



Department
for Transport

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

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Dear Sadiq,

I am writing in response to your letters dated 27th and 29th May 2021 in which you set out your thinking around the then draft settlement letter for TfL.

I am pleased that we have now worked through the various issues and concluded this third extraordinary deal. This is good news for Londoners and shows this government's ongoing commitment to the capital, with what will now be over £4bn of government emergency support provided to TfL because of fare revenues lost as a result of the Covid-19 pandemic.

As I mentioned when we spoke, I would like to place on record my disappointment that details of the negotiation appeared in the Financial Times prior to the deal being concluded. I had previously welcomed your suggestion that we worked together closely in a spirit of cooperation. The publication of details in advance of the settlement's conclusion simply degrades trust and ends up serving Londoners poorly. I nonetheless propose that we put this unfortunate briefing behind us and work constructively for London's future.

Turning to the future, in the last agreement, on 31 October 2020, you committed to submit a plan for how TfL would "*commit to managing its affairs to reach financial sustainability*" with a target date of April 2023. Financial sustainability was defined as "*TfL's ability to cover, from sources available to it (including the consideration of potential new sources of income but excluding government grant) operating expenditure, capital renewals, servicing and repaying debt, and capital enhancements.*" We continue to be clear that TfL is not expected to fund major capital enhancements and

renewals (for example, replacement of life-expired rolling stock and signalling) solely from its own operating income.

However, the plan you submitted in January 2021, though welcome, fails to set a path to financial sustainability. It is clear that significant work went into producing the document; yet it does not appear to engage with the majority of the recommendations made in your own Independent Review (TfL Independent Review) which you commissioned in July 2020 and published in December to explore ways that TfL could achieve financial sustainability.

As you are aware, the government has made significant resources available to both TfL and the GLA. Specifically, you have new income from retained business rates, Business Rate Supplement and extended Mayoral Community Infrastructure Levy (MCIL2). This has replaced the government operating grant previously paid.

Since the pandemic, the Government has additionally, and rightly, given TfL very significant emergency funding support, more than £3bn in 2020-21, to address the shortfalls in fare revenue caused by the Covid-19 pandemic. The new settlement takes TfL's government emergency support since the beginning of the pandemic to over £4bn.

However, the financial sustainability remit which you agreed explicitly ruled out new permanent government operating grant - a position endorsed by your own Independent Review, which stated that such a grant "*blurs accountability and will lead to disputes*" and that "*incentives on TfL management to operate efficiently would be weakened.*"

In this context, I do want to reiterate that we regard any proposal to transfer Vehicle Excise Duty income from the Exchequer to TfL as, in effect, a permanent government grant. It also cannot be right to impose a "boundary tax" on non-Londoners to pay for services mainly enjoyed by Londoners. People living outside London should not be made to pay for the pursuit of policy choices over which they have no say.

The Government will continue to consider requests for help with funding major capital programmes, because good transport infrastructure in London is in the interests of the whole country. However, the second wave of Covid and further national lockdown means that recovery from the pandemic has taken longer and future transport demand remains more uncertain than we would have hoped in October. It is thus still too early to make long-term capital funding commitments of the kind you seek - many of which appear to assume that, for instance, commuter demand to central London will return exactly as before.

We have therefore provided this third short-term deal on a very similar basis to the one you agreed last October. This will give us all more time to understand future demand better, and to draw up a longer-term funding agreement which all sides, including all those paying for it, can support. I believe that the best way to achieve such a longer-term deal would be to engage with the relevant recommendations of your own Independent Review.

Lastly, I have been very concerned to see Hammersmith Bridge – a major London conduit over the Thames – left closed for such a long time. The bridge belongs to the London Borough of Hammersmith and Fulham and the maintenance and upkeep falls entirely in their hands. This would normally be supported by TfL. Given the situation discussed above, the Government has made a generous offer for the reopening Hammersmith Bridge and I expect that we will see the Bridge open to pedestrians and cyclists this summer, subject to confirmation of engineer reports. Whilst I am sure this will be a welcome step forward, the end goal must be for the Bridge to be reopened to motorised traffic. In the coming months I expect to see a robust plan from the Council for the initial stabilisation works as the first step to setting out how that will be achieved.

As you know, we support TfL and have explicitly cited some of its services as a model in our recent rail reforms. The deal proves the Government's continued commitment to supporting transport in London, but I reiterate again that it is vital that you and TfL fully engage on the difficult choices ahead to achieve financial sustainability in a way that is fair and reasonable to UK taxpayers.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Grant Shapps', written in a cursive style.

Rt Hon Grant Shapps MP

SECRETARY OF STATE FOR TRANSPORT