MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Thursday 11 July 2024

Time: 10:00am

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

Members
Anne McMeel (Chair)
Anurag Gupta (Vice-Chair)
Seb Dance
Prof Greg Clark CBE
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

Andrea Clarke, General Counsel
Wednesday 3 July 2024

Agenda
Finance Committee
Thursday 11 July 2024

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 13 March 2024 (Pages 1 - 16)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 13 March 2024 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 17 - 26)

General Counsel

The Committee is asked to note the updated actions list.

5 Use of Delegated Authority (Pages 27 - 32)

General Counsel

The Committee is asked to note the paper.

6 Finance Report - Period 2, 2024/25 (Pages 33 - 52)

Chief Finance Officer

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

7 Greater London Authority Treasury Collaboration (Pages 53 - 84)

Director of Corporate Finance

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and to authorise the managing Chief Finance Officer to approve an increase in the TfL investment counterparty limit in respect of London Treasury Liquidity Fund LP from £10m to £900m, following confirmation from the Group Treasurer of satisfactory delivery of the changes proposed under the GLA investment collaboration, as anticipated in TfL's Treasury Management Strategy 2024/25 and TfL's Treasury Management Policies approved by the Committee in March 2024.

8 Annual Update on Third-Party Funding Secured Through Spatial Planning (Pages 85 - 96)

Chief Customer and Strategy Officer

The Committee is asked to note the paper.

9 Energy Purchasing Strategy Update (Pages 97 - 104)

Chief Safety, Health and Environment Officer

The Committee is asked to note the paper.

10 Procurement Act 2023 - Implementation Update (Pages 105 - 108)

Chief Finance Officer

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

11 Forthcoming Key Procurement Activities (Pages 109 - 112)

Chief Finance Officer

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

12 TfL General Consumable Contract Extension (Pages 113 - 116)

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 Procurement Authority, at the sum set out in the related paper on Part 2 of the agenda, for the extension of up to the maximum available term of the TfL General Consumable Contract, as described in this paper and the related paper on Part 2 of the agenda, giving a total Procurement Authority as set out in the related paper on Part 2 of the agenda.

13 Risk and Assurance Report Quarter 4 2023/24 (Pages 117 - 124)

Director of Risk and Assurance

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

14 Members' Suggestions for Future Discussion Items (Pages 125 - 130)

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.

15 Any Other Business the Chair Considers Urgent

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

16 Date of Next Meeting

Wednesday 9 October 2024 at 10.00am.

17 Exclusion of the Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraphs 3 and 7 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

Agenda Part 2

18 Finance Report - Period 2, 2024/25 (Pages 131 - 136)

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

19 Greater London Authority Treasury Collaboration (Pages 137 - 138)

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

20 Procurement Act 2023 - Implementation Update (Pages 139 - 140)

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

21 Forthcoming Key Procurement Activities (Pages 141 - 148)

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

22 TfL General Consumable Contract Extension (Pages 149 - 152)

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

23 Risk and Assurance Report Quarter 4 2023/24 (Pages 153 - 158)

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

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Transport for London

Minutes of the Finance Committee

Conference Rooms 1 and 2, Ground Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ 10.00am, Wednesday 13 March 2024

Members
Anne McMeel (Chair)
Anurag Gupta (Vice-Chair)
Seb Dance
Dr Nina Skorupska CBE

Government Special Representative
Samantha Collins-Hill

Executive Committee

Andy Lord	Commissioner
Andrea Clarke	Interim General Counsel
Rachel McLean	Chief Finance Officer
Alex Williams	Chief Customer and Strategy Officer

Staff

Helen Chapman	Director of Licensing and Regulation (for Minute 11/03/24)
James Collins	Corporate Finance Senior Manager (D&R)
Darren Crowson	Policy Manager, Taxi and Private Hire (for Minute 11/03/24)
Justine Curry	Interim Director of Legal
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Oliver Gearing	Finance Director – Operations
Joanna Hawkes	Director of Corporate Finance
Lorraine Humphrey	Director of Risk and Assurance
Shamus Kenny	Head of Secretariat
Elizabeth McKay	Director and Chief Executive Officer, London Transport Museum
Heather McStay	Head of Procurement, Facilities Management
Pritesh Patel	Head of Financial Planning and Analysis
Trevor Sandford	Head of Finance – Professional Services
Christopher Tann	Head of Group Financial Reporting & Tax
Jonathan Wharfe	Director of Procurement and Commercial Operation
Henry Yeomans	Head of Procurement – Track & Fleet

Also in attendance

Luke Webster	Assistant Director, Group Treasury and Chief Information Officer, Greater London Authority

01/03/24 Apologies for Absence and Chair's Announcements

An apology for absence had been received from Professor Greg Clark CBE. The meeting was quorate. Government Special Representative John Hall was unable to attend the meeting and was represented by Samantha Collins-Hill.

