MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Wednesday 23 November 2022

Time: 10:00am

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

Members

Anne McMeel (Chair)
Ben Story (Vice-Chair)
Seb Dance
Prof Greg Clark CBE
Anurag Gupta
Dr Nina Skorupska CBE

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.

There is access for disabled people and induction loops are available. A guide for the press and public on attending and reporting meetings of local government bodies, including the use of film, photography, social media and other means is available on www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf.

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 15 November 2022

Agenda
Finance Committee
Wednesday 23 November 2022

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 2022
(Pages 1 - 12)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 6 October 2022 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 13 - 20)

General Counsel

The Committee is asked to note the updated actions list.

5 Use of Delegated Authority (Pages 21 - 24)

General Counsel

The Committee is asked to note the paper.

6 Finance Report - Period 7, 2022/23 (Pages 25 - 40)

Chief Finance Officer

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

7 TfL Power Purchase Agreements (Pages 41 - 46)

Chief Safety, Health and Environment Officer

The Committee is asked to note the paper.

8 Surface Technology Contracts Retender (Pages 47 - 50)

Chief Finance Officer

The Committee is asked to note the paper.

9 Communications, CCTV, Access Control and Security Systems Maintenance and Upgrade Services Contract - Increase to Procurement Authority (Pages 51 - 54)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and to grant additional Procurement Authority.

10 Enterprise Risk Update - Changes in Customer Demand (ER09) (Pages 55 - 60)

Interim Chief Customer and Strategy Officer

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

11 Members' Suggestions for Future Discussion Items (Pages 61 - 64)

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.

12 Any Other Business the Chair Considers Urgent

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

13 Date of Next Meeting

Wednesday 8 March 2023 at 10.00am.

14 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

15 Finance Report - Period 7, 2022/23 (Pages 65 - 78)

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

16 Communications, CCTV, Access Control and Security Systems Maintenance and Upgrade Services Contract - Increase to Procurement Authority (Pages 79 - 80)

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

17 Enterprise Risk Update - Changes in Customer Demand (ER09) (Pages 81 - 88)

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

Transport for London

Minutes of the Finance Committee

Conference Rooms 1 and 2, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Thursday 6 October 2022

Members of the Committee
Anne McMeel (Chair)
Ben Story (Vice-Chair)
Prof. Greg Clark CBE (via Teams) (up to Minute 39/10/22)
Seb Dance
Anurag Gupta
Dr Nina Skorupska CBE (via Teams)

Government Special Representative
Becky Wood (via Teams)

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel

Staff

Helen Chapman	Director of Licensing and Regulation (via Teams)
Andrea Clarke	Director of Legal (via Teams)
Darren Crowson	Policy Manager, Taxi and Private Hire (via Teams)
Alex Davidson	Commercial Manager, Elizabeth Line (via Teams)
Laura Davies	Head of Strategic Planning and Governance (via Teams)
Julie Dixon	Director of Customer and Revenue (via Teams)
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Laura Grant	Head of Procurement Professional Services (via Teams)
Joanna Hawkes	Director of Corporate Finance
Lorraine Humphrey	Director of Risk and Assurance (via Teams)
Shamus Kenny	Head of Secretariat
Glyn Lenton	Senior Category Manager Eng and Utilities (via Teams)
Paul Mason	Group Treasurer (via Teams)
Pritesh Patel	Head of Financial Planning and Analysis
Christopher Plummer	Head of Policy, Taxi and Private Hire (via Teams)
Rajiv Sachdeva	Interim Group Finance Director (via Teams)
Christopher Tann	Head of Financial Accounting and Tax
Shashi Verma	Director of Strategy and Chief Technology Officer (via Teams)

In Attendance

Luke Webster	Assistant Director, Group Treasury and Chief Investment Officer, Greater London Authority (GLA)

34/10/22 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. The meeting was being broadcast live on YouTube, except for the discussion of the information on Part 2 of the agenda, which was exempt from publication, to ensure the public and press could observe the proceedings and decision-making.

Howard Carter reported that that no apologies for absence had been received. Professor Greg Clark CBE and Dr Nina Skorupska CBE were attending via Teams and were able to take part in the discussions but were not counted toward the quorum. The meeting was quorate.

It was Andy Byford’s last attendance at a meeting of the Committee, following the announcement of his resignation to return to North America. Personally, and on behalf of the Committee, the Chair expressed her sincere thanks for the Commissioner’s huge efforts in improving TfL’s finances over the last two years, which had been one of his main objectives. She wished him all the very best in his future endeavours.

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.

35/10/22 Declarations of Interests

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date and there were no interests to declare that related specifically to items on the agenda.

36/10/22 Minutes of the Meeting of the Committee held on 22 June 2022

The minutes of the meeting of the Committee held on 22 June 2022 were approved as a correct record and signed by the Chair.

37/10/22 Matters Arising and Actions List

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

Two further updates were provided in relation to actions from the meeting on 22 June 2022. On the review of travel concessions for cleaning contractors, Patrick Doig confirmed that the Mayor had announced changes to travel concessions for low paid staff working for TfL contractors and the estimated cost of £10m per year would be fully funded by the GLA. On the overall procurement strategy on major contracts, the Chair had agreed to defer the item to the next meeting of the Committee following the recent departure of the Chief Procurement Officer.

The Committee noted the actions list.

38/10/22 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, since the meeting on 22 June 2022, there had been five uses of Chair’s Action: three in relation to extensions to the funding settlement with Government (prior to a long-term settlement being agreed by the Board on 30 August 2022); one in relation to changes to the Santander Cycles – 2022 Scheme Tariff Change; and one in relation to extending the terms of the Elizabeth line Concession Agreement by two years.

There had been four uses of Procurement Authority by the Commissioner in relation to: Old Street Design and Build contract variation; SAP Managed Services Agreement contract variation; Automatic Train Control Project – Appointment of a Programme Partner; and Speed Awareness Courses contract award. There had also been one use of Land Authority by the Chief Finance Officer in relation to Aldgate High Street – disposal.

There had been two Mayoral Directions to TfL in relation to: revision of the Mayor’s Transport Strategy and road-user charging guidance (MD2987, 20 May 2022); and September 2022 fares revision (MD3028, 2 September 2022).

The Committee noted the paper.

39/10/22 Finance Report – Period 5, 2022/23

On behalf of the Committee, the Chair welcomed Luke Webster, Assistant Director, Group Treasury and Chief Investment Officer at the GLA, to the meeting and noted and welcomed the financing facility assistance that the GLA was providing as a contingency back-up to allow TfL to put forward a legal budget.

Patrick Doig and Pritesh Patel introduced the report, which set out TfL’s financial results to the end of Period 5, 2022/23 – the year-to-date period ending 20 August 2022.

On 30 August 2022, TfL agreed a new funding settlement with the Government covering a 19-month period until March 2024. While longer than previous agreements, it was significantly shorter than the genuine long-term funding for capital investment TfL would have liked and on which all metros around the world relied.

Given the challenging position on national finances and political uncertainty, TfL was confident that it was the best settlement it could secure. Combined with the action TfL was taking and the support the Mayor had provided, the settlement meant TfL could avoid the devastating managed decline scenario and it underpinned a higher level of critical asset renewals and allowed TfL to restore its programme of delivering capital enhancements.

While the settlement provided the framework to move away from managed decline, it did not provide the full funding for this to happen. It left TfL with an additional savings target of £230m over the funding period: £90m this year and £140m in 2023/24. TfL was reshaping its plan and preparing a new Budget and Business Plan to be presented to the Board in December 2022.

Although TfL had more certainty, there were still significant risks to its financial position, including delivering the existing efficiencies programme, the additional savings target of £230m over the next two years and risks to non-passenger income. A key part of the strategy to manage these risks was the £500m facility established by the GLA, recoverable from future grants, which ensured that TfL could balance its Budget if further efficiencies could not be confirmed quickly. It also provided enough certainty to continue to let longer-term contracts while TfL worked on the plan to deliver the further savings.

TfL had been working hard to explain the funding settlement to a range of stakeholders including the major credit rating agencies. Standard & Poor’s had affirmed TfL’s credit rating at A+/A-1 in May 2022, reflecting its view that Government would continue to provide adequate support to TfL and citing the support from the GLA.

When the Quarter 1, 2022/23 performance was presented to the Board in July 2022, several risks were set out, including inflation and rising bad debt, which had started to crystallise as expected. TfL was managing those as planned, demonstrating its robustness of forecasting and tight grip on finances.

Some favourable trends had emerged since then, which were a combination of financial tailwinds and the hard work of TfL teams to deliver further savings. This year, TfL now expected to outturn favourably by around £100m and deliver the £90m further savings required in 2022/23. However, the medium-term risks were increasing, making 2023/24 more challenging.

For 2022/23, total income was within two per cent of Budget as journeys continued to recover, with latest journeys at around 81 per cent of pre-coronavirus pandemic levels. For other operating income streams, favourable advertising conditions were driving higher revenue than expected.

Core operating costs remained within one per cent of Budget. With the funding settlement underpinning renewals spend, TfL had saved on maintenance spend and avoided stranded operating expenses that would have resulted from managed decline.

Capital enhancement was within three per cent of Budget, largely due to slippage on third-party funded projects outside of TfL’s control. Capital renewals were nine per cent lower than Budget, largely due to resource constraints, but TfL was actively managing the renewals portfolio and remained confident it would deliver the full year budget of £600m. TfL was working to deliver the increased renewals budget provided in the funding settlement of £635m, although the delays to agreeing the funding settlement made it challenging to increase delivery by this amount over the remainder of the financial year 2022/23.

Cash balances were around £1.1bn, as TfL continued to manage cash to an average of £1.2bn in line with the funding settlement. It was noted that there was an error on slide 15 of the published appendix to the Finance Report, which should have stated that cash balances were £70m lower than Budget rather than £870m lower. The £70m variance was the result of lower Government support received in August 2022 while the new funding settlement was being finalised.

Since the last meeting of the Committee on 22 June 2022, TfL had mitigated the largest risk it faced by resolving the funding situation with Government. The funding settlement provided protection on passenger demand volatility and inflation. However, it still faced several external headwinds and risks to achieving financial sustainability, especially into next year. TfL was confident it could mitigate the risks through active management of the remaining contingency and the GLA financing facility. It also remained confident in achieving financial sustainability in 2023/24 but the risks were increasing.

Key risks included economic uncertainty as UK economic growth remained poor and latest forecasts suggested this may continue for a second successive quarter. TfL was protected on passenger income with the funding settlement but remained exposed to risks on non-passenger income. Continued cost of living challenges, such as inflationary pressures reducing disposable income and increasing bad debt levels, were being carefully monitored as these could also reverse public transport journey growth.

Inflation exposure was greatest into 2023/24, which would be largely determined by inflation rates in February to April 2023. TfL was currently well hedged on energy prices but had exposure in 2023/24. While TfL would be protected by the new inflation mechanism in the funding settlement, its cost base would rise and create pressure beyond the settlement period.

Interest rates were clearly on an upward trajectory, although around 90 per cent of TfL's debt was based on fixed interest rates and the interest costs of its short-term commercial paper was effectively hedged by investing cash reserves.

Plans for the savings programme were challenging, with TfL committed to delivering £730m of savings to 2024/25. In addition, it had a target to save £230m by the end of 2023/24 to ensure a balanced budget. TfL had a strong track record of delivering savings and was confident it could deliver the existing programme of change and the additional savings.

Members requested that, as with previous efficiencies and transformation programmes, the key milestones be broken down into the various components with RAG ratings against each, along with the key risks, who owned the risks, the threat posed by the risks and mitigations against risks. This information would provide assurance and enable the Committee to track progress. Patrick Doig confirmed that TfL's internal Change Steering Group used a similar tracker that included a breakdown of targets, what was secured, what was in progress and what was at risk, and that a version of the tracker would be brought to each meeting of the Committee. On tracking key risks, financial exposure was already included in the report, but information on key risks would be enhanced and made more transparent in the report and the accompanying verbal update.

[Action: Patrick Doig]

On tracking the progress and delivery of all the conditions related to the funding agreement, Patrick Doig confirmed that TfL was in the process of agreeing the scorecard with the Department for Transport which was also used by the internal Oversight Group, and suggested that the same tracker be used for the Committee to provide assurance that delivery was on track. The savings tracker monitored the £1bn savings required as a formal target and was part of the business planning process. **[Action: Patrick Doig]**

Members suggested that there be more focus on income generation in the organisation and the potential for it, and that an income strategy be developed which focussed on the potential income streams available and a proactive approach be taken to chasing income streams. Patrick Doig confirmed that he would work though the request and would update the Committee on the best approach to achieve this. **[Action: Patrick Doig]**

On the increase in agency, non-permanent labour (NPL) and consultant staff levels, Patrick Doig confirmed that the drivers were that the budget had been restarted on the Investment Programme and that the main labour source in the technology sector was

NPL, which had seen an increase against budget this year and the gap was growing due to the challenge in permanent recruitment. Delays in funding and broader markets conditions had made it increasingly challenging to recruit talent to certain sectors.

Members asked if there were pinch points where TfL needed to supplement staff with consultants and NPL due to the recruitment challenges, where those were across different business areas, in what roles and types of personnel, and the understanding of those risks and trends. Where benefits to underlying costs and lower staff costs were shown, Members also asked if these were one-offs for efficiencies or due to a lack of staff and the struggle to recruit them. Patrick Doig confirmed that TfL was currently in a position of overall financial savings on staffing, some of which could become a permanent saving as TfL continued to reshape and restructure its businesses, although this was not the case in most areas. A more detailed analysis would be provided to the Safety, Sustainability and Human Resources Panel but the pressure was most acute in specific market sectors and TfL would not recruit NPL to fill vacancies unless they were in critical areas. **[Action: Fiona Brunskill]**

The Committee noted the report.

40/10/22 Prudential Indicators – Outturn for the year ending 31 March 2022

Patrick Doig and Christopher Tann introduced the paper, which set out TfL's performance against the prudential indicators for the financial year 2021/22.

The prudential indicators and debt limits were approved by the Board on 16 March 2021. These were based on figures in TfL's Budget and Business Plan as approved by the Board on 9 December 2020, adjusted for known significant changes in assumptions relating to revenue, cost and funding where relevant, and subject to assumptions on future Government funding at the time these limits and indicators were approved.

TfL's 2021/2022 Statement of Accounts was used to calculate the outturn. The outturn for the financial year 2021/2022 was satisfactory upon comparison with the prudential indicators approved and TfL had stayed within the authorised limit for total external debt. The prudential indicators for next year would include some local indicators that would potentially provide some further insight into the sustainability and affordability of TfL's capital expenditure and investment plans.

The Committee noted the paper.

