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Spending Review 2013: TfL funding agreement

This letter sets out a funding agreement for Transport for London (TfL) for 2015/16 and a long-term funding guideline for capital up to and including 2020/21.

We continue to have a shared commitment to ensure delivery of the programme of tube upgrades, improvements to London's road network and investment in Crossrail, all of which are essential not just to London, but to the national economy as a whole. This funding agreement protects essential investment in London's transport while ensuring that TfL is encouraged to deliver ambitious plans to further improve its efficiency, so that it can make an appropriate contribution towards necessary savings in public spending.

Basis of funding agreement and reviews

1. For the avoidance of doubt, any years quoted in this letter are financial years.
2. This funding agreement ("SR2013") will replace any other outstanding funding agreements reached for 2015/16 onwards, including in relation to abatement in respect of Metronet capital grant. It sets out my present intentions in relation to:
 - the Department for Transport's (DfT) funding of TfL in 2015/16 as agreed between us;
 - a long-term funding guideline for capital up to and including 2020/21; and
 - the other funding streams noted in paragraphs 26 to 28.

3. It also sets out the basis on which the SR2013 has been drawn up, including the contributions needed from the Mayor to support his commitments to the Crossrail project. Except where otherwise expressly indicated, this letter sets out the totality of DfT grant and borrowing support for TfL for 2015/16 and a funding guideline for total capital support for investment projects for the period up to and including 2020/21. Although it is my firm intention as Secretary of State to provide the support detailed on the basis described, no commitment is given since I cannot fetter my ability, or that of a future Secretary of State, to determine final grant levels as I see fit in response to relevant considerations.
4. SR2013 has been determined after consultation with you, as Mayor, and TfL officials, and takes into account, amongst other things, what you have told me about the existing and anticipated spending commitments and potential revenue during this period.

Context of SR2013

5. It is our shared intention that TfL will manage the financing of the activities across its business and estate in 2015/16 within the levels of borrowing and grant funding set out below, and having regard to both the basis on which SR2013 has been drawn up and TfL's other sources of income, including non-domestic rates to be retained by the GLA under the Business Rates Retention (BRR) scheme. These activities include:
 - TfL's transport and corporate activities;
 - Pensions;
 - TfL's obligations toward third parties;
 - PFIs;
 - TfL's Crossrail contribution; and
 - The funding of the Independent Investment Programme Advisory Group.
6. To be assured that the financial support provided to TfL delivers value for money to the taxpayer and to provide independent assurance of TfL's Investment Programme, this settlement assumes your continued commitment to the Independent Investment Programme Advisory Group (IIPAG) in line with the Terms of Reference agreed in SR2010.

Deliverables

7. SR2013 has been drawn up on the basis of your confirmation that these funding and borrowing limits will allow TfL to deliver the milestones listed at Annex B. We have agreed that the milestones and delivery dates listed reflect your current delivery programme.

Other rail projects

8. The Department will fund the electrification of the Gospel Oak to Barking line and the freight links at each end during railway Control Period 5, provided TfL makes a £25m contribution to the capital costs and fulfils the other supporting requirements offered in the Commissioner's letter to the Permanent Secretary of 29 November 2012.
9. The electrification project will be added to the portfolio of electrification work being undertaken by Network Rail, with TfL and the Department working with Network Rail to facilitate timely and efficient delivery. The Department will discuss with TfL the timing and spread of TfL's funding contribution.
10. I will also explore the case for extending the London Overground Line from Barking to Barking Riverside.
11. I have agreed to provide up to £2m in funding to support the completion of a funding and financing feasibility study that looks at the proposed Crossrail 2 project. The detailed terms of reference for the study will be agreed between my Department, HM Treasury, Infrastructure UK and TfL in due course.
12. This study should respond to the challenge to determine whether at least half of the project's cost can be met through private sources, with ambitious levels of private funding used to deliver the capital investment and an ambitious portion of the overall cost of the scheme coming from alternate funding sources such as retained business rates and developer contributions. This should build on the experience from Crossrail 1, High Speed 1, High Speed 2 and Network Rail investment and the extension of the Northern Line to Battersea. In addition to the funding challenge, the study should be used to assess how construction sector capacity constraints might impact on the deliverability and cost of the scheme.
13. I have already committed to review the safeguarding direction for the proposed route of Crossrail 2. I also note the consultation currently being carried out by TfL and Network Rail on the strategic case for Crossrail 2 and the two proposed route options.
14. I have also agreed, in principle, to devolve responsibility for the West Anglia services from Liverpool Street to Enfield Town, Cheshunt (via Southbury) and Chingford in the Greater Anglia rail franchise to TfL. My letter of 3rd July 2013 sets out the details of this agreement.

