MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Wednesday 24 November 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 16 November 2021

Agenda
Finance Committee
Wednesday 24 November 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 6 October 2021 (Pages 1 - 10)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 6 October 2021 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 11 - 16)

General Counsel

The Committee is asked to note the actions list.

5 Use of Delegated Authority (Pages 17 - 20)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 21 - 38)

Chief Finance Officer

The Committee is asked to note the report.

7 Build to Rent Joint Venture Agreement (Pages 39 - 42)

Director, Commercial Development

The Committee is asked to note the paper and the exempt supplemental information in Part 2 of the agenda and approve the proposed amendments to the Connected Living London Joint Venture Agreement and the incorporation of the associated funding condition.

8 TfL Energy Purchasing: Crown Commercial Service (Pages 43 - 48)

Chief Safety, Health and Environment Officer

The Committee is asked to note the paper and approve Procurement Authority for the purchase of electricity and natural gas via the existing frameworks procured by the Crown Commercial Service, and note future Business Plan provisions.

9 Enterprise Risk Update - Changes in Customer Demand (ER09) (Pages 49 - 54)

Managing Director, Customers, Communication and Technology

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

10 Members' Suggestions for Future Discussion Items (Pages 55 - 60)

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.

11 Any Other Business the Chair Considers Urgent

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

12 Date of Next Meeting

Wednesday 9 March 2022 at 10.00am.

13 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

14 Build to Rent Joint Venture Agreement (Pages 61 - 78)

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

15 Enterprise Risk Update - Changes in Customer Demand (ER09) (Pages 79 - 84)

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

Transport for London

Minutes of the Finance Committee

Conference Rooms 1 and 2, Ground Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ 10.00am, Wednesday 6 October 2021

Members of the Committee
Ben Story (Vice-Chair - in the Chair)
Heidi Alexander
Anne McMeel
Dr Nina Skorupska CBE

Government Special Representative
Becky Wood

Board Member
Cllr Julian Bell

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Simon Kilonback	Chief Finance Officer
Lilli Matson	Chief Safety, Health and Environment Officer

Staff

Andrea Clarke	Director of Legal
Daniel Curry	Senior Safety, Health and Environment Manager
Patrick Doig	Group Finance Director and Interim Statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director of Corporate Finance
David Jones	Interim Deputy to Chief Procurement Officer
Shamus Kenny	Head of Secretariat
Glyn Lenton	Lead Commercial Manager, Category Management
Paul Mason	Group Treasurer
Rachel McLean	Chief Finance Officer, Crossrail and Divisional Finance Director, London Underground
Pritesh Patel	Head of Financial Planning and Analysis
Jonathan Patrick	Chief Procurement Officer
Rajiv Sachdeva	Head of Financial Planning and Analysis
Ken Youngman	Divisional Finance Director, Commercial Development

38/10/21 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. Howard Carter reported that an apology for absence had been received from Prof Greg Clark CBE. Board Member Cllr Julian Bell was also in attendance at the meeting.

It was the first meeting of the Committee held in person since 11 March 2020 due to the coronavirus pandemic restrictions. Due to continued space restrictions, some staff were attending the meeting through Teams. The meeting was broadcast live on YouTube, except for the discussion of the information on Part 2 of the agenda, which was exempt from publication.

The Chair confirmed that under section 100B(4)(b) of the Local Government Act 1972, he had agreed that the late items for the agenda that was published on 1 October 2021 would be considered as a matter of urgency. The items were the Funding Update on TTL Properties Limited and the Spending Review Submission. They were accepted as urgent to allow for the latest information available to be provided.

On behalf of the Committee, the Chair congratulated Patrick Doig on his appointment as Group Finance Director. The Board would be asked to make his appointment as interim statutory Chief Finance Officer permanent.

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.

39/10/21 Declarations of Interests

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

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.

40/10/21 Minutes of the Meeting of the Committee held on 23 June 2021

The minutes of the meeting of the Committee held on 23 June 2021 were approved as a correct record and signed by the Chair. The Chair had also signed the minutes of the meeting held on 10 March 2021. The minutes of the previous meetings held since March 2020 were signed by Ron Kalifa OBE before he left the Board.

41/10/21 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.

42/10/21 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, since the meeting of the Committee on 23 June 2021, there had been one use of Chair's Action, in consultation with members of the Committee, in relation to amendments to advertising concessions.

There had been no use of authority delegated by the Board and no use of delegated authority to approve Land Authority by the Commissioner or the Chief Finance Officer.

There had been three uses of Procurement Authority by the Commissioner and the Chief Finance Officer. The Commissioner granted Procurement Authority in relation to the Speed Awareness Course for drivers who commit speed offences in London and an uplift in Security Services funding. The Chief Finance Officer granted Procurement Authority in relation to Retained Insurance Services for Standalone Construction Projects.

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

The Committee noted the paper.

43/10/21 Finance Report – Period 5, 2021/22

Simon Kilonback and Rajiv Sachdeva introduced the report, which set out TfL's financial results to the end of Period 5, 2021/22 – the year-to-date period ending 21 August 2021. Variances were shown against the Revised Budget approved by the Board in July 2021. The Revised Budget target included the funding from Government as part of the 1 June 2021 agreement, reflecting the revenue top-up mechanism.

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

On London Underground, journeys and passenger income was £468m in the year to date, £70m lower than Budget and £265m higher than last year. Operating costs were £783m in the year to date, £4m lower than Budget. The net cost of operations was a deficit of £640m, £24m lower than Budget driven by the passenger income downside, but £145m better than last year. Capital expenditure for total renewals and new capital investment was £122m, £9m lower than Budget. There was slippage across a number of projects, with spend behind forecast following earlier delays to the funding agreement.

On buses, streets and other operations, journeys and passenger income was £384m in the year to date, £7m lower than Budget and £168m higher than last year. As with the Tube, bus journey recovery was strongest in the outer and inner boroughs, with slightly slower demand in central London. London boundary areas were showing a very strong recovery, with journeys ranging from 80-90 per cent of pre-pandemic levels. Operating costs were £1,080m in the year to date, £3m lower than Budget. The net cost of operations was £518m, £8m better than Budget and £198m better than last year. Capital expenditure for total renewals and new capital investment was £71m, £4m lower than Budget. There was slippage across Ultra Low Emission Zone (ULEZ) activities, Hammersmith ferry design and technology projects.

Bringing movements together on the operating account had seen a combination of lower revenue and lower costs, resulting in £1m decline of net cost of operations excluding Government funding and revenue top-up funding. This was £470m better than last year, driven by increases in passenger revenue and other operating income.

Operating costs were £45m lower than Budget as a result of: underlying cost improvements from efficiencies, cost reductions and tailwinds; timing differences and deferred spend on projects; contingency and accounting changes. Costs were £87m higher than last year, driven by bus costs which had benefitted last year from lower service levels, and retention of operator’s bus staff during the first wave of the pandemic.

On the Group capital account, total capital spend excluding Crossrail was £463m, £27m lower than Budget but £130m higher than last year, when projects were paused as a result of social distancing measures and working from home guidance. Project spend was lower across most programmes, largely driven from the stop-start nature of funding agreements and TfL being unable to plan sufficiently far ahead to get projects approved and agreed with contractors. Property and asset receipts were £5m lower than Budget, a result of early disposal of Blomfield Street site offset by delayed disposals on Holland Road, North Ealing car park and 100 Whitechapel.

Cash balances were just over £1.6bn at the end of the period, £86m lower than Budget. Balances had remained fairly stable since the funding agreement with Government was finalised. TfL’s current funding agreement covered the period 1 June to 11 December 2021. Without further Government funding, the latest cash forecast showed balances would fall to just over £700m by year end, £500m lower than the minimum cash requirement of £1.2bn which equated to 90 days operating costs. Cash balances were the only mechanism available to manage risk and to reassure lenders and creditors of TfL’s liquidity.

Simon Kilonback confirmed that, if the top-up mechanism continued, of the £500m funding support required for the remainder of the year and with the funding mechanism measured against the revenue forecast devised by Government, it was expected that the revenue true-up would account for £300m and that TfL was currently £100m behind forecast. He would be asking Government what their projections for next year will be, as there was no baseline to compare TfL revenue assumptions with Government assumptions. This would be worked though quickly as the next budget would be put together in December 2021.

Future income from passenger journeys remained a significant risk as journeys were not yet at expected levels. There also remained uncertainty on timing and the extent and recovery of any decline in journeys following a winter outbreak of coronavirus. Simon Kilonback confirmed that the reforecasting of figures on passenger demand to the end of this financial year and next year was underway, as part of the GLA budget process. Uncertainty over the future pattern of work would take time to become clear so TfL would continue to work with Government on a revenue risk mechanism that allowed for the right level of transport services to support passenger recovery into the next year.

Andy Byford confirmed that TfL would be reinstating Night Tube services as soon as possible, which would have a beneficial impact on London's night-time economy.

One of TfL's largest financial risks was the expansion of the ULEZ that would launch this month and would significantly improve London's air quality. A reasonable set of assumptions were made around the expected number of drivers in the expanded zone and on compliance, payment and cash collection rates but there were a wide range of possible outcomes that could reduce income, as TfL encouraged the use of sustainable transport and clean vehicles. Modelling and tracking the take-up of clean electric vehicles would form part of the monitoring of the ULEZ uptake over the next financial year. Future updates would be provided to the Committee, as a reasonable baseline of data was produced to demonstrate the benefits of the scheme. The business case for the scheme was predicated on driving up compliance and introducing more cleaner vehicles into the zone. **[Action: Simon Kilonback/Patrick Doig]**

Andy Byford confirmed that TfL appreciated the funding support received from Government to date and that it would continue to need revenue support for operating costs until 2023/24. He was pressing to start the opening discussions with Government imminently to ensure proper understanding of the issues as the current funding arrangement expired on 11 December 2021. An update on progress with the funding negotiations would be provided to Members as required.

[Action: Andy Byford/Simon Kilonback]

The Committee noted the report.

44/10/21 Treasury Activities

Simon Kilonback and Joanna Hawkes introduced the paper and related supplemental information on Part 2 of the agenda, which provided a brief update on key treasury activities for the period from 20 February to 16 September 2021.

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

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

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

Information on the strategy for how cash was managed, which bodies were invested in and the criteria of suitability for those organisations given environmental, social and corporate governance factors, would be brought back to the Committee when it considered the next Treasury Management Strategy for 2022/23 at its meeting in March 2022. **[Action: Simon Kilonback]**

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

45/10/21 Treasury Management Strategy 2021/22 and Treasury Management Policies – LTM and LTIG Investments Update

Simon Kilonback and Joanna Hawkes introduced the paper, which sought approval of the updated Treasury Management Strategy (TMS) 2021/22 and the Treasury Management Policies (TMP). Approval of the TMS and TMP were matters reserved to the Board, however on 29 July 2021, the Board delegated approval of these matters and any in-year changes to the Finance Committee. The Committee was asked to exercise that authority in relation to the proposed updates to the TMS and TMP.

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

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

The Committee noted the paper and approved the updated Treasury Management Strategy 2021/22 and Treasury Management Policies, as set out in Appendices 1 and 2 to the paper.

46/10/21 Prudential Indicators Outturn for the Year Ended 31 March 2021

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

The framework of prudential indicators aimed to ensure that capital investment plans were affordable, prudent and sustainable. As part of the strategic planning process, TfL calculated a range of indicators for the forthcoming budget year and two subsequent years and monitored performance against indicators within the year, as well as preparing indicators based on the Statement of Accounts at each year end. The

2020/21 TfL Statement of Accounts had been used to calculate the outturn against the Board approved indicators.

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.

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

The Committee noted the paper.

47/10/21 Funding Update on TTL Properties Limited

The Chair had agreed to the late publication of the paper and related supplemental information on Part 2 of the agenda, to allow for the latest information available to be provided.

Graeme Craig and Joanna Hawkes introduced the paper and related supplemental information on Part 2 of the agenda, which provided a summary of the recent work undertaken on the property workstream of the Financial Sustainability Plan (FSP) and the wider activity to operate TTL Properties Limited (TTLP) as a dedicated commercial property company within TfL. It included progress on discussions with Government on the FSP property workstream, the TTLP Business Plan and initial market testing on funding options for TTLP. TfL’s landholdings had the potential to deliver thousands of homes across London and create substantial sums to reinvest in the transport network.

Subject to ongoing discussions with Government, agreement had been reached on the housing target, which allowed TTLP to move from three potential business plan scenarios to a single Plan that would be further refined to take into account both TfL’s detailed requirements and the output of the work with Savills. Similarly, the soft market testing with UK and European banks and institutional investors had allowed TTLP to confirm previous assumptions and move forward on the basis of a single preferred funding option for the initial years of the Plan.