41/10/22 Treasury Activities

Joanna Hawkes and Paul Mason introduced the paper and related supplementary information on Part 2 of the agenda, which provided an update on key treasury activities for the reporting period from 17 February to 16 September 2022.

There had been significant market disruption and activity over the last six months. TfL had negotiated multiple funding agreements with Government and faced economic uncertainty in the form of increasing interest rates and inflation.

TfL kept in close contact with its lenders, who had remained supportive of its position, and took comfort from the level of ongoing and continuing support from the Government. Credit rating agencies Standard & Poor's and Fitch had not changed their ratings during the reporting period, reflecting their expectation that TfL would continue to receive adequate Government support until it achieved financial sustainability. Moody's had downgraded their rating due to the short-term nature of the funding agreements at the time of downgrade, and their view on the potential impacts of weak economic growth and high inflation on passenger demand.

TfL had been largely insulated from the impact of rising interest rates, due to a high level of fixed rate debt, at 91.8 per cent. Cash balances of approximately £1.2bn were invested in short-term instruments, with some upward movement in the interest receivable on these funds.

TfL's bond spreads in the secondary market had widened from around 140 basis points to 165 basis points, which was in line with general market movements. It remained significantly cheaper to refinance its maturing debt through the Public Works Loan Board (PWLB) than the bond markets and TfL refinanced a £500m bond maturity through the PWLB in August 2022.

TTL Properties Limited (TTLP) had entered into a three-year £200m revolving credit facility with three banks which was non-recourse to TfL. TTLP would be able to draw funds as required over the next three years to help fund its capital programme.

TfL had focussed on looking at ways to develop its approach to environmental, social and governance (ESG) investing and had evaluated several third parties, with the aim of procuring ESG data on potential and existing investment counterparties. Committee Members Ben Story, Anurag Gupta and Dr Nina Skorupska CBE offered their experience in this area to help design the ESG criteria for investment purposes and would meet with the treasury management experts to determine the next steps.

[Action: Joanna Hawkes]

On whether TfL's pension scheme had any exposure to leverage derivative instruments, Patrick Doig gave assurance that the TfL Pension Fund was not materially impacted by the recent market stressors and the trustees had taken a prudent approach of having a lower level of leverage and more liquidity, as the TfL pension scheme was unable to borrow. He would share with the Committee the latest interim update arising from the pension scheme's annual member meeting. **[Action: Patrick Doig]**

During the reporting period, TfL had complied at all times with the Treasury Management Strategy, the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments (Policies), which were approved by the Committee on 9 March 2022, along with the GLA Responsible Investment Policy.

The Committee noted the paper and the exempt supplementary information in Part 2 of the agenda.

42/10/22 GLA Investment Fund

Joanna Hawkes introduced the paper and related supplementary information on Part 2 of the agenda, which provided background information on potential collaboration between TfL and the GLA in respect of management of cash investments held by each of the GLA and TfL.

The GLA issued a letter to TfL on 30 August 2022 that provided TfL comfort that the GLA was prepared to make available a call-off facility of up to £500m over this and the following financial year, appropriately split between revenue and capital, to assist with enabling TfL to set a balanced budget. The GLA would need to recover the use of the call-off facility by reducing GLA's future grants to TfL from business rates, with the profile of such recovery to be agreed. The letter also explained that GLA's provision of financial support underlined greater co-ordination of treasury management activities between TfL and the GLA.

The GLA and TfL had been considering their intrinsically linked treasury management positions and working to facilitate improved, co-ordinated management. This included preparing for TfL to join the rest of the GLA Group in collective investment arrangements.

Committee Members Ben Story and Anurag Gupta offered their experience in this area and would meet with the GLA and TfL treasury management officers to discuss the detailed points, prior to any final proposals being made which would come back to the Committee for decision. **[Action: Joanna Hawkes]**

The Committee noted the paper and the exempt supplementary information in Part 2 of the agenda.

43/10/22 Taxi Fares and Tariffs Update

Helen Chapman introduced the paper, which provided an update on the impact of the changes to taxi fares and tariffs made in April 2022, of cost pressures for taxi drivers and the demand for taxis at Heathrow Airport, particularly following the opening of the Elizabeth line. It also provided an overview of the forthcoming taxi fares and tariffs consultation.

The demand for taxi journeys had recovered strongly during the spring and summer following the coronavirus pandemic. The rising cost of living may cause this to change for taxi users and continued to be monitored. There had also been no negative impact identified on taxi journeys to or from Heathrow following the opening of the Elizabeth line.

The rise in fuel costs had impacted on taxi drivers and the fare increase had helped them cover some of the additional increase in costs. TfL was tracking fuel prices, which impacted both electric and diesel taxis, and a small decrease in numbers had been noticed in recent weeks. No additional measures were needed at this stage, but it would continue to be monitored.

The cost index calculation for this year was high at 11.64 per cent and would shortly be going out to consultation to explore four different options. A paper with some recommendations would be brought to the meeting of the Committee in March 2023.
[Action: Helen Chapman]

Andy Byford confirmed that he had discussed with the marketing team the need to ensure there was very clear signage to the Elizabeth line from the Heathrow Airport terminals to ensure people knew it was the best way to travel into town.

The Committee noted the paper.

44/10/22 Crossrail Asset Restructuring

Patrick Doig and Christopher Tann introduced the paper. Due to different remits, both this Committee and the Elizabeth Line Committee were asked to approve elements of a restructure and simplification of the intragroup lease arrangements for the Crossrail Central tunnel Operating Section land and related assets. The proposal impacted solely on the internal TfL intragroup structuring and financing arrangements. There was no additional expenditure proposed, or impact on values reported at the consolidated TfL Group level.

The arrangements also required approval by the Department for Transport (DfT), as joint Sponsor, and these discussions were ongoing. Becky Wood, Government Special Representative, confirmed that the DfT was supportive in principle and was working through the responses to their detailed queries. She encouraged the ongoing collaborative working to achieve the agreement within the tight timeframe and offered her assistance in joining the discussions with TfL and the DfT if that would be helpful.
[Action: Christopher Tann / Patrick Doig]

At its meeting on 29 September 2022, the Elizabeth Line Committee considered a similar paper and, subject to the approvals required from this Committee, authorised officers to approve any amendments to the Crossrail Sponsors Agreement and/or Project Development Agreement and any other matter they considered necessary to implement the lease restructuring arrangements described in the paper.

The proposals increased efficiency and accountability and reduced costs. The assets would be accounted for in the business units that operated and maintained them. Savings of £100,000 per annum were anticipated in reduced audit fees, administration and reporting. If carried out in the first financial year, most of the benefits would be realised.

Specialist tax advice was sought to ensure there would be no tax risk and confirmed there would be no difference to the tax treatments based on the restructure. The tax paid and allowances claimed would not change, and Crossrail Limited and the assets transferring were part of the same tax group. The outcome of the tax treatments would be brought back to the Committee once implemented.
[Action: Christopher Tann / Patrick Doig]

The Committee noted the paper and, subject to receipt of the necessary consents from the Secretary of State:

1 approved the grant of Procurement Authority for an interest-bearing loan of up to £2.75bn by TfL Corporation to Rail for London (Infrastructure) Limited (RfL(I));

2 **approved the disposal by Crossrail Limited of the Crossrail Central tunnel Operating Section asset and related station infrastructure assets to fellow subsidiary undertakings of Transport Trading Limited; and**

3 **approved the grant of Land Authority for the assignment of the 150-year lease structures from TfL Corporation to RfL(I) and London Underground Limited.**

45/10/22 Premises and Fabric Maintenance for Elizabeth Line

Alex Davidson introduced the paper and related supplementary information on Part 2 of the agenda. Procurement Authority was sought for a variation to the existing 1FM premises and fabric maintenance services contract, to provide services to Elizabeth line stations, shafts and portals, up to 24 January 2024 when the current 1FM contract was due to expire. The request related to business-as-usual protection of safety critical assets.

The Committee noted the paper and the exempt supplementary information in Part 2 of the agenda and granted additional Procurement Authority, in the sum set out in the paper in Part 2 of the agenda, for the extension of a contract for the supply of premises and fabric maintenance services across the TfL estate.

46/10/22 Connect Contract Extension

Shashi Verma introduced the paper and related supplementary information on Part 2 of the agenda. Additional Procurement Authority and Programme and Project Authority was sought to extend the Connect Contract delivering London Underground's digital radio and transmission system for a further three years to 21 November 2026.

The ability to exercise the three-year term extension was envisaged under the Connect Contract previously signed with Thales. The radio technology used to run the Connect system was expected to be in use worldwide until the 2040s. The life extension made the system fit for purpose until approximately 2035, but further investment could extend the life of the system beyond that if needed. It was a necessary extension that also realised some savings.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and:

1 **granted additional Procurement Authority of £115.7m (giving a total Procurement Authority of £392.6m) to extend the Connect Contract for three years, to provide operational and maintenance support and project delivery services;**

2 **granted additional Programme and Project Authority of £115.7m (giving a total Programme and Project Authority of £354.1m) to extend the Connect Contract for three years; and**

3 **noted that, as extended, the Connect Contract will have a duration beyond the end of the current TfL Budget, future Business Plans and Budgets will need to provide for the remaining years of operation.**

47/10/22 Bus Shelter Advertising Concession

Julie Dixon introduced the paper and related supplementary information on Part 2 of the agenda, which provided an overview of the advertising market and how TfL proposed to maximise its revenue from its advertising estate. Approval of unbudgeted Financial Authority and Procurement Authority was sought to extend the current Bus Shelter Advertising concession with JCDecaux.

The proposed extension would ensure the co-expiry in March 2025 of the contract and TfL's other key advertising contract: the Advertising Partnership Agreement with Global, which covered all Rail and Underground advertising.

Bringing the contracts together would strengthen TfL's position as an out-of-home media owner, generate more revenue and provided a single point of contact for brands and agencies to book commercial space on the TfL network.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and approved unbudgeted Financial Authority and Procurement Authority, in the sums set out in the paper on Part 2 of the agenda, for the proposed extension of the Bus Shelter advertising contract as described in the paper.

48/10/22 Members' Suggestions for Future Discussion Items

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

The Committee noted the forward plan.

49/10/22 Any Other Business the Chair Considers Urgent

There was no other urgent business.

50/10/22 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 23 November 2022 at 10.00am.

51/10/22 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 5 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; GLA Investment Fund; Premises and Fabric Maintenance for Elizabeth Line; Connect Contract Extension; and Bus Shelter Advertising Concession.

The meeting closed at 12.34pm.

Chair: ______________________________________

Date: _______________________________________

Agenda Item 4

Finance Committee

Date: **23 November 2022**

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 23 November 2022)

Actions from the meeting held on 6 October 2022

Minute No.	Item/Description	Action By	Target Date	Status/Note
39/10/22 (1)	**Finance Report – Tracking Key Savings Targets and Risks** Members requested that the key milestones be broken down into the various components with RAG ratings against each, along with the key risks, who owned the risks, the threat posed by the risks and mitigations against risks. Patrick Doig confirmed that TfL's internal Change Steering Group used a similar tracker and that a version of that tracker would be brought to each Committee meeting. Information on key risks would be enhanced and made more transparent in the report and the accompanying verbal update.	Patrick Doig	November 2022	**Completed:** This has been included in the Finance Report in Part 2 of the agenda.
39/10/22 (2)	**Finance Report – Tracking Funding Conditions Progress** On tracking the progress and delivery of all the conditions related to the funding agreement, Patrick Doig confirmed that TfL was in the process of agreeing the scorecard with the Department for Transport (DfT) which was also used by the internal Oversight Group, and suggested that the same tracker be used for the Committee to provide assurance that delivery was on track.	Patrick Doig	November 2022	**Completed:** This has been included in the Finance Report in Part 2 of the agenda.

39/10/22 (3)	**Finance Report – Income Generation Strategy** Members suggested that there be more focus on income generation in the organisation and the potential for it, and that an income strategy be developed which focussed on the potential income streams available and a proactive approach be taken to chasing income streams. Patrick Doig would update the Committee on the best approach to achieve this.	Patrick Doig	November 2022	An overview will be given at the informal business plan board session on 23 November 2022.
39/10/22 (4)	**Finance Report – Use of Non-Permanent Labour (NPL) and Recruitment Analysis** Members asked if there were pinch points where TfL needed to supplement staff with consultants and NPL due to the recruitment challenges, where those were across different business areas, in what roles and types of personnel, and the understanding of those risks and trends. Where benefits to underlying costs and lower staff costs were shown, Members also asked if these were one-offs for efficiencies or due to a lack of staff and the struggle to recruit them. A more detailed analysis would be provided to the Safety, Sustainability and Human Resources Panel but the pressure was most acute in specific market sectors and TfL would not recruit NPL to fill vacancies unless they were in critical areas.	Fiona Brunskill	February 2023	On the forward plan for the meeting of the Safety, Sustainability and Human Resources Panel on 22 February 2023.

41/10/22 (1)	**Treasury Activities – Environmental, Social and Governance (ESG) Criteria** TfL had focussed on looking at ways to develop its approach to ESG investing and had evaluated a number of third parties, with the aim of procuring ESG data on potential and existing investment counterparties. Committee Members Ben Story, Anurag Gupta and Dr Nina Skorupska CBE offered their experience in this area in helping to design the ESG criteria for investment purposes and would meet with the treasury management experts to determine the next steps.	Joanna Hawkes	November 2022	**Completed:** Meeting held with Anurag and Ben on 11 November 2022 and their feedback has been taken on board.
41/10/22 (2)	**Treasury Activities – TfL's Pension Scheme Interim Update** Patrick Doig would share with the Committee the latest interim update arising from the pension scheme's annual member meeting.	Patrick Doig	November 2022	The update on the fund position as at 30 September 2022 will be available in late November 2022.
42/10/22	**GLA Investment Fund – Discussion Points** Committee Members Ben Story and Anurag Gupta offered their experience in this area and would meet with the Greater London Authority (GLA) and TfL treasury management officers to discuss the detailed points, prior to any final proposals being made which would come back to the Committee for decision.	Joanna Hawkes	March 2023	A meeting was held on 11 November 2022 and details of the new proposed GLA fund collaboration discussed.
43/10/22	**Taxi Fares and Tariffs Update – Cost Index Consultation** The cost index calculation for this year was high at 11.64 per cent and would shortly be going out to consultation to explore four different options. A paper with some recommendations would be brought to the meeting of the Committee in March 2023.	Helen Chapman	March 2023	On the forward plan for the meeting of the Committee on 8 March 2023.

