Supplementary Agenda

Meeting: Finance Committee

Date: Wednesday 24 November 2021

Time: 10:00am

Place: Conference Rooms 1 and 2, Ground Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ

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

Copies of the papers and any attachments are available on tfl.gov.uk How We Are Governed.

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that the item should be considered as a matter of urgency. The reason for urgency is to allow for the latest financial information available to be provided.

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Jackie Gavigan, Secretariat Manager; Email: v_JackieGavigan@tfl.gov.uk

For media enquiries please contact the TfL Press Office; telephone: 0343 222 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Wednesday 17 November 2021

Supplementary Agenda
Finance Committee
Wednesday 24 November 2021

11 Any Other Business the Chair Considers Urgent

The Chair will state the reason for urgency of any item taken.

11a Implications of Reduced Funding for TfL

Chief Finance Officer

The Committee is asked to note the paper.

Finance Committee

Date: **24 November 2021**

Item: **Implications of reduced funding for TfL**

This paper will be considered in public

As provided for under section 100b(4)(b) of the Local Government Act 1972, the Chair is of the opinion that this item should be considered as a matter of urgency. The reason for urgency is to allow for the latest information available to be provided.

1 Summary

1.1 This paper provides an updated view of TfL's financial position. The paper considers recent developments and gives an updated outlook over the medium-term period covered by the recent Government Comprehensive Spending Review (CSR), 2022/23 to 2024/25.

1.2 TfL is required to make a submission to the GLA Budget process on 26 November 2021. As a local authority for statutory financial purposes, we are obliged to prepare a budget that is balanced over both the short and medium term. Therefore, this budget submission will have to demonstrate a credible path to closing this funding gap and maintaining a balanced budget. The paper considers what actions are required to close the current funding gap, in the absence of any further external support, and what the wider impacts of such actions will be.

1.3 There remains significant uncertainty on the level of available funding over this time period, which would be determined by the pace and level of recovery of passenger demand and the final level of government funding. The Independent Panel report published in December 2020 highlighted a long term funding gap of £2bn pa, which has since been proven through updated work on TfL's funding gap through the Financial Sustainability Plan (FSP) and our submission to the Comprehensive Spending Review (CSR). Since our 2019 Business Plan, the structural shift in demand due to the pandemic has meant a significant loss of passenger revenue in future years with hybrid working and reduced tourism, compounded by Brexit.

1.4 The Government stipulated in the last TfL emergency financial agreement that the Mayor and TfL must raise an additional £500m-£1bn per year from 2023/24. As yet there has been no agreement between the Mayor and Government on proposed revenue raising options and therefore no budget assumptions can be made based on TfL having this extra revenue.

1.5 The potential required savings laid out in this document, necessitated by our legal requirement to balance our budget, represent the 'Managed Decline' scenario first laid out in the FSP. We have always been clear about the severe impacts to our service and the wider economy were Managed Decline to take place, but in the absence of capital and revenue funding pledges from Government, we must now move to planning for this scenario. We would need to start enacting some changes immediately to start realising the financial savings in future years.

1.6 We will continue to make the case for additional government funding, and to continue to support the recovery of passenger demand, which will help mitigate the need to take all the actions set out in this paper and allow TfL to play its role in supporting our economic recovery, decarbonisation and levelling up across the country.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Financial Sustainability Plan and CSR Submission

Pre-pandemic position

3.1 Before the pandemic, we were making tangible progress towards delivering operational financial sustainability, following the phased removal of operating grant from the Department for Transport. The annual operating deficit had been reduced from £1.5bn in 2015/16 to £300m in 2019/20 and was on track to be converted into a surplus by 2022/23. This was predicated on continued growth of passenger revenue, including the opening of the Elizabeth line, as well as the delivery of a challenging efficiencies programme.

3.2 These savings were driven across the organisation, including through cost control on the Underground, the transformation of the Surface and Professional Services areas, refining the bus tender programme, and changes to the operating model and contracts within Technology & Data.

3.3 The 2019 Business Plan showed TfL building back up to a sustainable level of renewals consistent with recommendation by the 2018 National Infrastructure Assessment. Even within this context, TfL were still making the case that London's transport needed increased capital investment from future CSRs to deliver its planned outcomes.

3.4 All major metropolitan transport authorities require both operating subsidy and funding for network improvements. TfL is an outlier in its funding make up, with the 2015 Government CSR leading to 72 per cent of its total pre-pandemic operating income coming from passenger income, compared to 48 per cent for Paris and New York. Both these cities enjoy greater subsidy from government, as well as drawing on some revenue from taxes on petrol and diesel. In the UK, Vehicle Excise Duty (VED) is collected and retained nationally, with no allocation to London – which would amount to c.£500m pa. Government have now ruled out devolution of VED to London.

