

GREATER LONDON AUTHORITY

[REDACTED]
(By email)

Our Ref: MGLA210520-2493

20 August 2020

Dear [REDACTED]

Thank you for your request for information which the Greater London Authority (GLA) received on 21 May 2020. Your request has been dealt with under the Freedom of Information Act 2000

You asked for:

Please send me all correspondence from 19 March to 14 May 2020 relating to emergency funding received by Transport for London, between:

- *Sadiq Khan, Mayor of London*
- *Heidi Alexander, Deputy Mayor of London for Transport*

And:

- *Mike Brown, Commissioner, Transport for London*
- *Simon Kilonback, Chief Finance Officer, Transport for London*
- *Counterparts at Department for Transport*
- *Counterparts at the Treasury*
- *Counterparts at the Prime Minister's office*

Our response to your request is as follows:

Please find attached the information the GLA holds within scope of your request. Please note that some of the information contained within the correspondence as it is subject to a statutory exemption to the right of access to information under section 43(2) as its disclosure would be detrimental to the commercial interests of the GLA and/or a third party.

In this instance the exemption has been applied as disclosure would be likely to prejudice TfL's commercial interests by hindering their ability to effectively negotiate future funding agreements. The information you have requested contains detailed considerations of various scenarios that informed TfL's negotiating position with Government including discussion of the hypothetical impact on financial stability, borrowing rates, contractual obligations and other commercial positions that could have been impacted by the outcome of the funding discussions.

It is considered that placing TfL's detailed background considerations around its negotiating position into the public domain would be very likely to hinder its ability to effectively negotiate with Government in future. This would have a clearly negative impact on TfL's commercial

interests as it would ensure its internal position on various elements become known and thus weaken its bargaining power.

Further, the correspondence also contains discussion around specific contracts and loan agreements which are ongoing and/or subject to future negotiation and disclosure of this information would also be likely to inhibit TfL's ability to obtain best value for money by giving advance notice of its position and influencing future negotiations.

The use of this exemption is subject to an assessment of the public interest in relation to the disclosure of the information concerned. Careful consideration was given to the public interest test when assessing whether this exemption was engaged as we are aware of the widespread and significant interest in this subject. As a public authority we strive for our decision making to be transparent and open to public scrutiny.

We have made many public statements on this subject throughout the negotiation process outlining our position and updating the public on its progress and we have also published the funding agreement letter, as well as communications between the Mayor and Government that occurred throughout the negotiating period. TfL has also published an Emergency Budget and, now, a Revised Budget, which make clear their current financial position. We consider this provides sufficient information to the public to enable robust scrutiny, debate and consideration of this matter and do not consider that disclosure of the information you have requested, and the inevitable weakening of TfL's ability to effectively negotiate, would sufficiently enhance the public's understanding of our decision making process to justify the detrimental effect this would have.

Therefore on balance, whilst we acknowledge there is a strong public interest in this subject, we consider that the balance of public interest lies in favour of withholding the information in order to ensure that TfL is able to effectively negotiate in future funding negotiations, which will ensure the best possible use of public funds.

If you have any further questions relating to this matter, please contact me, quoting the reference at the top of this letter.

Yours sincerely


Information Governance Officer

If you are unhappy with the way the GLA has handled your request, you may complain using the GLA's FOI complaints and internal review procedure, available at:

<https://www.london.gov.uk/about-us/governance-and-spending/sharing-our-information/freedom-information>

Rt Hon Steve Barclay MP
Chief Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Date: 5 May 2020

Dear Steve,

Government support for Transport for London

I am writing to request an urgent meeting with you or your officials about the acute financial challenges faced by Transport for London (TfL).

As you will know, TfL has undergone an unprecedented and catastrophic loss of income as a result of the Covid-19 crisis. It has already utilised over £1bn of its cash balances to fund the continued provision of public transport services since mid-March – a period which has seen passenger revenue collapse by 90%. It has worked hard to ensure tube, bus, tram and rail services remain in place for essential journeys in the capital – not least those done by London's critical workers.

However, TfL is now very rapidly exhausting the cash it holds and is set to breach its minimum operational cash threshold imminently. Should there be no reasonable prospect of TfL balancing its budget this year, the statutory processes defined in section 114 of the Local Government Finance Act may have to be invoked. I believe this is a scenario we would all wish to avoid, given the catastrophic consequences which the Commissioner has outlined to your Permanent Secretary.

We have been in discussions with the Department for Transport for a number of weeks, but we now urgently need to find a resolution to this matter. I had a useful conversation with Charlotte Vere at DfT on Friday and TfL's Chief Finance Officer wrote to DfT officials on Sunday with a proposal which would give TfL financial stability over the next 6 months. I have enclosed a copy of this letter – you will see that we assume that over the course of this financial year TfL will make c£300m of additional revenue savings and c£500m of additional capital savings (compared to its March budget).

Given the urgency of this issue, I would like to suggest a senior high-level meeting today or tomorrow including officials from DfT, HMT, the Prime Minister's Office, TfL, and the GLA. I would be more than happy to attend such a meeting alongside you if this would expedite reaching an agreement. Alternatively, I am of course available to meet with you directly if this would be preferable.

I should let you know that a meeting of TfL's Finance Committee is planned for next Tuesday (12 May), and it is imperative we find a resolution before then. I am also conscious that the Prime Minister is due to make an announcement about how the country may start to move out of this challenging period, and I would hope that the public transport network which underpins the capital's economy will be central to the Government's plan. Our ability to assist in achieving the Government's objectives will only be possible if funding is agreed to secure TfL's financial viability.

I look forward to your urgent response and hope you are keeping well during this difficult time.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Heidi Alexander', with a stylized, flowing script.

Heidi Alexander
Deputy Mayor for Transport

[REDACTED]

From: Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>
Sent: 20 March 2020 19:04
To: Heidi Alexander
Cc: Will Norman; [REDACTED]
Subject: FW: Sensitive and Highly Confidential: TfL request for government financial support
Attachments: Government Letter - 20.03.20.docx

Heidi
As just discussed.
Mike

From: Kilonback Simon
Sent: 20 March 2020 18:47
To: [REDACTED]@gov.uk' <[REDACTED]@gov.uk>
Cc: David Bellamy <[REDACTED]@london.gov.uk>; Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>; Carter Howard <[REDACTED]@tfl.gov.uk>
Subject: Sensitive and Highly Confidential: TfL request for government financial support

Dear Ed

Thank you for your time earlier today. I would wish to speak to you for the first time in better circumstances. Mike Brown and I have been in contact with Baroness Vere, Chris Heaton-Harris and Bernadette Kelly at the Department of Transport in the last few days as the Covid-19 crisis and response have escalated, firstly to offer our full support but also to raise the catastrophic impact the response to the crisis will have on TfL's finances. As you will know, our Tube ridership is now down over 70% and bus ridership over 40% and we expect that to further reduce in the immediate future as the additional restrictions on movement and social distancing take effect. It is our expectation that from early next week we will have effectively no discernible income from passenger revenues, and the removal of the congestion charge and ULEZ charges will impact us further. Whilst we hold effectively 90 days cash reserves, the escalating situation means that our existing financial commitments now exceed our cash reserves. We now need confirmation that the Government will meet the costs of running the transport network and supporting our critical supply chain, where we have significant long term contractual commitments for rolling stock, signalling and major infrastructure projects, including Crossrail, for the duration of this crisis.

[REDACTED]

[REDACTED]

[REDACTED]

We very much want to do the right thing to fully support your strategy together with continuing to fully employ our own workforce and that of our critical infrastructure supply chain, which of course we can continue to do with your support.

[REDACTED]

Kind regards

Simon

Simon Kilonback

Chief Finance Officer | Transport for London

Palestra, 11th Floor, Zone 11Y7, 197 Blackfriars Road, London, SE1 8NJ

[REDACTED]@tfl.gov.uk | Direct dial: +44 (0) 20 3054 [REDACTED]

[REDACTED]

From: Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>
Sent: 23 March 2020 17:44
To: Heidi Alexander
Subject: FW: TfL support and impact on revenue

As discussed

From: Brown Mike (Commissioner)
Sent: 23 March 2020 17:40
To: 'Bernadette Kelly' <[REDACTED]@dft.gov.uk>
Cc: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Subject: RE: TfL support and impact on revenue

Dear Bernadette

Thank for your helpful note. We will continue to do whatever we can to support the Government during this crisis. I look forward to further clarity on the issues as soon as you are able.

80% of our revenue comes from fares (and other footfall driven income) and 20% from business rates and the Mayoral CIL. The support we need is by way of a grant – [REDACTED]

With regard to our projects I do feel we have no choice but to issues instructions to safely stop work.. People travelling to construction sites are not critical workers (in line with the Government's own advice), and on Crossrail sites alone some 4000 to 5000 people are working across London every day. These people also share canteen facilities, locker rooms, and their work often necessitates close proximity with each other. I do not consider this to be safe in the current circumstances.

As we also discussed, with regard to projects, we want to be in a position to re- mobilise after the current crisis and to help the economic recovery. To that end clarity would also be helpful as to how the supply chain receive financial support from us (because of support to us by the Government or directly from the Government). The important issue here is that we estimate some 40% of the workforce down the supply chain are self - employed. This factor no doubt is contributing to some early morning demands peaks on the limited services we are operating – explicitly being provided for critical workers.

Thank you again for your support.

Mike

Mike Brown
Commissioner
Palestra
197 Blackfriars Road
London
SE1 8NJ



From: Bernadette Kelly <[REDACTED]@dft.gov.uk>
Sent: 23 March 2020 11:57
To: Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>
Subject: TfL support and impact on revenue

Dear Mike,

We are hugely grateful for the work TfL have been doing to support the response to this crisis. The services you are continuing to provide support the flow of key workers at this difficult time. The data you are sharing is hugely important in understanding the impact of the measures introduced on behaviour and hence the ongoing assessment of the situation.

I recognise that the changes in travel behaviour have had a massive effect on the use of the London transport system and hence the revenues that you are collecting and can expect to collect going forward. It is clearly very difficult to predict with any certainty how this will evolve.

Given your reliance on farebox income to support your activities, I can see this creates significant uncertainty for your ongoing financial standing and your supply chain. I want to reassure you that this is recognised in Government. We and Ministers in DfT and HMT are committed to working with you urgently to ensure that you are able to access the range of support that has been made available and that essential services remain viable. I know our teams are in discussion with a view to agreeing a sustainable way forward as soon as possible.

Bernadette

Bernadette KellyCB
Permanent Secretary,
5/16, Great Minster House
33 Horseferry Road, London, SW1P 4DR

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[REDACTED]

From: Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>
Sent: 13 April 2020 10:40
To: Heidi Alexander
Cc: Kilonback Simon; King Antony (Div Finance Director MPD); [REDACTED] Powell Gareth; [REDACTED]@tfl.gov.uk; Carter Howard
Subject: Letter from Bernadette Kelly to Mike Brown re COVID-19 – TfL Financial Commitments and Obligations
Attachments: image001.png; 200412 Bernadette Kelly to Mike Brown re COVID-19 – TfL Financial Commitments and Obligations.pdf

Heidi

See attached

Some of it is ok as recognises there will be a need for grant funding in this and future years but gives DFT approval rights over budgets (I am sure this will include fares policies).

Also note that it says the job retention scheme applies both to TFL and it's suppliers. This is different to their "arms lengths" bodies (Network Rail and Highways England)– and clearly presents challenges with the TUs. We are expected to prioritise essential services alongside making significant savings.

It also implies that adherence to government policy in the current situation will be key.

[REDACTED]
[REDACTED] My executive team is meeting virtually for much of Wednesday to discuss in some detail.

On the agenda for 1130 (Simon will join). We have not shared widely, until we discuss with you.

Mike



Department for Transport

From the Permanent Secretary

Great Minster House
33 Horseferry Road
London SW1P 4DR

E-Mail: [REDACTED] dft.gov.uk

Web site: www.dft.gov.uk

12 April 2020

Mike Brown

Commissioner, Transport for London
Palestra, 197 Blackfriars Road
London
SE1 8JZ
Job Title

Dear Mike,

COVID-19 – TfL Financial Commitments and Obligations

We have discussed the funding challenges TfL is experiencing as a result of COVID-19.

Under the current devolution arrangements, decisions related to TfL's funding and operations are usually a matter for the Mayor and the GLA. However, we recognise that the current crisis and the associated Public Health England guidance is having a significant impact on passenger demand for public transport; and that this in turn will have a significant impact on TfL's finances.

In the first instance, we would expect you to draw down substantially on TfL's cash reserves – which are built up for precisely this type of situation – and on the income, you will continue to receive from the GLA, Government and fares to help manage these impacts. We will also work with you to ensure you and your supply chain can access the range of support that has already been made available to support companies and public sector organisations with COVID-19 pressures, where appropriate. We note that you have continued access to the Public Works Loans Board, and both TfL and its supply chain will be able to benefit from the Coronavirus Job Retention Scheme, where workers cannot be retained or redeployed. Your supply chain may also have access to the Covid Corporate Financing Facility and Business Interruption Loan Scheme.

However, the Government accepts that you are likely to need access to additional resources in order to deliver the essential transport services supporting the crisis response, maintain essential contracts needed to run these services and continue to support the supply chain behind your major investment projects. We are prepared to work with you on a package of one-off funding and temporary financing arrangements to support this. The combination of measures from TfL, HMG, GLA and any one-off funding and temporary financing arrangements agreed should enable TfL to balance their adjusted budget over time. As part of the temporary arrangements, we will agree an appropriate review date to assess the latest situation. The work will also continue beyond the review date until we come to a resolution.

In return we would expect you to:

- Work with us to uphold, and run messaging consistent with, Government guidance to manage the impact of the national and global spread of COVID-19;
- Commit to an open-book approach and providing full transparency on your current and projected financial position, including the details of your adjusted budgets over the coming years and the areas for adjustments;
- Prioritise financial commitments across TfL's operations, investment programme and supply chain, so that resources are focused on maintaining essential services;
- Agree with HMG any decisions on initiating significant new capital investments and any other major discretionary commitments while these temporary financing arrangements are being put in place;
- Work closely with us on managing issues in the supply chain, including taking proportionate decisions to support the long-term viability of important entities within the supply chain;
- Make all reasonable efforts to progress Crossrail construction, and confirm that the 'London pays' principle previously agreed for Crossrail cost overruns remains in place;
- Look jointly at options for increasing revenue and reducing costs, to ensure long term financial sustainability.

As we know the extent and duration of the COVID-19 impacts cannot yet be predicted with certainty. More work will therefore be required to agree the details and I understand a daily working group has been set up for these discussions to happen. This will allow us to understand and assess your pressures, and enable us to take forward an appropriate package as quickly as possible.

Our teams are already working closely together and we will be in contact to provide you with a detailed outline of the information, including seeking your proposal for an adjusted budget, that we will need to make a full assessment of the COVID-19 related impacts on TfL's current and future finances and the mitigation measures available.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Bernadette Kelly', with a stylized flourish at the end.

Bernadette Kelly CB
Permanent Secretary

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 21 April 2020 11:27
To: David Bellamy; Heidi Alexander; Mike Brown; Carter Howard
Cc: [REDACTED]@tfl.gov.uk; [REDACTED]@tfl.gov.uk; Lucas Emma; Tim Steer
Subject: Confidential and Legally Privileged: DfT update 20th April
Attachments: image001.jpg; Topics for Discussion in TfL Funding Discussions.docx

All

Please find below the daily summary of the funding working group meeting and the schedule of discussions to seek to reach the interim funding agreement attached

The summary of the meeting will now come to you on a daily basis

Thanks

Simon

From: Payne Jennifer
Sent: 20 April 2020 20:45
To: +Funding and Financing <FundingandFinancing@tfl.gov.uk>
Subject: DfT update 20th April

All,

See below the notes from today's discussion with the DfT. Attached is our proposed programme of negotiation shared with the DfT, which I will be using as a tracker to record key actions / areas of agreements over the week.

Monday 20th April

TODAY'S CALL	<p>Kick-off call for the second round of negotiations;</p> <ul style="list-style-type: none"><input type="checkbox"/> We agreed to target working group consensus on the proposal by end of this week to allow for approvals W/C 27th April and final agreement before the end of April<input type="checkbox"/> We noted the proposed phone call with Mike Brown and Bernadette Kelly on Thursday afternoon and the need to provide a status report / list of discussion items before hand<input type="checkbox"/> We discussed the two letters in detail and the high level topic areas to set the negotiating framework for this week, including when TfL would have information available<input type="checkbox"/> Fares – there's a recognition that discussing a change to the fares policy for the period before the review date (30th September) isn't appropriate and there's a need for collective narrative on this point<input type="checkbox"/> DfT mentioned Treasury lessons learnt with the TOC's, where the figures in which the support packages was agreed upon, have proved to be inaccurate and the likelihood of more scrutiny on the TfL updated balanced budget
ACTIONS	<ol style="list-style-type: none">1. Prepare programme for the next weeks negotiation (TfL) ATTACHED2. Organise Tuesday's calls (TfL)
TOMORROW'S SESSIONS (TBC with DfT)	<p>11am: Mechanics of the support (TfL core team only (Julian, Tony, Jo, Nicola, Raj, Jenny))</p> <p>3pm: Revenue and Service Level (core team plus Tom Page & Geoff Hobbs)</p>

Jenny Payne

Corporate Finance Senior Manager

Phone: 020 3054 [REDACTED] (auto [REDACTED] | Mobile: [REDACTED])

Topics for Discussion in TfL Funding Discussions

Grouping	Item	Assumptions/Questions	Suggested discussion Point	Actions	Due date
(1) Mechanics	Type of Support	TfL propose Transport Grant paid under Section 101 of GLA Act 1999	Tuesday AM		
	Timing	TfL propose short term arrangement covering period 1 March 2020 to 30 Sept 2020 Further Arrangements as necessary from 1 October 2020, to be agreed before mid-sept (acknowledging impact will persist into medium term and CSR for future financial years)			
	Mechanism	TfL propose Grant payable at beginning of every 4-week period during term of short-term arrangement.			
	Review Point	TfL propose a review with a reference date of 30 th September 2020. Review discussions will need to take place to ensure continuity of funding from 1 st Oct. May need to review on a dynamic/on-going basis for material changes in budget assumptions (e.g. change in government policy means assumptions need to be revisited)			
	Review Point Mechanism	TfL propose review process will include: <ul style="list-style-type: none"> - Wash Up – rebate or payment of additional grant when comparing actuals to adjusted budget - The setting of grant payment amounts for the next funding period based on a new, agreed, adjusted budget for period beginning 1 October 2020 			

		<ul style="list-style-type: none"> - Agree a position on funding to build back up prudent level of reserves - Agree Crossrail overrun funding - Agree review points for new funding arrangement - Agree position on capital investment for the next period as appropriate 			
	Open Book	DfT to state what they would like to see. TfL can share periodic management accounts and information provided to Exco.			
	Cash reserves to be used	TfL propose TfL use cash reserves down to min working capital threshold of £1.2bn.	Written submission	Information to support minimum cash position to be provided by TfL	Wednesday 22 nd
	Assumptions about future cash reserves	None for short term arrangement. But TfL propose further funding arrangement will need to consider TfL building back up to prudent level of reserves	Not for immediate discussions		
(2) Revenue & service levels	Reference Demand scenario for adjusted budget	To be discussed – assumptions to be discussed and agreed	Tuesday PM		
	Restart of Services/Service Levels	<p>We will agree to run as full a service as possible, within the constraints of absence.</p> <p>Discussion on service levels to be progressed with the aim, at present, of agreeing a reasonable scenario absent central Government guidance.</p> <p>TfL to make clear impacts on demand (and link to reference demand scenario above) and ability to run services of social distancing measures</p>			
	Involvement in planning for relaxation of	To be discussed			

	Government measures				
(3) Capital investment	Planned Investment Projects	Process for deciding restart of planned investment projects needs to be discussed and agreed as part of the adjusted budget – TfL expect that, where appropriate, planned investment projects should be resumed to support the recovery.	Wednesday AM		
	New Investment Projects	TfL agree no new investment projects for the period of the short-term arrangement. Critical unplanned safety work etc can still be progressed without recourse to Govt.			
(4) Furloughing of TfL staff	Job Retention Scheme	TfL will implement use of Job Retention Scheme where possible.	Wednesday PM		
(5) Adjusted Budget	Reference Adjusted Budget and associated cost mitigation assumptions	To be discussed – being modelled	Thursday AM		
	Balance sheet impact and accounting considerations	To be discussed – balance sheet reserves constraints to be detailed			
	GLA Grant levels	TfL to provide information on expected levels of GLA grant – should be relatively well understood			
	Other revenues	<ul style="list-style-type: none"> - Assumptions about CC and ULEZ restart - Assumptions about whether rent relief continued to be offered - Assumptions to reflect reduction in consultancy income due to lockdown persisting 			
	Fares and other Revenues	No assumptions about fares policy in the short-term arrangement	Written submission	TfL to provide narrative on why it is appropriate to hold	Wednesday 22 nd

	General liquidity market access	To be discussed	Thursday AM (see Adjusted Budget above)		
	Planned Borrowing	To be discussed			

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 21 April 2020 17:42
To: David Bellamy; Heidi Alexander; Mike Brown; Carter Howard; [REDACTED]@tfl.gov.uk
Cc: [REDACTED]@tfl.gov.uk; Lucas Emma; Tim Steer; King Antony (Div Finance Director MPD)
Subject: FW: DfT COVID negotiations - daily update
Attachments: image001.jpg

All

Please see today's update below. We have provided DfT with a comprehensive framework for the funding negotiations.

DfT cancelled today's meeting so that they could prepare properly to engage meaningfully from tomorrow.

DfT now also have the same lead person, Clare Gibbs, leading on both the funding discussions and the operational discussions with Andy Lord – this is a good thing.

Thanks

Simon

From: Payne Jennifer
Sent: 21 April 2020 17:36
To: +Funding and Financing <FundingandFinancing@tfl.gov.uk>
Subject: DfT COVID negotiations - daily update

All

Please see below the progress note for today.

Tuesday 21th April

TODAY'S PROGRESS	<ul style="list-style-type: none"><input type="checkbox"/> DfT are reviewing the TfL proposed timeframe and are keen to start negotiations<input type="checkbox"/> They have recognised that, before the detailed discussions can start, they need to have a clear position on the topics and information required, which would allow the DfT to gain approvals<input type="checkbox"/> Additionally, the DfT have been responding to team changes<input type="checkbox"/> Therefore, they requested that the TfL proposed calls were delayed for today, whilst they pull together a detailed response to our proposed programme<input type="checkbox"/> There is a call tomorrow morning to agree the programme and both sides are keen to begin the discussions, with placeholders agreed for 11am and 3pm.<input type="checkbox"/> TfL has been progressing with updating the information, including the updated budget and materials for the revenue and service level discussion, which will aide meaningful discussions from tomorrow
ACTIONS	Response to the proposed timetable circulated last night (DfT)
TOMORROW'S SESSIONS (TBC with DfT)	To be agreed with the department before 9am. Likely to be two sessions, one of which to include revenue and service levels.

