MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Wednesday 6 October 2021

Time: 10.00am

Place: Conference Rooms 1 and 2, Ground Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ

Members
Ben Story (Vice-Chair)
Heidi Alexander
Prof Greg Clark CBE
Anne McMeel
Dr Nina Skorupska CBE

Government Special Representative
Becky Wood

Copies of the papers and any attachments are available on tfl.gov.uk How We Are Governed.

This meeting will be open to the public and webcast live on TfL YouTube channel, except for where exempt information is being discussed as noted on the agenda.

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Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Jackie Gavigan, Secretariat Manager; Email: v_JackieGavigan@tfl.gov.uk

For media enquiries please contact the TfL Press Office; telephone: 0343 222 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Tuesday 28 September 2021

Agenda
Finance Committee
Wednesday 6 October 2021

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interests

General Counsel

Members are reminded that any interests in a matter under discussion must be declared at the start of the meeting, or at the commencement of the item of business.

Members must not take part in any discussion or decision on such a matter and, depending on the nature of the interest, may be asked to leave the room during the discussion.

3 Minutes of the Meeting of the Committee held on 23 June 2021 (Pages 1 - 14)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 23 June 2021 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 15 - 20)

General Counsel

The Committee is asked to note the actions list.

5 Use of Delegated Authority (Pages 21 - 24)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 25 - 42)

Chief Finance Officer

The Committee is asked to note the report.

7 Treasury Activities (Pages 43 - 50)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda.

8 Treasury Management Strategy 2021/22 and Treasury Management Policies - LTM and LTIG Investments Update (Pages 51 - 74)

Chief Finance Officer

The Committee is asked to note the paper and approve the updated Treasury Management Strategy 2021/22 and Treasury Management Policies.

9 Prudential Indicators - Outturn for the Year Ended 31 March 2021 (Pages 75 - 80)

Chief Finance Officer

The Committee is asked to note the paper.

10 Funding Update on TTL Properties Limited - To Follow

Director Commercial Development

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda

11 Power Purchase Agreement (PPA 1 - Operational Assets) (Pages 81 - 82)

Chief Safety, Health and Environment Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda and consider the options on Power Purchase Agreement procurements set out in the paper on Part 2 of the agenda.

12 Members' Suggestions for Future Discussion Items (Pages 83 - 88)

General Counsel

The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.

13 Any Other Business the Chair Considers Urgent

The Chair will state the reason for urgency of any item taken.

14 Date of Next Meeting

Wednesday 24 November 2021 at 10.00am.

15 Exclusion of the Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

Agenda Part 2

16 Treasury Activities (Pages 89 - 94)

Exempt supplemental information relating to the item on Part 1 of the agenda.

17 Funding Update on TTL Properties Limited - To Follow

Exempt supplemental information relating to the item on Part 1 of the agenda.

18 TfL Energy Purchasing: Power Purchase Agreement 1 (Pages 95 - 104)

Exempt supplemental information relating to the item on Part 1 of the agenda.

Transport for London

Minutes of the Finance Committee

Teams Virtual Meeting
10.00am, Wednesday 23 June 2021

Members of the Committee
Ben Story (Vice-Chair - in the Chair)
Heidi Alexander
Prof Greg Clark CBE
Anne McMeel
Dr Nina Skorupska CBE (until Minute 37/06/21 (part))

Board Members
Cllr Julian Bell
Kay Carberry CBE

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Vernon Everitt	Managing Director, Customers, Communication and Technology
Simon Kilonback	Chief Finance Officer
Lilli Matson	Chief Safety, Health and Environment Officer
Shashi Verma	Chief Technology Officer and Director of Strategy

Staff

Neil Carron	Senior Property Development Manager
Andrea Clarke	Director of Legal
Daniel Curry	Senior Safety, Health and Environment Manager
Stephen Dadswell	Head of Corporate Finance
Patrick Doig	Finance Director, Surface Transport and Interim Statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director of Corporate Finance
Philip Hewson	Head of Procurement, Strategy and Performance
Lorraine Humphrey	Interim Director of Risk and Assurance
Emma Humphreys	Commercial Manager
Shamus Kenny	Head of Secretariat
Glyn Lenton	Lead Commercial Manager, Category Management
Laura McNeil	Head of Finance (Renewals Enhancements) for Rachel McLean, Chief Finance Officer, Crossrail and London Underground
Andrew Morsley	Director of London Underground Planning
Pritesh Patel	Head of Financial Planning and Analysis
Jonathan Patrick	Chief Procurement Officer
Jennifer Payne	Corporate Finance, Senior Manager
Chris Reader	Head of Commercial Media
Rajiv Sachdeva	Head of Financial Planning and Analysis
Lucinda Turner	Director of Spatial Planning

Ken Youngman	Divisional Finance Director, Commercial Development
Francis Salway	Chair of Commercial Development Advisory Group

21/06/21 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. Howard Carter reported that no apologies for absence had been received. Dr Nina Skorupska CBE indicated that she would need to leave the meeting at 12.30pm, as she had a speaking engagement to attend elsewhere.

The meeting was being broadcast live on YouTube, except for the discussion of the information on Part 2 of the agenda, which was exempt from publication. While Members would discuss as much of the items in public as possible, information related to TfL's business and financial affairs would need to be discussed in private. When the exempt information needed to be considered, the recording would be stopped for the press and public.

The flexibility of meetings regulations, which applied to TfL from August 2020 and enabled it to take decisions via videoconference, expired on 6 May 2021. As staff and Members were unable to meet in person due to social distancing measures, any decisions required would be taken by the Chair, exercising Chair's Action, following the discussion of the item with Members.

The Chair confirmed that under section 100B(4)(b) of the Local Government Act 1972, he had agreed that the late item for the agenda that was published on 21 June 2021 would be considered as a matter of urgency. The item was the Procurement and Supply Chain Improvement Programme and was accepted as urgent so that the project to strengthen capability in the Procurement and Supply Chain function could be progressed to achieve the savings required in the funding settlement.

The Chair reordered the agenda to take item 9 (Sale of Lillie Bridge Depot) immediately after agenda item 12 (Enterprise Risk Update – Supply Chain Disruption (ER5)), to allow for key staff to be present to introduce the paper. The minutes reflect the original meeting order.

The Government had appointed Becky Wood as its representative to attend meetings of the Finance Committee, the Programmes and Investment Committee and the Board going forward. Becky Wood was not attending this meeting, but the Chair welcomed her as the new representative and looked forward to working with her in future.

On behalf of the Committee, the Chair congratulated Lorraine Humphrey on her appointment as the interim Director of Risk and Assurance and Patrick Doig as the interim statutory Chief Finance Officer. Patrick's appointment followed the departure of Tony King from TfL and the Chair thanked Tony for his service to TfL, including in the preparation of the accounts for this year and, in particular, his support to Andy Byford and Simon Kilonback as a key part of the staff team that worked with Government on the funding agreements. He wished him every success in his new venture.

The Chair reminded those present that safety was paramount at TfL and encouraged Members to raise any safety issues during discussions on a relevant item or with TfL staff after the meeting. There were no specific issues raised at the meeting.

22/06/21 Declarations of Interests

Howard Carter introduced the item. Members' declarations of interests were published on tfl.gov.uk and were up to date.

At the last meeting of the Committee, he reported that Dr Nina Skorupska CBE had been nominated to be appointed to the Royal BAM Group Supervisory Board. That appointment was subsequently made and her declaration and biography had been updated.

Howard Carter added that he was not aware of any items on the agenda where a Member would need to declare a specific interest and leave the meeting during its discussion. No Members declared any interests that were relevant to items on the agenda.

23/06/21 Minutes of the Meeting of the Committee held on 10 March 2021

The Chair, following consultation with the Committee, approved the minutes of the meeting held on 10 March 2021 as a correct record. The minutes would be provided to the Chair for signature at a future date.

24/06/21 Matters Arising and Actions List

Howard Carter introduced the paper, which set out progress against actions agreed at previous meetings of the Committee.

The Committee noted the actions list.

25/06/21 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, since the meeting of the Committee on 10 March 2021, there had been no use of authority delegated by the Board nor use of Procurement or Land Authority granted by the Commissioner or the Chief Finance Officer.

There had been four uses of Chair's Action, in consultation with members of the Committee, in relation to: extending the funding arrangements with Government; statutory Chief Finance Officer interim arrangements; the Greater London Authority Collaborative Recruitment Services Contract; and the Telecommunications Commercialisation Project.

There had been one Mayoral Direction to TfL on 11 May 2021 in relation to the zoning stations for Northern Line Extension (MD2810).

The Committee noted the paper.

26/06/21 Finance Report

Simon Kilonback and Rajiv Sachdeva introduced the report, which set out TfL's financial results to the end of Period 2, 2021/22 – the year-to-date period ending 29 May 2021. Variances were shown against the Budget approved by the Board in March 2021. Total passenger income was £373m in the year to date, £142m higher than Budget. Overall journeys were 53 per cent of pre-coronavirus pandemic level, with demand for buses around 60 per cent of pre- pandemic levels and Tube journeys just over 40 per cent.

On London Underground, journeys and passenger income was £168m in the year to date, £67m (67 per cent) higher than Budget and £121m higher than last year, which was during the first wave of the pandemic. Journeys were 40 per cent of pre-pandemic levels in the latest period, up from 25 per cent at the start of the year. Journey growth was strongest in the outer zone areas with demand levels over 50 per cent of pre-pandemic levels. Demand growth in peak flows to central London remained low at just over 30 per cent of pre-pandemic levels, but off-peak and weekend travel was reasonably buoyant, driven by recovery of retail and leisure activity.

Operating costs were £325m in the year to date, £15m lower than Budget as a result of lower headcount, lower traction costs, lower costs for the London Heathrow agreement, early delivery of savings and consultancy savings. Net cost of operations was a deficit of £284m, which was £118m better than Budget. Capital expenditure for total renewals and new capital investment was £29m lower than Budget, due to slippage and holding off on expenditure approvals while faced with the uncertainty of no funding deal.

On buses, streets and other operations, journeys and passenger income was £146m in the year to date, £49m (50 per cent) higher than Budget and £96m higher than last year during the first wave of the pandemic. Journeys were 61 per cent of pre-pandemic levels, up from 53 per cent at the start of the year. Step 2 of the Government's roadmap saw around a 45 per cent increase in bus journeys, ranging from 42 per cent in the central areas to 55 per cent in outer boroughs. There were lower geographic differences overall across buses, with almost all areas of London seeing bus journeys at around 60 per cent of pre-pandemic demand, increasing to 75 per cent in some outer suburbs.

Operating costs were £435m in the year to date, £9m higher than Budget. Core operating costs were £12m higher from phasing of Compliance, Policing and On-street Services operating costs. Net cost of operations was a deficit of £284m, which was £118m better than Budget. On capital expenditure, total renewals and new capital investment was £29m lower than Budget, with the holding off on expenditure approvals due to the uncertainty of no funding deal.

On revenue and journey trends, some significant growth was forecast over future periods, following the final relaxation of restrictions on 19 July 2021. TfL was currently reassessing its journey and revenue assumptions in light of both recent trends and the four-week delay in relaxing of restrictions, with the revised forecasts forming the basis of the Revised Budget.

Bringing movements together on the operating account had seen the combination of the higher revenue and lower costs resulting in nearly £250m improvement in the net cost of operations. Grant line phasing in the Budget was pre-funding negotiations so would be addressed again in the Revised Budget. The period end cash balance was £1.5bn and was maintained above £1.2bn throughout the period.

On the Group capital account, property and asset receipts were £18m lower than Budget, as a result of the delayed disposal for Wembley Park.

Vernon Everitt confirmed that all the customer research showed that, once people had travelled on the network, they were enormously confident in doing so, which demonstrated that the messaging around cleanliness, safety and wearing face coverings was getting through. The network was running at near full capacity with the reintroduction of the Waterloo and City line in the central activity zone. Following Step 4 of the Government's roadmap, there would be a concerted promotional effort in concert with the work of the Mayor, partners and businesses to reconnect Londoners with the attractions they had missed. Future models of working and the impact on travel was still uncertain so testing and trialling would continue over the next six months, with the first major clues on how it had shifted expected around September time, after the summer holidays.

Since approval by the Board of the Budget in March 2021, a new funding arrangement with Government for 2021/22 had been finalised. The Budget outlined a £2.7bn full year funding requirement against an assumed passenger revenue forecast of £3.5bn. The funding agreement required TfL to find £300m of savings and/or other income, however when taken together with the amount of funding already provided under the recent funding extensions, along with funding to be provided under the latest agreement, TfL would be required to find £900m of cash savings this year compared to the approved Budget. These savings would be met through a combination of utilising cash reserves in excess of the £1.2bn minimum cash level, additional non-passenger income and reduced and/or deferred costs. Whilst there were encouraging signs of passengers returning to the network, there was a high degree uncertainty on future journeys, especially through the winter. These measures and other matters contained in the funding arrangements would be fully worked through in the revised Budget submission to be considered by the Board at its next meeting.

Simon Kilonback confirmed that, in the absence of a funding deal from December 2021 to March 2022 and with no certainty over what it may contain, TfL had to assume it would need to find the £600m of additional savings, making £900m in total, and he would be negotiating with Government to secure additional funding.

Andy Byford confirmed that, given that Government anticipated financial revenue support being available to TfL until spring 2023, albeit tapering down, providing further base funding this year would enable work to be organised in a way that provided better value for money to the public purse, as work on assets would be more expensive if deferred into the next year. His discussions with Government and the Financial Sustainability Plan were predicated on TfL offering a solution in partnership with Government's own objectives of levelling up, an infrastructure jobs-led recovery and an environmental recovery. TfL's recent credit rating downgrade from Moody's, which was mainly because TfL was subject to short-term funding deals, had worsened the position and increased expense. A longer-term funding deal would save government money in the long-term and fuel the economy, as investment in transport in London was complimentary to the levelling up agenda. If TfL showed material progress on each of the conditions set in the short-term funding agreement, the Government would be open to agreeing a longer-term deal.

The Chair commented that the Committee provided good scrutiny, governance and assurance around how the business was performing financially and asked that performance on key commitments made under the financial settlement be brought to the

Committee going forward, particularly around the longer-term funding structure and how multiple tills might operate across the organisation. **[Action: Simon Kilonback]**

The Committee noted the report.

27/06/21 TfL Roadside Advertising

Simon Kilonback and Joanna Hawkes introduced the paper and related supplemental information on Part 2 of the agenda, which set out the options and made proposals for the future strategy for roadside advertising assets. Most of TfL's advertising revenue came from London Underground and bus shelters, which were not in the scope of this proposal and were more complex due to their operational interface.

TfL owned 234 roadside advertising panels across London that were situated on its land or assets and which, prior to the coronavirus pandemic, generated rent receipts of around £9m per annum which equated to six per cent of advertising income. These included traditional fixed hoardings as well as newly developed digital screens. Use of the panels was sold by several companies on TfL's behalf, typically on 10-year licences tendered on the open market. TfL generally received a fixed rental or guaranteed minimum return and, at some locations, an agreed share of outperformance over the contract term.

The Financial Sustainability Plan (FSP) set out a clear strategy for TfL's transport and commercial businesses to achieve financial sustainability and deliver a decarbonised public transport network, alongside a number of other outcomes, by 2030. TfL had looked at what commercial activities made sense to continue and form part of the FSP and what to consider for divestment. It was more preferable to manage its commercial portfolios as a commercial business, to realise investments that were not core to the commercial strategy and to reinvest the proceeds in future business.

The Committee noted the paper and the exempt supplemental information on Part 2 of the agenda.

28/06/21 TfL Energy Purchasing and GLA Energy Procurement Collaboration Programme

Lilli Matson, Jennifer Payne and Glyn Lenton introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on the preparation of two Power Purchase Agreement (PPA) procurements, current energy market conditions and the progress that had been made on the Greater London Authority (GLA) Energy Procurement Collaboration Programme. The paper sought endorsement of the GLA, along with a small pool of investors, offering an optional finance instrument to potential bidders for PPA 2.

On 25 November 2020, the Committee had endorsed the proposed procurement by TfL of renewable energy through two PPAs, each representing around 10 per cent of TfL's estimated demand, as part of a staged approach to meet its ambition to operate a zero-carbon railway by 2030.

TfL had been engaged in the GLA Energy Procurement Collaboration Programme with the GLA and the other functional bodies over the last six months, which sought to identify GLA Group synergies in the procurement of PPAs for renewable energy from new build assets and establish a financing facility that could potentially contribute to the funding of the renewable assets developed to deliver those PPAs. The recommendations of the Programme were expected to conclude later this year. As an early output, there was an appetite to test a finance instrument in conjunction with TfL's procurement of its PPA 2. The finance instrument was being developed by the GLA with the aim of delivering a lower PPA cost. Renewable developers would not be required to utilise the finance instrument as part of their tender for TfL's PPA 2.

The wholesale cost of electricity had recovered to at least pre-coronavirus pandemic levels. Market forecasts suggested that prices would remain elevated until at least spring 2022, which would likely negatively impact the cost of energy procured under PPAs, particularly PPA 1. Work on PPA 1 to purchase existing renewable assets, that would deliver renewable energy to TfL from 2022/23 with a term of seven-10 years, was advanced and procurement was due to start in July 2021. Work on PPA 2 to invest in new renewable energy assets, that would deliver renewable energy to TfL by 2023/24 with a term of 10-20 years, was also progressing well and procurement was due to start in September 2021. An update on the procurement process would be provided to a future meeting. **[Action: Lilli Matson]**

Since November 2020 and following further detailed consideration, the proposed use of the Crown Commercial Service (CCS) HELGA Dynamic Purchasing System was deemed unsuitable for this specific TfL requirement and would now be done through a standalone procurement. TfL would continue to monitor market fluctuations, forecasts and availability of operational generating assets as part of its ongoing management of energy procurement. TfL could accommodate changes to the programme, as a result of the current uncertain market conditions, by securing any shortfall of energy via its existing flexible purchasing arrangements with the CCS.

The programme phases and target dates for procurement, contracts and delivery were subject to certainty of TfL's long-term funding and the ability for TfL to enter into long-term financial commitments. Any subsequent contract award recommendations would be brought to the Committee.

The Chair, following consultation with the Committee:

1 **noted the paper and the exempt supplemental information on Part 2 of the agenda; and**

2 **endorsed the Greater London Authority (along with a small pool of investors) offering an optional finance instrument to potential bidders for Power Purchase Agreement 2 (PPA 2) as set out in the paper.**

29/06/21 Sale of Lillie Bridge Depot

Graeme Craig, Andrew Morsley and Francis Salway introduced the paper and related supplemental information on Part 2 of the agenda, which sought approval of Land Authority for the disposal of Lillie Bridge Depot and Ashfield House (referred to as LBD) to Earls Court Partnership Limited (ECPL), the joint venture between Delancey/APG and TfL.

