



Department  
for Transport

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From the Secretary of State  
**The Rt. Hon. Grant Shapps**

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31 October 2020

Dear Sadiq,

### **Transport for London Settlement Letter**

1. This letter sets out an Extraordinary Funding and Financing Agreement for Transport for London (TfL) for the period to March 2021. This replaces the extension letter of 16<sup>th</sup> October.
2. The agreement set out in this letter supports the maintenance of essential transport services in London, allowing TfL to contribute fully to the Government's economic restart programme. The Government is committed to supporting TfL in the delivery of its efficiencies programme and commercial development income, particularly where legislative changes may be needed.
3. The period for this funding agreement is 18 October 2020 until the 31 March 2021 (the H2 Funding Period) and the agreement will recognise both short and long-term objectives as follows:
  - a. Short term (up to 31 March 2021) – to provide sufficient financial measures to mitigate loss of passenger revenue as a result of COVID impacts and Government led measures such as social distancing.
  - b. Long term - to continue to work with TfL towards a plan to reach a financially sustainable position as soon as possible, with a target date of April 2023.
4. During the course of the H2 Funding Period, HMG want to work with TfL on long-term plans with an aim to be in a position where a longer-term

settlement is possible from March 2021 when this funding package expires. At this point, HMG would also consider reducing government supervision: ending, for instance, the presence of HMG special representatives on TfL's board. These things will only be possible if HMG can be satisfied (via the Oversight Group) within the period of H2 that the measures set out in this letter are being/ have been progressed.

5. In relation to any long-term plans, HMG define 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.
6. HMG recognise that the current circumstances present ongoing financial challenges and uncertainty to Transport for London beyond the H2 Funding Period. HMG recognise that it will be important for Transport for London to maintain essential services and support the economic recovery and meet its statutory obligations in relation to balanced budget, in line with its statutory duties over the remainder of the financial year and in future years. HMG also recognise that Transport for London has existing near and long-term financial commitments, and will need to enter into new financial commitments, that extend beyond the H2 Funding Period. A combination of future measures from TfL, GLA and HMG will enable TfL to continue to meet these obligations and commitments during the H2 Funding Period and beyond.
7. 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.
8. Delivery of the matters set out in this letter will take into account and prioritise safety and other statutory and operational requirements of running the transport network. HMG also recognise that the delivery of such matters will need to take account of TfL's (and the Mayor's) 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.

9. TfL will, by 11 Jan 2021, produce a single, comprehensive management plan with options as to how a trajectory to financial sustainability could be achieved by as soon as possible with a target date of FY2023. This plan will include, but is not limited to:
- a. An assessment of further operating efficiencies beyond the H2 Funding Period, including opportunities to accelerate and improve on the savings included in TfL's 2019 Business Plan of £722m by 2024, inclusive of savings delivered in 2019/20 and planned in 2020/21. This assessment will include a deliverability analysis of the current estimate and also include an analysis of the optimum size for TfL to undertake its activities.
  - b. An assessment of further capital efficiencies and a review of TfL's Long Term Capital Plan against a prioritisation framework that will be agreed in advance with DfT. This will focus on safety and state of good repair (as that term is recognised by industry specialists, addressing the ability of an asset to meet its function without posing unacceptable risks) of the existing network as highest priority, with options for varying degrees of investment above this for further discussion and scenarios that demonstrate the impacts of reduction in planned expenditure (with scenarios ranging between 0% and 30% reduction) over the period to 2024/25.
  - c. An assessment of the impact of demand on sustainability, including modelling of medium-term service level requirements against possible demand scenarios post removal of Covid travel restrictions (such as social distancing).
  - d. A review of TfL's liquidity position, and review of level of reserves that is appropriate for the risks that TfL faces in the short, medium and long term.
  - e. A review of TfL's commercial development activities with the aim of maximising their use to aid future sustainability, subject to near term affordability. Non-operational assets (including land and property) that are surplus, will not generate future revenues and are not otherwise required for safeguarding activity, will be identified and considered for sale. This review will consider the impact on achieving financial sustainability by FY2023 as well as value for money considerations.

