

Finance Committee

Chair's Action



Date: 4 February 2022

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 describes the Secretary of State's proposed terms sent in draft for a further extension to the extraordinary funding and financing agreement, first agreed in the Secretary of State's letter of 1 June 2021 and since extended to 4 February 2022. It provides for agreement with the Department for Transport (DfT) on funding until 18 February 2022.
- 1.2 TfL's financial position has been considered at length throughout the pandemic and most recently at the meetings of the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022, 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 full discussions on funding at the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022. Available members of the Board have been briefed on the proposed extension this afternoon and supported the extension and the Chair of the Finance Committee is now being asked to make the decision.

2 Recommendations

- 2.1 **The Chair of the Committee 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.**

3 Background

- 3.1 TfL's financial position has been considered at length at the meetings of the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022, and those considerations provide the context for this paper.
- 3.2 The considerable efforts that have gone into engagement with the DfT throughout the pandemic and in particular, as the expiry of the 1 June 2021 funding agreement approached, were described to the Board at its meeting on 8

December. We have continually striven to secure a longer-term funding solution for TfL with Government, but it has not yet been possible to reach agreement and a further extension to the current funding agreement is proposed, until 18 February 2022.

- 3.3 The short term roll forward to 4 February 2022 agreed by Chair's Action on 17 December included a requirement that DfT be supplied with a working draft, followed by a final draft, of a paper by TfL in respect of road user charging and relating to air quality and tackling the climate emergency. That requirement was met within the times stipulated.
- 3.4 The terms of the proposed extension to the current funding agreement, which are included at Appendix 1, covers the period to 18 February 2022.

4 Funding terms

- 4.1 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.
- 4.2 The proposed extension to the current funding agreement continues the revenue top-up arrangement should TfL's actual passenger revenue receipts be different to a defined revenue scenario, providing revenue certainty for the period up to 18 February 2022.
- 4.3 TfL's closing cash balance at the end of Period 10 was £1.4bn, around £200m above TfL's required minimum cash reserves of £1.2bn. In the proposed extension to the current funding agreement, DfT acknowledge that a minimum of £1.2bn of cash reserves are required but express a desire to work with TfL for us to be managing down the cash balance towards this minimum level whilst in receipt of Government support.
- 4.4 As in previous funding agreements, in this draft extension, DfT confirms that the comfort concerning TfL's future financial position and balanced budget obligations will continue. This has also been supplemented with additional comfort that financial commitments made by TfL during the funding period will be taken into account in future funding agreements, as was the case in the extension to 4 February. Government also affirm their commitment now, and in the future, to mitigating TfL's loss of fare revenue as a result of the pandemic. This is considered sufficient to enable TfL to continue to enter into contracts that extend beyond 18 February 2022.

5 Balanced budget considerations

- 5.1 We described to the Finance Committee at its meeting on 24 November 2021 and to the Board at its meetings on 8 December 2021 and 2 February 2022, as we have done previously when we have approached the end of earlier funding agreements, 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 set out the worst-case scenario which would include a report under 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 proposed extension to the current funding agreement will avoid the need to consider invoking s114 at this stage.

List of appendices to this report:

Draft extension to the current funding agreement letter from the Secretary of State and associated annex

Background papers:

Finance Committee paper 24 November 2021 – Implications of Reduced Funding for TfL

Board paper 8 December 2021 – Finance Report: Budget Submission and Capital Strategy

Board paper 2 February 2022 – Budget Update

Finance Committee Chair’s Action paper 17 December 2021 – Funding Update

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Department for Transport

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From the Secretary of State
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4 February 2022

Dear Sadiq,

TRANSPORT FOR LONDON SETTLEMENT LETTER

1. This letter amends the third extraordinary funding and financing agreement (the D3 Agreement) for Transport for London (TfL), set out in my letter to you of 1 June 2021, to ensure TfL continues to provide transport services in London.
2. The D3 Agreement as amended on 13 December and 17 December covered the Revised Funding Period of 29 May to 4 February 2022. We are varying the terms of the D3 Agreement as follows:
 - a. A short extension to the Revised Funding Period by 2 weeks, so that the Revised Funding Period is now defined as 29 May 2021 to 18 February 2022.
3. This amendment to extend the D3 Agreement will enable sufficient time for you and TfL to consider the terms of a fourth extraordinary funding and financing agreement (the D4 Agreement), a draft of which my officials shared with TfL on 20 January 2022.
4. We do not expect to be making any additional grant payment during this short extension period.
5. For the duration of the extension, the amendments and expectations as set out in my letter to you on 17 December 2021 remain in effect. All other provisions of the D3 Agreement will remain in place:
 - a. There will continue to be a periodic Top Up mechanism pursuant to the terms of the D3 Agreement based on actual passenger revenue cash receipts compared to the D3 Passenger Revenue Scenario as set out in Annex A.

- b. The final reporting period True Up Process shall commence at the end of the Revised Funding Period. The True Up Process shall determine whether any final payment by DfT of a True Up Grant or by TfL of a True Up Repayment for the Revised Funding Period is required.
6. HMG re-iterates its position that no revenue losses as a result of decisions made by the Mayor will be met by central government, unless they have specifically been agreed by HMG in advance. If you wish to proceed with service changes, operating cost increases or policies that will cause net revenue reductions since the June 2021 settlement, or in the future, you must make up the revenue loss from extra income sources without recourse to additional borrowing, savings, service changes or deferrals. This is in addition to the £500m-£1bn of new income you have agreed to generate from April 2023.
7. We recognise that Transport for London needs to take reasonable steps to meet its statutory obligations and to maintain and operate the transport systems for which it is responsible. In doing so TfL will need to consider arrangements beyond the duration of the Revised Funding Period, including making financial commitments that fall outside this period. These commitments will be recognised in any future funding agreements to be put in place.
8. The Government remains committed to supporting London and the transport network on which it depends via its funding settlements. These settlements recognise the reliance of London's transport network on fare revenue, and Government's commitment now and in the future to mitigating loss of fare revenue as a result of the pandemic. I look forward to continued discussions.

Yours sincerely,



Rt Hon Grant Shapps MP

SECRETARY OF STATE FOR TRANSPORT

Annex A – 2021/22 Passenger Revenue Scenario

	Period 12*
Passenger Revenue Scenario	£295m

*Pro rata for the Revised Funding Period

Date: 19 February 2022

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 describes the Secretary of State's proposed terms sent in draft for a further extension to the extraordinary funding and financing agreement, first agreed in the Secretary of State's letter of 1 June 2021 and since extended to 18 February 2022. It provides for agreement with the Department for Transport (DfT) on funding until 25 February 2022.
- 1.2 TfL's financial position has been considered at length throughout the pandemic and most recently at the meetings of the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022, 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 full discussions on funding at the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022 and subsequent briefings, the Chair of the Finance Committee is now being asked to make the decision.