The Chair welcomed everyone to the meeting. The meeting was broadcast live to TfL's YouTube channel, 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.

The Chair confirmed that under section 100B(4)(b) of the Local Government Act 1972, she had agreed that the late items marked "to follow" on the agenda would be considered as a matter of urgency. The items were TfL Budget 2024/25 and TfL Prudential Indicators 2024/25 to 2026/27 (and the related Part 2 paper) and were published on 8 March 2024. They were accepted as urgent as the papers needed to reflect any impact on TfL of the Government's Budget 2024 that was announced on 6 March 2024 and to allow for the latest information to be provided.

The Chair reordered the agenda so that Luke Webster could be present for the discussions on Treasury Activities, Policies and Strategies, which was considered immediately before the discussions on TfL Prudential Indicators 2024/25 to 2025/26. The minutes reflect the meeting agenda order.

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 the appropriate member of the Executive Committee after the meeting.

Andy Lord thanked the Chair and the Committee for their support and challenge over the last year and going forward, and for helping TfL to deliver financial sustainability.

02/03/24 Declarations of Interests

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date.

Since the last meeting, there had been one update to Members declarations: Anurag Gupta had been appointed to the Steering Committee of the UK India Infrastructure Financing Bridge (UKIIB), a joint initiative of the City of London Corporation and the Government of India's NITI Aayog.

There were no interests to declare that related specifically to items on the agenda.

03/03/24 Minutes of the Meetings of the Committee held on 22 November and 22 December 2023

The minutes of the meetings of the Committee held on 22 November and 22 December 2023 were approved as correct records, and the Chair was authorised to sign them.

04/03/24 Matters Arising and Actions List

Andrea Clarke introduced the item, which set out progress against actions agreed at previous meetings of the Committee.

Rachel McLean provided a further update in relation to an action on Roadside Advertising Assets Disposal from the meeting on 11 October 2023. She confirmed that discussions were progressing on the strategy previously presented to the Committee. Should approval by Chair's Action not subsequently be required, the paper seeking approval would be circulated to the Committee for information.

[Action: Rachel McLean / Secretariat]

The Committee noted the updated actions list.

05/03/24 Use of Delegated Authority

Andrea Clarke introduced the item. Since the meeting of the Committee on 22 November 2023, there had been one use of specific authority delegated by the Board on 13 December 2023 in relation to approval of the 2024 TfL Business Plan by the Committee on 22 December 2023.

There had been one use of Chair's Action in relation to the capital funding settlement with the Department for Transport.

There have been five grants of Procurement Authority in relation to: FM Mechanical and Electrical Maintenance (Rail) contracts; Through the Line Strategic Thinking contract; Collaborative Print Management contract; London Cable Car Operations and Maintenance Contract Re-procurement; and Vehicle licensing, inspection services and an end-to-end information technology system contract.

There had been one grant of unbudgeted Financial Authority in relation to urgent maintenance resources for Central line recovery and unbudgeted Financial Authority granted in relation to bus operating contracts.

The paper referenced one Mayoral Direction to TfL relating to the implementation of the March 2024 Fare Change. The changes included freezing TfL-regulated fares set by the Mayor, which would be funded by increasing TfL's retained business rates income.

Since the paper was finalised, there had been two further Mayoral Directions to TfL. On 29 February 2024, TfL was directed to introduce a trial of all-day off-peak fares on Fridays on all TfL rail services and pay-as-you-go fares on National Rail services in London, from Friday 8 March 2024 to Friday 31 May 2024 inclusive. Funding of £24m had been allocated to support the trial. On 4 March 2024, TfL was directed to amend the existing London Vehicle Scrappage Scheme Delegation and Direction to confirm that TfL was able to use the Scheme to fund the donation and removal of non-compliant vehicles from use in Greater London to Ukraine.

The Chair commented that the delegations were all fully funded with no net impact on the TfL 2024/25 Budget.

The Committee noted the paper.

06/03/24 TfL Budget 2024/25

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

Rachel McLean and Patrick Doig introduced the item, which sought approval of TfL's Budget for 2024/25. On 6 March 2024, given the proposed 2024/25 Budget was not available for that meeting, the Board delegated approval of the Budget to the Committee. The Budget updated the assumptions for 2024/25 compared with those in the 2024 Business Plan and in the Greater London Authority (GLA) budget submission in December 2023 and included the latest information on journey trends, inflation, savings and delivery schedules for the investment programme.

