



Department for Transport

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Dear Steve

GLA TRANSPORT GRANT

1. I am writing to update the figures in the 2010 Spending Review letter of 20 October 2010¹ (“**the SR10 letter**”) to reflect:
 - a. The Secretary of State’s intention in respect of the GLA Transport Grant for the financial years 2013/14 and 2014/15 following reductions to resource spending of 1% and 2% respectively in these years announced in the Autumn Statement 2012, and following the Secretary of State’s consultation with the Mayor of 5 March 2013;
 - b. the implementation of the Business Rates Retention (BRR) Scheme under the Local Government Finance Act 2012; and
 - c. the devolution of the Bus Service Operators Grant (BSOG) to TfL.
2. An explanation of these changes is provided below, together with the updated figures at Table 1 below. The Secretary of State has already consulted the Mayor with regard to the reductions to the GLA Transport Grant in FY 2013/14 and noted his response. This letter also reflects the Secretary of State’s current intentions for the GLA Transport Grant determination for FY 2014/15 following the Mayor’s response to the recent consultation.
3. All other provisions in the SR10 letter still stand (subject to changes agreed) and apply equally to the varied grant and other amounts set out in this letter. In particular I would highlight the paragraphs relating to deliverables and the basis of this settlement; the indicative nature of these figures; and the possibility of review of the figures by the Secretary of State, should the need arise.

¹ As amended by Jonathan Sharrock’s letter of 8 November 2012

Business Rates Retention (BRR)

4. The *Business Rates Retention: Policy Statement* issued by the Department for Communities and Local Government (DCLG) on 21 November 2012² confirmed the portion of locally retained non-domestic rates to be kept by the GLA for the purposes of transport funding under the BRR scheme (the “**BRR amounts**”). The BRR amount for FY 2013/14 was £770m, intended to represent a corresponding reduction of 50% to the general grant element of the GLA Transport Grant (the “General Grant”) for that year. We are therefore reducing the General Grant for FY 2013/14 by £770m.
5. In respect of FY 2014/15 the BRR amount for the purposes of transport funding was also £770m. This was increased to £793.6m to reflect an RPI increase for this year. The General Grant will be therefore be reduced by £793.6m in this year.³
6. However, the Chancellor announced 1% and 2% reductions in resource spending for FY 13/14 and FY 14/15 respectively in the Autumn Statement 2012. These have been implemented as a 1.5% cut in BRR amounts for both years. This results in adjusted BRR amounts of £758m in FY 2013/14 and £782m in FY 2014/15 (see Table 2). These adjusted BRR amounts were confirmed by the Secretary of State in the Local Government Finance Settlement on 4 February 2013.

Devolution of Bus Service Operators Grant (BSOG)

7. In addition to the transfer of the General Grant element into the BRR mechanism going forward, some BSOG funding will also be transferred. As you are already aware, the Secretary of State for Transport will from 1 October 2013, remove BSOG eligibility for services that are operated under contract to TfL. For the second part of FY 2013/14 and for FY 2014/15 the intention is instead to provide support to TfL in respect of this via the BRR mechanism, and via an element included in the General Grant.
8. Following consultation with TfL officials, the sum to be transferred to the GLA/TfL under this mechanism was to be £93.1m per year.
9. In respect of FY 2013/14, bus operators under contract to TfL will continue to be eligible to claim BSOG from DfT up to 1 October 2013, i.e. for the first half of the financial year. Therefore the sum to be transferred to the GLA/TfL was to be £46.55m (i.e. half of £93.1m). Of this, £45m was to be allocated through the BRR mechanism. However, following the reductions in resource spending described in paragraph 7, this figure will be reduced. DCLG have confirmed that an adjusted figure of £44.325m will be

² <https://www.gov.uk/government/publications/business-rates-retention-policy-statement>

³ Using an inflation rate of 3.07% against the 2013/14 baseline

available in the BRR amounts to be retained by the GLA. The residual £1.55m will be added to the General Grant.

10. In FY 2014/15 £46.38m was to be allocated via the BRR mechanism, with the remaining £46.72m provided under the General Grant for that year. Again, following the reductions noted in paragraph 7, DCLG have reduced the figure of £46.38m to £45.684m.