Government Funding agreements

3.5 The impact of the pandemic on passenger numbers, which collapsed overnight by c.95 per cent on tube and 85 per cent on buses, meant that TfL requires Extraordinary Government Funding to continue operating services as stipulated by Government for key workers. TfL has been through three short funding agreements since then, with its current funding agreement expiring on the 11 December, despite making the case for longer term funding. Part of the second funding agreement from October 2021 was for TfL to submit a Financial Sustainability Plan (FSP), outlining its route to achieving financial sustainability.

Financial Sustainability Plan

3.6 In January 2021 TfL's FSP was published, which set out its plan to build back to operational financial sustainability by 2023/24, following the pandemic which decimated TfL's finances. This was on the assumption that funding for its capital investment would be forthcoming. The FSP outlined a number of financial scenarios, driven by different revenue and capital investment assumptions for our medium-term outlook.

3.7 'Decarbonise by 2030' is the only scenario which was consistent with both Mayoral and Government policies to decarbonise transport, support economic growth following the pandemic, promote active travel and transit by sustainable modes, resulted in an average gross funding gap of circa £2bn pa from 2023/24-2029/30. This funding gap was consistent with the findings of the Independent Review into TfL finances, published in December 2020.

3.8 This funding gap included a number of efficiency and cost saving assumptions, including delivery of the existing £730m savings programme, and reductions to the bus network of c.4 per cent.

3.9 The funding gap was assumed to be met by £500m new income from 2023/24 either through the devolution of VED paid by Londoners or from the net proceeds of a potential Greater London Boundary Charge, and £1.6bn p.a. of additional Government funding for capital investment.

CSR Submission

3.10 Our latest assessment of the funding gap was included in our CSR submission in August 2021 and remained consistent at circa £2bn pa.

3.11 The CSR submission outlined how TfL has a vital role to play in stimulating the UK's economic recovery and supporting decarbonisation and the levelling up agenda. This includes supporting the UK through bus electrification, providing the critical mass for British bus manufacturers to set up production and enable other UK municipalities to progress with electrification and thereby benefit the entire UK transition. It outlined the investment required on Tube infrastructure, with assets between 40 and 70 years old needing urgent replacement to ensure best value for money for farepayers and taxpayers, while supporting a pipeline of new jobs and opportunities outside London.

3.12 We set out the need for around £3bn per year of investment in London's transport network. This compares to the around £7bn per year we spend on operating and maintaining the network, which is funded through income raised in London – primarily fares, road charges, commercial revenue and London's retained business rates (supplemented in the short term by emergency government grant to replace lost passenger revenue).

3.13 The CSR submission set out that this gap could be closed with £1-1.5bn additional Government matched funding, based on an assumption that £0.5-1bn additional new income would be raised by London and the Mayor.

4 Recent developments and updated funding gap

4.1 Since the FSP and CSR submission, other factors have emerged impacting TfL's overall financial position.

4.2 As published in the P7 Finance Report (item 6 of this Committee agenda) our passenger has increased to 68 per cent of pre-pandemic demand and each period has seen an increase in demand as individuals and businesses get more comfortable with more frequent working in the office, and international tourism begins to return. However this is £141m lower than the Revised Budget projections, which had anticipated a greater return to work following the lifting of restrictions on social distancing.

4.3 Early indications show the expansion of the Ultra Low Emission Zone (ULEZ) has been successful in driving the desired policy outcomes from the scheme by improving air quality, as we have seen greater compliance of vehicles and fewer journeys by polluting vehicles being made compared to original expectations. One consequence of greater compliance is reduced proceeds from the scheme than was anticipated, which equates to roughly £600m over the three years 2022/23 - 2024/25.

4.4 Inflation rates have increased dramatically in the last year, with demand for goods and services including energy prices as the UK has emerged from the pandemic. RPI is currently at 6.0 per cent (October 2021), compared to 1.3 per cent in October 2020. This has caused a significant pressure on our total costs.

4.5 The Government have also stated in the CSR that for the period 2022/23 to 2024/25, we will not receive any additional capital funding, only retain the £1bn devolved retained business rates the GLA previously received. Government have confirmed the revenue settlement for the remainder for 2021/22 will be considered closer to the expiry of the current funding agreement, on 11 December, and negotiations have not yet commenced. Government also confirmed they do not intend to provide any further revenue support beyond March 2023.