44/10/22 (1)	**Crossrail Asset Restructuring – Department for Transport Discussion** The arrangements also required Sponsor approval by the DfT and these discussions were ongoing. Becky Wood encouraged the ongoing collaborative working to achieve the agreement within the tight timeframe and offered her assistance in joining the discussions with TfL and the DfT if that would be helpful.	Christopher Tann/Patrick Doig	March 2023	A positive discussion was held with the DfT at working level and a decision is awaited.
44/10/22 (2)	**Crossrail Asset Restructuring – Tax Treatments Outcome** Specialist tax advice was sought to ensure there would be no tax risk and confirmed there would be no difference to the tax treatments based on the restructure. The outcome of the tax treatments would be brought back to the Committee once implemented.	Christopher Tann/Patrick Doig	March 2023	This will be confirmed once DfT approval has been received for the restructuring.

Actions from previous meetings

Minute No.	Item/Description	Action By	Target Date	Status/Note
23/06/22 (3)	**Use of Delegated Authority – Overall Procurement Strategy on Major Contracts** The Committee noted the concerns and issues raised by Bronwen Handyside in relation to the extension of the cleaning services contract, which reinforced the concerns shared by Members on the need to limit the use of Chair's Action to agree contract extensions to allow their debate at Committee meetings. The issues would be addressed as part of the overall procurement strategy on major contracts report that would be brought to the next meeting of the Committee.	Rachel McLean	March 2023	On the forward plan for the meeting of the Committee on 8 March 2023.
27/06/22	**Revenue Collection Contract Extension – Procurement Process Update** The Committee would be kept updated on the wider procurement process around the Revenue Collection Contract.	Shashi Verma	November 2022	**Completed**: The procurement for the successor contract launched on 14 November 2022.
30/06/22	**Members' Suggestions for Future Discussion Items - TfL's Credit Rating** It was suggested that, as high inflation continued and the general business environment weakened, plus the delay in the funding settlement from Government, some analysis on the potential adverse rating reactions and what the adverse consequences might be for TfL, be added to the forward plan for future discussion at an appropriate date.	Patrick Doig/ Secretariat	November 2022	**Completed:** Credit rating analysis is addressed in the Finance Report on the agenda for this meeting.

63/11/21	**Enterprise Risk Update – Changes in Customer Demand (ER09) – Impact of Actions** Members asked that information be provided in future on measuring how the risk changed over time, to map any deterioration or improvement in the risk so as to better understand the impact of the actions being taken in the current environment.	Alex Williams	November 2022	**Completed**: Information on the impact of actions is addressed in the Enterprise Risk Update (ER09) paper on the agenda for this meeting.

Finance Committee

Date: **23 November 2022**

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 Financial Authority (unbudgeted), 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 2022, there have been:

(a) no use of Chair's Action;

(b) two uses of unbudgeted Financial Authority, three uses of Procurement Authority and five uses of Land Authority by the Commissioner or the Chief Finance Officer; and

(c) no Mayoral Directions to TfL.

1.3 Similar papers are submitted to the Land and Property Committee and 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 the remit of those Committees, 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 last meeting.

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 have been no uses of Chair's Action since the last meeting.

5 Authority Approvals

5.1 Financial Authority is the authority to spend money, receive income, incur a financial liability or redistribute funds to relevant third parties in respect of their respective allocated budgets. Financial Authority is automatically granted to the extent that an activity or Programme or Project is 'budgeted'. This paper reports on any use of unbudgeted Financial Authority.

5.2 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.

5.3 Land Authority is the authority to engage in a Land Transaction or to dispose of any assets. Use of Land Authority will also be reported to the Land and Property Committee.

5.4 The Board had delegated to the Committee approval of unlimited Financial Authority, 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 170.

5.5 Since the last meeting, the following use of delegated authority has been exercised by the Commissioner and Chief Finance Officer.

Financial Authority (unbudgeted) Commissioner:

(a) Occupational Health and Wellbeing: Outsourcing Physiotherapy Services and Trauma Counselling (offset by savings on staff costs);

(b) Change Transformation Delivery Partner (unbudgeted element offset by savings on staff costs);

Procurement Authority Commissioner:

(c) Extension of the Metro newspaper distribution agreement;

(d) Road User Charging (RUC) Next Generation 2025 Acceleration and RUC Now Changes Tactical Approach using Crown Commercial Service Framework Call Off Agreements;

(e) Hazardous Materials Framework (contractors) extension;

Land Authority Chief Finance Officer:

(f) Edgware (Conditional Joint Venture);

(g) Build to Rent (Increased Land Authority);

(h) Wembley Park (Guarantee of Funding Obligations);

(i) Lillie Bridge Depot (Land Transaction);

(j) Cockfosters (Land Transaction).

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 are reported to this Committee.

6.8 There have been no Directions issued to TfL since the last report.

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: **23 November 2022**

Item: **Finance Report – Period 7, 2022/23**

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, 2022/23 - the year-to-date ending 15 October 2022.

1.2 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 or of a sensitive nature to our listed counterparties. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

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

3 Financial Reporting to the Committee

Finance Report – Period 7, 2022/23

3.1 The Finance Report presentation provides a summary of year-to-date financial performance against the Budget (approved by the Board on 23 March 2022) and last year.

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

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

List of Background Papers:
None

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Finance Report (Part 1 Agenda item)

Period 7, 2022/23

Management results from 1 April 2022 – 15 October 2022

TfL Finance Committee

23 November 2022

We are on track to achieve operating financial sustainability in 2023/24, but still face significant risks

YTD financial performance	In the year to date, we remain on track to deliver our Budget that sets us on the path to financial sustainability and meet the funding conditions: • **Total income is within 1% of Budget** – journeys continue to recover, with latest journeys at 82% of pre-pandemic levels. Journeys and income are slightly lower than Budget, a result of industrial action across the national rail network and within LU, and lower ticket yield. • **Our core operating costs remain within 1% of Budget** – we have seen the risks identified in our Quarter 1 forecast – the impact of rising inflation and increasing Road User Charging bad debt – crystalise over recent periods. These pressures have been offset through lower pension deficit payments as well as other tailwinds that will support us in delivering the remaining savings that are required to close the funding gap for this year. • **Capital enhancement is within 2% of Budget** – due to slippage on third-party funded projects, largely because of factors outside our control. We are forecasting to deliver very close to the capital envelope set by the funding settlement over the full year. • **Capital renewals are 8% lower than Budget** – largely due to resource constraints, but we are actively managing our renewals portfolio and remain confident in delivering our full year £600m budget. We are challenging ourselves to deliver the higher level of renewals of £635m set by the funding settlement.
Forward look	We are, however, facing several external headwinds and risks to achieving financial sustainability especially into next year, but we are working to mitigate them: • **Economic uncertainty** – economic growth remains poor; UK GDP contracted by 0.1% from April to June. Latest forecasts suggest this may continue for a sustained period • **Inflationary pressures** on TfL cost base, including energy costs. • **Savings targets** are stretching, with a target of £230m additional savings by the end of 2023/24 following the new funding agreement with Government. The funding settlement provides protection on passenger demand volatility until March 2024. It also provides some protection on inflation, but the quantum of this for 2023/24 is uncertain. We plan to mitigate the remaining risks through active management of our remaining contingency and the GLA financing facility.

Headlines

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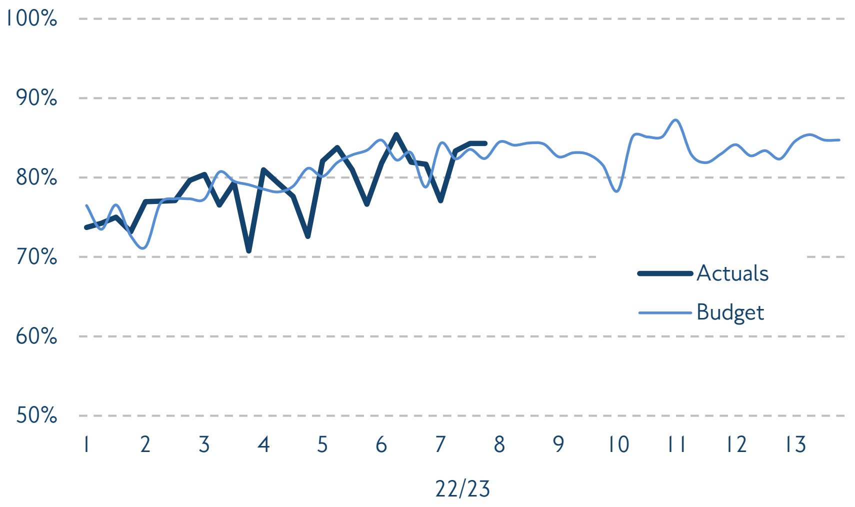
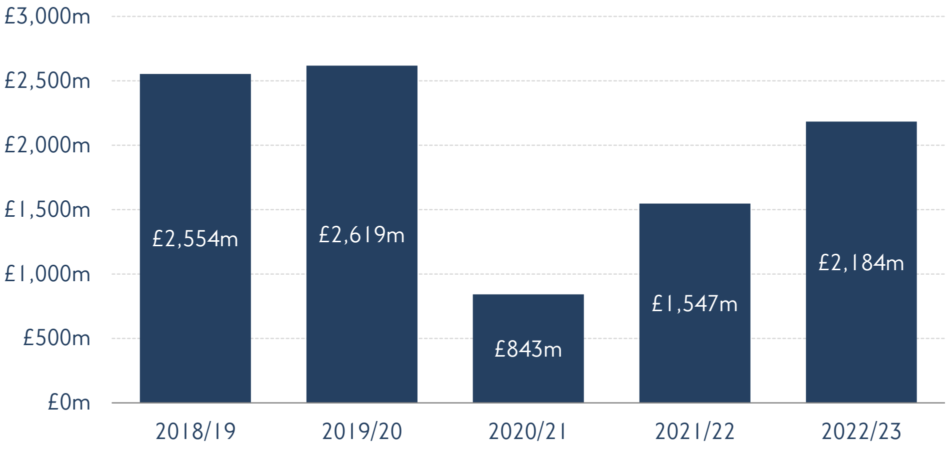
Total passenger journeys 82% of pre-pandemic levels in Period 7, up from 68% at the end of 2021/22

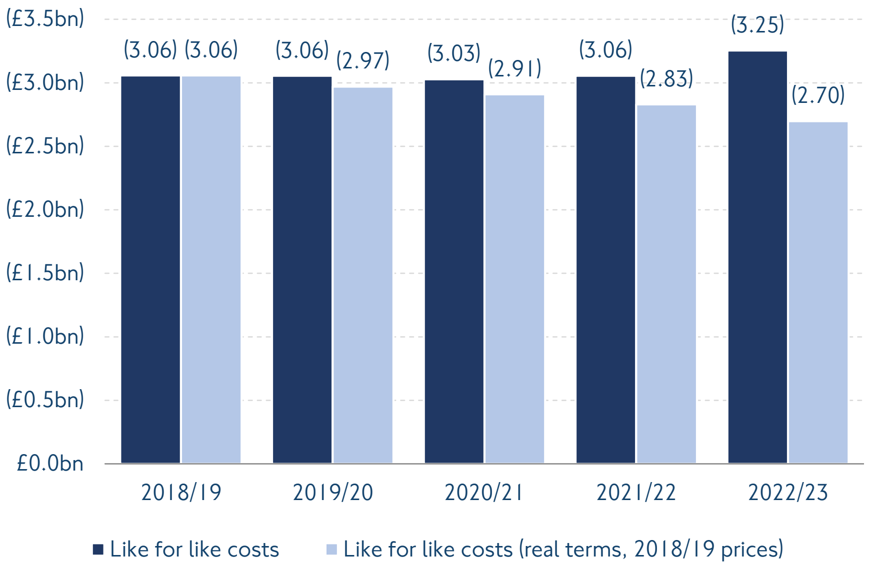


Passenger income over £600m better than last year and £1bn up on 2020/21; still £400m lower than pre-pandemic levels, averaging £60m lower per period

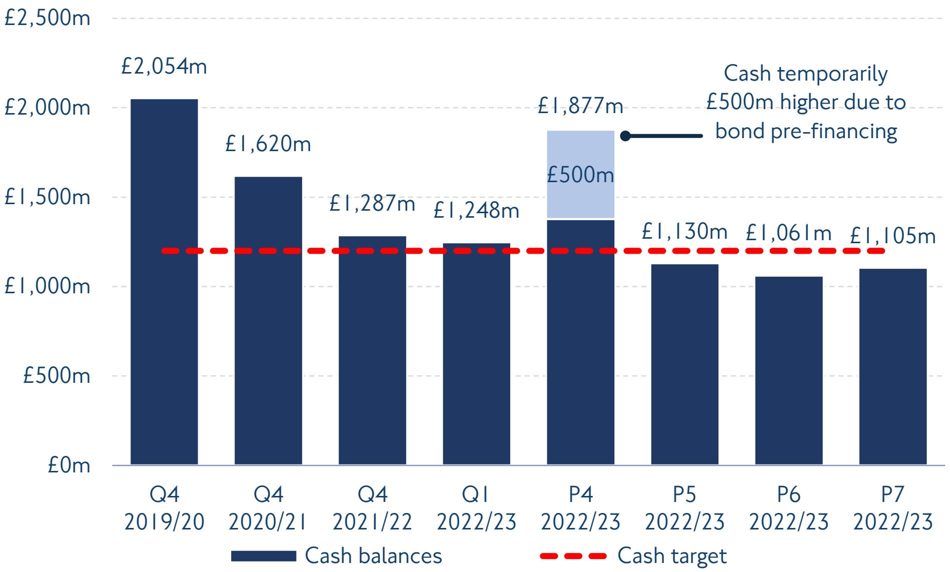


Charts show year-to-date passenger income to end of Period 7 for each year

Year to date like-for-like operating costs up on prior years as a result of inflationary pressures; real terms costs over £300m lower than in 2018/19



We continue to maintain our cash reserves at around £1.2bn on average in line with our funding settlement condition



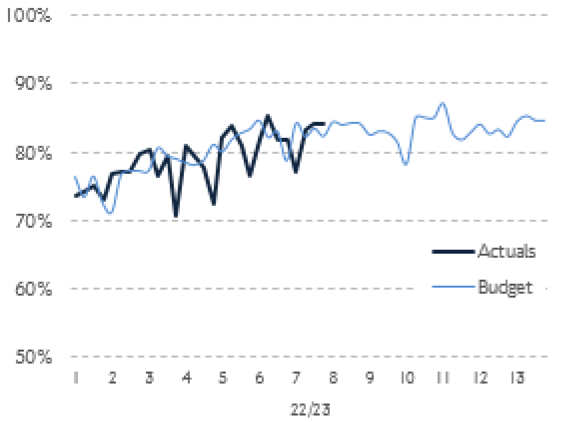
Passenger journeys

Total TfL journeys were 82% of pre-pandemic levels in Period 7, broadly in line with the prior period, but up from 68% at the start of the year.

