Board

Date: **20 October 2021**

Item: **Report of the Meeting of the Finance Committee held on 6 October 2021**

This paper will be considered in public

1 Summary

1.1 This paper provides a summary of the items considered by the Finance Committee at its meeting on 6 October 2021.

2 Recommendation

2.1 **The Board is asked to note the report.**

3 Committee Agenda and Summary

3.1 The papers for the meeting of the Committee held on 6 October 2021 were published on 28 September and 1 October 2021 and are available on the TfL website with a link to the video recording of the meeting on TfL's YouTube channel.

3.2 The main matters considered by the Committee were:

(a) Use of Delegated Authority;

(b) Finance Report;

(c) Treasury Activities;

(d) Treasury Management Strategy 2021/22 and Treasury Management Policies – LTM and LTIG Investments Update;

(e) Prudential Indicators – Outturn for the Year Ended 31 March 2021;

(f) Funding Update on TTL Properties Limited;

(g) Power Purchase Agreement (PPA 1 – Operational Assets); and

(h) Spending Review Submission.

3.3 A summary of the items considered, and decisions taken is provided below. The more detailed minutes of the meeting will be published ahead of the meeting of the Committee on 24 November 2021.

4 Issues Discussed

Use of Delegated Authority

4.1 The Committee noted the paper on the use of delegated authority. Since the meeting on 23 June 2021, there had been: one use of Chair's Action in relation to amendments to advertising concessions; no use of authority delegated by the Board; three uses of Procurement Authority granted by the Commissioner or the Chief Finance Officer but no use of Land Authority; and one Mayoral Direction to TfL, in relation to implementing further financial support fund for Seven Sisters Market traders (MD2868, 31 August 2021).

Finance Report

4.2 The Committee noted TfL's financial results to the end of Period 5, 2021/22 – the year-to-date period ending 21 August 2021. Variances were shown against the Revised Budget approved by the Board in July 2021. The Revised Budget target included the funding from Government as part of the 1 June 2021 agreement, reflecting the revenue top-up mechanism.

4.3 Total passenger income was £1,012m in the year to date, £74m lower than target, but over £500m higher than the same time period last year. Overall journeys were 59 per cent of pre-pandemic levels in the latest period, compared to a target of 73 per cent. There was continued strong growth on buses with demand around 65 per cent of pre-pandemic levels and Tube journeys 50 per cent, but significantly short of the 75 per cent target. There was recent Tube journey growth from the inner and outer suburbs and in weekend travel. City journeys were around 45 per cent of pre-pandemic levels, with rail terminus journeys also up to 55 per cent, showing the return to offices picking up but lower than anticipated.

4.4 TfL's current funding agreement with Government covered the period 1 June to 11 December 2021. Without further Government funding, cash balances would decline to just over £700m by year end. Future income from passenger journeys remained a significant risk as journeys were not yet at expected levels. There also remained uncertainty on timing and the extent and recovery of any decline in journeys following a winter outbreak of coronavirus.

Treasury Activities

4.5 The Committee noted the paper, which provided a brief update on key treasury activities for the period from 20 February to 16 September 2021.

4.6 The latest funding agreement with Government was based on a range of high-level assumptions, including phasing of the savings target. Upfront phasing of emergency government base grant, earlier than expected delivery of savings and delays in capital expenditure due to funding uncertainty meant cash balances had been higher than expected but would start reducing over the coming months. The funding agreement assumed that TfL's cash balances would reduce near to the minimum £1.2bn level by the end of the funding period on 11 December 2021, after restating for revenue true up adjustments in line with the funding agreement.

4.7 Standard & Poor's had affirmed TfL's credit ratings and revised the outlook on long-term rating to stable from negative. This reflected its view that the Government would continue to provide adequate support to TfL until ridership rebounded to sustainable levels. Moody's had downgraded TfL's long-term credit rating from A1 to A3 and maintained the negative outlook on the rating. It also downgraded the short-term rating from P-1 to P-2. The downgrades reflected Moody's view on the impact of the coronavirus pandemic, its assessment of the financial support provided by Government and the absence of a longer-term funding arrangement.

4.8 The downgrade had increased the interest rates that would be payable on new long-term commercial debt and made these forms of borrowing less attractive. TfL had worked to reassure its financial stakeholders following the downgrade and was not aware of any material negative action by its debt holders as a result. There had been no changes to TfL's rating from Fitch during the reporting period.