4.6 These factors mean we will need to revise our income forecasts for future years to be more pessimistic in line with current performance, and funding expectations. This increases the funding gap in 2022/23 and 2023/24. Table 1 shows the movement between the CSR funding gap and the current position.

£bn	22/23	23/24	24/25
CSR Funding gap (with no additional London income)	**(1.2)**	**(2.2)**	**(2.0)**
Recent changes			
Latest passenger income forecast	(0.3)	(0.4)	(0.5)
Latest BRR forecast	0.1	0.2	0.2
Latest ULEX assumptions	(0.3)	(0.2)	(0.1)
Latest net operating costs	(0.2)	(0.3)	(0.3)
Latest capital investment	0.2	0.1	0.5
Funding gap after recent developments	**(1.7)**	**(2.7)**	**(2.2)**

Table 1: Recent developments and updated funding gap

4.7 TfL is required to make a submission into the GLA budget process, to inform the Mayor's Budget for 2022/23. This submission covers the period 2022/23 to 2024/25 and will have to incorporate this updated information. However, as a local authority for statutory purposes, TfL is still obliged to be able to prepare a budget that is balanced over both the short and medium term. Therefore, this budget submission will have to demonstrate a credible path to closing this funding gap and maintaining a balanced budget.

5 Actions required to close the funding gap

5.1 In July 2021, TfL presented an updated Long-Term Capital Plan to the Board, which was also submitted to Government as part of the funding agreement conditions. This showed three scenarios for capital investment over the next 25 years:

(a) Do Minimum – equating to Managed Decline;

(b) Financially Constrained; and

(c) Policy Consistent.

5.2 Following the discussion at the Board, we re-titled the 'Do Minimum' scenario as the 'Managed Decline' scenario to better reflect the impacts that this would have for London and its transport network. Managed Decline is referred to through this paper as the combined impact of capital and operating account reductions; which together would see London's transport system start a Managed Decline.

5.3 The FSP and CSR submissions were based around the 'Policy Consistent' scenario as this scenario best met the shared policy objectives of TfL, the Mayor and the Government. Following the Government's decision to not fund the Policy Consistent scenario as part of the CSR, it is clear that we can only afford the Managed Decline scenario at most, and are likely to have to run below even these levels of investment. Action by TfL would be required as part of setting its 2022/23 budget in January 2022, to enact changes in time to observe the financial impact for 2023/24.

5.4 Dropping to Managed Decline levels of capital investment alone does not resolve the funding gap. We will also have to reduce service levels across our network, reduce borough funding, implement asset financing options, and negotiate the rephasing of repayments of the Crossrail £750m loan from the Department for Transport (DfT). If this scenario is adopted the changes to both TfL and Borough projects will be immediate, by not starting or continuing work on projects which aren't funded in future years.

5.5 This section outlines the impacts of dropping to lower than the Managed Decline scenario on capital, as well as other actions required to close the medium-term funding gap.

Summary of financial position

5.6 Table 2 shows the financial impact of the various measures to close the updated funding gap, with an explanation of the impacts of doing so listed after and in section 6. This shows TfL cannot balance its budget for any of the upcoming financial years to 2024/25, with the largest deficit in 2022/23 of £1.3bn including Crossrail.

5.7 Our position has always been to look to grow our cash reserves above the lender and rating agency minimum requirement of £1.2bn, to be able to withstand the impact of future shocks on demand, given susceptibility due to over-reliance on fares income compared to other major transport authorities. Even all the interventions on capital investment and service levels, we cannot balance our budget in any year.

£bn	22/23	23/24	24/25
Funding gap after recent developments (from Table 1)	**(1.7)**	**(2.7)**	**(2.2)**
Move to 'Financially Constrained' capital scenario	-	0.8	0.5
Financially Constrained Funding gap (with no additional London / Government income)	**(1.7)**	**(1.9)**	**(1.7)**
Impacts of closing the gap			
Drop to Managed Decline on enhancements	0.3	0.4	0.4
Renewals below Managed Decline and cap at £0.7bn p.a. (£0.6bn for 22/23)	0.2	0.3	0.4
Capital efficiency no longer achievable	0.0	(0.1)	(0.2)
Service level reductions	0.0	0.1	0.2
Borough funding	0.1	0.1	0.1
Other operating cost reductions	0.0	0.2	0.2
Asset financing options and Crossrail loan	0.0	0.5	0.0
Funding gap after actions above	**(1.1)**	**(0.4)**	**(0.5)**
Crossrail P50 capital	(0.2)	0.0	0.0
Funding gap including Crossrail	**(1.3)**	**(0.4)**	**(0.5)**

Table 2: Measures to close the funding gap

Capital Expenditure – Managed Decline enhancements

5.8 Moving to Managed Decline on enhancements would mean that only projects already underway, or those required to be compliant with safety and other statutory regulations would continue – meaning no new investment by TfL at all in the transport network. Major outcome areas for TfL would be impacted, with no proactive progress towards Vision Zero (safety), decarbonisation, improving air quality or active travel to support a shift towards more sustainable modes.