2 Recommendations

- 2.1 **The Chair of the Committee 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.**

3 Background

- 3.1 TfL's financial position has been considered at length at the meetings of the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022, and those considerations provide the context for this paper.
- 3.2 The considerable efforts that have gone into engagement with the DfT throughout the pandemic and in particular, as the expiry of the 1 June 2021 funding agreement approached, were described to the Board at its meeting on 8 December. We have continually striven to secure a longer-term funding solution for TfL with Government, but it has not yet been possible to reach agreement and

a further extension to the current funding agreement is proposed, until 25 February 2022.

- 3.3 The terms of the proposed extension to the current funding agreement, which are included at Appendix 1, covers the period to 25 February 2022.

4 Funding terms

- 4.1 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.
- 4.2 The proposed extension to the current funding agreement continues the revenue top-up arrangement should TfL's actual passenger revenue receipts be different to a defined revenue scenario, providing revenue certainty for the period up to 25 February 2022.
- 4.3 As in previous funding agreements, in this draft extension, DfT confirms that the comfort concerning TfL's future financial position and balanced budget obligations will continue. This has also been supplemented with additional comfort that financial commitments made by TfL during the funding period will be taken into account in future funding agreements, as was the case in the extension to 18 February. Government also affirm their commitment now, and in the future, to mitigating TfL's loss of fare revenue as a result of the pandemic. This is considered sufficient to enable TfL to continue to enter into contracts that extend beyond 25 February 2022.

5 Balanced budget considerations

- 5.1 We described to the Finance Committee at its meeting on 24 November 2021 and to the Board at its meetings on 8 December 2021 and 2 February 2022, as we have done previously when we have approached the end of earlier funding agreements, 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 set out the worst-case scenario which would include a report under 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 proposed extension to the current funding agreement will avoid the need to consider invoking s114 at this stage.

List of appendices to this report:

Draft extension to the current funding agreement letter from the Secretary of State and associated annex

Background papers:

Finance Committee paper 24 November 2021 – Implications of Reduced Funding for TfL

Board paper 8 December 2021 – Finance Report: Budget Submission and Capital Strategy

Board paper 2 February 2022 – Budget Update

Finance Committee Chair's Action paper 17 December 2021 – Funding Update

Finance Committee Chair's Action paper 4 February 2022 – Funding Update

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21 February 2022

Dear Sadiq,

TRANSPORT FOR LONDON SETTLEMENT LETTER

1. This letter amends the third extraordinary funding and financing agreement (the D3 Agreement) for Transport for London (TfL), set out in my letter to you of 1 June 2021, to ensure TfL continues to provide transport services in London.
2. The D3 Agreement as amended on 13 December, 17 December and 4 February covered the Revised Funding Period of 29 May to 18 February 2022. We are varying the terms of the D3 Agreement as follows:
 - a. A short extension to the Revised Funding Period by one week, so that the Revised Funding Period is now defined as 29 May 2021 to 25 February 2022.
3. This amendment to extend the D3 Agreement will enable sufficient time to agree the terms of a fourth extraordinary funding and financing agreement (the D4 Agreement), drafts of which my officials shared with TfL on 20 January and 16 February 2022.
4. We do not expect to be making any additional grant payment during this short extension period.
5. For the duration of the extension, the amendments and expectations as set out in my letter to you on 17 December 2021 remain in effect. All other provisions of the D3 Agreement will remain in place:
 - a. There will continue to be a periodic Top Up mechanism pursuant to the terms of the D3 Agreement based on actual passenger revenue cash receipts compared to the D3 Passenger Revenue Scenario as set out in Annex A.
 - b. The final reporting period True Up Process shall commence at the end of the Revised Funding Period. The True Up Process shall determine whether any final payment by DfT of a True Up Grant or by TfL of a True Up Repayment for the Revised Funding Period is required.

6. HMG re-iterates its position that no revenue losses as a result of decisions made by the Mayor will be met by central government, unless they have specifically been agreed by HMG in advance. If you wish to proceed with service changes, operating cost increases or policies that will cause net revenue reductions since the June 2021 settlement, or in the future, you must make up the revenue loss from extra income sources without recourse to additional borrowing, savings, service changes or deferrals. This is in addition to the £500m-£1bn of new income you have agreed to generate from April 2023.
7. We recognise that Transport for London needs to take reasonable steps to meet its statutory obligations and to maintain and operate the transport systems for which it is responsible. In doing so TfL will need to consider arrangements beyond the duration of the Revised Funding Period, including making financial commitments that fall outside this period. These commitments will be recognised in any future funding agreements to be put in place.
8. The Government remains committed to supporting London and the transport network on which it depends via its funding settlements. These settlements recognise the reliance of London's transport network on fare revenue, and Government's commitment now and in the future to mitigating loss of fare revenue as a result of the pandemic. I look forward to continued discussions.

Yours sincerely,



Rt Hon Grant Shapps MP

SECRETARY OF STATE FOR TRANSPORT

Annex A – 2021/22 Passenger Revenue Scenario

	Period 12*
Passenger Revenue Scenario	£295m

*Pro rata for the Revised Funding Period

Date: 24 February 2022

Item: Funding Update

This paper will be published with the final form of funding agreement with the papers for the next meeting of the Finance Committee.

1 Summary

- 1.1 This paper describes the Secretary of State's proposed terms for a further extraordinary funding and financing agreement to replace the current agreement, first agreed in the Secretary of State's letter of 1 June 2021 and since extended to 25 February 2022. It provides for agreement with the Department for Transport (DfT) on funding until 24 June 2022 and includes a number of conditions which expand on those included in previous funding agreements. The terms of the proposed agreement are set out in Appendix 1.
- 1.2 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 full discussions on funding at the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022, as well as a briefing planned for 25 February. 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 decision is made.

2 Recommendations

- 2.1 The Chair of the Committee 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.**

3 Background

- 3.1 TfL's financial position has been considered at length at the meetings of the Finance Committee on 24 November 2021 and the Board on 8 December 2021 and 2 February 2022 and subsequent briefings and those considerations provide the context for this paper.
- 3.2 The further extraordinary funding and financing agreement terms, which are set out in Appendix 1, covers the period to 24 June 2022.