Kind Regards

Jenny Payne

Corporate Finance Senior Manager

Phone: 020 3054 [REDACTED] (auto [REDACTED]) | Mobile: [REDACTED]



**TRANSPORT
FOR LONDON**
EVERY JOURNEY MATTERS

11Y1, Palestra, 197 Blackfriars Road, London SE1 8NJ | Email: JenniferPayne@tfl.gov.uk

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 23 April 2020 18:20
To: David Bellamy; Heidi Alexander; Mike Brown; [REDACTED]@tfl.gov.uk; Carter Howard
Cc: [REDACTED]@tfl.gov.uk; Lucas Emma; Tim Steer
Subject: FW: DfT/TfL COVID-19 Funding
Attachments: image001.jpg

FYI

From: Payne Jennifer
Sent: 23 April 2020 18:05
To: +Funding and Financing <FundingandFinancing@tfl.gov.uk>; Gasson Sarah <[REDACTED]@tfl.gov.uk>
Subject: DfT/TfL COVID-19 Funding
All
Please see below the progress note for today.

THURSDAY 23RD APRIL

TODAY'S PROGRESS	<ul style="list-style-type: none"><input type="checkbox"/> TfL have made good progress on developing the two detailed pieces of information requested by the DfT;<ul style="list-style-type: none">○ The written responses to the DfT's comments and queries, which will be sent imminently; and the○ The Emergency Budget, which we intend to provide on Friday<input type="checkbox"/> Both sides are preparing for key negotiations sessions early next week, once the DfT has received and digested the information from TfL<input type="checkbox"/> TfL confirmed the budgeting process, which will include the;<ul style="list-style-type: none">○ Emergency Budget: focused on the next 6 months, used to determine the funding package with the DfT. This is a top-down approach based on the best information we have at the moment; and○ Adjusted Budget: which will go for TfL Board approval in July. This will be a more detailed exercise, including updated assumptions on our response to COVID-19 and will look beyond the crisis period
INVESTMENT PROGRAMME SESSION WITH TIM KEOUGH (MPD), LAURA MCNEIL (LU) & OLIVER GEARING (SURFACE)	<ul style="list-style-type: none"><input type="checkbox"/> Tony King, alongside business area representatives presented on the investment programme<input type="checkbox"/> The session was intended to provide background on the status, cycle, spend and those with third party funding/finance<input type="checkbox"/> The presentation highlighted how we intend to assess projects going forward<input type="checkbox"/> The DfT commented on a necessity to show that TfL has exhausted all reasonable options of making changes to the investment programme before seeking Government support<input type="checkbox"/> TfL remarked that the Emergency Budget seeks to defer expenditure beyond the crisis period, with any more substantial changes to be accounted for in the Adjusted Budget
ACTIONS	<ul style="list-style-type: none"><input type="checkbox"/> Organise a revenue scenario session with analytics at the DfT to agree the assumptions (DfT)<input type="checkbox"/> Written response/evidence to queries set out by the DfT (TfL – immediate)<input type="checkbox"/> Discussion note of the mechanics of the support (TfL – Fri likely PM)<input type="checkbox"/> Balanced budget to DfT (TfL - Fri PM) – plan for internal review Friday morning

**TOMORROW'S
SESSIONS**

Given the extent of information that TfL are preparing, we are likely to hold only one check-in call tomorrow.

We offered the DfT the option of a 3pm call, noting that they may need more time to consider our responses to their queries – but they were not keen. Both sides agreed intensive discussions on Monday and Tuesday were likely.

Jenny Payne

Corporate Finance Senior Manager

Phone: 020 3054 [REDACTED] (auto [REDACTED] | Mobile: [REDACTED])



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11Y1, Palestra, 197 Blackfriars Road, London SE1 8NJ | Email: JenniferPayne@tfl.gov.uk

Jenny Payne

Corporate Finance Senior Manager

[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 25 April 2020 17:52
To: Heidi Alexander
Cc: Mike Brown; [REDACTED]@tfl.gov.uk; Tim Steer; Lucas Emma
Subject: RE: Discussion with Government on financial support
Attachments: TfLs Emergency Budget 2020 21 270420.pdf

Heidi

Please see attached. I can call you to discuss up to 6.30pm tonight, or in the morning.

In addition, we will draft a note covering some of the main assumptions which I will send you tomorrow.

Thanks

Simon

From: Heidi Alexander <[REDACTED]@london.gov.uk>
Sent: 25 April 2020 16:59
To: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Cc: Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>; Gasson Sarah <[REDACTED]@tfl.gov.uk>; Steer Tim <[REDACTED]@london.gov.uk>
Subject: Discussion with Government on financial support
Simon

I've been thinking about the discussions with Government on finances and I'm aware from Mike of the broad sums we estimate we need from Government in both the period to the end of September and the 6 months thereafter. It strikes that to have arrived at such a figure you have probably made some assumptions about in year revenue savings, capital deferrals (you mentioned road renewals a few days ago but I'm sure that is not the totality of it). I know there are some intensive discussions planned with Government on Monday and Tuesday and would like to understand what we are proposing – ie the detail of any movement from the budget we agreed in March.

[REDACTED]

Happy to talk on the phone at any point. I know we have our usual meeting on Monday but as these discussions will be happening on Monday morning, thought I should drop you this email now.

Thanks

Heidi

Heidi Alexander

Deputy Mayor for Transport

NHS health information and advice about coronavirus can be found at [nhs.uk/coronavirus](https://www.nhs.uk/coronavirus)



Coronavirus Update

TfL's Emergency Budget 2020/21

27 April 2020

Draft and TfL restricted



Introduction

This pack sets out our financial position as a result of the Covid 19 virus and the steps we are taking to manage the financial & operational impacts on TfL

- **We are actively discouraging all travel.** Tube and rail journeys are now down 95%. Bus journeys are down 85%. We are continuing to take actions to drive this lower in line with government direction...tube traffic reduction is now one of the **highest of any city globally**
- **We are already seeing the financial impacts:** Period 13, 2019/20 passenger revenue was £180m behind Budget; cash is down from £2.1bn at 31 March 2020 to £1.6bn. **Cash expected to reduce to £1.4bn by end of Period 1, 2020/21 without mitigations**
- **We have stopped most capital projects**, bringing all non-critical projects to a safe stop in March 2020
- **We have started to furlough staff**, with 7,000 staff (more than 25% of our workforce) furloughed for an initial 3-week from Monday 27 April, saving £15m per period
- **Modelled revenue scenarios based on external modelling of the impact on the UK, ranging from £1.4bn to £3.5bn passenger revenue reduction by the end of 2020/21 – more than £4bn by the end of the 2021/22 – based on expected passenger demand volumes.**

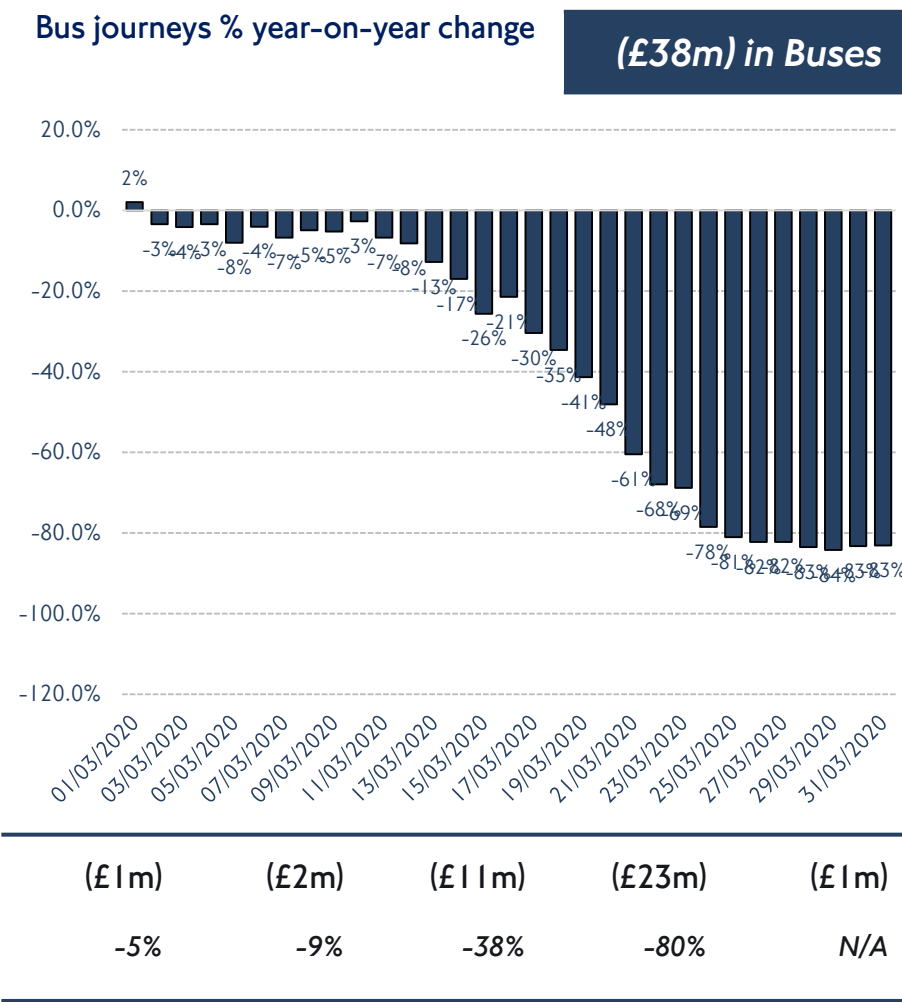
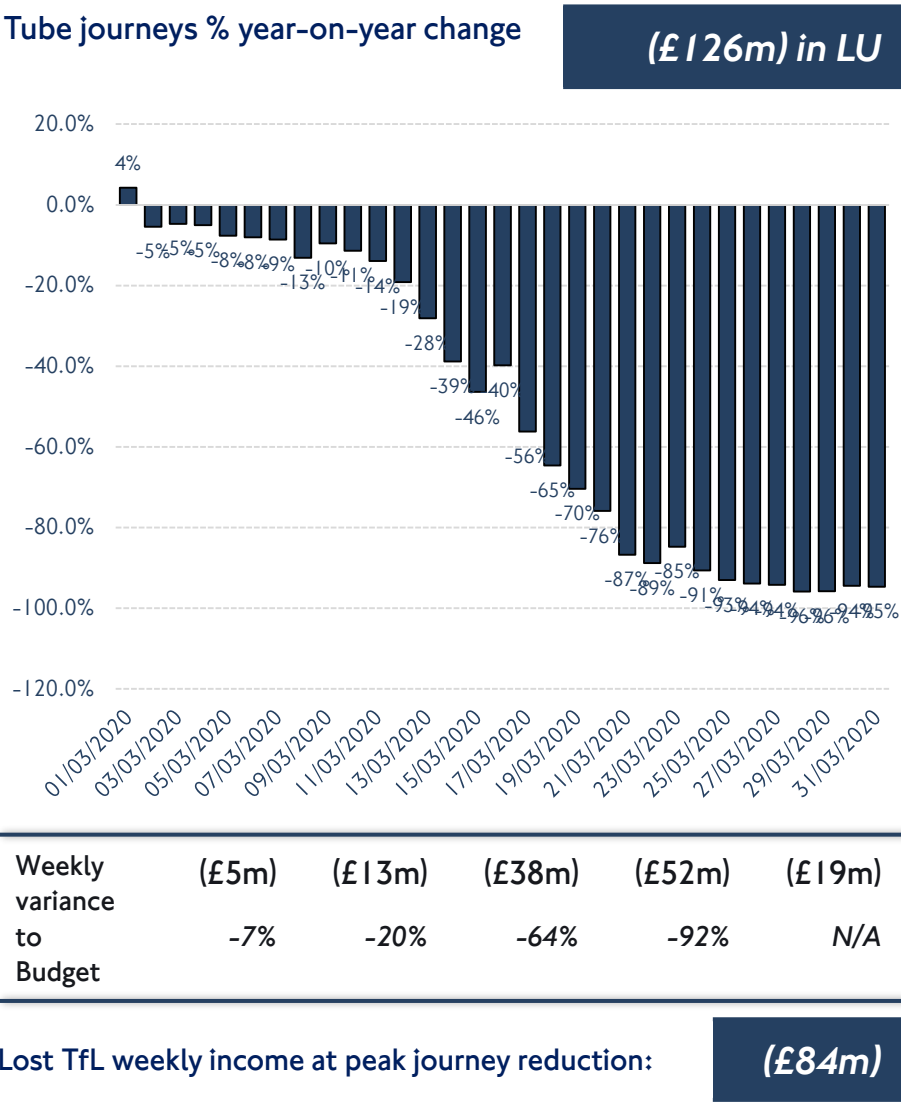
Section 1

What have we seen to the end of 2019/20

We have seen huge journey reductions at the end of 2019/20

Tube journeys down over 95%; bus journeys just over 85%

We lost over £80m in revenue per week at the peak, with these trends continuing to today



We have already seen significant reductions in income

Period 13 of 2019/20 saw the initial impacts from government lockdown and social distancing – material impacts began from 16 March, ramping up to year end

Total impact on operating account	(£220m)
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Passenger income

Total passenger income impact	(£183m)
LU: journeys 61 million (50%) lower than revised Budget	(£126m)
Buses: journeys 67 million (35%) lower than revised Budget	(£38m)
Rail: journeys 10 million (32%) lower than revised Budget	(£15m)
EL: journeys 3 million (48%) lower than revised Budget	(£4m)

Total other operating income impact	(£8m)
CC/ ULEZ income	(£8m)

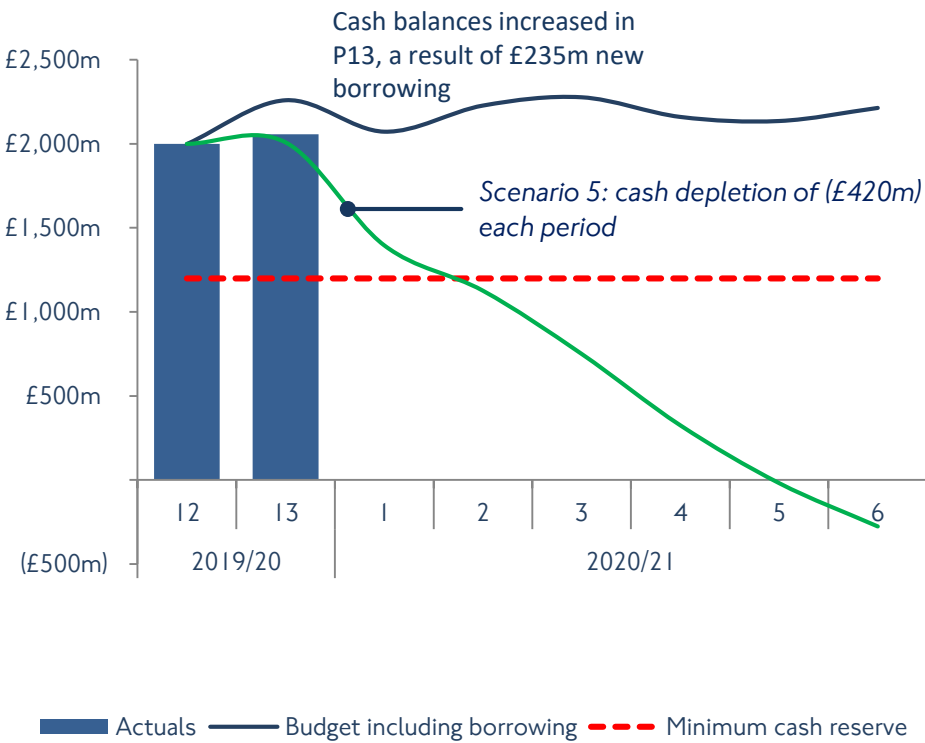
No impact on commercial and advertising income in Period 13; expect impact from Period 1, 2020/21

Operating costs

Total operating cost impact	(£28m)
Direct operating cost impacts	(£9m)
Streets bad debt provision (£7m)	
Bus network (£1m)	
Central items (£1m)	
Safe stop costs	(£19m)
LU (£5m)	
Surface Transport (£10m)	
MPD (£4m)	

Cash

Cash balances as of 31/03/2020	£2,056m
Variance to forecast	(£204m)
Variance to Scenario 5 – gradual return over 6 months	£48m



Section 2

2020/21

Emergency Budget

Central assumptions of TfLs Emergency Budget

- Revenue: based on a 6 month crisis period followed by muted recovery beyond that (see next slide)
- Staffing:
 - we are furloughing over 7,000 staff for a 2 month period in line with current government guidance. If the government guidelines are extended we will implement accordingly.
 - Furloughing savings are approximately £15m per period. Salary will be topped up to 100% to avoid lengthy consultation periods and TU negotiations
 - we are also releasing around 770 temporary resource
- Service levels and ramp up:
 - current assumption in buses is that normal operational activity is not resumed until H2. If we are required to resume activities earlier we will incur additional costs, which we are holding centrally
 - We may incur additional ramp up costs eg communication campaigns to manage demand, additional resource, temporary barriers (at the time of the Olympics these costs amounted to £30m) related to restarting services which are also being held centrally
- [REDACTED]
- [REDACTED]
- Working capital assumptions have not been changed from the original budget. We may see some changes in working capital over this period which will be picked up in the periodic reviews
- We have assumed no additional borrowing during the period of the emergency budget

Confidential, draft and with no formal status. This is emergency planning work whose release may unduly spread confusion or be prejudicial to TfL

Passenger income scenarios

We have modelled a number of scenarios on the basis of Imperial College's COVID-19 modelling, all of which have a severe impact on our revenues.

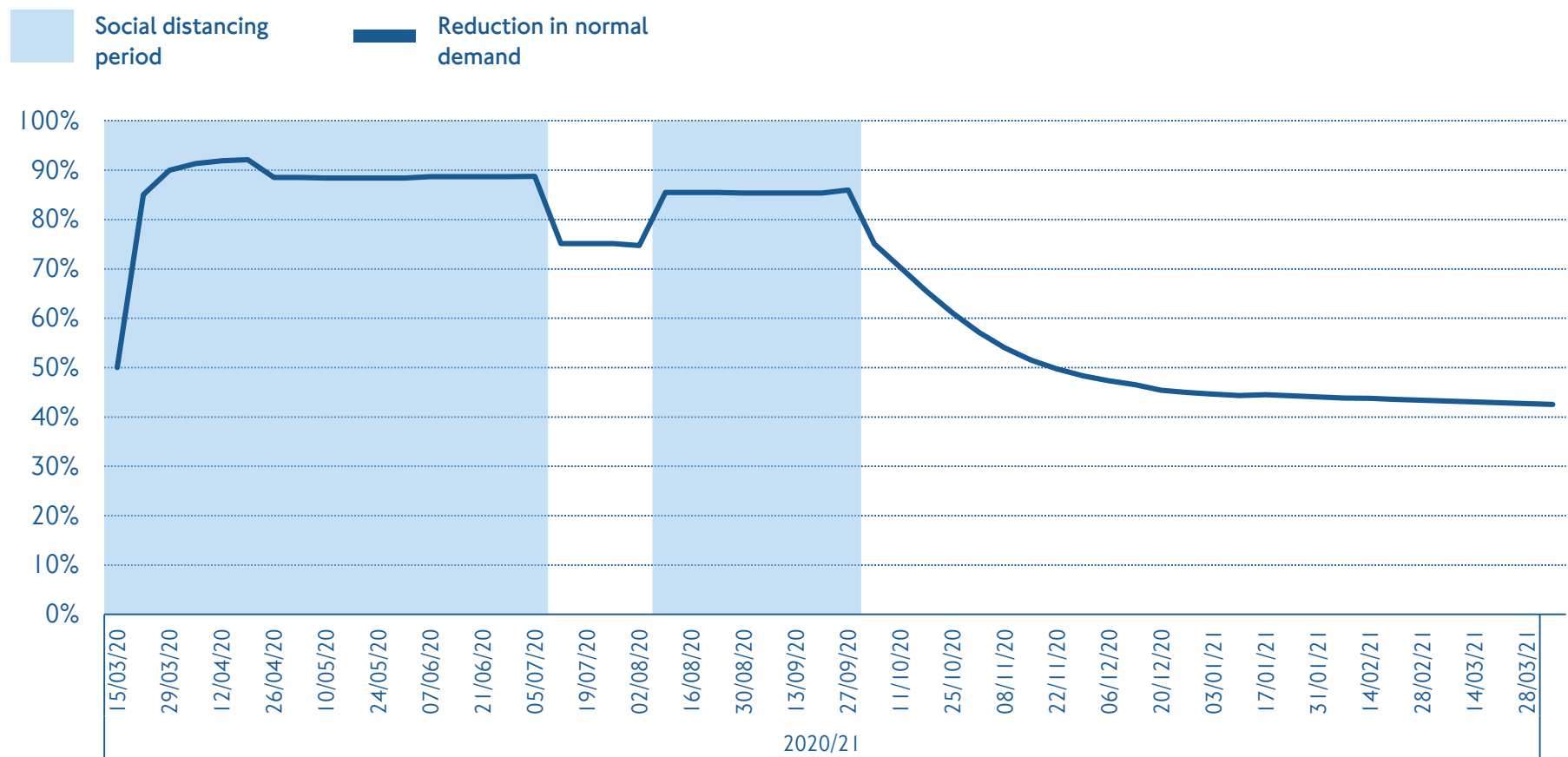
The emerging scenario is two periods of lockdown during a six month crisis



6 month crisis & 55% demand gradual return

Based on current Government messaging of six months before UK 'returns to normal'. Initial peak of three months is followed by relaxation of measures and then a second peak. Only 55% of demand returns six months after the end of social distancing. Assumes strict government enforcement of travel restrictions during social distancing.