5.9 The Mayor's Transport Strategy (MTS) would be largely undeliverable without this investment. Any assumptions on financial benefit from capital efficiencies would be eroded due to TfL not completing the capital spend from which these could be realised. Table 1 shows by business area some of the schemes that would have to be deprioritised through dropping to 'Managed Decline'.

5.10 The Managed Decline assumes that current commitments are honoured, including the rolling stock contracts for the Piccadilly line and the DLR which fall within the CSR period, and that previously paused schemes such as Crossrail 2 and the Bakerloo Line Extension remain paused. However, if other savings described in this paper are not realised or if the funding gap widens then we may have to revisit the contractually committed schemes.

Area	What schemes does London lose in the next few years?
Underground	• No Step Free Access schemes other than those which are currently in construction • Longer term, all fleets would need to be life extended as much as possible, as we are currently doing on some trains. Bakerloo and Central line fleet replacement would be pushed back to the late 2030s /early 2040s, and Jubilee line replacement would not begin until the mid-2040s, at significant cost. This would make our fleets by far some of the oldest in the UK. • We would not start work on the Piccadilly line signalling, meaning there would be a gap between completion of our current signalling projects and the next phase which will impact our internal capability, disrupt the supply chain and delay capacity benefits of the new fleet. This would also likely increase future maintenance costs to keep the current asset in operable condition. • Station capacity upgrades – no projects after current commitments, meaning Camden Town and Holborn do not take place. This would also impact schemes which are third party funded – TfL would not be able to enter joint funded new station schemes.
Surface	• Healthy Streets / active travel investment would reduce to around £10m p.a. to complete safety-critical schemes and limited bus speed improvements to protect revenue. No new enhancement schemes would start. • This would mean no further funding for active travel or cycling enhancements beyond the current funding arrangement. Final cycleways already under construction would be completed (Cycleway 4 Evelyn Street section, Cycleway 9 Hammersmith Gyratory section, Cycleway 37 – Mile End junction and converting current temporary sections). • The remaining sections of those Cycleways would not be constructed and no new cycleways would be started. No further 20mph zones or safer junctions would be funded.

	• Old Street roundabout project would be completed given construction is well underway, but we would not take forward schemes at Vauxhall Cross, Wandsworth Gyratory or any other major transformational scheme. • Any schemes which progress air quality improvements beyond ULEX, including Mayor's Air Quality Fund and electrification of TfL's vehicles would be stopped. • The road network would continue to decline, leading to more restrictions and closures and a negative impact on healthy and sustainable travel choices. • The London Overground HIF programme on the East London Line would only be able to proceed if it is fully third party funded. • TfL's Cycle Hire scheme would not be expanded further, nor would the e-bike trial be able to be rolled out further without third party funding.
Major Projects	• The new station box at Elephant & Castle would be constructed by the developer but we would not be able to fit it out to turn it into an operational station. • Crossrail 2 and Bakerloo Line Extension remain suspended with no long term likelihood of restating these projects. • The Piccadilly and DLR new rolling stock are both committed so would continue; however should no further funding materialise this would need to be reviewed.
Professional Services	• All new Growth Fund projects (which leverage third party income) not progressed. This includes Colindale Station Upgrade, Walthamstow Central Station Upgrade, Leyton Station Upgrade, Renwick Road Junction, Elephant and Castle station Bakerloo Line Extension safeguarding • All Technology and Data improvements not progressed. No further investment in the TfL Go app and online platforms, removing the ability to implement any upgrades to enable our customers to plan and manage their journeys e.g. step-free Access journeys, payment and personalisation i.e. less busy times to travel.

Table 3: Impact of Managed Decline on enhancements

Capital Expenditure – lower than Managed Decline renewals

5.11 We have designed the Managed Decline scenario to ensure the network remains as safe as it is today and consistent with our regulatory responsibilities, but operability and reliability would be compromised. Asset closures and restrictions would be likely on our road network (with a high risk of unplanned bridge and tunnel closures). The Tube would be unable to consistently operate full service, and the Rail service and assets are likely to degrade.