Amended figures

11. In view of the above and subject to the annual grant determination process, it is the Secretary of State's present intention that the GLA Transport Grant⁴, will be paid according to the profile set out in the table below. These figures replace those previously agreed in SR10 letter (as amended in Jonathan Sharrock's letter of November 2012).

Table 1

£m (cash)	November 2012 profile		March 2013 re-profile ⁵	
	13/14	14/15	13/14	14/15
General Grant	1,873	1,639	1093.520	835.015 ⁶
Investment Grant	904	928	894.960	909.440
Total GLA Transport Grant	2,777	2,526⁷	1988.480	1744.455

12. Locally retained non-domestic rates to be retained by the GLA under the BRR scheme to reflect the changes to BSOG and the GLA Transport Grant detailed above are currently confirmed by DCLG as follows:

Table 2

£m (cash)	November 2012 profile ⁸		March 2013 re-profile	
	13/14	14/15	13/14	14/15
BRR (ex-BSOG)	45	46.38	44.325	45.684
BRR (ex-General grant)	770	793.617	758.450	781.712
Total BRR allocation in respect of Transport⁹	815	839.997	802.775	827.396

⁴Comprising a General grant, and an Investment Grant to support the delivery of the Annex B milestones set out in the SR10 letter.

⁵ Including £1.55m of devolved BSOG in 2013/14 and £46.72m of BSOG in 2014/15 (see paragraphs 9 and 10).

⁶ The net figures for the GLA Transport Grant include an abatement of -£41m in respect of the separate Metronet capital grant set out in the SR10 letter, which has been removed from the General Grant prior to applying the cuts.

⁷ Taking into account an abatement of -£41m in respect of the separate Metronet capital grant set out in the SR10 letter

⁸ As set out in the DCLG BRR policy statement published on 21 November 2012:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/14939/Business_rates_retention_policy_statement.pdf

⁹ Comprising devolved GLA Transport Grant and BSOG.

13. Locally retained non-domestic rates to be kept by the GLA under the BRR scheme will be distributed by the GLA to functional bodies under section 102 of the Greater London Authority Act 1999, which will be amended by article 3 of the Local Government Finance Act 2012 (Consequential Amendments) Order 2013 to allow for this.
14. As previously discussed with TfL, and subsequently set out in the draft TfL Business Plan approved by the TfL board chaired by the Mayor on 12 December 2012¹⁰, the Department's intent remains that the allocation of funding through the BRR scheme should not reduce the overall amount of money available to TfL over the Spending Review period, as set out in the SR funding agreement letter, subject to the revisions described in tables 1 and 2. Therefore the Department expects that the GLA will continue to use at least the total BRR allocation in respect of transport in Table 2 above to fund TfL.
15. We do not therefore intend to replace the amounts transferred in to the BRR mechanism with additional grant funding. It is our expectation that this approach will continue beyond the end of FY 2014-15.


Future spending settlements

16. It is the Department's intention to draw up a new funding settlement for 2015/16 later this year.
17. The SR10 letter states: "*...we have a shared commitment to protecting the tube upgrades and Crossrail, recognising the importance of these projects to the London and national economy. I acknowledge that TfL will need to enter into commitments in relation to some of the projects at Annex B which extend beyond the current Spending Review period, and that the GLA and TfL will need to raise additional borrowing beyond 2014/15 to meet your Crossrail funding commitments. The Government will take account of these commitments in considering levels of grant and borrowing support in the future...*" This remains the case.
18. We continue to share TfL's commitment to a sustained programme of investment including tube upgrades and delivering Crossrail, recognising the importance of these projects to the London and national economy.
19. DfT officials will continue to discuss with HM Treasury the possibility of capitalising the element of grant used to fund investment ahead of the 2015/16 spending round.
20. In the 2013 Budget, the Chancellor announced further reductions to resource budgets for unprotected departments of 1% in 2013/14 and 2014/15. It is our intention to absorb this additional pressure in 13/14

¹⁰ http://www.tfl.gov.uk/assets/downloads/corporate/tfl-business_plan-2012.pdf

without making further reductions to the TfL grant in this year. We are considering options for accommodating the 1% reduction to resource spending in 14/15 and will consult you on any proposals to reduce the projected TfL grant before taking a decision.

Yours sincerely

A handwritten signature in cursive script that reads "Pam ee Hayes". The signature is written in black ink on a light-colored background.

Mrs PJ Hayes