Treasury Management Strategy 2021/22 and Treasury Management Policies – LTM and LTIG Investments Update

4.9 The Committee noted the paper and approved the updated Treasury Management Strategy (TMS) 2021/22 and the Treasury Management Policies (TMP). Approval of the TMS and TMP were matters reserved to the Board, however, on 29 July 2021 the Board delegated approval of these matters and any in-year changes to the Finance Committee. The Committee exercised that authority in relation to the proposed updates to the TMS and TMP.

4.10 Matters relating to investment of cash balances within the TMS and TMP would not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited (together LTM) or London Transport Insurance (Guernsey) Limited (LTIG). LTIG and LTM had cash balances of less than £80m on average and neither had a letter of comfort from TfL. In practical terms, neither was part of TfL's notional cash pooling structure and, as such, both had always been managed independently.

4.11 LTIG and LTM would be required to report their respective strategies and policies relating to the investment of cash balances, and any changes to them, to Group Treasury from time to time for approval by either the Corporate Finance Director or Group Treasurer.

Prudential Indicators – Outturn for the Year Ended 31 March 2021

4.12 The Committee noted the paper, which set out TfL's performance against prudential indicators which supported decision making on planned capital expenditure, borrowing and treasury management activities for the financial year 2020/21.

4.13 TfL prepared prudential indicators at both the TfL Corporation and TfL Group level. Both the Corporation and the Group were within their total Authorised Limits for the year ended 31 March 2021, and other Corporation and Group indicators were all within target.

Funding Update on TTL Properties Limited

4.14 The Committee noted the funding update on TTL Properties Limited (TTLP). TfL's landholdings had the potential to deliver thousands of homes across London and create substantial sums to reinvest in the transport network.

4.15 The paper provided a summary of the recent work undertaken on the property workstream of the Financial Sustainability Plan (FSP) and the wider activity to operate TTLP as a dedicated commercial property company within TfL. It included progress on discussions with Government on the FSP property workstream, the TTLP Business Plan and initial market testing on funding options for TTLP.

4.16 Subject to ongoing discussions with Government, agreement had been reached on the housing target. Soft market testing with UK and European banks and institutional investors had allowed TTLP to confirm previous assumptions and move forward on the basis of a single preferred funding option for the initial years of the Plan.

4.17 In starting on the sites that would deliver 20,000 homes over 10 years, TTLP would have a material impact on the housing sector in London, particularly given TTLP's focus on modern methods of construction and construction skills, building on positive work undertaken to date. More remained to be done over the course of the next six months to refine TTLP's Investment Strategy and Business Plan. These would be brought back to Committee for approval.

Power Purchase Agreement (PPA 1 – Operational Assets)

4.18 The Committee noted the paper, which provided an update on the procurement of Power Purchase Agreement (PPA) 1, to purchase energy from existing renewable energy assets which formed part of TfL's Energy Purchasing Strategy.

4.19 The Strategy was to procure an initial tranche of 130-150 GWhs per annum, approximately 10 per cent of TfL's annual energy requirement. Over the last 12 months, the energy market had changed significantly and the current market environment presented a number of risks in the procurement of PPA 1. The paper updated on these issues and proposed options in the future procurement of PPAs to alleviate some of these risks.

Spending Review Submission

4.20 The Committee noted the paper and the appended spending review submission. The Government's Spending Review would be announced on 27 October 2021. The deadline for submissions was 30 September 2021.

TfL had a clear offer to Government that could stimulate the UK’s economic recovery, decarbonisation and the levelling up agenda while still delivering the Mayor’s Transport Strategy.

4.21 TfL’s comprehensive spending review submission reflected the realities of constrained funding and the uncertainty of future demand, notably in a reduction and deferral of capacity investment. In total, TfL had reduced its planned spend on enhancements and extensions by £5.7bn over a 10-year period compared to the pre-pandemic 2019 Capital Strategy.

4.22 For London to play its part in the recovery from the pandemic and continue providing public transport services, TfL needed revenue support of £500m for the rest of the year and £1.2bn through 2022/23. Beyond that, Government support would only be needed for investment from 2023/24, which all transport authorities around the world required.

4.23 In order to plan, commit and deliver most efficiently for the public purse, TfL needed Government to commit to a long-term sustainable partnership in addition to existing funding sources and move to a predictable and efficient system of multi-year investment control periods. This long-term approach was common with other transport authorities such as Network Rail and National Highways and made economic sense.

4.24 The additional investment would unlock: transitioning the bus fleet to zero emission; Piccadilly line signalling modernisation; vital rail asset renewal; core asset resilience; securing an inclusive network to drive mode shift; and stimulating economic activity in opportunity areas.

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the Finance Committee on 6 October 2021

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