The proposal was to consolidate the depot land into the ECPL, making it the most valuable development site in London. TfL would vacate the depot site only if planning permission and funding were obtained and it was confident it could cover all the relocation costs and generate a capital receipt. The work was being undertaken by a multi-disciplinary team to deliver savings and wider operational benefits with no upfront cost to TfL, as well as generate a capital receipt and ongoing revenue.

The opportunity would create a mixed-use development site including at least 3,000 homes both for sale and rent. Relocating activities from LBD was also an opportunity to re-plan the operational footprint, deliver synergies, replace old buildings with new and reduce whole-life costs.

ECPL had approached TfL to acquire LBD in May 2020 and terms had been negotiated and formed the basis of the proposal. The arrangements for the proposed sale were flexibly structured so as to require no net investment by TfL as the owner of LBD nor as a shareholder in ECPL. The condition requiring ECPL to secure third-party funding for TfL’s vacant possession costs meant that TfL would not be required to contribute equity to ECPL for these costs. The joint venture arrangements within ECPL allowed TfL to reduce its shareholding rather than contribute equity to the net land receipt payable by ECPL over and above the externally funded vacant possession costs. TfL’s land at LBD was owned by London Underground and other subsidiaries were and may be involved in the proposed sale, either directly or through TfL’s interest in ECPL.

The proposal offered significant operational and financial benefits to TfL. Assuming that all conditions were met, the target timescale to vacate the depot would start in 2024.

The Chair, following consultation with the Committee:

1 **noted the paper and the exempt supplemental information on Part 2 of the agenda; and**

2 **approved Land Authority for the disposal of Lillie Bridge Depot and Ashfield House (LBD), as set out in the paper and the supplementary paper on Part 2 of the agenda, and for TfL and/or any other of its subsidiary entities to grant a long leasehold interest of LBD to Earls Court Partnership Limited (ECPL) or a group company, taking a leaseback of the same length, and to agree, subject to conditions, to grant ECPL an option to acquire additional land and to provide vacant possession of LBD and surrender TfL’s leaseback, the principle conditions being:**

   (a) ECPL obtaining planning permission for the development of Earls Court and LBD;

   (b) ECPL securing third-party funding for TfL’s estimated costs of providing vacant possession of LBD; and

   (c) TfL developing and committing to deliver a plan to provide vacant possession of LBD.

30/06/21 Funding Update on TTL Properties Limited

Simon Kilonback and Graeme Craig introduced the paper, which provided a 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.

The coronavirus pandemic had accelerated the need to bring forward homes and unlock growth in the Capital. Given wider financial pressures, a TfL property vehicle would be structured in such a way as to avoid diverting any investment from transport, while continuing to maximise the long-term return available to reinvest in the transport network.

Property had been a specific workstream in the discussions with Government on TfL's Financial Sustainability Plan (FSP). A condition of the funding agreement was to agree to a plan for housing delivery through a dedicated commercial property company that met the shared ambitions of the Mayor and the Government to deliver housing in a high demand area and to provide an increased revenue stream. The plan would include a clear milestone for housing to be delivered by the end of 2024.

TfL welcomed the condition and the update included the FSP property workstream and the wider activity to have a fully self-financing property vehicle within TfL, as well as the nature of the property vehicle, business plan options that had been considered and the work to date on funding options.

TfL had worked with Deloitte to review and evaluate potential funding options to meet TTLP's capital requirements. The preferred option to fund TTLP was non-recourse debt secured on TTLP's asset base and there was sufficient capacity in the current commercial property portfolio to secure the required level of debt. Deloitte concluded that the level of debt was manageable and the cost affordable. It confirmed there was market appetite for the preferred approach and TfL was satisfied that the proposals were within its powers.

TfL had a range of Business Plan scenarios, with the default being the Baseline Plan which assumed commercial debt. This would result in a viable commercial entity with no dependency on TfL. It would bring forward more than 13,000 homes and grow the asset value to more than £5bn.

Options for a Housing Growth Plan would bring forward tens of thousands of homes, create hundreds of thousands of jobs and address wider industry failures, including constructions skills and modern methods of construction. The Housing Growth Plan would however require government grant to bring forward otherwise unviable sites. Even without government grant, the debt funding approach would allow TTLP to bring forward thousands of homes that already had planning consent but could not proceed due to TfL's current inability to enter into new financial commitments.

A paper would be submitted to the meeting of the Committee in October 2021, seeking all necessary approvals to allow TTLP to be funded by secured commercial debt that was non-recourse to TfL, including some detail on the cost of capital and what the potential conflicts and trade-offs might be with this approach going forward.

[Action: Graeme Craig]

The Committee noted the paper.

31/06/21 Update on Income from Developers Through Planning Obligations and Other Related Funding Mechanisms to deliver TfL Transport Priorities

Lucinda Turner introduced the paper, which provided an end of year (2020/21) update on the Mayor's Community Infrastructure Levy (MCIL) that supported the funding of Crossrail, as well as a brief overview of a range of other developer contributions and funding mechanisms, such as Section 106 (s106) and Borough CILs (BCIL) that contributed towards other TfL transport priorities.

Monies raised from developer contributions toward Crossrail were vital to deliver the project and more than £1bn had been received cumulatively from these sources, which was a great achievement. While the majority of receipts (over £865m) were in MCIL payments, Crossrail s106 payments were over £150m.

There were approximately 240 referable planning applications involving significant TfL input last year, as well as just under 2,000 non-referable applications with transport implications. Securing developer income was inherently related to the level of development activity and the implementation of relevant planning permissions. Development activity tended to be cyclical and was strongly influenced by local, national and global factors, including unprecedented events such as the coronavirus pandemic and the UK departure from the European Union.

Uncertainties associated with the pandemic had less of an impact than envisaged on the Mayoral CIL receipt which was £121.9m. Receipts from two authorities helped bolster the annual return with £25.1m from Tower Hamlets and £16.6m from Hammersmith and Fulham, with combined receipts comprising over 34 per cent of total monies received.

BCIL receipts made a significant contribution to delivering a range of infrastructure projects across London. Reporting was retrospective and by the end of 2019/20, BCIL receipts totalled a substantial £974m. Notably, the BCIL receipt for 2019/20 of £277m was the highest recorded. Looking ahead, it was anticipated that BCIL receipts would remain at around £280m, although the forecast was tempered by the potential impact of the pandemic on development activity and BCIL review progress.

Leveraging third party funding was vital to delivering transport infrastructure and improvements for the city and would play an increasingly important role as TfL faced major financial pressures. These funding sources were needed to deliver TfL priorities around step-free access, Healthy Streets and mode shift, as well as underpinning sustainable development and supporting wider objectives around housing and regeneration.

The Government had recently announced a levelling up fund of £4.8bn to support capital investment in local infrastructure up to 2024-25 across culture, regeneration and transport themes. £600m was available to bid for this year and all areas in the UK, including London boroughs, were invited to submit bids of up to £20m. TfL had been working with the Greater London Authority who submitted one transport bid of £9.1m for Bean Park station which was part of the mainline rail network. The station was located in one of the most deprived parts of London and would make a real difference to the amount of housing that could be delivered there.

Lucinda Williams confirmed that, to make a stronger case for levelling up investment in London which had some of the most deprived boroughs in the country, the City Planning team was putting together a presentation with a compelling narrative on the greater contribution and delivery of outcomes that TfL made and Government wanted to see around carbon reduction, mode shift and as a catalyst for economic growth, and which would be shared with the Committee as it emerged. **[Action: Lucinda Williams]**

The recently announced intention by Government to replace CIL and s106 developer contributions with an Infrastructure Levy would continue to be monitored closely, including the impact of the new levy on the MCIL funding stream and its ability to repay Crossrail financing, and the capacity to secure developer contributions generally.

The Committee noted the paper.

32/06/21 Enterprise Risk Update – Supply Chain Disruption (ER5)

Simon Kilonback and Philip Hewson introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on Enterprise Risk 5 - Supply Chain Disruption. It outlined TfL’s current position on supply chain disruption following the Brexit agreement on 24 December 2020 and a second coronavirus wave.

Failure to sufficiently identify and manage supply chain disruption could result in an increase in TfL's cost base, delays to project delivery and interruption to operational services. There had been some disruption as a result of Brexit uncertainty and the application of the new trading rules and from the impacts of the coronavirus pandemic. These had been effectively mitigated and managed by the close working of TfL business and commercial contract owners.

The financial impact of both the pandemic and Brexit may have been masked and delayed due to the significant support Government made available to businesses. As this support was withdrawn, TfL may see some disruption to the supply chain due to financial difficulties and would maintain close checks on supplier financial health. It also monitored the financial exposure some suppliers may have due to their reliance on revenue from TfL, as these suppliers may have their ability to invest and secure funding affected by the nature of TfL’s short-term funding position.

A wide range of preventative controls had been implemented and a range of corrective controls had been applied. TfL had been working closely with bus operators to manage financial risks, provide support and manage costs out to ensure a viable supply chain post-pandemic. The ‘Safe Stop’ applied across construction projects affected Crossrail and its supply chain including loss of human and plant resource, however effective management through contractual agreement meant that re-start was effective and productive and at a cost of less than £10m.

A risk and issues register had been implemented, resulting in full visibility of TfL's supply chain risks and issues which were regularly reviewed along with the mitigation plans.

The Committee noted the paper and the exempt supplemental information on Part 2 of the agenda.

33/06/21 Members' Suggestions for Future Discussion Items

Howard Carter introduced the item. No additional suggestions were raised for future discussion items on the forward plan or for informal briefings.

The Committee noted the forward plan.

34/06/21 Any Other Business the Chair Considers Urgent

There was no other urgent business.

35/06/21 Procurement and Supply Chain Improvement Programme

The Chair had agreed to the late urgent publication of the paper and related supplemental information on Part 2 of the agenda, so that the project to strengthen capability in the Procurement and Supply Chain function could be progressed to achieve the savings required in the funding settlement.

Simon Kilonback and Jonathan Patrick introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on the progress of the Procurement and Supply Chain Improvement Programme, following the previous overview provided to the Committee in November 2020, and sought endorsement of the recommended approach set out in the paper on Part 2 of the agenda. The Audit and Assurance Committee was also updated on progress at its meeting in March 2021.

The Programme managed estimating, procurement, contract and cost management across TfL, as well as supporting procurement related activities for the Greater London Authority as part of a shared services agreement. The Programme would transform the end to end procurement and supply chain process across all the organisational areas of TfL.

The Programme would deliver phases of change, recognising the need to transform quickly across the following elements: updated operating model for working consistently across the business; consistent and efficient Source to Pay processes across TfL; upgraded technology systems landscape to support the process; fit for purpose data architecture; and an end to end reporting suite, driving insights for timely decision making.

The Chair, following consultation with the Committee:

1. **noted the paper and the exempt supplemental information on Part 2 of the agenda; and**

2. **endorsed the recommended approach as set out in the paper on Part 2 of the agenda.**

36/06/21 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 6 October 2021 at 10.00am.

37/06/21 Exclusion of the Press and Public

The Chair, following consultation with the Committee, agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: TfL Roadside Advertising; TfL Energy Purchasing and GLA Energy Procurement Collaboration Programme; Sale of Lillie Bridge Depot; Enterprise Risk Update – Supply Chain Disruption (ER5); and Procurement and Supply Chain Improvement Programme.

The meeting closed at 1.10pm.

Chair: ___________________________________

Date: ____________________________________

Finance Committee

Date: **6 October 2021**

Item: **Matters Arising and Actions List**

This paper will be considered in public

1 Summary

1.1 This paper informs the Committee of progress against actions agreed at previous meetings of the Finance Committee.

2 Recommendation

2.1 **The Committee is asked to note the Actions List.**

List of appendices to this report:

Appendix 1: Actions List

List of Background Papers:

Minutes of previous meeting of the Finance Committee.

Contact Officer: Howard Carter, General Counsel
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Appendix 1

Finance Committee Actions List (to be reported to the meeting on 6 October 2021)

Actions from the meeting held on 23 June 2021

Minute No.	Item/Description	Action By	Target Date	Status/Note
26/06/21	**Finance Report – Performance on Key Funding Settlement Commitments** The Chair commented that the Committee provided good scrutiny, governance and assurance around how the business was performing financially and asked that performance on key commitments made under the financial settlement be brought to the Committee going forward, particularly around the longer-term funding structure and how multiple tills might operate across the organisation.	Simon Kilonback	November 2021	A report on progress made against the funding conditions and structural reform will be provided in due course.
28/06/21	**TfL Energy Purchasing and GLA Energy Procurement Collaboration Programme – Power Purchase Agreement 1** An update on the procurement process would be provided to a future meeting.	Lilli Matson	October 2021	**Completed:** The Power Purchase Agreement 1 update paper is on the agenda for this meeting.
30/06/21	**Funding Update on TTL Properties Limited** A paper would be submitted to the meeting of the Committee in October 2021, seeking all necessary approvals to allow TTLP to be funded by secured commercial debt that was non-recourse to TfL, including some detail on the cost of capital and what the potential conflicts and trade-offs might be with this approach going forward.	Graeme Craig	October 2021	**Completed:** The Funding Update on TTL Properties Limited paper is on the agenda for this meeting.

31/06/21	**Update on Income from Developers Through Planning Obligations and Other Related Funding Mechanisms to Deliver TfL Transport Priorities – Levelling Up Investment Presentation** Lucinda Turner confirmed that, to make a stronger case for levelling up investment in London which had some of the most deprived boroughs in the country, the City Planning team was putting together a presentation with a compelling narrative on the greater contribution and delivery of outcomes that TfL made and Government wanted to see around carbon reduction, mode shift and as a catalyst for economic growth, and which would be shared with the Committee as it emerged.	Lucinda Turner	December 2021	The levelling up investment presentation by the City Planning team will be shared with Members when available.

Actions from previous meetings

Minute No.	**Item/Description**	**Action By**	**Target Date**	**Status/Note**
04/03/21 (Chair's Action)	**Silvertown Tunnel Procurement Review** As a result of the Silvertown Tunnel Chair's Action, a procurement lessons-learned exercise would be undertaken and reported back to the Committee. Consideration would be given to how best to include independent validation into the exercise and would be agreed with the Deputy Mayor.	Simon Kilonback/ Jonathan Patrick/ Lorraine Humphrey	December 2021	Work has commenced and once completed a paper will be submitted to the Committee.

66/11/20	**TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements (PPAs)** Agreement of the PPAs and their procurement would be brought back to a future meeting of the Committee and was dependent on securing longer-term future funding, which would enable TfL to sign long-term contracts.	Lilli Matson	October 2021	An update paper on Power Purchase Agreement 1 is on the agenda for this meeting. A paper on Energy Purchasing 2024-2026, including an update on the procurement of Power Purchasing Agreement 2, will be submitted to a future meeting.
48/09/20 (2)	**TfL Energy Update – Widening Sustainability Work** Consideration would be given to what else TfL could do to widen and accelerate its sustainability work in this area, and the implications of doing that, and brought back to Members at an appropriate forum. Andy Byford confirmed that he would also pick up the discussion with Ben Story outside of the Committee meeting.	Lilli Matson/ Andy Byford	October 2021	The Corporate Environment Plan was presented to the Safety, Sustainability and Human Resources Panel in September 2021. It is undergoing its final revisions and is due to be published shortly. The Board will be kept informed.
06/03/20	**Finance Report – Board Engagement with Major Projects** In response to the information provided on the total capital expenditure by programme including capital renewals, it was agreed that consideration be given to the process for how to organise as a Board to engage with the major projects.	Simon Kilonback/ Howard Carter	September 2021	Several Members attended a site visit to the Northern Line Extension stations at Nine Elms and Battersea Power Station on 2 September ahead of the opening on 20 September 2021. Further site visits to major projects will be arranged as appropriate.

10/03/20	**Investment Strategy 2020/21 – Non-Financial Assets – DevCo Report** It was confirmed that a paper on governance and other elements of the investment programme would be submitted to the meeting of the Committee in June 2020. It was requested that the commercial and property development aspects of the paper be shared with the Acting Director of Housing and Land at the Greater London Authority, so that collaborative working was aligned with the high-profile developments. It was also requested that the paper include information on assurance of the financial independence from the core operating business and information on the capability within TfL to deliver the schemes.	Graeme Craig	October 2021	**Completed:** The Funding Update on TTL Properties Limited paper is on the agenda for this meeting.
44/12/19	**Strategic Risk Update – Inability to Deliver Predicted Revenue Growth (SR8)** In response to a suggestion that individual Members be encouraged to adopt a project to enable deep understanding of its challenges, risks and solutions, it was agreed that a list of projects that were suitable for Board Member involvement would be circulated to Members in order to assess interest.	Graeme Craig	TBC	Individual Member briefings/site visits will be arranged as appropriate.

Finance Committee

Date: **6 October 2021**

Item: **Use of Delegated Authority**

This paper will be considered in public

1 Summary

1.1 The use of delegated authority is a standing item on the agenda to inform the Committee of any use of delegated authority by the Committee, through Chair's Action or of Procurement or Land Authority (in respect of matters within the Committee's remit) granted by the Commissioner and the Chief Finance Officer in accordance with delegated authorities under TfL's Standing Orders since the last meeting of the Committee. The paper also provides information on Mayoral Directions to TfL within the Committee's remit.

1.2 Since the meeting of the Committee on 23 June 2021, there has been:

(a) one use of Chair's Action in relation to amendments to advertising concessions;

(b) no use of authority delegated by the Board;

(c) three uses of Procurement Authority granted by the Commissioner or the Chief Finance Officer but no use of Land Authority; and

(d) one Mayoral Direction to TfL, in relation to implementing further financial support fund for Seven Sisters Market traders (MD2868, 31 August 2021).

1.3 A similar paper is submitted to the Programmes and Investment Committee in respect of any use of Chair's Action or Procurement Authority and Programme and Project Authority granted by the Commissioner and the Chief Finance Officer in respect of matters within that Committee's remit, together with relevant Mayoral Directions.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Use of Authority Delegated by the Board

3.1 There has been no use of authority delegated by the Board since the meeting on 23 June 2021.

4 Use of Chair's Action

4.1 Under Standing Order 113, in situations of urgency, the Board delegates to each of the Chair and the Chairs of any Committee or Panel the exercise of any functions of TfL on its behalf, including the appointment of Members to Committees and Panels. Any use of Chair's Action is reported to the next ordinary meeting.