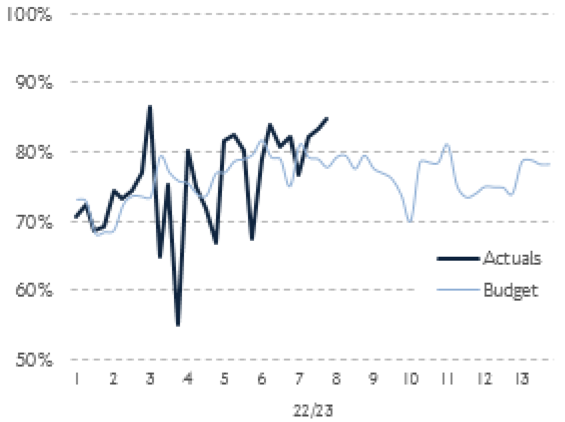
Tube journeys have increased to 82% and are broadly in line with Budget. Year-to-date journeys are slightly lower than expected from impacts of industrial action across National Rail network and LU. Bus journeys are 80% of pre-pandemic levels, slightly lower than Budget .

Journeys on the Elizabeth line (EL) have been above expectations since the opening of full services on 24 May. Journeys are 20 million better than Budget in the year to date, with income £29m higher than expected. Some of this upside is offset in other modes as customers switch services.

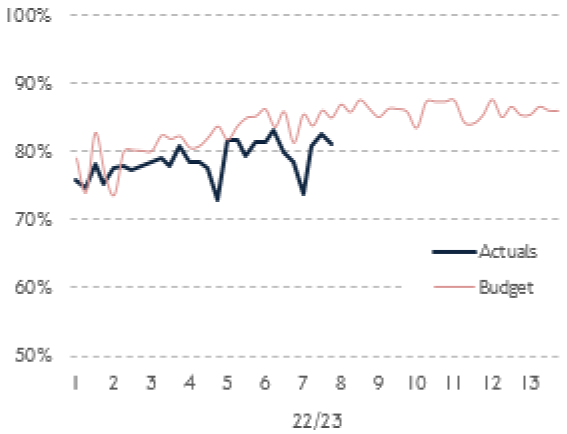
TfL	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	82%	83%	P	270	-3
			Y	1707	-7



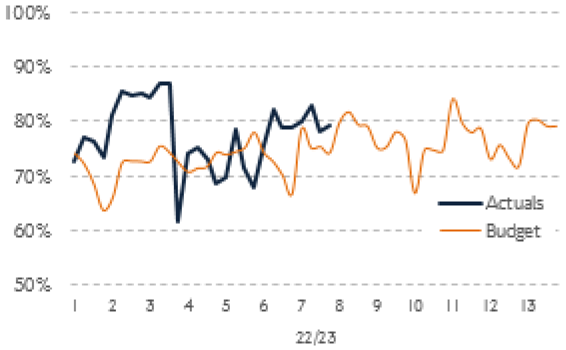
LU	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	82%	79%	P	90	2.8
			Y	555	-1.6



Bus	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	80%	85%	P	146	-10.2
			Y	949	-34.8



Rail	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	80%	76%	P	22	1.2
			Y	143	9.5

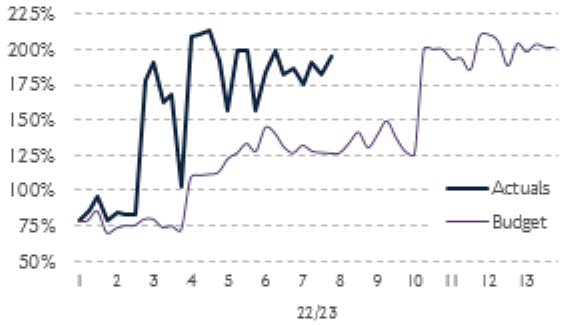


LO	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	83%	78%	P	13	0.7
			Y	83	8.9

DLR	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	78%	69%	P	8	0.8
			Y	48	2.3

Tram	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	68%	86%	P	2	-0.4
			Y	11	-1.7

EL	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	186%	128%	P	11	3.4
			Y	60	20.1



Operating account

Passenger income is over £0.6bn higher than last year, but slightly down on Budget due to the impact of industrial action. Over the full year, we expect to be on Budget.

Other operating income is £50m better than Budget, largely a result of higher advertising income and higher enforcement income from Road User Charging. This trend is expected to continue over the full year.

Operating costs are analysed in more detail overleaf.

Capital renewals are £27m lower than Budget, driven by timing differences on DLR and some technology projects, where we expect to catch up by year end. We are aiming to deliver the £635m envelope set in the funding settlement.

Extraordinary revenue grant is £107m lower than Budget, as the 30 August Funding Settlement provided less funding than assumed in our Budget.

	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
£m	Actuals	Variance to Budget	% variance	Last year	Variance to last year	% variance	Q2 forecast	Variance to Budget	% variance
Passenger income	2,184	(42)	-2%	1,547	637	41%	4,306	5	0%
Other operating income	819	50	7%	528	291	55%	1,474	97	7%
Business Rates Retention	492	-	0%	518	(26)	-5%	868	0	0%
Council tax precept	26	-	0%	26	-	0%	114	62	54%
Other revenue grants	13	10	333%	12	1	8%	45	37	81%
Revenue	**3,534**	**18**	**1%**	**2,631**	**903**	**34%**	**6,807**	**201**	**3%**
Operating cost	(3,753)	162	-4%	(3,471)	(282)	8%	(7,109)	95	1%
Operating surplus before renewals & financing	**(219)**	**180**	**-45%**	**(840)**	**621**	**-74%**	**(301)**	**295**	**98%**
Capital renewals	(286)	27	-8%	(238)	(48)	20%	(635)	(32)	-5%
Net financing costs	(231)	1	0%	(242)	11	-5%	(417)	9	2%
Operating surplus / (deficit)	**(736)**	**208**	**-22%**	**(1,320)**	**584**	**-44%**	**(1,354)**	**272**	**20%**
Extraordinary revenue grant	627	(107)	-15%	1,468	(841)	-57%	865	(366)	-42%
Operating surplus after extraordinary revenue grant	**(110)**	**100**	**-48%**	**148**	**(257)**	**-174%**	**(489)**	**(95)**	**-19%**

* Other operating income and operating costs shown excl. Elizabeth line regulatory income from P7, 2022/23

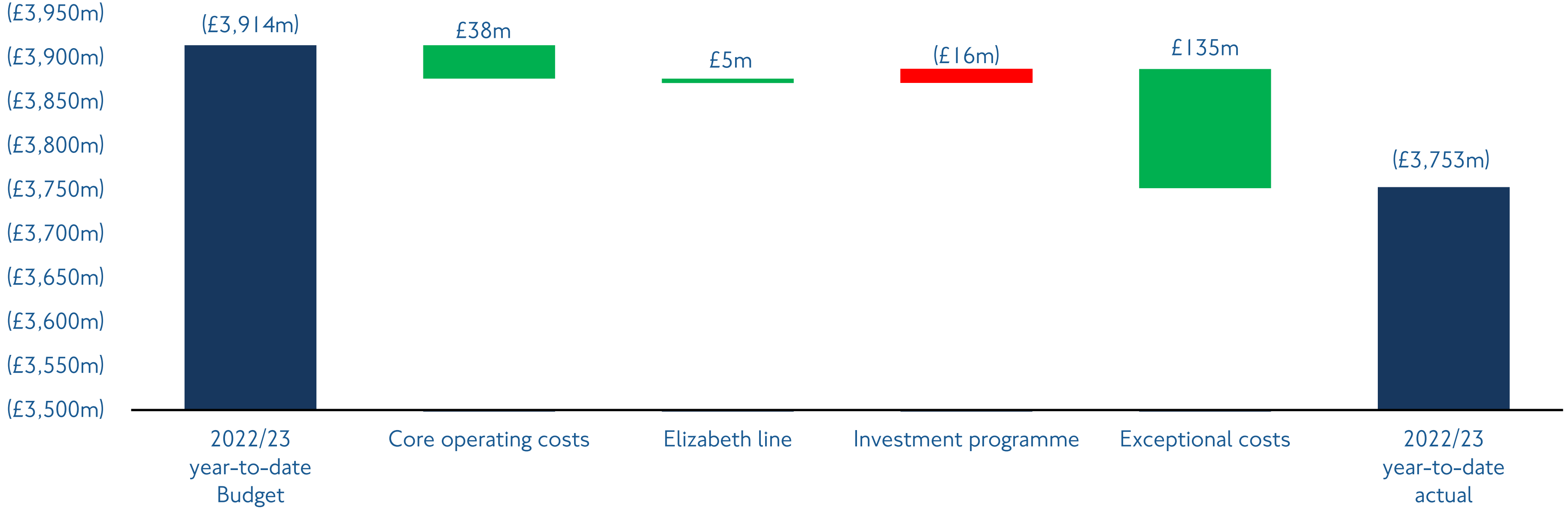
Operating costs

Total operating costs are £162m lower than Budget.

We have continued to see pressures on RUC bad debt (£61m), a result of higher ULEZ contravention rates as well as lower rates of customers paying PCNs at the initial discount rates. We are also seeing the impacts of rising inflation (£19m) on some of our external contracts, incl. rail and bus operators.

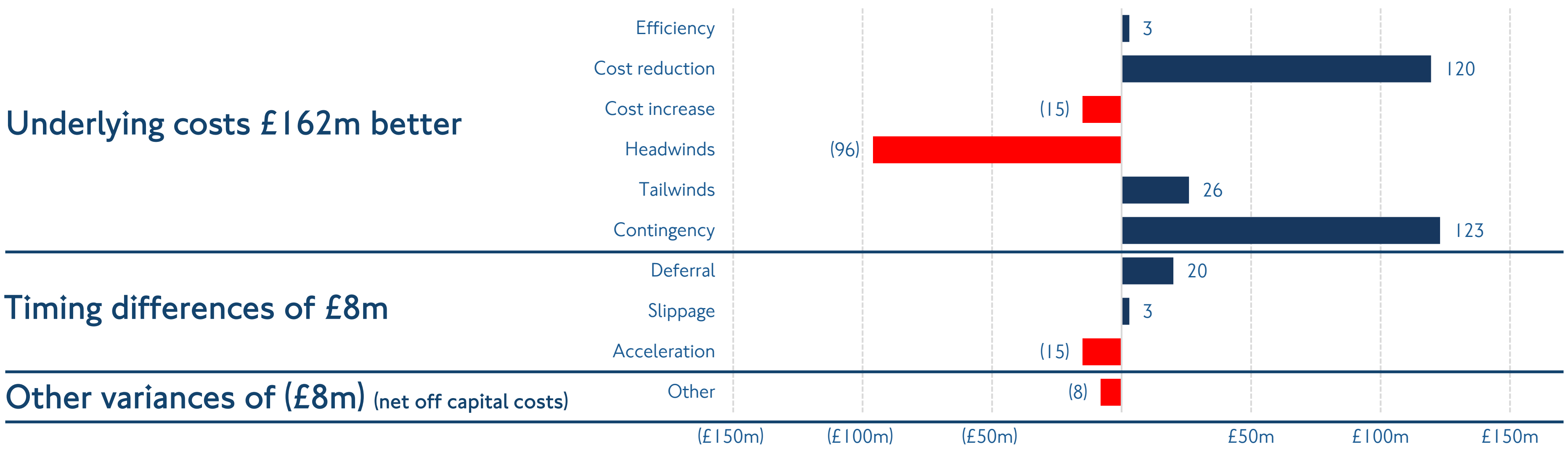
These pressures have been mitigated through contingency (£40m) and further cost reductions, the latter including lower pension deficit payments following the 2021 revaluation which was finalised after the budget was set, lower staff costs, and lower bus costs from lower mileage and industrial action.

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



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

Underlying costs £162m better (with headwinds of (£96m) offset by £120m of cost reductions); contingency of £123m and timing differences of £8m, which we expect to unwind over the financial year



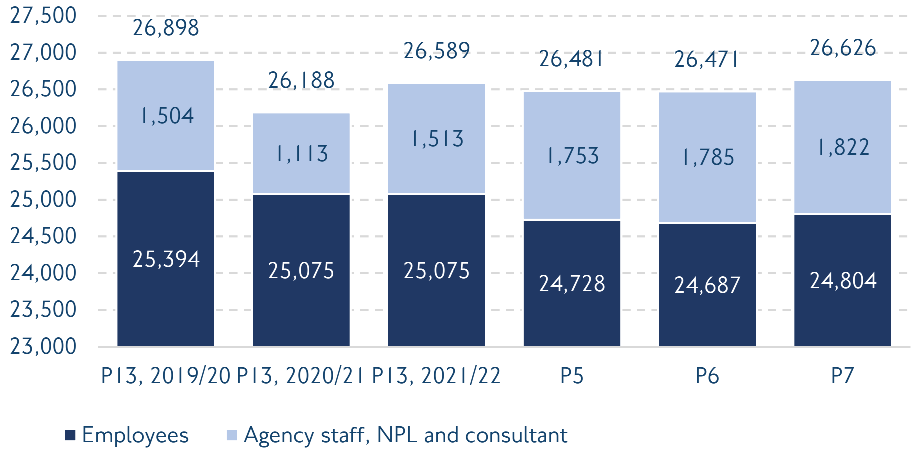
Staff

Total staff levels are just under 300 lower than pre-pandemic levels and are now slightly up from the end of last year.

Permanent employee numbers are now almost 600 lower than before the pandemic and are over 250 down from last year; ongoing labour market issues, and funding uncertainty earlier in the year hampered our ability to recruit; we have also seen an increase in resignation rates, a result of reward constraints as well as a buoyant external market.

Agency and NPL staff have increased by over 300 since the end of 2019/20, but remain significantly lower than 2015/16 levels.

