



# **The TfL Funding Settlement:**

## **Another Short-term Sticking Plaster**



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## Executive Summary

The pandemic has pushed Transport for London's (TfL's) finances to the brink. During lockdown, Londoners did the right thing and stayed away from public transport wherever possible to protect each other and ensure a safer commute for our key workers.

TfL is unique compared to other transport authorities in the world in that it is mostly dependent on fares for its income. This is largely down to the fact that the Government took the decision, in 2015, to remove TfL's £700 million annual operating grant from April 2018 onwards.<sup>1</sup>

With passenger numbers having plummeted and struggling to fully recover since March 2020, this has left TfL acutely vulnerable to the impacts of the pandemic on fare revenues.

After rounds of heated negotiations, the Department for Transport (DfT) have so far provided TfL with three time-limited emergency funding deals. The Government have treated TfL very differently compared with other transport systems across the country and with private rail

operators who were handed a blank cheque at the outset of the pandemic to keep their services running for 18 months.

Instead, Ministers have slapped on a series of damaging conditions to the short-term, sticking plaster deals it has given to TfL. These include ordering long-term cuts to TfL's budget, extending the congestion charge, and demanding a commitment to implementing poor value for money 'driverless' trains- to name a few examples.

Before the COVID-19 outbreak, TfL's financial outlook was looking much brighter with the current Mayor Sadiq Khan taking action to reduce its operating deficit by 71% and increase its cash reserves by 13%.<sup>2</sup>

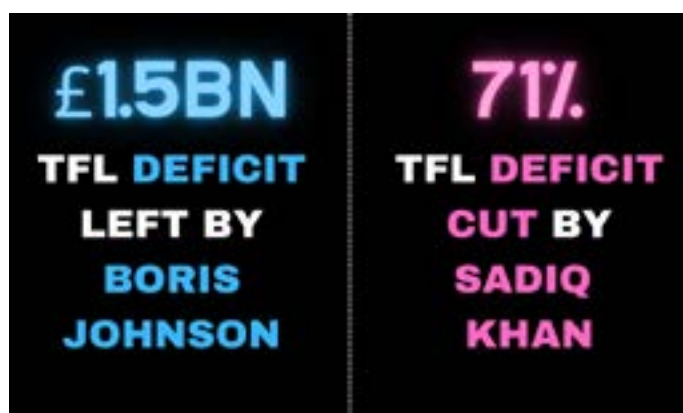
The Government's punitive approach to TfL's financial future not only jeopardises London's economic recovery, but that of the country. Ministers know that investment in London's transport system creates jobs and generates dividends for the rest of the country, but they have decided to act against their own 'levelling-up' agenda.

## TfL before the Pandemic

Boris Johnson, as Mayor, and George Osborne, as Chancellor agreed in 2015 to phase out the Government operating grant for TfL from 2018 - which amounts to an average of about £700 million a year.<sup>3</sup> This means TfL is one of the only transport authorities in the Western world not to receive an operating grant from central Government.

As a result, since 2018, TfL has been heavily reliant on fares income to fund its services. Fares make up 72 per cent of TfL's operating budget.<sup>4</sup>

Furthermore, Sadiq Khan inherited a £1.5 billion budget deficit from Boris Johnson when he became Mayor.<sup>5</sup> During his time at City Hall, Boris Johnson wasted millions on vanity projects which were never delivered like the Garden Bridge and 'Boris Island Airport' while other costly ventures, such as the New Routemaster buses (equipped with windows that did not open) contributed to this huge budget deficit.