Taking debt funding into account, the latest version of the Business Plan showed the annual return to TfL increasing over 15 years from £6m to over £150m. It also showed the value of TTLP’s property assets doubling to £4.5bn over the same period, all delivered without any requirement for investment from TfL. Good progress was being made on the financial stress testing of the new entity. An Affordability Report was being produced and would be shared with the Committee to accompany the TTLP Business Plan in due course. **[Action: Graeme Craig]**

In starting on the sites that would deliver 20,000 homes over 10 years, TTLP would have a material impact on the housing sector in London, particularly given TTLP’s focus on modern methods of construction and construction skills, building on positive work undertaken to date. More remained to be done over the course of the next six months to refine TTLP's Investment Strategy and Business Plan. These would be brought back to the Committee for approval. In parallel, approvals would be sought for the timing, quantum and mechanism for any debt funding, clearly setting out the implications and risks of such funding. **[Action: Graeme Craig]**

Initially and depending on the financial arrangements, it was anticipated that a TfL Board committee would be set up to oversee this activity, as a similar approach taken with the Elizabeth Line Committee structure had proven to work well.

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

48/10/21 Power Purchase Agreement (PPA 1 – Operational Assets)

Lilli Matson and Glyn Lenton introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on the procurement of Power Purchase Agreement (PPA) 1, to purchase energy from existing renewable energy assets which formed part of TfL's Energy Purchasing Strategy.

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

As PPA 1 was an operational and fixed price or fixed price CPI-linked PPA, based on the procurement of power from existing renewable energy assets, bid pricing was closely linked and sensitive to wholesale market prices at the time of procurement. Since the strategy for PPA 1 was agreed by the Committee on 25 November 2020, wholesale electricity market prices had increased significantly. A combination of strong natural gas and carbon prices continued to support these unprecedented gains. Procurement for PPA 2, where TfL would be contracting with developers for new renewable energy assets, would not necessarily be subject to the same price sensitivity.

At present, the market fundamentals suggested wholesale electricity prices could remain elevated through to the end of 2022 and executing a fixed price procurement when the wholesale market prices were high presented a significant risk. The Committee considered options to mitigate the potential procurement risks brought about by the current wholesale energy market.

More information on the context and framework within the broader Power Procurement model would be included when a paper on PPA procurement was next brought back to the Committee. **[Action: Lilli Matson]**

The Committee noted the paper and the exempt supplemental information on Part 2 of the agenda and considered the options on Power Purchase Agreement procurements, as set out in the paper on Part 2 of the agenda.

49/10/21 Members' Suggestions for Future Discussion Items

Howard Carter introduced the item. It was confirmed that Members would be kept up to date on progress with the funding agreement with Government.

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

The Committee noted the forward plan.

50/10/21 Any Other Business the Chair Considers Urgent

There was no other urgent business.

51/10/21 Spending Review Submission

The Chair had agreed to the late urgent publication of the paper, to allow for the latest information available to be provided.

Andy Byford and Simon Kilonback introduced the paper and the appended Spending Review submission. The Government's Spending Review would be announced on 27 October 2021. The deadline for submissions was 30 September 2021. TfL had a clear offer to Government that could stimulate the UK's economic recovery, decarbonisation and the levelling up agenda while still delivering the Mayor's Transport Strategy.

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

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

Support for TfL's investment programme was essential to ensure the safe, reliable transport services that enabled London to function. The investment also provided an alternative to a car-led recovery as TfL decarbonised its network and adapted to be more resilient to extreme weather events. The plan supported the Government's commitment to cut 68 per cent of carbon emissions by 2030, and TfL's ambitions to improve London's air quality. Additional support could accelerate specific schemes that would secure thousands of critically needed green jobs and would help to achieve the UK's commitments on decarbonisation and improved air quality.

TfL needed to invest £2.5-3bn per year over the long-term in this work, as set out in its Long-Term Capital Plan. In order to plan, commit and deliver most efficiently for the public purse, TfL needed Government to commit to a long-term sustainable partnership in addition to existing funding sources and move to a predictable and efficient system of multi-year investment control periods, which would enable £1-1.5bn of additional Government investment funding each year above current arrangements. This range already included TfL contributing through its existing operational efficiencies, new plans for capital efficiencies and the delivery of £500m of recurring income, either from Vehicle Excise Duty, a Greater London Boundary Charge subject to full assessment, consultation and Mayoral decision, or another source of income. This long-term approach was common with other transport authorities such as Network Rail and National Highways and made economic sense.

For clarification, Simon Kilonback confirmed that, of the total investment of £2.5-3bn per annum over the long-term that TfL needed to play its part in meeting the Government's climate change, levelling up and economic recovery ambitions, the £1-1.5bn of additional Government investment funding each year formed part of the £2.5-3bn total investment required and was not in addition to it.

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

Members acknowledged that the submission was built around a core undertaking to get TfL to financial sustainability by 2022/23, focussing on maintaining core assets, transitioning to a lower carbon city and aligning major investments around Government objectives. The scale of London and the depth and breadth of what TfL was responsible for was larger compared to other regions, as its devolved budget included the costs of trains, tracks and London's major road network. Members would be briefed on the choices and prioritisation as funding discussions were progressed.

The Committee noted the Spending Review submission.

52/10/21 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 24 November 2021 at 10.00am.

53/10/21 Exclusion of the Press and Public

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: Treasury Activities; Funding Update on TTL Properties Limited; and Power Purchase Agreement (PPA 1 – Operational Assets).

The meeting closed at 1.10pm.

Chair: ___________________________________

Date: ____________________________________

Finance Committee

Date: **24 November 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
Email: HowardCarter@tfl.gov.uk

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Appendix 1

Finance Committee Actions List (to be reported to the meeting on 24 November 2021)

Actions from the meeting held on 6 October 2021

Minute No.	Item/Description	Action By	Target Date	Status/Note
43/10/21 (1)	**Finance Report – Ultra Low Emission Zone (ULEZ) and Clean Electric Vehicles Uptake** Modelling and tracking the take-up of clean electric vehicles would form part of the monitoring of the ULEZ uptake over the next financial year. Future updates would be provided to the Committee, as a reasonable baseline of data was produced to demonstrate the benefits of the scheme.	Simon Kilonback/ Patrick Doig/ Alex Williams	March 2022	A report will be submitted to the March 2022 meeting.
43/10/21 (2)	**Finance Report – Funding Agreement Updates** An update on progress with the funding negotiations would be provided to Members as required.	Andy Byford/ Simon Kilonback	December 2021	An update will be provided to Members as the funding negotiations progress.
44/10/21	**Treasury Activities** Information on the strategy for how cash was managed, which bodies were invested in and the criteria of suitability for those organisations given environmental, social and corporate governance factors, would be brought back to the Committee when it considered the next Treasury Management Strategy for 2022/23 at its meeting in March 2022.	Simon Kilonback	March 2022	Information on the strategy for managing and investing cash will be included in the Treasury Management Strategy 2022/23 paper that will be submitted to the March 2022 meeting.

47/10/21 (1)	**Funding Update on TTL Properties Limited (TTLP) – Affordability Report** An Affordability Report was being produced and would be shared with the Committee to accompany the TTLP Business Plan in due course.	Graeme Craig	March 2022	The Business Plan and proposal for funding TTLP, including the Affordability Report, will be submitted to the March 2022 meeting. This paper will also set out any approvals required from the Committee to allow TTLP to operate as a dedicated commercial property vehicle.
47/10/21 (2)	**Funding Update on TTL Properties Limited (TTLP) – Investment Strategy and Business Plan** More remained to be done over the course of the next six months to refine TTLP's Investment Strategy and Business Plan. These would be brought back to the Committee for approval. In parallel, approvals would be sought for the timing, quantum and mechanism for any debt funding, clearly setting out the implications and risks of such funding.	Graeme Craig	March 2022	The Business Plan and proposal for funding TTLP, including the Investment Strategy, will be submitted to the March 2022 meeting. This paper will also set out any approvals required from the Committee to allow TTLP to operate as a dedicated commercial property vehicle.
48/10/21	**Power Purchase Agreement (PPA 1 - Operational Assets)** More information on the context and framework within the broader Power Procurement model would be included when a paper on PPA procurement was next brought back to the Committee.	Lilli Matson	March 2022	An update paper on Power Purchasing Agreement procurement will be submitted to the March 2022 meeting.

Actions from previous meetings

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	An update on funding conditions and structural reform will be provided at 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.

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 a future meeting.
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	March 2022	An update on Power Purchasing Agreement procurement together with further information on the Greater London Authority PPA Collaborative procurement will be submitted to the March 2022 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	November 2021	**Completed**: TfL has now published its Corporate Environment Plan and Sustainability Report on its website: https://tfl.gov.uk/corporate/about-tfl/sustainability

Finance Committee

Date: **24 November 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 6 October 2021, there has been:

(a) no use of Chair's Action nor use of authority delegated by the Board;

(b) four uses of Procurement Authority granted by the Commissioner or the Chief Finance Officer and no use of Land Authority: and

(c) no Mayoral Directions to TfL.

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 6 October 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 no use of Chair's Action since the meeting on 6 October 2021.

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 has not granted Procurement Authority since the last meeting.

5.6 The Chief Finance Officer granted Procurement Authority relating to: Network Rail Basic Asset Protection Great Eastern Line; Interim Supply of London Underground Rail Vehicle Glazing System; 1973 Piccadilly Line Life Extension - Supply of Rubber to Metal Components; and Immigration Enforcement's Checking and Advice Service – Home Office.

6 Mayoral Directions to TfL

6.1 The Greater London Authority (GLA) 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 have been no Directions issued to TfL since the last meeting.

List of appendices to this report:

None.

List of Background Papers:

Minutes from previous meetings of the Committee.
Greater London Authority Decision Making Database.

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Agenda Item 6

Finance Committee

Date: **24 November 2021**

Item: **Finance Report – Period 7, 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 7, 2021/22 - the year-to-date ending 16 October 2021.

2 Recommendation

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

3 Financial Reporting to the Committee

Finance Report – Period 7, 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 7, 2021/22

Management results from 1 April 2021 – 16 October 2021

Finance Committee
24 November 2021

Section 1

Period 7, 2021/22 results: divisional performance

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London Underground

Tube journeys are continuing to show strong growth and were 65% of pre-pandemic levels in the latest period, up from 59% in the prior period. Passenger income is £738m, which is (£141m) lower than Budget, but more than double that of last year. Year to date 357 million journeys were made, 58 million lower than budgeted.

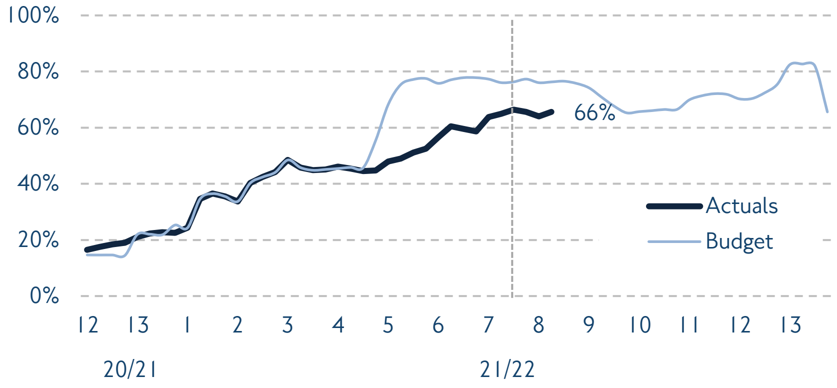
Operating costs are (£1,095m) in the year to date, £10m below Budget. This was driven from lower traction costs as a result of lower service levels, and lower than anticipated coronavirus related spend. Costs remain marginally higher (1%) than last year, when we reduced service levels during the first wave of the coronavirus pandemic.