4.2 There has been one use of Chair's Action since the meeting on 23 June 2021.

Proposed Amendments to Advertising Concessions

4.3 Members of the Committee considered a paper which provided an overview of the impacts of the coronavirus pandemic and the delayed opening of the Elizabeth line on both the advertising industry and on TfL's income from commercial advertising sales.

4.4 On 25 July 2021, the Vice-Chair of the Committee, following consultation with available Members of the Board, approved the Procurement Authority required to vary the level of income due to TfL under its two main advertising contracts:

(a) the Advertising Partnership Agreement with Global which covers all Rail and Underground advertising; and

(b) the Bus Shelter advertising concession with JCDecaux.

4.5 The use of Chair's Action was considered appropriate as a decision was required before this meeting of the Committee to enable TfL to focus on rebuilding its commercial media revenue streams.

4.6 Further information is included in the Chair's Action paper published on tfl.gov.uk. The supplementary appendix remains exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL and is legally privileged.

5 Procurement and Land Authority Approvals

5.1 Procurement Authority is the authority to make a binding or contractual commitment with a supplier for the purchase of goods, services, land or works or to receive income arising from TfL Group activities in the areas of goods, services land or works.

5.2 Land Authority is the authority to engage in a Land Transaction or to dispose of any assets.

5.3 The Board had delegated to the Committee approval of unlimited Procurement Authority and Land Authority in relation to Transactions and Commercial Development opportunities. The approvals delegated to the

Commissioner and the Chief Finance Officer are set out in the Table of Authorities in Standing Order 169.

5.4 Since the last meeting, there has been no use of delegated authority to approve Land Authority by the Commissioner and the Chief Finance Officer.

5.5 The Commissioner granted Procurement Authority relating to the Speed Awareness Course for drivers who commit speed offences in London and an uplift in Security Services funding.

5.6 The Chief Finance Officer granted Procurement Authority relating to Retained Insurance Services for Standalone Construction Projects.

6 Mayoral Directions to TfL

6.1 The Greater London Authority Act 1999 (as amended), permits the Mayor to issue to TfL general directions as to the manner in which TfL is to exercise its functions or specific directions as to the exercise of its functions (or not to exercise a power specified in the direction). Directions are also often made in relation to the implementation of matters in respect of which the Mayor delegates statutory powers to TfL.

6.2 The Mayor makes Mayoral Directions through Mayoral Decisions. Papers for Mayoral Directions set out the financial and other implications. If those implications change over time, that will be reported to the GLA.

6.3 All Mayoral Decisions are issued in writing, with the information that is not exempt from publication included on the GLA's Decisions Database on its website: https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC.

6.4 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes. Mayoral Directions relating to TfL are reported to the Board's Committees for discussion as soon as possible after they are received by TfL or published. Regular reports will list the relevant Directions for as long as they are applicable.

6.5 Annually the Audit and Assurance Committee considers the list as part of its consideration of the annual audit plan to ensure that appropriate audit resource is applied to assurance on TfL's work in implementing Mayoral Directions. This will also be kept under review at each quarterly meeting of that Committee.

6.6 A summary of current Mayoral Directions to TfL is maintained on the "How we are governed" page on our website, with links to the relevant Mayoral Decisions: https://tfl.gov.uk/corporate/about-tfl/how-we-work/how-we-are-governed. That page will be updated as and when further Directions are made.

6.7 Mayoral Directions to TfL addressing technical issues with our statutory powers or related to our commercial development activities are reported to this Committee.

6.8 There has been one Direction issued to TfL since the last meeting, which was reported to the Audit and Assurance Committee on 15 September 2021 and will also be reported to the meeting of the Board on 20 October 2021.

Financial support fund for Seven Sisters Market traders MD2868

6.9 On 30 November 2020 (MD2724), the Mayor directed TfL to provide direct financial assistance of up to £500,000 to the traders from Seven Sisters Market. The financial support was intended to see the traders through a transition period between the closure of the TfL owned building that housed the market and the provision of a temporary market at Apex Gardens in 2021 (reported to the Board on 9 December 2020, this Committee on 10 March 2021 and the Audit and Assurance Committee on 17 March 2021).

6.10 On 5 August 2021, Grainger withdrew from the Seven Sisters regeneration project, including the installation of a temporary market at Apex Gardens. Although TfL is progressing plans for a separate temporary market, traders face a further period where they are unable to trade. On 31 August 2021, the Mayor directed TfL to provide further financial support across all traders up to £500,000.

List of appendices to this report:

None.

List of Background Papers:

Minutes from previous meetings of the Committee.
Chair’s Actions paper: Proposed Amendment to Advertising Concessions (issued 22 July, approved 25 July 2021)
Greater London Authority Decision Making Database.

Contact Officer: Howard Carter, General Counsel
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Finance Committee

Date: **6 October 2021**

Item: **Finance Report – Period 5, 2021/22**

This paper will be considered in public

1 Summary

1.1 The Finance Report presentation sets out TfL's financial results to the end of period 5, 2021/22 - the year-to-date ending 21 August 2021.

2 Recommendation

2.1 **The Committee is asked to note the Finance Report.**

3 Financial Reporting to the Committee

Finance Report – Period 5, 2021/22

3.1 The Finance Report presentation provides a summary of year-to-date financial performance against the Revised Budget (approved by the Board on 28 July 2021) and last year.

List of appendices to this report:
Appendix 1: Finance Report Presentation

List of Background Papers:
None

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Finance Report
Period 5, 2021/22

Management results from 1 April 2021 – 21 August 2021

Finance Committee
6 October 2021

Section 1

Period 5, 2021/22 results: divisional performance

London Underground

Tube journeys 50% of pre-pandemic levels in the latest period, increasing to 58% in week ending 18 September. Passenger income (£70m) lower than Budget, but over double the value we saw last year.

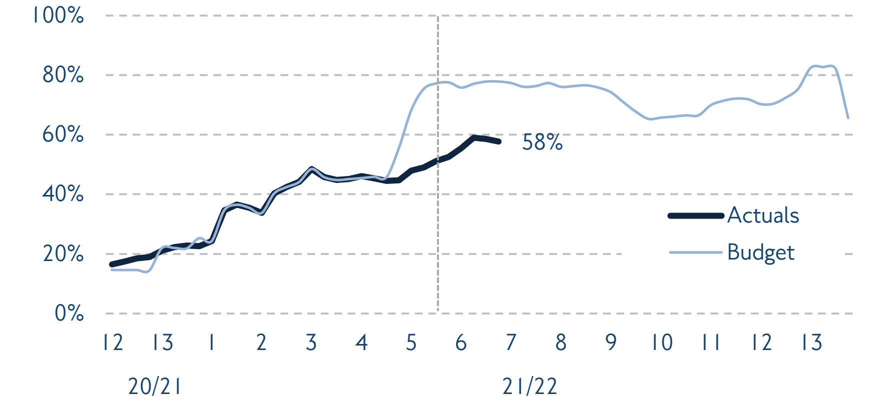
Operating costs £4m below Budget, due to lower than anticipated coronavirus related spend. Costs only slightly up on last year (1%) when we reduced service levels during the first wave of the coronavirus pandemic.

London Underground

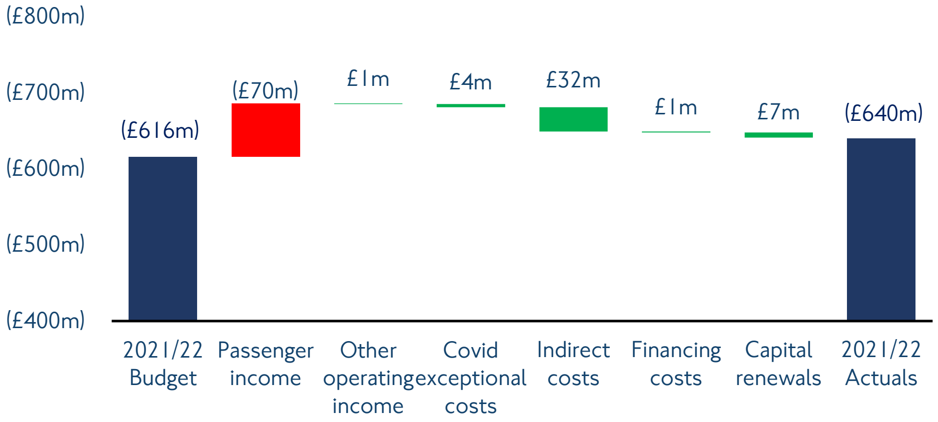
Operating account (£m)	Year to date, 2021/22				Year to date, 2020/21		
	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Passenger income	468	538	(70)	-13%	203	265	131%
Other operating income	10	9	1	6%	8	2	23%
Total operating income	**478**	**547**	**(69)**	**-13%**	**211**	**267**	**127%**
Government furlough grant	0	0	0	N/A	34	(34)	-100%
Total income	**478**	**547**	**(69)**	**-13%**	**245**	**233**	**95%**
Operating costs	(783)	(787)	4	-1%	(777)	(6)	1%
Net operating surplus	**(305)**	**(240)**	**(65)**	**27%**	**(532)**	**227**	**-43%**
Indirect costs	(122)	(154)	32	-21%	(97)	(25)	26%
Net financing costs	(110)	(111)	1	-1%	(108)	(2)	2%
Capital renewals	(103)	(110)	7	-7%	(49)	(54)	112%
Net cost of operations	**(640)**	**(616)**	**(24)**	**4%**	**(785)**	**145**	**-18%**
New capital investment	**(9)**	**(11)**	**2**	**-15%**	**(10)**	**1**	**-8%**

Tube journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget			Journeys (millions)	Variance to Budget
50%	75%	Y	227	-28



Net cost of operations compared to Budget



Elizabeth line

Elizabeth line journeys 53% of pre-pandemic levels in the latest period. Passenger income (£2m) lower than Budget, and £16m up on last year.

Operating costs £3m lower than Budget, driven by lower than rolling stock maintenance costs.

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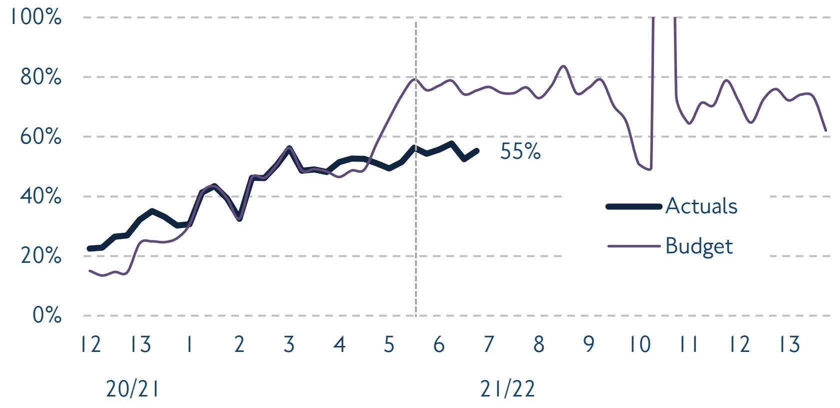
Elizabeth line

Operating account (£m)	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
	Year to date, 2021/22				Year to date, 2020/21		
Passenger income	28	30	(2)	-8%	12	16	129%
Other operating income	9	10	(1)	-8%	2	7	254%
Total operating income	**37**	**40**	**(3)**	**-8%**	**15**	**22**	**152%**
Operating costs	(161)	(164)	3	-2%	(118)	(43)	36%
Net operating surplus	**(124)**	**(123)**	**(1)**	**1%**	**(103)**	**(21)**	**20%**
Indirect costs	(3)	(5)	2	-40%	(2)	(1)	46%
Net financing costs	(37)	(37)	0	-1%	(36)	(1)	2%
Capital renewals	(1)	(1)	0	-39%	0	(1)	N/A
Net cost of operations	**(165)**	**(167)**	**2**	**-1%**	**(141)**	**(24)**	**17%**
New capital investment	(7)	(7)	0	-2%	(10)	3	-31%
Crossrail construction	(253)	(281)	28	-10%	(284)	31	-11%
New capital investment	**(260)**	**(288)**	**28**	**-10%**	**(294)**	**34**	**-11%**

EL journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
53%	74%	Y	13	-1



Net cost of operations compared to Budget

Buses, Streets & Other operations

Bus journeys 65% of pre-pandemic levels in the latest period, up to 68% in week ending 18 September. Passenger income (£7m) below Budget due to 16 million fewer journeys.

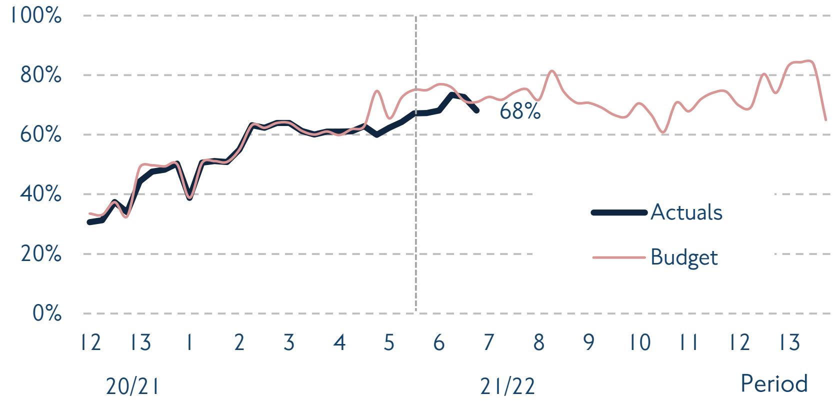
Operating income £9m higher than Budget driven by higher Road User Charging income. Higher income driven from increases in contraventions (and associated enforcement income) on LEZ and ULEZ schemes. Operating costs £3m lower than Budget, mainly due to lower bus performance payments and staff cost savings.

Buses, Streets & Other operations

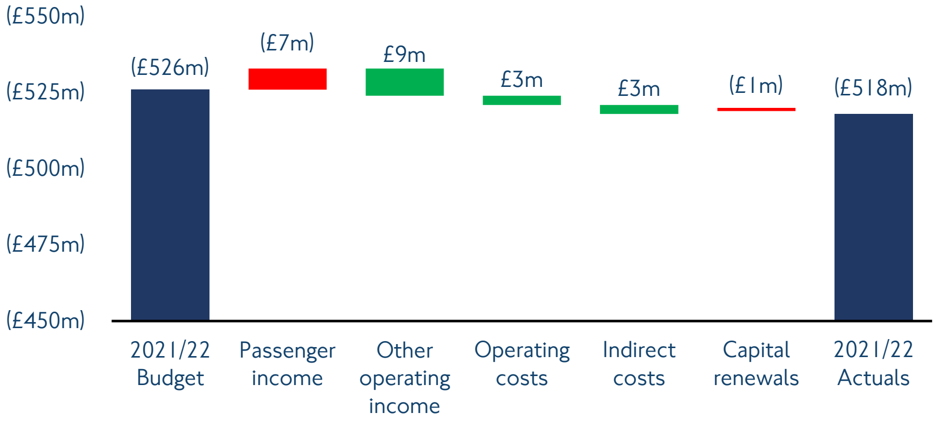
	Year to date, 2021/22				Year to date, 2020/21		
Operating account (£m)	**Actuals**	**Revised Budget**	**Variance to Revised Budget**	**% variance to Revised Budget**	**Last year**	**Variance to last year**	**% variance to last year**
Passenger income	384	391	(7)	-2%	216	168	77%
Other operating income	260	251	9	3%	155	105	68%
Total operating income	**644**	**642**	**2**	**0%**	**371**	**273**	**74%**
Government furlough grant	0	0	0	N/A	8	(8)	-100%
Total income	**644**	**642**	**2**	**0%**	**379**	**265**	**70%**
Operating costs	(1,080)	(1,083)	3	0%	(1,026)	(54)	5%
Net operating surplus	**(436)**	**(441)**	**5**	**-1%**	**(647)**	**211**	**-33%**
Indirect costs	(35)	(38)	3	-9%	(38)	3	-9%
Net financing costs	(11)	(11)	0	-1%	(11)	0	2%
Capital renewals	(36)	(35)	(1)	1%	(20)	(16)	75%
Net cost of operations	**(518)**	**(526)**	**8**	**-1%**	**(716)**	**198**	**-28%**
New capital investment	**(35)**	**(40)**	**5**	**-12%**	**(40)**	**5**	**-13%**

Bus journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
65%	72%	Y	514	-16



Net cost of operations compared to Budget



Rail

Rail journeys – including London Overground, DLR and Trams – 57% of pre-pandemic levels in Period 5. Passenger income (£6m) lower than Budget due to 4 million fewer journeys.

Operating costs slightly down on Budget, from lower planned and reactive maintenance costs.