After becoming Mayor in 2016, Sadiq Khan immediately took action to turn the financial situation around at TfL. Before the pandemic hit he had hugely improved the state of TfL's finances, reducing like for like operating costs, cutting the operating deficit he inherited from Boris Johnson by 71 per cent (from £1.5 billion to just over £400m) and increasing the amount of TfL's cash in the bank by 13 per cent to £2 billion.<sup>6</sup>

On 16th March 2020, Prime Minister Boris Johnson advised everyone in the UK against

"non-essential" travel. Londoners followed this advice and there was a

- 97% drop in passenger numbers on the London Underground
- 86% drop in passenger numbers on London buses
- 65% drop for motorised road traffic on the Transport for London Road network (a strategic road network which carries approximately 30% of London's traffic).<sup>7</sup>



No transport system would have been able to cope with such a sudden and unexpected loss in passenger numbers. But the Prime Minister's decision to strip TfL of its operating grant left it heavily reliant on fares income. When fares income dropped as Londoners did the right thing and stayed at home during the pandemic, TfL's finances were hit hard.

## The Government's Conditions: short-term sticking plasters

Since the Government first issued its 'Stay at Home' guidance in March 2020, three temporary emergency funding deals have been agreed between the Department for Transport and TfL. Between 1st April 2020 and 11th December 2021, the Government have offered TfL £3.4 billion in grants and allowed it to borrow an extra £600 million so that Londoners who rely on our public transport system could continue to travel around the city.<sup>8</sup>

However, these deals have all come with strings

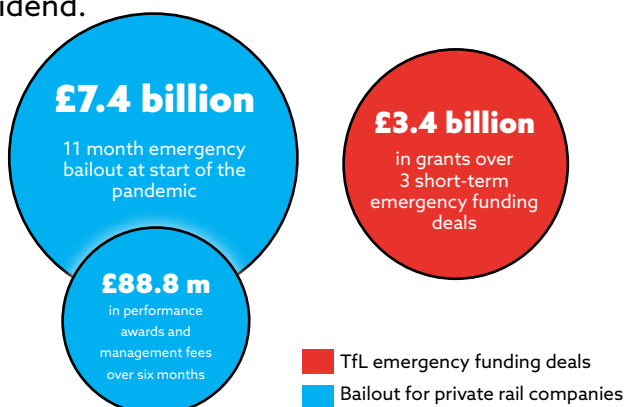
attached. The Government has required TfL to

- cut spending on transport projects;
- increase the level and scope of the congestion charge, as well as increasing council tax, in order to fund free travel for children and those aged 60 to 65;
- freeze the pay of frontline staff, 90 of whom have died due to COVID-19;<sup>9</sup>
- investigate, yet again, whether driverless trains will work on London Underground, ignoring last year's TfL review that suggested it would cost £7 billion to implement in London.<sup>10</sup>

Even though he is no longer Mayor, Boris Johnson is still attempting to force London to pay for his vanity projects.

These conditions are in complete contrast to how other train operating companies have been treated, most of which are privately owned. The Government have put them on Emergency Recovery Measures Agreements which last for 18 months, as opposed to the short-term 6-month deals TfL has been given.

From 1st March 2020 to 6th February 2021, £7.4 billion was paid to train operating companies to continue to run the railway network.<sup>11</sup> However, unlike TfL the privately owned train operating companies can claim a management fee and performance awards, which amounted to a further £88.8 million between March and September 2020.<sup>12</sup> Importantly, the shareholders of those private companies are able to pay themselves the whole of the £88.8 million as a dividend.



A yearly zones 1-6  
Travelcard could  
cost up to  
**£78 more**  
in 2022

Following five years of frozen fares under Sadiq Khan, the May 2020 and October 2020 funding deals required the Mayor to raise fares by 2.6 per cent, which is 1 per cent over and above the level of inflation in March 2021. Within this overall rise, the Mayor managed to keep some fares frozen – including some single pay as you go Tube, DLR, London Overground and TfL rail fares.

However, travelcard prices and the associated PAYG caps went up by the full 2.6% as they are set by Government rail policy, meaning the Mayor has no control over these prices. As a result, a Londoner with an annual travelcard between zones 1 and 6 would have seen the cost of their ticket go from £2,640 in 2020 to £2,708 in 2021 – an increase of £68. Assuming a similar 2.6% fares increase next year the travelcard would cost £2,780 – a further £72 price rise.<sup>13</sup> We know the conditions imposed on TfL could have been worse if not for the Mayor's efforts to fight them.