Headcount trends since 2019/20



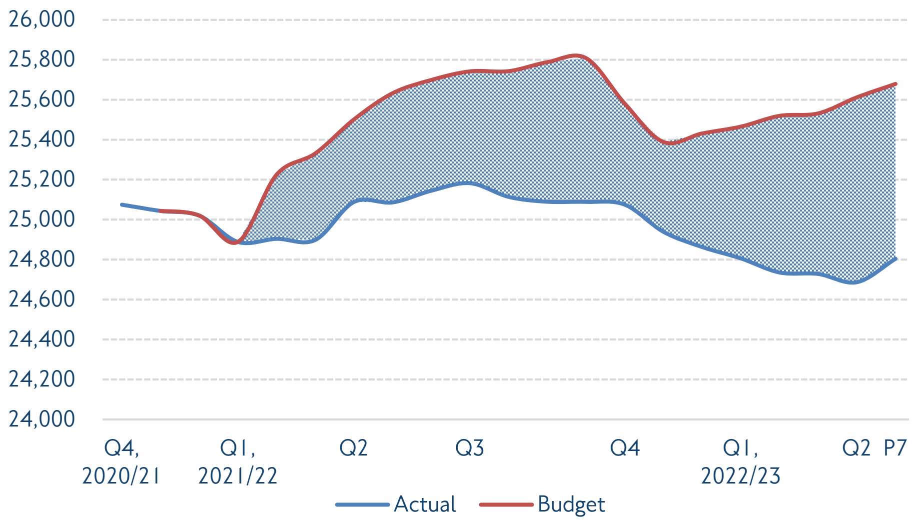
Total staff over 250 lower than pre-pandemic levels

Agency, NPL and consultants over 300 higher than pre-coronavirus levels as a result of labour market challenges

Permanent employees down by almost 600 since 2019/20 and in line with last year

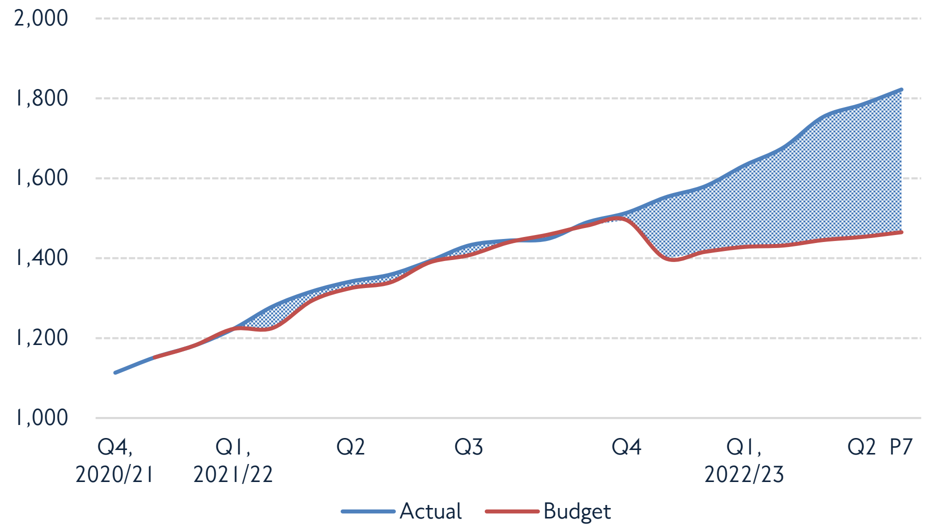
Permanent staff (FTE): actuals and Budget

Permanent employees down by almost 300 since the end of 2021/22, driven by large number of retirees and leavers. Staff levels almost 900 lower than Budget from recruitment delays, a competitive external market and higher resignation rates, with leavers averaging 170 per period.



Agency and NPL staff (FTE): actuals and Budget

Agency and NPL FTE up by over 300 since the end of 2021/22 and higher than Budget. Driven by labour market challenges and funding uncertainty.



Capital account

New capital investment remains close to budget in the year-to-date, and the full year forecast has increased due to the funding settlement.

Capital renewals are currently £27m lower than Budget, with some slippage on DLR renewals (£6m) as a result of resource shortages, and lower technology project spend on Cycle Hire modernisation and Cable Car.

We have been proactively managing our renewals workbank so we can maximise delivery within our available capital funding. We are forecasting to deliver the full envelope set in the funding settlement of £635m, but there are risks to achieving this.

TfL property and asset receipts are (£19m) lower than Budget, mainly from the timing of receipt for Woolwich over station development.

	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
£m	Actuals	Variance to Budget	% variance to Budget	Last year	Variance to last year	% variance to last year	Q2 forecast	Variance to Budget	% variance
New capital investment	(393)	10	-2%	(401)	8	-2%	(832)	(31)	-4%
TTLP capital expenditure	(33)	50	-60%	(19)	(14)	74%	(138)	18	13%
Crossrail	(143)	68	-32%	(352)	209	-59%	(247)	34	14%
Total capital expenditure	**(569)**	**128**	**-18%**	**(772)**	**203**	**-26%**	**(1,217)**	**21**	**2%**
Financed by:									
Investment grant	494	-	0%	484	10	2%	951	0	0%
Property and asset receipts	1	(19)	-95%	46	(45)	-98%	33	(3)	-9%
TTLP property receipts	24	(35)	-59%	-	24	N/A	101	(2)	-2%
Borrowing							0	0	N/A
TTLP borrowing		(15)	-100%	75	(75)	-100%	0	(25)	N/A
Crossrail funding sources	187	(76)	-29%	327	(140)	-43%	312	(67)	-21%
Other capital grants	35	(7)	-17%	23	12	52%	81	(45)	-55%
Total	**741**	**(151)**	**-17%**	**955**	**(214)**	**-22%**	**1,478**	**(141)**	**-10%**
Net capital account	**172**	**(23)**	**-12%**	**183**	**(11)**	**-6%**	**262**	**(121)**	**-46%**
Capital renewals	(286)	27	-8%	(238)	(48)	-20%	(635)	(32)	-5%
New capital investment	(393)	10	-2%	(401)	8	-2%	(832)	(31)	-4%
Total TfL capital expenditure	**(680)**	**36**	**5%**	**(639)**	**(41)**	**-6%**	**(1,467)**	**(63)**	**-4%**

Capital renewals expenditure

Capital renewals (£m)	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
	Actuals	Variance to Budget	% var. to Budget	Last year	Variance to last year	% var. to last year	Q2 forecast	Variance to Budget	% variance to Budget
CCO	**(93)**	**26**	**-22%**	**(72)**	**(20)**	**28%**	**(203)**	**11**	**-5%**
Four lines modernisation	(2)	1	-28%	(4)	2	-44%	(3)	2	-38%
Surface assets	(46)	4	-8%	(39)	(7)	19%	(97)	(8)	10%
Air Quality and Environment	(7)	8	-55%	0	(7)	-2185%	(13)	13	-51%
Public transport	(25)	8	-24%	(21)	(4)	19%	(60)	1	-2%
Technology	(12)	7	-36%	0	(12)	0%	(28)	7	-19%
Savings challenge and deliverability	(0)	(2)	-103%	(9)	9	-99%	(1)	(4)	-132%
COO	**(168)**	**(10)**	**7%**	**(147)**	**(22)**	**15%**	**(359)**	**(45)**	**14%**
LU	(168)	(13)	8%	(147)	(21)	14%	(354)	(47)	15%
Elizabeth line	(1)	2	-75%	0	(1)	0%	(5)	2	-29%
CCSO excluding TTLP	**(22)**	**10**	**-31%**	**(17)**	**(5)**	**28%**	**(66)**	**1**	**-1%**
Estates	(0)	(0)	0%	(0)	0	-58%	(0)	(0)	0%
CCSO incl. T&D	(22)	10	-31%	(17)	(5)	31%	(66)	1	-1%
Corporate	**(3)**	**1**	**-27%**	**(2)**	**(1)**	**74%**	**(7)**	**1**	**-13%**
Total TfL excl. TTLP	**(286)**	**27**	**-8%**	**(238)**	**(48)**	**20%**	**(635)**	**(32)**	**5%**

Capital enhancements expenditure

Capital enhancements (£m)	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
	Actuals	Variance to Budget	% var. to Budget	Last year	Variance to last year	% var. to last year	Q2 forecast	Variance to Budget	% variance
Rolling Stock and Signalling	**(233)**	**(21)**	**10%**	**(184)**	**(52)**	**29%**	**(466)**	**(38)**	**9%**
Piccadilly line upgrade	(119)	(9)	8%	(74)	(45)	61%	(223)	(1)	0%
Four lines modernisation	(65)	(4)	6%	(69)	3	-5%	(117)	(8)	8%
Rail System Enhancements	(4)	(0)	6%	(3)	(1)	38%	(6)	1	-17%
MPD Savings challenge	0	(17)	-100%	0	0	0%	15	(19)	-56%
Trams	(1)	2	-74%	(1)	0	0%	(2)	1	-21%
DLR Rolling Stock replacement	(44)	8	-15%	(37)	(10)	27%	(132)	(11)	9%
Major Enhancements	**(59)**	**11**	**-16%**	**(114)**	**55**	**-48%**	**(109)**	**10**	**-8%**
Silvertown Tunnel	(6)	5	-47%	(6)	(0)	0%	(41)	(1)	2%
Northern Line Extension	(0)	2	-100%	(44)	44	-100%	(0)	3	-93%
Barking Riverside	(3)	2	-46%	(23)	20	-87%	(1)	1	-33%
Elephant & Castle Station Capacity	(6)	1	-16%	(2)	(4)	254%	(9)	2	-22%
Bank Congestion Relief	(41)	0	-1%	(31)	(9)	30%	(57)	0	0%
HS2	(0)	(0)	0%	(0)	**0**	**-100%**	(0)	(0)	0%
Elizabeth line	(3)	0	-6%	(8)	**5**	**-60%**	(1)	4	-82%
Other Enhancements	**(102)**	**19**	**-15%**	**(104)**	**5**	**-5%**	**(256)**	**(2)**	**1%**
Major stations	(1)	1	-47%	(1)	0	-23%	(2)	0	-5%
DLR RSRP HIF	(2)	2	-45%	0	2	-100%	(7)	2	-21%
Surface assets	(2)	(0)	10%	(1)	(0)	40%	(2)	(0)	9%
Air Quality and Environment (AQE)	(21)	(13)	172%	(24)	3	-14%	(68)	(56)	466%
Public transport	(5)	13	-73%	(6)	1	-10%	(11)	32	-75%
Healthy Streets	(32)	1	-4%	(23)	(9)	41%	(77)	(27)	54%
Technology	(4)	(1)	49%	(6)	2	-29%	(7)	(1)	9%
LU	(8)	2	-21%	(12)	4	-34%	(16)	8	-32%
CCSO excl. TTLP	(27)	(3)	10%	(30)	2	-8%	(60)	4	-6%
Estates	(0)	16	-99%	(0)	0	-44%	(5)	35	-87%
Corporate	(0)	1	-92%	(0)	0	-61%	(1)	1	-65%
Total TfL excl. TTLP and Crossrail	**(393)**	**10**	**-2%**	**(401)**	**8**	**-2%**	**(832)**	**(31)**	**4%**
TTLP	(33)	50	-60%	(19)	(14)	74%	(138)	18	-13%
Crossrail	**(143)**	**68**	**-32%**	**(352)**	**209**	**-59%**	**(247)**	**34**	**-12%**
Total	**(569)**	**128**	**-18%**	**(772)**	**203**	**-26%**	**(1,217)**	**21**	**2%**

Cash flow statement

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Cash balances

£m	Period 7, 2022/23 Actuals	Period 7, 2022/23 Variance to Budget		Year to date, 2022/23 Actuals	Year to date, 2022/23 Variance to Budget		Year to date, 2022/23 Variance to last year	
Opening balance	1,061	(129)	-11%	1,287	42	3%	(332)	-37%
Change in cash balance	44	43	6959%	(182)	(127)	230%	(216)	-62%
Closing balance	**1,105**	**(85)**	**-7%**	**1,105**	**(85)**	**-7%**	**(548)**	**-30%**

Cash flow statement

£m	Period 7, 2022/23 Actuals	Period 7, 2022/23 Variance to Budget		Year to date, 2022/23 Actuals	Year to date, 2022/23 Variance to Budget		Year to date, 2022/23 Variance to last year	
Operating surplus	**132**	**79**	**152%**	**(110)**	**100**	**48%**	**(257)**	**-174%**
Less TTLP, LTIG and LTM	(3)	(1)	50%	(14)	(5)	56%	(2)	17%
Cash generated / (used) from operating activities	*129*	*78*	*153%*	*(124)*	*95*	*45%*	*(259)*	*-179%*
New capital investment (VOWD)	(58)	2	-3%	(393)	9	-2%	8	-2%
Investment grants and ring-fenced funding	82	(4)	-4%	531	(6)	-1%	(22)	-4%
Working capital movements	(93)	(67)	259%	5	(24)	-82%	309	-102%
Cash generated / (used) from investing activities	*(69)*	*(69)*	*n/a*	*143*	*(21)*	*-17%*	*295*	*-194%*
Free cash flow	**59**	**9**	**19%**	**19**	**74**	**-134%**	**35**	**-215%**
Existing debt maturing	(49)	0	0%	(634)	0	0%	(329)	108%
New debt issued	54	54	N/A	554	(80)	-13%	244	79%
Short-term net borrowing change	(20)	(20)	N/A	(121)	(121)	n/a	(166)	-369%
Cash generated / (used) from financing activities	*(15)*	*34*	*69%*	*(201)*	*(201)*	*n/a*	*(251)*	*-402%*
Change in cash balance	**44**	**43**	**6959%**	**(182)**	**(127)**	**230%**	**(216)**	**-643%**

Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just over £1.1bn at the end of Period 7, £182m lower than at the start of the year. Cash balances are (£85m) lower than Budget, largely a result of lower levels of government support than assumed in the Budget.

A condition of the new funding agreement is that our cash balances will average no more than £1.2bn for the duration of the agreement.