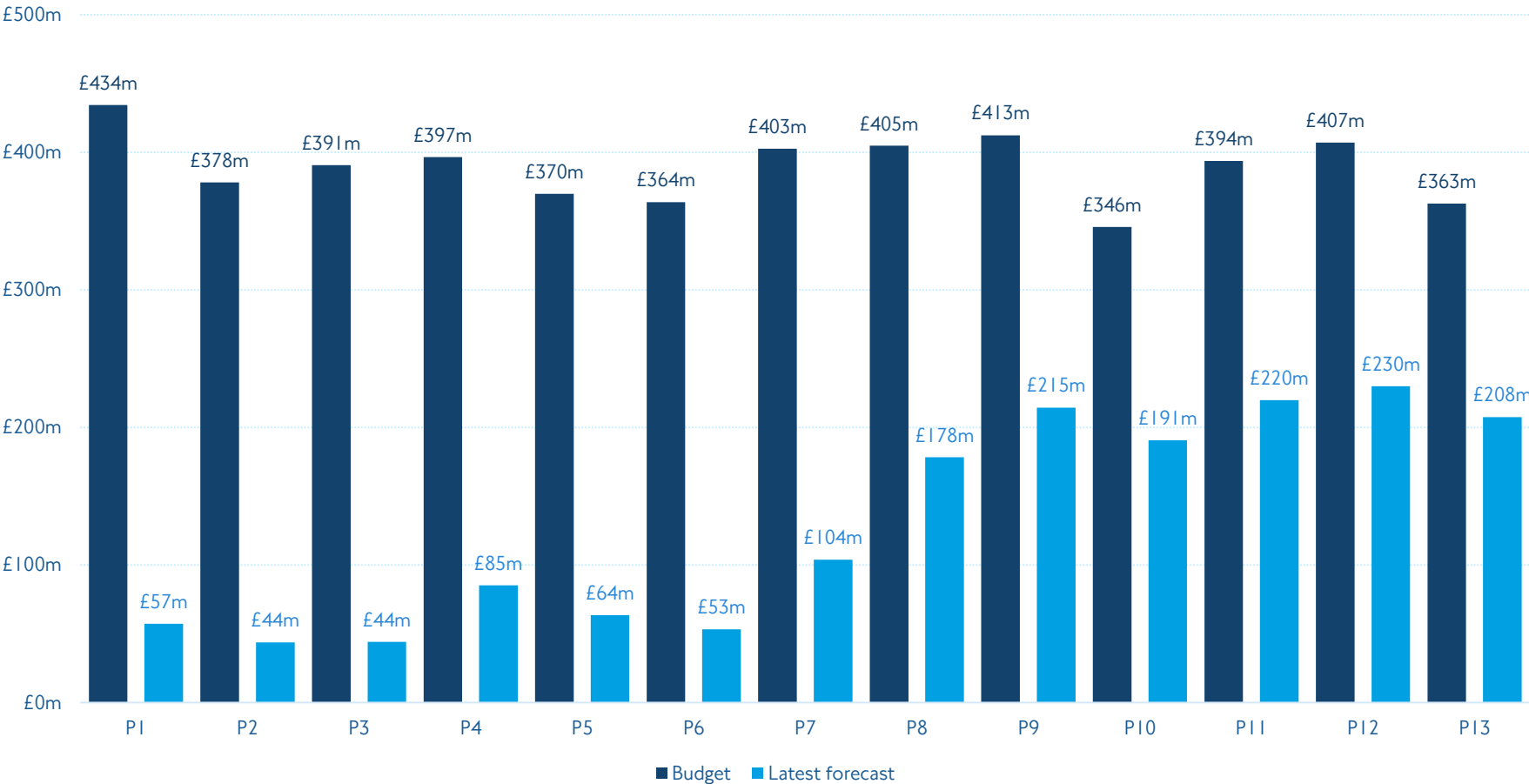
Passenger Revenue
2019/20: £0.2bn
2020/21: £3.5bn
Total: £3.7bn



Passenger income

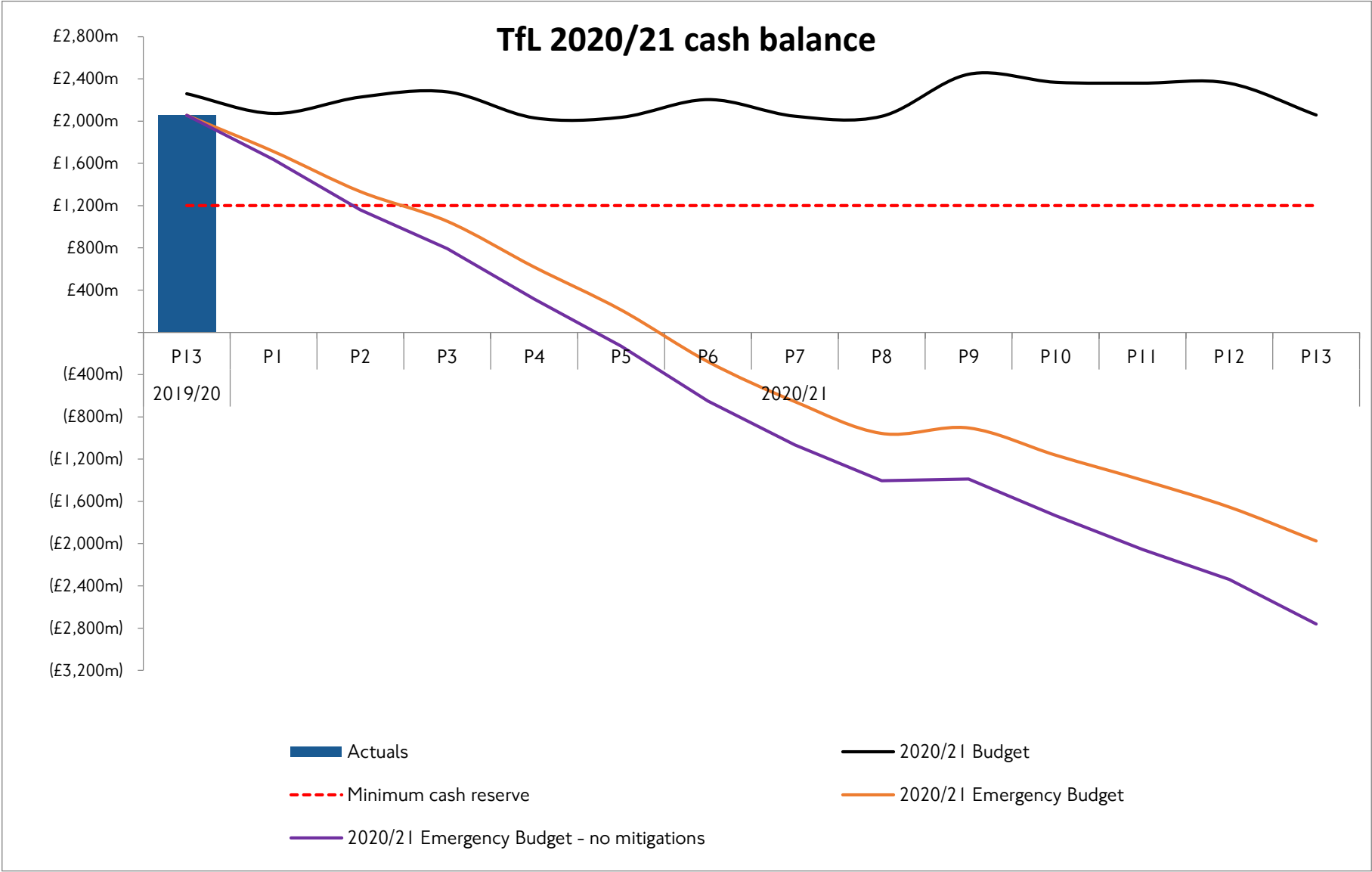
We are expecting a significant decrease in customer demand resulting in a estimated £3.5bn of lost revenue:

- (£2.4bn) in H1
- a further (£1.1bn) in H2



The impact on our cash balance is severe

Without support:
By Period 3, we will breach our minimum cash threshold
By Period 6 we will run out of cash altogether



Our Usable reserves are exhausted without Grant funding and are forecast to be £2.1bn negative by the end of 20/21

Forecast Reserves Position – Full Year

Reserves (£m)	2019/20 Actual	2019/20 Q3F	Variance to Q3F	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%
Usable reserves	1,767	2,065	(298)	-14%	(2,181)	1,946	(4,127)	-212%
Unusable reserves	24,241	24,230	11	0%	24,826	24,717	109	0%
Total reserves	26,008	26,295	(287)	-1%	22,645	26,663	(4,018)	-15%

- Our useable reserves broadly mirrors cash reserves balance and therefore both balances would move equally with additional grant funding
- Per the original business plan our reserves under normal trading conditions were forecast to fall by a further £0.5bn in 2021/22 due to additional financing costs (Crossrail) and Elizabeth line start-up costs



London Underground

- A budgeted operating surplus of £1bn becomes a £1.1bn deficit in 2020/21 following the revenue collapse (see next slide for bridge on operating costs)

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	2,729	207	1,580	(1,373)	-87%	903	2,932	(2,028)	-69%	(1,826)	-67%
Other operating income	33	10	10	0	0%	18	18	0	0%	(16)	-47%
Total operating income	2,763	217	1,590	(1,373)	-86%	921	2,949	(2,028)	-69%	(1,842)	-67%
Operating cost	(1,944)	(1,086)	(1,064)	(21)	2%	(2,041)	(1,977)	(64)	3%	(97)	5%
Core costs	(1,951)	(1,058)	(1,044)	(14)	1%	(1,968)	(1,944)	(24)	1%	(17)	1%
Project costs	(32)	(8)	(8)	0	0%	(14)	(14)	0	0%	18	-57%
Exceptional costs	38	(20)	0	(20)	0%	(59)	(19)	(40)	211%	(97)	-253%
Direct operating surplus	819	(869)	526	(1,395)	-265%	(1,120)	972	(2,092)	-215%	(1,939)	-237%
Indirect net operating cost	(353)	(240)	(240)	0	0%	(445)	(445)	0	0%	(92)	26%
Net operating surplus before financing and renewals	466	(1,109)	286	(1,395)	-488%	(1,565)	527	(2,092)	-397%	(2,031)	-436%
Net financing costs	(293)	(159)	(159)	0	0%	(296)	(296)	0	0%	(3)	1%
Capital renewals	(311)	(43)	(181)	138	-76%	(137)	(317)	180	-57%	174	-56%
Net surplus/(cost) of operations	(138)	(1,311)	(54)	(1,256)	2323%	(1,998)	(86)	(1,912)	2223%	(1,860)	1348%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(71)	(7)	(35)	28	-80%	(35)	(58)	23	-40%	36	-51%

- The original budget is based on 100% operation of working timetables. Reduced services, on average 15 tph are currently operating across the network given the significantly lower levels of demand.
- The emergency budget assumes these temporary timetables operate until June with additional trains on certain lines to manage demand as lockdown restrictions are reduced.
- From July it is assumed that full services will need to operate to manage increasing demand whilst operating Social Distancing.



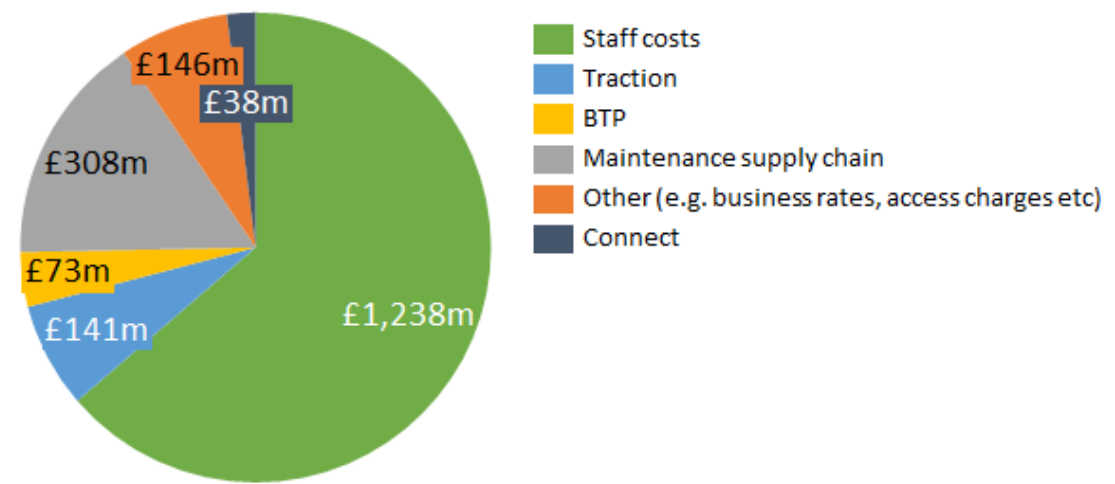
London Underground – Operating cost assumptions (full year)

Cost	Assumption	Impact
20/21 Budgeted operating costs		(£1,977m)
Staff costs - furloughing	c.4,200 FTEs furloughed from P2-P3. 100% salary/benefits paid for those furloughed. No furloughing assumed from end of June onwards	£23m
Traction	Variable element reduced in line with service levels (15tph - 50% of original budgeted service assumed for P1-P3) . Full service assumed for rest of year from P4	£12m
Asset Ops supply chain	Major contract review with variable elements assumed to be reduced to varying degrees for P2-P3	£10m
Consultancy costs	50% reduction assumed	£10m
BAU cost savings		£56m
Opex to capex project recharging	Estimation of internal staff costs that would no longer be recharged out of opex due to the reduction project works	(£80m)
Exceptional cost: Social Distancing	Includes external labour costs for crowd management and barriers	(£40m)
20/21 Emergency Budget operating costs		(£2,041m)

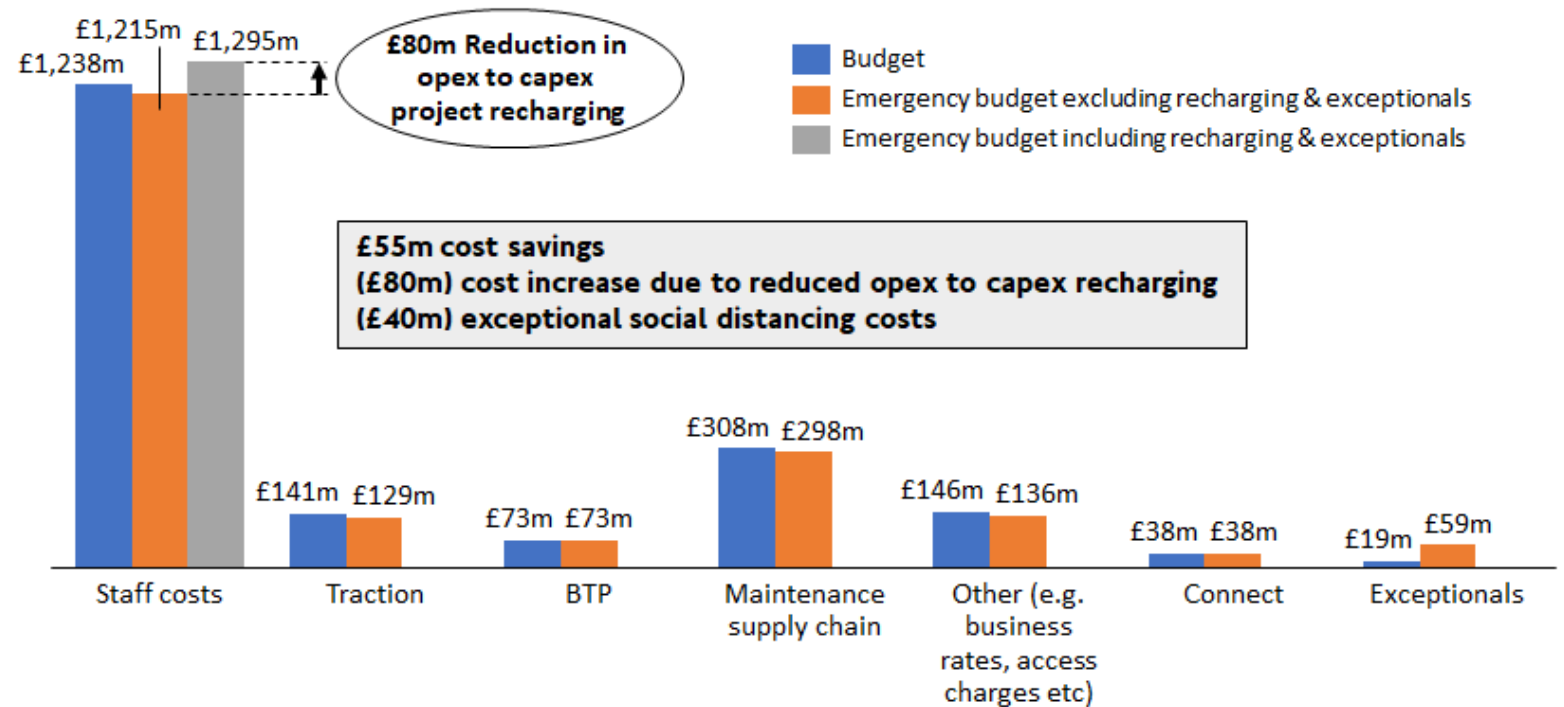


London Underground cost base and savings (full year)

£1,944m budgeted core costs

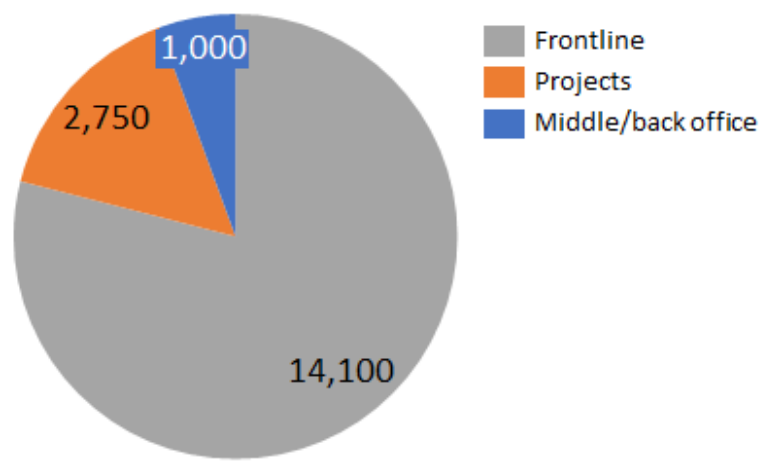


Emergency budget operating cost changes

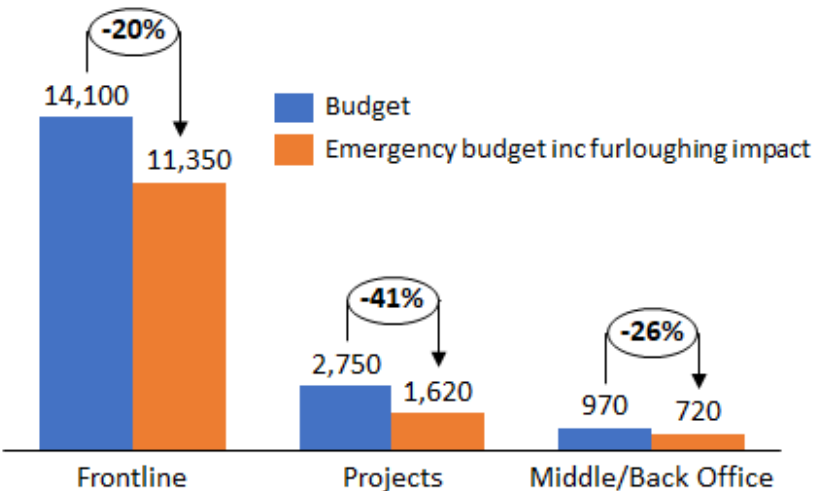


London Underground staff costs & FTEs (full year)

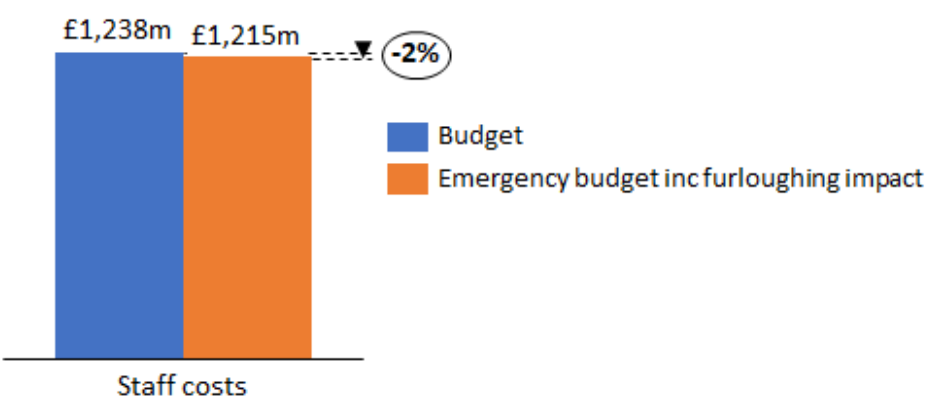
c.18,000 Budget FTEs



c.4,200 FTEs furloughed in Emergency Budget



Two periods of furloughing c.4,200 FTEs equates to a 2% saving on our full year staff costs



40% of costs associated with furloughed FTEs still incurred by TfL

	Full year average staff costs	2 periods average staff costs	2 periods furlough rebate	% furlough rebate
Front line	(58,900)	(9,062)	(5,218)	58%
Projects	(56,603)	(8,708)	(5,391)	62%
Middle / back office	(56,086)	(8,629)	(5,235)	61%
Total	(58,435)	(8,990)	(5,249)	58%

London

Underground:
capex spend in H1
reduces by £166m
(76%)

2020/21 Budget: £377m

H1: £217m

Emergency Budget: £193m

H1: £51m

Risk to Opex

- Internal staff costs c£75m (to be partly mitigated by furloughing)
- Supplier penalties/restart costs estimated to be £35m to £50m (the Sensible Minimum option aims to mitigate these as far as possible)

We intend to reduce spend wherever possible while continuing to maintain safety. While 20/21 Capex will be reduced, the whole life costs of assets will increase.