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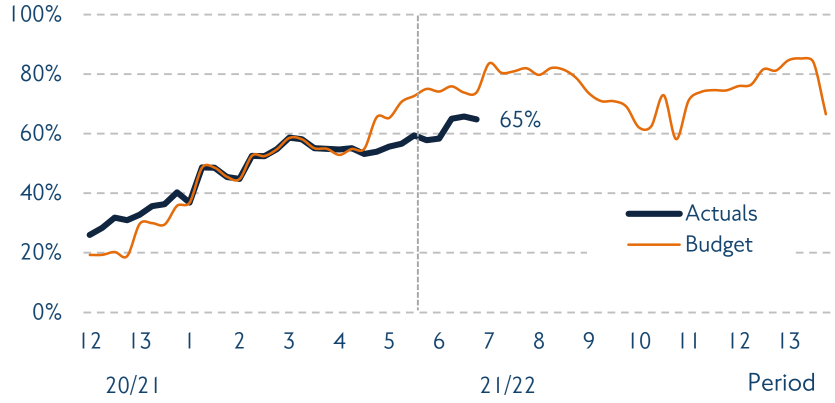
Rail

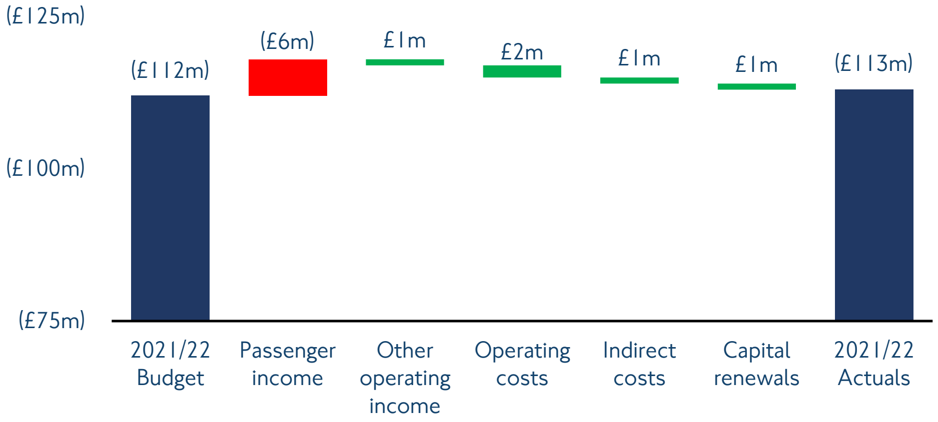
Operating account (£m)	Year to date, 2021/22				Year to date, 2020/21		
	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Passenger income	93	99	(6)	-6%	37	56	155%
Other operating income	9	8	1	15%	1	8	490%
Total operating income	**102**	**107**	**(5)**	**-5%**	**38**	**64**	**169%**
Operating costs	(180)	(182)	2	-1%	(180)	0	0%
Net operating surplus	**(78)**	**(75)**	**(3)**	**4%**	**(142)**	**64**	**-45%**
Indirect costs	(6)	(7)	1	-16%	(6)	0	-2%
Net financing costs	(16)	(16)	0	-1%	(16)	0	2%
Capital renewals	(13)	(14)	1	-4%	(10)	(3)	32%
Net cost of operations	**(113)**	**(112)**	**(1)**	**1%**	**(173)**	**60**	**-35%**
New capital investment	**(4)**	**(4)**	**0**	**-6%**	**(6)**	**2**	**-29%**

Rail journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
57%	71%	Y	70	-4



Net cost of operations compared to Budget



Major Projects Directorate

Year to date capital spend is in line with Budget.

Major Projects Directorate

Operating account (£m)	Year to date, 2021/22				Year to date, 2020/21		
	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Other operating income	3	4	(1)	-14%	3	0	-1%
Total operating income	**3**	**4**	**(1)**	**-14%**	**3**	**0**	**-1%**
Government furlough grant	0	0	0	N/A	2	(2)	-100%
Total income	**3**	**4**	**(1)**	**-14%**	**5**	**(2)**	**-38%**
Operating costs	(5)	(7)	2	-30%	(28)	23	-84%
Net operating surplus	**(1)**	**(2)**	**1**	**-50%**	**(22)**	**21**	**-95%**
Indirect costs	(10)	(14)	4	-28%	(11)	1	-12%
Net financing costs	0	0	0	N/A	0	0	N/A
Capital renewals	(4)	(3)	(1)	33%	(1)	(3)	350%
Net cost of operations	**(15)**	**(19)**	**4**	**-22%**	**(34)**	**19**	**-56%**
New capital investment	**(210)**	**(211)**	**1**	**0%**	**(156)**	**(54)**	**34%**

Northern Line Extension

The two new stations making up the Northern Line Extension at Nine Elms and Battersea Power Station welcomed their first customers on 20 September with Tube services running from Kennington station on the Charing Cross branch.

The two step-free Zone 1 stations are set to dramatically improve the connectivity of these vibrant south London Neighbourhoods and contribute to the capital's recovery from the pandemic at a vital time.

Silvertown Tunnel

Site works continue in both Greenwich and Silvertown, including where the Tunnel Boring Machine (TBM) launch chamber will be constructed and, following demolition of existing buildings and site clearance, the piling works are well under way. The contract for the design and manufacture of the TBM is progressing to plan, with delivery expected in Spring 2022.

A new virtual public exhibition about the Silvertown Tunnel project was launched on 19 August on the Riverlinx website which includes new CGI images showing what the fully accessible walking and cycling bridge across the A102 Blackwall Tunnel Approach will look like once complete.

Barking Riverside Extension

In July, the programme achieved the strategic milestone of formally handing over the completed viaduct structure for the installation of track and associated rail systems; the track slab is on target to be completed in October 2021.

On the existing Network Rail infrastructure, two new power supplies were successfully commissioned at Eldred Road and Renwick Road in July and August respectively.

The final stage of signalling commissioning for rail systems on the viaduct is planned over a series of weekends in March and April 2022.

Section 2

Period 5, 2021/22 results: TfL Group performance

Headlines

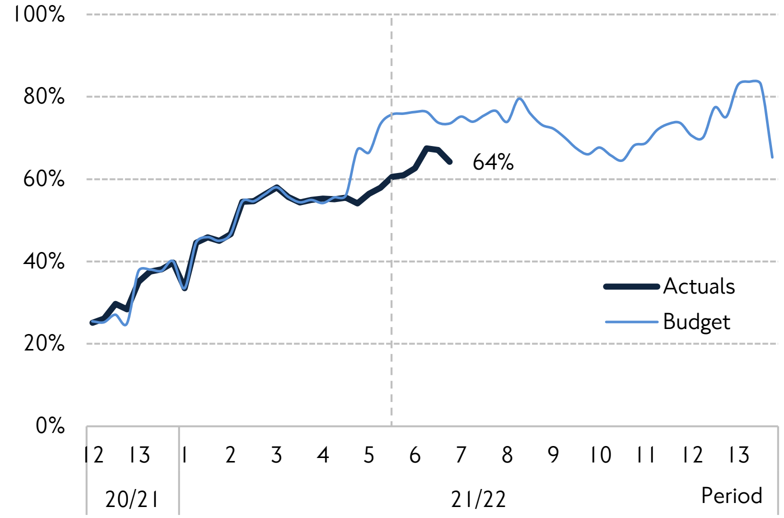
Passenger journeys and income have seen significant growth. Total TfL journeys reached 59% of pre-pandemic levels in Period 5; journeys now at 64%, in week ending 18 September. Passenger income is double that from last year, but remains around 55% of historical levels.

Cash balances remain broadly stable and are in line with closing cash from 2020/21 following the 1 June funding agreement with government.

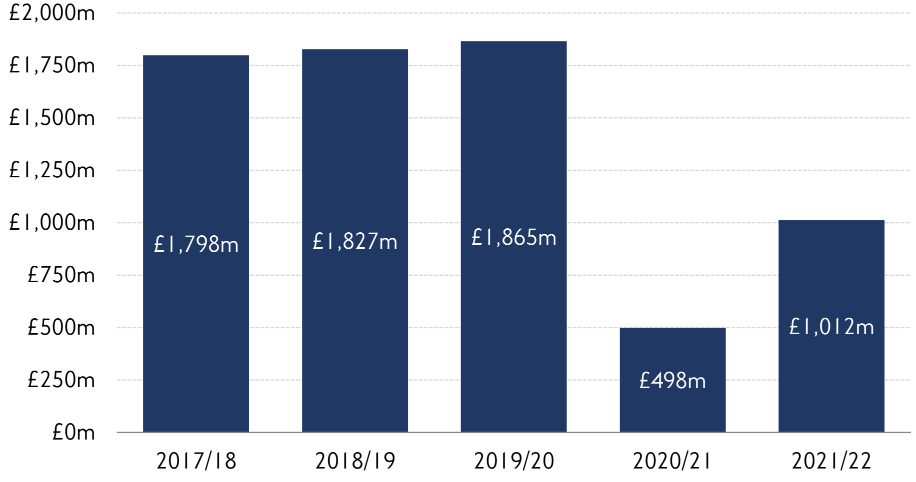
Following the expiration of the funding agreement (covering the end of May to December 2021), we expect to see cash balances reduce to near minimum cash levels.

Headlines

Total passenger journeys 64% of pre-pandemic levels against a target of 73%.

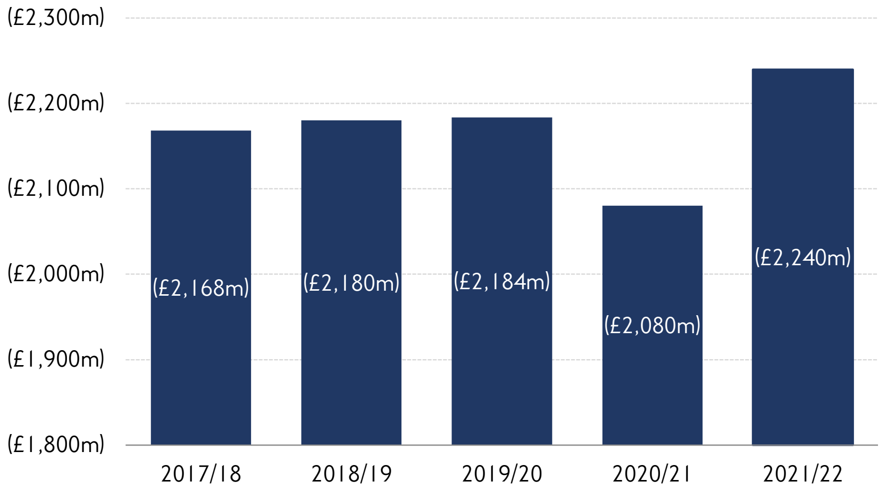


Passenger income up on last year, but £74m lower than Budget. Year-to-date income 45% lower than pre-pandemic levels



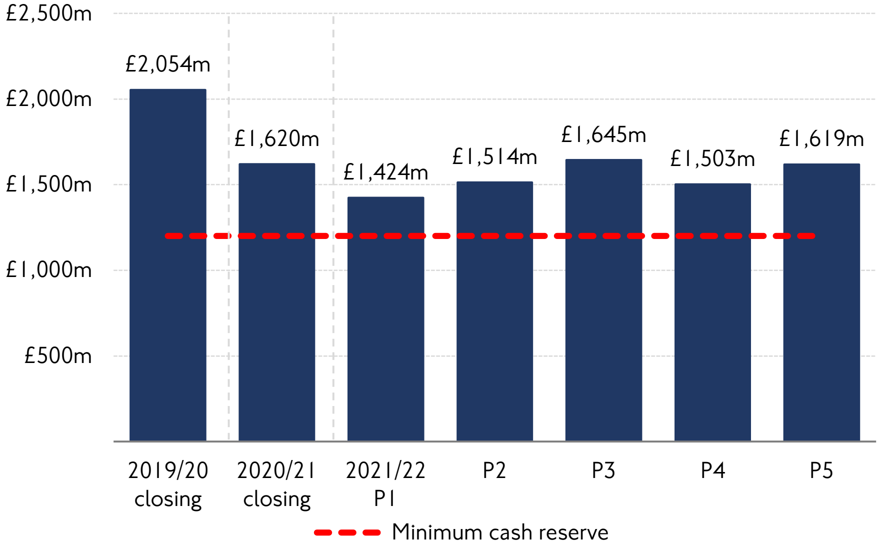
Individual years show year-to-date passenger income to end of Period 5.

Core operating costs up on last year, when service levels were reduced during first wave of the pandemic



Individual years show year-to-date passenger income to end of Period 5. 2020/21 and 2021/22 are on average 3 days (6%) longer than prior years.

Cash balances broadly stable following funding agreement, but expect balances to reach minimum cash reserve (£1.2bn) by year end



Passenger journeys

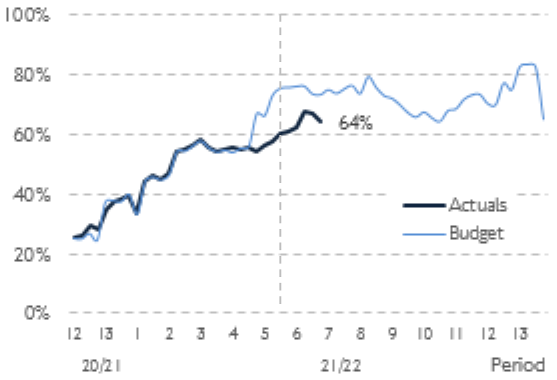
Passenger journeys were 59% of the pre-pandemic levels in Period 5, 2021/22, compared to a target of 73%. Journey growth plateaued throughout the summer period, partly a result of the delay to Step 4 of the Government's roadmap, followed by the holiday season.

We have seen promising growth from the start of September. Total TfL journeys are now 64% of pre-pandemic levels. Latest Tube journey trends show journeys at 58% of pre-pandemic levels, up from 50% at the end of Period 5. Weekend Tube travel has seen the strongest recovery, along with suburban weekdays journeys; rail terminus journeys are also picking up, now around 55% of pre-pandemic levels. Bus journeys are 68% of pre-pandemic levels, up from 65% in Period 5.

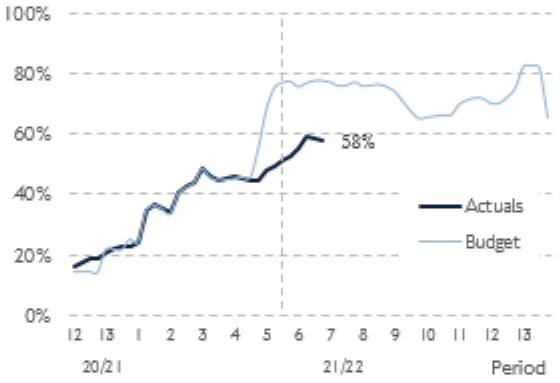
Passenger journeys

Journeys compared to pre-pandemic baseline (adjusted 2018/19 journeys)
Target is budgeted demand against this baseline; 'P' denotes latest period; 'Y' denotes year-to-date performance

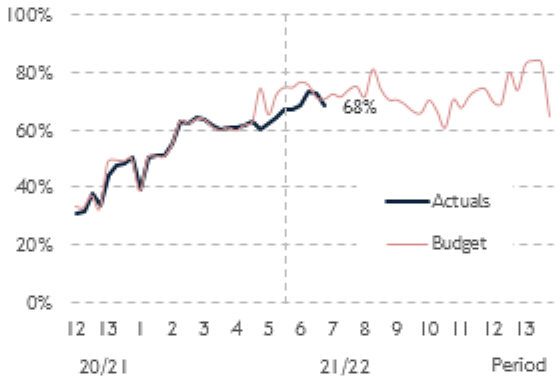
TfL	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	59%	73%	P	167	-39
			Y	824	-49



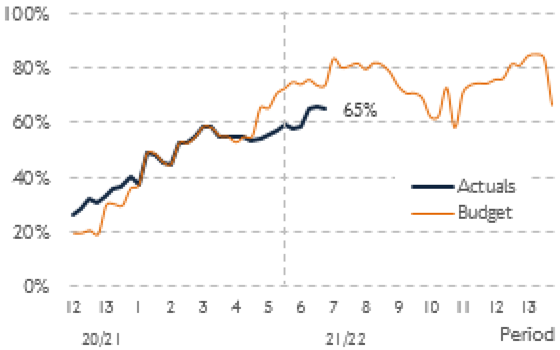
LU	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	50%	75%	P	50	-25
			Y	227	-28



Bus	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	65%	72%	P	99	-10
			Y	514	-16



Rail	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	57%	71%	P	15	-3
			Y	70	-4

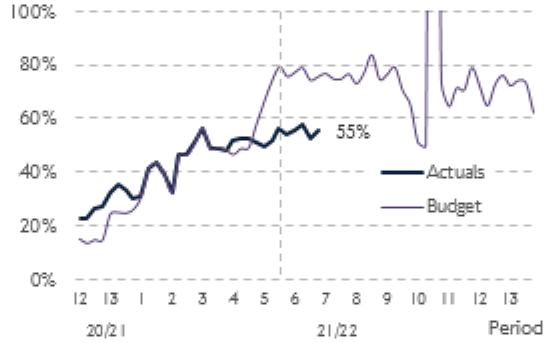


LO	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	54%	67%	P	8	-2
			Y	37	-2

DLR	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	61%	77%	P	6	-1
			Y	26	-2

Tram	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	62%	71%	P	2	0
			Y	7	0

TfLR	% vs Pre Covid Period	% vs Pre Covid budget		Absolute m	Var to Bud m
	53%	74%	P	3	-1
			Y	13	-1



Operating account

Passenger income £1,012m year to date, which is double that from last year, but (£74m) below Budget. This is driven by lower journeys across all modes, partly a result of the delay to Step 4 of the Government's roadmap, followed by the holiday season. Other operating income up as a result of higher Road User Charging income (£9m).

Operating costs £45m lower than Budget, driven by lower underlying costs (£16m), timing differences (£11m) and central contingency release (£20m)

Extraordinary revenue grant is £86m higher than Budget, a result of higher revenue top up (up to an agreed limit), which offsets lower passenger income.

Operating account

	Year to date, 2021/22				Year to date, 2020/21		
Operating account (£m)	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Passenger income	1,012	1,086	(74)	-7%	498	514	103%
Other operating income	371	357	14	4%	242	129	53%
Total operating income	**1,383**	**1,444**	**(61)**	**-4%**	**740**	**643**	**87%**
Business Rates Retention	449	449	0	0%	427	22	5%
Revenue grant	32	27	5	19%	2	30	1241%
Government furlough grant	0	0	0	N/A	52	(52)	-100%
Total income	**1,864**	**1,920**	**(56)**	**-3%**	**1,221**	**643**	**53%**
Operating cost	(2,479)	(2,524)	45	-2%	(2,392)	(87)	4%
Net operating surplus	**(615)**	**(604)**	**(11)**	**2%**	**(1,171)**	**556**	**-48%**
Net financing costs	(173)	(175)	2	-1%	(170)	(3)	2%
Net cost of operations after financing	**(788)**	**(780)**	**(8)**	**1%**	**(1,342)**	**554**	**-41%**
Capital renewals	(168)	(175)	7	-4%	(85)	(83)	98%
Net cost of operations	**(956)**	**(955)**	**(1)**	**0%**	**(1,426)**	**470**	**-33%**
Extraordinary revenue grant	1,195	1,109	86	8%	730	465	64%
Net cost of operations after extraordinary revenue grant	**239**	**154**	**85**	**56%**	**(696)**	**935**	**-134%**

Operating costs

Total operating costs £45m lower than Budget. Underlying costs are £16m better than expected, driven by new efficiencies (including staff cost savings), lower bus performance payments, and lower LU traction costs.