5.12 To close the gap completely we would have to drop below Managed Decline, with these impacts currently being investigated further so we can effectively understand and manage the asset risk from this level of renewals. We will always make sure the network is safe using a regime of increased maintenance, inspections, mitigations and reactive work – but where required we would close assets to keep the network and customers safe.

Area	Managed Decline
Streets	London has been excluded from the £5bn for road maintenance in the recent CSR. Assets would generally remain in current degraded condition (comparable to local authority B, C and U roads). Address highest risk interim measures on bridges and tunnels with short-term solutions. TfL would have to continue with high risk of unplanned bridge and tunnel closures, with no funding to proactively improve conditions, similar to Hammersmith Bridge. **Potential risks from dropping below Managed Decline:** Larger renewals of structures and tunnels deferred (as easier to manage increased risk on small number of large assets). Such assets at risk of closure include Rotherhithe Tunnel and Gallows Corner. Restrictions and closures highly likely – creating congestion on the rest of the road network, which will worsen safety outcomes, and disrupt freight and deliveries as well as affecting bus performance / costs.
Underground	Many renewals deferred creating increased risk of unreliability and future financial risk, which would be due to reactive works required when assets are not operable, as well as increased maintenance costs keeping life expired assets running. This would lead to customer disruption and an unreliable service, and likely impact passenger income. Fleet: Piccadilly line trains replaced. No other fleets are replaced – putting us on the path to continuously life extending existing assets (leading to ongoing operability challenges and higher long-term costs). Signalling: Life extensions and renewals to prolong the life of signalling systems and deal with obsolescence. No Piccadilly line signalling replacement. **Potential risk from dropping below Managed Decline:** Fleet overhauls cannot fully take place, expected to lead to up 25 per cent reduction in peak service on some lines. Less track renewal requires more speed restrictions. Risk of downward reliability spiral preventing passenger return, compounding financial challenge. There would be a noticeable customer impact, due to decline in lifts and escalator works, and routine station works.
Surface Rail	Assets and service likely to degrade. Defer Tram replacement fleet (increases whole-life cost). Declining customer facilities (e.g. lifts, escalators and ticketing).

Technology	Limited to renewal of critical systems and address cyber security risk, including increase in end-of-life and out of support systems Lack of investment in identification of fare evasion across the network, removing the ability to accurately deploy resources to hotspots Longer cycles to replace assets (e.g. payment readers) increases risk of failures and therefore increased revenue risk

Table 4: Impact of lower than Managed Decline on renewals

Operating expenditure – Service levels

5.13 Cutting services reduces ridership. This both reduces income and shifts people to cars, which works against the ambitions of the MTS and the economic recovery of London. Only 56 per cent of London households have access to a car so changes to service levels will have a profound impact on many Londoners' daily lives. To date we have resisted making rushed and overly large changes to our service levels, given the uncertainty of demand and the fact that behavioural and travel patterns are still changing. However, due to the legal requirement for us to balance our budget, service level cuts would be required to meet our legal obligations under current income forecasts.

5.14 Delivering a large package of service reductions would require significant time to develop in detail, but we have had to start developing the potential plans that may be required under current budget forecasts. A high-level assessment of the impact of substantial service cuts to TfL's bus and rail modes is set out below. Some changes might begin within months, while more complex restructurings would take more time to develop and require consultation. Together, changes on this scale are expected to lead to almost a million fewer boardings of TfL services each day, to a reduction by an average of 20 per cent in the number of jobs accessible to Londoners within 50 minutes travel (with some Londoners having access to more than 50 per cent fewer jobs in that time) and to significant shift towards car travel, impacting decarbonisation and increasing congestion, threatening our environmental goals and London's economic recovery.

5.15 The more quickly changes have to be implemented, the poorer their financial return will be, particularly with large-scale bus reductions. Delivering substantial changes in the middle of bus contracts is inefficient and requires us to work with operators to vary contracts.

5.16 We are already working towards a bus service reduction of 4 per cent as proposed in the FSP (shown as "Core" in Figure 1), but in this package the reduction would be increased by a factor of four, to around 18 per cent.

5.17 Our high-level assessment suggests that achieving this 'Very High Impact' level of service reductions would require over 100 routes to be withdrawn (about a seventh of the network) and over 200 routes (about a third of all remaining routes) would have frequencies reduced. While our intention to date has been to focus changes in inner London where there are more travel alternatives, as the scale of change increases it becomes impossible to limit changes to central and inner London, and the impact on outer London becomes much larger. These are very significant changes, and it may need to be considered whether the disbenefit caused by an equivalent change in fares (which would likely be several multiples of the rate of inflation, sustained over a number of years) would be lower than the disbenefit from service reductions.