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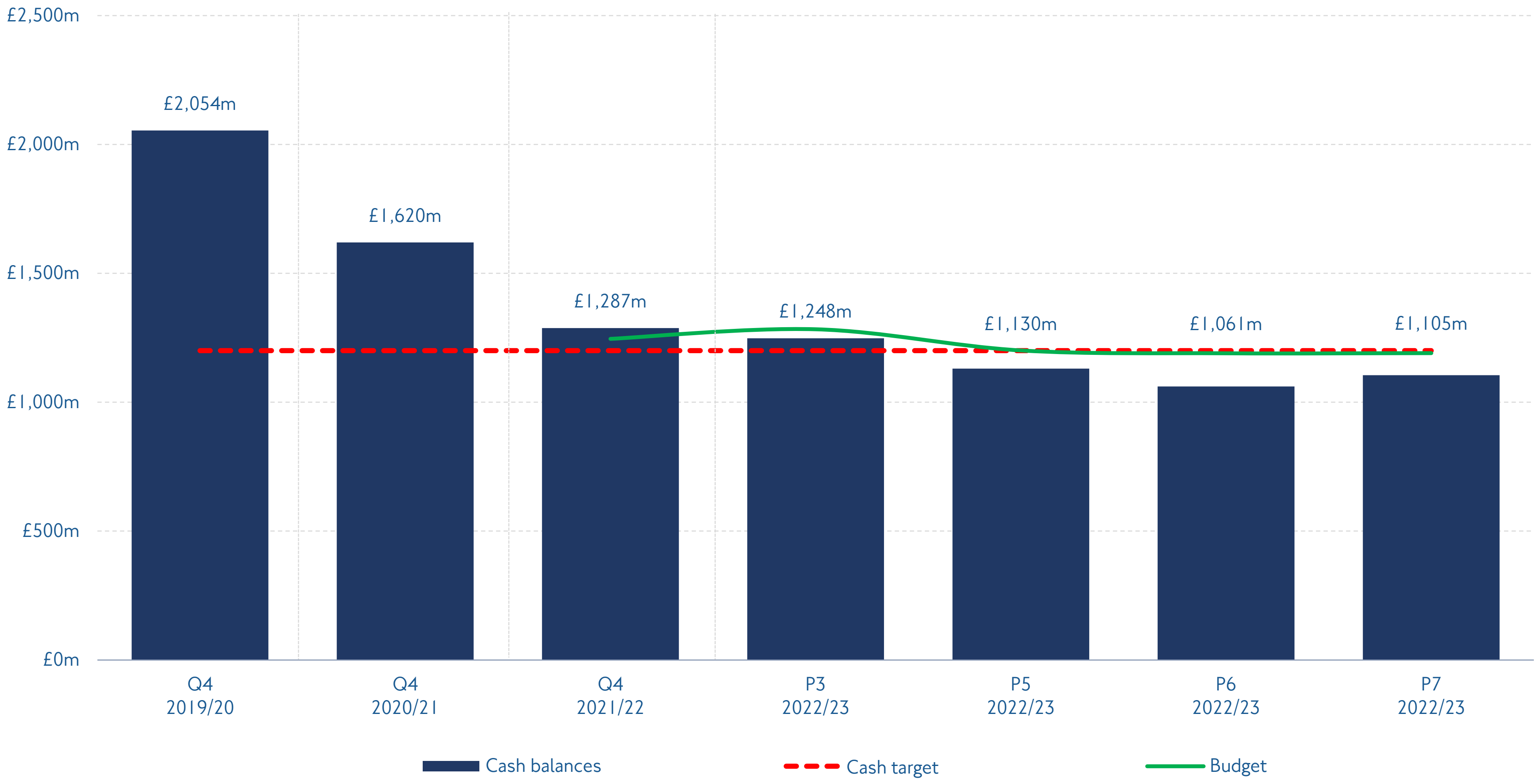
	2021/22 closing cash	2022/23 cash movement	P7, 2022/23 closing cash	P7, 2022/23 variance to Budget
TfL closing cash balances	1,287	(182)	1,105	(85)

Cash balances reduced from £2,054m at the end of 2019/20 to £1,105m at the end of Period 7, 2022/23.



Debt position

We have borrowed from a range of sources in previous years to help fund our capital programme, including Crossrail and major upgrades to our tube network.

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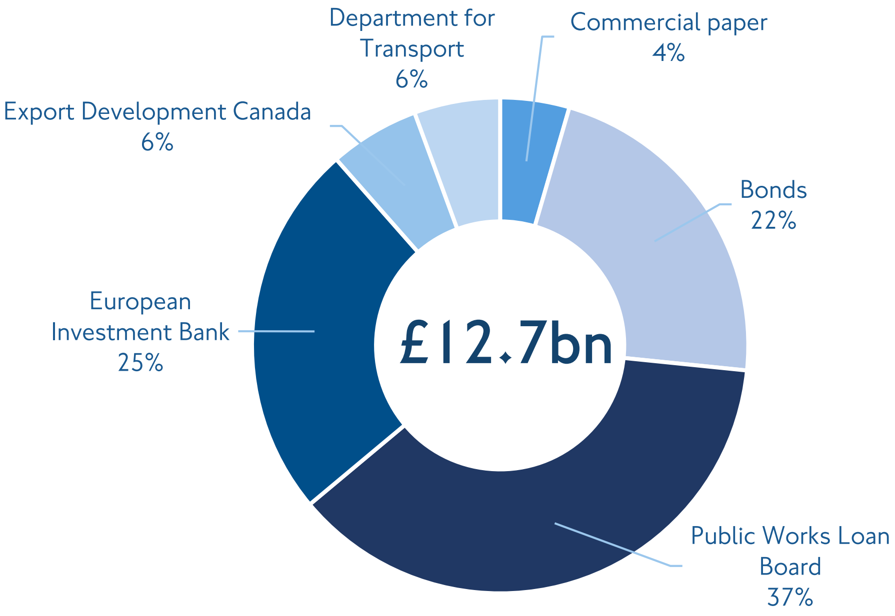
TfL total debt



90%

Over 90% of our borrowing is at a fixed rate of interest

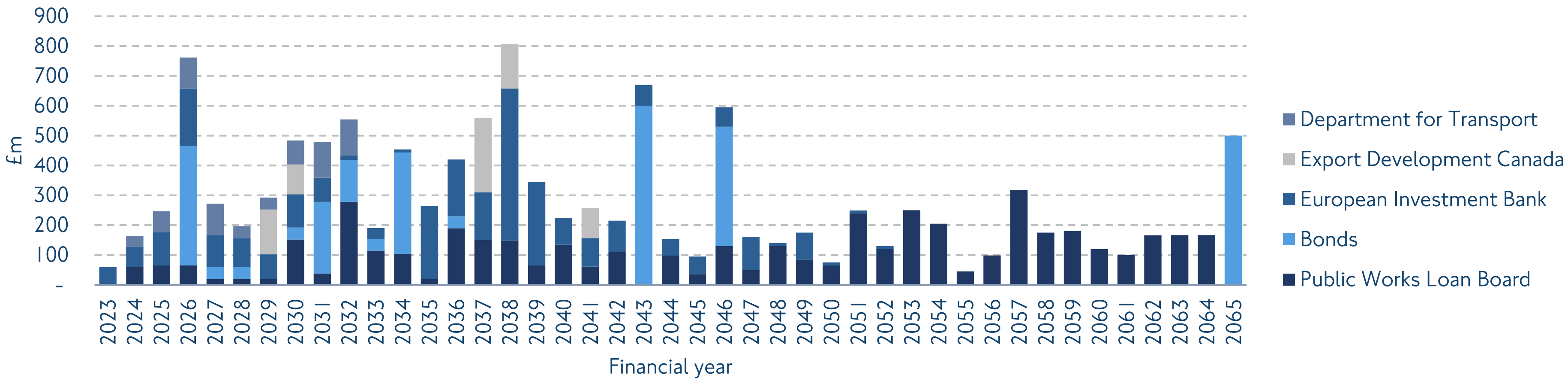
3.3%

The weighted average interest rate on our borrowing is 3.3%

18.3 years

The weighted average tenor of our borrowing is 18.3 years

TfL borrowing maturity profile



The debt maturity profile excludes around £500m of short-term commercial paper, which we intend to continue to re-issue on a rolling basis.

Credit ratings

	Standard & Poor's	Moody's	Fitch
Long-term rating	A+	Baa1	A+
Outlook	Stable	Stable	Stable
Short-term rating	A-1	P-2	F1+
Last changed/affirmed	May 2022	October 2022	September 2021

Standard and Poor's (S&P)

- S&P affirmed our credit rating at A+/A-1 in May 2022, which reflected its view that the government would continue to provide adequate support to TfL until performance returns to sustainable levels.
- In September 2022, S&P published a bulletin on TfL covering the recent funding settlement. It noted that the agreement with central government left a funding gap, but that it believes this could be bridged with additional cost savings or temporary support from the GLA. S&P noted that overall, it expected TfL's financial metrics to stay broadly in line with previous expectations.
- Our S&P rating was downgraded from AA- to A+ in May 2020, towards the start of the pandemic.

Moody's

- Moody's affirmed our credit rating in October 2022 and maintained the stable outlook, stating that our operating strengthening performance and protections under the funding agreement will partially mitigate economic and fiscal risks
- Moody's previously downgraded our credit rating from A3 to Baa1 in May 2022, citing its concern around the ongoing uncertainty over long-term funding arrangements, and stating that operating performance was expected to be weaker than previously predicted due to lower economic growth and higher inflation.
- In September 2022, Moody's published a research piece containing its view on the most recent funding agreement and GLA facility. It noted that the funding is credit positive, enabling TfL to balance its budget.
- Moody's had previously downgraded our rating in October 2020 (from Aa3 to A1) and June 2021 (from A1 to A3).

Fitch

- On 13 September 2022, Fitch announced that they had reviewed TfL's rating and taken no action. We expect them to perform further analysis soon.
- Our current rating from Fitch is A+, which was downgraded from AA- in May 2020.

Finance Committee

Date: **23 November 2022**

Item: **TfL Power Purchase Agreements**

This paper will be considered in public

1 Summary

1.1 This paper provides an update on TfL's progress towards operating a net zero railway by 2030 by procuring renewable electricity. It summarises the issues encountered with regards to its first Power Purchase Agreement tender issued in June 2022 and the proposed next steps.

2 Recommendation

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

3 Background to TfL's Energy Purchasing Strategy

3.1 TfL has an annual aggregated requirement for the supply of electricity of ~1600GWhs (gigawatt hours), which is equivalent to approximately 420,000 average domestic electricity consumers, and an ambition to transition to renewable energy over coming years to run a zero-carbon railway by 2030.

3.2 Aligned to TfL's zero-carbon railway ambition, on 25 November 2020 the Committee endorsed TfL's Energy Purchasing Strategy (EPS) which set out TfL's plan to procure 100 per cent renewable energy, partially via Power Purchase Agreements (PPAs) by 2030. The EPS outlined how this would be achieved in conjunction with TfL's current purchasing arrangements for energy through the Crown Commercial Service (CCS).

3.3 Since 2013, TfL's electricity and gas supply has been purchased through the CCS energy framework, which is procured competitively. This established purchasing framework has enabled TfL to manage wholesale price risk (up to three years ahead of delivery) and continues to provide a competitive price for its energy; noting that TfL's current energy price is significantly below the lowest price that could be achieved through the temporary 'Energy Bill Relief Scheme'. The current CCS energy framework provides limited options to secure renewable energy. The framework does however provide flexibility for the customer to source renewable energy directly from a generator via PPAs and deliver the energy from these PPAs via the CCS-appointed framework supplier.

3.4 The EPS provided a roadmap for how TfL would procure renewable energy through PPAs, while managing potential cost risk, with a specific intention of using TfL's size and position to stimulate growth across the renewable energy generation sector. One of the key components and considerations of the EPS was to diversify power purchase volumes between three renewable options:

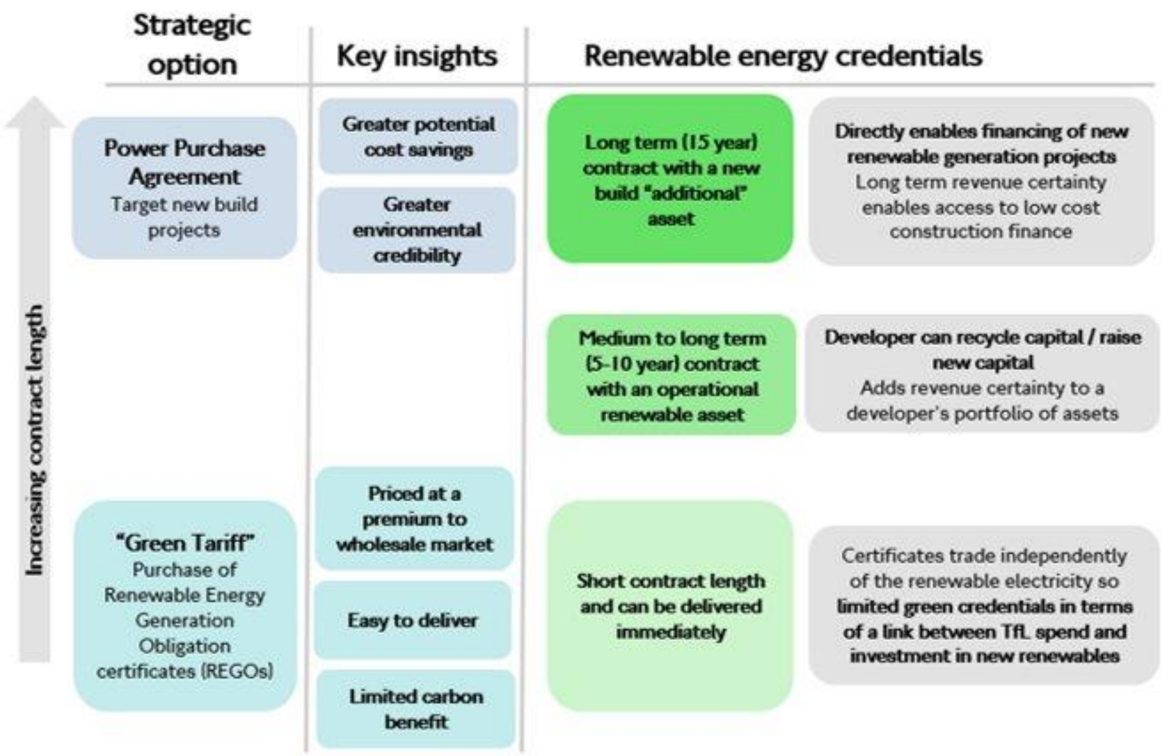
(a) Long-term PPAs:
  (i) Industry norm is 15-year contracts;

(ii) Stimulates the building of new assets providing, additional renewable capacity to the grid (known as 'additionality'); and
(iii) Pricing has a stronger link to the [1]Levelised Cost of Energy (LCOE) rather than wholesale prices, meaning pricing of these contracts are more protected against wholesale price rises.

(b) Medium-term PPAs:
(i) Typically, 5 – 10-year contracts;
(ii) Enter contract for the purchase of electricity from pre-existing assets; and
(iii) Pricing of these shorter/medium term PPAs is more closely linked to the wholesale market.

(c) A flexible green energy tariff:
(i) Short-term contracts where the supplier promises to match all or some of the electricity use with renewable energy. However not all green tariffs are equally green. Some companies which offer "green" electricity tariffs can 'greenwash' their brown energy supply by trading Renewable Energy Guarantee of Origin (REGO) certificates in a secondary market, without buying or self-generating the accompanying renewable electricity; and
(ii) Pricing closely linked to the wholesale market.

