

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD3041

Title: Additional financial support for Transport for London

Executive Summary:

Following prolonged negotiations, Transport for London (TfL) have received a funding settlement from the Department for Transport (DfT) for the period to March 2024.

TfL's financial analysis confirms the settlement is inadequate to provide certainty of the ability to set a balanced budget, without further measures being in place. In order to enable TfL to meet this statutory requirement for a balanced budget, the GLA will as an immediate step, advance additional council tax income and release funding from the GLA Transport Services Funding Reserve and further provide a call-off grant facility of up to £500m of temporary additional funding, to be recovered by reducing TfL's future share of business rates, with the profile of such recovery to be set with regard to expected additional income or savings arising from the use of this funding and other changes arising from the settlement.

Determining the split between capital and revenue of funds advanced under the facility will be delegated to officers in light of the evolving GLA Group financial position.

This decision is made in the context of an agreement between the GLA and TfL to conclude arrangements for closer treasury management working, including TfL joining the GLA Group's collective investment vehicle and co-ordinating borrowing with the GLA Group Treasury team.

Decision:

That the Mayor:

- i. authorises the advance to TfL of £61.5m of council tax from 2023-24 to 2022-23
- ii. authorises £15.8m to be allocated to TfL from the GLA Transport Services Funding Reserve in respect of increased National Insurance Contributions
- iii. authorises the advance of up to £500m of additional funding, flexibly over 2022-23 – 2023-24, subject to the agreement with TfL's Chief Finance Officer of a recovery period at the time of each advance
- iv. delegates to the Executive Director of Resources in consultation with the Chief Investment Officer and the Chief of Staff, authority to determine whether such funding is provided as revenue or capital grant, with regard to groupwide capital spending and use of retained business rates
- v. in respect of grants determined to be capital, authorises the Chief Investment Officer, in consultation with the Executive Director of Resources, to borrow, allocate group cash in lieu of borrowing or allocate a share of any green bond proceeds in order to finance all or part of such grants, provided the GLA's affordable borrowing limit is not exceeded.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

8/9/21

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. The Department for Transport (DfT) has confirmed to Transport for London (TfL) a funding settlement for the period up to March 2024 (hereafter the settlement)¹, given the impact of COVID-19 and subsequent developments on its finances.
- 1.2. TfL's analysis indicates that the settlement is inadequate and there remains a risk of a funding gap. DfT anticipates that TfL can meet the funding gap through further efficiencies but TfL must prepare for the position where that highly challenging target cannot be met. The importance of TfL's services to Londoners and the statutory requirement for it to set a balanced budget means it is necessary for the GLA to provide support to TfL.
- 1.3. Given the critical need to secure funding through the settlement and allow TfL to move on from an entirely unsustainable succession of short-term funding arrangements, the Mayor and Executive Director of Resources issued the letter of comfort included as Appendix 1 to this report to enable TfL's board and officers to accept DfT's proposal.
- 1.4. The proposed facility covers a range of outcomes around TfL's central risk expectation and can prudently be financed by the GLA's cash reserves and borrowing capacity, with revenue implications that are proportionate to the GLA's available reserves. The facility will therefore provide TfL with sufficient comfort that it will be able to set a balanced budget for the period of the settlement.
- 1.5. The potential scale of the facility is nevertheless very material to overall GLA Group spending, and introduces risks and challenges detailed below. Accordingly, delegation is sought to enable a flexible approach to allocating groupwide resources, in particular ensuring revenue resources are optimally deployed.
- 1.6. As part of previous funding settlements, DfT required the Mayor to raise at least £500m of additional funds annually for TfL, from 2023-24. In response to this, amongst other measures, it was necessary for the Mayor to propose an increase in council tax across the three years from 2022-23 to 2024-25. The resulting income from 2022-23 was to be paid to TfL in 2023-24, ensuring it would receive the same income as from 2024-25 when the council tax increases are proposed to have been fully implemented.
- 1.7. The DfT's calculations underpinning the latest funding settlement assume that this 2022-23 council tax income is spent by TfL in the current financial year, and therefore it is proposed to transfer this money to TfL now rather than in 2023-24.
- 1.8. The Mayor transferred £216.9 million into the Transport Services Funding Reserve in 2021-22 from previously unallocated business rates income. It is proposed that £15.8 million of this be released and paid to TfL in 2022-23 to fund its increased National Insurance contributions primarily arising as a result of the new Health and Social care levy introduced by the government on 1 April 2022. Decisions will be made at a later date about the release of the remaining budgeted balance reserve expected to be held in that reserve by 31 March 2023 as a result of revenues expected to be received in 2022-23 through council tax, business rates and the general services grant.