During the negotiations ahead of the October 2020 emergency funding deal being struck, the Mayor successfully resisted attempts to:

- extend the £15 Congestion Charge Zone to the North and South Circular roads
- increase TfL fares by more than RPI+1 per cent – well above the inflation rate
- remove free travel for under-18s and those aged 60 to 65.



For the June 2021 deal the Mayor successfully hit back on Government attempts to impose deeper cuts to TfL's budget, which would have been equivalent to reducing London's bus network by a fifth.

And the Mayor continues to fight against Government demands to raise between £500m and £1 billion in extra income per year from 2023. TfL has calculated that raising £500m would require at least one of the following measures:

- an extension to the Congestion Charge zone to the North and South Circular;
- year on year fares increases of 17 per cent;
- the introduction of a Greater London Boundary charge for cars entering London;
- a £130-£165 Council Tax increase on Band D properties.<sup>14</sup>

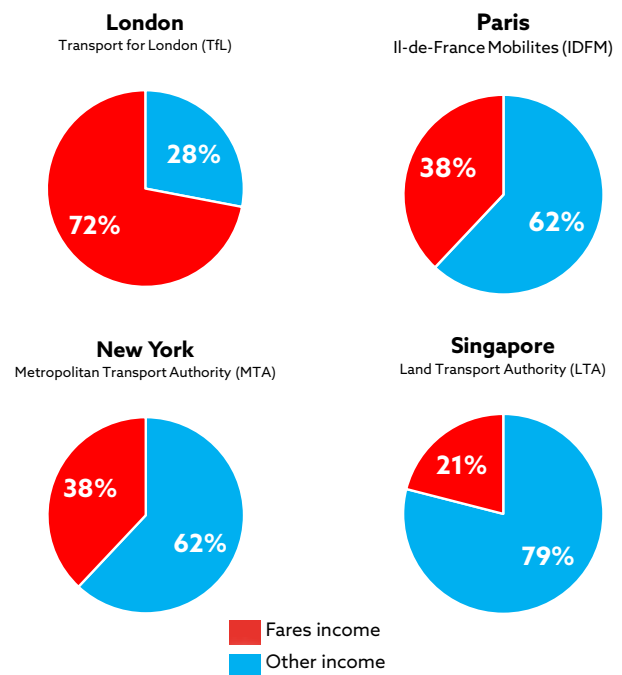
A fairer way to provide this level of funding would be through Vehicle Excise Duty (VED). London currently raises approximately £500m per year through VED but this money is spent on road expenditure in other regions of the country while TfL continue to pay for expenditure on roads in the capital.<sup>15</sup> Group Leaders on the London Assembly have previously united around this issue and written to the Transport Secretary to ask that the Government give London back the VED it raises.<sup>16</sup>

The lack of a fair funding deal threatens TfL's planned rollout of step free stations. The first phase of TfL's accessibility program earmarked 15 stations for improvements. As of April 2021, 7 stations had been made step-free (Buckhurst Hill, Newbury Park, South Woodford, Mill Hill East, Cockfosters, Amersham & Debden) and work continues to make Harrow-on-the-Hill, Ickenham, Osterley, Sudbury Hill and Wimbledon Park step-free. This leaves 3 of the original 15 stations outstanding (Burnt Oak, Hanger Lane & Northolt). These schemes are currently paused pending a further review, following the financial impacts of the coronavirus pandemic.<sup>17</sup>

A second phase of works to improve station accessibility was due to include 8 stations (Boston Manor, Colindale, Knightsbridge, North Ealing, Park Royal, Rickmansworth, Ruislip and Snaresbrook), but as of April 2021 funding has not been identified.<sup>18</sup>

The June 2021 emergency funding deal states that the "DfT will lead a joint programme with TfL on the implementation of Driverless Trains on the London Underground".<sup>19</sup> This is despite the fact that the Mayor has made it crystal clear to Ministers that he will object to any future requirement to force TfL to introduce driverless trains on the London Underground. Doing so would cost an estimated £7 billion, and would be a gross misuse of taxpayers' money at this critical time for our country.