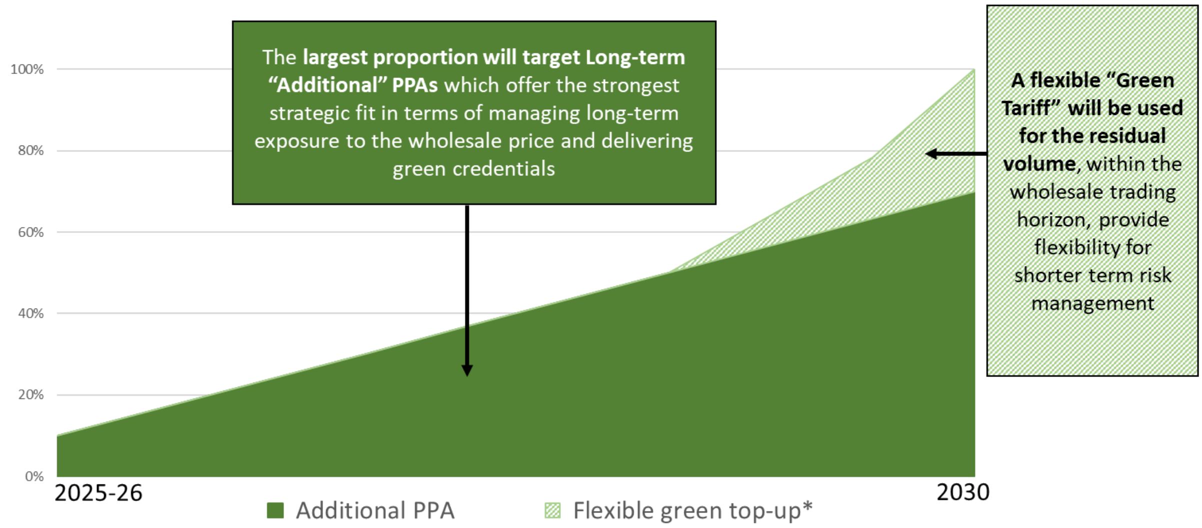
3.5 Diagram 1. Summary of Purchasing Options



[1] LCOE - Is a measure of the average net present cost of electricity generation for a generator over its lifetime. It is used for investment planning and to compare different methods of electricity generation on a consistent basis.

3.6 Due to adverse market conditions, a recommendation was made to the Committee (on 6 October 2021) to postpone the procurement a medium-term PPA from existing assets, and increase PPA volumes for long-term PPAs from new build assets which are less sensitive to wholesale price movements. The Committee agreed that TfL would initially procure up to 12.5 per cent of the current power requirements through its first PPA and, longer term, approach the market for renewable energy volumes approximately every two years over the next decade to reduce risk. The exact timing and volumes under each of the three options would be adapted according to unfolding market conditions at the time.

3.7 Diagram 2. Indicative PPA Portfolio build up.



4 Progress to Date

4.1 In June 2022, TfL launched a tender aiming to procure a 15-year PPA for 150-200 GWh (~12.5 per cent of TfL annual volume) per year of renewable electricity from a new build solar or wind asset. Despite significant market engagement and receiving 71 expressions of interest, the response to the standard Selection Questionnaire (SQ) was limited; with only four submissions received, all failed to pass the initial stage due to a lack of experience and/or incomplete submissions.

4.2 TfL has since worked with external energy advisors Arup to understand the root cause of the disappointing response. Arup produced a report with their hypotheses and recommendations for how to improve market participation. TfL has engaged with the market to test certain aspects of the recommendations and revised tender parameters, including: selection criteria, delivery timescales and volume. The response was positive, and TfL was planning to relaunch a revised PPA tender the week commencing 17 October 2022. However, prior to launch the Government introduced the 'Energy Prices Bill', which contained outline proposals to control energy prices, with potential implications for the wholesale price of electricity generated by renewable and low-carbon generators. Given the resulting market uncertainty, the proposed re-launch has been paused.

5 Current Position

5.1 The majority of the Energy Prices Act 2022 (the Act) came into force on 25 October 2022, although much of the detail will be contained in regulations which have yet to be developed. For now, however, it is known that a cap will be imposed on the revenues which certain renewable energy generators can earn (the cost-plus revenue limit). The cap will apply from January 2023 for up to five years, although this can be extended by further regulations. At this stage, it is not clear which categories of renewable energy generators will be caught or what the level of cap will be. The market uncertainty is likely to last until nearer the proposed implementation date of January 2023, as the Government is currently consulting with the relevant market participants and developing the parameters of the further legislation. This coupled with the generators having limited internal capacity to consider participation in a TfL procurement in addition to their involvement in the ongoing consultation means that TfL re-launching its PPA tender immediately is likely to result in a very limited response until the market uncertainty is removed.

5.2 It is therefore recommended that any developments regarding the regulations to be made under the Act are closely monitored by TfL and its energy advisor Arup until the implementation date of the cap, expected in January 2023. Work will continue on the finalisation of procurement documents to ensure TfL is ready to re-launch its PPA tender as soon as practically possible following publication of the regulations, when we are confident we will achieve a positive result. Note, at this stage, it is not known whether any of this further legislation will have any material impact on TfL's PPA tender; if no structural changes are required and the government's current timeline is maintained, TfL would be able to re-launch in early January 2023.

5.3 TfL is continuing to engage with the market to gather further feedback and ensure renewable developers are aware of TfL's future renewable PPA ambitions. One of the key issues identified by Arup and TfL for the unsuccessful standard Selection Questionnaire stage of the PPA tender was bidder unfamiliarity with the public procurement process and the associated requirements. It is likely that bidders had more experience of bilateral negotiations as there has been a limited number of public procurements for PPAs outside of the City of London procurement in 2019-2020 and more recently, Network Rail. In order to mitigate this in the revised tender process, TfL will hold an industry briefing post tender publication where we will walk developers through the requirements of the tender and support the market in relation to public sector procurement practices.

5.4 The timing of Government's Contracts for Difference (CfD) scheme to support renewable generation was also identified as a potential factor in the muted response to TfL's initial tender. The structure of the next CfD allocation round (AR5) will be detailed in December 2022, with the application window currently due to open in March 2023. TfL will therefore carefully plan the tender relaunch to avoid overlap with key stages of the CfD process when the full details of AR5 are published.

6 Collaborative PPA

6.1 TfL has been engaged in the GLA Energy Procurement Collaboration Programme with the GLA, Metropolitan Police, the London Fire Brigade, and the London Legacy Development Corporation (the GLA Group). It aims to pool the electricity demand of TfL with that of smaller GLA Group bodies to allow the entire Group to benefit from enhanced purchasing power, reduce carbon emissions and reduce the cost of the electricity procured.

6.2 It is unlikely that the delay incurred on TfL’s PPA procurement process will materially impact the GLA Group collaborative PPA as there was already (and will remain) a significant gap between the TfL only PPA contract award and the launch of any Group PPA. Experience from TfL’s PPA be used to benefit future Group procurements.

6.3 At present, the GLA Collaboration project is in the Planning for Delivery Stage (Phase 0). The intention of this phase is to explore the delivery options for multiple counterparty PPAs as these are not commonplace. The areas to be explored during this phase include the development of the overall structure of the PPA and any ancillary arrangements that may be required to enable delivery to each counterparty e.g. licensed supply and sleeving arrangements. It is envisaged that this phase will complete in by the end of Q4 2022/2023.

7 Next steps – Energy Purchasing Strategy

7.1 To date TfL’s Energy Purchasing Strategy has protected TfL from the highest of energy prices, however, there is increasing risk from energy prices to our operating cost base. As such, it is timely to review the overall approach to energy purchasing and to ensure that this remains robust and enables TfL to respond to external issues in agile way. Political issues such as the war in Ukraine and the turmoil in the energy market are expected to persist, therefore TfL will review the EPS in light of this to ensure that it is fit for purpose in the current market.

7.2 TfL will provide an update to the Committee in Spring 2023.

List of appendices to this report:
None

List of Background Papers:
June 2021 TfL Energy Purchasing & GLA Energy Procurement Collaboration Programme

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Finance Committee

Date: **23 November 2022**

Item: **Surface Technology Contracts Retender**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to brief the Committee on the procurement process for the Surface Technology Contracts Retender (STCR) for the supply, install, maintenance and disposal of Automated Traffic Signals (ATS), Variable Message Signs (VMS), Overheight Vehicle Detectors (OVD) and CCTV.

1.2 It is anticipated that approval of Procurement Authority to enter into the contracts will be required before the next meeting of the Committee and will therefore be sought under Chair's Action.

2 Recommendation

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

3 Background

3.1 There are over 6,400 ATS sites across London, split roughly 50/50 between junctions and signalled crossings. 2,200 sites are on the Transport for London Road Network and 4,200 are on London borough roads. There are 150 VMS and 61 OVD sites within the scope of this contract.

3.2 Where maintenance activity takes place on London borough roads under a TfL contract, sums are recovered from the London boroughs to ensure it is cost neutral for TfL.

3.3 The supply, installation, maintenance and disposal of ATS, VMS and OVD is currently delivered by three contractors under TCMS2: Cubic Surface Transportation Systems Limited, Siemens Mobility Limited and Telent Technology Services Limited.

3.4 TCMS2 is geographically split into five areas. Siemens Mobility Limited and Telent Technology Services Limited both deliver services in two regions respectively. Cubic Surface Transportation Systems Limited delivers services in one region.

3.5 Under the CCTV Outstation contract, there are 813 CCTV sites across London. The CCTV requirement includes all CCTV assets not installed on/in a fixed asset such as bus stations, London Underground or tram stations. Footage is fed into the Network Management Control Centre and to third parties such as the Metropolitan Police Service and media outlets such as the BBC.

3.6 The supply, installation, maintenance and disposal of CCTV equipment is delivered pan-London by Telent Technology Services Limited under the CCTV Outstation contract.

3.7 The three TCMS2 contracts and CCTV Outstation contract all expire 31 July 2023.

3.8 TfL has powers and statutory obligations under the Greater London Authority Act 1999 to act as the Traffic Authority for all traffic control systems in London and is the accountable maintainer and operator of all such systems within Greater London.

4 Procurement Strategy

4.1 Following extensive analysis, it was determined that a change to the geographical split for the delivery of services covering ATS, VMS and OVD could deliver increased value for money. STCR has therefore moved from five geographic areas to three geographic areas. The STCR areas are: North, Central and South London.

4.2 Analysis also demonstrated that if a bidder were to win two of the geographic areas, it could generate even greater economies of scale. It was therefore decided that one supplier may win two geographic areas if an improved value for money proposal is offered. Legal advice dictated that these two-area regions constitute individual lots in the packaging strategy.

4.3 STCR will also award a framework agreement which mirrors the three geographic areas detailed above. The framework agreement will provide resilience to TfL should a main contractor deliver poor performance or suffer financial distress. The framework will also act as a mechanism to compete high value capital works to drive additional value.

4.4 Under STCR, CCTV services will be delivered under one contract as per the incumbent contract.

4.5 The packaging strategy for STCR is set out in Table 1:

Asset	Area	Lot Name	Awarded Suppliers
ATS, VMS & OVD	Geographical Lots	Lot 1: North	Max: 3 suppliers across 3 lots. Note: 2 suppliers across 3 lots if conditions met.
		Lot 2 Central	
		Lot 3: South	
	Combined Lots	Lot 4: North & Central	
		Lot 5: North & South	
		Lot 6: South & Central	
	Framework by Geographical Area	Lot 7a: North	Min: 1 framework supplier per sub-lot. Max: 3 framework supplier per sub-lot.
		Lot 7b: Central	
		Lot 7c: South	
CCTV	Pan-London	Lot 8: CCTV Outstation	1 supplier

Table 1: STCR Packaging Strategy

4.6 Should a combined lot (Lot 4, 5 or 6) be awarded, then the component individual lots (Lots 1, 2 or 3) will be abandoned.

4.7 A lessons learnt exercise on the current contracts determined that contractors would need a six-month mobilisation period between contract execution and service commencement to ensure disruption is minimised when transitioning between contracts.

4.8 The STCR contract term for Lots 1 to 8 is for an initial term of eight years with options to extend for up to two additional years, with the exception of the Lot 7 Framework where the contract term will be a maximum of eight years.

4.9 STCR has an operational expenditure commitment in the maintenance regime, and a mechanism to place capital works orders with no minimum spend commitments. Further detail about the financial implications will be provided when seeking Procurement Authority.

4.10 The contracts will also enable third parties such as London boroughs and developers to carry out capital works, at their own expense, by utilising the contracts.

4.11 Approval of Programme and Project Authority for the STCR contracts for the Financial Year 2023/24 was approved at the meeting of the Committee in May 2022, with the request for 2024/25 due to be made in May 2023. Both of which are included in the Revised Budget.

5 Assurance

5.1 An Integrated Assurance Review (IAR) was carried out on the procurement in July 2021 and all recommendations were addressed.

5.2 A further IAR will take place before Procurement Authority is sought.

6 Timescales for Approval

6.1 It is anticipated the procurement process will be concluded during December 2022.

6.2 As the next scheduled meeting of the Committee is in March 2023, it is proposed that a Chair's Action request will be submitted to Committee in December 2022 summarising the outcome of the process and requesting approval of Procurement Authority.

List of appendices to this report:

None

List of background papers:

None

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Finance Committee

Date: **23 November 2022**

Item: **Communications, CCTV, Access Control and Security Systems Maintenance and Upgrade Services Contract - Increase to Procurement Authority**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to seek approval for additional procurement authority for the communications, CCTV, access control and security systems maintenance and upgrade services contract across the TfL estate.

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

2 Recommendation

2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and to grant additional Procurement Authority, in the sum set out in the paper in Part 2 of the agenda, for the provision of maintenance and upgrade services for Communications, CCTV, Access Control and Security Systems across the TfL estate.**

3 Background

3.1 TfL has a contract for the provision of maintenance and upgrade services to communications, CCTV, access control and security systems across the TfL estate including London Underground (stations, depots, operational buildings, power sites), Surface (bus stations, river piers, cycle hire stations), TfL Head Offices, LT Museum, London Trams, Dial a Ride and London Overground locations. The contract comprises:

a) maintenance services; and

b) upgrade works including capital asset replacement and upgrade works.

3.2 The supplier is Telent Technology Services Limited (Telent) and the contract was awarded following a full competition in 2019 for an initial period of seven years and three months to 31 March 2027, with an option for TfL to extend for up to five years.

3.3 No fundamental changes are being proposed to the contract or the operational delivery strategy previously approved and this recommendation seeks approval for an increase in Procurement Authority.

3.4 The original procurement authority was approved by the Committee via a Chair's action on 7 July 2019 for the provision of maintenance services only. The paper was submitted in time for consideration at the meeting of the Committee on 1 July 2019 but as the meeting was not quorate, approval via a subsequent Chair's action was required.

3.5 Estimated values for Upgrade Works included in the original submission, based on budget allowances in the TfL approved Business Plan at that time. This element was not approved at the original meeting due to forecast uncertainty.

3.6 The request is to obtain additional approval for £75m to cover our immediate requirements until the Finance Committee in March 2023. In the period between this meeting and that meeting in March, further work will be undertaken through the annual budget process to confirm estimates for future years.