4 Funding terms

- 4.1 The 2022/23 TfL submission to the Greater London Authority (GLA) Budget outlined a £1.1bn full year funding requirement in 2022/23 against an assumed passenger revenue forecast of £4.5bn.
- 4.2 The core funding terms in the proposed agreement provide £200m of base funding to be paid in three periodic instalments starting on 29 April 2022. This is in addition to around £4.8bn (including £600m of TfL borrowing) received as part of the three previous extraordinary funding settlements including any extensions to those.
- 4.3 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 scenario, providing certainty of £1.615bn of passenger revenue funding over the remaining two periods of 2021/22 and periods 1 to 3 of 2022/23.
- 4.4 In addition, DfT also recognises the need for certainty and stability in TfL's pipeline of capital investment. DfT states a willingness in the short and medium term to provide grant funding for renewals and enhancements and will provide an outline proposal for long-term capital support (for a period of between one and three years) by 24 March 2022 (subject to the provision of information on capital plans by TfL) with an expectation that this agreement will be reached by 31 March 2022. A joint TfL, GLA, DfT and HM Treasury working group will also be set up and meet weekly to identify shared capital priorities to be addressed in the capital settlement and delivered in the longer term.
- 4.5 The proposed funding agreement recognises that TfL should continue to maintain cash balances of an average of £1.2bn (that is, cash and liquid investments held by the TfL group excluding ring fenced subsidiaries subject to normal commercial payment practices and earmarked third party grants), but also requires that TfL manages its balances at that level before any grant payments are made. If TfL's cash balances rise above an average of £1.2bn during the Funding Period, then grant payments may, subject to consultation, be varied and/or deferred until such time as TfL's cash balances fall back to an average of £1.2bn.
- 4.6 This means there will be periods that TfL's cash balances are below £1.2bn, which is the current minimum set out in TfL's Treasury Management Policy. However, there is an opportunity to rebuild TfL's cash balances up to £1.3bn at the end of the proposed funding period and there will be a process to adjust final payments made to TfL, by DfT, to account for this. The proposed funding agreement also sets out that DfT is willing to consider the case for TfL rebuilding its liquidity as part of a longer-term settlement in preparation for becoming financially sustainable from April 2023.
- 4.7 The proposed funding agreement also requires TfL to deliver a plan by 31 March 2022 demonstrating the options that exist to achieve up to £400m of additional revenue or cost savings in 2022/23, in addition to delivering the operating cost savings for this financial year as set out in the Revised Budget. The inflationary and other cost pressures that TfL faces, and associated mitigations to those pressures that TfL is developing plans for, are expected to be considered by

Government as part of that plan along with a rationale for any options that TfL considers to be detrimental to the delivery of its wider plans. DfT will consider and confirm the savings level, and any options TfL may include in the plan, as part of a detailed review of TfL's draft 2022/23 Budget. Developing a plan for £400m of additional savings is extremely challenging, and TfL will need to demonstrate to DfT why it believes this level of savings is unachievable, particularly while it is developing mitigations for additional cost pressures elsewhere.

- 4.8 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 (with specific deliverables against these set out in an annex to the proposed funding agreement). The key conditions proposed are:
- (a) progression of the recommended options for generating between £0.5-£1.0bn p/a of additional revenue from 2023, submitted on 15 December 2021, through public consultation with a view to ensuring implementation by 2023;
 - (b) implementation of the acceleration of delivery of our £730m modernisation plan, for which a plan for around £19m of acceleration was articulated in response to a condition of the funding agreement of 1 June 2021;
 - (c) continuity of delivery of the service changes identified in TfL's Financial Sustainability Plan, including a further review of demand in April 2022 to inform future service level requirements and potential changes;
 - (d) fares increases in 2022/23 must, as a minimum, be aligned with the fares change on national rail (which was recently set at RPI); if the Mayor chooses to increase fares by less than RPI + 1 per cent, in line with TfL's business planning assumption, the reduction in income will not be met by DfT funding. The Mayor has recently announced fares increases in line with the business planning assumption and that the cost of any concessionary fares above those typically provided elsewhere in England will not be met by Government funding;
 - (e) TfL will ensure that TTL Properties Limited (TTLP), its property development subsidiary has the necessary operational and financial independence to deliver housing and revenue, without recourse to TfL and TfL will share the commercial operating structure and business plan for TTLP with DfT by May 2022;
 - (f) TfL will continue with its review of the TfL Pension Scheme and potential reform options with the explicit aim of moving the Scheme to a financially sustainable position and is required to consider and progress, as appropriate, any proposals that may be recommended by the final report;
 - (g) TfL is expected to follow public sector pay policy, with a continuing requirement that, 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;
 - (h) Government has also expressed concern about pay awards being out of step with wider public sector pay policy, with London Underground workers

receiving significantly more than other front-line workers. In the context of national pay restraint, TfL is required to find savings from within the London Underground cost base to cover these costs and rebalance this settlement in future pay deals. TfL is also required to consult Government on any changes to future pay or bonus policy while TfL is in receipt of extraordinary funding support;

- (i) work on driverless trains is to continue (funded by DfT), with a network review to provide an evidence-based recommendation on how best to progress with driverless trains;
- (j) TfL is to continue to deliver ambitious healthy streets and active travel programmes including funding for the London Boroughs and will set aside £50m for this purpose for the duration of the funding period;
- (k) 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 ensure that there is commitment to reopening the bridge on a permanent basis, initially to pedestrians, cyclists and river traffic and, depending on the cost, to motorists. Repair costs must be agreed and shared between the parties, with the Government stipulating it will not contribute more than a third of the costs. In anticipation of completion of a Memorandum of Understanding between DfT, LBH&F and TfL, DfT has confirmed that it will provide TfL with additional funds for TfL's contribution;
- (l) addressing the safeguarding regime for Crossrail 2, including a requirement for agreement by 29 April 2022 of a Memorandum of Understanding under which TfL will share equally with DfT the costs of any statutory blight claims;
- (m) detailed engagement with DfT over carbon-reduction activities, including delivery of a plan by 31 March 2022 of a plan to improve and measure staff carbon literacy. TfL's activity in this area is already well underway; and
- (n) the proposed terms also have a number of provisions relating to DfT oversight and information sharing (for which an information sharing protocol will be agreed), including:
 - i. a requirement by the end of the financial year for detailed information and data on TfL's capital investment plans and a report on capital efficiencies;
 - ii. a requirement to consult with Government as part of TfL's annual budget setting process, including appropriate demand scenarios;
 - iii. an oversight group for active travel, to meet fortnightly;
 - iv. a requirement to continue to convene a DfT and TfL Decarbonisation Group and associated working groups;
 - v. a requirement on TfL to continue its current expenditure controls, through the weekly Financial Control Oversight Group;

- vi. a requirement to inform DfT in advance of policy decisions outside of its 2022/23 Budget TfL intends to publicly announce which could lead to an increase in operating costs or reduction in revenue, with a further requirement that such changes (which result in a material service changes, operating cost increases or revenue reductions) will not be met by Government funding or by additional borrowing, savings, service changes, or the additional revenues required to be delivered by the proposed agreement unless otherwise agreed by Government;
- vii. a requirement on TfL to agree certain communications with DfT before issuing;
- viii. a requirement on TfL to continue sharing our management accounts, cash flow forecasts (with a revised cash flow forecast taking into account the impact of the proposed funding agreement to be provided by 4 March 2022) and a new requirement to share regular information regarding TfL's cash balances; and
- ix. a requirement for specific oversight in relation to TfL's progress towards financial sustainability in the form of a group chaired by DfT's portfolio Minister and including the Deputy Mayor for Transport and senior officials, including the DfT's special representatives, whose role continues.