London Underground

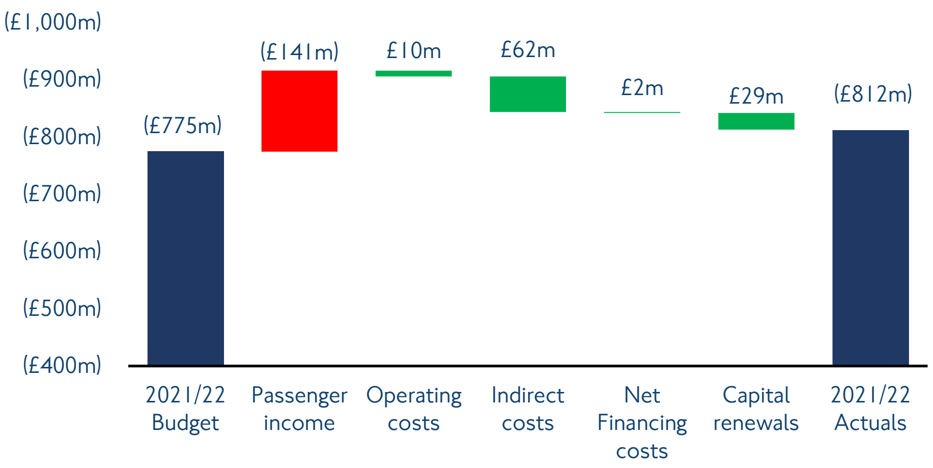
Operating account (£m)	Year to date, 2021/22 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Passenger income	738	879	(141)	-16%	351	388	111%
Other operating income	12	12	0	4%	6	6	100%
Total operating income	**751**	**891**	**(141)**	**-16%**	**357**	**394**	**110%**
Government furlough grant	0	0	0	N/A	39	(39)	-100%
Total income	**751**	**891**	**(141)**	**-16%**	**396**	**355**	**90%**
Operating costs	(1,095)	(1,105)	10	-1%	(1,083)	(13)	1%
Net operating surplus/ (deficit)	**(345)**	**(214)**	**(131)**	**61%**	**(687)**	**342**	**-50%**
Indirect costs	(168)	(230)	62	-27%	(155)	(13)	8%
Net financing costs	(154)	(155)	2	-1%	(152)	(2)	1%
Capital renewals	(146)	(175)	29	-17%	(74)	(72)	97%
Net cost of operations	**(812)**	**(775)**	**(38)**	**5%**	**(1,068)**	**255**	**-24%**
New capital investment	(12)	(15)	3	-20%	(16)	4	-23%

Tube journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Journeys (millions)	Var to Budget
65%	77%	357	-58



Net cost of operations compared to Budget



Elizabeth line

Elizabeth line journeys are 65% of pre-pandemic levels in the latest period, up from 56%. Passenger income is (£5m) lower than Budget, but more than double that of last year.

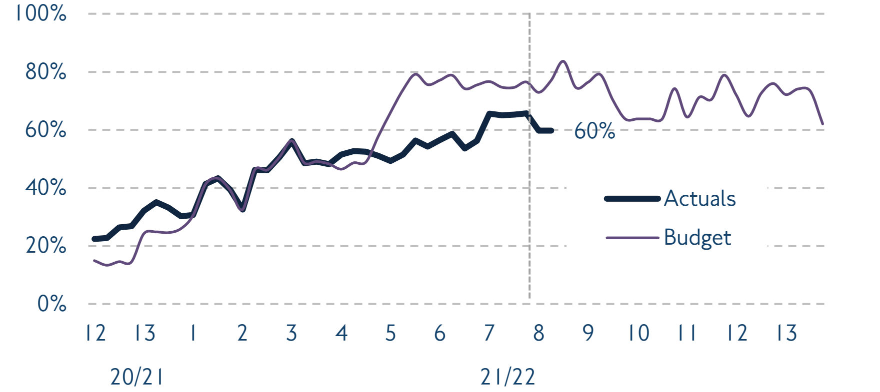
Operating costs are £8m lower than Budget, driven by lower than expected rolling stock maintenance costs and lower central operating section costs (offset in other operating income) from lower trial operation volumes.

Elizabeth line

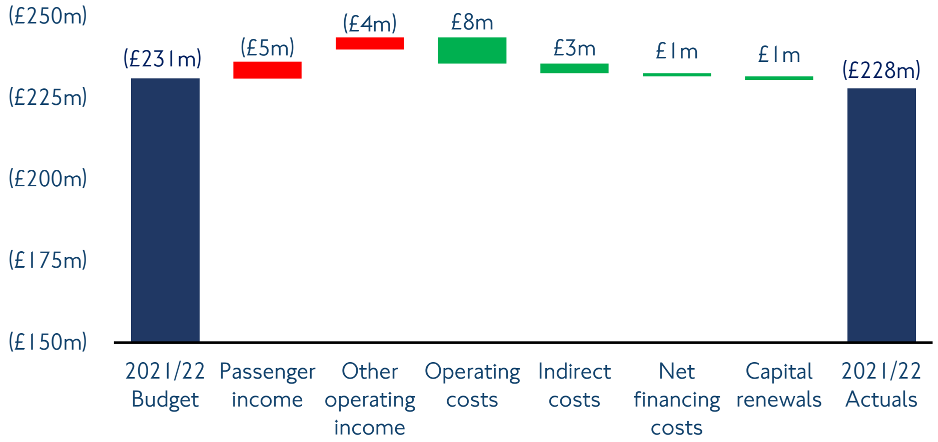
Operating account (£m)	Year to date, 2021/22 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Passenger income	44	49	(5)	-10%	21	23	111%
Other operating income	13	17	(4)	-23%	3	10	290%
Total operating income	**57**	**66**	**(9)**	**-13%**	**24**	**33**	**135%**
Government furlough grant	0	0	0	N/A	1	(1)	-100%
Total income	**57**	**66**	**(9)**	**-13%**	**25**	**32**	**130%**
Operating costs	(228)	(236)	8	-3%	(169)	(59)	35%
Net operating surplus/ (deficit)	**(171)**	**(170)**	**(1)**	**1%**	**(145)**	**(26)**	**18%**
Indirect costs	(5)	(8)	3	-40%	(4)	(1)	29%
Net financing costs	(51)	(52)	1	-1%	(51)	(1)	2%
Capital renewals	(1)	(1)	1	-59%	0	(1)	N/A
Net cost of operations	**(228)**	**(231)**	**4**	**-2%**	**(199)**	**(29)**	**14%**
New capital investment	(8)	(9)	1	-7%	(16)	7	-47%
Crossrail construction	(352)	(397)	45	-11%	(404)	52	-13%
New capital investment	**(360)**	**(406)**	**46**	**-11%**	**(419)**	**60**	**-14%**

EL journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m	Var to Bud m
65%	76%	19	-3



Net cost of operations compared to Budget



Buses, Streets & Other operations

Bus journeys were 71% of pre-pandemic levels in the latest period, up from 70% in the prior period, and continue to track close to target. Passenger income was (£6m) below Budget, a result of 27 million fewer journeys to date. 758 million journeys have been made year to date.

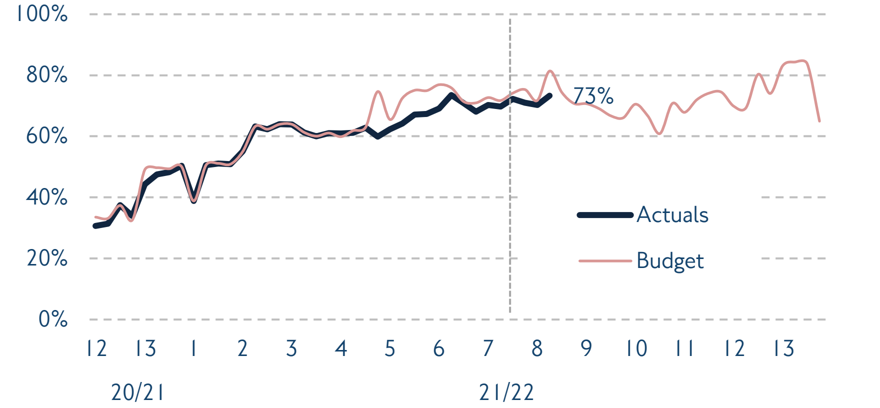
Operating income is £362m, £17m higher than Budget. Higher other operating income is primarily driven by increases in contraventions on Congestion Charge, LEZ and ULEZ schemes. Operating costs are £4m lower than Budget, mainly due to lower bus performance payments and staff cost savings, partly offset by increases in volume-driven bad debt.

Buses, Streets & Other operations

Operating 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
Passenger income	563	569	(6)	-1%	358	205	57%
Other operating income	362	345	17	5%	264	98	37%
Total operating income	**925**	**914**	**11**	**1%**	**622**	**303**	**49%**
Government furlough grant	0	0	0	N/A	9	(9)	-100%
Total income	**925**	**914**	**11**	**1%**	**631**	**294**	**47%**
Operating costs	(1,516)	(1,520)	4	0%	(1,501)	(15)	1%
Net operating surplus/ (deficit)	**(591)**	**(606)**	**15**	**-2%**	**(869)**	**279**	**-32%**
Indirect costs	(50)	(64)	14	-22%	(61)	12	-19%
Net financing costs	(15)	(15)	0	-1%	(15)	(0)	1%
Capital renewals	(49)	(55)	6	-11%	(43)	(6)	14%
Net cost of operations	**(704)**	**(739)**	**35**	**-5%**	**(988)**	**284**	**-29%**
New capital investment	**(55)**	**(68)**	**13**	**-19%**	**(58)**	**3**	**-6%**

Bus journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m	Var to Bud m
71%	**73%**	**758**	**-27**



Net cost of operations compared to Budget

Rail

Rail journeys – including London Overground, DLR and Trams – were 68% of pre-pandemic levels in Period 7. Passenger income is (£7m) lower than Budget due to 11 million fewer journeys to date.

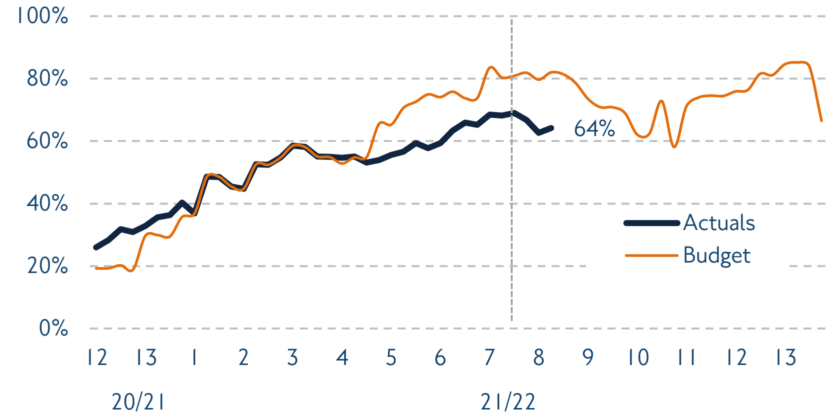
Operating costs are £6m lower than Budget, partly as a result of lower maintenance costs.

Rail

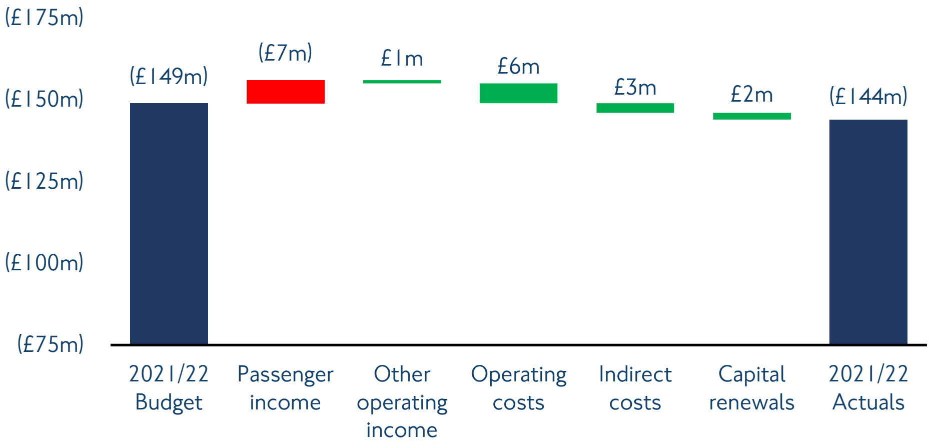
Operating account (£m)	Year to date, 2021/22 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Passenger income	148	155	(7)	-5%	72	76	106%
Other operating income	10	9	1	16%	3	8	264%
Total operating income	**158**	**164**	**(6)**	**-4%**	**75**	**83**	**112%**
Operating costs	(251)	(258)	6	-2%	(250)	(2)	1%
Net operating surplus/ (deficit)	**(93)**	**(93)**	**0**	**0%**	**(175)**	**82**	**-47%**
Indirect costs	(9)	(12)	3	-25%	(10)	1	-13%
Net financing costs	(22)	(22)	0	-1%	(22)	(0)	1%
Capital renewals	(20)	(22)	2	-11%	(17)	(2)	15%
Net cost of operations	**(144)**	**(149)**	**6**	**-4%**	**(224)**	**80**	**-36%**
New capital investment	**(6)**	**(7)**	**1**	**-18%**	**(7)**	**1**	**-18%**

Rail journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m	Var to Bud m
68%	82%	105	-11



Net cost of operations compared to Budget



Major Projects Directorate

Year to date capital spend is £7m lower than Budget, driven by resource shortages for Piccadilly line rolling stock infrastructure work and delays to finalising the Elephant & Castle station Development Agreement.