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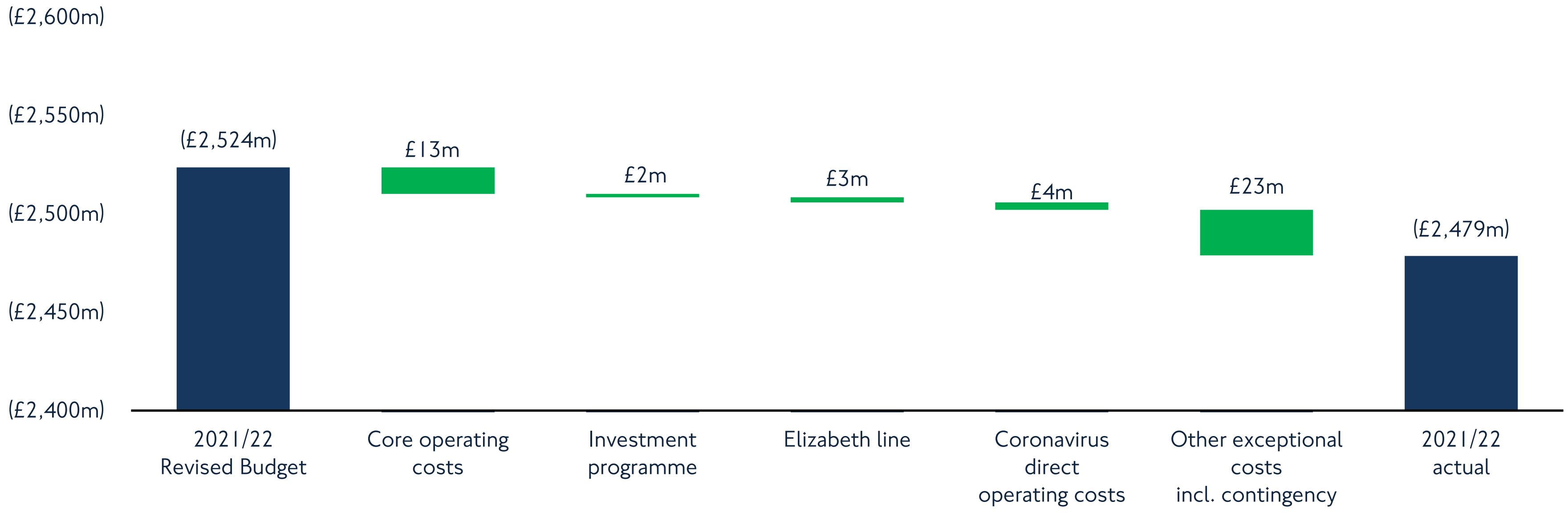
Operating costs

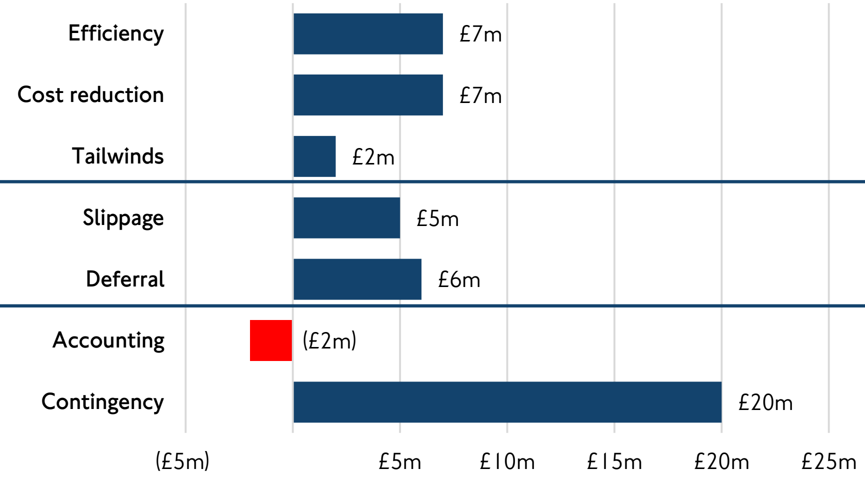


Operating costs: drivers of year-to-date variances (£m)

Underlying costs £16m better

Timing differences of £11m

Contingency and accounting £18m



Capital account

Total capital expenditure £27m lower than target, largely a result of project slippage and deferrals, partly driven from short term and stop-start nature of current funding agreements.

Property and asset receipts are (£5m) lower than Budget, driven by later than expected property disposals.

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Capital account

Capital account (£m)	Year to date, 2021/22 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
New capital investment	(295)	(314)	19	-6%	(248)	(47)	19%
Crossrail	(253)	(281)	28	-10%	(284)	31	-11%
Total capital expenditure	**(548)**	**(595)**	**47**	**-8%**	**(531)**	**(17)**	**3%**
Financed by:							
Investment grant	409	409	0	0%	400	9	2%
Property and asset receipts	10	15	(5)	-33%	5	5	78%
Borrowing	1	1	0	5%	337	(336)	-100%
Crossrail borrowing	74	74	0	0%	255	(181)	-71%
Crossrail funding sources	223	214	9	4%	67	156	231%
Other capital grants	22	21	1	4%	49	(27)	-55%
Total	**739**	**734**	**5**	**1%**	**1,114**	**(375)**	**-34%**
Net capital account	**191**	**139**	**52**	**37%**	**582**	**(391)**	**-67%**
Capital renewals	(168)	(175)	7	-4%	(85)	(83)	98%
New capital investment	(295)	(314)	19	-6%	(248)	(47)	19%
Total TfL capital expenditure	**(463)**	**(490)**	**27**	**-5%**	**(333)**	**(130)**	**39%**

Capital expenditure

Total capital expenditure is £27m lower than Budget, driven by slippage and deferrals. LU, Surface and Corporate programme underspend partly driven by stop-start nature of funding agreements, and associated project approval and contractual delays.

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Capital expenditure by programme: year to date, 2021/22

Capital renewals and new capital investment (£m)	Year to date, 2021/22 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Major projects	**(214)**	**(213)**	**(1)**	**0%**	**(157)**	**(57)**	**36%**
Northern Line Extension	(36)	(36)	0	0%	(35)	(1)	2%
Four Lines Modernisation	(52)	(51)	(1)	2%	(28)	(24)	86%
Major Stations	(24)	(25)	1	-3%	(24)	0	0%
Railway Systems Enhancements	(2)	(2)	0	-1%	(4)	2	-44%
Piccadilly line trains	(50)	(51)	1	-2%	(29)	(21)	75%
DLR Rolling Stock	(27)	(27)	0	0%	(14)	(13)	94%
Barking Riverside	(18)	(17)	(1)	8%	(20)	2	-8%
Silvertown Tunnel	(4)	(4)	0	-2%	(3)	(1)	40%
Elizabeth line - infrastructure	(8)	(9)	1	-6%	(11)	3	-25%
LU	**(112)**	**(121)**	**9**	**-8%**	**(58)**	**(54)**	**92%**
Capital renewals	(103)	(110)	7	-7%	(49)	(54)	112%
New capital investment	(9)	(11)	2	-15%	(10)	1	-8%
Surface Transport	**(89)**	**(94)**	**5**	**-6%**	**(77)**	**(12)**	**15%**
Healthy Streets	(12)	(14)	2	-15%	(17)	5	-29%
Surface - assets	(30)	(29)	(1)	4%	(19)	(11)	56%
Surface Tech	(10)	(12)	2	-15%	(4)	(6)	148%
Public Transport	(19)	(20)	1	-3%	(16)	(3)	16%
Air Quality and environment	(17)	(19)	2	-9%	(20)	3	-15%
Corporate programmes	**(31)**	**(36)**	**5**	**-15%**	**(18)**	**(13)**	**74%**
Professional Services	(33)	(36)	3	-8%	(22)	(11)	49%
Media	2	0	2	-741%	4	(2)	-53%
Commercial Development	**(9)**	**(16)**	**7**	**-42%**	**(11)**	**2**	**-20%**
Estates and facilities	(1)	(1)	0	-29%	(1)	0	225%
Property development	(9)	(16)	7	-42%	(12)	3	-23%
Total TfL	**(463)**	**(490)**	**27**	**-5%**	**(333)**	**(130)**	**39%**

Cash balances

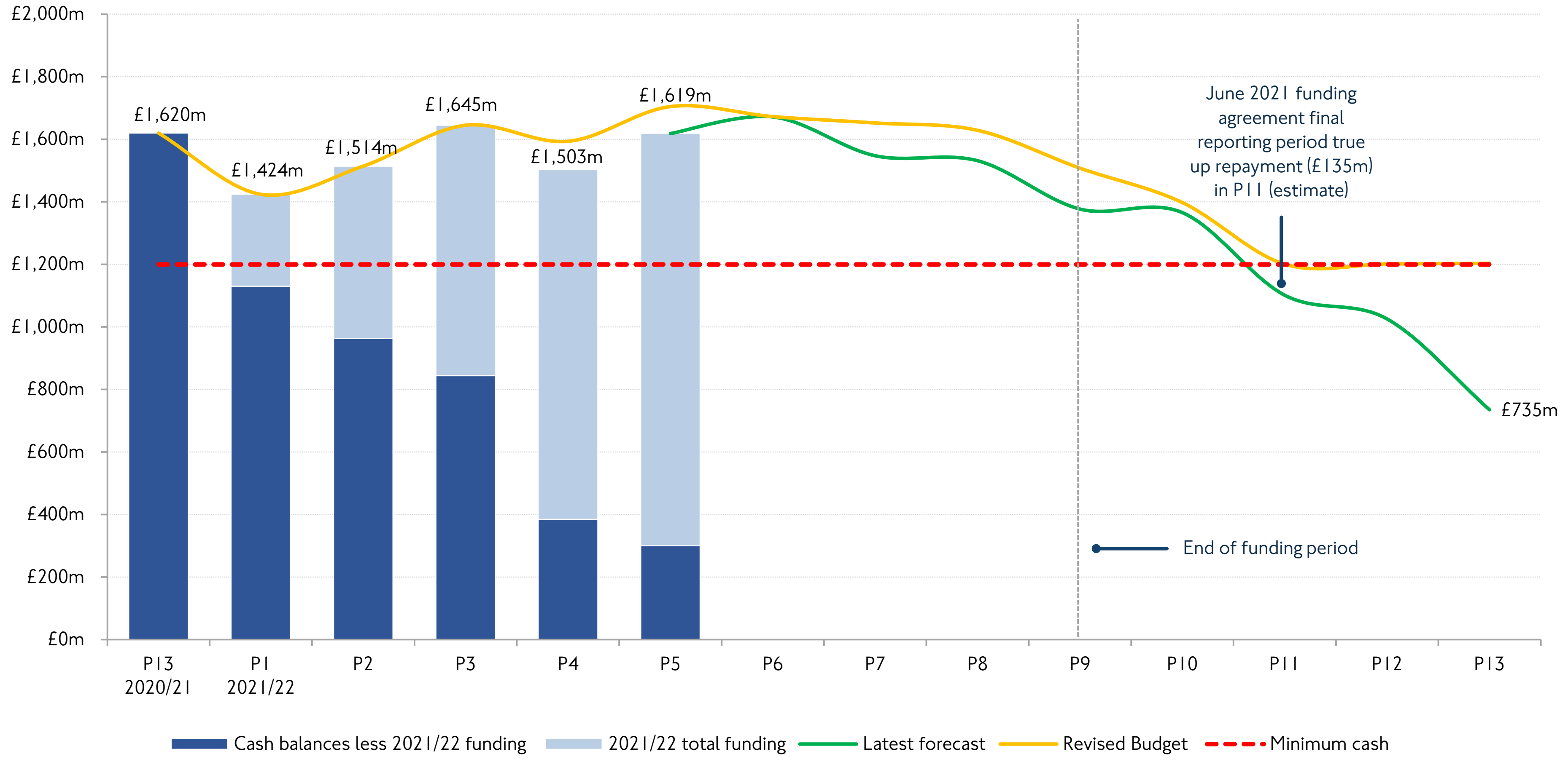
Total cash balances are just above £1.6bn at the end of Period 5 and in line with 2020/21 closing cash. Cash balances are (£86m) lower than Budget, largely a result of adverse working capital, which will unwind over subsequent periods.

Our latest cash forecast for the year shows cash gradually declining from Period 5 onwards, driven by lower levels of government funding to the expiry of the current agreement on 11 December. From this point, we have assumed TfL will receive no government funding, with cash declining to just over £700m at year end – this is almost £500m lower than our minimum cash balance.

Cash balances and latest forecast

	2020/21	2021/22 cash movement	P5, 2021/22 closing cash	P5, 2021/22: variance to Revised Budget
TfL closing cash balances	1,620	(1)	1,619	(86)

Cash balances and latest cash forecast, 2021/22



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Finance Committee

Date: **6 October 2021**

Item: **Treasury Activities**

This paper will be considered in public

1 Summary

1.1 This paper provides a brief update on our key treasury activities for the period from 20 February 2021 to 16 September 2021 (the Reporting Period).

1.2 During the Reporting Period, we have complied at all times with the Treasury Management Strategy (TMS), the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments (Policies) (each approved by Finance Committee Chair's Action (as delegated by the Board) on 10 March 2021), including the GLA Responsible Investment Policy.

1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL or of a sensitive nature to our listed counterparties. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

3 Liquidity

3.1 The Treasury Management Policies state that, for prudent financial management purposes, TfL will aim to maintain a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equating approximately to £1.2bn. During the Reporting Period TfL cash reserves, excluding specified subsidiaries, always remained above this level.

3.2 The latest funding agreement with government dated 1 June 2021 was based on a range of high-level assumptions, including phasing of the savings target. For a number of reasons, such as upfront phasing of emergency government base grant, earlier than expected delivery of savings and delays in capital expenditure due to funding uncertainty, the cash balances have been higher than expected, but will start reducing over the coming months. The funding agreement assumes that TfL's cash balances will reduce near to the minimum £1.2bn level by the end of the funding period, 11 December 2021 after restating for revenue true up adjustments in line with the funding agreement.

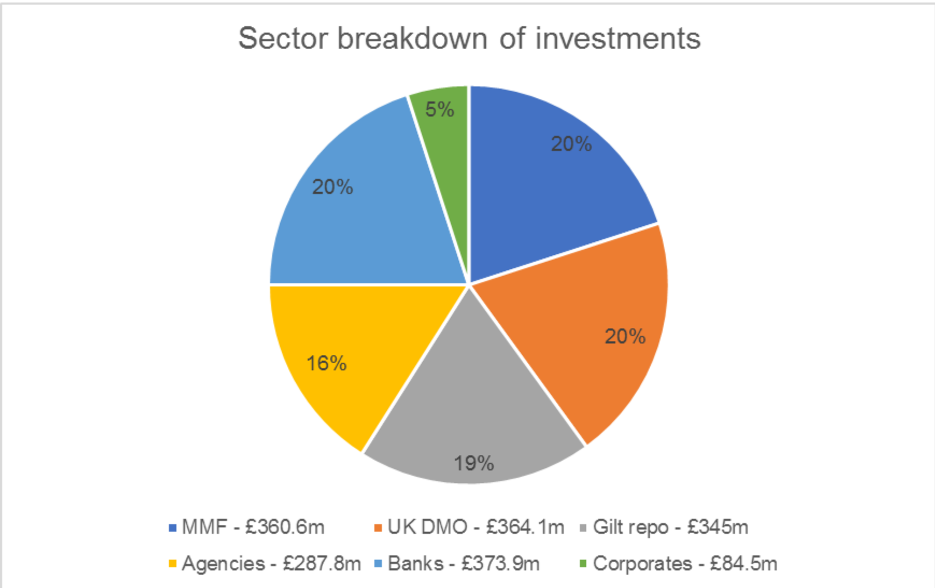
4 Investment Update

4.1 Financial markets operated without disruption over the Reporting Period and fears of counterparty credit risk subsided. We responded by gradually increasing the number of counterparties approved for investment. This has allowed us to further diversify cash investments by country, sector, liquidity and counterparty risk. The maximum duration of investments has remained at three months to reflect the relatively short-term nature of the funding agreement with government.

4.2 On 16 September 2021, cash under management was £1.8bn of which £706m (39 per cent) was held in highly rated, overnight money market funds (MMF) and government collateralised repurchase agreements (Gilt repo). Investments maturing within one and (at most) two months totalled £1,334bn (73 per cent) and £1,678bn (92 per cent) respectively. All investments mature within three months. The weighted average maturity (WAM) of investments over the Reporting Period reduced from 31 days to 22 due to a high relative return for overnight Gilt repo versus term investments.

4.3 While we have prioritised investments in short dated, highly rated instruments we continue to seek opportunities to diversify the portfolio and maximise yield. As at 16 September 2021, we held a diversified portfolio of investments in supra-national, government agencies and highly rated financial and corporate investments, as shown in Chart 1.

Chart 1 – Sector breakdown of cash position on 16 September 2021



4.4 The investment yield on cash investments on 16 September 2021 was 4.7bps, 13bps higher than the seven-day London Interbank Bid Rate (LIBID) benchmark. The yield is reflective of low interest rates, short duration of investments and investment in highly rated counterparties and liquid investments.

Money Market Fund reform

4.5 Following the severe market disruption brought on by the coronavirus pandemic, regulators across Europe and the United States are reviewing the rules under which MMFs operate. While MMFs successfully navigated the stresses resulting from the coronavirus pandemic, it is expected more stringent limits will come into force. Several consultations have taken place across multiple regulators and focused on: the susceptibility of large outflows in funds, liquidity of underlying money markets and continued adequacy of existing MMF rules. Regulators may choose to reform certain aspects of the framework including; decoupling liquidity thresholds with mandatory suspension and/or gates, review liquidity buffers and their use, review the status of certain fund types such as constant, variable and low volatility net asset value funds and assessing the role of fund sponsors. No date has been provided on when and/or if regulatory reforms will take place.

Investment yield benchmark

4.6 With the cessation of London Interbank Offered Rate (LIBOR) publication from 31 December 2021, MMFs are now using Sterling Overnight Index Average (SONIA) instead of the seven-day LIBID to benchmark returns. We also anticipate moving to SONIA to monitor performance of our investment portfolio from 31 December 2021.

5 Borrowing Update

Borrowing during the Reporting Period

5.1 As at the end of the Reporting Period, we had £13,069m outstanding borrowing with a weighted average maturity of 16.6 years and an average interest rate of 3.2 per cent. We remained within the Authorised Limit for borrowing of £14,494.8m at all times during the Reporting Period.

5.2 During the Reporting Period, we borrowed the final £74m under our £750m facility with the Department for Transport (DfT) for the purposes of the Crossrail project. We also refinanced some of our variable rate Public Works Loan Board (PWLB) loans to reduce the interest rate payable on some of our borrowing.

2021/22 borrowing requirement

5.3 Table 1 sets out our planned borrowing and refinancing requirement for 2021/22. In addition to the planned amounts, we might refinance our rolling commercial paper with alternative sources, should this be appropriate.