- 4.9 As in previous funding agreements, in this draft, DfT confirms that the comfort concerning TfL's future financial position will continue.
- 4.10 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 24 June 2022 and that these financial commitments will be recognised in future funding agreements to be put in place. This is considered sufficient to enable TfL to continue to enter into contracts that extend beyond 24 June 2022.
- 4.11 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.

5 Balanced budget considerations

- 5.1 We described to the Committee at its meeting on 24 November 2021 and to the Board at its meeting on 8 December, as we have done previously when we have approached the end of earlier funding agreements, 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 set out the worst-case scenario which would include a report under 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 level of funding included in this proposed funding period and the comfort wording on future support, provide sufficient assurance that the assumption on Government support in TfL's submission to the GLA budget is sound. Therefore, 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:

Terms of proposed funding letter from the Secretary of State and associated annexes

Background papers:

Finance Committee paper 24 November 2021 - Implications of Reduced Funding for TfL

Board paper 8 December 2021– Finance Report: Budget Submission and Capital Strategy

Board paper 2 February 2022 – Budget Update

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Department for Transport

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25 February 2022

Dear Sadiq,

Transport for London Settlement Letter

Strategic purpose

1. As the country emerges from the pandemic, Transport for London (TfL) needs to ensure that it is both financially sustainable in the short-to-medium-term and in good financial health in the long-term, ensuring good value for money for the UK taxpayer. The Government (HMG) remains committed to supporting TfL to reach financial sustainability (i.e. free of government emergency support) by April 2023. HMG defines financial sustainability as TfL's ability to cover, from sources available to it (including, the consideration of potential new sources of income but excluding government grant): operating expenditure; capital renewals; servicing and repaying debt; and capital enhancements. For major capital enhancements and major renewals (i.e. replacement of life expired rolling stock and signalling), TfL would not be expected to solely finance these from operating incomes as is consistent with other transport authorities. HMG also remains supportive of TfL growing its commercial development income, particularly where legislative changes may be needed.
2. Although there has been a significant increase in the use of London's transport network since the relaxation of Covid-19 restrictions, HMG recognises that the current circumstances continue to present ongoing financial challenges and uncertainty to TfL. It is important for TfL to maintain essential services, support the economic recovery and meet its statutory obligations in relation to a balanced budget, over this financial year and in future years. HMG also recognises that TfL, including Crossrail Limited, has existing near and long-term financial commitments, and will need to enter into new financial commitments, that extend beyond the funding period set out in this agreement. A combination of future measures from TfL, the Greater London Authority (GLA) and HMG will enable TfL to continue to meet these obligations and commitments during the current funding period and these commitments will be recognised in any future funding agreements to be put in place. HMG remains committed to supporting London and the transport network on which it depends via its funding settlements. These settlements recognise the reliance of London's transport network on fare revenue, and HMG's commitment now and in the future to mitigating loss of fare revenue as a result of the pandemic.
3. The terms set out in this letter support the operation and maintenance of essential and safe transport services in London, allowing TfL to continue its full and vital contribution to HMG's economic recovery programme and support Government's priorities on decarbonisation, air quality and making transport better for users. HMG is committed to providing ongoing support to ensure TfL continues to provide essential services. HMG is also willing to consider a long-term

capital funding settlement as set out in paragraph 9 to help TfL in achieving financial sustainability as soon as possible. Provided that TfL complies with the terms of this letter and through positive engagement, we hope to agree such a long-term deal before the end of the current financial year.

Extraordinary funding

4. This letter sets out an Extraordinary Funding and Financing Agreement for TfL from 26 February 2022 until 24 June 2022 (the “Fourth Funding Period”). HMG subsequently intends to provide TfL with further extraordinary funding until the end of 2022/23, assuming that HMG is satisfied with TfL’s delivery of the conditions in this agreement before TfL reaches financial sustainability.
5. This agreement will support the delivery of TfL’s financial sustainability and long-term financial health as follows:
 - a. **Financial sustainability by April 2023**
 - i. providing sufficient financial support to mitigate loss of passenger revenue as a result of Covid-19 impacts; and
 - ii. continuing to support TfL to deliver against the requirements of this letter to enable it to reach a financially sustainable position as soon as possible, with a target of no later than April 2023 and a declining annual trajectory in the meantime of temporary Government grant support. If further emergency funding is made available by HMG for revenue lost as a result of Covid-19 it will be made on the basis of a declining cost base as described in paragraph 7c; and
 - b. **Long-term financial health**
 - i. Accelerating and supporting TfL’s transformation to an effective and efficient operator that is fit for a post-pandemic London and delivers good value for money by:
 1. making rapid progress on longer term reforms which are likely to be implemented beyond 2023;
 2. ensuring its network and services evolve to best suit the public’s new transport needs;
 3. contributing to the Government’s economic recovery programme and supporting the Government’s priorities for decarbonisation, air quality and making transport better for users; and
 4. evidencing the possible value of reforming the funding framework between HMG and TfL.
6. Delivery of the matters set out in this letter will take into account and prioritise safety and other statutory and operational requirements of running London’s transport network. HMG also recognises that the delivery of such matters will need to take account of TfL’s (and your) statutory responsibilities and any decisions will need to be made in accordance with relevant legal powers and decision-making processes, taking into account any need for consultation.

Fourth Funding Period Work Programmes

7. To support our shared objective of TfL reaching financial sustainability as soon as possible and with a target date of April 2023, we have agreed the following workstreams and actions to be

delivered during the Fourth Funding Period. These workstreams seek to progress many of the actions delivered under the previous Extraordinary Funding and Financing Agreement dated 1st June 2021 to support TfL's realisation of financial sustainability. Detailed requirements and delivery timescales are set out in Annex A.

Delivered and realised in the Fourth Funding Period

- a. TfL will deliver operating cost savings in FY22 as set out in their revised budget. In addition, TfL will provide a plan demonstrating the options that exist to achieve up to and including £400m of appropriate revenue sources and/or cost savings initiatives in FY22-23, clearly setting out the proportion of this that will be delivered in the Fourth Funding Period. Noting the inflationary cost pressures in 2022/23, the proposals and savings level will be considered and confirmed following a detailed review of TfL's budget for 2022/23, as referred to in paragraph 22. In delivering this workstream, TfL will be expected to prioritise recurring savings, in line with a declining trajectory of Government grant and TfL meeting the objective of achieving financial sustainability by April 2023.