Renewals	Reduction in spend – P1 to P7
Track – Reduction from £76m to £13m in P1 to P7	£63m
Fleet Heavy Overhauls – Reduction from £28m to £8m in P1 to P7	£20m
Fleet – Reduction from £30m to £10m in P1 to P7	£20m
Stations and buildings – Reduction from £18m to £3m in P1 to P7	£15m
Renewals – Reduction from £30m to £10m in P1 to P7	£20m
Investments	
Enhancements – Reduction from £10m to £2m in P1 to P7	£8m
Step-free Access (SFA) – Reduction from £19m to £3m in P1 to P7	£16m
Technology & Data – Reduction from £13m to £9m in P1 to P7	£4m
Total	£166m

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Rail (exc Elizabeth line)

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	414	38	236	(198)	-84%	146	441	(295)	-67%	(268)	-65%
Other operating income	22	5	5	0	0%	10	10	0	0%	(12)	-55%
Total operating income	437	44	241	(198)	-82%	156	451	(295)	-65%	(281)	-64%
Operating cost	(468)	(257)	(263)	7	-3%	(469)	(489)	19	-4%	(1)	0%
Core costs	(463)	(256)	(267)	11	-4%	(469)	(488)	19	-4%	(6)	1%
Project costs	(3)	(1)	(1)	0	0%	(1)	(1)	0	0%	2	-71%
Exceptional costs	(2)	0	0	0	0%	0	0	0	0%	2	-100%
Direct operating surplus	(31)	(213)	(22)	(191)	879%	(313)	(38)	(275)	724%	(282)	910%
Indirect net operating cost	(19)	(12)	(12)	0	0%	(22)	(22)	0	0%	(3)	16%
Net operating surplus before financing and renewals	(50)	(225)	(34)	(191)	569%	(335)	(60)	(275)	458%	(285)	570%
Net financing costs	(45)	(23)	(23)	0	0%	(43)	(43)	0	0%	2	-4%
Capital renewals	(37)	(24)	(20)	(4)	21%	(42)	(38)	(4)	11%	(5)	15%
Net surplus/(cost) of operations	(132)	(272)	(76)	(195)	256%	(420)	(141)	(279)	198%	(288)	218%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(44)	(3)	(25)	22	-89%	(3)	(41)	38	-93%	41	-93%

- Operating cost saving negotiated through contractors of £20m (FY).
- The operating costs assume current service levels until June (aligned to demand scenario). Any marginal increase in demand will require 100% service levels to maintain social distancing. A ramp up in mid-May would cost a further £5m (H1).
- For investment programme activity only Core activity impact is reflected in the table above. A further review of core activity has increased full year New Capital by £30m and reduced renewals projects by £11m - this update matches the Rail, Streets and Other summary slide (core activity)



Streets, Buses & Other Surface

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	1,436	68	806	(739)	-92%	395	1,480	(1,085)	-73%	(1,041)	-72%
Other operating income	581	308	308	0	0%	233	571	(337)	-59%	(348)	-60%
Total operating income	2,018	376	1,114	(739)	-66%	628	2,051	(1,423)	-69%	(1,390)	-69%
Operating cost	(2,879)	(1,511)	(1,529)	17	-1%	(2,595)	(2,839)	244	-9%	284	-10%
Core costs	(2,670)	(1,432)	(1,432)	0	0%	(2,552)	(2,674)	123	-5%	118	-4%
Project costs	(192)	(79)	(79)	0	0%	(42)	(164)	121	-74%	150	-78%
Exceptional costs	(17)	(1)	(1)	0	0%	(1)	(1)	0	0%	16	-95%
Direct operating surplus	(861)	(1,136)	(414)	(721)	174%	(1,967)	(788)	(1,179)	150%	(1,106)	128%
Indirect net operating cost	(142)	(86)	(86)	0	0%	(160)	(160)	0	0%	(18)	13%
Net operating surplus before financing and renewals	(1,003)	(1,222)	(501)	(721)	144%	(2,127)	(948)	(1,179)	124%	(1,124)	112%
Net financing costs	(30)	(16)	(16)	0	0%	(29)	(29)	0	0%	1	-3%
Capital renewals	(73)	(41)	(62)	22	-35%	(103)	(125)	22	-17%	(30)	41%
Net surplus/(cost) of operations	(1,106)	(1,278)	(579)	(700)	121%	(2,259)	(1,102)	(1,157)	105%	(1,153)	104%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(168)	(45)	(94)	49	-52%	(89)	(199)	110	-55%	79	-47%

- Income includes impact of middle door boarding. This assumes that it takes four months (from policy commencing) to install ticket readers on middle of the bus. Given current demand levels the income would have been £12m per period.
- Operating cost saving negotiated through contractors of £60m (FY), partly offset by £15m (FY) of additional cleaning costs. The includes 2300 bus drivers in furlough on 80% of salaries. Topping up these salaries would cost an additional £2-3m to end of June.
- The operating costs assume current service levels (circa 80% of normal timetable) until late June (aligned to demand scenario). Any marginal increase in demand will require 100% service levels to maintain social distancing. A ramp up in mid-May would cost a further £20m (HI).
- Congestion Charge, LEZ and ULEZ restored in early June. There is a three-week lead time between relaxation of restrictions and restarting services.
- Cost savings of £9m negotiated through suspension of the RUC schemes and further £15m of savings across streets through use of furlough and other operating cost savings (FY figures).
- For investment programme activity only Core activity impact is reflected in the table above. A further review of core activity has increased New Capital by £17m, Increase Renewals by £16m and reduced Projects costs by £4m - this update matches the Rail, Streets and Other summary slide (core activity)



Rail, Streets and Buses – Investment Programme

We have prioritised activities to support efforts in the COVID-19 crisis

Core activity <small>* Figures reflected in the emergency budget</small>	Six months £145m <small>£144m saving</small>	FY 20/21 £330m <small>£237m saving</small>	<ul style="list-style-type: none"> • Critical renewals and enhancements as per the exceptions list • TLRN, Rail and borough renewals to ramp up to full run-rate from August 2020. Design work to continue in the interim. • Under-utilisation of project staff due to lower levels of delivery than budgeted, and such costs will need to be written-off as exceptional costs.
Social distancing <small>** Figures NOT reflected in the emergency budget</small>	Six months £55m	FY 20/21 £65m	<ul style="list-style-type: none"> • Targeted pot of £45m for boroughs to support social distancing goals, in place of BAU LIPS • TLRN and Rail enhancement projects which support social distancing (e.g. ELL 18tph and CS9) • Funding for further TfL strategic projects (TBC Alex Williams)
Economy / regeneration <small>** Figures NOT reflected in the emergency budget</small>	Six months £5m	FY 20/21 £25m	<ul style="list-style-type: none"> • HIF and MRN bids, including ELL 20tph and funding for transformational schemes which support regeneration and growth (e.g. Fiveways Croydon)
Total Activity	Six months £205m <small>£84m saving</small>	FY 20/21 £420m <small>£147m saving</small>	

* Please note that only Core activity figures are included in the Emergency Budget account numbers at current

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Emergency Budget 2020/21

(£2.3bn) impact compared to our current Budget in H1 with an additional (£1.2bn) expected in H2

Operating account

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget to P7	2020/21 Budget to P7	Variance to Budget to P7	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%
Passenger income	4,751	349	2,736	(2,388)	-87%	1,540	5,063	(3,524)	-70%
Other operating income	1,018	231	523	(292)	-56%	520	1,006	(486)	-48%
Total operating income	5,769	579	3,259	(2,680)	-82%	2,060	6,069	(4,009)	-66%
Business Rates Retention	988	504	484	20	4%	969	969	(0)	0%
Other revenue grants	117	6	6	0	0%	17	17	0	0%
Total income	6,874	1,089	3,749	(2,660)	-71%	3,046	7,055	(4,009)	-57%
Operating cost	(6,410)	(3,325)	(3,490)	165	-5%	(6,363)	(6,626)	262	-4%
Core costs	(5,741)	(3,009)	(3,106)	97	-3%	(5,649)	(5,782)	133	-2%
Elizabeth line	(354)	(209)	(228)	19	-8%	(433)	(468)	35	-7%
Project costs	(280)	(44)	(110)	67	-60%	(93)	(221)	128	-58%
Exceptional costs	(36)	(64)	(46)	(18)	39%	(189)	(155)	(33)	21%
Net operating surplus	464	(2,236)	259	(2,495)	-963%	(3,317)	429	(3,746)	-873%
Net financing costs	(435)	(248)	(252)	4	-2%	(455)	(468)	13	-3%
Net surplus/(cost) of operations before renewals	29	(2,484)	7	(2,491)	-35308%	(3,772)	(39)	(3,733)	9572%
Capital renewals	(452)	(131)	(288)	157	-55%	(332)	(532)	201	-38%
Net surplus/(cost) of operations	(423)	(2,614)	(281)	(2,334)	831%	(4,104)	(571)	(3,533)	619%

What have we done to reduce costs?

We are planning gross opex savings of over £400m – these are partly offset in the short term by direct COVID-19 costs and capital staff cost add back

	<i>H1, 2020/21 Variance to Budget</i>	<i>H2, 2020/21 Variance to Budget</i>	<i>FY, 2020/21 Variance to Budget</i>
Core costs	97	36	133
Reduction in service levels (excl. EL below)	82	17	99
Increase in bus operating costs	(10)	(5)	(15)
Bad debt and other reduction in charges	46	26	72
Staff costs saved through furloughing	28	0	28
Headcount and other savings	29	18	48
Staff costs no longer capitalised following safe stop	(78)	(21)	(99)
Projects	67	61	128
Buses, Streets and other operations – core activities only	62	59	121
Other	5	2	7
Elizabeth line reduced operations	19	16	35
Exceptional costs	(18)	(15)	(33)
LU social distancing measures	(20)	(20)	(40)
Defer procurement transformation	5	5	10
Other	(3)	-	(3)
Net savings	£165m	£98m	£262m
Remove capitalisation and COVID-19 direct costs	£108m	£46m	£154m
Gross savings	£273m 8%	£144m 5%	£416m 6%



Our emergency Budget

£0.5bn of capital enhancement deferrals are offset by (£0.2bn) erosion in property receipts and asset sales

Planned incremental borrowing of £0.6bn no longer prudent in line with the Prudential Code and does not support a balanced Budget

Capital account (excl. Crossrail)

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget to P7	2020/21 Budget to P7	Variance to Budget to P7	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%
New Capital Investment	(1,081)	(388)	(632)	244	-39%	(808)	(1,333)	525	-39%
Total Capital Investment	(1,081)	(388)	(632)	244	-39%	(808)	(1,333)	525	-39%
Funded by:									
Business Rates Retention (capital)	893	473	455	18	4%	910	910	0	0%
Property receipts and asset sales	151	14	67	(53)	-79%	62	219	(158)	-72%
Borrowing (TfL)	544	0	320	(320)	-100%	0	603	(603)	-100%
Other capital grants	205	103	103	0	0%	123	123	0	0%
Total	1,793	590	945	(356)	-38%	1,095	1,856	(761)	-41%
Net capital account	712	202	313	(111)	-36%	287	523	(236)	-45%

Total Capital (£m)	2019/20 Actual	2020/21 Emergency Budget to P7	2020/21 Budget to P7	Variance to Budget to P7	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%
Renewals	(452)	(131)	(288)	157	-55%	(331)	(531)	201	-38%
New Capital Investment	(1,081)	(388)	(632)	244	-39%	(808)	(1,333)	525	-39%
Total Investment	(1,533)	(519)	(920)	402	-44%	(1,139)	(1,865)	726	-39%

Crossrail – no changes assumed

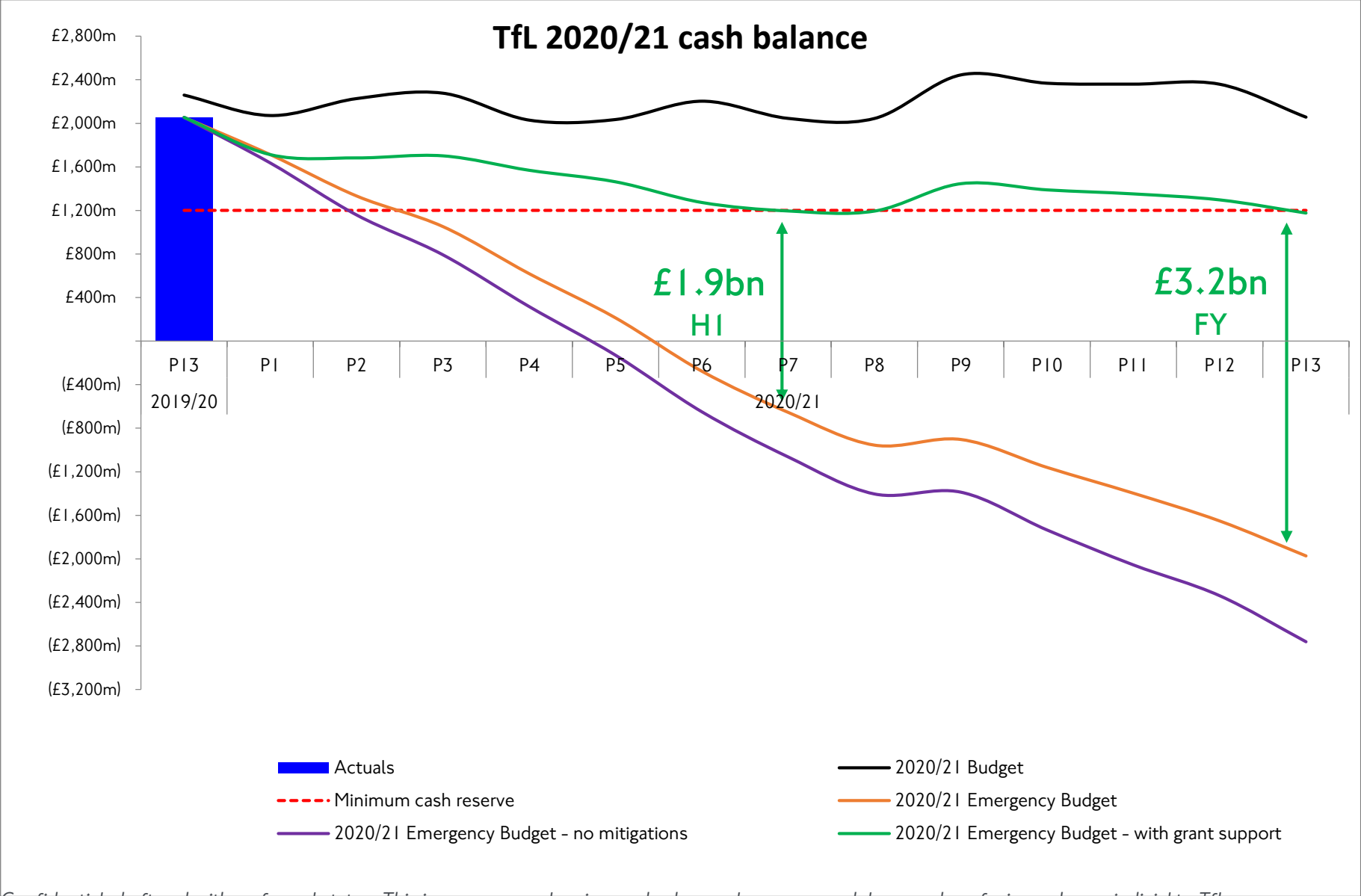
Capital Account (Crossrail) (£m)	2019/20 Actual	2020/21 Emergency Budget to P7	2020/21 Budget to P7	Variance to Budget to P7	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%
Crossrail	(1,027)	(423)	(423)	0	0%	(725)	(725)	0	0%
Total Capital Investment	(1,027)	(423)	(423)	0	0%	(725)	(725)	0	0%
Funded by:									
Borrowing (CR)	0	396	396	0	0%	730	730	0	0%
Crossrail funding sources	995	45	45	0	0%	48	48	0	0%
Total	995	441	441	0	0%	778	778	0	0%
Net Crossrail capital account	(32)	18	18	0	0%	53	53	0	0%

Confidential, draft and with no formal status. This is emergency planning work whose release may unduly spread confusion or be prejudicial to TfL



Conclusion: the funding gap is beyond TfL's ability to close and therefore the requirement for government grant funding

Revenue grant is the only option that will allow TfL to return to a balanced budget position and continue meeting its financial obligations in the short term



Confidential, draft and with no formal status. This is emergency planning work whose release may unduly spread confusion or be prejudicial to TfL

Why we cannot breach our £1.2bn minimum Cash Reserves

Business Planning modelling concluded that a £2.2bn reserve was appropriate in Q3 2019. This was based on risks that included economic, Brexit, Cross Rail, operational and liquidity. Pandemic risks were not considered at that time.

£1.2bn minimum cash reserves represents only two months' worth of operating costs ignores renewal spend. This was benchmarked a number of international peers.

After annual debt service it represents *one months'* supplier and payroll costs. This is a minimum requirement for liquidity. On a single day we can have cash outflows as high as £300m.

Cash Reserves are our only certain source of liquidity in the event of further distress, as envisaged in our business plan.



TfL are different to other public transport agencies who are wholly owned or guaranteed by the Government (and even they hold cash balances) and we have no shareholders to call upon.

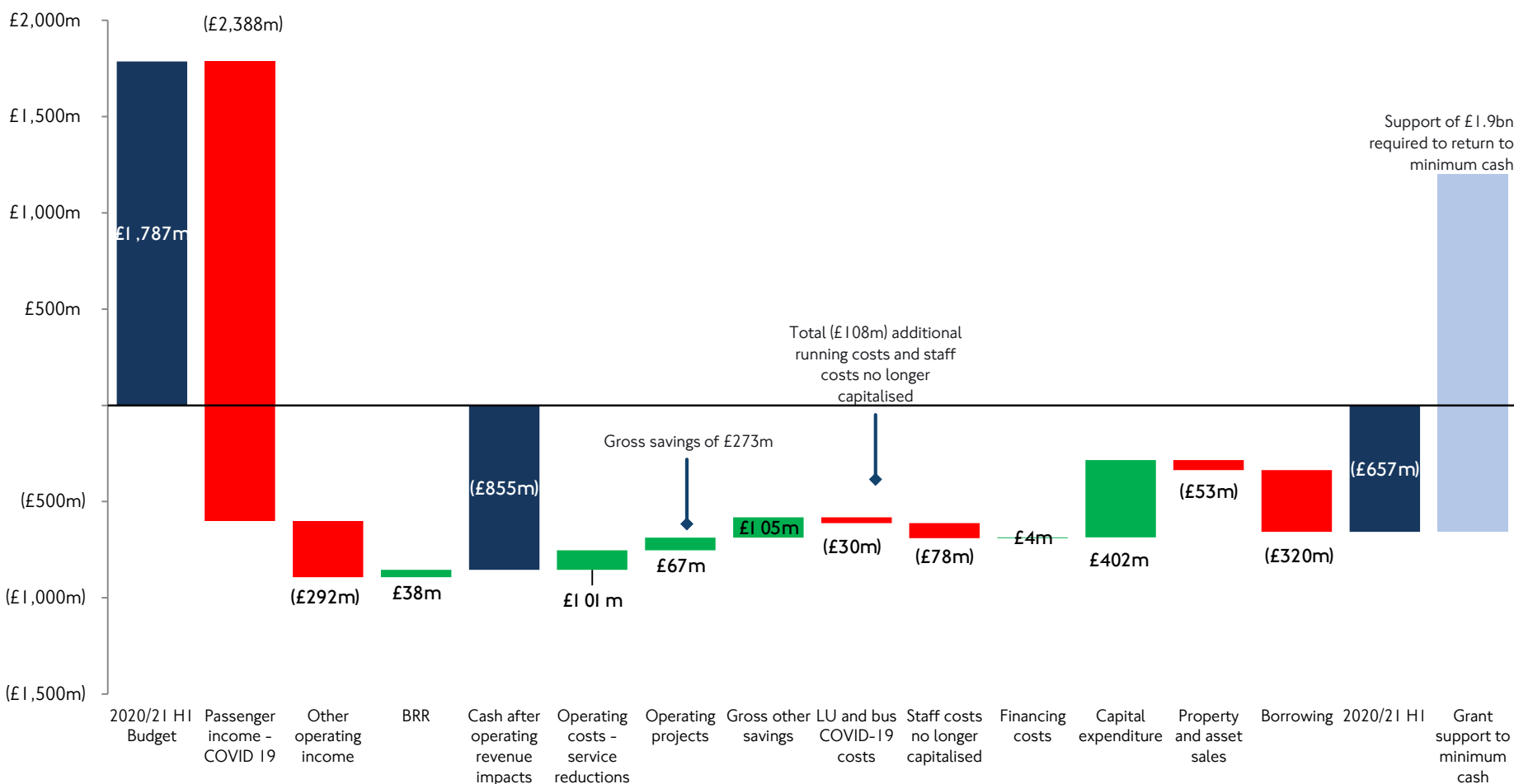
We would have no headroom for extensive and uncertain risks around COVID-19 as our initial government funding is for a period of only 6 months.



Cash bridge: H1 Budget to H1 Emergency Budget

Cash movements against 2020/21 Budget

H1 emergency position against 2020/21 Budget – total variance (£2,444m)



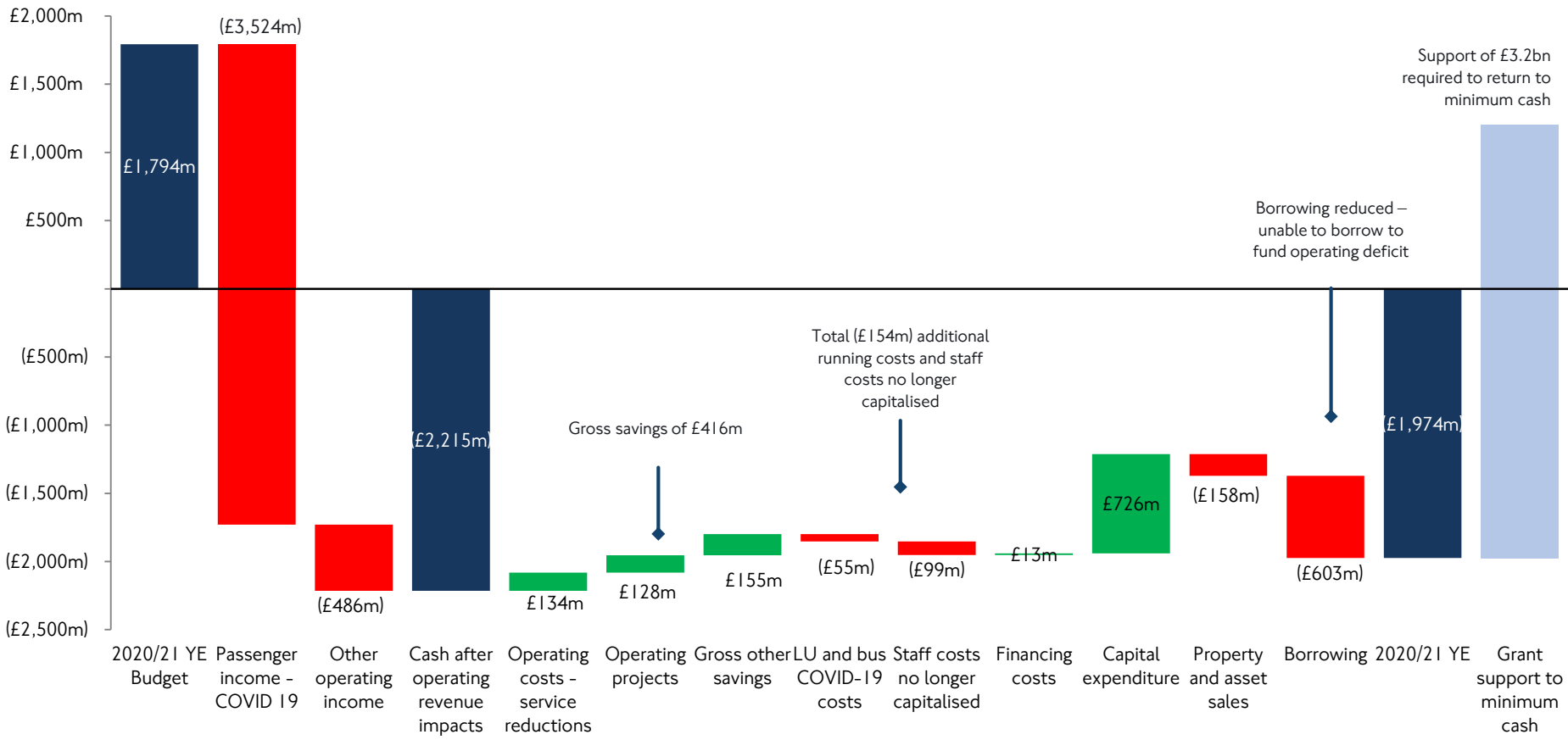
Budget position adjusted for 2019/20 YE balances