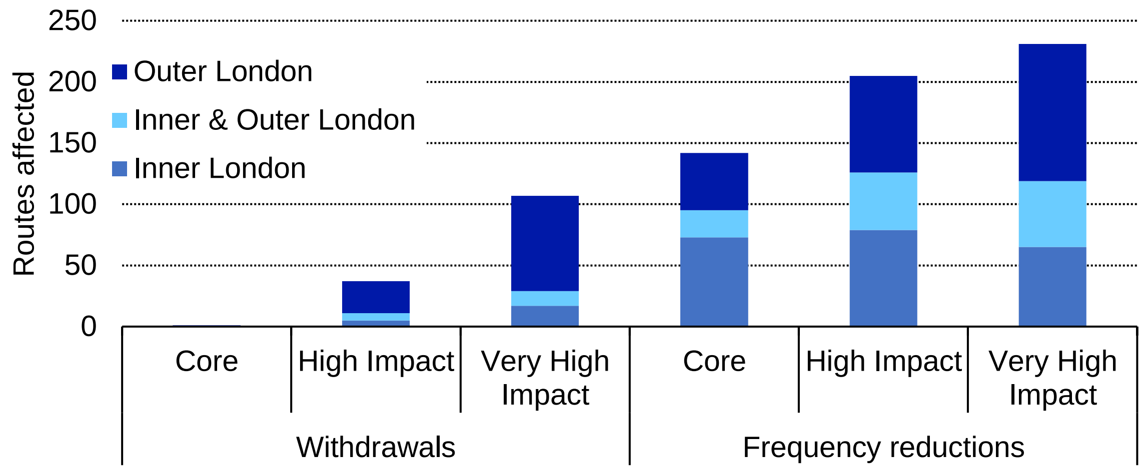

Figure 1: Number of bus routes affected by Very High Impact service level withdrawals and reductions

5.18 Most costs for Tube and rail are fixed except in the very long term: once track has been built and trains bought, the marginal costs of running an additional service mean that on average to break-even on variable cost requires very low passenger loading. As such, the business case for service reduction that is in line with demand reduction is generally not positive: the savings are too low to compensate for the knock-on effect on revenue as the service becomes less attractive.

5.19 On Tube / rail services TfL would have to implement every service reduction where there is a net cost saving – irrespective of social disbenefit. This would amount to around 9 per cent of the service. Identifying specific changes under this scenario would need more detailed analysis, including the split between reductions in peak and off peak based on existing demand.

Operating expenditure – Borough funding

5.20 We provide funding to boroughs which allows investment on local roads that is complementary to what we are seeking to achieve for the TfL Road Network through our own capital programme. This includes the renewal of roads and bridges as well as enhancements to progress the outcomes of the MTS on the 95 per cent of London's streets which the boroughs are responsible for. In a Managed Decline scenario, we would be forced to match the reductions in TfL's capital programme with reductions in Borough funding. This would stop all enhancements and only leave small provision for renewals. This means the formula-based Local Improvement Plan corridor fund would be reduced to zero and TfL would also stop funding any Borough cycle network development, the remaining Liveable Neighbourhoods and Cycle Parking.

Operating expenditure – Bus electrification

5.21 London has been excluded from eligibility for bus electrification funding from the CSR. A reducing bus network would impact our ability to introduce new electric buses, delaying the completion of a zero-emission bus fleet beyond 2034. Reducing the size of the network will lead to surplus vehicles – which would need to be redeployed to achieve the required level of cost reduction – therefore reducing the pace of orders for new zero emissions buses. To make further cost reductions TfL would also have to utilise existing vehicles for longer.

5.22 The combined impact of this would create a pause in ordering any new electric buses whilst we resize the network, which would disrupt the supply chain. This could push the end of diesel operation back to 2037 or later.

6 Wider impacts

Economic impact

6.1 The public transport network in London that sustained the capital and its residents and key workers through the pandemic and successive lockdowns was the result of decades of investment and change. TfL was set up to oversee this investment and generate positive economic and social outcomes through the delivery of new stations and lines, new buses, service regularity, real time information, contactless payment and measures to promote active travel and a better urban environment.

6.2 The pandemic has destroyed the business model on which that success was based. A long-term, sustainable funding model must be secured to maintain the capital's economy, its attraction for international visitors and business, and its huge net contribution of £39bn per annum to the UK's economy.