Major Projects Directorate

Operating 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
Other operating income	5	6	(1)	-20%	4	0	2%
Total operating income	**5**	**6**	**(1)**	**-20%**	**4**	**0**	**2%**
Government furlough grant	0	0	0	N/A	3	(3)	-100%
Total income	**5**	**6**	**(1)**	**-20%**	**7**	**(2)**	**-35%**
Operating costs	(7)	(10)	3	-26%	(32)	24	-78%
Net operating surplus/ (deficit)	**(3)**	**(4)**	**1**	**(0.3)**	**(25)**	**22**	**-90%**
Indirect costs	(14)	(15)	1	-7%	(18)	4	-22%
Net financing costs	0	0	0	N/A	0	0	N/A
Capital renewals	(4)	(5)	1	-20%	(1)	(3)	288%
Net cost of operations	**(20)**	**(24)**	**3**	**-14%**	**(43)**	**23**	**-53%**
New capital investment	**(290)**	**(296)**	**6**	**-2%**	**(233)**	**(57)**	**25%**

Bank Station Capacity Upgrade

Works are progressing to create a new Northern line passenger concourse at Bank using the existing southbound platform tunnel, a new southbound running and platform tunnel and new passenger connections between the Northern line, the DLR and the Central Line.

TfL has launched a communication campaign to give customers the tools and advice they need to plan their journeys during our 17-week closure of the Bank branch which is due to start on 15 January. The communication campaign will help customers plan their journey; additional staff will be deployed to assist customers; extra services will run on the Charing Cross branch of the Northern line and a new bus route will be deployed between Oval and the City.

Four Lines Modernisation

The Four Lines Modernisation programme achieved a major milestone on 12 September when the first timetable change enabled by the new signalling system was introduced.

Journey times have been reduced by 10 per cent on the north side of the Circle line and added one extra train during the morning and evening peaks. Since introduction the reliability of the timetable has improved, and the achievement of this milestone is a major success for the programme and our operational and maintenance staff.

Signalling upgrade between Sloane Square, Paddington, Fulham Broadway and Barons Court, are due to go live in Spring 2022 following further software improvements.

DLR Rolling Stock and Systems Integration

Rolling stock manufacturing is underway with the first four trains out of the 43 train order in production. The first train is now assembled and ready to begin static testing. This strategic milestone was achieved two months ahead of programme.

We have now finalised terms for the acquisition for the land at Beckton adjoining the current depot to accommodate a further 11 trains funded by the Department for Levelling Up, Housing and Communities. This supports the development of 12,000 homes across 15 sites, comprising the Poplar site owned by TfL and 14 sites in third-party ownership, with the aim for all sites to provide a minimum of 35 per cent affordable housing.

Section 2
Period 7, 2021/22 results: TfL Group performance

Headlines

Passenger journeys and income have seen steady growth. Total TfL journeys reached 68% of pre-pandemic levels in Period 7, up from 66% in the prior period; journeys have increased to 69% since the end of Period 7. Passenger income is significantly higher than last year, but remains around 40% lower than historical levels.

Cash balances are in line with Budget 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 decline beyond minimum cash levels, if we are not in receipt of further funding from government.

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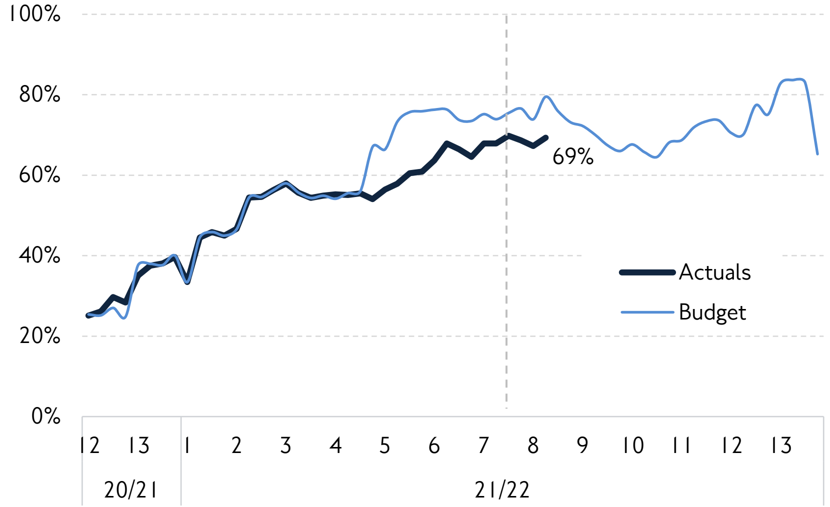
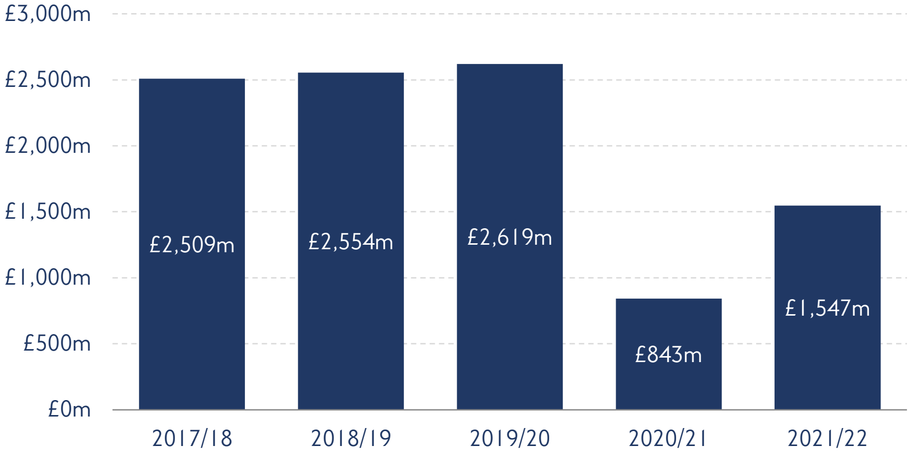
Headlines

Total passenger journeys 69% of pre-pandemic levels against a target of 80%.

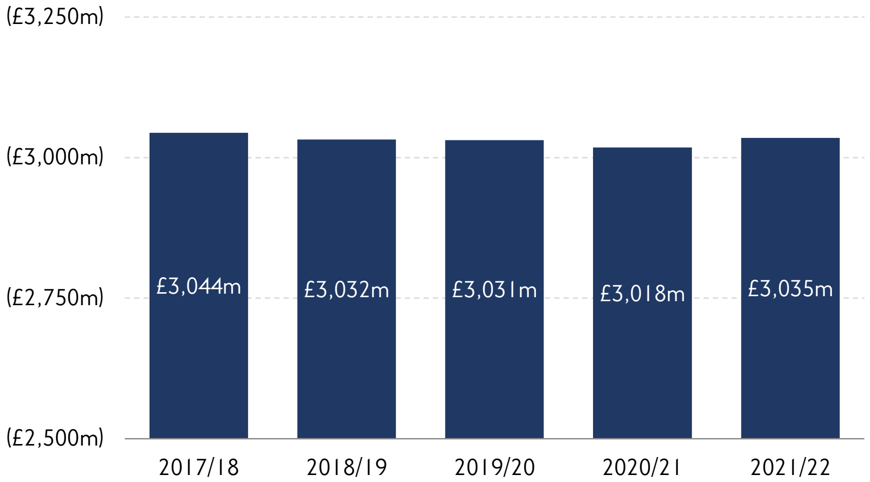


Passenger income up on last year, but £141m lower than Budget. Year-to-date income approximately 40% lower than pre-pandemic levels



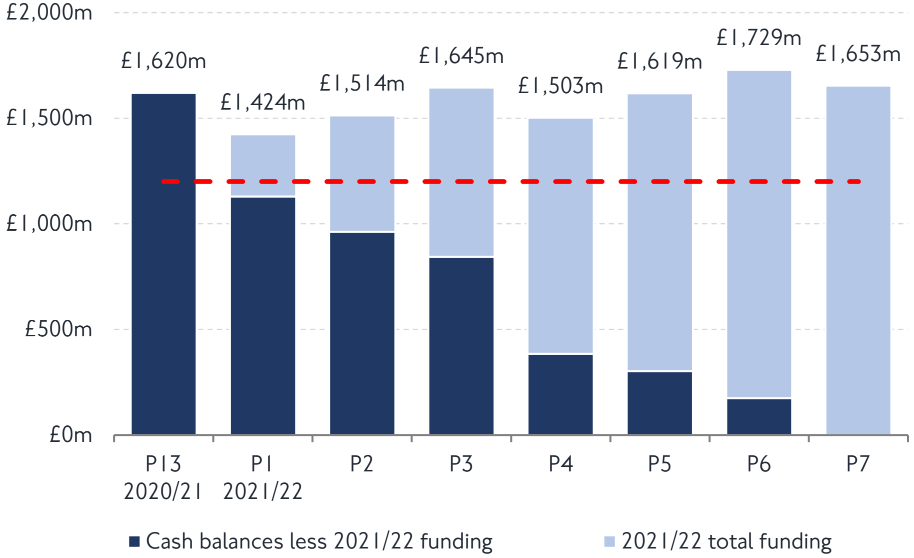
Individual years show year-to-date passenger income to end of Period 7.

Like-for-like operating costs in line with 2017/18, with our savings programme mitigating inflationary pressures



Individual years show year-to-date like-for-like operating costs to end of Period 7. Like-for-like costs adjust for new services (incl. Elizabeth line costs and ULEZ), project costs, service reductions at the start of the pandemic, and other one off and exceptional costs.

Cash balances temporarily high, but expect to see reductions over coming months as government funding declines



Passenger journeys

At the end of Period 7, Passenger journeys were 68% of the pre-pandemic levels, compared to a target of 75%.

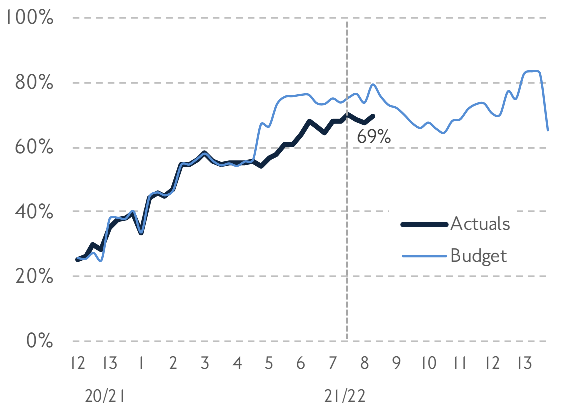
Journeys continue to increase; Tube journeys have seen the highest rate of growth, up from 59% to 65% over the last two periods; bus journeys are 71% of pre-pandemic levels, marginally higher than what we saw in Period 6.

Passenger journeys are expected to decline as we move through winter but pick back up during the course of Q4, 2021/22.