- f. Consideration of and options for Governance/regulatory frameworks that may enable better stability and sustainability of funding in the medium to long term.
10. This plan will also include impact and deliverability assessments of the matters described above, including a value for money analysis and EQIA and evidence drawn from a variety of sources, including external opinions and advice where relevant.
11. This plan for financial sustainability will set out how TfL commits to managing its affairs to reach financial sustainability. The plan will be predicated on TfL being an economic and efficient operator, putting in place plans and taking reasonable decisions to achieve this.
12. If the Mayor and TfL wish Londoners to continue to benefit from travel concessions and/or other benefits above those typically available elsewhere in England (specifically free travel for all Londoners aged under 18 and 60-65, excluding statutory entitlements including under the Education Act 1996) then TfL/the Mayor recognises that the costs of these additional benefits will not be met by HMG funding; and commits to meeting the costs of these additional benefits over the Financial Year 2021/22, without recourse to additional borrowing, savings, service changes or deferrals. TfL and the Mayor have proposed that this could potentially include proposals to maintain the Congestion Charging changes implemented in June 2020, subject to consultation and due process; and / or by an increase to the existing TfL element of the GLA council tax precept from 1 April 2021 provided HMG will take all the necessary steps to enable such a precept, subject to approval of the House of Commons. TfL/the Mayor will submit their proposals, by 11 January 2021, alongside the financial sustainability plan.
13. For the H2 Funding Period, TfL or the Mayor (as appropriate regarding their respective statutory obligations):
  - a. Commits to deliver the £413 million cumulative efficiency savings by the end of 2020/21, as part of its ongoing 2019 Business Plan savings programme and provide confirmation of how this will be achieved and how it will be evidenced to the DfT Oversight Group.
  - b. Commits to deliver an additional £160m of savings or income compared to the revised Budget through a mixture of Capex, Opex and financial control measures. TfL will also and provide confirmation of how this will be achieved and how it will be evidenced to the DfT Oversight Group.

- c. In relation to Crossrail 2, prioritises safeguarding activity and brings an orderly end to consultancy work as soon as possible. DfT will support such safeguarding activity for this project as required.
- d. Completes roll out of TfL Go for Android by the end of the calendar year.
- e. Works with a government led expert review on the possible implementation of driverless trains. TfL and Government will discuss the scope of this review and the knowledge and experience requirements of any review members or chair, as well as a reasonable programme of work to support the review (including the appointment of any consultants that DfT considers appropriate to appoint to support the review, whose knowledge and experience DfT will also discuss with TfL) taking into account resource constraints within TfL. DfT acknowledges that this requirement is not included within the TfL Revised Budget.
- f. Whilst social distancing is in place, maintains appropriate service levels, subject to the ability to do so in light of staff absence levels. TfL will take all practicable steps to manage absence levels to support delivery of services.
- g. Commits to set aside at least £75m within the H2 Funding Period to continue the delivery of healthy streets and active travel programmes including funding for the London Boroughs under the local implementation plan process. Within this funding, TfL will prioritise the urgent delivery and operation of a temporary walking and cycle ferry as a replacement crossing for local communities affected by the closure of Hammersmith Bridge. For the avoidance of doubt these commitments are separate to any further funding to be allocated from the DfT Emergency Active Travel Fund for which bids totalling £20m are currently submitted.
- h. Maintains commitment to the decision made by the Mayor on 6 June 2018 to create a single larger ULEZ bounded by the North Circular and South Circular Roads with the extension coming into effect as planned on 25 October 2021.
- i. Maintains commitment to tightening LEZ in March 2021.
- j. Maintains changes that TfL has made to its expenditure authorisation processes through the Financial Commitment Oversight Group.

- k. Documents, and share this documentation with DfT, any meetings with lenders or ratings agencies, subject to FCA regulations and confidentiality agreements in place with these counterparties.
  - l. Commits to increase fares within the Mayor's control in January 2021 to deliver an overall equivalent of RPI+1%.
  - m. Commits to maintain, as a continuing response to the coronavirus pandemic, the current temporary changes to the Congestion Charge.
  - n. Commits to maintain, as a continuing response to the coronavirus pandemic, the current temporary changes to the use of concessionary fares for the over 60's and Freedom Pass holders during peak hours.
  - o. Commits to make a fixed contribution of £4m during the H2 Funding Period for the stabilisation and repair of Hammersmith Bridge as part of the programme led by the Task Force for the Hammersmith Bridge.
14. The parties will continue to agree communication messages to ensure consistent advice is provided to all travellers and public confidence in the transport network is promoted.
15. Two HMG appointed Special Representatives 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.
16. One Special Representative will also continue to attend all meetings of the Finance Committee and the Programmes and Investment Committee.
17. In addition, DfT will develop an Official level Oversight Group. This will be DfT chaired and will have equal representation from DfT and TfL. The terms of reference for which are appended to this letter, and the Group will meet to monitor progress and consider how the conditions set out in this letter are being implemented and make proposals for further actions if necessary.
18. TfL will continue to provide monthly management accounts and cashflow forecast and these will be reviewed by DfT after P9, P11 and P13, with DfT supported by external advisors.
19. TfL will provide DfT with a revised H2 cash flow forecast (including impact of the matters set out in this letter) with the Period 8 Management