Delivered in Fourth Funding Period for realisation in future years

- b. On 15 December 2021, you confirmed how you plan to generate between £0.5-£1.0bn p/a of additional revenue from 2023. TfL will progress its recommended options through public consultation with a view to ensuring implementation by 2023.
 - c. In line with TfL's commitment to deliver against its £730m modernisation plan, TfL will implement the acceleration identified in their report of 15 October 2021 as part of a declining cost base. TfL will also provide a summary and periodic cumulative savings trajectory of the strategic initiatives identified within the plan by 31 March 2022.
 - d. TfL will agree a capital plan with HMG in conjunction with any long-term settlement (see paragraph 9 below) and report to DfT on delivery, including realisation of capital efficiencies as set out in the capital efficiencies plan. This will be contingent on TfL providing detailed information and data about its capital investment plans that demonstrate prudence.
 - e. TfL will continue to deliver the service levels changes that it committed to in its Financial Sustainability Plan and continue to monitor demand across its network. TfL will deliver a review of demand on London Underground, bus and rail in April 2022 to inform future service level requirements and potential changes. Using the updated demand scenarios from that review and building on the work of previous service level reviews, TfL will by this point make an assessment on whether any future service level changes are required and take all preparatory steps to ensure these can be implemented as quickly as possible following the April service level review, subject to consultation (as appropriate) and decision making. TfL will be expected to take any, and all further, necessary steps to efficiently manage services and associated costs to support the achievement of financial sustainability by the target date of April 2023.
 - f. You agree to ensure the commercial property company to be established by TfL will have the required operational and financial independence to deliver housing in a high demand area and to provide an increased revenue stream. There will be no recourse to TfL parent company. TfL will provide a commercial operating structure and business plan for the property company by May 2022.
8. As recommended in your Independent Review, TfL will continue to carry out a review of its pension scheme and reform options with the explicit aim of moving TfL's Pension Fund into a

financially sustainable position. As part of the review of TfL's pension scheme, TfL will deliver a final report, including a recommended approach and implementation plan by no later than 31 March 2022. During the remainder of the Fourth Funding Period, TfL will consider and progress, as appropriate, any proposals that may be recommended by the final report in order to move the Fund into a financially sustainable position. TfL will be expected to provide regular substantive progress updates as well as a detailed work plan setting out the steps it intends to take to deliver the reports by the relevant deadlines.

9. HMG recognises the need for certainty and stability in TfL's pipeline of capital investment. HMG is therefore willing to support in the short and medium term, through extraordinary grant funding, plus capital investment in renewals and enhancements. HMG is willing to consider a longer-term capital settlement for TfL from the start of FY22-23 for a period of 1-3 years. This will be on the condition that TfL provides detailed information and data about its capital investment plans that demonstrate prudence. We will provide an outline proposal for capital support to you by 24 March 2022. We expect this process to be completed by the end of the current financial year and with the full collaboration of TfL in order to evidence the need for additional funding. A working group comprising DfT, HMT, TfL and GLA will meet weekly to discuss progress and to identify shared capital priorities to be addressed by the capital settlement and delivered in the longer term.
10. In addition to the workstreams outlined in paragraph 7, once TfL achieves financial sustainability, HMG expects TfL to take measures to ensure it enjoys long-term financial health such that it remains financially sustainable. Building on the joint review delivered under the previous extraordinary funding agreement which explored possible options for long-term funding reform, HMG will consider if the benefits of an updated funding framework between HMG and TfL, which should drive greater value for money, accountability and assurance, are sufficiently evidenced to warrant further work.

Hammersmith Bridge

11. TfL and the London Boroughs are responsible for local road maintenance, including bridge repairs. The London Borough of Hammersmith and Fulham is responsible for the safety and maintenance of Hammersmith Bridge. However, given the extraordinary circumstances of the pandemic, during the period of this agreement, we expect to finalise a memorandum of understanding between HMG, TfL and the London Borough of Hammersmith and Fulham to ensure all parties' commitment to the reopening of Hammersmith Bridge on a permanent basis – initially to pedestrians, cyclists and river traffic and, depending on cost, to motorists. Any funding from HMG will be conditional on the following:
 - a. all parties must scrutinise and agree the cost of the project through the submission and scrutiny of Green Book-compliant business cases for each stage of the project
 - b. each party agrees to pay a share of the cost. Repair costs are to be led by the London Borough of Hammersmith and Fulham and TfL; HMG will not directly contribute more than one-third of the costs
 - c. that the independent board responsible for the case for continued safe operation, reporting to London Borough of Hammersmith and Fulham, will conduct regular assessments for controlled and limited opening of Hammersmith Bridge to pedestrians, cyclists and river traffic. London Borough of Hammersmith and Fulham should share the assessment with HMG and TfL.

Driverless Trains

12. TfL's record of modernisation and innovation should not leave it behind other European networks, which are achieving significant operational efficiencies through Driverless Trains. Accordingly, DfT will lead a joint programme with TfL on the implementation of Driverless Trains on the London Underground, recognising TfL's safety, regulatory and statutory responsibilities.
13. The network review should provide an evidence-based recommendation on how best to progress with driverless trains. In addition, building on the findings in the market engagement report, TfL should continue working with DfT to make progress developing and testing innovative technology, where it can save money in the delivery of driverless trains.
14. TfL will ensure senior representation on the joint programme and will actively support this work through the provision of staff resources, expertise and access to both the London Underground network and any information sources. TfL's participation should seek to explore all options in a collaborative and open manner and work with the programme on an implementation plan. HMG will provide resource funding to TfL to enable it to support the programme's work.

General Conditions

15. HMG will continue to engage on and monitor the financing of Northern Line Train Services contract. If a Supervening Event occurs in accordance with clause 25A.1.1 of the Amended and Restated Usage Contract, HMG will work with TfL and take reasonable steps to assist TfL in meeting the contractual obligations set out in clause 25A of that contract and other associated provisions, or finding alternative forms of support acceptable to the relevant counterparties.
16. On 27 October 2021, HMG announced that the public sector pay pause for 2021/22 will be lifted in 2022/23. We expect TfL to continue to follow public sector pay policy while in receipt of extraordinary funding. Any bonus pay awards will not be paid for through extraordinary Government funding and TfL will have to demonstrate prudence in making any such payments. We do not expect TfL to authorise individual bonus pay awards.
17. You recognise that recent pay awards have been out of step with wider public sector pay policy, with London Underground workers receiving significantly more than other front-line workers. In the context of national pay restraint, TfL will need to find savings equivalent to this incremental amount from within the London Underground cost base and rebalance this settlement in future pay deals. You also agree that any changes to future pay or bonus policy while TfL is in receipt of extraordinary support, will be consulted upon with HMG.
18. DfT and TfL will continue to agree communication messages to ensure consistent advice is provided to all travellers and public confidence in the transport network is promoted.
19. DfT and TfL will agree an Information Sharing Protocol and an Engagement Protocol which shall apply to both organisations and their external advisers.
20. TfL will maintain its changes to its expenditure authorisation processes through the Financial Commitment Oversight Group. TfL will provide minutes and actions from these meetings to DfT or their advisers where requested (subject to commercial sensitivity and confidentiality), noting that anything provided will be covered under the Information Sharing Protocol.
21. TfL will document any meetings with lenders or ratings agencies and share this documentation with DfT, subject to FCA regulations and confidentiality agreements in place with these counterparties.
22. TfL shall consult with HMG, including agreement of appropriate demand scenarios, as part of its annual budget setting process. Specifically, TfL will actively engage with DfT and its advisers in

preparing its 2022-23 budget and fully cooperate with DfT's advisers to enable them to fully review and report to DfT on TfL's final 2022-23 budget. TfL shall make available to HMG and its external advisers on request relevant financial modelling and plans for 2022-23 and beyond.