## The Need for a Long-term Fair Funding Deal



The succession of short-term 6-month deals does nothing to provide stability to TfL. The Government should be looking to grant TfL an 18-month deal as a minimum, which is the same as the private train operating companies have received.

72 per cent of TfL's income to operate the network comes from fares. London is one of the only

major cities in the Western world without a Government grant to cover day-to-day operations, meaning TfL's financial model was not built to withstand the impact of the pandemic.

We also wait a new Spending Review by the Government later this year that will set out what capital funding will be provided to TfL in the long-term to help fund the renewal of the transport network in London. This spending review will be a critical moment which will determine whether crucial projects can go ahead. If TfL receive a fair funding deal it could deliver:

- New trains on the Bakerloo, Jubilee and Central lines
- Piccadilly line signalling replacement and Holborn station upgrade
- Electrify the bus network by 2030

- Make more stations step-free
- More trains on the Elizabeth Line
- DLR extension to Thamesmead
- Camden Town and Northern line separation.<sup>20</sup>

Public transport is a public good which benefits all Londoners. The use of the Tube, Overground services and buses services reduces pollution and improves air quality compared to if roads were gridlocked by private vehicles.

Public investment in transport also makes economic sense. London's economic output is twice the size of the economies of Scotland and Wales put together. The capital's economy accounts for a quarter of the UK's total economic output and contributes a net £38.7 billion to the Treasury. TfL contracts alone contribute around £6.4bn to the economy overall.<sup>21</sup>

## Case Studies

43,000 people are directly supported by the London Underground Investment Programme alone and 68% of these jobs are outside London.<sup>22</sup>

Examples of companies which have contracts with TfL across the country include:

- Holbro Engineering LTD - an SME engineering firm based in Fleetwood, Lancashire, provide TfL with precision-machined refurbished components for trains which run on the Metropolitan, Circle, District and Hammersmith and City line.
- Emico - a engineering firm, with a head office in Hemel Hempstead, who are providing mechanical and electrical fit-out on a number of major projects such as installing new cabling, lighting and tunnel ventilation as part of the Northern Line extension.
- Hille Seating - a company based in Gwent who have provided benches as part of station improvement works in preparation for the Elizabeth line.<sup>23</sup>

It is estimated that for every £1 spent on the London Underground investment programme, 55p goes to workers outside London.<sup>24</sup>

# Conclusion and Recommendations

Cities across the world recognise the environmental and economic benefits brought by public transport and invest it in accordingly. The United Kingdom cannot afford to be an outlier and turn its back on public investment in our capital's transport network.

Before the COVID-19 outbreak, TfL's financial outlook had significantly improved with the Mayor, Sadiq Khan, reducing its operating

deficit by 71% and increasing its cash reserves by 13%.

Covid-19 has hit TfL's finances hard. During lockdown, Londoners did the right thing and stayed away from public transport wherever possible to protect each other and ensure a safer commute for our key workers.

We now need a long-term, fair funding settlement which is subject to public consultation.

## **Recommendation 1**

The Government should scrap this deal and instead offer TfL an 18-month deal with no strings attached. The current deal stands in contrast to those offered to private rail operators and the transport systems of other cities in England. The Government should also look to provide TfL with a 6-year capital funding settlement, similar to the deal Mayor Boris Johnson was given in 2013, that would allow TfL to make a start on delivering the long-term transport priorities for London.

## **Recommendation 2**

The Mayor should continue to lobby the Government to allow London to retain our share of Vehicle Excise Duty (VED) to pay for transport services in the capital. The approximately £500m sum raised by VED is currently spent on roads in other parts of the country while public transport fare-payers pay for road maintenance in London. This is unfair and unsustainable at a time when TfL is struggling with the financial impact of Covid-19.

