

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 on TfL's financial position to be provided.

1 Summary

- 1.1 This is a pivotal moment in TfL's recovery from the coronavirus pandemic. The devastating impact the pandemic had on TfL's finances meant that extraordinary Government funding has been required to continue to operate our services. Over the course of the pandemic, the Government has provided over £5bn of funding to TfL. However, TfL has been on a path back to financial sustainability and therefore on a declining trajectory of Government support. We are now discussing a last extraordinary funding settlement with Government, which will support TfL's final stage of its path back to financial sustainability from April 2023.
- 1.2 TfL also requires longer-term capital funding to avoid the 'managed decline' trajectory that the current budget is based on. Managed decline involves significant service reductions, deteriorating asset conditions and no new enhancement schemes. This not only would mean that we will fail to make progress on critical priorities such as safety, decarbonisation and air quality, but it would trap London's transport network in a vicious circle of deteriorating services and declining demand. Avoiding managed decline is critical to supporting the London economic recovery, and therefore the national economic recovery, following the pandemic.
- 1.3 In response to TfL's request for short-term revenue support ending on 31 March 2023 – from which point TfL would be financially sustainable – and a multi-year capital settlement, Government has proposed a 20-month settlement with wide ranging and complex conditions.
- 1.4 This proposed funding settlement was shared with TfL late on 22 July 2022 and has been subject to intense discussions with Her Majesty's Government (HMG) officials over the intervening period.
- 1.5 Given the very significant complexity and the implications for London's transport system, TfL officers have been engaged in multiple collaborative clarification discussions with HMG officials. There have also been detailed discussions on multiple elements of the proposal, some of which are still ongoing.

- 1.6 At the time of writing, TfL does not have a final draft proposal from HMG. Therefore, it is not possible to recommend a proposal to the Board at this time.

2 Recommendations

- 2.1 **The Board is asked to note the paper.**

3 Background

- 3.1 Late on 22 July 2022 we received a draft proposal for a funding settlement. To properly consider and respond to the proposal from the Department for Transport (DfT), a further extension to the then current funding agreement was necessary. TfL requested a two-week extension to 11 August. However, DfT were only willing to offer a five-and-a-half-day extension until midday on 3 August 2022. This was accepted following approval by the Chair of the Finance Committee on 28 July 2022.
- 3.2 TfL made revisions to the draft proposed funding settlement. However, DfT have not, to date, confirmed or rejected those revisions and are outstanding to provide a final draft proposal.
- 3.3 TfL's financial position has been considered at length at the meeting of the Finance Committee on 22 June 2022 and the meeting of the Board on 27 July 2022. Members have also had interim briefings as the discussions with DfT have been ongoing to provide additional context for this paper.

4 Context

- 4.1 Prior to the pandemic, TfL's financial position had significantly improved. Between 2015/16 and 2019/20 TfL's underlying operating deficit had reduced by 71 per cent, net cost of operations had reduced by £1bn pa and cash reserves increased to over £2bn. If the pandemic had not occurred, TfL's net operating deficit (including renewals) would have been £200m in 2019/20 and we would have reached full financial sustainability in 2022/23.
- 4.2 However, the pandemic has had a devastating and long-lasting impact on TfL's income.

Table 1 shows comparison of TfL's actual passenger income compared to that assumed in the 2019 TfL Business Plan – the last business plan prior to the pandemic. This shows there is an ongoing structural reduction in passenger income of around £1.5bn pa. While we remain very grateful for the £5bn of extraordinary funding support the Government has provided in the past two years, this has not fully offset the revenue lost due to the pandemic.

Table 1 - Comparison of lost revenue and extraordinary Government funding

	£bn	2020/21	2021/22	2022/23	2023/24
Passenger revenue (2019 BP)		5.1	5.4	5.8	6.5
Passenger revenue (Actual / budget)		1.5	3.0	4.3	5.0
Lost revenue		(3.5)	(2.3)	(1.6)	(1.5)
Government extraordinary funding (actual / budget)		2.5	1.7	1.2	0

- 4.3 During the pandemic, our approach of tight cost control and rebuilding our revenue has meant TfL has been on a declining trajectory of extraordinary Government support. The 2022/23 TfL Budget outlined the final step back to financial sustainability and set out a £1.2bn full year funding requirement in 2022/23 and no further extraordinary revenue support being required in 2023/24.
- 4.4 However, due to a lack of certainty on longer-term capital funding from Government, the 2022/23 TfL Budget is based on a ‘managed decline’ scenario. This involved significant service reductions, deteriorating asset condition and no new enhancement schemes. This not only would mean that we will fail to make progress on critical priorities such as safety, decarbonisation and air quality, but it would trap London’s transport network in a vicious circle of deteriorating services and declining demand. Avoiding managed decline is critical to supporting the London economic recovery, and therefore the national economic recovery, following the pandemic.
- 4.5 As a result, our funding requirement from Government has been two-fold:
- (a) revenue funding of £1.2bn in 2022/23 to balance our budget and provide the final support required before we achieve financial sustainability; and
 - (b) longer-term capital funding to avoid the managed decline scenario.
- 4.6 The previous extraordinary funding agreement, which was originally to expire on 24 June 2022, provided around £300m of revenue funding in 2022/23. Therefore, a further circa £900m of revenue funding is required for the remainder of 2022/23.
- 4.7 Since 24 June 2022 TfL has been operating under a series of extensions, which have provided revenue top up, but no base funding. The last of these expired on 3 August 2022. We have continued to maintain our assumption of a balanced budget, on the basis that it remains likely we will secure further Government funding in-line with the ongoing constructive discussions of the proposed funding settlement.

5 Next Steps

- 5.1 The discussions with HMG on the proposed funding settlement are ongoing, and the latest position will be reported in the Board meeting. We continue to work tirelessly to resolve the outstanding issues.
- 5.2 We described to the Finance Committee at its meeting on 22 June 2022 and the Board meeting on 27 July 2022, 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.

- 5.3 At those meetings, we described the process for and implications of section 114 of the Local Government Finance Act 1988 (s114). If the Chief Finance Officer were to consider it necessary to prepare a report under s114, careful consideration would need to be given to what services TfL is able to continue to run within available funds, taking into account our general financial obligations and our core statutory duty to provide safe and efficient public passenger transport services as well as those services specified in statute and the significant contractual and statutory consequences which would be presented to Members to consider.
- 5.4 As discussions with HMG are still proceeding, it is not considered necessary to issue a s114 report at this time.

List of appendices to this report:

None

Background papers:

Finance Committee paper 22 June 2022 Update on Funding
TfL Board paper 27 July 2022 Finance Report

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