23. TfL shall undertake to deliver the requirements of this funding agreement on an open book basis, including full transparency and data provision on reasonable request to HMG.

Additional Conditions

24. TfL can continue to maintain cash balances (that is, cash and liquid investments held by the TfL Group (excluding ring fenced subsidiaries; Crossrail Limited, London Transport Insurance (Guernsey) Limited, TTL Properties Limited and London Transport Museum Limited)) of no more than on average £1.2bn for each Reporting Period, throughout and at the end of the Fourth Funding Period, subject to normal commercial payment practices and earmarked third party grants received (Usable Cash Reserves). Whilst HMG recognises that TfL's Usable Cash Reserves will vary, TfL will provide a weekly closing balance of its Usable Cash Reserves every Monday throughout the Fourth Funding Period and which, over the course of the first Reporting Period of the Fourth Funding Period, we expect to demonstrate declining Usable Cash Reserves to an average of £1.2bn. This weekly cash report will also report the difference between TfL's cash balances and TfL's Usable Cash Reserves, identifying each third-party grant. Should TfL exceed an average of £1.2bn at the end of each Reporting Period:

- i. TfL will report to DfT and its advisers within eight working days of the end of the Reporting Period on why its Usable Cash Reserves have reached that level and how it plans to return them to an average of £1.2bn within the next Reporting Period; and
- ii. No top-up grant will be paid until TfL's Usable Cash Reserves fall below £1.2bn, taken as an average over the Reporting Period. However, HMG may, subject to consultation with TfL and to support the managed return of TfL's Usable Cash Reserves to average £1.2bn:
 - a. adjust the amount of funding provided to TfL under this agreement through varying and/or deferring part or all of any future payments under this funding agreement; and/or
 - b. claw-back any funding already provided to TfL under this agreement in accordance with the formula at paragraph 45.

25. No payments under this agreement will take TfL's Usable Cash Reserves above £1.3bn at the end of the Fourth Funding Period. HMG is willing to reconsider this position as part of a longer-term funding settlement and to consider the case for TfL to build its cash reserves in preparation for becoming financially sustainable by April 2023.

26. TfL will provide DfT with a revised cash flow forecast for the remainder of 2021/22 and 2022/23 (including impact of the matters set out in this letter) on 4 March 2022.

27. We expect TfL to continue to deliver ambitious healthy streets and active travel programmes including funding for the London Boroughs under the local implementation plan process and will set aside £50m for this within the Fourth Funding Period. TfL shall also continue fortnightly meetings of the Active Travel Oversight Group. Any cycle schemes implemented or supported under this funding shall be fully compliant with LTN 1/20 cycle infrastructure design guidance.

28. To complete the prioritisation of updating the safeguarding regime for Crossrail 2 as agreed in the Extraordinary Funding and Finance Agreement dated 31 October 2020, DfT and TfL will enter into a Memorandum of Understanding by 29 April 2022 whereby they agree to share

equally the costs of any statutory blight claims arising from the updated safeguarding regulations for the scheme.

29. In recognition of TfL's developing capabilities in quantifying and reducing its carbon emissions, and to support transport decarbonisation, DfT and TfL will continue to convene the high-level Decarbonisation Group and its working-level subgroups to identify, build and share good practice between DfT and TfL, and to leverage capabilities in this area. This is in addition to TfL's participation in the DfT-ALB (Arms' Length Body) Carbon Managers group. In recognising the need for culture shift to fuel and support efforts to reduce carbon emissions, TfL shall continue improving staff carbon literacy, with metrics to measure this and an associated plan delivered by 31 March 2022.
30. TfL must, as a minimum, align their fares increase for 2022 with the fares change on national rail. Should you choose to increase fares by lower than your planning assumption of RPI+1 for 2022, any reduction in income from April 2023 that impacts TfL reaching financial sustainability will not be met by HMG funding.
31. TfL will inform DfT, through the Chair of the Oversight Group, of any policy decision outside its published 2022/23 budget it intends to publicly announce which could increase its operating costs or reduce its revenue at least five business days before such decision is publicly announced. This must clearly set out the impact on costs and revenues for the duration of the period TfL is expected to be in receipt of HMG funding. Whilst DfT respects that operating decisions are a matter for TfL, HMG expects to be informed of proposals such as the permanent reintroduction/ceasing of services and any public consultation that impacts costs or revenues whilst HMG is providing emergency funding to support TfL's operations. Any such policy decisions that result in material service changes, operating cost increases or revenue reductions will not be met by HMG funding and should be funded without recourse to additional borrowing, savings, service changes, the new revenue streams resulting from paragraph 7b or deferrals unless specific consent has been provided by HMG. HMG funding will not be used for policy decisions on which HMG has not been consulted on prior to their announcement, for example the reopening of the night tube and the reduction in the operating hours of the congestion charge, and the funding provided for in paragraph 33 is calculated on this basis.
32. As agreed in previous Extraordinary Funding and Financing Agreements, if you and TfL wish Londoners to continue to benefit from travel concessions and/or other benefits above those typically available elsewhere in England (such as free travel for all Londoners aged under 18 and 60-65, excluding statutory entitlements including under the Education Act 1996) then TfL and you recognise that the costs of these additional benefits will not be met by HMG funding; and TfL and you commit to meeting the costs of these additional benefits whilst HMG is providing extraordinary funding, without recourse to additional borrowing, savings, service changes, the new revenue streams resulting from paragraph 7b or deferrals. You and TfL decided in previous funding periods that you would meet the cost of these concessions by maintaining the Congestion Charge changes implemented in June 2020 and by an increase to the existing TfL element of the GLA council tax precept. If any changes made by TfL and you are insufficient to fund the cost of concessions and/or benefits above those typically available elsewhere in England, you will need to determine how he will meet those costs without recourse to further funding support provided by HMG.