Accounts on 27 November 2020. TfL will also provide a revised cash flow forecast covering the remainder of the Business Plan Period following approval by the TfL Board of the 2020 Business Plan.

20. The Extraordinary Funding and Financing package comprises £1bn for Transport for London to support its essential services for the period 18 October 2020 to 31 March 2021 (“H2 Funding Period”) as follows:
  - a. Extraordinary Support Grant of £905m payable under S.101 of GLA Act 1999. This will be paid in 5 instalments commencing on 13 November 2020. The first payment shall be for £345m and shall be made on 13 November 2020, the second payment shall be for £140m and shall be made on 11 December 2020 and the third to fifth payments shall be for £140m and shall be made every four weeks following the 11 December 2020 payment date.
  - b. Additional borrowing by Transport for London from the Public Works Loan Board (PWLB) of £95m. This borrowing will be undertaken on 4 January 2021. This will take TfL’s PWLB borrowing in 2020/21 to £600m.
21. 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 and Government-led measures such as social distancing.
22. In managing its business during the H2 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, and minimising expenditure.
23. The funding amounts are based on a scenario that passenger demand over the H2 Funding Period is at c 65% of pre-Covid levels. This scenario (H2 Scenario) forecasts passenger revenue cash receipts at £1,470.1m during H2. Taking into account the financial effects of delivery of other conditions set out in this letter, the revenue shortfall is expected to be £1bn for the H2 Funding Period. It is recognised 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 H2 Funding Period, in particular as HMG guidance on dealing with the pandemic develops over the winter.

24. Therefore, in addition to those instalments of Extraordinary Support Grant set out above, to the extent that the H1 True Up process (as set out in my letter dated 14 May 2020) identifies an overpayment by DfT to TfL during the H1 Support Period (1 April 2020 to 17 October 2020), then the quantum of this overpayment (the H1 Surplus) shall be retained by TfL throughout H2 (subject to the True Up Process set out below).
25. At the end of Railway Period 8 (the first four-week period (Reporting Period) in the H2 Funding Period) HMG and TfL will assess whether actual cumulative passenger revenue cash receipts are in line with the expected cumulative H2 Scenario of £1,470.1m (as set out for each Reporting Period in Annex 1) for the H2 Funding Period. 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 the shortfall between the actual cumulative passenger revenue cash receipts and the H2 Scenario described in paragraphs 23 and 24 (a Top Up Grant).
26. This Top Up Grant shall be calculated from 18 October 2020 on a cumulative basis every Reporting Period and then paid in accordance with the timescales set out in paragraph 29 and for every Reporting Period thereafter for the remainder of the H2 Funding Period, until the final Reporting Period. Any additional funding required under a Top Up Grant will be provided following routine authorisation by CST, noting that such authorisation will not undermine the intent of the financial support set out in this letter and specifically paragraphs 6, 7 and 35.
27. After Period 9 and to the extent that a Top Up Grant is required then HMG and TfL will enter into collaborative discussions via the Oversight Group to determine whether any service levels need to be revisited to reflect those revised circumstances and the consequential impact on TfL's funding requirement. Any such changes to service levels proposed by the Oversight Group will be subject to agreement from TfL (in line with its governance framework) and HMG.
28. In accordance with paragraphs 25 and 26, the following formula will be used to calculate any Top Up Grant payable.
- The maximum of zero and (Cumulative H2 scenario of Passenger Revenue Cash Receipts – Cumulative Actual Passenger Revenue Cash Receipts – Previous Top Up Grants) = 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)*