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Cash bridge: FY Budget to FY Emergency Budget

Cash movements against 2020/21 Budget

Full-year emergency position against 2020/21 Budget – total variance of (£3,768m)



Budget position adjusted for 2019/20 YE balances

Confidential, draft and with no formal status. This is emergency planning work whose release may unduly spread confusion or be prejudicial to TfL

With Proposed Grant Funding, Usable reserves are supported and although reduced by £1bn, remain positive at £0.9bn

Forecast Reserves Position – Full Year – With Grant Funding

Reserves (£m)	2019/20 Actual	2019/20 Q3F	Variance to Q3F	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%
Usable reserves pre grant funding	1,767	2,065	(298)	-14%	(2,181)	1,946	(4,127)	-212%
Grant funding	-	-	-	0%	3,150	-	3,150	0%
Usable reserves with grant funding	1,767	2,065	(298)	-14%	969	1,946	(977)	-50%
Unusable reserves	24,241	24,230	11	0%	24,826	24,717	109	0%
Total reserves	26,008	26,295	(287)	-1%	25,795	26,663	(868)	-3%

- Per the original business plan our reserves under normal trading conditions were forecast to fall by a further £0.5bn in 2021/22 due to additional financing costs (Crossrail) and Elizabeth line start-up costs
- Usable reserves will continue to need Grant support into 2021/2022 to ensure that we can maintain financial resilience and a balanced budget in the medium term

Further work & next steps

Further work required

As we have compiled this Emergency Budget in very short timescales there are a few areas we may need to refine:

- phasing of costs between months, which may also impact H1 / H2 split
- as we spend more time understanding the impacts in the different areas, we may uncover additional costs/ opportunities. We can feed these additional changes into the Q1 updated budget (see below)

Next steps

- we are looking to present an updated budget to the Board in July which will represent a more detailed 2-year view. This updated budget can be used for a more detailed review with the DfT
- We will work with DfT analysts to prepare the Q1 budget on a jointly agreed assumption around recovery and continued social distancing measures likely to be in place for the remainder of the year and into the following year



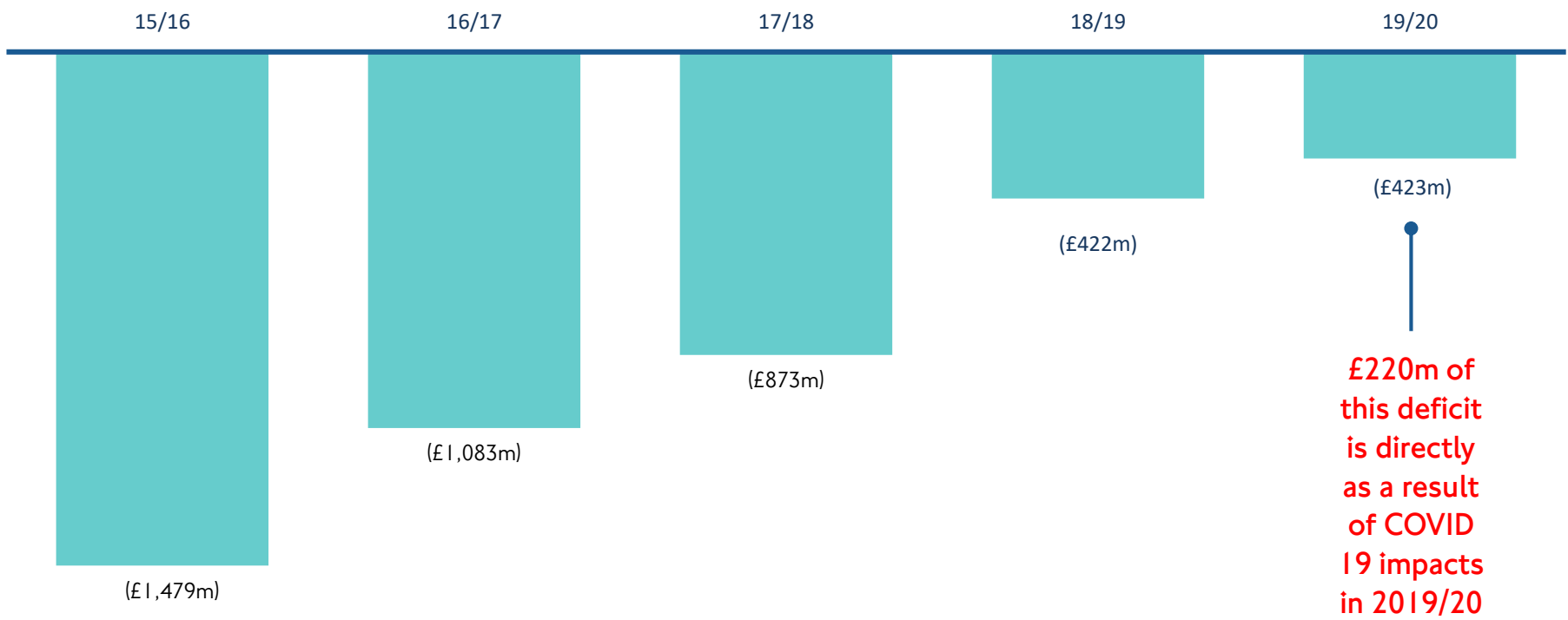
Section 3

Our cost base and savings to date



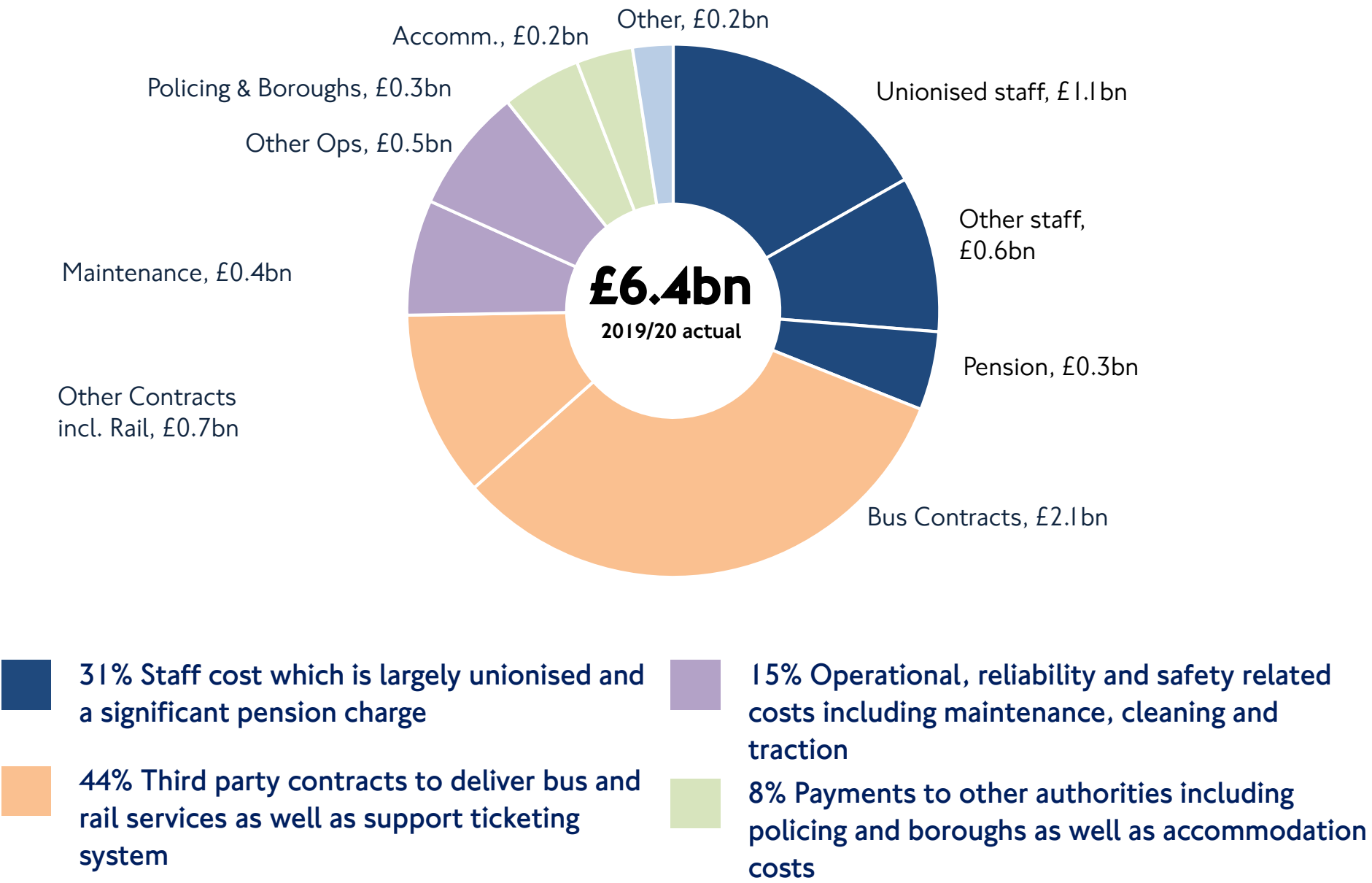
We have already taken significant steps to structurally improve our cost base

We have already reduced our operating costs since 2015/16
On a like-for-like basis, we have reduced our operating deficit by over £1bn



TfL operating cost base

Our operating costs are largely fixed with very limited scope for reductions in the short term

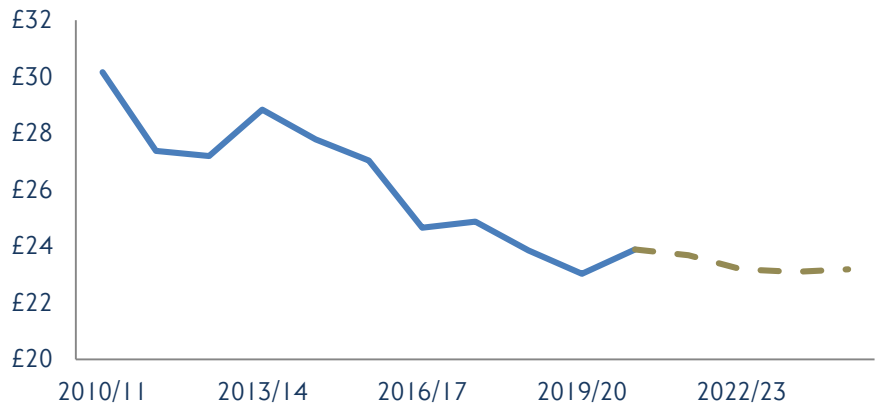


Savings and efficiencies to date

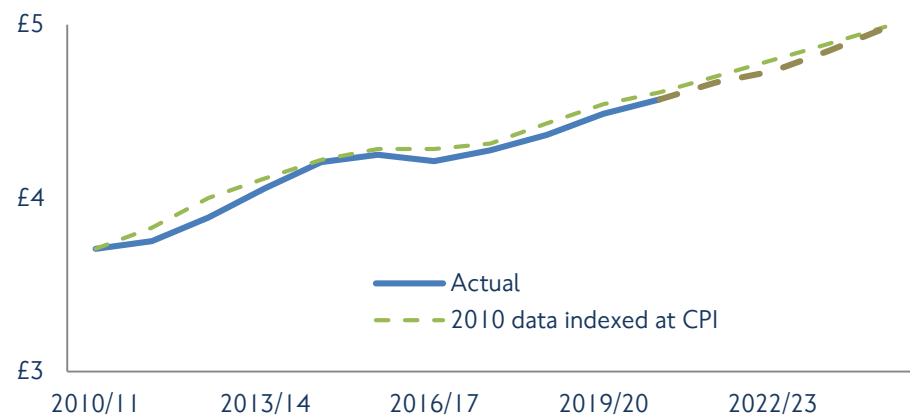
We have become a much more efficient organisation

Cost of running services

London Underground: cost per operated kilometre reduced 21% since 2010 (£)

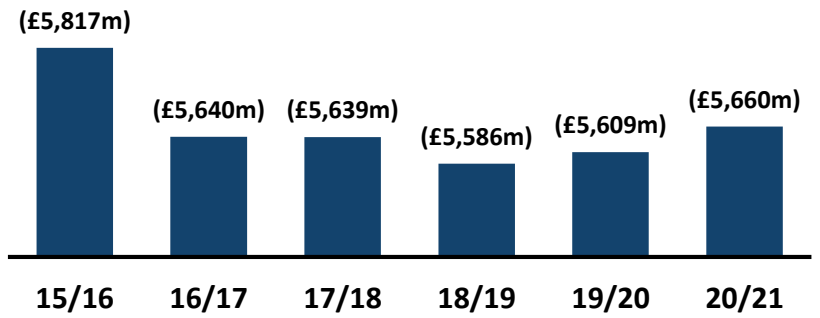


Buses: cost per operated kilometre +2.3% p.a. on average, improving safety, reliability and air quality without cost changes exceeding inflation (£)

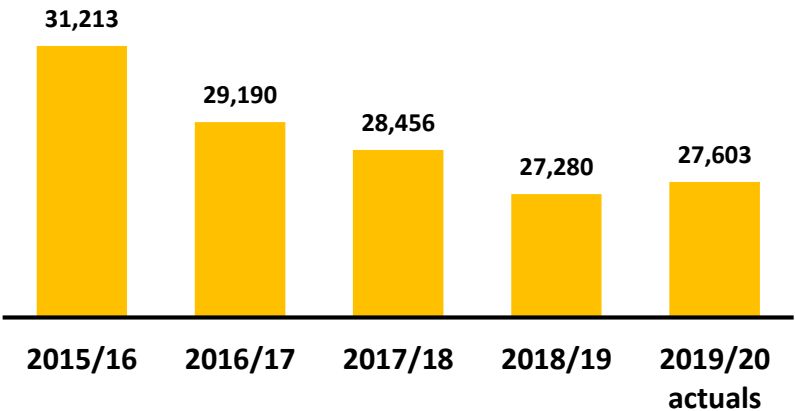


Size of our organisation

TfL’s operating costs (like-for-like basis, £m) are £200m lower today than when compared to 2015/16

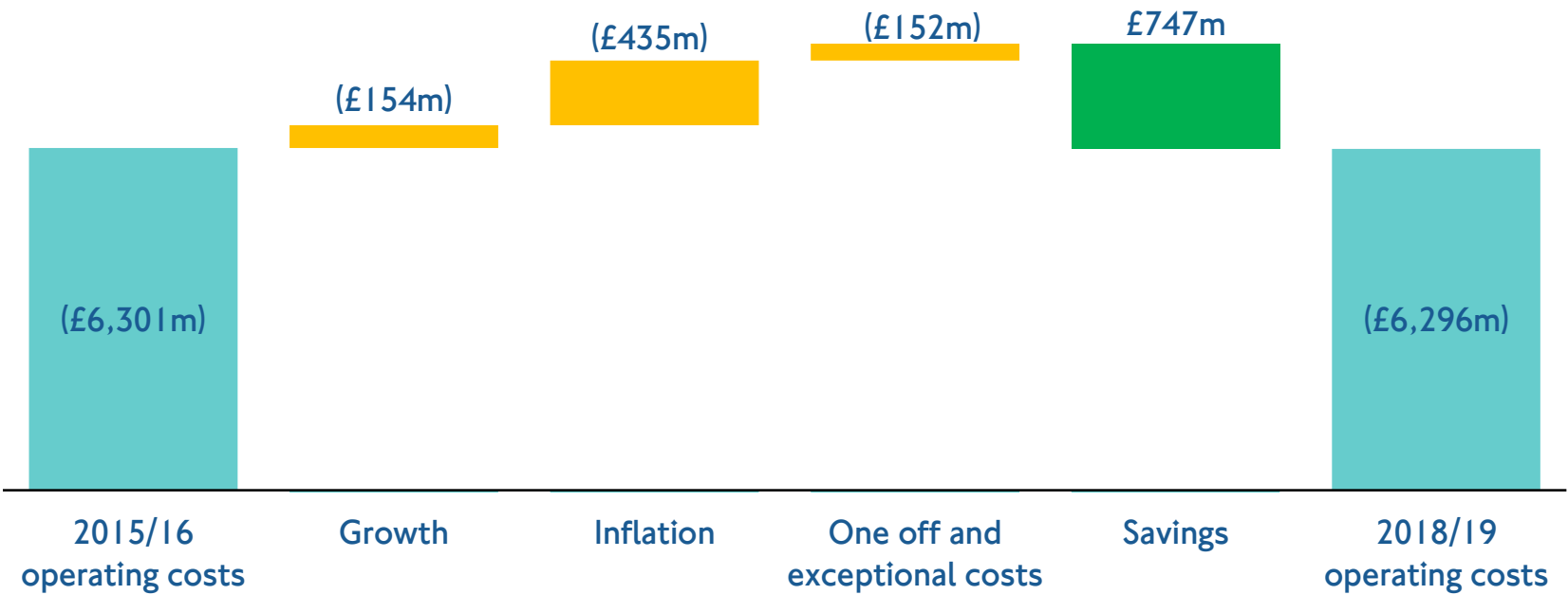


TfL’s headcount (FTEs) reduced 12% since 2015/16



We took out almost £750m in costs from 2015/16 to 2018/19; further £200m

Our operating costs have decreased since 2015/16, with growth and inflationary pressures mitigated through savings

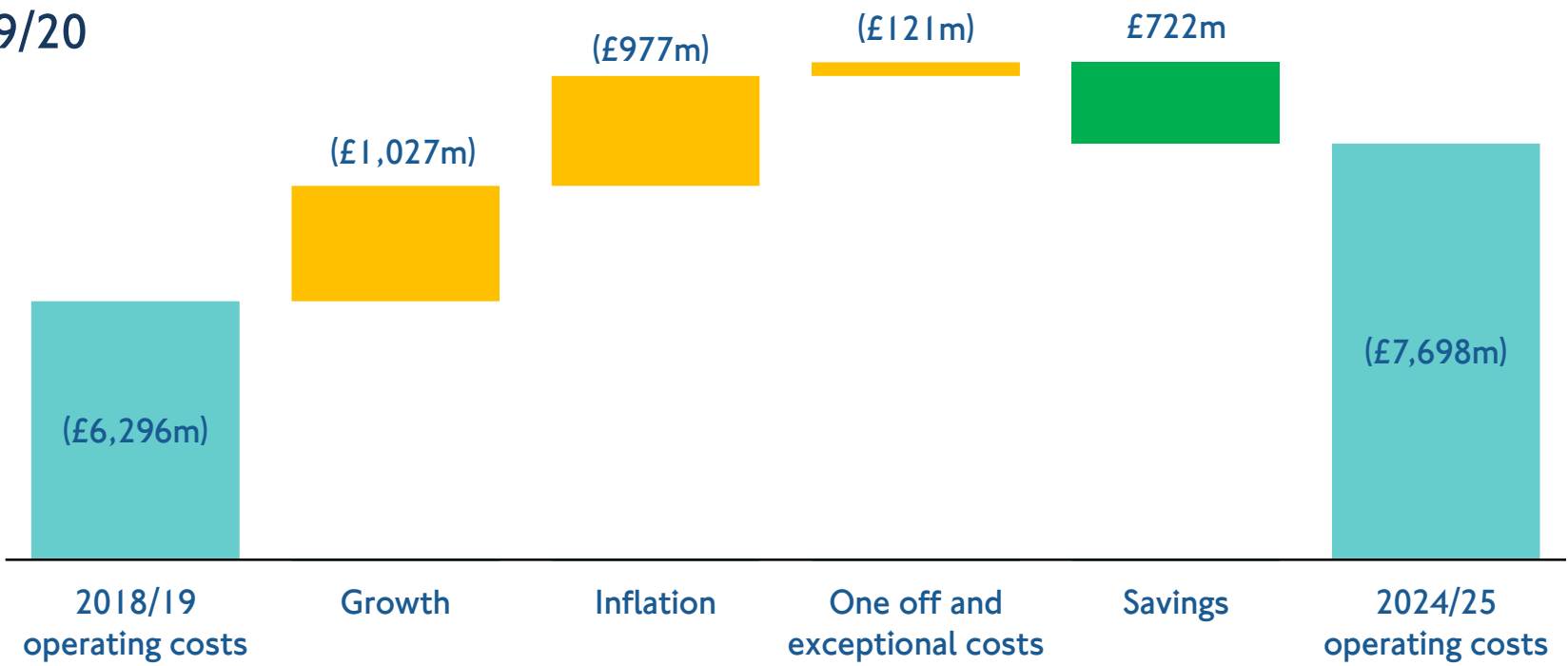


£747m saved since 2015/16

£120m	LU maintenance modernisation	£60m	Surface Transformation	£20m	Finance and Commercial
£70m	Bus network right sizing	£55m	LU Stations	£25m	Property operations
£50m	Bus tender price	£90m	Tech & Data op model	£15m	Rail contracts

With further significant costs savings already embedded in our Business Plan

We had planned to make a further £722m of savings by 2024/25 - £200m achieved in 2019/20