Extraordinary Support Grant

33. The Extraordinary Funding and Financing package comprises £200M for TfL to support its essential services for the period the Fourth Funding Period as follows:

- i. Extraordinary Support Grant of £200M payable under S.101 of GLA Act 1999. This will be paid in 3 instalments in arrears commencing on 29 April 2022.
 - ii. The first payment shall be for £80M and shall be made on 29 April 2022, the second payment shall be for £80M and made on 27 May 2022, the third payment shall be for £40M and made on 24 June 2022. These payments are set out in Annex B.
 - iii. This funding is calculated on the basis of TfL maintaining at least the current level and hours of congestion charging (as implemented in June 2020).
 - iv. The funding quantum for the period from 1 April to 24 June 2022 is based on high level information provided by TfL in its Revised Budget and comparing this to historic run rates, adjusted for known changes, however this position will be confirmed via a detailed review exercise delivered by DfT's advisers and as referred to in paragraph 22.
 - v. This payment schedule will be kept under review between the parties. The timing and quantum of the payments will be reviewed, for example in accordance with paragraph 24.
34. This Extraordinary Funding and Financing package will contribute towards TfL's revenue loss due to reduced passenger numbers using TfL services as a result of the pandemic, Government-led measures such as social distancing and/or as a result of the implementation of the requirements set out in this letter.
35. In managing its business during the Fourth Funding Period, TfL will take all reasonable steps to minimise the Extraordinary Support Grant in line with this agreement, including maintaining and maximising its revenue, minimising expenditure, and maintaining average Usable Cash Reserves at £1.2bn. TfL will take all reasonable steps to avoid industrial action during the funding period, and if necessary, will be expected to take all reasonable steps to mitigate the impact of any industrial action.
36. TfL will continue to provide monthly management accounts and cashflow forecast within 10 working days of the Reporting Period end. These will be reviewed by DfT after every period and, in accordance with the Engagement Protocol, with support from DfT's external advisers.

Funding mechanics

Top-up process

37. As stated in paragraph 33, the Extraordinary Support Grant shall be paid in arrears and on the dates stated above. Those dates are the same as the dates on which any Top Up Grant is paid in accordance with paragraphs 38-41.
38. The funding amounts in this Extraordinary Funding and Financing Agreement are based on a scenario that passenger demand for each four-week period (Reporting Period) over the Fourth Funding Period is at the levels described in Annex B (the Fourth Funding Period Scenario) and take into account the financial effects of delivery of other conditions set out in this letter. HMG recognises that there are material factors beyond TfL's direct control that give rise to a high level of uncertainty in predicting the future passenger revenue for the organisation for the Fourth Funding Period.
39. At the end of Railway Period 12 (the first Reporting Period in the Fourth Funding Period) HMG and TfL will assess whether actual cumulative passenger revenue cash receipts for the Fourth Funding Period are in line with the expected cumulative Fourth Funding Period Scenario. If the actual cumulative passenger revenue cash receipts are below this level (excluding a de minimis amount of £10m) then the amount of Extraordinary Support Grant will increase to compensate

for the shortfall between the actual cumulative passenger revenue cash receipts and the Fourth Funding Period Scenario (a Top Up Grant).

40. This Top Up Grant shall be calculated from 26 February 2022 on a cumulative basis every Reporting Period and then paid in accordance with the timescales set out in paragraph 41 and for every Reporting Period thereafter for the remainder of the Fourth Funding Period, until the final Reporting Period.
41. Information relating to actual cumulative passenger revenue cash receipts and a calculation (flash report) of the Top Up Grant shall be produced by TfL at the end of each Reporting Period and shall be provided to DfT within 10 business days following the end of each Reporting Period. Payment of any Top Up Grant will then be made within 10 business days of receipt by DfT of the flash report.
42. In accordance with paragraphs 39 and 40, and subject to paragraph 24, the following formula will be used to calculate any Top Up Grant payable.

The maximum of zero and (Cumulative of Fourth Funding Period Scenario Passenger Revenue Cash Receipts – Cumulative Actual Passenger Revenue Cash Receipts – Previous Top Up Grants – (maximum of zero and (Reporting Period Usable Cash Reserves - £1.2bn)) = Top Up Grant for the Reporting Period (noting that no Top Up Grant will be payable if less than the De Minimis sum of £10m).

True-up process

43. For the final Reporting Period, there will be a process (the True Up Process) to determine any balancing payment of Top Up Grant (True Up Grant) or balancing repayment (True Up Repayment) during the Fourth Funding Period.
44. The True Up Process will also take into account and adjust for exceptional costs during the Fourth Funding Period:
- i. To the extent that any exceptional costs incurred by TfL are greater than or lower than equivalent sums contained within TfL's most recent approved Budget, then this difference shall be an adjustment to the True Up Grant or True Up Repayment (as appropriate) (an Exceptional Cost Adjustment, as a positive or a negative sum as appropriate).
 - ii. The Exceptional Cost Adjustment shall only be provided where it directly results from the coronavirus pandemic and/or responding to or related to Government measures or instructions. During the Fourth Funding Period, should TfL anticipate that any greater exceptional costs compared to TfL's Revised Budget are required, TfL shall agree this with DfT in advance.

45. The formula for this final Reporting Period shall be:

Total Fourth Funding Period Scenario Passenger Revenue Cash Receipts – Total Actual Passenger Revenue Cash Receipts – Previous Top Up Grant Payments + Exceptional Costs Adjustment = True Up Grant (if positive) or True Up Repayment (if negative).

After all payments (including any deferred or varied payments) and any True Up repayment by TfL under this agreement have been made, to the extent residual Useable Cash Reserves is greater than £1.3bn, the excess amount over £1.3bn will be repaid by TfL to DfT.

46. The balancing payment by DfT of True Up Grant or by TfL of True Up Repayment will only compensate TfL for any loss caused by passenger revenue income and not losses caused by

TfL not managing costs within this extraordinary funding and financing settlement save as set out in paragraph 44.

47. The calculation and evidence of True Up Grant or True Up Repayment shall be provided to DfT within 10 business days following the Fourth Funding Period. Payment of the final True Up Grant or True Up Repayment will then be made within 20 business days of receipt of that information.

Governance

48. A Financial Sustainability Group will meet in May 2022 to support and assess TfL's progress towards becoming financially sustainable by April 2023. It will be chaired by DfT's portfolio Minister and will be attended by the Deputy Mayor for Transport of London, HMG's Special Representatives (see paragraph 49) and Senior Officials at DfT, HMT, No.10 and TfL. The aim of the group is to ensure that TfL reaches financial sustainability by April 2023. To inform these meetings, TfL will provide to DfT 15 working days prior to the meeting, a detailed report on their progress towards reaching financial sustainability, including progress on demand and passenger revenue, deal conditions and risks.
49. Two HMG appointed Special Representatives (one strategic appointee and one technical appointee) will continue to attend all TfL Board meetings, being able to raise questions at the Board, request additional information as reasonably required and report back to the Secretary of State on these matters.
50. The Technical Special Representative will also continue to attend all meetings of the Finance Committee and the Programmes and Investment Committee, to work closely with TfL to support its progress towards financial sustainability. All relevant papers will be shared by TfL with the Special Representatives as well as a nominated contact in DfT in advance of each Board meeting.
51. The existing Oversight Group shall meet every 4 weeks for the duration of the Fourth Funding Period and will continue to be DfT chaired with representation from DfT, HMT, No.10 and TfL. Both appointed Special Representatives will be invited to attend the Oversight Group meeting. The Oversight Group will meet to monitor progress, act as an escalation point for issues, and discuss a forward plan for the remainder of the funding period.
52. The Terms of Reference for the Oversight Group will ensure that meetings are used effectively. This will also clearly set out the frequency of meetings, attendees and required information ahead of any Oversight Group meeting.
53. If a measure that has been agreed in this extraordinary funding and financing settlement and which relates to any of the matters set out in paragraph 7 or Annex A has not been met and, following consideration by the Oversight Group of proposals for resolution from TfL, such proposal has either not been agreed or implemented and no alternative action plan agreed, then a "Dispute" will have arisen and shall be addressed as follows:
- i. If a Dispute arises, DfT shall give to TfL written notice of the dispute, setting out its nature and full particulars (Dispute Notice), together with relevant supporting documents. On service of the Dispute Notice, the TfL Commissioner and DfT's Permanent Secretary shall attempt in good faith to resolve the Dispute;
 - ii. If the TfL Commissioner and DfT's Permanent Secretary are for any reason unable to resolve the Dispute within 7 days of the notice being given in accordance with the process at paragraph 53(i) then DfT may withhold a reasonable proportion of that part of the next