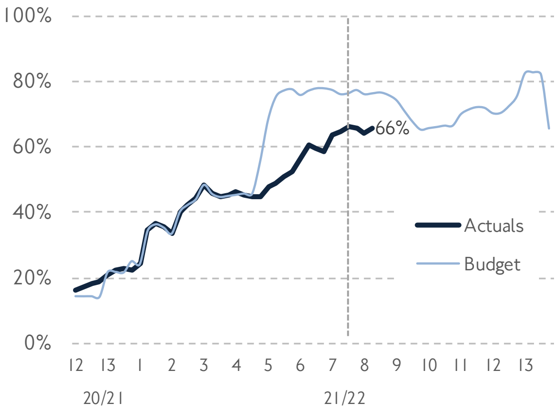
Passenger journeys

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

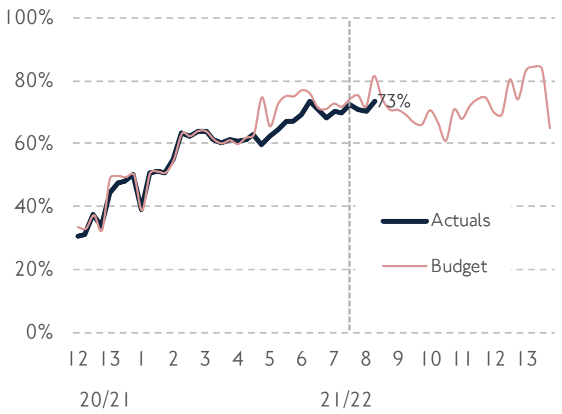
TfL	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	68%	75%	P	225	-22
			Y	1240	-98



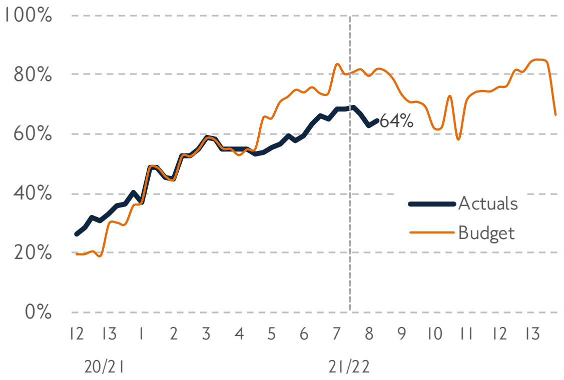
LU	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	65%	77%	P	72	-13
			Y	357	-58



Bus	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	71%	73%	P	130	-5
			Y	758	-27



Rail	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	68%	82%	P	19	-4
			Y	105	-11

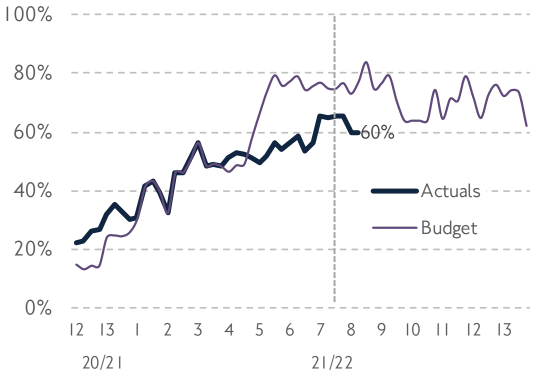


LO	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	64%	86%	P	10	-3
			Y	56	-7

DLR	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	74%	77%	P	7	0
			Y	39	-3

Tram	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	70%	73%	P	2	0
			Y	10	-1

TfLR	% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
	65%	76%	P	4	-1
			Y	19	-3



Operating account

Passenger income is £1,547m in the year to date, which is almost double that from last year, but (£141m) 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. Journeys have increased since the end of the Summer, but not to the extent expected. Other operating income is £25m higher than Budget, driven by higher Road User Charging, media and property income.

Operating costs are £101m below Budget from lower underlying costs (£36m), timing differences (£28m) and release of contingency (£40m) held to mitigate high risk uncertainties.

Extraordinary revenue grant is £163m higher than Budget, a result of higher revenue top up, 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]	1,547	1,688	(141)	-8%	843	704	84%
Other operating income	532	507	25	5%	384	148	39%
Total operating income	**2,079**	**2,195**	**(116)**	**-5%**	**1,227**	**853**	**70%**
Business Rates Retention	518	484	34	7%	504	14	3%
Revenue grant	37	32	5	16%	9	28	321%
Government furlough grant	0	0	0	N/A	60	(60)	-100%
Total income	**2,634**	**2,711**	**(77)**	**-3%**	**1,800**	**834**	**46%**
Operating cost	(3,475)	(3,576)	101	-3%	(3,428)	(46)	1%
Net operating surplus	**(841)**	**(865)**	**24**	**-3%**	**(1,629)**	**788**	**-48%**
Net financing costs	(242)	(244)	3	-1%	(239)	(3)	1%
Net cost of operations after financing	**(1,082)**	**(1,109)**	**27**	**-2%**	**(1,867)**	**785**	**-42%**
Capital renewals	(238)	(282)	44	-15%	(144)	(94)	66%
Net cost of operations	**(1,320)**	**(1,391)**	**70**	**-5%**	**(2,011)**	**691**	**-34%**
Extraordinary revenue grant	1,468	1,305	163	12%	1,095	373	34%
Net cost of operations after extraordinary revenue grant	**148**	**(85)**	**233**	**-273%**	**(916)**	**1,064**	**-116%**

1 Year-to-date passenger income reflects £16m additional income from the Rail Delivery Group in relation to travelcard allocation between late 2019/20 and 2020/21. Underlying income is £1,531m, (£157m) lower than Revised Budget.

Operating costs

Total operating costs are £101m lower than Budget. Underlying costs are £36m better than expected, driven by new efficiencies (including staff cost savings), and cost reductions from lower bus performance payments, lower LU traction costs, and lower maintenance costs in Rail.

Operating costs are also better than target from £40m of contingency, which is held to mitigate operating account volatility and risks (e.g. RUC revenues).

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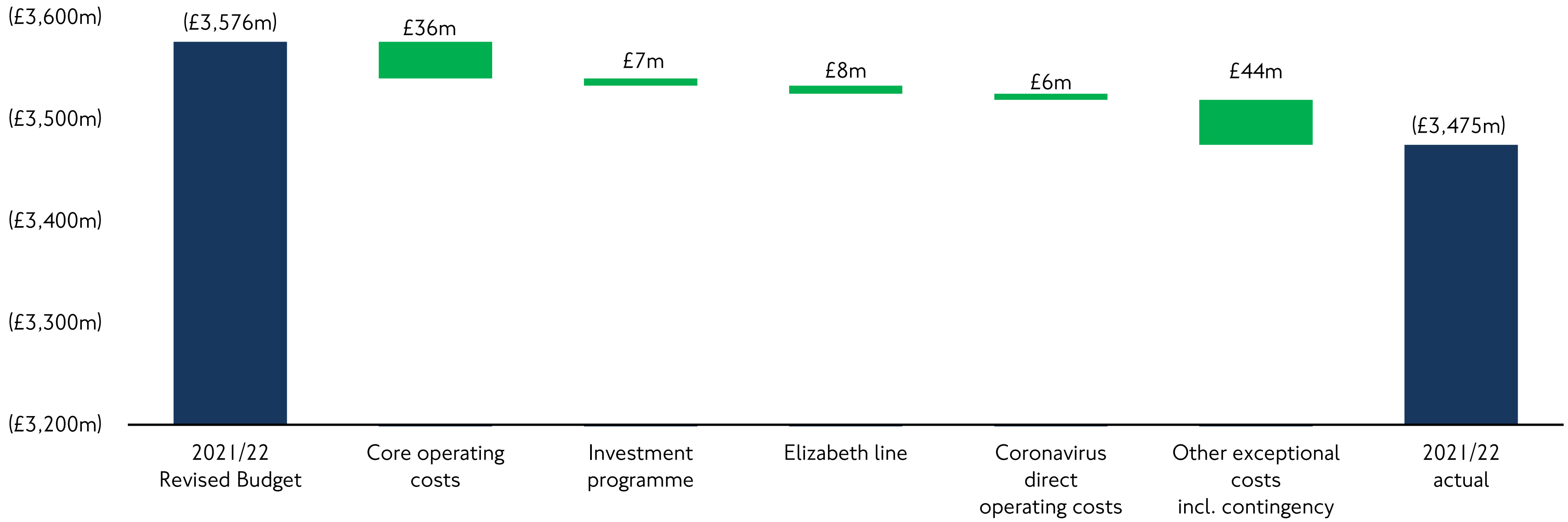
Operating costs

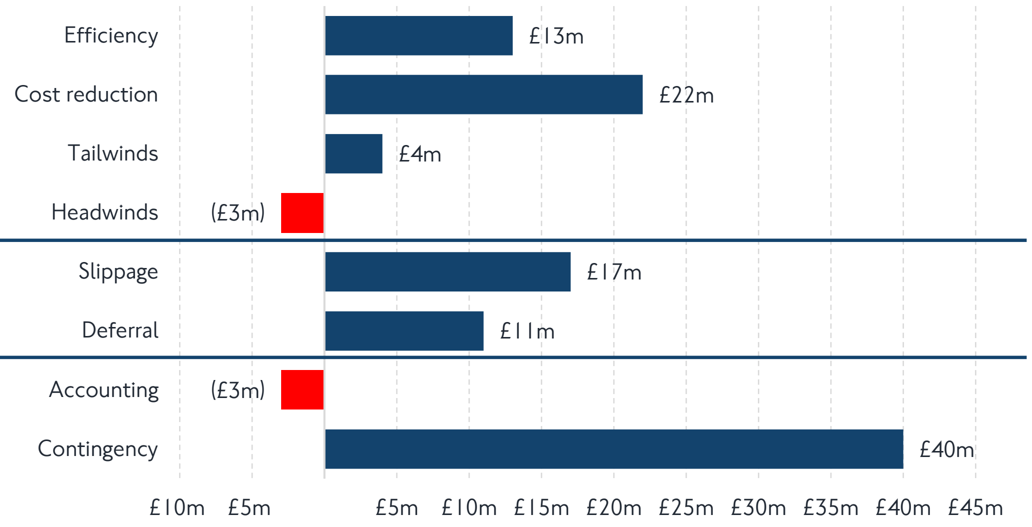


Operating costs: drivers of year-to-date variances (£m)

Underlying costs £36 better

Timing differences of £28m

Accounting and contingency £37m favourable



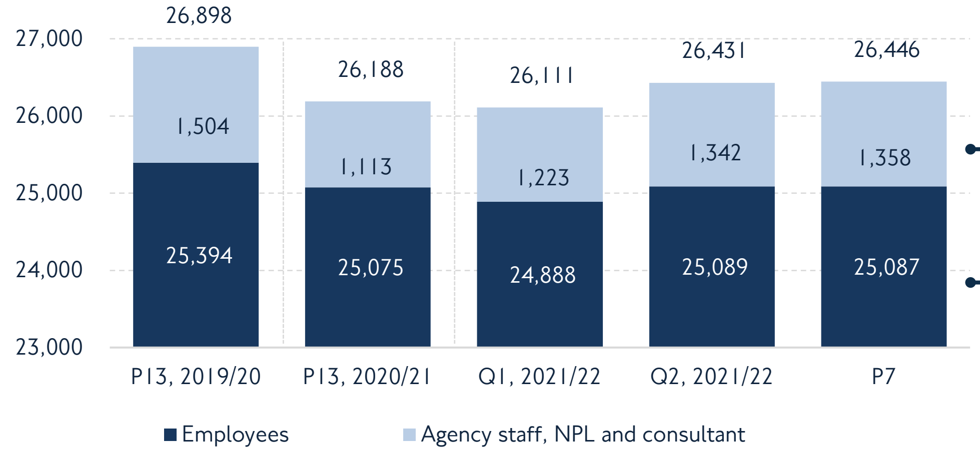
Staff

TfL staff levels are just over 450 lower than pre-pandemic levels. We have increased staff levels this year by just over 250, with introduction of Northern Line Extension, as well as ramping up preparations for Elizabeth line services.

Permanent employee numbers are broadly in line with last year; increases in agency and NPL staff, offering greater flexibility in the face of continued funding uncertainty.

Staff excl. Crossrail construction

Headcount trends since 2019/20



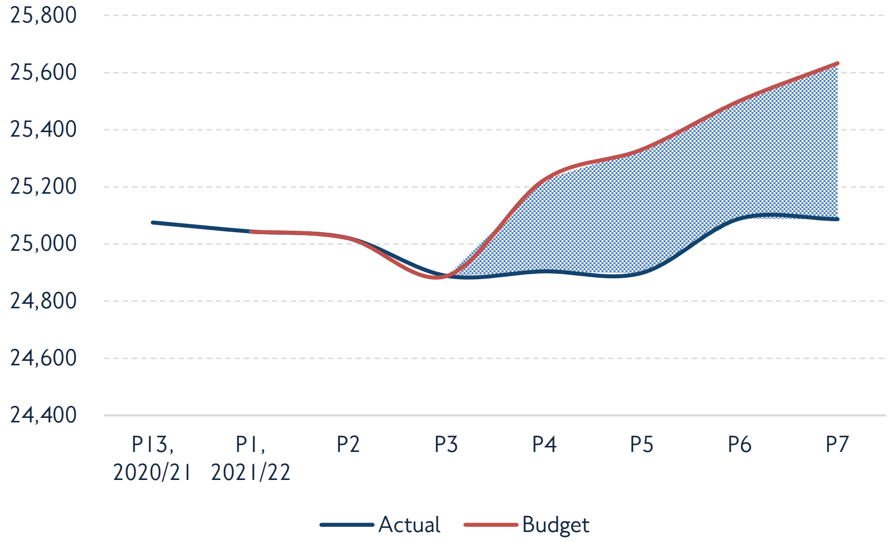
Total staff over 450 lower than pre-pandemic levels

Agency, NPL and consultants down by 150; increases this year to provide greater organisational flexibility

Permanent employees down by over 300 since 2019/20 and broadly in line with last year

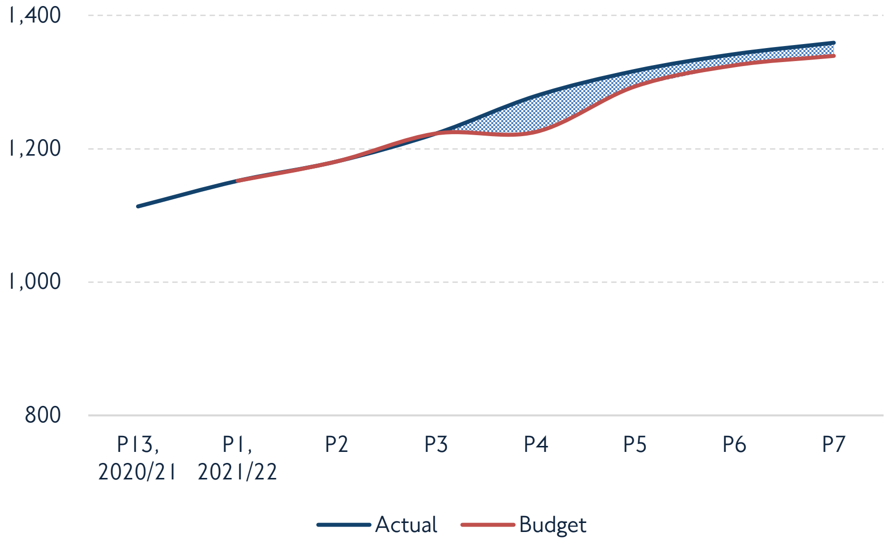
Permanent staff (FTE): actuals and Revised Budget

Permanent employees broadly in line with end of 2020/21, but over 500 lower than Budget from recruitment delays and leavers averaging 170 per period.