Growth



Revenue generating services

- Elizabeth line costs increase by £800m
- ULEZ introduction
- New LO trains

Savings

£722m

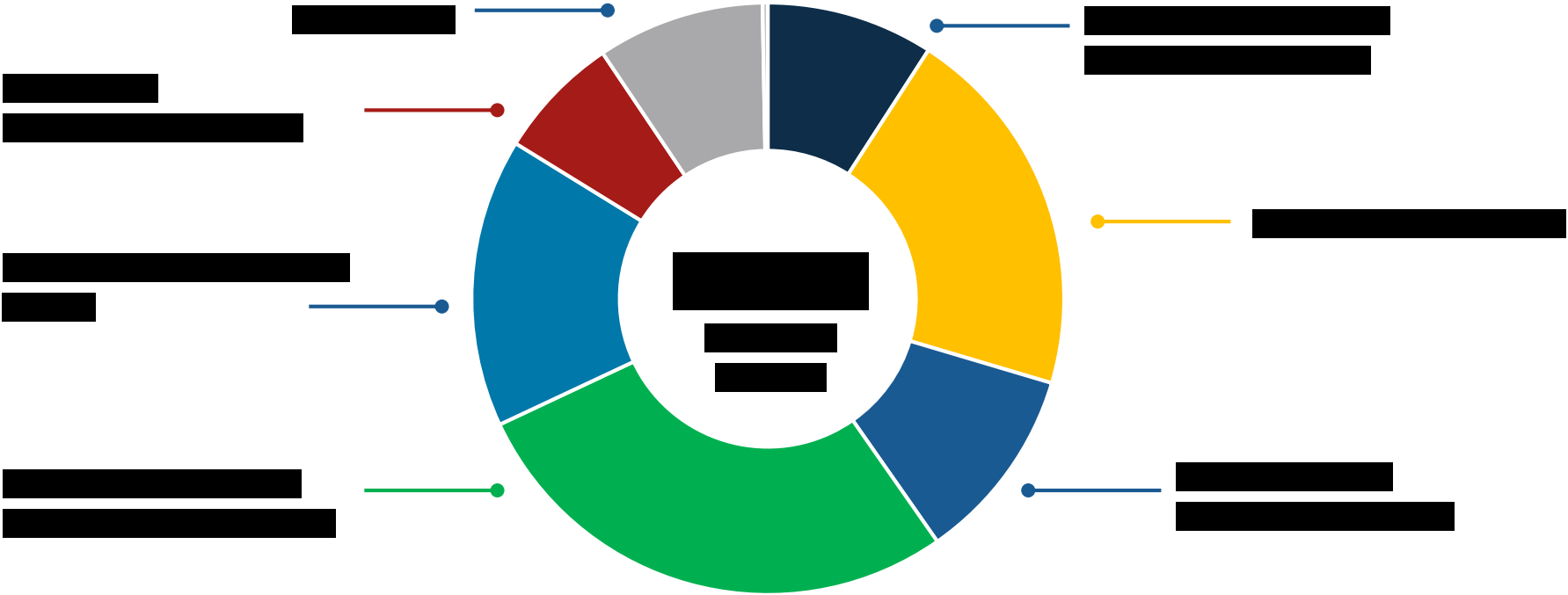
Mitigating almost 75% inflationary pressures

£200m

already achieved in 2019/20

Areas already targeted for further cost savings may become more of a challenge to achieve now

Savings plans, 2019/20 – 2024/25



Section 3

Appendices: Divisional Slides

Elizabeth line

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	118	12	89	(78)	-87%	51	166	(115)	-69%	(67)	-57%
Other operating income	29	8	8	0	0%	41	41	0	0%	12	41%
Total operating income	147	20	98	(78)	-80%	92	207	(115)	-56%	(55)	-37%
Operating cost	(354)	(209)	(252)	43	-17%	(433)	(468)	35	-7%	(79)	22%
Core costs	(354)	(209)	(228)	19	-8%	(433)	(468)	35	-7%	(79)	22%
Project costs	0	0	0	0	0%	0	0	0	0%	0	0%
Exceptional costs	0	0	0	0	0%	0	0	0	0%	0	0%
Direct operating surplus	(207)	(189)	(154)	(35)	23%	(341)	(261)	(80)	31%	(134)	65%
Indirect net operating cost	(16)	(11)	(11)	0	0%	(20)	(20)	0	0%	(4)	25%
Net operating surplus before financing and renewals	(223)	(200)	(165)	(35)	21%	(361)	(281)	(80)	28%	(138)	62%
Net financing costs	(77)	(53)	(53)	0	0%	(99)	(99)	0	0%	(22)	29%
Capital renewals	0	0	0	0	0%	0	0	0	0%	0	0%
Net surplus/(cost) of operations	(300)	(253)	(218)	(35)	16%	(460)	(380)	(80)	21%	(160)	53%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(23)	(10)	(10)	0	0%	(41)	(41)	0	0%	(18)	78%



Property Development

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	0	0	0	0	0%	0	0	0	0%	0	0%
Other operating income	102	16	58	(42)	-72%	42	115	(116)	-101%	(102)	-101%
Total operating income	102	16	58	(42)	-72%	42	115	(116)	-101%	(103)	-101%
Operating cost	(33)	(19)	(23)	4	-17%	(38)	(43)	43	-100%	33	-99%
Core costs	(33)	(19)	(22)	2	-11%	(38)	(43)	43	-100%	33	-100%
Project costs	0	0	0	0	0%	0	0	0	0%	0	0%
Exceptional costs	0	0	0	0	0%	0	0	0	0%	0	0%
Direct operating surplus	69	(3)	35	(38)	-109%	4	72	(73)	-102%	(70)	-102%
Indirect net operating cost	(9)	(1)	(9)	8	-94%	(1)	(16)	15	-94%	8	-90%
Net operating surplus before financing and renewals	60	(4)	27	(30)	-113%	3	56	(57)	-102%	(61)	-102%
Net financing costs	0	0	0	0	0%	0	0	0	0%	0	0%
Capital renewals	0	0	0	0	0%	0	0	0	0%	0	0%
Net surplus/(cost) of operations	60	(4)	27	(30)	-113%	3	56	(57)	-102%	(61)	-102%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(91)	(24)	(75)	51	-68%	(51)	(281)	280	-100%	90	-99%
Property receipts and asset sales	151	14	67	(53)	-79%	62	219	(220)	-100%	(152)	-101%



Commercial Development:

all projects on hold,
with minimal
essential ongoing
spend

Commercial Development capital spend/receipts vs current budget – £m

Project name	Details	H1	FY
Capital receipts (ex CRL)	<i>Erosion of receipts reflecting completion confidence in next 6 months</i>	(13.4)	(135.5)
Capital receipts – CRL	<i>Erosion of receipts reflecting completion confidence in next 6 months</i>	(40.0)	(22.2)
Capital spend	<i>All live developments on stop</i>	50.9	229.6
TOTAL		(2.5)	72.0

- incurring minimal safe stop costs on Blackhorse and Kidbrook
- Paddington project £100m has been removed from the Emergency Budget
- no new commitments are being made
- only minimal spends remain based on H&S considerations and planning and design expenditure to keep momentum across the portfolio



Facilities & Estates

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget	%	Variance to LY	%
Passenger income	0	0	0	0	0%	0	0	0	0%	0	0%
Other operating income	14	7	7	0	0%	13	13	(13)	-100%	(14)	-100%
Total operating income	14	7	7	0	0%	13	13	(13)	-100%	(14)	-100%
Operating cost	(104)	(52)	(53)	1	-1%	(98)	(98)	98	-100%	104	-100%
Core costs	(104)	(51)	(54)	3	-6%	(96)	(98)	98	-100%	104	-100%
Project costs	0	0	0	0	0%	0	0	0	0%	0	0%
Exceptional costs	0	(1)	0	(1)	0%	(1)	0	0	0%	0	0%
Direct operating surplus	(90)	(45)	(46)	1	-2%	(85)	(85)	85	-100%	90	-100%
Indirect net operating cost	0	0	0	0	0%	0	0	0	0%	0	0%
Net operating surplus before financing and renewals	(90)	(45)	(46)	1	-2%	(85)	(85)	85	-100%	90	-100%
Net financing costs	0	0	0	0	0%	0	0	0	0%	0	0%
Capital renewals	0	0	0	0	0%	0	0	0	0%	0	0%
Net surplus/(cost) of operations	(90)	(45)	(46)	1	-2%	(85)	(85)	85	-100%	90	-100%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget	%	Variance to LY	%
New Capital Investment	0	0	0	0	0%	0	0	0	0%	0	0%
Property receipts and asset sales	0	0	0	0	0%	0	0	0	0%	0	0%



Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	0	0	0	0	0%	0	0	0	0%	0	0%
Other operating income	17	0	0	0	0%	0	0	0	0%	(17)	-100%
Total operating income	17	0	0	0	0%	0	0	0	0%	(17)	-100%
Operating cost	(16)	(10)	(5)	(4)	80%	(15)	(10)	(5)	53%	1	-6%
Core costs	(10)	(7)	(4)	(3)	78%	(12)	(9)	(3)	35%	(2)	24%
Project costs	(2)	(0)	(0)	0	0%	(1)	(1)	0	0%	1	-69%
Exceptional costs	(4)	(2)	0	(2)	0%	(2)	0	(2)	0%	2	-50%
Direct operating surplus	1	(10)	(5)	(4)	80%	(15)	(10)	(5)	50%	(16)	-1600%
Indirect net operating cost	0	0	0	0	0%	0	0	0	0%	0	0%
Net operating surplus before financing and renewals	1	(10)	(5)	(4)	80%	(15)	(10)	(5)	50%	(16)	-1600%
Net financing costs	0	0	0	0	0%	0	0	0	0%	0	0%
Capital renewals	(19)	(7)	(7)	0	0%	(12)	(12)	0	0%	7	-35%
Net surplus/(cost) of operations	(18)	(17)	(12)	(4)	35%	(27)	(22)	(5)	23%	(9)	50%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(595)	(248)	(342)	94	-28%	(523)	(648)	125	-19%	72	-12%

Major Projects: around 40% capex deferred over the next 6 months

Major project versus budget (£m)

Project name	Details	6mnths	FY
Piccadilly Line Upgrade	<i>Deferred: protect critical path of delivery; remobilise in 6 months</i>	9.6	15.4
4 Lines Modernisation	<i>Deferred: remobilised to restart in 6 weeks</i>	28.9	65.1
DLR	<i>Deferred: protect critical path of delivery; remobilise in 4 months</i>	11.7	9.6
Northern Line Extension	<i>In final stages of delivery. Defer and remobilise to restart in 6 weeks</i>	16.5	5.8
Bank Station	<i>Deferred: remobilised to restart in 6 weeks</i>	13.8	11.2
Barking Riverside	<i>Deferred: remobilised to restart in 6 weeks</i>	4.9	4.1
Other		7.3	13.5
TOTAL		91.2	124.5



Professional Services

Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	0	0	0	0	0%	0	0	0	0%	0	0%
Other operating income	50	39	39	0	0%	71	71	0	0%	20	40%
Total operating income	50	39	39	0	0%	71	71	0	0%	21	42%
Operating cost	(522)	(263)	(277)	14	-5%	(486)	(514)	28	-5%	36	-7%
Core costs	(464)	(244)	(249)	5	-2%	(450)	(462)	12	-3%	14	-3%
Project costs	(50)	(19)	(23)	4	-15%	(36)	(42)	6	-15%	14	-29%
Exceptional costs	(8)	0	(5)	5	-104%	(0)	(10)	10	-96%	8	-94%
Direct operating surplus	(472)	(224)	(238)	14	-6%	(415)	(443)	28	-6%	57	-12%
Indirect net operating cost	0	0	0	0	0%	0	0	0	0%	0	0%
Net operating surplus before financing and renewals	(472)	(224)	(238)	14	-6%	(415)	(443)	28	-6%	57	-12%
Net financing costs	0	0	0	0	0%	0	0	0	0%	0	0%
Capital renewals	(15)	(17)	(18)	2	-9%	(37)	(40)	3	-8%	(22)	144%
Net surplus/(cost) of operations	(487)	(241)	(257)	16	-6%	(452)	(483)	31	-6%	35	-7%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget H1	2020/21 Budget H1	Variance to Budget H1	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(85)	(51)	(51)	0	0%	(73)	(73)	0	0%	12	-14%



Operating Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
Passenger income	0	0	0	0	0%	0	0	0	0%	0	0%
Other operating income	154	40	79	(40)	-50%	76	151	(76)	-50%	(78)	-51%
Total operating income	154	40	79	(40)	-50%	76	151	(75)	-50%	(78)	-51%
Operating cost	(4)	(2)	(2)	(0)	0%	(4)	(4)	0	0%	0	-10%
Core costs	(3)	(2)	(2)	0	0%	(3)	(3)	0	0%	0	-7%
Project costs	(1)	(0)	(0)	0	0%	(1)	(1)	0	0%	0	-18%
Exceptional costs	0	0	0	0	0%	0	0	0	0%	0	0%
Direct operating surplus	150	38	77	(40)	-51%	72	147	(75)	-51%	(78)	-52%
Indirect net operating cost	(2)	(1)	(1)	0	0%	(1)	(1)	0	0%	1	-50%
Net operating surplus before financing and renewals	148	37	77	(40)	-52%	71	146	(75)	-51%	(77)	-52%
Net financing costs	0	0	0	0	0%	0	0	0	0%	0	0%
Capital renewals	0	0	0	0	0%	0	0	0	0%	0	0%
Net surplus/(cost) of operations	148	37	77	(40)	-52%	71	146	(75)	-51%	(77)	-52%

Capital Account (£m)	2019/20 Actual	2020/21 Emergency Budget HI	2020/21 Budget HI	Variance to Budget HI	%	2020/21 Emergency Budget FY	2020/21 Budget FY	Variance to Budget FY	%	Variance to LY	%
New Capital Investment	(4)	(0)	(0)	0	0%	7	7	0	0%	11	-275%

[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 30 April 2020 13:08
To: Heidi Alexander; Mike Brown; Carter Howard; King Antony (Div Finance Director MPD)
Cc: Tim Steer; [REDACTED]@tfl.gov.uk; Lucas Emma; Clarke Andrea (Exc)
Subject: Highly confidential & legally privileged: DfT Q&A
Attachments: DfT Questions.pdf; DfT Questions_2ndRound.pdf

Heidi

As discussed, please find attached the detailed Q&A we have been through with DfT.

I will call you after our meeting with Bernadette Kelly and one of the things we will need to think about is the timing of the letter from Sadiq to Rishi Sunak.

Thanks

Simon

DfT Questions, Statements and Revisions

This note provides information in response to questions, statements and revisions to assumptions in the proposed TfL Framework for Discussion, submitted by DfT (Claire Gibbs) on 21 April at 10:21pm.

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[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 09 May 2020 17:21
To: Edward Lister
Cc: David Bellamy; Heidi Alexander; Mike Brown; Carter Howard
Subject: FW: Confidential and legally privileged - Final TfL Funding Request
Attachments: 200507 SKNJ.pdf

Dear Ed,

I am sorry for disturbing you at the weekend, however as we still have not concluded our funding discussions it is necessary for me to contact you to ask for your help in expediting a resolution of this with the Department for Transport and HM Treasury this weekend.

I know that Grant Shapps spoke to Heidi Alexander earlier today, prior to this evening's announcements. The support for walking, cycling and public transport is great, however, the timetable from Government's perspective for resolving our urgent funding needs is not at all clear.

Mike therefore suggested I forward to you our final proposal on the funding we need to secure to enable us to continue to provide walking, cycling and public transport services in London and to be in a position to fully support the restart.

Whilst we have continued to have constructive discussions with DfT officials, we still have not had any meaningful offer of funding and it is now critical that we receive confirmation of the funding Government will provide in the next 24/48 hours.

This is because we have had to call a public meeting of the Finance Committee of the TfL Board for Tuesday 12th May where we will discuss our immediate financial sustainability and progress on securing Government funding to enable us to meet our Emergency Budget [REDACTED]

[REDACTED]. We would much rather spend your time and ours on planning the successful restart and ambitious plans for maximising walking, cycling and carbon reduction.

Any help you can give to get our funding deal over the line with HM Treasury would be most appreciated, as they refuse to engage with us directly.

Kind regards

Simon

Simon Kilonback

Chief Finance Officer | Transport for London

Palestra, 11th Floor, Zone 11Y7, 197 Blackfriars Road, London, SE1 8NJ

[REDACTED]@tfl.gov.uk | Direct dial: +44 (0) 20 3054 [REDACTED]

From: Kilonback Simon
Sent: 07 May 2020 21:00
To: Nick Joyce <[REDACTED]@dft.gov.uk>
Cc: [REDACTED]@dft.gov.uk'; [REDACTED]@dft.gov.uk; Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>; Carter Howard <[REDACTED]@tfl.gov.uk>
Subject: Confidential and legally privileged - Final TfL Funding Request

Dear Nick and Bernadette

Further to our discussions this week, please find attached our revised funding proposal, following your additional requests for us to consider increasing the proportion of borrowing.

[REDACTED]

[REDACTED]

We have now called a public meeting of the Finance Committee of the TfL Board for Tuesday 12th May to consider our financial situation and whether we have received sufficient financial support to mitigate the catastrophic effect of Covid-19 on our immediate financial sustainability.

I hope that we can agree a funding solution urgently [REDACTED]

[REDACTED].

I know Mike and I would rather resolve this quickly at official level and enable us to focus on the task of supporting you fully in a successful restart and recovery process.

Kind regards

Simon

Simon Kilonback

Chief Finance Officer | Transport for London

Palestra, 11th Floor, Zone 11Y7, 197 Blackfriars Road, London, SE1 8NJ

[REDACTED] tfl.gov.uk | Direct dial: +44 (0) 20 3054 [REDACTED]

Nick Joyce
Department for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR

7 May 2020

Dear Nick

TfL COVID-19 Funding – Subject to Approvals

I am writing in relation to TfL's urgent and immediate need for funding support from Government in relation to COVID-19 and to set out the options we have discussed.

Grant Based Proposal

Mike Brown initially set out in a letter to the Permanent Secretary on 27 April that we would need £1.9bn of grant from Government to resolve the funding gap in our draft Emergency Budget along with a commitment to further funding arrangements in order for us to be able to meet our statutory obligations to produce a balanced budget. The Emergency Budget had previously been presented to your team on 24 April. This also included TfL continuing to access the £750m Loan Facility for Crossrail.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Alternative Proposal with £250m of TfL Borrowing

You asked us to consider whether TfL could accommodate any additional borrowing and so I wrote to you on 4 May to set out the constraints on TfL's ability to borrow, but nonetheless offering an alternative proposal to meet the £1.9bn funding gap. This proposal reduced the value of the grant from Government through £250m of additional TfL borrowing. Again, TfL would also continue to access the £750m Loan Facility for Crossrail.

This was also predicated on a requirement for Government to provide a commitment to further funding arrangements in order for us to be able to meet our statutory obligations to produce a balanced budget. [REDACTED]

[REDACTED]

Alternative Proposal with up to £600m of TfL Borrowing

Following my letter to you on 4 May, we have had further discussions in relation to TfL COVID-19 funding, including a request from you for TfL to consider additional incremental borrowing.

Assuming a funding gap of £1.6-1.9bn in TfL's Emergency Budget, a funding package could include £1bn of revenue grant from Government with up to £600m of incremental TfL long-term borrowing. If the funding gap in TfL's Emergency Budget increases above £1.6bn as at the end of H1 2020, then Government will provide TfL with a "true up" covered by revenue grant, up to an assumed funding gap of £1.9bn. As with the previous options, TfL would continue to access the £750m Loan Facility for Crossrail.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

My letter of 4 May also set out the constraints around TfL being able to support the operating account through borrowing, noting specifically that we cannot directly use borrowing for operating purposes and that this would therefore be technically limited to the amount of capital BRR that we are able to repurpose to the operating account (subject to agreement of the Mayor, which we will seek). We proposed additional borrowing of £250m on the basis of the pro-rated amount of capital BRR available to re-purpose in H1 2020 and a finite amount of capital expenditure during the period to allocate borrowing against in accordance with CIPFA rules. The increase to £600m means that all the capital BRR that can be repurposed will be used in H1 2020.

Other matters relevant to all options

[REDACTED]

In addition, in any of the options above, Government will also need to accept the assumptions in our Emergency Budget, including:

- Our cash balance being maintained at a level of at least £1.2bn, noting that this balance may reduce temporarily because of normal working capital movements (of up to ~£300m) and if the funding gap for H1 2020 is in excess of £1.6bn (with this point being subject to the true-up process outlined above); and
- TfL continuing to apply the fares assumptions set out in its 2019 Business Plan for the purposes of the Emergency Budget.

[REDACTED]

The funding package in each of these options could also include the following:

- Commitment by TfL to deliver significant cost reductions in H1 2020 of nearly £1bn (as set out in the Emergency Budget);
- An HM Government Special Representative on TfL's Finance Committee (the person nominated will need to be acceptable to both parties);
- Ongoing provision of weekly and periodic financial information and meetings;
- Provision of any other information reasonably requested by DfT;
- TfL utilising the Coronavirus Job Retention Scheme, where practicable, for as long as this remains available and staff are not otherwise required for a restart of services; and
- The provisions set out in Section 6 of my letter of 4 May.

We have also discussed that there may be some relaxation to the CIPFA guidance and statutory balanced budget requirements. This would not help us,

[REDACTED]

I have set out above the three clear options for Government. [REDACTED]

[REDACTED] You are aware that we have convened a meeting of the Finance Committee on the 12 May to discuss TfL's position and the next steps, including what to do in the absence of an agreement on funding by Government. We need a decision from you on funding support within the next few days [REDACTED]

Yours sincerely



Simon Kilonback

Chief Finance Officer

Transport for London

cc. Bernadette Kelly, DfT

[REDACTED]

From: Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>
Sent: 10 May 2020 13:24
To: Kilonback Simon; Heidi Alexander; [REDACTED]@tfl.gov.uk; Carter Howard
Cc: [REDACTED]@tfl.gov.uk; Tim Steer; Claire Hamilton; [REDACTED] Will Norman
Subject: Re: TfL finances

Looks good, with Simon's suggested additions.

Mike

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From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: Sunday, May 10, 2020 1:18 pm
To: Alexander Heidi; Brown Mike (Commissioner); Everitt Vernon; Carter Howard
Cc: Gasson Sarah; Steer Tim; Claire Hamilton; [REDACTED] Norman Will (Will Norman, Walking & Cycling Commissioner)
Subject: Re: TfL finances

Thanks Heidi - just one typo - third para word exceed should be placed with breached
Might be worth adding that this means [REDACTED]
[REDACTED].

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From: Heidi Alexander <[REDACTED]@london.gov.uk>
Sent: Sunday, May 10, 2020 1:03 pm
To: Mike Brown; Kilonback Simon; [REDACTED]@tfl.gov.uk; Carter Howard
Cc: [REDACTED]@tfl.gov.uk; Tim Steer; Claire Hamilton; [REDACTED] Will Norman
Subject: TfL finances

This is what I propose to send to David and the MDs – can you let me know if you have any changes to this:

Hi

I've just come off a call with TfL and since me speaking to Grant Shapps yesterday and Simon being in touch again with DfT officials and Ed Lister, we have heard nothing further re the finance situation. I think Sadiq needs to ask for an urgent call with the Chancellor. I have drafted the letter below, which TfL are happy with. Can you let me know of any changes? And can we get out today?

Sorry for the rushed nature of this. It does now feel imperative that we send this – TfL finance committee papers will need to be published tomorrow.

H

Dear Rishi

Government support for Transport for London

I am writing to request an urgent call with you to find a resolution to the unprecedented financial challenges confronting Transport for London (TfL).

My Deputy Mayor for Transport, Heidi Alexander spoke with Grant Shapps yesterday and asked that we conclude negotiations on this matter this weekend. I enclose the latest letter sent by TfL's Chief Finance Officer to the DfT on Friday, setting out how we might come to an agreement, which would enable TfL to contribute to the economic recovery that I know we both want to see.

The situation is now critical. As you will be aware TfL is a local authority under Local Government Finance legislation and is therefore subject to Section 114 provisions regarding the ability to deliver a balanced budget over the course of a year. TfL's minimum cash balances are due to be exceed in a matter of days and there will be a public TfL Finance Committee meeting this Tuesday, 12 May at 1pm (papers for which have to be published tomorrow). Should a way forward not be agreed by then, I find it hard to conceive of a situation where TfL's Chief Finance Officer won't

conclude that he is obliged to start this statutory process. This would have catastrophic implications for London's recovery, our ability to control the virus and TfL's national supply chain. The cost ultimately to the public purse would be far higher than the settlement we are currently proposing.