## **Recommendation 3**

The public deserves a say in how London's transport system should be funded and supported throughout the pandemic. The Mayor should call on the Department for Transport to launch a public consultation on any conditions which are set out for future funding settlements, including whether TfL's operating grant should be restored. This would allow the Government to explain why London is being treated differently to private rail operators and other cities' transport systems and then allow the public to decide whether this treatment is fair and in the public interest.

# Endnotes

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2 Mayoral Press Release, *Mayor succeeds in limiting council tax despite pressures from Ministers*, January 2021, [www.london.gov.uk/press-releases/mayoral/mayor-succeeds-in-limiting-council-tax-increase](http://www.london.gov.uk/press-releases/mayoral/mayor-succeeds-in-limiting-council-tax-increase).

In 2015/16 TfL had a cash balance of £1,725m and a deficit of £1,479m. Pre-Covid in Q3 2019/20 the cash balance was £1,949m (a 13% increase) and the deficit was £423m (a 71% reduction).

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9 TfL, *Board Meeting 9th June 2021*, <https://content.tfl.gov.uk/board-20210609-agenda-and-papers.pdf>.

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11 Department for Transport, *DfT payments to passenger rail operators under emergency agreements*, November 2020, [www.gov.uk/government/publications/dft-payments-to-passenger-rail-operators-under-emergency-agreements](http://www.gov.uk/government/publications/dft-payments-to-passenger-rail-operators-under-emergency-agreements).

12 National Union of Rail, Maritime and Transport Workers, *Privateers Make £88m Million in 6 Months*, May 2021, <https://www.rmt.org.uk/news/privateers-make-88-million-in-6-months/>.

13 Mayor of London, *Mayoral Decision*, [www.london.gov.uk/sites/default/files/md2730\\_appendices.pdf](http://www.london.gov.uk/sites/default/files/md2730_appendices.pdf).

The adult zones 1-6 7 Day Travelcard and Caps was £66 in 2020 and is £67.70 in 2021. Assuming a similar 2.6% fares increase, we could see a ticket cost £69.50. Monthly Travelcard season prices are 3.84 times the 7-Day price (rounded up to 10p multiples). Annual Travelcard season prices are 40 times the 7-Day price. Therefore, an annual travelcard between zones 1-6 was £2,640 in 2020, is £2,708 in 2021 and could be £2,780 in 2022. Annex Table A3: Zones 1 to 6: Travelcard and Cap prices in 2020 and 2021.

14 Mayor of London, *Letter to the Mayor to Secretary of State for Transport*, May 2021, [www.london.gov.uk/sites/default/files/mayor\\_to\\_transport\\_secretary\\_27\\_may.pdf](http://www.london.gov.uk/sites/default/files/mayor_to_transport_secretary_27_may.pdf).

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17 TfL, Programmes and Investment Committee 5th March 2020, page 55, [content.tfl.gov.uk/pic-20200305-public-agenda-documents.pdf](http://content.tfl.gov.uk/pic-20200305-public-agenda-documents.pdf) reported that as of March 2020 'works are ongoing to prepare for piling at the three remaining sites, including Burnt Oak, Hanger Lane and Northolt'. TfL, Programmes and Investment Committee 11 December 2020, [content.tfl.gov.uk/pic-20201211-agenda-and-papers-public.pdf](http://content.tfl.gov.uk/pic-20201211-agenda-and-papers-public.pdf). Mayor's Question Time, Step Free London Underground Stations, March 2021, [www.london.gov.uk/questions/2021/1161](http://www.london.gov.uk/questions/2021/1161) and [www.london.gov.uk/questions/2021/1162](http://www.london.gov.uk/questions/2021/1162).

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2021, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/990488/tfl-extraordinary-funding-and-financing-settlement-letter-1-june-2021.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/990488/tfl-extraordinary-funding-and-financing-settlement-letter-1-june-2021.pdf).

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