Agency and NPL staff (FTE): actuals and Revised Budget

Agency and NPL FTE up by 245 since the end of 2020/21, and broadly in line with Budget. In context of economic and funding uncertainty, greater use of agency employees provides organisational flexibility.



Capital account

Total capital expenditure £115m lower than target, largely a result of project slippage and deferrals, partly driven from short term and stop-start nature of the current funding agreements.

Property and asset receipts are (£38m) lower than Budget, driven by later than expected property disposals.

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	(420)	(491)	72	-15%	(364)	(55)	15%
Crossrail	(352)	(397)	45	-11%	(404)	52	-13%
Total capital expenditure	**(771)**	**(888)**	**117**	**-13%**	**(768)**	**(3)**	**0%**
Financed by:							
Investment grant	484	537	(53)	-10%	473	11	2%
Property and asset receipts	46	84	(38)	-45%	6	40	625%
Borrowing	1	1	(0)	-14%	507	(506)	-100%
Crossrail borrowing	74	74	0	0%	350	(276)	-79%
Crossrail funding sources	327	335	(8)	-2%	67	260	386%
Other capital grants	23	34	(11)	-32%	70	(48)	-68%
Total	**955**	**1,064**	**(109)**	**-10%**	**1,474**	**(519)**	**-35%**
Net capital account	**183**	**176**	**7**	**4%**	**706**	**(523)**	**-74%**
Capital renewals	(238)	(282)	44	-15%	(144)	(94)	66%
New capital investment	(420)	(491)	72	-15%	(364)	(55)	15%
Total TfL capital expenditure	**(658)**	**(773)**	**115**	**-15%**	**(508)**	**(150)**	**29%**

Capital expenditure

Total capital expenditure is £115m lower than Budget, driven by slippage and deferrals. LU, Surface and Corporate programme underspend partly driven by stop-start nature of government 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	**(293)**	**(300)**	**7**	**-2%**	**(233)**	**(60)**	**26%**
Northern Line Extension	(44)	(44)	(0)	1%	(54)	10	-19%
Four Lines Modernisation	(73)	(74)	1	-2%	(46)	(27)	59%
Major Stations	(34)	(39)	5	-13%	(37)	3	-8%
Railway Systems Enhancements	(3)	(3)	0	-8%	(6)	3	-49%
Piccadilly line trains	(74)	(75)	1	-1%	(42)	(32)	75%
DLR Rolling Stock	(38)	(38)	(0)	1%	(22)	(16)	73%
Barking Riverside	(23)	(23)	(0)	0%	(24)	1	-2%
Silvertown Tunnel	(6)	(6)	0	-5%	(4)	(2)	54%
Elizabeth line - infrastructure	**(9)**	**(10)**	**1**	**-14%**	**(16)**	**7**	**-43%**
LU	**(158)**	**(190)**	**32**	**-17%**	**(90)**	**(68)**	**76%**
Capital renewals	(146)	(175)	29	-17%	(74)	(72)	97%
New capital investment	(12)	(15)	3	-20%	(16)	4	-23%
Surface Transport	**(129)**	**(151)**	**22**	**-15%**	**(125)**	**(4)**	**3%**
Healthy Streets	(23)	(27)	4	-13%	(22)	(1)	4%
Surface - assets	(40)	(43)	3	-6%	(34)	(6)	18%
Surface Tech	(15)	(21)	6	-28%	(7)	(8)	118%
Public Transport	(28)	(34)	6	-17%	(29)	1	-3%
Air Quality and environment	(24)	(29)	5	-17%	(34)	10	-30%
Corporate programmes	**(48)**	**(61)**	**13**	**-22%**	**(27)**	**(21)**	**76%**
Professional Services	(47)	(62)	15	-24%	(35)	(12)	33%
Media	(2)	0	(2)	3859%	7	(9)	120%
Commercial Development	**(19)**	**(57)**	**38**	**-66%**	**(16)**	**(3)**	**22%**
Estates and facilities	(1)	(2)	1	-40%	0	(1)	175%
Property development	(19)	(56)	37	-67%	(16)	(3)	19%
Total TfL	**(658)**	**(773)**	**115**	**-15%**	**(508)**	**(150)**	**29%**

Cash balances

Total cash balances are just above £1.65bn at the end of Period 7 and are in line with Budget.

Our latest cash forecast for the year shows cash gradually declining from Quarter 2 onwards, driven by lower levels of government funding until the expiry of the current agreement on 11 December. From this point, we expect cash balances to decline to between £700-800m at year end – this is almost £500m lower than our minimum cash balance - if we are not in receipt of further funding from government.

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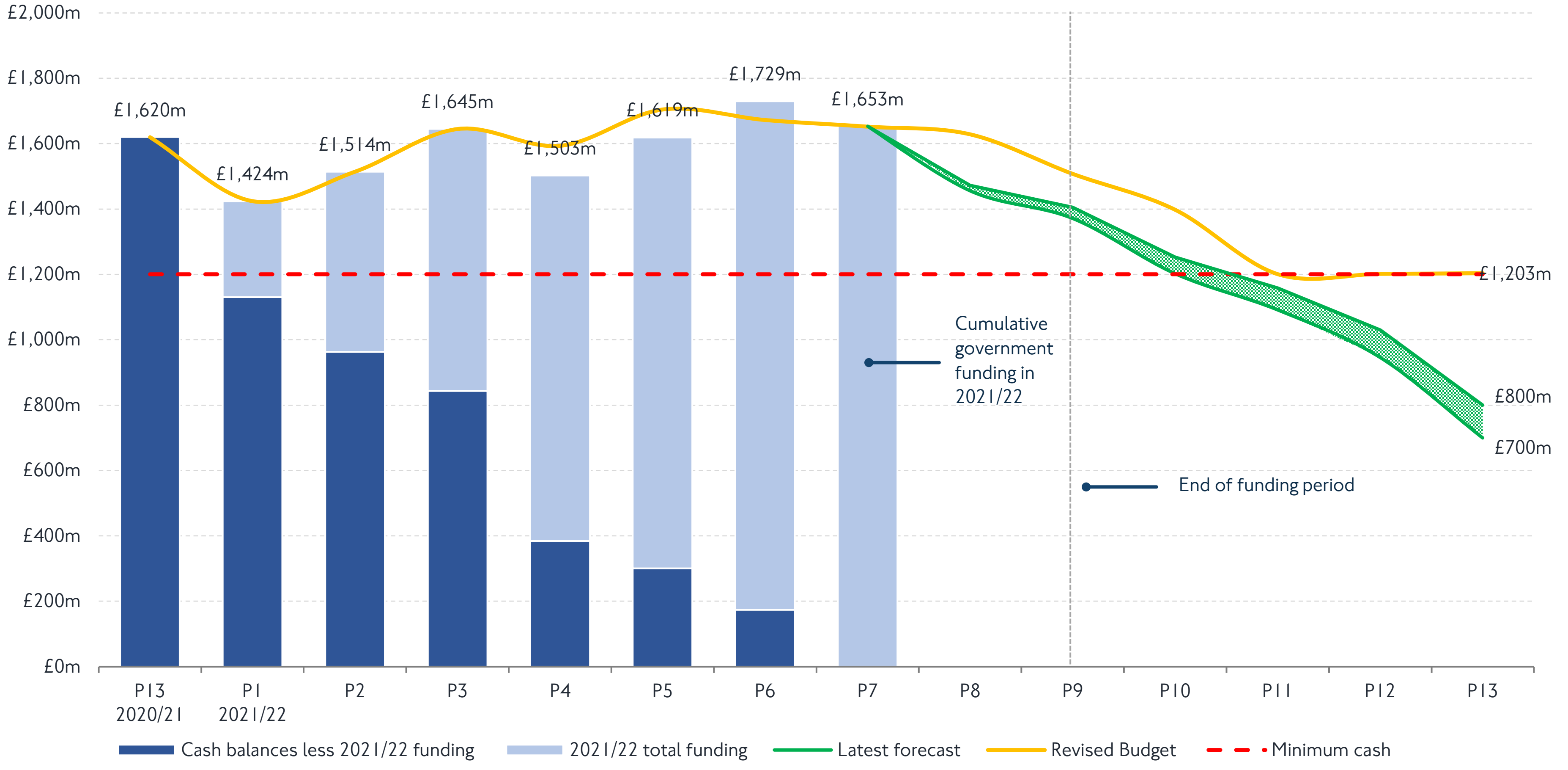
Cash balances and latest forecast

	2020/21	2021/22 cash movement	P7, 2021/22 closing cash	P7, 2021/22: variance to Revised Budget
TfL closing cash balances	1,620	33	1,653	1

Cash balances and latest cash forecast, 2021/22



Finance Committee

Date: **24 November 2021**

Item: **Build to Rent Joint Venture Agreement**

This paper will be considered in public

1. Summary

1.1 This paper requests approval for a series of amendments to the Joint Venture Agreement (JVA) which TTL Build To Rent Limited entered into on 12 July 2019 with Connected Living London Limited (a wholly owned subsidiary of Grainger Plc).

1.2 The need for these amendments is driven by the risk introduced into Transport for London's (TfL's) ability to fund construction as a result of TfL's short-term funding position.

1.3 TfL's Joint Venture partner, Grainger, has understandably flagged concerns with continuing to invest should TfL not have funding for its share of costs when the construction funding is required.

1.4 The amendments to the JVA represent a 'backstop' mechanism that will only apply if TfL was unable to provide required funding. They are not expected to be required but are considered reasonable provisions to adopt to ensure continued progress on sites and delivery of homes.

1.5 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 financial and 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 approve the proposed amendments (as substantially described in the Part 1 and Part 2 papers) to the Connected Living London Joint Venture Agreement and the incorporation of the associated Funding Condition within the site-specific agreements for lease.

3. Background

3.1 In July 2019, the Committee approved the investment sum and Land Authority necessary to deliver the current portfolio of Build to Rent development sites. It approved the formation of a subsidiary entity (the holding company known as TTL Build To Rent Limited) as a wholly owned subsidiary of TTL Properties Limited for the purpose of entering into the joint venture with a Grainger entity. The Chief Finance Officer was granted delegated authority to approve the disposal of sites and the investment into the joint venture.

3.2 The build to rent programme was conceived in order to facilitate the delivery of a sustainable operating surplus from TfL's property assets for reinvestment into the transport system. This remains as the primary objective and is consistent with TfL's current Business Plan and Commercial Development's Growth and Investment Strategy.

Market Overview

3.3 The number of Build to Rent homes has increased at an average of 54 per cent per annum since 2015. The rate of growth stalled because of lockdown measures but is expected to bounce back sharply, with 16,340 units set to be built in 2021.

3.4 There are now over 42,400 operational Build to Rent units in the UK, with a further 50,000 either under construction or with planning consent. Despite this, Build to Rent assets continue to represent a minor component (circa 1.4 per cent) of the wider private rental market, with significant capacity to grow.

