



Department
for Transport

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From the Secretary of State
The Rt. Hon. Grant Shapps

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17 December 2021

Dear Sadiq,

TRANSPORT FOR LONDON SETTLEMENT LETTER

1. This letter amends the third extraordinary funding and financing agreement (the D3 Agreement) for Transport for London (TfL), set out in my letter to you of 1 June 2021, to ensure TfL continues to provide transport services in London.
2. The D3 Agreement covered the Funding Period of 29 May to 11 December 2021, which was extended to 17 December following my letter to you on 13 December. We are varying the terms of the current D3 Agreement as follows:
 - a. Extension of the current D3 Agreement by 7 weeks with the 'Revised Funding Period' defined as 29 May 2021 to 4 February 2022.
3. This amendment to extend the D3 Agreement is required because of the original delay in putting forward the specific proposals that you intend to pursue to generate £0.5-1bn of new income for TfL, as required by the D3 Agreement, and because further specificity and information was required in respect of the proposals you set out in your letter of 8 December. HMG will consider the information you have now provided in your letter of 15 December during this extension.
4. Furthermore, while the impact of the Omicron variant and its possible effect on passenger demand remains unclear, this extension will allow time to monitor developments during the remainder of December and January.
5. In your letter of 15 December, you refer to TfL publishing a paper in 'January 2022' in respect of road user charging and relating to air quality and tackling the climate emergency. Please provide us with a working draft of that paper by 14 January 2022 and a final draft by 19 January 2022 to enable HMG to consider it before the end of the Revised Funding period. Following this, HMG is prepared for a new extraordinary funding agreement to follow the D3 Agreement and is ready to work with TfL to consider a longer-term capital settlement to support TfL to achieve, and subsequently maintain, financial sustainability by April 2023.

6. HMG re-iterates its position that no revenue losses as a result of decisions made by the Mayor will be met by central government, unless they have specifically been agreed by HMG in advance. If you wish to proceed with service changes, operating cost increases or policies that will cause net revenue reductions since the June 2021 settlement, or in the future, you must make up the revenue loss from extra income sources without recourse to additional borrowing, savings, service changes or deferrals. This is in addition to the £500m-£1bn of new income you have agreed to generate from April 2023.
7. In addition to the variation set out in paragraph 2 above, I can confirm that I am content to amend two terms contained within D3 Agreement relating to paragraphs 19 and 22 and confirm, for completeness, three previous changes to paragraphs 15, 25ii and Annex A(B)(iv) to the D3 Agreement, as previously set out in my letters to you dated 7 July 2021, 21 October 2021 and 10 November 2021 respectively. All of these amendments are set out in Annex A to this letter.
8. All other provisions of the D3 Agreement will remain in place:
 - a. There will continue to be a periodic Top Up mechanism pursuant to the terms of the D3 Agreement based on actual passenger revenue cash receipts compared to the D3 Passenger Revenue Scenario as set out in Annex B below.
 - b. The final reporting period True Up Process shall commence at the end of the Revised Funding Period. The True Up Process shall determine whether any final payment by DfT of True Up Grant or by TfL of a True Up Repayment for the Revised Funding Period is required.
 - c. In view of TfL's high cash balance, and the deferred extraordinary grant payment of £80M that the Government made on 10 December, no additional instalment of extraordinary grant will be paid during the Revised Funding Period. In line with the 1 June agreement, we expect TfL to maintain useable cash reserves of £1.2bn in this period and we will continue to work with TfL throughout the Revised Funding Period to reduce their cash balance accordingly.
9. We recognise that Transport for London needs to take reasonable steps to meet its statutory obligations and to maintain and operate the transport systems for which it is responsible. In doing so you will need to consider arrangements beyond the duration of the Revised Funding Period, including making financial commitments that fall outside this period. These commitments will be recognised in any future funding agreements to be put in place.
10. The Government remains committed to supporting London and the transport network on which it depends via its funding settlements. These settlements recognise the reliance of London's transport network on fare revenue, and Government's commitment now and in the future to mitigating loss of fare revenue as a result of the pandemic. I look forward to continued discussions.

Rt Hon Grant Shapps MP

SECRETARY OF STATE FOR TRANSPORT

Annex A – Changes to the 1 June 2021 Transport for London Settlement Letter

Paragraph reference	Previous term	Amended term
15	A review for London Underground and Rail will take place by the end of September that will allow HMG and TfL to reconsider required service levels in light of both outputs from the ongoing review set out in paragraph 8(e) above and observed demand across the network. A review for buses should take place in July and September subject to the result of the Government's social distancing review.	A review for Buses, London Underground and Rail will take place by the end of September 2021 that will allow HMG and TfL to reconsider required service levels in light of both outputs from the ongoing review set out in paragraph 8(e) above and observed demand across the network.
Annex A(D) ii	TfL to provide a first review for buses by the delivery date (19 July 2021)	This condition was removed in light of the above term.
Annex A(B) iv	TfL shall undertake necessary consultation on the preferred option or options to enable a decision on new revenue sources by the delivery date (12 November 2021)	TfL shall undertake necessary consultation on the preferred option or options to enable a decision on new revenue sources by the delivery date (8 December 2021)
19	Within this funding, TfL will continue to prioritise the urgent delivery and operation of a temporary walking and cycle ferry as a replacement crossing for local communities affected by the closure of Hammersmith Bridge.	TfL will cease the urgent delivery and operation of a temporary walking and cycle ferry as a potential replacement crossing at Hammersmith Bridge and terminate all associated commercial activity. All reasonable costs associated with the termination process will be met from within this funding.
22	TfL will continue with its existing plan to increase fares in line with their Business Planning assumption of an overall fares increase of RPI+1% on fares under the Mayor's control in January 2022.	TfL must, as a minimum, align their fares increase for 2022 with the fares change on national rail. Should the Mayor choose to increase fares by lower than the Mayor's planning assumption of RPI+1 for 2022, any reduction in income from April 2023, that impacts TfL reaching financial sustainability, will not be met by HMG funding.
25ii	The first payment shall be for £250m and shall be made on 7 June 2021, the second payment shall be for £250m and made on 28 June with future payments made every 4 weeks starting 28 June 2021. The third and fourth payment shall be for £200m. The fifth payment shall be for £100m and the sixth for £80m. This schedule will be kept under review between the parties.	The sixth payment shall now be made on 10 December 2021

Annex B – 2021/22 Passenger Revenue Scenario

	Period 10	Period 11
Passenger Revenue Scenario	£276m	£293m