29. 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 Period. Payment of any Top Up Grant will then be made within 10 business days of receipt by DfT of the flash report.
30. For the final Reporting Period, there will be a process (the True Up Process) to determine any final payment of Top Up Grant (True Up Grant) or repayment (True Up Repayment) during the H2 Funding Period.
31. The True Up Process will also take into account and adjust for the following matter:
- a. To the extent that any exceptional costs incurred by TfL during the H2 Funding Period are greater than or lower than equivalent sums contained within the Revised 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). 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 H2 Funding Period, should TfL anticipate that any greater exceptional costs compared to the Revised Budget are required, TfL shall agree this with DfT in advance.
32. The formula for this final Reporting Period shall be:  
*Total H2 scenario Passenger Revenue Cash Receipts – Total Actual Passenger Revenue Cash Receipts – Previous Top Up Grant Payments – H1 Surplus + Exceptional Costs Adjustment = True Up Grant (if positive) or True Up Repayment (if negative)*
33. The payment by DfT of True Up Grant or by TfL of True Up Repayment will not compensate TfL for any loss caused by TfL not managing costs within its Revised Budget save as set out in paragraph 31. Nor will it seek to recoup grant sums if TfL outperforms the cost forecasts set out in the Revised Budget (as amended by the conditions of this letter).
34. The calculation and evidence of True Up Grant, and/or True Up Repayment shall be produced by TfL at the end of the H2 Funding Period and shall be provided to DfT within 10 business days following the end of the H2 Funding Period. Payment of the final True Up Grant, and/or True

Up Payment will then be made within 4 weeks or 20 business days of receipt of that information.

35. This funding package is based on the assumption that Transport for London will maintain as a minimum useable cash reserves (that is, cash and liquid investments held by the TfL Group (excluding ring fenced subsidiaries; Crossrail Limited, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited)) of £1.2bn throughout and at the end of the H2 Funding Period, subject to normal commercial payment practices. This funding package seeks to support the maintenance of essential and safe transport services in London, enabling TfL to continue to make a full and vital contribution to the recovery from the coronavirus pandemic and success of the UK economy as a whole.
36. If a measure that has been agreed in the H2 extraordinary funding and financing package and which relates to non-financial matters set out in paragraphs 9, 10, 13.d., 13.e., 13.j., 13.k., 14, 15, 16, 18 and 19 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:
  - a. 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 Commissioner of TfL and the Permanent Secretary of DfT shall attempt in good faith to resolve the Dispute. If the Commissioner of TfL and the Permanent Secretary of DfT are for any reason unable to resolve the Dispute within 30 days of the notice being given, either party may refer to the matter to an independent body for resolution;
  - b. If Dispute is not resolved in accordance with the process at paragraph 36.a. 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 £25million in total for the H2 Funding Period.

37. The funding package that we are separately discussing for Crossrail will be concluded in parallel.

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**

## **TRANSPORT FOR LONDON OVERSIGHT GROUP**

### **TERMS OF REFERENCE AND MEMBERSHIP**

#### **Terms of Reference**

To oversee the effective implementation of the measures agreed in the H2 extraordinary funding and financing package by working in a collaborative and transparent way to:

- Agree the timetable for the successful implementation for each measure;
- Monitor progress of implementation against the timetable and make proposals for further actions if necessary;
- Determine when and whether measures have been considered to be successfully implemented, and ask for more evidence at any point if required;
- Consider implications if measures are not met, including what process should be followed;
- Provide appropriate review and monitoring of TfL's evidenced proposals via TfL's periodic management reports to deliver both the additional £160m of savings or income and £413m cumulative efficiency savings, as set out in the settlement letter paragraphs 13.a and 13.b; and
- In the event that the Oversight Group does not consider that a measure has been met, to consider proposals for resolution from TfL.

#### **Meeting regularity**

- Periodically (every four weeks) for the extent of the H2 funding period. First meeting in mid-November with further meetings to be determined in line with TfL governance processes, with scope for additional extraordinary meetings.

#### **Membership**

- The Oversight Group will be DfT chaired and will have equal representation from DfT and TfL

## Annex 1 – H2 Scenario: Passenger Revenue Forecast by Period

<b>£m</b>	<b>Period 8</b>	<b>Period 9</b>	<b>Period 10</b>	<b>Period 11</b>	<b>Period 12</b>	<b>Period 13</b>	<b>H2 Total</b>
Forecast ticket receipts	198	227	189	227	227	244	1,312
Concessions income from boroughs	-	79	-	-	79	-	158
Total Passenger Revenue Forecast	198	306	189	227	306	244	1470

Table with revenue scenario by period