3.7 The estimated outturn value has been revised since the original contract award and we are now requesting a proportion of this amount, pending further confirmation of the forecast requirements by March 2023. The forecast increases relate to:

(a) Planned maintenance fixed costs with annual CPI uplift until expiry;

(b) Additional maintenance until expiry for Croydon Trams, Dial A Ride, London Overground, New Cross depot and the Station Security Improvement Project;

(c) 2-year budget plan for Capital Upgrades and run rate until expiry; and

(d) Maintenance renewals based on 2-year run rate and CPI.

3.8 The current financial profile provides good insight into our near term future expenditure and this has underpinned this request to increase the current procurement authority by a further £75m.

3.9 The contract also continues to provide value for money, whereby we are utilising rates which are only affected by the annual CPI uplift since the original costs agreed in 2019.

List of appendices to this report:

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

List of Background Papers:

1 July 2019 Finance Committee paper - Technical Facilities Management Services (Communications, CCTV, Access Control and Security Systems): Approval of Award of Contract

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Finance Committee

Date: **23 November 2022**

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. This is a very broad risk, with significant potential implication for our financial and transport strategy. Protection against revenue volatility is afforded until March 2024 as part of the August 2022 funding agreement with the Government, as a response to the continued elevation of the risk caused by the coronavirus pandemic. This does not mitigate the risk to TfL's financial sustainability from April 2024 onwards or the risk to policy aims which are impacted by mode shift, such as carbon reduction.

1.2 This paper discusses the risk and how it is controlled, concluding that the risk of change to customer demand has materialised as a result of the coronavirus pandemic, and TfL now needs a clear focus on how to improve against our post-pandemic baseline. This will also mitigate the risk of further falls in demand.

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 exempt supplementary information on Part 2 of the agenda.**

3 Background

3.1 The risk was initially identified as *SR9, Inability to meet changing demand* prior to the onset of the coronavirus pandemic. 'Changes in customer travel patterns' was identified as a possible cause to the risk, however the probability of the risk materialising was deemed low (less than 25 per cent), and the health and safety impact was assessed as very low.

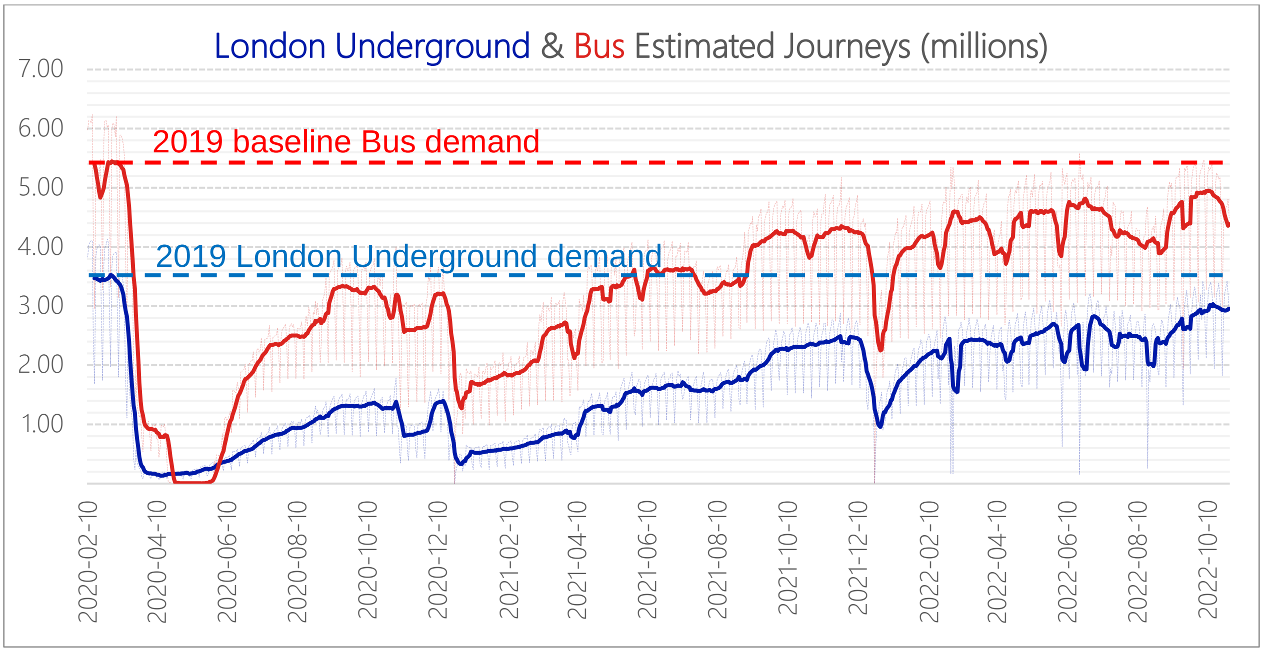
3.2 In 2020 the risk was reframed as ER09, Changes in customer demand during the coronavirus pandemic and reflected a very high (greater than 80 per cent) probability of the risk materialising with an increased impact to health and safety. The definition notes a risk of reduction in travel caused by the pandemic in the short-term, economic factors in the medium-term and behavioural changes in the longer-term, causing customer demand to be too low to meet income targets and deliver the Business Plan.

3.3 Since 2020, the short-term risk identified has materialised, the predicted medium-term economic impact of the pandemic has materialised (exacerbated by geopolitical events) and customer behavioural changes persist but have not yet stabilised. Therefore, ER09 remains a top-level risk requiring pro-active intervention to mitigate against and to improve demand recovery.

4 Demand forecasting

4.1 Demand for travel in London covers all modes of transport, including public transport run by TfL and the Train Operating Companies, and private transport modes including cars, bikes, walking, private-hire vehicles and innovations such as e-scooters. Demand for each mode is linked and dependent on many factors – especially economic and demographic – and is constantly evolving.

Chart 1 – Demand recovery for Bus and London Underground since 2019



4.2 In 2020, demand across all modes fell to a fraction of previous levels in response to the coronavirus pandemic. Demand since has been recovering, with temporary reductions during periods of increased travel restriction.

4.3 At the time of writing, customer demand stands at approximately 80 per cent of pre-pandemic levels (with variation by mode). Demand recovery from the pandemic has slowed but is still on an upward trajectory. Numbers for 2022 have been affected by atypical events affecting travel patterns including extreme weather, the funeral of Her late Majesty, the Queen and national and local industrial action in the transport sector. Some new patterns however have emerged, including less peak commuting, more leisure and discretionary trips, more trips in outer London and relatively fewer trips on Fridays and Mondays.

4.4 TfL carries out two kinds of forecasting: demand and revenue forecasting (which looks at a five-year horizon) and longer-term multi-modal demand forecasting using TfL's suite of strategic transport models. In terms of the latter, TfL produces a Hybrid forecast which is drawn from emerging evidence on how London is changing including the latest population and employment projections, more working from home for office workers and a greater shift towards online shopping. TfL also produces a number of future scenarios dealing with uncertainty to help ensure that our long-term plans are robust and resilient. Scenarios have been used across TfL and applications including the Capital Planning work and the Service Level Reviews. Now that London is beginning to recover from the pandemic, our scenarios have been updated to build on previous work and reflect new long-term risks, challenges and opportunities. Forecasting was adapted in response to the pandemic to reflect increased uncertainty, with more frequent reporting and the development of several demand scenarios.

5 Risk causes and impacts

Risk causes

5.1 A number of risk factors have come to the fore in the last year which are affecting demand currently and may continue to do so over the medium to long-term.

(a) geopolitical instability:

(i) the increase in energy prices from the war in Ukraine negatively affects demand, as well as posing a threat to TfL's operations through the impact on energy security and the supply chain;

(b) domestic politics, economic pressures and the cost-of-living crisis:

(i) the Bank of England has warned that the U.K. is facing its longest recession since records began, forecast to continue into 2024. Double-digit inflation, instability in the pound, rising interest rates, stagnant wages (especially in lower-paid sectors) and rising housing costs are having a massive impact on TfL's customer base. The uncertainty around the length, extremity and impact of these economic pressures makes them a major risk to TfL's five-year revenue forecast in particular; and

(ii) forecasting and mitigating the impact is complicated by the complex effects of inequality. August 2022 analysis by the Greater London Authority reports that 19 per cent of Londoners are struggling financially, and seven per cent are going without essentials. This affects both customer behaviour and TfL's ability to influence it, and the pressure may increase with planned spending cuts and tax rises;

(c) return to the office and demographic and land use change:

(i) there is a risk that commuter numbers will not continue to increase, which is exacerbated by the damage to the perception of the reliability of public transport from industrial action. Furthermore, high cost of living and slow recovery in the London Central Activity Zone (estimated at 50-57 per cent of pre-pandemic levels as of August) may change the demographics and geography of people living in London. The Greater London Authority's recovery analysis notes that inner boroughs' populations are below where they were estimated to be, with three below 2011 population counts. These trends are accompanied by changes in land use, including repurposing of office estates with the continuation of remote working; and

(d) the climate emergency and demand seasonality:

(i) extreme weather events such as the summer heat in 2022 have impacted customer behaviour and the operation of the transport network. These will increase in magnitude and frequency as temperatures continue to rise. There has also been a seasonal winter rise in cases of coronavirus which may continue, although hospital admissions and mortality rates remain low this year compared to in previous waves.

Impact

5.2 There is an obvious, primary effect from customer numbers across modes on three of TfL's other top ten enterprise risks, which are discussed in detail in their own reports:

(a) ER01: Inability to deliver safety objectives and obligations;

(b) ER03: Environment including climate adaptation; and

(c) ER07: Financial resilience.

5.3 High priority strategic aims are also directly impacted. Notably, 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.

5.4 Further to the direct impacts, the financial implications have a secondary effect on TfL's ability to maintain and invest in its services and network to support demand growth, which means that low customer demand has the potential to have a compounding effect. Many capital investment projects are advantageous in a range of demand scenarios, but may not be affordable.

6 Risk response (preventative and corrective)

Preventative actions and monitoring

6.1 TfL monitors changes to demand and demand drivers through the revenue forecasting and scenario planning work discussed previously, as well as through horizon scanning and market intelligence work.

6.2 A number of measures are in place and under consideration to aid demand recovery: recovery campaigns are underway to reassure customers that they can travel with confidence as London adjusts post-pandemic, with additional incentivisation including partnership deals, fare incentives and charging; and customer experience is being improved through upgrades and extensions like the Elizabeth line opening, service and reliability increases, and quality improvements such as those set out in the Bus Action Plan. Fare evasion is also being tackled to recover revenue.

6.3 The criticality of maximising demand recovery now and building and maintaining growth in a range of possible future operating environments means that work to understand and influence customer behaviour is of great strategic importance. A customer strategy is in development to address this need, which aims to provide a clear proposition and action plan for demand growth on top of the existing interventions. Prioritising demand recovery in this way is also a mitigation against further impact from demand risk.

Corrective actions

6.4 Corrective action focusses on mitigating the impact of fares revenue reduction from low demand.

6.5 One major protection is the insurance against revenue volatility afforded by the allowances in the August 2022 funding agreement, which is in effect until March 2024. While this is a comprehensive mitigation against short-term uncertainty, it is crucial that revenue is recovered and stabilised by the time the protection ends if TfL is to achieve independent financial stability.

6.6 Another key corrective approach is to look at options to diversify income so that TfL is less dependent on fares revenue. Income sources which are not driven by the same factors that drive customer demand are of particular importance. TfL is currently pursuing opportunities including business rates, grants, community infrastructure levies, developer contributions and property investment through its new independent property company.

6.7 Where income cannot be increased, spend reduction is the mitigation. Planning processes such as business planning, long- and medium-term capital planning and the service level review integrate scenario planning work to proactively adjust plans to what is affordable. Adaptations do include flexibility in service provision (where there are marginal costs that could be recovered), though it is noted that this compromises the preventative mitigation of driving demand through improvements to service. Spend reduction continues monitored through ongoing financial governance and tight financial controls.

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 course of the coronavirus pandemic. 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. Although lower than last year, all four risk impact categories are still considered to be outside tolerance. The risk has materialised and remains a top priority to monitor and mitigate. Actions to drive customer demand will be key to TfL achieving its strategic aims.

List of appendices to this report:
A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of background papers:
None

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Finance Committee

Date: **23 November 2022**

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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Appendix 1

Finance Committee Forward Plan 2022/23

Membership: Anne McMeel (Chair), Ben Story (Vice-Chair), Prof Greg Clark CBE, Seb Dance, Anurag Gupta and Dr Nina Skorupska CBE

Abbreviations: CCO (Chief Capital Officer), CFO (Chief Finance Officer), CTO (Chief Technology Officer), D (Director), CCSO (Chief Customer and Strategy Officer), Comm Dev (Commercial Development), CSHEO (Chief Safety, Health and Environment Officer), GC (General Counsel)

8 March 2023		
Use of Delegated Authority	GC	To note
Finance Report	CFO	To note
Treasury Activities	CFO	To note
Treasury Management Strategy 2023/24	CFO	To approve
Treasury Management and Derivative Investments Policies 2023/24	CFO	To approve
General Fund Balance	CFO	To approve
TfL Budget 2023/24 - informal	CFO	To note and recommend Board approval
TfL Prudential Indicators 2023/24 to 2025/26 - informal	CFO	To note and recommend Board approval
TfL Investment Management Strategy 2023/24 – Non-Financial Assets	D Comm Dev	To approve
Taxi Fares and Tariffs Consultation	GC	To approve
Energy Purchasing Strategy Update	CSHEO	To note
Procurement Strategy on Major Contracts	CFO	To note

Finance Committee Forward Plan 2022/23

Regular items:

- Use of Delegated Authority (covers Chair's Action, Procurement Authority etc.) (GC)
- 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 – October) (CFO)
- Prudential Indicators (setting for current year - annual informal - March) (CFO)
- Treasury Activities (semi-annual – October 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 (ER05) (annual – June) (CCO)
- Enterprise Risk Update – Financial Sustainability (ER07) (annual – October) (CFO)
- Enterprise Risk Update – Changes in Customer Demand (ER09) (annual – November) (CCSO)

Additional items to be scheduled:

- Spending Review Issues (e.g. Business Rates Devolution) (CFO)
- Income Generation Proposals (CFO & CCSO)
- Securing New Income Streams (CFO & CCSO)
- TfL Strategy on Working Capital
- Victoria Coach Station
- App Based Culture – paper to cover TfL perspective on the strategy, plans and issues for TfL e.g. TPH regulation
- Applied Solutions – pending the outcome of review on Consulting (D Comm Dev)
- Cubic and NY RUC Bid (D Strategy & CTO)

As at 15 November 2022

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

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Agenda Item 16

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