The forecast for 2023/24 showed that TfL was on track to reach operational financial sustainability and no longer rely on Government support for day-to-day operations, which was a significant milestone for TfL's recovery from the coronavirus pandemic. The operating surplus was already allocated to fund investment in the Business Plan. Government recognised that it was not possible for TfL to fund all its capital investment, so capital funding support was still needed. TfL was increasing its level of investment in capital renewals so the surplus was lower than in the Business Plan.

The Budget also reflected the outcomes of the Mayor's budget process, which included additional recurring funding to freeze the fares directly controlled by the Mayor. This enabled TfL to provide services that remained as affordable as possible; enhance the number of publicly available toilets on the TfL estate; innovate fares by trialling off-peak Fridays; support the Superloop bus services; and help further improve air quality through extending the Ultra Low Emission Zone scrappage scheme.

The rate of inflation had not fallen as quickly as previous forecasts predicted and had been assumed in the Business Plan. The Budget assumed that inflation would remain higher for longer, although the latest projections indicated there may be a small opportunity during 2024/25 from slightly lower inflation than expected. The Budget was based on a balanced view informed by the latest trends and market expectations, which reduced the cost pressure from £180m down to £120m. Lower than expected inflation would see a reduction of between £10m and £12m in cost pressure in 2024/25 compared to the proposed Budget.

To offset the larger inflationary pressure, the cost savings target in 2024/25 had been extended to £343m, through a mixture of recurring, one-off savings and cost avoidance, compared with £301m set out in the Business Plan. Savings delivery was one of the key financial metrics in the TfL Scorecard and TfL was further reviewing its use of non-permanent labour and consultants; working with suppliers to identify savings; reducing its office footprint and sub-letting head office space; reducing energy consumption; and ensuring energy-effective procurement.

TfL had also reviewed and prevented some cost growth through a mixture of reducing or stopping activity or mitigating cost pressures. An additional unidentified savings target of around £90m remained across both recurring and one-off savings, which was similar to the level of challenge in previous years, some of which would be delivered by avoiding cost increases. Like-for-like costs remained at almost the same level between 2022/23 and 2024/25, which reflected the savings programme implemented and action taken to mitigate inflation.

Passenger journey numbers continued to increase and TfL expected ridership to grow by six per cent by the end of 2023/24 and by a further six per cent during 2024/25.

Passenger income was lower than forecast in the Business Plan, due to the Mayoral fares freeze, but this was offset by other funding provided by the Mayor.

Overall, TfL was growing total income to £9,467m while maintaining the same proportion of fare income year-on-year. This was achieved through higher business rates retention and an increase in the council tax precept, as well as other sources of income such as commercial media and partnerships, telecoms, taxi and private hire licence fees and other administration fees.

Excluding Places for London, the 2024/25 operating surplus in the Budget was £161m, which was £60m lower than in the Business Plan, but still represented an increase compared with £102m forecast in 2023/24. TfL had achieved this while increasing the level of investment in critical asset renewals.

The Budget supported TfL's commitment to get everyone home safe and healthy every day and to invest in vital improvements, such as launching phase 2 of the Direct Vision Standard to improve safety for road users; delivering the safer junction programme; starting trials to further reduce Tube dust; and implementing the Colleague safety plan. TfL continued to deliver on its ambition to be a great place to work for everyone to thrive by embedding its Action on Inclusion and Colleague wellbeing plan.

TfL continued to provide more reason to choose sustainable travel by increasing its renewals budget to maintain existing service levels and improve reliability. It was focussed on improving bus customer journey times and ensuring the full roll out of outer London services, alongside the roll out of 4G and 5G. TfL was delivering on its green goals in the Budget and would continue the roll out of zero emission buses, with a further 500 joining the fleet in 2024/25, and building its decarbonisation pipeline and adaptation projects.

The Budget delivered £1.8bn of capital investment, which was three per cent lower than this financial year due to some programmes coming to an end and others ramping up. TfL continued to increase funding for critical asset renewals to begin to address the backlog created by the pandemic and Government funding uncertainty.

TfL was maintaining an affordable level of debt and managing borrowing in an affordable, sustainable and prudent manner. TfL had reduced its total debt since 2020/21 as part of the return to financial sustainability, although this was forecast to increase in 2024/25 due to borrowing to fund the investment programme and when the Silvertown Tunnel opened and came onto the balance sheet.

In 2024/25, TfL planned to hold cash reserves equivalent to 60 days of operating costs. It maintained other sources of liquidity including an overdraft facility, a short-term financing facility and the £350m GLA financing facility to absorb any shocks and withstand strategic, safety and operational risks. It was rebuilding its accounting reserves and the Budget confirmed the trajectory set out in the Business Plan to return to a General Fund of £500m by 2025/26.