6.3 The economic impacts of the reductions in investment and service levels will amplify each other, undermining the public transport provision now and in the future which is required to facilitate the efficient movement of people and goods in a dense world city. Historic evidence points to a real risk of spiralling decline, loss of passenger trust, more users choosing private cars as their preferred mode of transport around the city – leading to worsening air quality and congestion, and ultimately forcing corporate bodies out of the city (including to other global cities) to escape these worsening conditions.

Equality impact

6.4 Public transport services are essential for making London open and accessible for everyone. London is the region of England with the highest poverty rates, and the child poverty rate is 38 per cent. In-work poverty rates are also particularly high in London, with more than one in five working households living in poverty. Despite this, London has been allocated only four per cent of the Levelling Up Fund awarded in the CSR.

6.5 An affordable and reliable public transport network is essential to provide disadvantaged households with connectivity and opportunities. While 59 per cent overall of Londoners used buses at least once a week pre-pandemic, the figures were higher for people on low incomes and all protected characteristics for which we have data, except people who are disabled. Buses provide mobility for those who need it most in society.

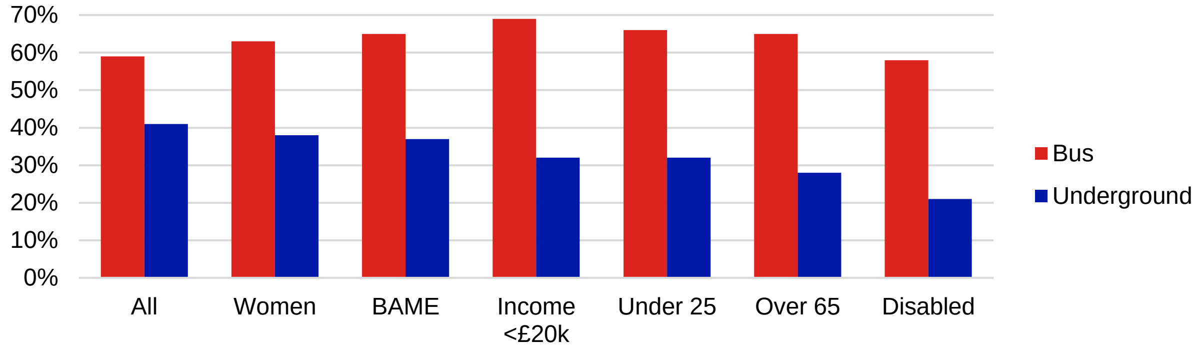

Figure 2: Percentage of population using buses and Underground at least once a week by characteristic (pre-pandemic)

6.6 Many factors drive the high reliance on buses of these groups. Economic drivers are significant: bus fares are cheaper than rail fares and housing near stations is more expensive. Barriers to access are another reason, such as a person's ability to walk significant distances, or to access services which have steps or are crowded if they have a pushchair or mobility aid. Women also make more chained trips (several trips taken as part of an overall journey) and so would be more influenced by reductions in off-peak frequencies.

6.7 Many disabled people have reduced access to the public transport network as a result of stations requiring navigating steps or escalators. Eighty-four per cent of disabled Londoners report that their disability limits their ability to travel. We have been increasing the proportion of our network that is step-free, now up to 51 per cent of TfL's stations and 95 per cent of bus stops, but this progress this would completely cease with Managed Decline capital expenditure. And with reduced renewals, we would see more frequent failures of lifts and escalators – with a broken lift often meaning someone who depends on it simply cannot travel.

6.8 Moving to Managed Decline capital expenditure would stop all investment on active travel, including making junctions safer for vulnerable users and improving conditions for walking. This would help to lock-in a car-based recovery that would exclude groups who are less likely or able to have a driving licence and own a car. With busier roads and more hostile walking environments, getting around local areas would be harder, and there would be fewer public transport options to shift to. The result of all of these factors is likely to be higher rates of social exclusion.

6.9 Overcrowded services are a further deterrent to travel. A wheelchair space being occupied, or there being too much crowding to enable access to it, can make a bus inaccessible to a disabled passenger. Aversion to highly crowded condition may persist in future, particularly for older people or others who are more vulnerable to infection. Reducing public transport service in a way that increases crowding beyond tolerable levels would disproportionately affect those with disabilities or such vulnerabilities.

Environmental impact

6.10 In London, more than 40 per cent of transport carbon emissions are from private cars. Supporting public transport and active travel as means of reducing car use is an essential enabler of decarbonisation. Although the transition to zero emission vehicles will reduce car emissions, it will be many years until that transition is complete, even with the 2030 phase out of sales of new petrol and diesel cars. Electrification alone will not help reduce congestion, accessibility issues or road danger.