grant payment due to TfL that relates to the measure in question until such time as the Dispute in question is resolved, provided that such withholdings shall not exceed £50M for the Fourth Funding Period.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Grant Shapps', written in a cursive style.

Rt Hon Grant Shapps MP
SECRETARY OF STATE FOR TRANSPORT

Annex A – Fourth Funding Period deliverables

Para	Workstream	Deliverables	Deadline
7a	In-year savings	<p>To achieve this condition:</p> <ol style="list-style-type: none"> 1. TfL will continue to provide periodic monitoring of the £400m in year savings included in their revised budget for 2021/22 2. TfL will provide a plan demonstrating the options that exist to achieve up to and including £400m of appropriate revenue sources and/or cost saving initiatives in 2022/23 and how this will be phased throughout the financial year, including the amount of which are recurring savings; 3. This plan will be considered and, alongside a detailed review of TfL's budget for 2022/23, agreed by the Oversight Group 4. Periodic monitoring of savings against this target will be provided to HMG via the Oversight Group and to DfT's external advisers 	<ol style="list-style-type: none"> 1. Monthly at Oversight Group 2. 31 March 2022 3. 29 April 2022 4. Monthly at Oversight Group
7b	New revenue streams	<p>To achieve this condition:</p> <ol style="list-style-type: none"> 1. Fortnightly working group with TfL and DfT on any of TfL's recommended options that require HMG action, to ensure swift delivery of the new income source 2. TfL will provide to DfT an impact assessment on different passenger groups of the withdrawal from the travelcard agreement prior to commencing with the withdrawal 3. TfL will complete an Equalities Impact Assessment where necessary on the chosen options 4. The Mayor of London will commence public consultation, which includes an Equalities Impact Assessment, on his proposals. 	<ol style="list-style-type: none"> 1. Fortnightly throughout the Fourth Funding Period 2. 29 April 2022 3. 29 April 2022 4. By 27 May 2022
7c	Modernisation acceleration programme	<p>To achieve this condition, TfL will:</p> <ol style="list-style-type: none"> 1. Provide periodic updates to the Oversight Group and DfT's external advisers confirming how they are meeting the modernisation acceleration plan savings 2. Detailed scope and phasing of the strategic initiatives identified by TfL in the modernisation acceleration plan to be provided by the delivery date 	<ol style="list-style-type: none"> 1. Monthly to Oversight Group 2. 31 March 2022
7d	Capital programme	<p>To achieve this condition, TfL will:</p> <ol style="list-style-type: none"> 1. Provide DfT with a comprehensive project list including the costs, timeframes and commitment level of projects included in its capital programme and supporting information as reasonably required by DfT. 	<ol style="list-style-type: none"> 1. 28 February 2022 2. Bi-Monthly to Oversight Group 3. 1 June 2022

		<ol style="list-style-type: none"> 2. Report to Oversight Group on the implementation of the capital programme, including progress on implementing the capital efficiencies plan 3. Provide a report setting out the realisation of capital efficiencies over the funding period. 	
7e	Service levels	<p>To achieve this condition, TfL will:</p> <ol style="list-style-type: none"> 1. Implement service level changes committed to in TfL's Financial Sustainability Plan, and key milestones for service level changes as outlined in TfL's demand review provided on 19 November 2021. 2. TfL to monitor demand and keep service levels under review. Report to the Oversight Group. 3. TfL to review and agree with DfT if updates to demand scenarios are needed and, if so, to deliver and agree with DfT any such updated demand scenarios. 4. TfL to update their service level review in light of the updated demand scenarios and decide whether service level changes are required, in which case TfL will undertake all necessary steps to prepare implementation of any service level changes. 	<ol style="list-style-type: none"> 1. Ongoing 2. Bi-monthly to Oversight Group 3. 14 April 2022 4. 14 April 2022
7f	Commercial development	TfL will provide a commercial operating structure and business plan for the commercial property company to be established by TfL.	10 May 2022
8	Pensions	<ol style="list-style-type: none"> 1. TfL will deliver the final pensions review report, including a recommended approach and implementation plan. 2. TfL will be expected to provide regular substantive updates on the recommendations contained within the Review as well as, where appropriate, a detailed work plan setting out next steps. 	<ol style="list-style-type: none"> 1. 31 March 2022 2. Monthly, following delivery of its final report
10	Future funding framework	TfL will fully cooperate with and support HMG and its advisers to evidence the potential value of an updated funding framework between HMG and TfL to enable a 'deep dive' on the workstream at the Oversight Group.	May/June Oversight Group
24-26	Cash	<ol style="list-style-type: none"> 1. TfL will provide a weekly closing cash position 2. TfL will provide DfT with a revised cash flow forecast for 2022/23 (including impact of the matters set out in this letter). 3. Should TfL's cash reserves exceed an average of £1.2bn, TfL will report to DfT and its advisers within one week of exceeding £1.2bn on why its cash reserves reach that level and how it plans to return them to an average of £1.2bn. 	<ol style="list-style-type: none"> 1. Every Monday 2. 4 March 2022 3. Within 8 working days of end of reporting period
28	Crossrail 2	To achieve this condition, TfL and DfT will agree and enter into a Memorandum of Understanding whereby they agree to share equally the costs of any statutory	29 April 2022

		blight claims arising from the current and the updated safeguarding regulations for the scheme.	
29	Carbon literacy	TfL shall deliver its plan to improve staff carbon literacy, which will include metrics for measuring this.	31 March 2022

Annex B – Forecast Revenue Profile for Fourth Funding Period

Period	12	13	1	2	3	Total
Passenger Revenue Scenario	£295m	£296m	£332m	£335m	£357m	£1,615m
Extraordinary Grant Funding Payments			£80m	£80m	£40m	£200m

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