Table 1 – 2021/22 borrowing requirement as at 16 September 2021

Description	Complete (£m)	Remaining (£m)	Total (£m)
Refinancing of maturing borrowing, excluding rolling short-term commercial paper	45.0	315.2	360.2
Refinancing of PWLB variable rate loans	252.0	84.0	336.0
Borrowing requirement for 2021/22 (excluding borrowing under the £750m DfT loan facility for Crossrail)	**297.0**	**399.2**	**696.2**
Borrowing under the £750m DfT loan facility for Crossrail	74.0	-	74.0
Total borrowing requirement for 2021/22	**371.0**	**399.2**	**770.2**

DfT £750m loan facility for the purposes of the Crossrail project

5.4 On 28 April 2021, we drew down the final £74m under our £750m facility with the DfT for the purposes of the Crossrail project. This final drawdown fixes the future interest and principal payment dates under the facility.

Refinancing of PWLB variable rate loans

5.5 During 2020/21 we arranged four variable rate PWLB loans as part of the £600m borrowing agreed under the Extraordinary Funding and Financing Agreements with government. The variable rate loans totalled £336m, with the remaining raised as fixed rate PWLB loans. Since arranging the loans, the margin payable on new loans from the PWLB has reduced by one per cent. Variable rate PWLB loans (but not fixed rate PWLB loans) can be repaid early without penalty once they have been outstanding for at least 12 months. Therefore, to benefit from the lower margin we have been refinancing these variable rate loans with new PWLB loans as they become eligible for penalty-free repayment. The last of these loans will be refinanced before the end of September 2021.

Refinancing of maturing borrowing

5.6 We have £360.2m maturing borrowing in 2021/22, excluding maturing commercial paper. During the Reporting Period we have refinanced £45m of maturing debt with commercial paper. We expect to refinance the majority of the remaining 2021/22 maturities with a new PWLB loan towards the end of September 2021.

Changes to PWLB lending terms

5.7 In August 2021 the PWLB announced some changes to its lending terms, effective from 8 September 2021. The most significant change is an increase to the settlement period for new loans, which means proceeds from PWLB loans will take five days to arrive, rather than two days previously.

Debt financing of property subsidiary

5.8 As part of the Financial Sustainability Plan, submitted to government in January 2021, TfL's property subsidiary TTL Properties Limited (TTLP) is planning to increase the scope of its development activities in order to deliver more housing and a revenue stream for TfL. It is currently envisaged that the additional investment is financed by means of commercial debt, raised directly by TTLP without recourse to TfL. As TTLP will remain a fully owned subsidiary of TfL, any debt obligations will continue to be consolidated into the group balance sheet and will be subject to CIPFA prudential borrowing indicators and Authorised Borrowing Limit.

5.9 TfL's TMS and Policies are currently based on the assumption that all group debt is raised centrally by TfL and will be reviewed in order to enable TTLP to raise its own debt. Any potential amendments to TMS and Policies will be proposed to the Committee in future meetings.

UK Infrastructure Bank

5.10 The UK Infrastructure Bank (UKIB) is the new, government-owned policy bank, focused on increasing infrastructure investment across the UK. The bank has a mandate to lend to local and mayoral authorities for strategic and high value projects and invest in infrastructure projects alongside the private sector, crowding-in private sector capital. Launched in June 2021 in interim form, UKIB currently only offers a range of financing tools to the private sector. It was expected to start offering finance to local authorities, at rates cheaper than PWLB, from late summer 2021, however no further details have yet been announced. We continue to monitor any developments and our eligibility for cost efficient financing.

Disclosure Procedures Policy

5.11 In accordance with the Disclosure Procedures Policy, the Finance Committee is to be provided with an update on the operations of the Disclosure Group from time to time. Since the adoption of the policy in November 2019, TfL has continued to comply with the policy, including monitoring the existence of inside information, maintaining insider lists as and when required and issuing stock exchange announcements.

6 Credit ratings

6.1 Our credit ratings as at 16 September 2021 are shown in the table below.

Table 2: TfL's credit ratings as at 16 September 2021

	Standard & Poor's (S&P)	Moody's	Fitch
Long-term rating	A+	A3	A+
Outlook	Stable	Negative	Stable
Short-term rating	A-1	P-2	F1+

Changes to our credit ratings during the Reporting Period

6.2 On 20 May 2021, S&P affirmed our credit ratings and revised the outlook on our long-term rating to stable from negative. This reflected its view that the government would continue to provide adequate support to TfL until ridership rebounds to sustainable levels.

6.3 On 15 June 2021, Moody's downgraded our long-term credit rating from A1 to A3 and maintained the negative outlook on the rating. It also downgraded our short-term rating from P-1 to P-2. The downgrades reflected Moody's view on several factors, including the impact of the coronavirus pandemic, its assessment of the financial support provided by the government and the absence of a longer-term funding arrangement.

6.4 The downgrade has increased the interest rates that would be payable on new long-term commercial debt (for example, a public bond issuance) and has made these forms of borrowing less attractive. For clarity, the rating change does not affect our ability to access the PWLB, nor the interest rates available to us from the PWLB.

6.5 We have worked to reassure our financial stakeholders following the downgrade and are not aware of any material negative action by our debt holders as a result of the downgrade.

6.6 There have been no changes to our rating from Fitch during the Reporting Period.

LIBOR Transition Programme update

6.7 We continue to engage in detailed negotiations with lessors on our finance leases to transition to SONIA and make the relevant contract amendments in advance of the cessation of LIBOR from 31 December 2021. As SONIA is an overnight rate, the interest payment is therefore not known until the end of the interest period, whereas the LIBOR rate is known at the beginning of an interest period. This creates challenges in processing payments, and a significant part of negotiations has been focused on producing an appropriate solution to address this, including amending the invoicing process.

6.8 Where we have interest rate swaps against these leases, we are in discussions with the relevant counterparty to change these swaps to use the SONIA methodology which will follow the leases, rather than relying on the International

Swaps and Derivatives Association IBOR Fallbacks Protocol, maximising hedge effectiveness.

6.9 We are also reviewing the use of LIBOR in our systems and processes and transitioning accordingly, including upgrading our treasury management system, and changing our investment yield benchmark, as noted in this paper.

7 Banking

7.1 We have successfully migrated 1,670 sub accounts from our legacy Client Money Manager banking platform to a new virtual banking platform. The migration took place in July 2021, ahead of the scheduled date of 30 September. We continue to work with our banking partner to provide support to the users ensuring they maximise the platform's enhanced functionality.

7.2 We are working with our banking provider and business partners on the addition of Image Survivable Features on TfL's cheque stationery. The introduction of Image Survivable Features is to reduce the risk of fraud across the banking industry. The features consist of an encrypted code number printed on the front of the cheque which is then validated during the clearing process against the actual image of the cheque. Our banking provider will introduce the new cheque clearing software from 1 January 2022 and we are working to have the new cheque stationery in place by 30 November 2021.

7.3 We are also working with our banking provider and the Business Support Function (BSF) to automate the daily manual CHAPS payment process. The new process generates a file from SAP which after authorisation is automatically sent to the bank via an API connection for same day processing. The new process brings cost efficiencies as the files are cheaper to process so reducing bank charges and by removing the current manual payment process this will allow the BSF to focus on other activities. The target date for implementation is December 2021.

8 Other

CIPFA Consultation on the Prudential Code and Treasury Management Code

8.1 During the Reporting Period, the Chartered Institute of Public Finance and Accountancy (CIPFA) have published their response to consultations on the CIPFA Prudential Code and the CIPFA Treasury Management Code. Following the consultation responses, we expect CIPFA to make some changes to the Prudential Code to strengthen provisions around borrowing for yield. We are required to have regard to both of these Codes and will review any changes once they are published.

Treasury Management System upgrade

8.2 The Quantum Treasury Management System is being upgraded to receive continued support from the software vendor and to obtain new functionality required for the replacement of LIBOR (for the calculation of interest flows and the valuation of the relevant treasury instruments). The upgrade commences in autumn 2021 and is due to complete by the end of the financial year.

List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of background papers:

None

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Finance Committee

Date: **6 October 2021**

Item: **Treasury Management Strategy 2021/22 and Treasury Management Policies – LTM and LTIG Investments update**

This paper will be considered in public

1 Summary

1.1 This paper asks the Committee to approve a proposed update to the Treasury Management Strategy (TMS) 2021/22 and to the Treasury Management Policies (TMP).

1.2 The update proposes that matters relating to investment of cash balances within the TMS 2021/22 and TMP will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG).

1.3 LTIG and LTM have cash balances of less than £80m on average and neither has a parental letter of comfort from TfL. In practical terms, neither is part of TfL's notional cash pooling structure and as such both have always been managed independently.

1.4 LTIG and LTM will 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 for approval.

1.5 Approval of the TMS and TMP are 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. At its meeting on 6 October 2021, the Committee is asked to exercise that authority in relation to proposed updates to the TMS and TMP.

2 Recommendations

2.1 **The Committee is asked to note the paper and approve the updated Treasury Management Strategy 2021/22 and Treasury Management Policies, as set out in Appendices 1 and 2 to the paper.**

3 Background

3.1 LTM has charitable status and runs the London Transport Museum, and LTIG is an insurance company that provides insurance services to the TfL Group and some of its contractors. The funds of LTM and LTIG are held in standalone bank accounts and do not form part of TfL's notional pooling structure under its banking facilities, nor TfL's investment portfolio due to the respective charity and insurance status of these companies. In practice, LTM and LTIG manage their cash balances themselves or via appointed third parties.

3.2 LTM and LTIG do not have the benefit of a parental letter of comfort from TfL (unlike other TfL subsidiaries) and their accounts are audited on an annual basis. These subsidiaries have their own internal executive boards and governance structure where the matters relating to managing cash investments are considered.

4 Rationale for changes

4.1 LTM has asked TfL if it can invest in products and for tenors that are outside the boundaries of the TMS 2021/22, to better align its investment strategy with its strategic cash needs.

4.2 Due to the specific nature of their businesses and the size of the cash balances (currently below £80m combined), the cash management objectives of both LTM and LTIG may differ from those of the wider TfL Group. For example, the diversification across a large number of counterparties might not be practical or access to cash might not be required at very short notice and hence the longer-term cash investment tenors or alternative instruments could be more appropriate for LTM and/or LTIG. Therefore, the approach to investing cash balances taken by these subsidiaries (within the parameters of the TMS) has historically been slightly different to that of TfL.

4.3 It is proposed that matters related to setting, approving, implementing and monitoring policies and strategies related to cash investments, including monitoring of the financial risks associated with these investments, should be the responsibility of each of LTM and LTIG.

4.4 The TMS 2021/22, which includes the Investment Strategy, Borrowing Strategy, Risk Management Strategy and Counterparty Exposure limits, currently applies to TfL and all its subsidiaries. However, the Liquidity Policy under the TMP and the Liquidity Strategy under the TMS 2021/22 provide that they do not apply to the cash balances of certain subsidiaries; LTM, LTIG and Crossrail Limited. The proposed amendments to the TMS 2021/22 and TMP provide clarity that matters relating to investment of cash balances do not apply to LTM or LTIG.

4.5 This exclusion is prudent because LTM and LTIG each (a) have no parental letter of comfort from TfL; (b) have smaller cash balances when compared to TfL; and (c) are not part of TfL’s notional cash pooling structure.

5 Proposed changes

5.1 The proposed changes to the TMS 2021/22 and TMP specify which sections of the documents will not apply to LTM and LTIG. The remaining sections, including matters related to borrowing and risk management will continue to apply to all subsidiaries within the TfL Group. There are no proposed changes to the TfL Group Policy Relating to the Use of Derivative Investments.

5.2 LTM and LTIG will be required to obtain the approval of the Group Treasurer or Corporate Finance Director to their investment strategies and policies, as well as any changes to or deviations from them, from time to time.

5.3 TfL will continue to maintain oversight to ensure the robustness of the process and minimise financial risks for the TfL Group.

List of appendices to this report:

Appendix 1: Treasury Management Strategy (with changes compared to existing Treasury Management Strategy 2021/22 tracked)

Appendix 2: Treasury Management Policies (with changes compared to existing Treasury Management Polices tracked)

List of background papers:

None

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Appendix 1

TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2021/22

1 SUMMARY

1.1 This Treasury Management Strategy (TMS) 2021/22 comprises the:

(i) Investment Strategy;

(ii) Borrowing Strategy;

(iii) Liquidity Strategy;

(iv) Risk Management Strategy; and

(v) Counterparty Exposure Limits.

2 BACKGROUND

2.1 The TMS 2021/22 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the ‘Treasury Management Code’) issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017;

(ii) the Prudential Code for Capital Finance in Local Authorities (the ‘Prudential Code’) issued by CIPFA and last updated in 2017; and

(iii) the Statutory Guidance on Local Government Investments (the ‘Investments Guidance’) issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in 2018, with respect to treasury investments.

2.2 This strategy will be updated at least annually and submitted for the approval of the Finance Committee.

3 POLICIES AND DELEGATIONS

3.1 The TMS 2021/22 will be implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments.

3.2 The arrangements for the implementation, execution, operation and administration of the TMS 2021/22, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing

Chief Finance Officer[1], Director of Corporate Finance and Group Treasurer, with the exception of the matters specified in 3.3, provided no decision contravenes the TMS 2021/22, the Treasury Management Policies, or the TfL Group Policy Relating to the Use of Derivative Investments.

~~3.2~~1.1 With respect to the investment of cash balances, the Investment Strategy and Investment Counterparty Exposure Limits contained within the TMS 2021/22 will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG). LTM and LTIG will each determine and apply their own investment strategy and counterparty exposure limits policy in respect of its investment of cash balances, subject to such strategies and policies and any deviations from or changes to any of them being approved in advance, from time to time, by the Corporate Finance Director or Group Treasurer.

4 STRATEGIC OBJECTIVES

4.1 The objectives underpinning the TMS 2021/22 are:

(i) to ensure that sufficient cash and liquidity facilities are available to enable TfL to discharge its financial obligations when they become due, in accordance with approved budgets;

(ii) to undertake treasury management operations with primary regard for the security and liquidity of capital invested;

(iii) to maximise the yield from investments consistent with the security and liquidity objectives identified above;

(iv) to undertake treasury management activities having regard to Prudential Indicators (including Treasury Management Indicators) and to remain at all times within the Authorised Limit for external borrowings;

(v) to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money;

(vi) to support TfL's commitment to maintaining its credit rating relative to that of the UK Government as it recognises the value of its strong credit rating; and

(vii) to use TfL subsidiaries' statutory power relating to risk management to manage financial market risks across TfL, with the primary objective of reducing volatility or increasing certainty in the Business Plan and achieving greater value for money through reducing costs or protecting revenues.

5 INVESTMENT STRATEGY

[1] References to managing Chief Finance Officer in this document mean the Managing Director (Chief Finance Officer).

5.1 The Investment Strategy will be applied in accordance with the strategic objectives listed in 4.1.

5.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds, the overriding principle being the prioritisation of security before liquidity and liquidity before yield.

5.3 Where possible, TfL will seek to maximise active investment in counterparties, rather than passive investments held through Money Market Funds (MMFs). This allows greater control over the quality of investments, may allow higher returns, and reduces fees. Some MMF investments will still be required for liquidity purposes.

5.4 The maturity profile of investments will reflect the expected cash flow requirements of TfL and accommodate for forecast variability.

5.5 All investments will have a maximum tenor of one year and at the time of investment will be rated a minimum of A-2, P-2 or F2 by Standard & Poor's, Moody's or Fitch Ratings credit rating agencies, with no more than £240m invested in counterparties with a credit rating of less than any of A-1, P-1 or F1.

5.6 TfL will consider the risk of its overall portfolio as well as individual investments, seeking to diversify its investments as much as possible and have regard to the exposure to any one counterparty, country, industry, investment type, and credit. TfL will target allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time.

5.7 TfL will invest in instruments including: sovereign Treasury bills and bonds, UK Debt Management Office deposits, repurchase agreements, bank deposits, certificates of deposit, bonds, commercial paper, floating rate notes, MMFs or any other instrument allowing TfL to achieve the objectives set out in 4.1. Due to the short term nature of TfL's investments and the desire not to lose any principal, TfL will not invest in equity.

5.8 TfL may invest in non-sterling denominated investments where:

(i) currency is bought in advance of a payment or payments in that currency, or where the currency is otherwise received and TfL can identify other future expenditures in that currency to offset against; or

(ii) instruments denominated in currencies other than Sterling are swapped back to GBP as a matter of course.

5.9 TfL will generally hold investments to maturity, however where the Director of Corporate Finance or the Group Treasurer deems it appropriate, TfL may seek to break or resell fixed term investments early (including where doing so will result in TfL incurring penalties or crystallising a loss), in order to protect TfL against potential losses, meet unexpected liquidity requirements, improve its investment return or for ethical or reputational reasons.

5.10 TfL will seek to achieve year to date returns greater than the year to date average benchmark of seven day London Interbank Bid Rate (LIBID), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as MMFs. LIBID will be replaced by a suitable alternative benchmark rate, once a new market standard is identified as part of a discontinuation of the London Interbank Offered Rate (LIBOR).

6 BORROWING STRATEGY

6.1 The Borrowing Strategy will be applied in accordance with the strategic objectives listed in 4.1.

6.2 TfL's objective is to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money.

6.3 TfL's annual borrowing requirement for 2021/22 is set out in Table 1.

Table 1 – expected 2021/22 borrowing requirement

Description	**£m**
Refinancing of debt maturing within 12 months, excluding rolling short-term commercial paper	360.2
Refinancing of PWLB variable rate loans	336.0
Expected borrowing requirement for 2021/22 (excluding borrowing under the £750m DfT facility for Crossrail)	**696.2**
Crossrail borrowing under the £750m DfT loan facility	74.0*
Expected total borrowing requirement for 2021/22	770.2

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* Based on latest information at the time of submission. Exact amount may increase or decrease depending on phasing of Crossrail cash requirements.

6.4 TfL will borrow the remainder of the £750m loan facility provided by the Department for Transport for Crossrail purposes. The exact amount remaining under this facility for 2021/22 will depend on Crossrail's cash requirements over the coming weeks and is expected to be £74m according to the latest forecast. There will be no other incremental borrowing in 2021/22.

6.5 The notional amount of outstanding borrowing is expected to be £13,070m at the end of 2021/22.The total value of outstanding borrowing and other long-term liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board (as required by the Local Government Act 2003).