As we have had no further contact from Government since the communication with DfT yesterday, I would welcome the opportunity to discuss this personally with you in the next 24 hours. I will make myself available at any time.

YS

SK

NHS health information and advice about coronavirus can be found at [nhs.uk/coronavirus](https://www.nhs.uk/coronavirus)

[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 12 May 2020 08:16
To: Heidi Alexander; Mike Brown; Carter Howard
Subject: Re: OFFICIAL SENSITIVE - FOLLOW ON TO OUR DISCUSSION
Attachments: image001.png

[REDACTED]

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From: Heidi Alexander <[REDACTED]@london.gov.uk>
Sent: Tuesday, May 12, 2020 7:42 am
To: Kilonback Simon; Mike Brown; Carter Howard
Subject: Re: OFFICIAL SENSITIVE - FOLLOW ON TO OUR DISCUSSION
OK - I have shared this with Sadiq, David, the MDs and Tim.

Available to talk when you've had a chance to discuss with Mike.

H

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: Tuesday, May 12, 2020 7:23:24 AM
To: Heidi Alexander <[REDACTED]@london.gov.uk>; Mike Brown <[REDACTED]@tfl.gov.uk>; Carter Howard <[REDACTED]@tfl.gov.uk>
Subject: Fwd: OFFICIAL SENSITIVE - FOLLOW ON TO OUR DISCUSSION
Heidi

I received this very late last night and as you can see very disappointingly government still pushing for 50/50 debt which is not what we discussed with Bernadette - I cannot support this proposal.
Also whilst we may be able to tone down some of the very direct language I think you can tell that this is political as it is not quite what we expected.
Having been awake most of the night I sent a pretty strong reply.
We need to regroup and discuss.
Thanks
Simon

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From: Nick Joyce <[REDACTED]@dft.gov.uk>
Sent: Monday, May 11, 2020 11:24 pm
To: Kilonback Simon
Cc: Bernadette Kelly; Claire Gibbs; Rachael Gilbert; Brown Mike (Commissioner)
Subject: OFFICIAL SENSITIVE - FOLLOW ON TO OUR DISCUSSION
Simon

Thank you for your time earlier this evening. I said we would share a draft settlement agreement. This is not yet agreed by ministers. We would welcome any feedback at the earliest opportunity on this draft. You will note there are a number of areas where we will need to discuss the drafting further.
This is shared in confidence at this point and without prejudice to any final agreement.
I look forward to discussing at your earliest convenience.

Best wishes

Nick



Nick Joyce
Director General, Resources and Strategy Group
, Windsor House
50 Victoria Street
Westminster, London, SW1H 0TL
[REDACTED]

[Follow us on twitter @transportgovuk](#)

Post to: Great Minster Hse, 33 Horseferry Rd, London, SW1P 4DR

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Incoming and outgoing e-mail messages are routinely monitored for compliance with our policy on the use of electronic communications and for other lawful purposes.

NHS health information and advice about coronavirus can be found at [nhs.uk/coronavirus](https://www.nhs.uk/coronavirus)

[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 14 May 2020 09:46
To: Mike Brown; Carter Howard; Heidi Alexander; David Bellamy
Subject: FW: Confidential & Legally Privileged: Paragraph 12 Funding Letter - Operational Matters
Attachments: image001.jpg

All

Please confirm you are comfortable with the below wording and I will send back

From: Cox Nicola (TFL)
Sent: 14 May 2020 09:43
To: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Cc: Clarke Andrea (Exc) <[REDACTED]@tfl.gov.uk>; Curry Justine <[REDACTED]@tfl.gov.uk>
Subject: Confidential & Legally Privileged: Paragraph 12 Funding Letter - Operational Matters
Simon

Proposed wording to go back to DfT with copied below (I have highlighted the sections that are subject to discussion):

1. During the Support Period, Transport for London will work in unison with HMG on taking steps to support the safe restart to the transport system and **agrees to joint action** by the London Covid Transport Task Force, terms of reference for which are attached. TfL will agree to :
 - a. Maximise service levels on all networks to full normal service, apart from Night Tube, weekend night buses and any other services agreed by the London Covid Transport Task Force as soon as possible but within four weeks;
 - b. Employ traffic demand management agreed by the London COVID Transport Task Force;
 - c. Agree communication messages between DfT and TfL to ensure consistent advice is provided to travellers;
 - d. Push forward an ambitious Active Travel Plan to promote cycling and walking, including new segregated cycle lanes, closures of roads to through traffic, and pavement extensions, utilising at least the £55m allocated in the Support Period. The detail of the plan will be agreed and overseen by a dedicated oversight group comprising TfL and HMG;
 - e. **Bring forward to the London COVID Transport Task Force travel demand management proposals as soon as practicable to optimise the use of the available safe transport capacity, including but not limited to a temporary suspension of free travel for Freedom Pass and 60 plus card holders during peak hours and the consideration of staggered hours of operation for other concessionary fares including travel for Under-18s;**
 - f. To support revenue collection, as soon as practicable, place card readers by the operating entrance doors on all buses, and immediately require passengers to use the approximately 2000 readers which are already so placed;
 - g. Provide regular reporting to the London COVID Transport Task Force on the absence rates for its staff and take all practicable steps to manage absence levels to support delivery of services; and

- h. The immediate reintroduction of the London Congestion Charge, LEZ and ULEZ and urgently bring forward proposals to widen the scope and levels of these charges, in accordance with the relevant legal powers and decision making processes.

Implementation of all of the list will be subject to TfL's statutory responsibilities in relation to safety and operations.

Nicola Cox

Head of Corporate Finance | Transport for London

Phone: 0

11th Floor Y1, Palestra, 197 Blackfriars Road, London SE1 8NJ | Email: [\[REDACTED\]@tfl.gov.uk](mailto: [REDACTED]@tfl.gov.uk)



[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 14 May 2020 14:14
To: Heidi Alexander; Mike Brown; [REDACTED]@tfl.gov.uk; Carter Howard
Subject: FW: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

All

Apparently Gilligan is insisting that we agree to temporarily suspend free travel for U18s unless they qualify for free travel. Are we prepared to agree to this? I have said I think it will be all but impossible to operationalise

Thanks
Simon

From: Nick Joyce <[REDACTED]@dft.gov.uk>
Sent: 14 May 2020 14:08
To: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Subject: RE: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

As discussed, does this work:

including but not limited to a temporary suspension of free travel for Freedom Pass and 60 plus card holders during peak hours, and the suspension of free travel for under-18s, subject to provisions allowing children who qualify under the Education Act 1996 and DfE statutory guidance to travel free to school.

Nick Joyce | Director General, Resources and Strategy Group, Department for Transport

|| [REDACTED]
Post to: Great Minster Hse, 33 Horseferry Rd, London, SW1P 4DR

From: Kilonback Simon [[mailto:\[REDACTED\]@tfl.gov.uk](mailto:[REDACTED]@tfl.gov.uk)]
Sent: 14 May 2020 09:52
To: Nick Joyce <[REDACTED]@dft.gov.uk>
Subject: RE: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

Nick – We can agree to the wording of Section 12 as set out below:

12. During the Support Period, Transport for London will work in unison with HMG on taking steps to support the safe restart to the transport system and **agrees to joint action** by the London Covid Transport Task Force, terms of reference for which are attached. **Subject to TfL's statutory responsibilities (particularly in relation to safety)**, TfL will agree to :

- a. Maximise service levels on all networks to full normal service, apart from Night Tube, weekend night buses and any other services agreed by the London Covid Transport Task Force as soon as possible but within four weeks;
- b. Employ traffic demand management agreed by the London COVID Transport Task Force;
- c. Agree communication messages between DfT and TfL to ensure consistent advice is provided to travellers;
- d. Push forward an ambitious Active Travel Plan to promote cycling and walking, including new segregated cycle lanes, closures of roads to through traffic, and pavement extensions, utilising at least the £55m allocated in the Support Period. The detail of the plan will be agreed and overseen by a dedicated oversight group comprising TfL and HMG;
- e. **Bring forward to the London COVID Transport Task Force travel demand management proposals as soon as practicable to optimise the use of the available safe transport capacity, including but not limited to a temporary suspension of free**

travel for Freedom Pass and 60 plus card holders during peak hours and the consideration of staggered hours of operation for other concessionary fares including travel for Under-18s;

- f. To support revenue collection, as soon as practicable, place card readers by the operating entrance doors on all buses, and immediately require passengers to use the approximately 2000 readers which are already so placed;
- g. Provide regular reporting to the London COVID Transport Task Force on the absence rates for its staff and take all practicable steps to manage absence levels to support delivery of services; and
- h. The immediate reintroduction of the London Congestion Charge, LEZ and ULEZ and urgently bring forward proposals to widen the scope and levels of these charges, in accordance with the relevant legal powers and decision making processes.

From: Nick Joyce <[REDACTED]@dft.gov.uk>

Sent: 14 May 2020 09:39

To: Kilonback Simon <[REDACTED]@tfl.gov.uk>

Subject: RE: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

Thanks.

My suggestion would be: (1) agreement from TfL in taking forward the actions in the list; (2) these will be overseen by the joint SG; (3) implementation of all of the list will be subject to TfL's statutory responsibilities in relation to safety.

Nick Joyce | Director General, Resources and Strategy Group, Department for Transport

|| [REDACTED]

Post to: Great Minster Hse, 33 Horseferry Rd, London, SW1P 4DR

From: Kilonback Simon [mailto:[REDACTED]@tfl.gov.uk]

Sent: 14 May 2020 09:35

To: Nick Joyce <[REDACTED]@dft.gov.uk>

Subject: Re: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

Nick

I am comfortable with the below wording.

I will revert as soon as I am off the call with City Hall on service levels.

Kind regards

Simon

Sent from my iPad

On 14 May 2020, at 09:18, Nick Joyce <[REDACTED]@dft.gov.uk> wrote:

Simon

In the interests of seeking to resolve all this, just to play back some potential wording on some areas (which to be very clear I have not agreed with anybody) but would like to try to now:

- **Crossrail/PPN:** "TfL will take reasonable steps to apply PPN 02/20 to Crossrail Limited, recognising that such decisions will need to be taken in the light of the overall affordability for the project."
- **Crossrail:** funding package to be considered "alongside" the review.
- **Review:** "TfL will support the review work with provision of information as reasonably required. TfL will be consulted on the terms of reference and provide views and options into the review."
- **Fares:** "Notwithstanding the review it is acknowledged that TfL will continue to take forward the fares assumptions in its 2019 Business Plan (RPI+1% for all modes for the next 4 years). "

I genuinely don't know if these will work but wanted to share now. Can you let me have something for the service levels para asap?

Nick

Nick Joyce | Director General, Resources and Strategy Group, Department for Transport

|| [REDACTED]

Post to: Great Minster Hse, 33 Horseferry Rd, London, SW1P 4DR

From: Kilonback Simon [mailto:[REDACTED]@tfl.gov.uk]

Sent: 14 May 2020 00:08

To: Nick Joyce <[REDACTED]@dft.gov.uk>; Bernadette Kelly <[REDACTED]@dft.gov.uk>; Claire Gibbs <[REDACTED]@dft.gov.uk>; Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>; Carter Howard <[REDACTED]@tfl.gov.uk>

Cc: Rachael Gilbert <[REDACTED]@dft.gov.uk>

Subject: RE: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

Nick

I have attempted to mark up the document with my comments on your proposed changes.

I will summarise them below:

Para 5 – Rejection of PWLB Infrastructure Rate or equivalent – We should not be penalised in the cost of borrowing for our loss of revenue incurred in support of the Government's strategy for fighting the coronavirus. This will impact TfL's ability to invest in public transport and active travel.

[REDACTED]

Para 19 – Financial Management: TfL requests the right to review the external adviser's commentary for factual accuracy and a right to management response which is common to well run audit and assurance processes.

Para 24 – The review must be conducted in an independent and open minded way to achieve the aim of putting TfL on a more sustainable financial footing and therefore must not be limited in subpara e to only reviewing the current fiscal devolution arrangements.

[REDACTED]

Beyond the legal reasons, the basis of TfL's fare revenue assumptions in its 2019 business plan in terms of both demand and price predated the Covid-19 Crisis and clearly have been materially altered for this and future years as a result of the crisis and the steps taken by the Government to prevent the spread of the virus.

Para 28 – The London Pays principle for Crossrail cost overruns has to be predicated on the review delivering a sustainable funding model as TfL simply will not have the revenue to support further borrowing absent ongoing Government grant funding or further fiscal devolution.

[REDACTED]

[REDACTED]. It should be noted that TfL has already supported Crossrail in implementing measures to support and safeguard critical resources.

The legal issues are absolute red line issues and therefore we cannot accept this proposal. I will accept the revised formula for the allocation of grant and borrowing but otherwise I urge you to accept the proposal I sent to you at 9.35pm on the 12th May.

Unless we achieve a resolution by 5pm tomorrow, I will have to conclude that we are unable to reach agreement with the Government on the emergency funding we have been requesting for 8 weeks now [REDACTED]

[REDACTED]

Until this point there has been good cooperation between TfL and Df [REDACTED]

There is no more time – we must reach a reasonable agreement.

Kind regards

Simon

Simon Kilonback

Chief Finance Officer | Transport for London

Palestra, 11th Floor, Zone 11Y7, 197 Blackfriars Road, London, SE1 8NJ

[REDACTED] [tfl.gov.uk](mailto:[REDACTED]@tfl.gov.uk) | Direct dial: +44 (0) 20 3054 [REDACTED]

From: Nick Joyce <[REDACTED]@dft.gov.uk>

Sent: 13 May 2020 22:35

To: Kilonback Simon <[REDACTED]@tfl.gov.uk>; Kelly Bernadette

<[REDACTED]@dft.gov.uk>; Claire Gibbs <[REDACTED]@dft.gov.uk>; Brown Mike

(Commissioner) <[REDACTED]@tfl.gov.uk>; Carter Howard <[REDACTED]@tfl.gov.uk>

Cc: Rachael Gilbert <[REDACTED]@dft.gov.uk>

Subject: RE: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

Simon

Many thanks for your further time today and useful discussions. I attach a tracked changes version of the draft letter and a clean version for convenience.

As discussed, I think some of the suggested changes we have not taken on board in paragraph 12 do not show up as changes in the tracked changes version.

These remain subject to final ministerial clearance.

Please treat these as confidential and with prejudice to any final agreement.

With best wishes

Nick

Nick Joyce | Director General, Resources and Strategy Group, Department for Transport

|| [REDACTED]

Post to: Great Minster Hse, 33 Horseferry Rd, London, SW1P 4DR

From: Kilonback Simon [[mailto:\[REDACTED\]@tfl.gov.uk](mailto:[REDACTED]@tfl.gov.uk)]

Sent: 12 May 2020 21:35

To: Nick Joyce <[REDACTED]@dft.gov.uk>; Bernadette Kelly <[REDACTED]@dft.gov.uk>; Claire

Gibbs <[REDACTED]@dft.gov.uk>; Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>; Carter

Howard <[REDACTED]@tfl.gov.uk>

Subject: OFFICIAL SENSITIVE - CONFIDENTIAL AND LEGALLY PRIVILEGED DRAFT FUNDING AGREEMENT

Dear Nick,

Further to our discussions with Bernadette and Mike yesterday and our discussions on your draft funding agreement today, please find attached both a clean and a tracked changes version of the funding proposal in a form that would be acceptable to the Mayor of London, the TfL Finance Committee and enable me to meet my statutory obligations.

I believe this fully represents the discussion you and I had earlier and there are no material changes other than the ones we discussed. I have asked, as you would expect me to, for the PWLB Infrastructure Rate or a close equivalent, to be applicable for the borrowing proposed.

I have agreed with the Mayor and the Finance Committee that we need to resolve the negotiations on this phase within the next 24-48 hours maximum, which again is consistent with our earlier discussions. [REDACTED]

I truly hope that this will not be necessary as I believe we are sufficiently aligned to be able to conclude these negotiations swiftly and in the spirit of cooperation that will enable us to continue to work in lockstep to achieve our shared objectives of a successful, safe and sustainable Restart, with ambitious plans for increasing the use of active travel.

Once we have concluded these negotiations, I look forward to agreeing a timeline with you to conduct the review of our future financial sustainability and to agreeing further funding to enable us to reach a Balanced Budget for the whole fiscal year.

I look forward to discussing with you at your earliest convenience.

With kind regards

Simon

Simon Kilonback

Chief Finance Officer | Transport for London

Palestra, 11th Floor, Zone 11Y7, 197 Blackfriars Road, London, SE1 8NJ

██████████ [tfl.gov.uk](mailto:simon.kilonback@tfl.gov.uk) | Direct dial: +44 (0) 20 3054 ██████████

[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 14 May 2020 14:16
To: Carter Howard; [REDACTED]@tfl.gov.uk; Heidi Alexander; Tim Steer
Cc: Matt Brown; Mike Brown; [REDACTED]@tfl.gov.uk; Will Norman; Clarke Andrea (Exc); Curry Justine
Subject: RE: Draft letter to PM

Fine for me Howard

From: Carter Howard
Sent: 14 May 2020 14:13
To: Everitt Vernon <[REDACTED]@TfL.gov.uk>; Alexander Heidi <[REDACTED]@london.gov.uk>; Steer Tim <[REDACTED]@london.gov.uk>
Cc: Kilonback Simon <[REDACTED]@tfl.gov.uk>; Brown Matt <[REDACTED]@tfl.gov.uk>; Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>; Gasson Sarah <[REDACTED]@tfl.gov.uk>; Norman Will (Will Norman, Walking & Cycling Commissioner) <[REDACTED]@tfl.gov.uk>; Clarke Andrea (Exc) <[REDACTED]@tfl.gov.uk>; Curry Justine <[REDACTED]@tfl.gov.uk>
Subject: RE: Draft letter to PM

[REDACTED]
Howard

From: Everitt Vernon <[REDACTED]@TfL.gov.uk>
Sent: 14 May 2020 14:02
To: Carter Howard <[REDACTED]@tfl.gov.uk>; Heidi Alexander <[REDACTED]@london.gov.uk>; Steer Tim <[REDACTED]@london.gov.uk>
Cc: Kilonback Simon <[REDACTED]@tfl.gov.uk>; Brown Matt <[REDACTED]@tfl.gov.uk>; Brown Mike (Commissioner) <[REDACTED]@tfl.gov.uk>; Gasson Sarah <[REDACTED]@tfl.gov.uk>; Norman Will (Will Norman, Walking & Cycling Commissioner) <[REDACTED]@tfl.gov.uk>
Subject: Re: Draft letter to PM

2

[REDACTED]

Yours sincerely,
Sadiq Khan
Mayor of London

From: Heidi Alexander <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>
Sent: 14 May 2020 12:21
To: Carter Howard <[REDACTED] [tfl.gov.uk](mailto:[REDACTED]@tfl.gov.uk)>
Cc: Brown Mike (Commissioner) <[REDACTED] [tfl.gov.uk](mailto:[REDACTED]@tfl.gov.uk)>; Kilonback Simon <[REDACTED] [tfl.gov.uk](mailto:[REDACTED]@tfl.gov.uk)>; Gasson Sarah <[REDACTED] [tfl.gov.uk](mailto:[REDACTED]@tfl.gov.uk)>; Steer Tim <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>
Subject: FW: Draft letter to PM

From: David Bellamy <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>
Sent: 14 May 2020 11:58
To: Heidi Alexander <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>; Jack Stenner <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>; Leah Kreitzman <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>; Nick Bowes <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>; Patrick Hennessy <[REDACTED] [london.gov.uk](mailto:[REDACTED]@london.gov.uk)>
Subject: Draft letter to PM

For comment. I am on interviews from 12 but should have gaps in between. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

David Bellamy

Chief of Staff

MAYOR OF LONDON

City Hall, The Queen's Walk, London SE1 2AA

020 7983 [REDACTED] | [REDACTED] [REDACTED]

[london.gov.uk](https://www.london.gov.uk)

[REDACTED] [london.gov.uk](https://www.london.gov.uk)

I work flexible hours. Unless obviously time critical, please reply in your working time.

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[REDACTED]

From: [REDACTED] > on behalf of Edward Lister [REDACTED] gov.uk>
Sent: 14 May 2020 15:45
To: Heidi Alexander
Subject: FW: secretary of state [OFFICIAL]

From the notes I took

The govt has asked the mayor to confirm he will increase fares by RPI + 1% on all modes from Jan 2021 as proposed in the TfL business plan. The Mayor will take this decision on advice of TfL based on forecasts and other relevant factors. The Mayor has agreed with HMG that his intention is to adhere to the fares increases sought by HMG and proposed in the TfL business plan.

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[REDACTED]

From: Andrew Gilligan [REDACTED]@gov.uk>
Sent: 14 May 2020 15:53
To: [REDACTED]
Cc: Heidi Alexander
Subject: RE: Wording - can you email it to Heidi ASAP please [OFFICIAL]

And the suspension of free travel for u18s, subject to discussions in the working group about how it is to be operationalised

From: [REDACTED]
Sent: 14 May 2020 15:29
To: Andrew Gilligan <[REDACTED]@gov.uk>
Cc: [REDACTED]@london.gov.uk' <[REDACTED]@london.gov.uk>
Subject: Wording - can you email it to Heidi ASAP please [OFFICIAL]
[REDACTED] | Prime Minister's Office
Executive Assistant to Sir Edward Lister, Chief Strategic Adviser to the Prime Minister
10 Downing Street, London, SW1A 2AA | [REDACTED]
For latest news and information from Downing Street visit: <http://www.gov.uk/number10>
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[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 14 May 2020 16:19
To: David Bellamy; Heidi Alexander; Mike Brown; Carter Howard; King Antony (Div Finance Director MPD)
Subject: FW: Final Final draft
Attachments: 200514 Draft funding agreement letter for TfL v101.docx

FYI

From: Nick Joyce <[REDACTED]@dft.gov.uk>
Sent: 14 May 2020 16:10
To: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Subject: Final Final draft

I think this has it all in. Please shout asap if it doesn't otherwise I will circulate round the group.