3.5 There is a continuing demographic shift towards rental, with a 93 per cent increase in the number of households renting over the last 15 years. This compares to a 3 per cent increase in owner occupation over the same period.

3.6 UK Build to Rent investment reached £6.6bn in 2020, rising from £3.1bn in 2015. Yields have remained stable, with the principle reasons driving investor appetite being the strong supply and demand dynamics, the sector's limited exposure to economic cycles and the length of income streams available.

3.7 The coronavirus pandemic has impacted rental growth and forecasts remain subdued for the next 12 months at 2.5 per cent. However, income has been shown to be relatively resilient, with occupancy levels at 91 per cent and rent collection at 95 per cent in 2020 (JLL, UK Build to Rent, 2021). With the easing of restrictions, the market expectation is that Build to Rent will outperform the standard private rental market and return to levels of 3.0 per cent per annum growth by 2023 (JLL, UK Build to Rent, 2021).

4. Built to Rent Progress

4.1 The TfL Build to Rent programme has made significant progress since the formation of its partnership with Grainger.

4.2 CLL has obtained resolutions to grant planning consents for 1,078 homes across three sites at Montford Place (Kennington), Nine Elms Over Station Development and Southall Sidings. Montford Place has received formal planning consent, with Nine Elms and Southall Sidings expected to follow by the end of the calendar year.

4.3 A further 513 homes at Arnos Grove and Cockfosters are currently in the planning process. The site at Arnos Grove is the subject of a planning appeal, with a Public Inquiry expected in March 2022 and determination expected by June 2022. The

Cockfosters planning committee is expected in December 2021 and, if successful, would lead to a formal consent by spring 2022.

4.4 In order to enable TfL to meet the Mayoral priorities contained within the London Plan, all of the Build to Rent schemes are delivering 40 per cent affordable housing. The design process has been supported by GLA and Local Authority design reviews. TfL's Sustainability Development Framework has been adopted by the joint venture and is driving enhanced environmental and economic performance across all sites.

5. Funding and Programme Challenges

5.1 During the coronavirus pandemic, the sites have been adequately funded in order to undertake feasibility work, concept design and planning applications. However, TfL has been unable to make longer terms commitments, given TfL's financial constraints resulting from the pandemic.

5.2 The shareholders now need to commit to a new phase of investment for detailed design, procurement of main contractors and construction funding. The new mechanisms allow the projects to continue in accordance with the Joint Venture business plan.

5.3 The arrangement is also expected to allow Agreements for Lease (AfLs) to be signed for the remaining sites in the portfolio which are not under contract (Cockfosters and Nine Elms), as it provides a route to development in the event that TfL does not have the required equity.

5.4 It is therefore proposed that TfL enters into the proposed amendments to the JVA and incorporates an associated funding condition within the site-specific AfLs, for the reasons outlined within the paper on part 2 of the agenda.

6. TTLP Business Plan and Debt Funding

6.1 The paper to the meeting of the Committee on 23 June 2021 set out how TTLP had worked with Deloitte to review potential funding options to meet TTLP's capital requirements. The review concluded that commercial debt financing by TTLP was the preferred route.

6.2 The paper to the meeting of the Committee on the 6 October 2021 then provided an overview of the New Baseline Plan which, subject to ongoing discussions with Government and TfL approvals, will see TTLP aim to start on sites that deliver 20,000 homes over the next 10 years. The New Baseline Plan projects that the annual return to TfL will increase from £6.0m in 2021/22 to £155.7m over 15 years. Over the same period, the value of TTLP's property assets are projected to rise from £2.22bn in 2021/22 to £4.46bn in 2035/36. This is to be funded by commercial debt that is non-recourse to TfL. As the paper set out, peak debt requirement is forecast to be £500m in 2029/30, although the debt in the first three years remains modest at around £150m.

6.3 Initial discussions have taken place with a number of lenders, including UK clearing banks, European banks and institutional investors. All conversations to date have been based on either publicly available information, including the paper to the Committee on 23 June 2021, or non-sensitive information that could be made public. Initial feedback from lenders has been very positive and no concerns have been raised about the ability of the structure proposed by TTLP to be financed.

7. Conclusion and Next Steps

7.1 Significant progress has been made in relation to five Build to Rent sites across London. In order to progress to the next stages of development, TfL needs to commit to construction funding, but this commitment cannot be made until commercial debt is in place.

7.2 Amendments to the Joint Venture Agreement are therefore proposed that provide protection to Grainger and allow projects to proceed if TTLP cannot commit to the required funding.

7.3 As long as commercial debt funding is obtained in accordance with the current plans, the JVA amends will have no impact on TTLP.

List of appendices to this report:

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

List of Background Papers:

Funding Update on TTL Properties Limited – Finance Committee, 23 June 2021
Funding Update on TTL Properties Limited – Finance Committee, 6 October 2021

Contact Officer: Graeme Craig, Director Commercial Development
Email: graemecraig@tfl.gov.uk

Finance Committee

Date: **24 November 2021**

Item: **TfL Energy Purchasing: Crown Commercial Service**

This paper will be considered in public

1 Summary

1.1 As set out in the September 2020 Committee paper, TfL has developed an Energy Purchasing Strategy in line with the Mayor's Transport Strategy, the London Environment Strategy and TfL's own carbon ambitions as set out in the Corporate Environment Plan.

1.2 In line with the TfL Energy Purchasing Strategy, this paper:

(a) Seeks Procurement Authority to extend the existing arrangements with Crown Commercial Services (CCS) to allow the continuation of the current energy purchasing arrangements and risk management strategy, albeit reduced to allow for energy volume to be purchased through a Power Purchase Agreement (PPA), and

(b) updates the Committee on energy purchases since December 2020 through the CCS agreed frameworks.

1.3 This approach ensures the ongoing supply of cost competitive electricity and gas supplies for TfL's operations in the near term, while also enabling the transition over coming years to renewable energy, in line with our commitment to run a zero-carbon railway by 2030 as set out to the Committee in September 2020. Continued use of CCS and authority sought in the paper also supports planned future PPA procurements as set out in paragraphs 3.9 and 5.1.

2 Recommendations

2.1 **The Committee is asked to:**

(a) note the paper and approve Procurement Authority of £402m[1] for the purchase of electricity and natural gas across TfL during the 2024/2025 and 2025/2026 financial years, via the existing frameworks competitively procured by the Crown Commercial Service (CCS); and

(b) note that future TfL Business plans will need to continue to make provision for the supply of energy updating each year to the latest forecast based on TfL's requirements.

[1] ~87.5% of expected annual electricity demand and 100% of expected gas demand for financial year 2024/2025 and 2025/2026.

3 Background – purchasing route and risk management strategy for the financial years 2024/25 and 2025/26

3.1 TfL has an annual aggregated requirement for the supply of electricity of ~1600GWhs (gigawatt hours) and ~80 GWhs of natural gas, which is equivalent to approximately 420,000 average domestic electricity consumers.

3.2 TfL has been fully utilising the procurement services and frameworks of CCS for energy purchasing since 2013. This has enabled TfL to have additional commercial leverage by subscribing to the largest buyer of energy in the UK and aggregating its volume with other public sector organisations.

3.3 The competitively tendered framework arrangements set up by CCS are used for energy purchasing by all central government, local authorities, and many other organisations across the public and not-for-profit sectors. TfL has a contract with CCS which enables it to access the electricity and gas frameworks let by CCS and enter into the pre-agreed contract terms with suppliers appointed to the framework, currently EDF Energy (EDF) for electricity and Corona Energy for gas (Total Gas & Power (TGP) for gas from April 2022).

3.4 CCS leverages its position and aggregates customer volumes to deliver sustainable savings and to provide an enhanced managed service delivering value directly to its customers.

3.5 By combining customer volumes, CCS is able to exert greater buying power in the marketplace and reduce charges/costs incurred through supplier margin, bid/offer spread and brokerage fees. TfL saves around £5.9m per annum through this aggregation with the wider public sector.

3.6 The aggregation of volume with other public sector customers creates further benefits for TfL by reducing the relative proportion of more expensive peak volume versus cheaper baseload volume. This, together with a reduction in overall residual volume (unpredictable electrical usage), further reduces TfL's expenditure by around £1.1m per annum.

3.7 On average and based on the last five years' trading performance, CCS has outperformed the market traded average. This delivers an annualised saving of £0.8m per annum for TfL. A summary of CCS energy savings applicable to TfL are detailed below.

TfL CCS Benefit Summary	**Savings**
Aggregation	£5.9m
††Trading Performance	£0.8m
Load-Shaping (residual)	£1.1m
Total	**£8.1m per annum**

††Annualised performance based on 5-year average. Figures provided by CCS in accordance with agreed benefits methodologies and are subject to independent audit by the Government Internal Audit Agency.

3.8 From March 2020 to June 2020 and due to the restrictions caused by the pandemic, TfL consumption was some 30 per cent lower than forecast. As the CCS supply arrangements do not have any financial penalties for reduced or increased consumption this had no financial impact on TfL, other than to reduce electricity operational expenditure during this period.

3.9 The CCS framework also obliges the framework supplier (EDF currently) to deliver (or "sleeve") energy directly procured by a customer such as TfL, from a renewable generation source via a Power Purchase Agreement (PPA) (with price, duration and other terms of the on-sale/sleeving arrangements to be agreed between TfL and the framework supplier). Therefore, continued use of the CCS framework provides both flexibility and an essential delivery route for any renewable energy TfL procures via a PPA.

4 CCS risk management

4.1 As the largest aggregator of gas and electricity purchasing requirements in the UK, CCS has skilled in-house market analysts and risk management specialists and has robust independent governance procedures in place.

4.2 The CCS frameworks offer several risk management products for its customers. The current proposal is that TfL continues to use the product it has used to date which comprises a minimum purchasing window ahead of delivery e.g. from December 2021 CCS will be looking to procure electricity and gas in respect of the financial year commencing in April 2024, and from December 2022 CCS will be looking to procure electricity and gas in respect of the financial year commencing in April 2025.

4.3 The product incorporates a minimum volume profile that CCS must purchase in order to provide minimum coverage levels closer to delivery; this is designed to mitigate the impact of wholesale market price spikes and provides greater budget certainty. This strategy is complemented by a stop loss mechanism which limits customers' exposure to wholesale electricity and gas price volatility where market prices reach a certain threshold.

4.4 CCS also has the ability to unlock/sell back previously hedged volumes, if it believes the market fundamentals indicate potential upside. It should be noted that this mechanism is limited to and operated within the established stop loss parameters.

4.5 The effectiveness and operation of the purchasing strategy is overseen by the CCS External Risk and Governance Board; current members include the Ministry of Defence, Ministry of Justice, National Procurement Service (Wales), Guy's and St Thomas' NHS Foundation Trust, Department for Work and Pensions, Royal Borough of Kensington and Chelsea, and TfL. The board is chaired by an independent expert, Patrick Heren.

5 Financial Years 2024 to 2025 and 2025 to 2026

5.1 In line with the gating procedure considered by the Committee in December 2017, this paper seeks Procurement Authority of £402m to continue with the procurement of energy for financial year 2024/2025, and in addition financial year 2025/2026, through the CCS frameworks. Under the CCS arrangements TfL can contract with EDF until the end of financial year 2025/2026 if this instruction is given prior to expiry of the existing framework (October 2023). Agreeing the available two years of this arrangement now (rather than the previous one year arrangement), will also facilitate PPA procurement and enable the necessary on-sale/sleeving PPA delivery route arrangements to be agreed and implemented at the appropriate time in the procurement and delivery programme. This will also allow TfL to continue its purchasing and risk management strategy alongside PPA procurement, which protects TfL against wholesale market price volatility whilst providing opportunities to secure the wholesale energy at a low market price. Note that CCS trading for financial year 2025/2026 will start no earlier than December 2022 i.e. no earlier than the usual annual authority would have been requested.

5.2 The amount requested is included in the business plan plus five per cent risk (in line with previous years), and is based on business demand and the Department for Business Energy and Industry Strategy (BEIS) wholesale energy price forecast plus all expected Non-Energy Costs (NECs) i.e. transmission, distribution, system costs and environmental levies for CCS procured volumes.

5.3 The amount requested does not include energy volume to be procured via a renewable energy PPA, and under the CCS arrangement, TfL has the flexibility to adjust the volume requirement (amount to be purchased) 4 months ahead of each delivery year i.e. the total volume to be hedged through CCS for financial year 2025/2026 could be adjusted at any time up to approximately December 2024.

5.4 NECs for the CCS volumes and delivery periods are expected to make up approximately £95.6m for 2024/2025 and £97.9m for 2025/2026 of the cost TfL pays, with approximately £156.3m of the total amount for both years resulting from statutory environmental charges intended to support and incentivise new zero carbon energy generation, which are payable on all electricity delivered via the grid.

