a trajectory for financial sustainability no later than April 2023.
- 7.7 The draft terms included at Appendix 1 have been the subject of discussions with DfT since DfT's initial draft proposal was received on 20 May.

8 Funding terms

- 8.1 The 2021/22 TfL Budget outlined a £2.7bn full year funding requirement in 2021/22 against an assumed passenger revenue forecast of £3.5bn.
- 8.2 The core funding terms in the proposed agreement provide £1.08bn of base funding to be paid in six periodic instalments starting on 7 June 2021. This is in addition to the £0.6bn received as part of the first and second funding extensions.
- 8.3 The proposed funding agreement also extends the revenue top-up arrangement in the current funding agreement should TfL's actual passenger revenue receipts be different to a defined revenue scenarios, providing certainty of £1.78bn of passenger revenue funding over periods 3 to 9. This aligns with a DfT full year passenger revenue scenario of £3.6bn, being circa £100m higher than assumed in the approved TfL Budget for 2021/22.
- 8.4 The proposed funding agreement also requires TfL to find £300m of savings and/or other income; however, when taken together with the amount of funding already provided under the recent funding extensions, along with funding to be provided under this agreement, TfL will actually be required to find £0.9bn of savings compared to the approved TfL Budget. This will need to be met through a combination of utilising cash reserves in excess of our £1.2bn minimum cash level, additional non-passenger income and reduced and/or deferred costs. While challenging, this is considered achievable.
- 8.5 The DfT's proposal also includes a number of conditions, some of which are expansions of conditions in previous funding agreements and some of which are new. The key conditions proposed are:
- (a) TfL is to prepare a revised medium-term capital investment programme to reflect its current financial position and future demand scenarios following the coronavirus pandemic;
 - (b) TfL is to develop a plan which shows how the full £730m of recurring savings by 2023 may be delivered and which sets out the transport risks of accelerating these efficiencies by two years to help inform future decisions about implementation.
 - (c) TfL is to identify and, if required, consult on new or increased income compared to current plans of £0.5-£1bn from 2023; this is to be achieved in reliance on existing powers;

- (d) fares are to increase in line with its business planning assumption of an overall fares increase of RPI+1 per cent on fares under the Mayor's control in January 2022;
- (e) TfL must ensure that any amendments to the Ultra Low Emission Zone for road vehicles following the October 2021 expansion from 25 Oct 2021 and any travel concessions beyond those nationally available are paid for from "new" income, that is, without recourse to grant, borrowing, savings, service changes or deferrals;
- (f) TfL is expected to follow the Government's public sector pay pause. If there are any bonus pay awards, they must not be paid for from the DfT's extraordinary funding. We are not, however, limited in honouring existing contractual commitments or multi-year pay agreements;
- (g) TfL commits to a review of the TfL Pension Scheme and potential reform options with the explicit aim of moving the Scheme to a financially sustainable position. The detail of that review will need to be developed in the coming weeks;
- (h) there will be a joint review of demand to inform future service level requirements;
- (i) on housing, TfL is to agree a plan (including a Business Plan) for delivery through a dedicated commercial property company to deliver housing in high demand areas and increase revenue streams. These proposals must ensure that this activity is non-recourse to TfL and that assets will not be transferred to other Mayoral vehicles; parameters for those transfer controls will be addressed in TfL's plan;
- (j) in our Financial Sustainability Plan, we made proposals for structural reform. There will be a joint review of options for longer-term reform of TfL's funding framework, governance and oversight;
- (k) DfT will lead a joint programme on the implementation of driverless trains on London Underground; this will focus on progressing towards conversion of at least 1 line to Grade of Automation 3 (driverless, but with an on-board attendant, as on the Docklands Light Railway). This work is to be funded by DfT and will include stages during this term of this funding agreement towards the preparation of an interim Outline Business Case for the Waterloo and City line and an interim Strategic Outline Business Case for the Piccadilly line;
- (l) TfL will set aside at least £100m in the period of this funding agreement to continue the delivery of healthy streets and active travel programmes including funding for the London Boroughs under the local implementation plan process;
- (m) while the maintenance and safety of Hammersmith Bridge is the responsibility of the London Borough of Hammersmith & Fulham (LBH&F), the funding letter sets out the Government's expectation that there will be a memorandum of understanding between DfT, TfL and the LBH&F to set out how the reopening of the bridge will be funded, initially to pedestrians, cyclists and

river traffic and, depending on the cost, to motorists. The Government will not contribute more than a third of the costs; and

(n) the proposed terms also have a number of provisions relating to DfT oversight and information sharing, including:

- i. an oversight group for active travel, to meet fortnightly;
- ii. a requirement on TfL to continue its current expenditure controls, through the weekly Financial Control Oversight Group;
- iii. a requirement on TfL to agree certain communications with DfT before issuing;
- iv. a requirement on TfL to consult with DfT on our budget setting process; and
- v. a requirement on TfL to share our plans and financial models for 2022/23 and beyond and to continue sharing our management accounts and cash flow forecasts.

8.6 As in previous funding agreements, in this draft, DfT confirms that the comfort concerning TfL's future financial position will continue. Government has confirmed that it expects us to manage expenditure in line with the Financial Sustainability Plan and that a combination of measures from Government, TfL and the GLA will enable TfL to continue to meet balanced budget obligations and commitments during the current funding period and beyond.

8.7 DfT's intention, as set out in the draft terms, is that further settlement will be possible from December 2021, although DfT has not indicated whether this will be short or long term. The draft letter also confirms that DfT recognises that we have existing near and long-term financial commitments, and will need to enter into new financial commitments, that extend beyond December 2021. This is considered sufficient to enable TfL to continue to enter into contracts that extend beyond 11 December 2021.

8.8 We will engage and consult with our staff and trade unions as appropriate as we develop proposals to meet the requirements of the above conditions.

9 Balanced budget considerations

9.1 We described to the Finance Committee at its meeting on 30 September 2020 and subsequently referred to at the Finance Committee's meeting on 16 October 2020, when a two-week extension was proposed at the end of "H1", the position that would apply if we no longer have certainty of Government support or other funding to be able to meet our obligation to operate to a balanced budget. That position remains a constant backdrop to our funding discussions with Government.

9.2 At those meetings, we described the process for and implications of section 114 of the Local Government Finance Act 1988 (s114). If the Chief Finance Officer were to consider it necessary to prepare a report under s114, careful

consideration would need to be given to what services TfL is able to continue to run within available funds, taking into account our general financial obligations and our core statutory duty to provide safe and efficient public passenger transport services as well as those services specified in statute and the significant contractual and statutory consequences which would be presented to Members to consider.

- 9.3 The proposal to accept the proposed funding agreement will avoid the need to consider invoking s114 at this stage.

List of appendices to this report:

Draft funding letter from the Secretary of State and associated annexes

Background papers:

Finance Committee paper 30 September 2020 – Update on funding negotiations

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