6.6 TfL seeks to achieve its borrowing objectives by maintaining access to capital markets through its Euro Commercial Paper programme, Euro Medium Term

Note programme and stand-alone capital market transactions, and complementing this with loans and other facilities from financial institutions where appropriate. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (or any future body replacing it), a readily available source of liquidity. Other sources of finance will be used where they further TfL's stated objectives.

6.7 As debt service represents a relatively significant part of TfL's annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement. While fixed rates of borrowing are generally preferred, as they provide more certainty, TfL will assess the merits of having a certain amount of floating debt, where it is consistent with the borrowing and risk management objectives. TfL aims to have at least 75 per cent of all outstanding borrowing at fixed interest rates and up to 25 per cent of borrowing at variable rates.

6.8 All borrowing is expected to be drawn in Sterling, as currently permitted by HM Treasury. Should TfL receive HM Treasury approval to raise debt in foreign currencies, any foreign currency exposures arising from such borrowing will be subject to risk mitigation measures consistent with the principles of the Risk Management Strategy.

6.9 Given the long life of the majority of the assets financed by TfL, TfL's objective is to have a weighted average tenor of debt of at least 15 years. TfL will aim to structure its borrowing in a way that avoids large concentrations of debt of the same maturity in order to minimise the refinancing risk. The limits for maturity structure of borrowing are set out on annual basis, as suggested by the Treasury Management Code, and are the subject of a separate Prudential Indicators document approved by the Board.

6.10 TfL will consider opportunities to arrange loan facilities that enable drawdowns of debt in future years. Where TfL has the ability and option to do so it will consider fixing drawdowns beyond the 2020/21 financial year, in order to mitigate interest rate risk related to future borrowing requirements.

6.11 The source, tenor, currency (subject to 6.9) and interest rate basis of individual debt transactions will be determined on a case by case basis taking into account value for money, TfL's risk appetite, market conditions, interest rate expectations, investors' preferences, the impact on TfL's debt maturity profile and target weighted average tenor.

6.12 TfL will consider opportunities to buy back, refinance, or otherwise restructure existing liabilities (including leases) where doing so represents value for money, or will improve the structure of TfL's liabilities, or facilitate changes to TfL's corporate structure.

7 LIQUIDITY STRATEGY

7.1 The Liquidity Strategy will be applied in accordance with the strategic objectives listed in 4.1.

7.2 The TfL Group (excluding Crossrail Limited, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) will aim to hold sufficient cash and short-term investments to ensure it maintains a level of financial resilience that corresponds to TfL's size and risk profile, and in any event will hold a minimum level of cash and short-term investments as defined in the Treasury Management Policies. In practice this means TfL expects to hold higher cash balances than the absolute minimum set out in the Liquidity Policy.

7.3 Where appropriate, the cash and short-term investments will be supplemented by access to external liquidity sources, such as bank overdrafts, revolving credit facilities and other standby credit facilities. The adequacy of the external liquidity sources will be reviewed on an ongoing basis and TfL will arrange and maintain these facilities as required.

7.4 Bank overdrafts and standby credit facilities will not be used in the normal course of business, however TfL would consider borrowing temporarily within the Authorised Limit to address short-term liquidity needs, where it represents prudent management of TfL's financial affairs.

7.5 Cash and short-term investment balances ~~ring-fenced~~identified for the construction of Crossrail will be managed to ensure sufficient liquidity to meet Crossrail Limited's forecast payment obligations.

7.6 In order to limit the liquidity risk created by rolling the commercial paper programme, TfL will aim to manage its maturities so that no more than £200m of short-term borrowings fall due for repayment in any three-day period.

8 RISK MANAGEMENT STRATEGY

8.1 The Risk Management Strategy will be applied in accordance with the strategic objectives listed in 4.1.

8.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds. It aims to mitigate financial risks to the extent possible, aiming to provide security of TfL's funds and certainty of costs and revenues.

8.3 The objectives of the Risk Management Strategy are to:

(i) reduce volatility or increase certainty relating to the impact of financial risks upon the Business Plan;

(ii) achieve greater value for money through reducing costs or protecting revenues; and

(iii) holistically manage financial risks across the whole of TfL.

8.4 TfL is materially exposed to a number of specific financial risks in the ordinary course of business, arising from the borrowing programme, the capital investment programme and certain ongoing contractual obligations. These risks include:

(a) interest rate risk related to TfL and its subsidiaries' existing or planned future borrowing requirements (including leases);

(b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by TfL or its subsidiaries; from receipts of grants or revenues payable to TfL or its subsidiaries in currencies other than Sterling; from any foreign currency borrowing (if permitted); and in the course of making foreign currency investments;

(c) commodity price and/or rate risk related to specific procurements or contracts across TfL and its subsidiaries containing a significant cost element for a commodity component and/or ongoing operational procurements such as power and fuel whether direct or indirect exposures; and

(d) inflation risk across TfL and its subsidiaries.

8.5 Financial risks will be identified, managed and controlled through a number of instruments, methods and techniques, including passing the risk to the counterparty where appropriate. Where the identified risks fall into the categories described in paragraph 8.4 and have highly probable exposures with a highly certain risk profile, TfL may use financial instruments to manage exposure to these risks.

8.6 Where TfL arranges derivative investments through its subsidiary, Transport for London Finance Limited, it may put in place intra-group arrangements to confer the benefit of those derivative investments to the TfL entity bearing the underlying risk.

9 COUNTERPARTY EXPOSURE LIMITS

9.1 The managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will approve individual counterparties and will set individual counterparty exposure limits following detailed analysis of each counterparty and its impact on the overall portfolio, including sector and country concentration risk.

9.2 The maximum exposure limit per investment counterparty will be within the counterparty exposure limits set out in Table 2. Counterparties within the same group will be classified as one counterparty for the purposes of the exposure limit. Where banks are required to have separate entities for retail (ring-fenced) and investment (non-ring-fenced) activities, TfL will apply separate counterparty exposure limits to the applicable entities. This may result in ring-fenced banks having different counterparty limits to non-ring-fenced banks.

9.3 To reduce investment risk and in line with the requirement to have primary regard to security, TfL aims to keep a diversified portfolio of investments by limiting exposures to individual counterparties. As the maximum tenor of investments is one year, short-term credit ratings will be the primary ratings used to determine these limits, as defined in Table 2.

9.4 As Moody's short-term credit rating does not have a P-1+ category, when a counterparty is rated P-1, its exposure limit will be based on the average limit derived from any Standard & Poor's and Fitch ratings. In the event the counterparty only has a short-term rating from Moody's and it is P-1, its limit will be £90m. Where it is rated P-2, its limit will be based on the average of all the rating agencies supplying a rating. If any of the rating agencies rates the counterparty A-3, P-3, or F3, no investments will be permitted.

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Table 2 – Investment counterparty exposure limits

Moody's		Standard & Poor's		Fitch		Exposure limit per counterparty (£m)
ST	LT	ST	LT	ST	LT	
P-1	Aaa Aa1 Aa2 Aa3 A1	A-1+	AAA AA+ AA AA-	F1+	AAA AA+ AA AA- A+	120
	A2 A3	A-1	A+ A	F1	A+ A A-	90
P-2	A3 Baa1 Baa2	A-2	A- BBB+	F2	A- BBB+ BBB	60
P-3	Baa2 Baa3	A-3	BBB BBB-	F3	BBB BBB-	0
UK Sovereign						Unlimited

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9.5 Where a counterparty does not have a short-term rating, the equivalent long-term rating as shown in the above table will be used to determine the counterparty exposure limit. Where a long-term rating maps to more than one limit, the lower limit will be used.

9.6 The exposure limit for TfL's clearing bank may be temporarily exceeded (for example, where cash is made available for investment after the daily deadline for deposits with other entities has passed).

9.7 Where an instrument benefits from a UK Government Guarantee, the limit will be that for the UK Sovereign rather than that of the entity.

9.8 For investments benefitting from collateral arrangements, the counterparty exposure will not be counted as the full face value of the investment, but will be calculated based on the potential shortfall caused by any expected movement in the value of the collateral.

9.9 TfL calculates its derivative counterparty exposures based on accepted market methodology. The current mark to market of each derivative is added to the potential future exposure (PFE). The PFE is calculated based on the maximum counterparty exposure assuming a 95 per cent confidence level of possible adverse future movements in interest rates or foreign exchange rates over the life of the instrument.

9.10 TfL expects to hold all derivative contracts to maturity. As such, exposures under derivative contracts are contingent exposures during the life of the contract. The contingent exposure is therefore the relevant risk factor rather than the notional value of the contract.

9.11 Derivative counterparty exposures have a limit based on long-term credit ratings, as these exposures will generally be for over one year. The limits are shown in Table 3.

Table 3 – Derivative counterparty exposure limits

Moody's	Standard & Poor's	Fitch	Derivative limit per counterparty (£m)	CSA threshold for new derivative counterparties* (£m)
Aaa	AAA	AAA	400	50
Aa1	AA+	AA+	400	40
Aa2	AA	AA	350	40
Aa3	AA-	AA-	250	40
A1	A+	A+	200	25
A2	A	A	175	25
A3	A-	A-	150	20
Baa1	BBB+	BBB+	0	0

* Will apply to new derivative counterparty ratings at the time the Credit Support Annex (CSA) is entered into.

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9.12 Where a counterparty has a split rating, the limit for each rating is calculated as the average of the relevant limits for each rating available.

9.13 The proposed derivative counterparty exposure limits provide sufficient headroom for all proposed risk management activities in 2021/22. Derivative exposures are allocated over numerous approved counterparties to minimise concentration risk.

9.14 TfL will apply the investment and derivative limits as set out in this section for each counterparty unless circumstances outside its control prevent it from doing so. In this case the managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will implement appropriate replacement limits for that counterparty.

9.15 If any investment or derivative limit applicable to a counterparty changes while TfL has an outstanding investment or derivative with that counterparty it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits, or at the Director of Corporate Finance's or the Group Treasurer's discretion, may decide to allow an investment or derivative to run its course for economic reasons.

Appendix 2

TRANSPORT FOR LONDON

TREASURY MANAGEMENT POLICIES

TREASURY MANAGEMENT POLICIES

1 BACKGROUND

1.1 This document has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of~~:~~

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017;

(ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017; and

(iii) the Statutory Guidance on Local Government Investments (the 'Investments Guidance') issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in 2018, with respect to treasury investments.

1.2 This document sets out ~~TfL's~~Transport for London's (TfL) policies and practices, including approach to risk management of its treasury management activities. It also sets out authorities and delegations for treasury management activities.

2 TREASURY MANAGEMENT POLICY STATEMENT

2.1 TfL defines its treasury management activities as:

(i) the management of the organisation's investments and cash flows;

(ii) its financing, banking, money market, capital market and derivative transactions;

(iii) the effective control of the risks associated with those activities; and

(iv) the pursuit of optimum performance consistent with those risks.

2.2 TfL regards the successful identification, monitoring and control of treasury risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 TfL acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, always in the context of effective risk management.

2.4 The following sections detail TfL's overarching policies for treasury management, including high level policies for borrowing and investments, as recommended by the Treasury Management Code.

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2.5 The policies and practices in this document apply to TfL and all its subsidiaries, save where specified otherwise.

Borrowing Policy

~~2.5~~2.6 As required by the Local Government Act 2003, at all times, the aggregate of all TfL's borrowings will be within the Authorised Limit set by the Mayor and adopted by the Board.

~~2.6~~2.7 Under section 2(3) of the Local Government Act 2003, TfL may not, without the approval of HM Treasury, borrow other than in Sterling. All borrowings will be in Sterling unless HM Treasury grants approval to borrow in alternative currencies, in which case TfL may borrow in any currency approved by HM Treasury.

~~2.7~~2.8 Under section 13(1) of the Local Government Act 2003, TfL (the local authority) may not charge any of its property as security for money which it has borrowed or which it otherwise owes. All money borrowed by TfL (the local authority) shall be charged indifferently on all revenues of the authority. TfL subsidiaries however may charge their property as security for money which they borrow or otherwise owe, pursuant to Section 4 of the Transport for London Act 2016[1].

~~2.8~~2.9 Where TfL is issuing new debt, or refinancing existing debt, it may be necessary or commercially desirable to draw the new debt prior to the repayment of the debt being refinanced, which may result in a temporary increase in liabilities above the planned incremental borrowing for the year. This is permitted, provided the position is temporary and TfL remains within the Authorised Limit at all times (~~i.e.~~ie it reflects the temporary utilisation of headroom between the planned incremental borrowing and the legal limit on TfL's liabilities).

Investment Policy

~~2.9~~2.10 All cash balances will be invested having regard to the Investments Guidance, as applicable to treasury investments, and the GLA Responsible Investment Policy.

~~2.10~~2.11 If any investment or derivative limit applicable to a counterparty under the Treasury Management Policies or Treasury Management Strategy (TMS) changes while TfL has an outstanding investment or derivative with that counterparty, it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits or, at the discretion of the Director of Corporate Finance or the Group Treasurer, may decide to allow an investment or derivative to run its course for economic reasons.

[1] Section 4 of the Transport for London Act 2016 has not yet entered into force. It will enter into force on a day appointed by TfL.

Liquidity Policy

~~2.11~~2.12 For prudent financial management purposes, TfL will aim to maintain a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, on average, with respect to TfL Group (excluding ~~ring fenced~~identified, separate subsidiaries; Crossrail Limited, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited). Cash reserves include cash and short-term investments.

~~2.12~~2.13 The total minimum cash reserve will consist of an operating cash reserve that allows TfL to meet its ongoing payment obligations and a strategic cash reserve that aims to provide contingency in case of unexpected events.

~~2.13~~2.14 Actual cash balances fluctuate on a daily basis and could temporarily fall below the minimum requirement, but they are expected to stay within the operating cash reserve in the normal course of business. An assessment will be made as to whether any action is required by the Director of Corporate Finance and/or the Group Treasurer to address such temporary fluctuations, taking into account any undrawn credit facilities and access to commercial paper programme. If required, TfL may use short-term borrowing for working capital purposes, provided the position is temporary and TfL remains within the Authorised Limit at all times.

~~2.14~~2.15 The strategic cash reserve will be held at a target level and, if the cash balance falls below the operating cash reserve and into the strategic cash reserve, it must be replenished as soon as possible.

~~2.15~~2.16 The statutory and managing Chief Finance Officers[2] will be notified of any material changes in the usage of short-term sources of liquidity.

TREASURY MANAGEMENT AUTHORITIES AND DELEGATIONS

3 RESPONSIBLE OFFICERS

3.1 The Treasury Management Policies will apply to TfL and all its subsidiaries, save as set out in paragraph 3.2. The Treasury Management Policies will be implemented, operated and administered through the Treasury team within the Corporate Finance Directorate~~ and will be applied to TfL and all its subsidiaries whose monies are under the control of Treasury~~.

[2] References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999. References to managing Chief Finance Officer mean the Managing Director (Chief Finance Officer).

3.2 With respect to the investment of cash balances, policies, practices, authorities and delegations relating to the investment of cash balances, the Treasury Management Policies will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG). LTM and LTIG will each determine and apply their own policies, practices, authorities and delegations in respect of its investment of cash balances, subject to such policies, practices, authorities and delegations and any deviations from or changes to any of them being approved in advance, from time to time, by the Corporate Finance Director or Group Treasurer.

~~3.2~~3.3 The managing Chief Finance Officer is responsible for advising the Finance Committee on investments, borrowing, derivatives, financial risk management, capital financing and also for the establishment and operation of banking arrangements necessary for the TfL Group business. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.

~~3.3~~3.4 The statutory Chief Finance Officer is responsible for ensuring the execution of the Treasury Management Policies, as the designated Section 127 officer under the Greater London Authority Act 1999. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.

~~3.4~~3.5 The Director of Corporate Finance, the Group Treasurer and Treasury officers will implement, execute, operate and administer the TMS.

~~3.5~~3.6 The arrangements for the implementation, execution, operation and administration of the TMS, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer, Director of Corporate Finance and Group Treasurer, provided no decision contravenes the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments. Subject as otherwise provided for in the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments, the Treasury officers will enter into any appropriate documentation.

~~3.6~~3.7 The statutory or managing Chief Finance Officers or the Director of Corporate Finance or the Group Treasurer will appoint relevant Treasury officers to be authorised signatories for the purposes of paragraph 3.5.

~~3.7~~3.8 Subject as otherwise provided for within these policies, no investments, borrowings or entry into credit arrangements (including, but not limited to any lease or other such arrangement that might count towards TfL debt or liabilities under relevant accounting standards) shall be permitted without the consent of the statutory or managing Chief Finance Officer or Director of Corporate Finance or the Group Treasurer.

~~3.8~~3.9 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will provide guidance for accepting financial guarantees, performance bonds, letters of credit and other credit enhancing products, and this must be followed by TfL and/or its subsidiaries at all times.

~~3.9~~3.10 For the purposes of this document, TfL Officers means the Commissioner, managing Chief Finance Officer, statutory Chief Finance Officer, General Counsel Director of Corporate Finance and Group Treasurer.

4 BORROWING

4.1 The managing Chief Finance Officer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL's Authorised Limit). The Director of Corporate Finance or the Group Treasurer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL's Authorised Limit) for a tenor of not more than 12 months.

4.2 Without further reference to the statutory or managing Chief Finance Officer, Treasury officers will use the Euro Commercial Paper programme and any other short-term facilities (~~e.g.~~eg overdraft, commercial paper, back-stop facilities or revolving credit facilities) to manage its liquidity requirements.

4.3 TfL Officers are authorised to approve and enter into any required agreements or other documentation in relation to the implementation of permitted borrowing.

4.4 The managing Chief Finance Officer may approve the pre-payment or refinancing of loans or re-purchase or redeeming of existing debt instruments.

4.5 TfL Officers will follow ongoing compliance and disclosure procedures set out in the TfL Disclosure Procedures Policy.

5 INVESTMENTS

5.1 The Director of Corporate Finance, Group Treasurer and Treasury officers may enter into investment related agreements and/or documentation required to execute the TMS.

5.2 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will set individual investment counterparty exposure limits, which will be within any limits approved by the Finance Committee in the Treasury Management Strategy.

5.3 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will approve investment and derivative counterparties.

6 BANKING

6.1 The Director of Corporate Finance or the Group Treasurer shall as and when necessary be authorised to:

(a) supply to TfL's financial institutions, lists of officials authorised to sign in respect of each and any account(s) of TfL and/or any TfL subsidiary together with specimen signatures;

(b) open further accounts for and on behalf of TfL and/or any TfL subsidiary and supply to the financial institutions, details of the signatories together with specimen signatures in respect of such account(s);

(c) notify the financial institutions of any restrictions on the operation of any such accounts; and

(d) agree on behalf of TfL and/or any TfL subsidiary the terms of any facility or service provided by the financial institutions including but not limited to general banking services, bonds, guarantees and credit limits.