6.11 Car use is an important factor in the quality of London's air. In London, 95 per cent of people live in areas which exceed the WHO guideline NO_2 limit by at least 50 per cent. Exceeding this limit puts people at risk of severe and long-term health problems. The Royal College of Physicians 2016 report links London NO_x exposure and clinically significant impairment of children's lung growth. The coroner inquest for Ella Kissi-Debrah, who died at the age of nine from severe asthma, found that particulate matter levels must be reduced. Reducing car usage will directly improve London's air quality and help to bring the city within legal limits; this is particularly important to address levels of harmful particulate matter, as much of this is emitted from brake and tyre wear and is not affected by the shift to 'zero emission' vehicles.

6.12 Mode shift away from cars to more sustainable modes of public transport, walking and cycling is therefore the primary priority, but this cannot be achieved if TfL is forced to adopt a Managed Decline scenario and cut capital investment and service levels. With a declining public transport service and degraded road condition for walking and cycling, a car-based recovery would likely be unavoidable. This would increase car use at the exact time it needs to be reduced, and with a likely increase in road closures due to asset failures, the localised impacts would be severe.

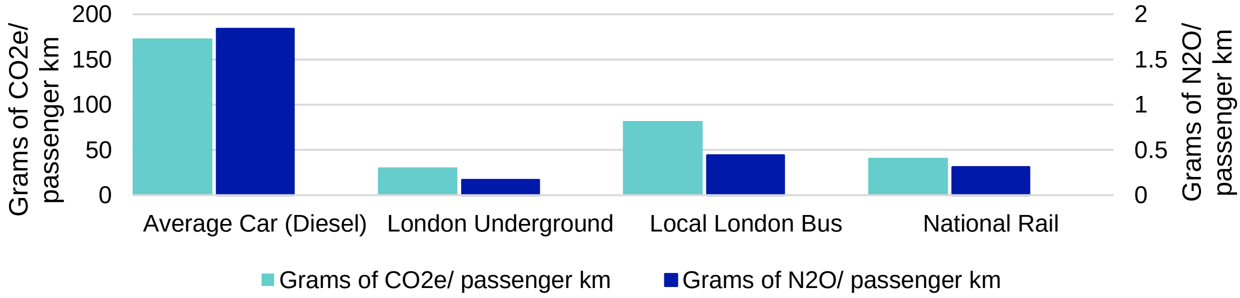

Figure 3: CO_2e and N_2O emissions from different transport modes

Supply chain impact

6.13 TfL has an extensive supply chain, supporting jobs and opportunities through c.£7bn annual spend. TfL has a pipeline of investment required with its aging fleet (for example the 50-year-old Bakerloo line trains), which would support a long production line through manufacture of new rolling stock. It is estimated that London Underground contracts support over 43,000 jobs, over two thirds of which are outside of London.

6.14 Examples of TfL investment supporting jobs around the UK include the new Elizabeth line and London Overground trains built in Derby; a £200 million new Piccadilly line train manufacturing facility generating 700 skilled jobs in Goole in East Yorkshire with further options available for Waterloo & City, Central and Bakerloo lines (c.200 additional trains); new railway track supporting jobs in Scunthorpe; new buses made in Falkirk; and Birmingham's precision engineers overhauling motors for London Underground. From every £1 spent on the London Underground investment programme, 55p goes to workers outside London. Furthermore, as a full member of the national Urban Transport Group, TfL shares its expertise with cities and transport authorities across the UK, helping develop active, efficient and sustainable transport in urban areas across the country.

6.15 It is far more efficient and better value for money to have a continuous production line which TfL can support with sustained funding, compared to constant stop-start funding agreements. The short-term nature of these agreements does not allow TfL to engage its supply chain in an economic and efficient way, leading to short-term extensions or deferrals of contract which attract higher costs. The knock-on impact of this limits job creation and skills development.

6.16 TfL has over 30 suppliers where more than 50 per cent of their turnover comes from TfL contracts. Furthermore, TfL has spend with over 80 suppliers outside of London. With no long-term funding and reduced service levels, the adverse impacts of reduced funding would be felt by these suppliers and the UK economy as a whole.

7 Conclusion

7.1 Even with a significant reduction in capital investment, renewals, and the highest impact service level reductions, these levers are not sufficient to produce a balanced budget. We will need to start enacting these changes now and ensure they fully flow through to our next budget setting process which will start in January 2022.

7.2 It is clear that TfL, the Mayor and Government must urgently work together to come up with a sustainable funding agreement which prevents the impacts outlined in section 6, and which is more in line with funding models seen for other major global transport authorities.

List of appendices to this report:
None

List of Background Papers:
None

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