2. Objectives and expected outcomes

- 2.1. The proposed measures will enable TfL to set a balanced budget in 2022-23 and 2023-24 while delivering essential services for Londoners.

¹ <https://tfl.gov.uk/cdn/static/cms/documents/tfl-settlement-letter-30-august-2022.pdf>

3. Equality comments

- 3.1. Under section 149 of the Equality Act 2010, as a public authority, the Mayor of London must have 'due regard' of the need to eliminate unlawful discrimination, harassment and victimisation as well as to advance equality of opportunity and foster good relations between people who have a protected characteristic and those who do not.
- 3.2. There are no direct public sector equality duty implications arising from this decision.

4. Other considerations

- 4.1. The proposed additional contribution from the GLA to TfL will reduce the GLA's financial flexibility, with groupwide implications. This is mitigated by the intention to recover sums advanced under the facility, however circumstances delaying such recovery may lead to delays in delivery of other projects.
- 4.2. There are no known conflicts of interest for those involved in the drafting or clearance of this decision.

5. Financial comments

- 5.1. The GLA's substantial cash balances and capacity to refinance internal borrowing would enable the GLA to make available a facility of this scale providing the sums can be recovered as envisaged.
- 5.2. Nevertheless, rising interest rates will increase the cost of providing such finance (in the case of allocating existing group cash, through foregone interest receivable and in the case of borrowing, through interest payable). This could be in the region of £15m per annum if the facility is used in full.
- 5.3. Local government finance legislation stipulates that revenue resources can be used to fund capital spending, but capital resources cannot fund revenue spending. Capital grants can either be funded at the outset (from capital or revenue income or reserves) or financed, pending later funding. The amount that can be made available for capital purposes in addition to existing budgets is therefore constrained by the GLA's level of cash (and/or borrowing capacity) together with the need for a high level of certainty that the amount can be repaid from revenue over a period commensurate with the benefits arising from the capital expenditure.
- 5.4. In addition to the constraint of cash being available, revenue grants must also be matched to an income source or release from a revenue reserve in-year. Groupwide, income sources are already fully allocated so flexibility to provide revenue support to TfL beyond planned amounts is limited to reprofiling (as with the £61.5m Council tax proposed in this decision form) or substituting capital resources for retained business rates revenue that is currently planned to fund capital grants.
- 5.5. TfL's requirement to maintain a significant cash balance for operational reasons adds a further dimension of complexity to the overall group cash position. To optimise the opportunities for deploying cash wisely within the group, i.e. maximising investment opportunities and minimising borrowing costs, it is desirable for TfL to participate in the shared investment arrangements managed by the GLA for itself and the other functional bodies and to co-ordinate material borrowing decisions and strategy with the GLA. A more detailed explanation of this rationale is set out in Appendix 2.
- 5.6. It is envisaged that the GLA will bear the small incremental investment risk increase involved in TfL joining the group pooled investment arrangements. This increases the GLA's risk in relative terms,

but in the context of overall cash movements means the absolute value at risk remains proportionate to the GLA investment volatility reserve as currently budgeted.

6. Legal comments

Mayor's general transport duty

- 6.1. Section 141(1) of the Greater London Authority Act 1999 (GLA Act) sets out the Mayor's "general transport duty", which is a duty to develop and implement policies for the promotion and encouragement of safe, integrated, efficient and economic transport facilities and services to, from and within Greater London. Under subsection (2) the Mayor must exercise the powers of the GLA concerning transport under Part IV of the Act for the purpose of securing the provision of the transport facilities and services mentioned in subsection (1). The general transport duty is reflected in the Mayor's Transport Strategy (MTS). Under section 142 the MTS must contain the Mayor's policies under section 141(1), and proposals for discharging the duty under section 141(2) above.
- 6.2. The financial comfort and support provided to TfL as described in this form is a key measure in securing the deliver overall implementation of the MTS for the delivery of transport services and the improvement of London's transport network, together with the associated investment in brings to London's economy.