Nick



Department for Transport

Nick Joyce
Director General, Resources and Strategy Group
, Windsor House
50 Victoria Street
Westminster, London, SW1H 0TL
[REDACTED]

[Follow us on twitter @transportgovuk](#)

Post to: Great Minster Hse, 33 Horseferry Rd, London, SW1P 4DR

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Draft letter from Secretary of State for Transport to Mayor of London

TRANSPORT FOR LONDON: EXTRAORDINARY FUNDING AND FINANCING AGREEMENT

1. This letter sets out an extraordinary funding and financing agreement for Transport for London (TfL) for the period to October 2020.
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. Transport for London has presented an Emergency Budget showing a funding shortfall for the period 1 April 2020 to 17 October 2020 of £1.9bn. Given the uncertainties in predicting demand this funding agreement assumes a shortfall for this period of £1.6bn.
4. This emergency funding and financing package will contribute towards TfL's forecast operational funding shortfall. It will also ensure that TfL can continue to provide essential public transport services and support the economic restart. This package is subject to the conditions set out in the letter.
5. The extraordinary funding and financing package comprises £1.6bn for Transport for London to support its essential services for the period 1 April to 17 October 2020 ("Support Period") comprising:
 - a. Extraordinary Support Grant of £1.095bn payable under S.101 of GLA Act 1999. This will be paid in 6 equal instalments commencing on [22 May 2020]. The second payment shall be made on 31 May and then at the beginning of every 4 week reporting period ("Period") subject to the adjustment mechanisms described in paragraphs 6 and 7 below, with the sixth payment on the 20 September.
 - b. Additional borrowing by Transport for London from the Public Works Loan Board (PWLB) of £505m, drawn in proportion to the Extraordinary Support Grant payments made.
6. These amounts are based on a forecast funding shortfall of £1.6bn for the Support Period. It is recognised that there is a high level of uncertainty in predicting the future revenue and costs for the organisation for the Support Period, in particular as HMG guidance on dealing with the situation develops. To the extent that the actual funding shortfall is greater or lesser than £1.6bn then the amount of Extraordinary Grant and TfL borrowing will increase pro rata, up to a maximum of £1.9bn in aggregate or reduce pro rata accordingly.
7. TfL will reforecast the financial position for the Support Period at the end of each Period, taking into account actual financial performance to date and most

likely views on expected revenues based on the circumstances at the time. Subsequent debt and grant amounts for the subsequent Period will be adjusted to reflect this revised forecast outturn for the period. Following the end of the Support Period any excess or shortfall of grant based on the actual financial outturn for the Support Period will be repaid/paid within 4 weeks.

8. Government 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.
9. We recognise that the current circumstances are likely to present ongoing financial challenges and uncertainty to Transport for London beyond the Support Period. We recognise that it will be important for Transport for London to maintain essential services and deliver a revised balanced budget over the remainder of the financial year in line with their statutory duties and a combination of future measures from TfL, GLA and HMG should enable TfL to do so.
10. This funding package is based on the assumption that Transport for London will maintain 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 at the end of the Support Period, subject to normal commercial payment practices. To the extent that the useable cash reserves exceed this amount at the end of the Support Period, the total amount of support under paragraph 5 will reduce in accordance with paragraph 6.
11. This funding package is conditional on agreement from Transport for London that it will agree to conditions below.

Service Levels

12. During the Support Period, Transport for London will work in unison with HMG on taking steps to support the safe restart to the transport system and agrees to joint action and oversight by the London Covid Transport Task Force, terms of reference for which are attached. Subject to TfL's statutory responsibilities (particularly in relation to safety), TfL agrees to:
 - a. Maximising service levels on all networks to full normal service, apart from Night Tube, weekend night buses and any other services agreed by the London Covid Transport Task Force as soon as possible but within four weeks;
 - b. Employing traffic demand management agreed by the London COVID Transport Task Force;
 - c. Agreeing communication messages between DfT and TfL to ensure consistent advice is provided to travellers;

- d. Pushing forward an ambitious Active Travel Plan to promote cycling and walking, including new segregated cycle lanes, closures of roads to through traffic, and pavement extensions, utilising at least the £55m allocated in the Support Period. The detail of the plan will be agreed and overseen by a dedicated oversight group comprising TfL and HMG;
 - e. Bringing forward to the London COVID Transport Task Force travel demand management proposals as soon as practicable to optimise the use of the available safe transport capacity, including but not limited to temporary suspension of free travel for Freedom Pass and 60 plus card holders during peak and the suspension of free travel for u18s, subject to discussions in the working group about how it is to be operationalised
 - f. To support revenue collection, as soon as practicable, placing card readers by the operating entrance doors on all buses, and immediately require passengers to use the approximately 2000 readers which are already so placed;
 - g. Providing regular reporting to the London COVID Transport Task Force on the absence rates for its staff and take all practicable steps to manage absence levels to support delivery of services; and
 - h. The immediate reintroduction of the London Congestion Charge, LEZ and ULEZ and urgently bring forward proposals to widen the scope and levels of these charges, in accordance with the relevant legal powers and decision making processes.
13. Alongside the operational matters set out above, TfL will seek to maximise the construction activity within TfL's remit, where it is safe to do so, consistent with the Emergency Budget assumptions.
14. Detailed monitoring of the operational performance of the London transport system will be provided to DfT, HMT and the London Covid Transport Task Force during the Support Period to assist in the effective management of the broader transport networks and to inform broader operational decisions, public messaging and similar matters. The nature of such reporting will be agreed by the London Covid Transport Task Force.
15. The London Covid Transport Task Force will remain in place for the duration of the Support Period unless agreed otherwise by DfT and TfL.

Governance

16. This emergency funding and financing package will require additional HMG governance and oversight, notwithstanding the existing legal framework under which TfL operates.

Financial management

17. In managing its business during the Support Period, TfL will take all reasonable steps to minimise the Extraordinary Support Grant in line with this agreement, including maximising its revenue and minimising expenditure.
18. Transport for London will provide to DfT weekly and Periodic management accounts, in a form consistent with the Emergency Budget, showing the

financial performance of the business compared to the Emergency Budget and updated financial projections for the remainder of the financial year. DfT and HMT may request further information or explanation as reasonably necessary to manage its financial position.

19. DfT will appoint an external adviser to support them in this oversight. TfL will provide reasonable access and support to the adviser to enable them to support DfT and HMT in its monitoring of the situation and related matters. This will include, as a minimum, a commentary from the adviser to DfT on each Period's financial information, which shall also be made available to TfL.
20. TfL will support continued and ongoing collaborative discussions with DfT on projected passenger numbers, revenues and non-operational expenditure.
21. TfL will continue to engage with and document discussions with their lenders and ratings agencies to demonstrate a clear understanding of the impacts of loan covenants and keep DfT informed of these discussions on a timely basis.

Decision Making

22. Two HMG appointed Special Representatives will 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.
23. One Special Representative will also be able to attend all meetings, formal and informal, of the Finance Committee and the Programmes and Investment Committee.

Future Financial Sustainability

24. There will be an immediate and broad ranging government-led review of TfL's future financial position and future financial structure. This will include:
 - a. Options for revenue maximisation, including fares policy and revenue yield choices over time will be explored;
 - b. The opportunities to deliver further efficiencies in the short and medium term in relation to operating costs;
 - c. The approach to capital spending, both in terms of asset maintenance and enhancement;
 - d. The balance sheet and financing structure, including financing policy, of TfL;
 - e. [The current fiscal devolution arrangements]; and
 - f. The potential for raising more non-fare based revenue and commercial income.
25. The review will include international and cross modal benchmarks and detailed recommendations on what decisions can be made. This will be completed by end of August 2020 to inform the position after the Support Period.

26. TfL will support the review work with provision of information as reasonably required. TfL will be consulted on the terms of reference and provide views and options into the review.
27. The Government has asked the Mayor to confirm he will increase fares by RPI plus 1% on all modes from Jan 2021 as proposed in the TfL business plan. The Mayor will take this decision on advice of TfL based on forecasts and other relevant factors. The Mayor has agreed with the Government that his intention is to adhere to the fares increases sought by Government and proposed in the TfL business plan.

Crossrail

28. Crossrail remains a vital project for both London and the UK. TfL will continue to ensure that its key subsidiaries responsible for bringing Crossrail into operation, such as Rail for London and London Underground, are fully resourced and pragmatic in their requirements of Crossrail Limited to ensure the delivery of all stages of Crossrail is achieved as quickly and cost effectively as possible.
29. In advance of the end of the Support Period, an additional funding package for Crossrail will need to have been identified and presented to the project Sponsors, which achieves the agreed London Pays principle noting that options to achieve this will be considered alongside the Government-led review of TfL's future financial position and future financial structure. The borrowing costs under the TfL £750m Loan Facility with the Department should be included with TfL's adjusted budget, for as long as TfL continues to utilise the loan.
30. TfL will take reasonable steps to apply PPN 02/20 to Crossrail Limited, recognising that such decisions will need to be taken in the light of the overall affordability for the project.
31. TfL will consider and, acting reasonably, agree specific proposals made by Crossrail Limited in relation to the retention of critical resources on the project where it is value for money to do so, during the Safe Stop and the subsequent recovery.
32. Joint Sponsors will make all reasonable efforts to complete Crossrail as soon as practicable and that there is a deliverable plan in place to restart all stopped works, consistent with applicable advice on construction.
33. In relation to Crossrail, TfL will propose, as soon as practicable, and no later than the end of June 2020, an action plan to support the successful transition of the project to TfL, including the governance, oversight and actions necessary to provide greater confidence in the timely and value for money delivery of this important project. The plan will consider actions in relation to project resourcing, governance, assurance and other matters as necessary.

[REDACTED]

From: [REDACTED].gov.uk>
Sent: 14 May 2020 17:04
To: Heidi Alexander; Edward Lister; 'Nick Joyce'; Andrew Gilligan
Subject: RE: email chain for TFL [OFFICIAL]
Attachments: 200514 Draft funding agreement letter for TfL v101.docx

All,
With thanks for the discussions over the course of today, please see attached revised funding agreement.
Nick, you might want to cc others in.
Kind regards,
[REDACTED]

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[REDACTED]

From: Kilonback Simon <[REDACTED]@tfl.gov.uk>
Sent: 03 May 2020 22:17
To: David Bellamy; Heidi Alexander; Mike Brown; Clarke Andrea (Exc); King Antony (Div Finance Director MPD); Carter Howard
Cc: [REDACTED]@tfl.gov.uk; Lucas Emma; Tim Steer; Curry Justine; Cox Nicola (TFL); Julian Ware; David Gallie
Subject: Highly Confidential & Legally Privileged - Draft Funding Proposal for urgent discussion_FINAL
Attachments: Draft Funding Proposal for urgent discussion_FINAL.docx

David

I have accepted all of your changes except for the detailed third paragraph which may be points for you to raise in the negotiation, but don't add to the letter.

[REDACTED]

I fully understand your point on the business rates risk and have amended the line to limit it to talking to you about H1 – I don't think it is credible not to, it covers the Borough funding the Mayor is keen on and HMT see as a problem for the Mayor....

I am going to send this version as it doesn't commit GLA – it accepts a risk for TfL, where the choice for the Mayor is as described re Borough funding

Thanks to all for a lot of hard work

Simon

4 May 2020

Dear Nick,

TfL COVID-19 Funding - Subject to Approvals

We have had useful discussions over the last few weeks of the catastrophic impact of Covid-19 on TfL's financial sustainability, and in recent days, senior level discussions with both officials and Ministers from DfT, HM Treasury and No.10 have shown a common understanding of the scale of problem TfL faces, and of its urgency. There has also been considerable information exchanged at working level and letters from Bernadette Kelly to Mike Brown acknowledging the need for Government support. However, there has so far been no real discussion of what can practically be done, or the quantum of support that Government will provide.

The position is now stark. [REDACTED]

For us to continue to support the Government's strategy in fighting COVID-19 and to enable us to fully support the restart and recovery from this crisis, we need a funding package that will meet the funding gap of £1.9bn set out in TfL's proposed Emergency Budget for the period to 17 October 2020 (H1 2020), along with a firm commitment to further funding arrangements that will enable us to continue to meet our legal obligations for a balanced budget in the medium term.

The £1.9bn funding gap already takes into account that we will have contributed £1bn of our cash to mitigate the impacts of the crisis on our finances and that we have committed to deliver significant cost reductions in H1 2020 of nearly £1bn (as set out in the Emergency Budget). Further cost reductions are not possible, without impacting our ability to deliver the current level of service and support the restart. For example, we have already placed around 7000 employees on furlough and there is no opportunity to go further without impacting tube, rail and bus services levels.

We have previously proposed that this £1.9bn be funded solely by grant from Government, but we recognise that Government will find this difficult and would like us to consider alternative proposals. We have also previously set out the difficulties and challenges associated with solutions other than grant. The options are extremely limited and [REDACTED]

[REDACTED] his is also based on a shared understanding that we will need to work together to review the structure of TfL's funding arrangements, given that current circumstances have shown that the current model will not support the level of services and capital investment needed to run a safe and sustainable transport network going forward.

1. Alternative Funding Proposal

TfL would still require a significant proportion of the funding gap to be covered by grant, but could conduct some additional borrowing, as follows:

- £1.65bn of revenue grant from Government;
- TfL borrowing for up to £250m, predicated on the provision by Government of the additional support set out below for the period beyond H1 2020 into the medium- to long-term; and
- TfL continuing to utilise the £750m Crossrail Loan Facility Agreement to continue to fund Crossrail.

This alternative funding proposal (and specifically our ability to borrow) would be predicated on Government agreeing to:

- The £250m of TfL borrowing being undertaken with the PWLB [REDACTED]
[REDACTED]
[REDACTED]
- Irrespective of the form of short-term funding proposal, a clear undertaking to agree to put in place further funding arrangements, beyond H1 2020, acknowledging that the impacts of the COVID-19 crisis are likely to persist in the medium term;
- A clear undertaking that the further funding arrangements will ensure that we can continue to meet our legal obligation to produce a balanced budget over a short- and medium-term period and will enable our auditors to sign off TfL's accounts on a going concern basis; also taking into account that we already have, and will need to enter into, long term spending commitments that extend beyond H1 2020; and
- TfL continuing to apply the fares assumptions set out in its 2019 Business Plan for the purposes of the Emergency Budget.

In return for the support set out above, we will also agree to:

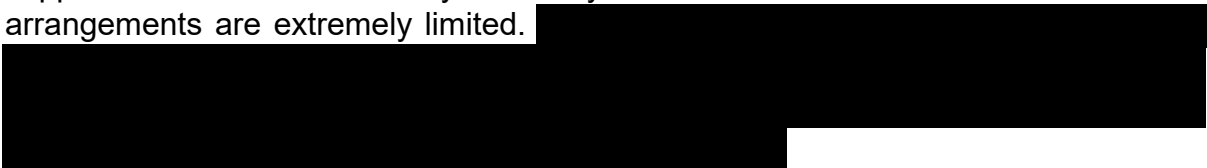
- A true-up process where the proportion of grant and borrowing is rebalanced if the funding gap at the end of H1 2020 is less than £1.9bn; with any unused portion of the revenue grant being offset against future support at the end of H1 2020;
- A process for an interim review, if assumptions underpinning the Emergency Budget change during its period (for example, if Government scenarios and measures change compared to base assumptions);
- Open book transparency and a commitment to regular meetings and information sharing, whilst the funding arrangements remain in place; and
- Utilise the Coronavirus Job Retention Scheme, where practicable, for as long as this remains available and staff are not otherwise required for a restart of services.

The amount we can borrow is limited and we will still need a grant from Government to make up a substantial portion of the overall funding package. I set out further below the constraints on our ability to borrow, along with supporting information in

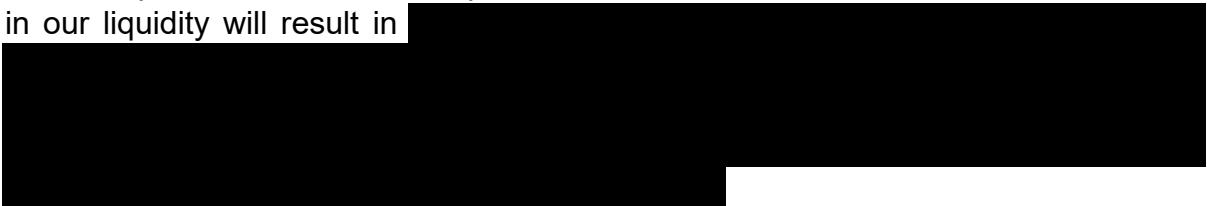
relation to our cash reserves, limitations on GLA contributions and considerations related to our ongoing financial sustainability.

2. Borrowing Affordability and Credit Rating Constraints

It is important to note that TfL is treated as a local authority for Local Government Finance Act purposes and as such it must operate within the CIPFA Prudential Code – borrowing must only be undertaken within affordable limits. Because TfL is not considered to be a Crown body, our ability to borrow is predicated on expected future cash-flows. The crisis had resulted in a catastrophic loss of revenue and significant uncertainty in our medium- to long-term revenue income (both passenger fares and business rates). It is unlikely that we will see a return to pre-COVID-19 demand for our services and therefore our ability to rely on these, even for our existing borrowing, is extremely challenging. We also have no ongoing Government support and TfL's and the Mayor's ability to raise additional revenue under current arrangements are extremely limited.



We anticipate that the severe impacts of the crisis on our finances and the reduction in our liquidity will result in



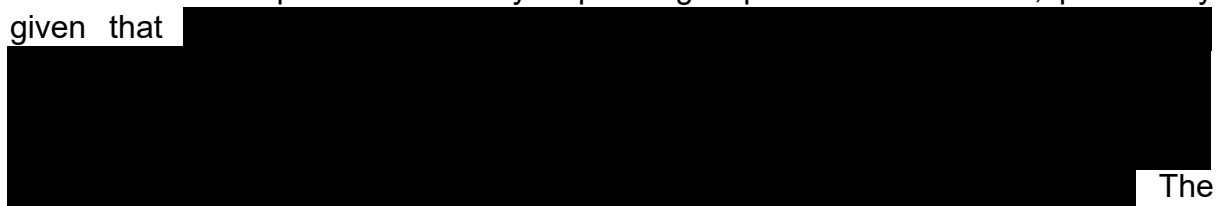
3. Limitations of Borrowing for the purposes of a Balanced Budget

Because TfL is treated as a Local Authority for Local Government Finance Act 1988 purposes, incremental medium to long-term borrowing must only be undertaken for capital purposes, and therefore borrowing needs to be allocated to expenditure in our capital account. It cannot be allocated to the operating account. However, TfL is able (subject to the approval of the Mayor) to repurpose some of its capital BRR to support the operating account. This is only possible in balanced budget terms where

we have sufficient capital expenditure to allocate this additional borrowing to and sufficient capital BRR to repurpose to the operating account. We have determined, that on a pro-rata basis for H1 2020, we can borrow and repurpose capital BRR for a maximum of £250m. This limit reflects the fact that we have a finite amount of capital expenditure in H1 2020 and a finite amount of capital BRR to repurpose. We have already assumed some repurposing of capital BRR to offset the Crossrail funding issues and we cannot prudently borrow more than this when uncertainty remains about the level of capital expenditure and funding in H2 2020.

4. Requirement to maintain prudent cash reserves

We have set out previously that our cash reserves cannot drop below the required minimum level required for 60 days operating expenditure of £1.2bn, particularly given that



The amount of liquidity we need to maintain going forward beyond H1 2020 will be dependent on the budget for the remaining part of the financial year and the risks inherent within it, which will need to be taken into account in the further funding arrangements mentioned above.

5. Limitations on GLA Contributions

We also need to acknowledge that the GLA's ability to help resolve the funding gap is extremely limited. The Government has protected authorities from the effects of the business rates relief for specific sectors but not from wider changes. We consider that it is inevitable that the BRR income for London will be significantly reduced as a result of this crisis, as business activity falls. Absent any support from MHCLG, the GLA currently expects to only receive business rates income at 'safety net' levels in 2020-21 and 2021-22 and has no levers to boost this income.

The other significant recipients of Mayoral funding are the Metropolitan Police Service (MPS) and London Fire Brigade (LFB), which receive funds from both business rates and council tax. With increased unemployment expected to lead to forecast council tax income levels not being reached (after allowing for Government announcements on council tax support), tax increases being constrained by referendum rules and a tax base based on thirty-year-old values, council tax is not a viable source of additional income for TfL.

We currently estimate that this could impact TfL's BRR grant allocation by up to £250m in this financial year and a significant risk of even greater impacts in the next financial year. Our Emergency Budget is based on our budgeted level of BRR grant being maintained – this will be a significant challenge for the GLA, and we will discuss with them the extent to which they are able to do so for H1 2020.

The other sources of income to the GLA fall into two categories. First, BRS and MCIL revenues underpin the current GLA borrowing for Crossrail, and neither can be

used to support TfL operations as they are required to service GLA debt. Second, government grants allocated for particular defined purposes, most notably housing provision. These cannot be repurposed (and in any case on 1 May the Prime Minister requested that the Mayor work to ensure housing delivery happens as rapidly as possible).

The reality is that the only control the Mayor has on income relates to council tax precept levels, and these are heavily constrained by Government. This is why the GLA has, across Mayoralities, consistently argued for increased fiscal devolution to London. In the absence of this, its ability to help TfL is fundamentally constrained by the Government-designed system in which it must operate.

6. Further funding arrangements and ongoing financial sustainability

Recent events, with the extreme changes in our revenues, have shown that our current funding model does not work. Devolution has been a good thing for transport in London and we would want it to continue. However, TfL's status as a Local Authority for capital financing purposes, while expedient, is not optimal, and is certainly no longer sustainable. We are part of the public sector, and the rating agencies and markets treat our borrowing on that basis. [REDACTED]

Therefore, in relation to further funding arrangements beyond H1 2020 and the medium-term, we would be prepared to agree:

- A commitment to review mitigations against the need for further support in the future (e.g. further cost reductions where reasonable and practicable);
- A commitment to work together with Government to develop options for an alternative capital structure and oversight mechanisms for a transport body, including:
 - a form of involvement by a body such as the ORR in independently monitoring the cost and profile of our renewal, maintenance and enhancement expenditure, to ensure our assets meet safety and reliability standards and remain in a good state of repair;
 - long-term certainty of adequate capital funding via either Government grant or further fiscal devolution measures; and
 - structural underpinning of TfL's current and future indebtedness to enable us to better meet the investment requirements necessary to maintain safety and reliability of the assets on our network; including the completion of the Crossrail project.
- The options and details of these structures would need to be worked through over the coming months and their implementation would be subject to approvals and primary legislation, where relevant. We would also need to ensure that any proposed options did not fetter the Mayor's statutory responsibilities and obligations;
- A commitment to work together with Government to determine an appropriate level of ongoing liquidity in the structures mentioned above, noting that any further funding arrangement would need to ensure that we can build the right

level of cash reserves going forward to enable us to be more resilient to any future shocks; and

- A commitment to aim to maintain the “London Pays” principle for Crossrail where practicable – noting that some of the structural options above would help to facilitate further contributions from London; however, depending on the extent of any additional cost and revenue pressures, and the rate of revenue recovery, Government support may be necessary.

We would hope to work through the matters set out in this letter in a high-level meeting between us, senior officials from the Treasury and Number 10, on Tuesday, with the aim to agree it as soon as possible and at the latest by the 8 May. I look forward to hearing from you shortly.