6.2 The financial institutions shall be entitled to rely on any such details or notifications supplied by the Director of Corporate Finance, Group Treasurer or any Treasury officer confirmed in writing as having the same authority as the Director of Corporate Finance or the Group Treasurer.

TREASURY MANAGEMENT PRACTICES (TMPs)

7 TREASURY RISK MANAGEMENT – TMP1

7.1 The Director of Corporate Finance and/or the Group Treasurer will:

(a) design, implement and monitor all arrangements for the identification, management and control of treasury management risk;

(b) report annually to the Finance Committee on the adequacy/suitability thereof, and on any specific issues as directed by the Finance Committee; and

(c) report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect to the statutory and managing Chief Finance Officers.

8 PERFORMANCE MEASUREMENT – TMP2

8.1 TfL is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim within the framework set out in its Treasury Management Policy Statement.

8.2 The actual performance of the treasury management function will be measured using criteria to be agreed by the managing Chief Finance Officer.

9 DECISION-MAKING AND ANALYSIS – TMP3

9.1 TfL will maintain records of its key treasury management decisions and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time.

10 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES – TMP4

10.1 TfL will undertake its treasury management activities by employing recognised and approved instruments, methods and techniques and within the limits and parameters defined in its policies and practices.

10.2 Where TfL uses derivative instruments for the management of risks, these will be approved in accordance with the TfL Group Policy Relating to the use of Derivative Investments.

10.3 TfL and relevant subsidiaries intend to maintain their classification as professional clients with financial institutions under MiFID II in respect of all products and services that they receive.

10.4 All decisions on capital/project financing, borrowing, investment and derivatives will be made in accordance with TfL Standing Orders and relevant policies and strategies.

11 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITES, AND DEALING ARRANGEMENTS – TMP5

11.1 TfL considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the pursuit of optimum performance, and for the reduction of the risk of fraud or error, that activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.

11.2 The principle on which this will be based is a clear distinction between those charged with setting Treasury Management Policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

11.3 If for any reason there is intended to be or has been any departure from these principles, the Director of Corporate Finance and/or the Group Treasurer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements (below), and the implications properly considered and evaluated.

11.4 The Director of Corporate Finance and/or the Group Treasurer will ensure that there are clear lines of responsibilities, objectives and guidance for each post engaged in treasury management, and arrangements are in place for absence cover. The Director of Corporate Finance and/or the Group Treasurer will also ensure at all times those engaged in treasury management will follow the policies and procedures set out.

11.5 The Director of Corporate Finance and/or the Group Treasurer will ensure all transactions are recorded, and that procedures exist for the effective transmission of funds. The Director of Corporate Finance and/or the Group Treasurer will fulfil all such responsibilities in accordance with TfL's Treasury Management Policy Statement and Treasury Management Practices.

12 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6

12.1 TfL will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

12.2 As a minimum, the following reports will be produced:

(a) an annual report to the Finance Committee on the strategy to be pursued in the coming year;

(b) a mid-year report to the Finance Committee on the performance of the treasury management function; and,

(c) an annual report to the Finance Committee on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any non-compliance with the organisation's Treasury Management Policy Statement and Practices.

12.3 The statutory and managing Chief Finance Officers will receive regular monitoring reports on treasury management performance, activities and risks.

12.4 In addition to the regular reporting requirements set out above, any non-compliance with the Treasury Management Policies or the Treasury Management Strategy must be immediately reported to the statutory and managing Chief Finance Officers. If the breach is material in the view of either the statutory or managing Chief Finance Officer, it must be reported to the Finance Committee as soon as practicable.

13 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS – TMP7

13.1 The Director of Corporate Finance and/or the Group Treasurer will prepare and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income.

13.2 TfL will account for its treasury management activities, for decisions made and transactions executed, in accordance with accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

13.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the treasury management function for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and practices.

13.4 The Audit and Assurance Committee will have responsibility for the scrutiny of Treasury Management Policies and this responsibility will be discharged through its regular scrutiny of the reports received from internal audit.

14 CASH AND CASH FLOW MANAGEMENT – TMP8

14.1 Unless statutory or regulatory requirements demand otherwise, all monies (with the exception of London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) in the hands of the TfL Group will be under the control of the Director of Corporate Finance and the Group Treasurer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Corporate Finance and the Group Treasurer will ensure that these are adequate for the purposes of monitoring compliance with the policy statement.

15 MONEY LAUNDERING – TMP9

15.1 TfL is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, if required by law or regulation, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this, are properly trained.

16 TRAINING AND QUALIFICATIONS – TMP10

16.1 TfL recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Corporate Finance and the Group Treasurer will recommend and implement the necessary arrangements.

17 USE OF EXTERNAL SERVICE PROVIDERS – TMP11

17.1 TfL recognises that it retains responsibility for treasury management decisions at all times. TfL recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods, by which their value will be assessed, are properly agreed and documented, and subjected to regular review. The monitoring of such arrangements rests with the Director of Corporate Finance and the Group Treasurer.

18 CORPORATE GOVERNANCE – TMP12

18.1 TfL is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

18.2 TfL has adopted and implemented the key principles and recommendations of the Treasury Management Code. This document is considered vital to the achievement of proper corporate governance in treasury management. The Director of Corporate Finance and the Group Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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Finance Committee

Date: 6 October 2021

Item: Prudential Indicators – Outturn for the Year Ended 31 March 2021

This paper will be considered in public

1 Summary

1.1 On 16 March 2021, the Board approved restated prudential indicators and debt limits for TfL for the 2020/21 Financial Year as required and defined in the Chartered Institute of Public Finance and Accountancy Prudential Code (the Code). These indicators had been restated from those originally approved by the Mayor in March 2020, to reflect the early adoption by TfL of IFRS 16 Leases. Under the Code, TfL is required to adopt prudential indicators which support decision making on planned capital expenditure, borrowing and treasury management activities.

1.2 The purpose of this paper is to report on TfL's performance against the indicators for the Financial Year 2020/21.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 The Code plays a key role in capital finance for local authorities. The Code was developed as a professional code of practice to support local authorities in their decision-making processes for capital expenditure and its financing.

3.2 Local Authorities are required by Regulation to have regard to the Code when carrying out their duties under Part 1 of the Local Government Act 2003.

3.3 The framework of prudential indicators established by the Code aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the Statement of Accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management. The 2020/21 TfL Statement of Accounts has been used to calculate the outturn against the Board approved indicators (see Appendix 1).

3.4 Revised prudential indicators for the year 2020/21 were approved by the Board in March 2021, based on the 2020/21 forecast included in the TfL 2021/22 Budget approved at the same time, which included the impact of the implementation of IFRS 16 Leases. The Authorised Limited and Operational Boundary for direct borrowings remained as approved by the Mayor in Mayoral Decision 2615 on 18 March 2020. Limits for the long-term liabilities element of the Authorised Limit for total External Debt were restated at this time for the impact of the application by TfL of IFRS 16 Leases.

3.5 As required by the Code, TfL prepares Prudential Indicators at both the TfL Corporation (Corporation) and TfL Group (Group) level. The Corporation is made up of London Streets, Taxi and Private Hire and the corporate centre which, for legal and accounting purposes, constitutes TfL – a local authority. The Group comprises the Corporation and its subsidiaries.

3.6 There are no penalties applied to a local authority for breaching individual indicators, with the exception of the Authorised Limit. Under the Code, the audited Statement of Accounts is the source for comparison of performance against indicators approved.

4 Outturn

4.1 The key prudential indicator is the Authorised Limit for External Debt (Authorised Limit), which sets the total limit for direct and indirect (e.g. long-term creditors, provisions) debt for the organisation. There are no penalties applied to a local authority for breaching individual indicators, with the exception of the Authorised Limit for External Debt (the Authorised Limit). Both the Corporation and the Group were within their total Authorised Limits for the year ended 31 March 2021.

4.2 As shown in Appendix 1, the Authorised Limit for direct borrowings for the Group and Corporation was set at £14,029.3m. Total actual borrowings at 31 March 2021 at both the Group and Corporation level were below this limit at £12,995.5m. Long-term liabilities for the Group as at 31 March 2021 were £2,825.4m, compared to a limit of £3,266.5m, resulting in an outturn for the total Authorised Limit for external debt for the Group of £15,820.9m, £1,474.9m under the limit approved.

4.3 For the Corporation, long-term liabilities as at 31 March 2021 totalled £591.4m, compared to a limit of £862.5m, resulting in an outturn for the total Authorised Limit for external debt for the Group of £13,586.9m, £1,304.9m under the limit approved.

4.4 The Operational Boundary for direct borrowing for the Group and Corporation was set at £13,164.3m, with the operational boundary for long-term liabilities at 31 March 2021 set at £2,883.6m for the Group and £612.5m for the Corporation. The outturn for direct borrowings was £168.8m below the Operational Boundary for the Group and Corporation, whilst the outturn for long term liabilities was £21.1m below the boundary for the Corporation and £58.2m below for the Group.

4.5 Other Corporation and Group indicators were all within target.

5 Conclusions

5.1 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.

List of appendices to this report:

Appendix 1 – Outturn Prudential Indicators

List of Background Papers:

None

Contact Officer: Patrick Doig, Interim Statutory Chief Finance Officer
Email: Patrick.Doig@tfl.gov.uk

Appendix 1

Prudential Indicators for Capital Expenditure and External Debt 2020/21 (£'m)

Operational Boundary for External Debt	*Approved*	Outturn (IFRS 16)
TfL Corporation		
Borrowing	13,164.3	12,995.5
Long-term liabilities	612.5	591.4
Total Operational Boundary for External Debt	**13,776.8**	**13,586.9**
TfL Group		
Borrowing	13,164.3	12,995.5
Long-term liabilities	2,883.6	2,825.4
Total Operational Boundary for External Debt	**16,047.9**	**15,820.9**

Authorised Limit for External Debt*	*Approved*	Outturn (IFRS 16)
TfL Corporation		
Borrowing	14,029.3	12,995.5
Long-term liabilities	862.5	591.4
Total Authorised Limit for External Debt	**14,891.8**	**13,586.9**
TfL Group		
Borrowing	14,029.3	12,995.5
Long-term liabilities	3,266.5	2,825.4
Total Authorised Limit for External Debt	**17,295.8**	**15,820.9**

Capital Expenditure (Annual)	*Approved*	Outturn (IFRS 16)
TfL Corporation	2,280.5	2,175.7
TfL Group	2,754.6	2,120.5

Prudential Indicators for Prudence and Affordability 2020/21

The ratio of financing costs to net revenue stream	***Approved***	**Outturn (IFRS 16)**
TfL Corporation	10.0%	9.9%
TfL Group	21.3%	19.5%

Gross Debt and the Capital Financing Requirement*	***Approved***	**Outturn (IFRS 16)**
Gross Debt including long term liabilities at 31 March 2021		
- Corporation**	n/a	13,586.9
- Group**	n/a	15,820.9
Capital Financing Requirement at 31 March 2023		
Approved Indicator - Corporation	14,620.1	N/A
Approved Indicator - Group	18,899.0	N/A

** The Code requires that Gross Debt at 31 March 2021 does not exceed the expected Capital Financing Requirement at 31 March 2023.*

***Gross Debt at 31 March 2021 includes all lease obligations and long-term liabilities.*

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Finance Committee

Date: **6 October 2021**

Item: **Power Purchase Agreement (PPA 1 - Operational Assets)**

This paper will be considered in public

1 Summary

1.1 This paper provides an update on the procurement of Power Purchase Agreement 1 ("PPA"), which looks to purchase energy from existing renewable energy assets (an operational PPA) and forms part of TfL's energy purchasing strategy. As the Committee will be aware, the strategy was to procure an initial tranche of 130-150 GWhs per annum (approximately 10 per cent of TfL's annual energy requirement).

1.2 Over the last twelve months the energy market has changed significantly and the current market environment presents a number of risks in the procurement of PPA 1; this paper therefore updates on these issues and proposes options in the future procurement of PPAs to alleviate some of these risks for consideration by the Committee.

1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and consider the options on Power Purchase Agreement procurements, as set out in the paper on Part 2 of the agenda.**

3 Background

3.1 As PPA 1 is an operational and fixed price or fixed price CPI-linked PPA, based on the procurement of power from existing renewable energy assets, bid pricing is closely linked and sensitive to wholesale market prices at the time of procurement.

3.2 Since the strategy for PPA 1 was agreed by the Committee (25 November 2020) wholesale electricity market prices have increased significantly, currently averaging over one hundred percent higher than this time last year. A combination of strong natural gas and carbon prices continue to support these unprecedented gains.

3.3 At present, the market fundamentals suggest wholesale electricity prices could remain elevated through to the end of 2022 and executing a fixed price procurement when the wholesale market prices are highly elevated presents a significant risk.

3.4 The paper on Part 2 of the agenda presents options to mitigate the potential procurement risks brought about by the current wholesale energy market.

List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers:

June 2021 TfL Energy Purchasing & GLA Energy Procurement Collaboration Programme

September 2020 TfL Energy Update: Renewable Power Purchase Agreements

November 2020 TfL Energy Update: Crown Commercial Service and Power Purchase Agreements

Contact Officer: Lilli Matson, Chief Safety, Health and Environment Officer
Email: lillimatson@tfl.gov.uk

Finance Committee

Date: 6 October 2021

Item: Members' Suggestions for Future Discussion Items

This paper will be considered in public

1 Summary

1.1 This paper presents the current forward plan for the Committee and explains how this is put together. Members are invited to suggest additional future discussion items for the forward plan. Members are also invited to suggest items for future informal briefings.

2 Recommendation

2.1 **The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.**

3 Forward Plan Development

3.1 The Board and its Committees and Panels have forward plans. The content of the plans arise from a number of sources:

(a) Standing items for each meeting: Minutes; Matters Arising and Actions List; and any regular quarterly or periodic reports. For this Committee, these are the Finance Report and Group Treasury Activities.

(b) Regular items (annual, half year or quarterly) which are for review and approval or noting: Examples for this Committee include the Prudential Indicators Outturn.

(c) Matters reserved for annual approval or review: Examples include the Treasury Management Strategy and policies on derivative investments.

(d) Programmes, Projects and Land Transactions at a level requiring Committee approval or review prior to Board approval. These are scheduled following advice from the operating business.

(e) Items requested by Members: The Deputy Chair of TfL and the Chair of this Committee will regularly review the forward plan and may suggest items. Other items will arise out of actions from previous meetings (including meetings of the Board or other Committees and Panels) and any issues suggested under this agenda item.

4 Current Plan

4.1 The current plan is attached as Appendix 1. Like all plans, it is a snapshot in time and items may be added, removed or deferred to a later date.

List of appendices to this report:

Appendix 1: Finance Committee Forward Plan

List of Background Papers:

None

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk

Appendix 1

Finance Committee Forward Plan 2021/22

Membership: Ben Story (Vice-Chair), Heidi Alexander, Prof Greg Clark CBE, Anne McMeel and Dr Nina Skorupska CBE

Abbreviations: CFO (Chief Finance Officer), CTO (Chief Technology Officer), D (Director), MD (Managing Director), CCT (Customer, Communications and Technology), Comm Dev (Commercial Development), CPOS (Compliance, Policing and On-Street Services), CSHEO (Chief Safety, Health and Environment Officer), GC (General Counsel), ST (Surface Transport)

24 November 2021		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
TfL Business Plan 2021/22	CFO	To recommend Board approval.
TfL Capital Strategy 2021/22	CFO	To recommend Board approval.
Enterprise Risk Update – Changes in Customer Demand (ER9)	D Strategy & CTO	To note.

9 March 2022		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Activities	CFO	To note.
Treasury Management Strategy 2022/23	CFO	To approve (delegated by the Board).
Treasury Management and Derivative Investments Policies 2022/23	CFO	To approve (delegated by the Board).
TfL Scorecard 2022/23	CFO	To note and recommend Board approval.
General Fund Balance – deferred to December 2022	CFO	To approve.

As at 28 September 2021

Finance Committee Forward Plan 2021/22

TfL Budget 2022/23 - informal	CFO	To note and recommend Board approval.
TfL Prudential Indicators 2022/23 to 2024/25	CFO	To note and recommend Board approval.
TfL Investment Management Strategy 2022/23 – Non-Financial Assets	D Comm Dev	To note and recommend Board approval.
Enterprise Risk Update – Financial Sustainability (ER7) (to be confirmed)	MD - CFO	To note.

Regular items:

- Use of Delegated Authority (covers Chair's Action, Procurement Authority etc.) (General Counsel)
- Finance Report (progress against budget including revenue generation targets like fares and Commercial Development activities) (CFO)
- Business Plan (annual – November) (CFO)
- Capital Strategy (annual – November) (CFO)
- Budget (annual informal – March) (CFO)
- Prudential Indicators Outturn (outcome from previous year - September) (CFO)
- Prudential Indicators (setting for current year - annual informal - March) (CFO)
- Treasury Activities (semi-annual – September and March) (CFO)
    - Additional updates to be provided where necessary.
- Treasury Management Strategy (annual – March) (CFO)
- Treasury Management and Derivative Investments Policies (annual – March) (CFO)
- Developer Income (MCIL/CIL/s.106) (annual – June) (D City Planning)
- Enterprise Risk Update – Supply Chain Disruption (ER5) (annual – June) (CFO)
- Enterprise Risk Update – Financial Sustainability (ER7) (annual – March) (MD - CFO) (to be confirmed)
- Enterprise Risk Update – Changes in Customer Demand (ER9) (annual – November) (D Strategy & CTO)

Additional items to be scheduled:
- Spending Review Issues (e.g. Business Rates Devolution) (CFO)
- Income Generation Proposals (CFO & CCT)
- Securing New Income Streams (CFO & CCT)
- TfL Strategy on Working Capital

Finance Committee Forward Plan 2021/22

- Commercial Development: Royal Oak
- Southwark Station Development Update
- Broadway Sale
- Victoria Coach Station
- App Based Culture – paper to cover TfL perspective on the strategy, plans and issues for TfL e.g. TPH regulation
- Applied Solutions – pending the outcome of review on Consulting (D Comm Dev)
- Cubic and NY RUC Bid (D Strategy & CTO)
- Future Affordable Homes Sites Plan - action from Board meeting on 22 January 2020 (CFO)

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 16

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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