5.5 Continuing to source through the established CCS framework for this period will provide the opportunity to purchase energy ahead of delivery (if financially beneficial to do so), while managing price risk and providing flexibility to source zero-carbon energy alongside this arrangement.

5.6 Separate authority requests for purchases beyond March 2026 will be made in line with our commitment to move to zero carbon sources of electricity for our rail operations and will be submitted to the Committee in due course.

6 Market update and impact on TfL energy purchasing

Market Update

6.1 As reported to the Committee 6 October 2021, near-term wholesale electricity market prices have increased significantly over the last 6 months and remain at elevated levels. Whilst higher levels of wind generation provided some downside to power prices, natural gas fundamentals remain tight with European gas storage inventories still well below the corresponding levels observed 12 months ago as the global gas crisis continues.

6.2 Spot Liquified Natural Gas (LNG) prices in Asia continue to trade at a premium, reducing the number of LNG cargoes arriving in North West Europe, whilst outages in Norway also contributed to the tight gas supply which is supporting both current spot gas and electricity prices.

6.3 In contrast, gas prices for delivery periods further out moved lower across the market, some of these decreases were based on the anticipation that Nord Stream 2 could commence gas flows to Europe following regulatory approval in January 2022, and that domestic gas inventories in Russia are nearing 100 per cent capacity, which could enable further flows to Europe.

6.4 Natural gas flows from Russia and the weather will be the two key factors influencing wholesale power and gas price over the coming months. The market sentiment remains concerned that tight supply margins and the price volatility observed last winter will also be a factor this winter.

Impact on TfL energy purchasing

6.5 For the current contract year; April 2021 to March 2022, TfL has not been impacted by any of the recent market volatility, as TfL's requirements were secured prior to recent market events.

6.6 For future contract years; April 2022 to March 2023 and April 2023 to March 2024, TfL has a significant hedge through the CCS arrangements, which were secured before recent market price rises, this is protecting TfL from any significant financial impact posed by the current market situation.

6.7 All mark to market positions including all Non-Energy Costs remain below the previous Authority granted by the Committee.

7 Power Purchase Agreements for renewables

7.1 As set out in the September 2020 Committee paper, TfL has also developed an Energy Purchasing Strategy in line with the Mayor's Transport Strategy and London Environment Strategy carbon objectives for the incremental procurement of renewable energy direct from generators is in line with our commitment to move to zero carbon sources of electricity for our rail operations by 2030.

7.2 An update on the progress of this strategy was provided to the Committee on 6 October 2021; a further PPA update will be provided in Spring 2022.

List of appendices to this report:

None

List of Background Papers:

None

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Finance Committee

Date: **24 November 2021**

Item: **Enterprise Risk Update - Changes in Customer Demand (ER09)**

This paper will be considered in public

1 Summary

1.1 This paper sets out our current understanding and control measures on Enterprise Risk 09: Changes in customer demand.

1.2 This is a very broad risk, with huge potential implication for our financial and transport strategy. The coronavirus pandemic has seen this risk realised in an unprecedented way, creating uncertainty for the medium and long term. This paper discusses the risk and how it is controlled.

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 financial 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.**

3 Background

3.1 Demand for travel in London is highly complex. It covers all modes of transport, including public transport services run by TfL and the Train Operating Companies, and private transport modes including cars, bikes, walking, taxis/private-hire vehicles and innovations such as e-scooters. Demand for all of these modes is linked and dependent on many factors – especially economic and demographic – and is constantly evolving. TfL's unusually high dependence on fares revenue has made this a particularly significant financial risk.

3.2 The Mayor's Transport Strategy aims for 80 per cent of trips in London to be undertaken by active, efficient, and sustainable modes by 2041. TfL therefore has a strategic objective to encourage customer demand to change over time towards greater use of public transport, walking and cycling. We need to ensure that the transport network both encourages and can accommodate this modal shift.

3.3 Traditionally, the risk has been controlled by forecasting using economic and demographic factors and assessment of the financial and policy environment around transport. While these factors remain important, the coronavirus pandemic has delivered a shock that means we need to look beyond existing forecasting methods.

3.4 Short-term changes in travel demand due to the pandemic were unprecedented. Demand for travel overall reduced substantially as people shifted to working from home and eliminated travel for leisure activities in accordance with Government guidance. At the start of the pandemic demand for rail travel reduced by as much as 95 per cent. The reduction on rail, including London Underground, was especially large because of rail's primary role in enabling people to access work and leisure activities in central London. Demand for private transport also reduced but by a much smaller amount, particularly in outer London, as people walked and cycled more but continued essential trips using private vehicles. The combined effect of these changes saw sustainable mode share reduce from 63 per cent in 2019 to 55 per cent in mid-2020.

3.5 As restrictions have eased, the vaccine roll-out has progressed and the economy and wider society started to recover, we have seen a significant recovery in public transport demand approaching 70 per cent of pre-pandemic levels. This breaks down on weekdays at around 75 per cent on Buses and 60 per cent on the Tube. Weekend demand is stronger, as a percentage of normal demand, with the Tube at around 70 per cent. This reflects a stronger recovery in trips for leisure purposes and a slower recovery in the 'commute'. The absence of international tourism is also having a significant impact, particularly on trips in central London. Confidence in public transport is also returning. Research by London Travel Watch suggests that 9 out of 10 customers feel safe on trains and 4 out of 5 customers feel safe on buses.

3.6 The future path for transport will be heavily influenced by how quickly businesses adapt their operations for new working patterns and by the speed with which international tourism returns. Demand for private transport has returned to near normal, but with central London traffic remaining below its pre-pandemic level.

4 Updating our forecasts

4.1 We have adapted our methods to accommodate continued uncertainty. Scenario-based planning and quicker, regular forecast updates have been introduced and are essential in tracking how the recovery is developing. We continue to monitor the recovery in other regions of the UK and cities across the world to see what we can learn from them.

4.2 We are building in new levels of detail into our forecasts. For example, we can classify Tube demand data based on the station, which allows markets and journey types to be identified. These journey types and observed changes in demand can be factored back into our forecasts (e.g. trends in peak journeys to/from the City are indicative of the wider commuting market and inform the baseline demand level for office work journeys). Bus demand insight is more geographically orientated, with analysis focused on Outer and Inner London and the Central Activity Zone, journeys to high streets and town centres, and ticket type.

4.3 We manage the uncertainty in our forecasts by closely monitoring trends and continuing to use a scenario-based approach. We have developed short-term revenue scenarios that consider the range of outcomes as demand returns, and we also have medium and long-term scenarios against which to test a range of potential outcomes. Forecasts are reviewed in line with emerging actual data, with a view to remaining responsive to emerging trends.

4.4 The shorter-term revenue scenarios provide a range of possible trajectories, from which a ‘central’ scenario is used for budget and monitoring purposes. The area subject to the most scrutiny at present is the commuting market, driven by the return of workers to offices.

5 Description of risk post-pandemic

5.1 Public transport demand and revenue has reached around 70 per cent of pre-pandemic levels. This equates to 1-1.5bn fewer journeys and a £1.5-2bn reduction in fares income over a whole year compared to before the pandemic. Demand has been gradually and consistently growing over the summer and in particular with the return of schools and more office-based working since September. With more businesses establishing their return to office plans and robust demand for high quality office space, demand seems likely to grow further unless material Government restrictions return. We will monitor this trend closely over the autumn and winter. We will also continue to monitor international tourism as key air corridors such as the US market begin to open up.

5.2 Given the continuing uncertainties around future working patterns, international tourism, and the potential for restrictions in the future, it is too early to say what travel demand in London will be following the pandemic. This creates several risks as we have to plan for the transport network several years ahead. The management of risk and uncertainty is therefore embedded in our planning processes to ensure we are as resilient as possible to a range of outcomes, as described in Section 6.

5.3 TfL, local and national government are committed to decarbonise transport, but this will be made considerably harder if there is increased demand for travel by car. As our Financial Sustainability Plan set out, we believe that it is essential to maintain a safe, frequent and reliable turn-up-and-go public transport service and more active travel facilities to ensure that the recovery from the pandemic and beyond is not car-led.

5.4 There is an opportunity in the coming years to increase rates of walking and cycling, reflecting pre-existing trends as well as observed behaviour during the pandemic. This will have a positive impact on health, the environment and safety. If TfL and boroughs do not have the ability for financial, policy or legal reasons, to support these modes alongside improving public transport, then there is a risk that the potential for journeys to shift to sustainable modes will be constrained.

5.5 Other modes of transport make up a small proportion of total travel but have been growing in importance in recent years. These include private hire vehicles; cycle hire (both the system operated by TfL and those of other companies); e-scooters, which are currently being trialled in a number of boroughs; and other potential modes that may not exist yet. There continues to be a wide range of potential outcomes for such transport options over the coming years and we will remain sensitive to their impact on demand.

6 Response to risks

6.1 Looking to the medium and long term, management actions to control the risk can be grouped under four themes:

Scenario and risk-based planning

6.2 Last year TfL developed five scenarios looking out to 2031 to help frame our planning in the face of uncertainty caused by the pandemic. They are being refined as we learn more about the recovery.

6.3 In June this year we presented our findings from the latest review. This considered what outcomes remained plausible and what others such as the GLA and Office for Budget Responsibility were forecasting for London's population, employment, and economic recovery. This showed that that features of the more central scenarios were more plausible.

6.4 We have embedded this scenario planning in our strategic planning work over the past year. This has been used to articulate our:

(a) Financial Sustainability Plan – potential future financial scenarios for TfL, including for passenger revenue;
(b) Medium-Term and Long-Term Capital Plan –capital planning scenarios, helping to inform future prioritisation of public transport schemes;
(c) Service Level Review – to understand the impact of the range of potential demand outcomes; and
(d) Scheme Assessment – to inform business case development and demand forecasting across a variety of schemes.

6.5 We will review the latest evidence in January 2022, and this will inform whether we need to refresh our forecasts and the five scenarios that underpin them.

Appropriately reviewing service levels

6.6 In September 2021, TfL submitted a Service Level Review to the Department for Transport as a condition of the June 2021 funding agreement. This review was based on our future demand scenarios and confirmed plans already set out in our Financial Sustainability Plan. This included changes to certain service levels, including a proposed four per cent reduction to bus services in central London and pausing certain future planned service increases on London Underground.

6.7 We will continue to monitor and analyse demand patterns in detail, and we will keep our service levels under review as our understanding of future demand grows. At an overall level, it is already clear that there will continue to be high demand for public transport in London, and that continuing to offer extensive, high quality public transport services will be essential to supporting the city's economy, quality of life and contribution to national priorities like decarbonisation. We will continue to plan our service levels to ensure we can support these goals.

Improving the quality of services

6.8 Even while TfL's finances are constrained, we must continue to maximise the opportunity to improve our services wherever possible. Examples include developing a Bus Action Plan to develop and promote London's high-quality bus service. Delivery of our capital programme, including opening the Northern Line extension, the Elizabeth line, and the upgrade of Bank Underground station will improve the network as customers return, helping to attract new customers and boost the recovery of London. We must continue to improve safety on the road network for people walking, cycling, and using public transport.

Managing demand

6.9 We will continue our marketing and communications activity and fares policies designed to attract passengers back to public transport. The TfL Go app is helping customers to make informed travel decisions and avoid the busiest times on the network. We will also keep our road user charging systems, including the existing Congestion Charge Zone and the expanded Ultra Low Emission Zone under review to ensure they are effective at managing congestion and air quality as well as consider possible new potential options such as the Greater London Boundary Charge.

7 Overall assessment of risk

7.1 This is a broad risk at the heart of our business so scores extremely highly. The financial impact it can create is exceptionally high, as has been experienced over the past 18 months. It also has a fundamental influence over our relationship with customers and stakeholders and the long-term prosperity outlook for London.

7.2 This risk will always be large, and this is reflected in the target scores. Given the current exceptional circumstances, all four risk impact categories are considered to be outside tolerance. However, through the management actions described in Section 6 there is much we can do, and are doing, to control and mitigate the risk.

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: **24 November 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

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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)

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).
General Fund Balance – deferred to December 2022	CFO	To approve.
TfL Scorecard 2022/23	CFO	To note and recommend Board approval.
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.
Funding Update on TTL Properties Limited	D Comm Dev	To approve.
Power Purchase Agreement and GLA Collaborative Procurement Update	CSHEO	To note.
Taxi Fares and Tariffs	General Counsel	To approve.

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
- 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

Finance Committee Forward Plan 2021/22

- 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)

As at 16 November 2021

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Agenda Item 15

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