Future Reviews

15. It is currently intended that a new funding agreement to succeed SR2013 will be drawn up no later than 2015, for 2016/17 onwards. In addition, SR2013 may itself be subject to review at any point prior to that time, for example in the context of a wider government Spending Review or other wider pressures on the Department's finances or those of the Government as a whole.
16. As Secretary of State, I also reserve the right to review SR2013 if there is significant deviation from the commitments referred to in paragraphs 6 to 7 above or if TfL does not meet its Base Funding Amount payments to the Crossrail project.
17. In any future review, the Secretary of State will take all relevant circumstances into account including:
 - a) Delivery of the transport infrastructure milestones listed in Annex B;
 - b) Adherence to the agreed borrowing limits listed below in this letter;
 - c) The extent to which TfL has managed its business and estate as described in paragraph 5 above, including use that TfL and the Mayor have made of their capacity to raise further income and reduce expenditure; and the extent to which any exceptional pressures on TfL's budget could have been or can be prevented or alleviated by them;
 - d) DfT's public expenditure position and other pressures on the Department's budget and the finances of the Government generally;
 - e) Whether TfL has met its Base Funding Amount obligations to the Crossrail project; and
 - f) Amounts available for the GLA to transfer to TfL under the BRR scheme.
18. I acknowledge that in order to achieve some of the Annex B milestones efficiently TfL will need to enter into contractual commitments that extend beyond 2020/21. Where TfL have obtained approval from the Department and HM Treasury for significant commitments beyond 2020/21, the Government will take account of these commitments when considering levels of grant and borrowing headroom in future Spending Rounds.

Funding

Financial year 2015/16 funding and long-term capital funding guideline

19. My firm intention is that, subject to the above and the final grant determination process, I will provide funding to TfL in 2015/16 as set out in Table 1 below. This includes an element of funding previously provided under Bus Service Operators Grant (BSOG), in accordance with changes introduced in 2013.
20. From 2015/16 the Investment Grant element of the GLA Transport Grant will be paid to TfL as a capital grant. The remaining General Grant element of the GLA Transport Grant will continue to be paid as resource under Section 101 of the GLA Act 1999.
21. Recognising the need for sustained infrastructure investment, I intend to make long-term funding for capital available up to and including 2020/21 as set out in Table 1 below. This funding is intended to support the delivery of TfL's capital investment programme, which includes the schemes and milestones set out in Annex B. This long-term funding guideline for capital will be subject to the applicable determination process and, as with funding for 2015/16, is subject to the provisions expressed in the above paragraphs.

Table 1: GLA Transport Grant

£m (cash)	15/16	16/17	17/18	18/19	19/20	20/21
General Grant	629	To be determined in future Spending Review				
Investment Grant	925	941	957	973	990	1,007

22. TfL should continue to work towards a situation in which their non-grant sources of income cover their operating costs. The level of General Grant set for 2015/16 and profile of the Investment Grant to 2020/21 should not be interpreted as the level or trend to be expected going forward beyond these dates.

Borrowing

23. TfL's borrowing is to be contained within the profile in Table 2. The borrowing limit set in each year is available for use in that year only and cannot be rolled over to future years. The Mayor should ensure that, unless necessary, TfL uses the borrowing limits provided to fund capital expenditure within the specified year and that TfL does not undertake borrowing in advance of need. It is recognised that the GLA and TfL will need to raise additional borrowing beyond the period shown below.

Table 2: TfL prudential borrowing limits

£m (cash)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
TfL borrowing	600	700	700	600	600	600

24. The above borrowing headroom represents the entirety of borrowing support for the TfL Investment programme, including borrowing relating to the procurement of the Piccadilly Line Fleet, Crossrail Rolling Stock and any borrowing that TfL chooses to undertake to fund Crossrail. No further borrowing should be undertaken without specific agreement from HM Treasury.
25. Guidance on interpretation of borrowing limits and PFI accounting treatment is set out at Annex A.

Other Funding

London Overground

26. Grant payments in respect of the London Overground will continue to be made separately, and will be set in accordance with the agreed Grant Memorandum for the operation of the Silverlink Metro Network, as amended by the sub-agreement following the transfer of stations to TfL management on implementation of the new Southern Franchise in September 2009.