GLA borrowing powers

- 6.3. Section 1 of the Local Government Act 2003 (2003 Act) gives local authorities (including the GLA) the power to "borrow money –
- (a) for any purpose relevant to its functions under any enactment; or
 - (b) for the purposes of the prudent management of its financial affairs."
- 6.4. In discharging its functions under Part 1 of the 2003 Act the Mayor must have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (as re-issued from time to time).
- 6.5. In addition, section 34(1) of the GLA Act gives the Mayor the power to do anything which is calculated to facilitate, or is conducive or incidental to, the exercise of the Mayor's other functions.
- 6.6. To the extent that the support provided to TfL by the GLA, as described in this form, entails borrowing by the GLA, it is authorised under both parts of section 1 of the 2003 Act, being relevant to the Mayor's general transport duty and for the purposes of the prudential management of the GLA financial affairs. The Mayor also has the function under sections 120 and 121 of the GLA Act 1999 of making capital and revenue grants to functional bodies (see below).

Affordable borrowing limit

- 6.7. Under section 3 of the 2003 Act the Mayor, after consultation with the Assembly, determines how much money the GLA and TfL can afford to borrow (affordable borrowing limit) and is under a duty to keep it under review. The London Assembly must be consulted before any new affordable borrowing limit is determined by the Mayor. The proposals for financial comfort and support provided to TfL described in this form do not involve any increase in the affordable borrowing limit determined for GLA for 2022-2023.

Use of retained business rates

- 6.8. The GLA's primary source of government support apart from Home Office police grant is through the business rates retention system introduced in 2013-14. Retained business rates replace funding previously provided for the GLA via its general grant and through revenue support grant to support fire services and policing in London as well as the former TfL capital investment grant and residual

operating grant. Sums in respect of retained business rates received by the GLA can be applied for any lawful purpose by the Mayor and are not subject to any ringfencing.

Capital grants from Mayor to TfL: section 120 GLA Act 1999

- 6.9. Funding derived from the sources identified in this form including, without limitation, borrowing and retained business rates, may be transferred to TfL by way of a combination of capital grant and revenue grant. Sections 120 and 121 of the GLA Act 1999 (as amended) give the Mayor power to pay grants towards meeting capital and non-capital (revenue) expenditure respectively, incurred or to be incurred by a functional body for the purposes of, or in connection with, the discharge of the functions of that body. A grant under section 120 or 121 must not be made subject to any limitation in respect of the expenditure which it may be applied towards meeting. However, a capital grant must be applied by the recipient body solely towards meeting capital expenditure by the recipient body, and a revenue grant may only be applied by it towards meeting its non-capital expenditure, as the case may be, incurred or to be incurred by that body for the purposes of, or in connection with, the discharge of its functions.
- 6.10. All funding from GLA to TfL under the approval given in this form will be made by means of grant under section 120 or 121, irrespective of the GLA's own source of that funding e.g. from GLA borrowing or from retained business rates.

7. Planned delivery approach and next steps

Activity	Timeline
Refine budgetary assumptions with TfL	Ongoing
Progress integration of treasury management arrangements	As soon as practicable in 2022

Appendices and supporting papers:

- Appendix 1 – Comfort Letter from Mayor of London and Executive Director of Resources
- Appendix 2 – Rationale for greater treasury management integration

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 – Deferral

Is the publication of Part 1 of this approval to be deferred? NO

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Luke Webster has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

David Gallie has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

David Bellamy has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

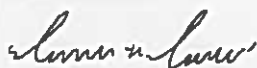
This decision was agreed by the Corporate Investment Board on 5 September 2022.

✓

EXECUTIVE DIRECTOR, RESOURCES: Enver Enver on behalf of David Gallie

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature:



Date:

5/9/22

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor.

Signature:



Date:

4/9/22

