



**Caroline Pidgeon MBE AM**  
**Chair of the Transport Committee**

Rt Hon Grant Shapps MP  
Secretary of State for Transport  
Department for Transport

(Sent by email)

26 July 2021

Dear Mr Shapps,

## **Transport for London budget and capital funding**

The Transport Committee held an investigation into the 'state and future of Transport for London's finances', at its meeting on 30 June 2021.

We are writing to you to express our continuing concern around the absence of any long-term funding solution for Transport for London (TfL). We are calling on the Government to move promptly now to work with TfL and develop long-term and sustainable mechanisms for revenue generation and capital investment. This should be fit for a world city and in step with how other capital city transport systems around the world are supported by their respective governments.

In light of the evidence we have gathered, the Committee remains concerned at the continuing absence of any long-term funding solution for TfL, including in the face of the pandemic and uncertainty about how travel behaviours may emerge into the recovery period. This is despite prior to the COVID-19 pandemic, TfL stating that in the previous four years it had made almost £1 billion in savings across the organisation and had built up cash reserves of more than £2 billion<sup>1</sup>.

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<sup>1</sup> TfL, [TfL publishes draft revised budget for 2020/21 designed to keep London moving and support UK's economic recovery](#), 24 July 2020

The current funding situation, comprising what are now three extraordinary funding and financing agreements for TfL, renders medium and long-term planning for revenue generation and capital investment extremely challenging. According to TfL's statement on the third funding package, it will need to find a further £900 million of savings or new income this year (2021/22) compared with its approved budget<sup>2</sup>. This will be in addition to the £730 million of savings already assumed in the current business plan.

We heard at the meeting how this situation may have adverse consequences for the delivery of the Mayor's Transport Strategy. For example, there could be an impact on the ability to invest rapidly in initiatives that aim to reduce the dependence that Londoners have on their cars,<sup>3</sup> such as a new, safe, segregated cycling infrastructure. TfL may also defer some capital projects and certain road maintenance programmes, which could mean there may also be schemes affected that would otherwise have supported housing growth and individual infrastructure projects.

The Committee heard that TfL has a stronger reliance on fare income compared to other world cities, with fares income forming less than 50% of revenue in New York, Paris and Madrid, compared to over 70% in London. We were told by the Deputy Mayor that fare income is expected to continue to be suppressed due to the pandemic,<sup>4</sup> and a Retail Price Index (RPI)-linked increase in fares would therefore only have a marginal impact on TfL's financial situation. The Committee heard that TfL's high reliance on fare revenue means it is exposed to future risks that will impact fares demand.

We heard evidence that by international standards, the UK has an incredibly centralised system, with national taxes, road taxes (including both Vehicle Excise Duty (VED) and fuel duty) and VAT all going into a central Exchequer, meaning that revenue raised in London is allocated to other areas of the country.<sup>5</sup> The Committee also heard about a range of potential alternative income generation methods that are at varying stages of consideration, and where TfL would welcome new or further dialogue with the Government. These range from devolving VED, to enable receipts generated in London to remain in London; increasing the proportion of business rates retained in the capital from the current 37% to 42%; and the introduction of an online sales tax at the point of delivery. We believe there would be merit in the Government and TfL jointly exploring the potential for these and other innovative solutions for the short, medium and long-term.

In exploring what may be a workable budgetary term, we heard evidence that it is far more effective to make contracts, agreements and plans over a period of five or ten years.<sup>6</sup> We heard from TfL that they had already developed two budgets this year and expect to create yet a further one. Alongside that, it is important that capital projects are able to be planned in advance, and progressed, with certainty that the funding is there to do so. We would now like the Government to move away from short-term funding interventions for London's transport system.

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<sup>2</sup> TfL, [TfL Statement - TfL Funding Update](#), 01 June 2021

<sup>3</sup> London Assembly, [Appendix 1 – Draft Minutes Transport Committee meeting](#), 30 June 2021

<sup>4</sup> London Assembly, [Appendix 1 – Draft Minutes Transport Committee meeting](#), 30 June 2021

<sup>5</sup> London Assembly, [Appendix 1 – Draft Minutes Transport Committee meeting](#), 30 June 2021

<sup>6</sup> London Assembly, [Appendix 1 – Draft Minutes Transport Committee meeting](#), 30 June 2021

We ask that you commence work with TfL now to develop a firm multi-year funding mechanism fit for Londoners for the long-term, as we emerge from the pandemic situation.

Yours,

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

Caroline Pidgeon MBE AM  
**Chair of the Transport Committee**