ITSO on Prestige

27. Discussions are ongoing in relation to the funding mechanism for ITSO on Prestige operating costs and the acceptance of contactless bank cards on national rail services around London.

Free school planning obligations

28. Reflecting the strategic importance that the Government attaches to the development of successful free schools, we have also agreed to provide you with an additional one-off grant of £15m in 2013/14 on the understanding that you will not seek planning obligations for the cost of bus services serving these schools for the duration of this parliament.

Business Rate Retention

29. From April 2013, TfL has received a proportion of funding through the Business Rate Retention scheme, in which the GLA passes TfL an agreed share of locally retained business rates, including an amount to reflect changes to the payment of BSOG introduced in 2013. My expectation is that this funding stream will continue to be made available by the GLA to TfL in 2015/16 and that it will increase each year in line with the Retail Price Index.

Crossrail

30. Alongside TfL's prudential borrowing for Crossrail (to be contained with the borrowing profile at paragraph 24), the upper limit of the Department's yearly Crossrail grant contributions (the Department's Sponsor Contribution to Crossrail) is set out in Table 3 below. The DfT Crossrail grant in Table 3 is predicated on the agreements we have reached separately on the funding of Crossrail. Any increase in the costs of the project will be managed within the Department for Transport's and TfL's budgets and in line with the sponsor contingency funding agreements that exist for the project.

Table 3: Crossrail Capital Grant

£m (cash)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Crossrail Capital Grant	800	0	0	0	0	0

31. In addition to the grant profiles set out in Tables 1 and 3, I will provide TfL with an additional £100m of grant funding in 2013/4, recognising the costs of procuring Crossrail rolling stock. HM Treasury have agreed that this payment can be held in the Sponsor Funding Account until 2015/16, at which point it will be used to fund the Crossrail rolling stock procurement. HM Treasury will consider the case for permitting TfL to make use of the flexibilities in the funding provisions contained in the Crossrail Project Development agreement, taking into account the project funding requirement at the time and the potential impact on the public finances.

32. Both DfT and TfL have recognised that there is a Crossrail operating deficit in the early years of operation as a result high early years fixed costs and limited operational revenues as a result of the Crossrail opening strategy and slow build up in demand. However, it has also been recognised that the Crossrail service will make significant operational surplus from the early 2020s onwards.
33. As the Crossrail project begins to move to the operational phase it is now appropriate to clarify the position with regard to these operational deficits. We understand that TfL has included assumptions with regard to these costs and benefits in its forward Business Plan and therefore believe it is appropriate to make it clear that our expectation, informed by the assumptions on fares in the Crossrail business case, is that TfL bears the early years operational deficits but that TfL will keep the significant operational surpluses in later years.
34. It should be noted that this Spending Review settlement does not include any assumption regarding payments between DfT and TfL (or vice versa) regarding the Greater Anglia stopping services that operate between Liverpool Street and Shenfield and that transfer from DfT to TfL (and CTOC) in May 2015.
35. These payments are assumed to be outside this SR2013 letter and will be dealt with separately under the Crossrail Transferring Services Review and Transfer Sum Process.
36. Under the Crossrail Sponsors Agreement it is expected that the Secretary of State and TfL will be held harmless for this change in management and that an appropriate payment between TfL and DfT or vice versa will be made between the parties to reflect the appropriate Transfer Sum.

A handwritten signature in blue ink, consisting of a stylized 'P' followed by 'atrick' and a horizontal line above it.

THE RT. HON. PATRICK McLOUGHLIN

Annex A

Guidance on interpretation of borrowing limits and PFI accounting treatment

The borrowing limits set out in this letter relate to net additions to borrowing, or other on-balance sheet liabilities, across the TfL Group. Within these overall limits, TfL should manage its liabilities as it sees fit; this may include swapping finance leases (as measured for National Accounts purposes) with borrowing undertaken at the TfL level, subject to there being no overall increase in liabilities across the TfL Group.

Following the adoption of IFRS from 2009/10, HM Treasury has prepared guidance for central Government Departments regarding the budgetary treatment of PFIs. In determining whether PFI transactions undertaken by TfL or its subsidiaries score within the borrowing limits, TfL should take account of the impact of those transactions on the National Accounts rather than the accounting treatment under IFRS. To determine whether a particular transaction should be treated as on or off balance-sheet for National Accounts purposes, TfL should follow the guidance on HM Treasury website: "Technical Guidance on the Application of the Standards used in the production of the National Accounts to PFI and Similar Transactions - 2 September 2009". TfL should consult with the Department if there is any uncertainty over the interpretation of this guidance.

