

Date: 11 December 2021

Item: Funding Update

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

1 Summary

- 1.1 This paper addresses the recent proposal for a short term roll forward of the current “H3” extraordinary funding and financing agreement set out in the Secretary of State’s letter of 1 June 2021. It makes proposals for agreement with Government on a short term funding solution for one week while discussions on funding support for a longer period continue, including the provision of further information on the Mayor’s proposals to provide additional funding for TfL.
- 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 those considerations provide the context for this paper.
- 1.3 The use of Chair’s Action by the Deputy Chair of the Finance Committee acting as Chair 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 and the Board on 8 December. 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 Deputy Chair of the Committee is asked to note the paper and accept the recommendation of a short term roll forward of the 1 June 2021 funding agreement 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 those considerations provide the context for this paper.
- 3.2 The considerable efforts that have gone into engagement with the Department for Transport (DfT) throughout the pandemic and in particular, as the expiry of the 1 June 2021 funding agreement has 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 despite those strenuous efforts, DfT is proposing a short term roll forward of the current arrangement until 17 December 2021.

4 Proposed funding terms

- 4.1 Government has offered TfL a short term roll forward of the extraordinary funding and financing agreement set out in the Secretary of State's letter of 1 June 2021.
- 4.2 This roll forward extends the current period end date from 11 December 2021 to 17 December, an extension of one week. The terms of the proposed extension are set out in a draft letter from the Secretary of State which is included in Appendix 1.
- 4.3 It is a requirement of the letter that further information is provided by 1pm on 15 December 2021 on the Mayor's proposals on the matters he intends to pursue to provide £0.5-1bn of new income for TfL.
- 4.4 The draft letter also includes confirmation that the comfort concerning TfL's future financial position from the 1 June 2021 funding agreement will continue and that the financial commitments that we need to make during the period of this rollover will be recognised in future funding agreements, so it is understood that those commitments affect our ability to meet any savings targets requested in future.

5 Balanced budget considerations

- 5.1 We described to the Finance Committee at its meeting on 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 proposal to accept the roll forward proposed will avoid the need to consider invoking s114 at this stage.

List of appendices to this report:

Draft funding letter from the Secretary of State

Background papers:

Finance Committee paper 24 November 2021 - Implications of Reduced Funding for TfL
Board paper 8 December 2021– Finance Report: Budget Submission and Capital Strategy

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Date: 17 December 2021

Item: Funding Update

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

4 Summary

- 1.3 This paper describes the Secretary of State's proposed terms sent in draft to the Mayor 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 17 December 2021. It provides for agreement with the Department for Transport (DfT) on funding until 4 February 2022 and includes a number of conditions beyond those included in previous funding agreements.
- 1.4 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 those considerations provide the context for this paper.
- 1.3 The use of Chair's Action by the Vice Chair of the Finance Committee acting as Chair 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 and the Board on 8 December. 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.

5 Recommendations

- 2.2 The Vice 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.**

6 Background

- 5.4 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 those considerations provide the context for this paper.
- 5.5 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, despite those strenuous efforts, DfT is proposing a further extension to the current funding agreement only, until 4 February 2022.

- 5.6 The short term roll forward to 17 December 2021 agreed by Chair's Action on 11 December included a requirement that further information be provided by 1pm on 15 December 2021 on the Mayor's proposals on the matters he intends to pursue to provide £0.5-1bn of new income for TfL. That requirement has been met. In his letter to the Secretary of State, the Mayor set out proposals for further income to be raised from council tax and certain fares adjustments and also the potential for a widening of emissions-based road user charging schemes in order to continue to meet policy objectives of reducing congestion, improving air quality and reducing emissions subject to any scheme being in conformity with the Mayor's Transport Strategy. These are subject to full impact assessment, consultation as appropriate, and decision-making processes.
- 5.7 The terms of the proposed extension to the current funding agreement, which are included at Appendix 1, covers the period to 4 February 2022.

6 Funding terms

- 6.1 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.
- 6.2 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 top up funding of £136m when compared to our budgeted fares revenue assumption up to 4 February 2022.
- 6.3 TfL's closing cash balance at the end of Period 9 was £1.6bn, around £400m 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.
- 6.4 The DfT's proposed extension to the current funding agreement also includes a number of conditions, some of which are amendments to conditions in the current agreement and some of which are new. The key conditions proposed are:
- (a) by 14 January 2022, the Mayor will provide DfT with a working draft of a paper in relation to road user charging. The Mayor will also be required to provide a final draft by the 19 January 2022;
 - (b) a requirement for the Mayor to cover with new income any Mayoral decisions related to service changes, operating cost increases or policies that result in a loss of net revenue without recourse to borrowing, service changes, savings and deferrals. This is a widening of the condition in the current agreement which applies this to changes to congestion charging, the Ultra Low Emission Zone and concessionary fares;

- (c) confirmation that the existing condition in relation to the Hammersmith ferry is no longer required; and
 - (d) confirmation that, should the Mayor align headline fares increases with National Rail fares increases from March 2022, and this be a lower fares increase than assumed in TfL's plans, then this shortfall will not be met by Government after April 2023 which means any shortfall will, therefore, be met by Government beforehand. DfT has informed us separately that they will write to clarify this will be covered by the revenue True Up mechanism in future funding agreements.
- 6.5 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 17 December. 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 4 February 2022.
- 6.6 DfT's intention, as set out in the draft terms, is that further settlement will be possible from 4 February 2022, and, subject to the delivery of the conditions set out above, is when the Government will be ready to work with TfL to consider a longer-term capital settlement to support TfL to achieve, and subsequently maintain, financial sustainability by April 2023.

7 Balanced budget considerations

- 7.1 We described to the Finance 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.
- 7.2 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.
- 7.3 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 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

Finance Committee Chair's Action paper 11 December 2021 – Funding Update

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