Any increase in TfL's balance sheet liabilities caused by a reclassification of PFI transactions signed before 31 March 2009 as a result of the move to IFRS will not be required to be absorbed within TfL's borrowing limits. Contracts signed before 1 April 2009 will continue to be treated as they were under UK GAAP for budgeting purposes. The Department is aware that other changes to the treatment of leases under IFRS are under consideration. No decisions have yet been taken on how such changes, if they were to come about, would affect budgets and borrowing limits in the public sector.

Annex B

INVESTMENT PROGRAMME SCHEMES AND MILESTONES

SR2013 has been drawn up on the basis that this funding will allow TfL to deliver a number of strategically important projects to specified milestones, set out below. The milestones listed reflect TfL's current delivery programme.

The Department is providing capital funding listed in Tables 1 and 2 and has agreed to borrowing limits listed in Table 3 for these strategically important projects because they meet the following criteria:

- they help to relieve congestion and improve reliability on key routes in the capital;
- they are expected to deliver high value for money for the UK taxpayer; and
- they provide a good fit with broader UK transport priorities.

The Department has not assessed the individual business cases of the projects, but TfL has provided the Department with an assessment of the value for money of spend of schemes, and their strategic case.

Business cases are developed by TfL at an early stage and maintained throughout the lifecycle of the project. They help inform which projects should progress and the options that offer optimal value for money. TfL business cases follow HM Treasury's 'five case best practice approach' in a format adapted for TfL's requirements. The five cases are covered by a mix of documents: the Business Case Narrative, the Authority Paper, the Stage Review Report or the Procurement Strategy / Tender Evaluation Report. TfL business cases follow the DfT (TAG) and HM Treasury Green Book standards.

These documents (and others) are examined at Stage Reviews by internal and external assessors, and IIPAG members depending on size and risk to determine whether the project is in a fit state to continue or to identify areas for improvement.

Milestones due to be reached by end 2021

Planned Delivery Date	Description of Project and Milestone / Key Deliverables
2014	Introduction of contactless bank card technology for fare payment across all modes
2014	A new ticket hall and gateline to serve Paddington Station (Hammersmith & City line), and a new station entrance to serve the Paddington Basin area, with step-free access and a significant increase in passenger circulation space throughout.
2014	Northern Line Upgrade complete, delivering 20% increase in capacity
2014	Roll out of new air conditioned trains on Circle, Hammersmith & City Lines complete
2015	New entrance to Waterloo and City Line platforms opens at Bank.
2015	Investment in existing signalling, trains, safety critical station equipment and civil assets (e.g. bridges, tunnels, embankments) resulting in 18% improvement in reliability on the Tube as measured by network-wide Lost Customer Hours.
2015	TfL to issue Invitation to Tender for the first phase of a new generation of low-energy, high-capacity deep tube rolling stock which would ultimately be applicable to the Bakerloo, Piccadilly and Central lines
2016	Roll out of new air conditioned trains on District Line complete
2016	Victoria Station Upgrade – Northern ticket hall complete
2016	Tottenham Court Road (congestion relief / Crossrail interchange); new passenger facilities open
2017	Completion of Structures and Tunnels Investment Programme (Phase 1), including Hammersmith Flyover Phase 2, Chiswick Bridge, Woodlands Retaining Wall, Highbury Corner Bridge, Ardleigh Green Bridge, Power

	Road Bridge, Upper Holloway Bridge and Fore Street Tunnel
2017	Bond St (congestion relief / Crossrail interchange) complete
2018	Implementing Split Cycle Offset Optimisation Technique (SCOOT) at a further 1,500 sites across the network (for a total of 4,500)
2018	25% of track on Bakerloo, Central, Victoria and Sub Surface Lines replaced since 2010
2018	Full signalling upgrade across the Sub-Surface network complete
2018	Sub-Surface Lines power works complete; Sub-Surface Line Upgrade Complete delivering 33% capacity increase
2018	Victoria Station Upgrade – full scheme complete
2021	Completion of Structures and Tunnels Investment Programme (Phase 2), including Westway, Twickenham Bridge, Country Way Viaduct, Rotherhithe Tunnel, Blackwall Tunnel, Brent Cross Structures, Lambeth Bridge, Vauxhall Bridge, Battersea Bridge, George Green Tunnel and Green Man Tunnel
2021	Works to relieve station congestion on Northern Line at Bank complete