Significant key risks in 2024/25 included the passenger income risk returning to TfL as the August 2022 Government funding settlement ended; uncertainty around other income streams; delivering challenging savings targets; and investment which was lower than required to maintain asset condition. The Budget included £120m of contingency to manage these risks and TfL had further levers which could be applied in year to respond to further shocks.

Rachel McLean, Andy Lord and Committee Members thanked colleagues in Finance and across TfL in assisting the financial recovery by delivering services every day on the network. It was testament to everyone that TfL had achieved operational financial sustainability in 2023/24 and TfL was budgeting to continue to strengthen its financial position in 2024/25.

Progress on delivering against the Budget would be reported to the Committee and Board throughout 2024/25. As required under the 2024/25 Government capital funding settlement, TfL would continue to provide quarterly financial reporting to the Department for Transport (DfT) and its advisers, to update on how it was maintaining operational financial sustainability and making progress on the requirements of the funding settlement.

TfL was grateful for the capital funding it had received from Government and was fortunate that it had a significant commercial renegotiation opportunity which had offset the £250m shortfall, but the same opportunity would not be available for this financial year. Government investment in the capital programme provided good value in the direct economic return it represented and in the supply chain and jobs across the country. A longer-term funding arrangement would enable TfL to make more efficient and beneficial decisions on capital, revenue and operations.

Samantha Collins-Hill, Government Special Representative, advised that DfT colleagues had worked closely with Patrick Doig and the Finance team to understand TfL's financial set up and the value of future investment. Government recognised that investment in London's transport network supported the rest of the UK and that TfL was not expected to fund major capital programmes solely from its income. The Government was in the last year of the Spending Review and DfT colleagues would continue to work closely with TfL on the next opportunity to make a good case for investment.

The Committee noted the paper and approved the TfL Budget for 2024/25.

07/03/24 TfL Prudential Indicators 2024/25 to 2026/27

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

Christopher Tann introduced the item, which sought approval of TfL's Prudential Indicators and Treasury Management Indicators for 2024/25 and the following two years, and of the annual Policy Statement on Minimum Revenue Provision. The paper set out the proposed TfL borrowing limits and other Prudential Indicators. These were consistent with the proposed Treasury Management Strategy for 2024/25, which was also on the agenda for consideration at this meeting, and the principles underpinning the proposed long-term TfL Capital Strategy.

The overall purpose of the Indicators was to ensure that the levels of external debt were prudent, affordable and sustainable. The operational boundary reflected the overall external debt including borrowings and leases assumed in the TfL Budget and Business Plan. The most significant change was the inclusion of the Silvertown Tunnel Private Finance Initiative contract of around £1.4bn that was forecast to come onto the balance sheet at the end of 2024/25. The boundary also included the assumed levels of additional borrowing of approximately £47m for 2023/24 and £470m for 2024/25 to part finance investment in rolling stock and signalling programmes.

The authorised limit provided headroom above the operational boundary to address any short-term refinancing or unforeseen circumstances and could be serviced using options such as the Greater London Authority financing facility. It was not considered the most likely or budgeted scenario but, should the circumstances arise, the affordability of increasing external debt would be assessed at that time. A further change was the removal of an element of the headroom allowed for the misclassification of leases. This risk had fallen away now that International Financial Reporting Standard 16 had been implemented and embedded in the organisation for several years.

The Minimum Revenue Provision Policy was a statutory requirement for local authorities to set aside reserves for the repayment of debt. Audit findings confirmed that the 2022/23 calculation was compliant but recommended several areas of improvement. No changes had been made to how the provision was calculated but the policy had been expanded to address the recommendations to clearly outline how the policy was applied to each category of assets, borrowing or leases.

Consideration would be given to modelling the debt service coverage ratio and the operating surplus profile to help reduce debt costs as part of the scenario planning for the next Business Plan process. **[Action: Rachel McLean]**

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

(a) approved the TfL Prudential Indicators, as set out in Appendix 1 of the paper, for 2024/25 and the following two years;

(b) approved the Treasury Management Indicators, as set out in Appendix 2 of the paper, for 2024/25 and the following two years; and

(c) approved the annual TfL Policy Statement on Minimum Revenue Provision, as set out in section 6 of the paper.

08/03/24 Finance Report – Period 11, 2023/24

Pritesh Patel introduced the item, which set out TfL’s financial results to the end of Period 11 of 2023/24, the year-to-date ending 3 February 2024.

Performance to date continued to show strong results and TfL was successfully implementing its finance strategy and remained on track to achieve operational financial sustainability this financial year. At 10 months into 2023/24, TfL was within 0.4 per cent of its revenue budget, one per cent of core costs, one per cent of capital renewals and one per cent of financing costs.

On passenger income, TfL was targeting journey growth of six per cent on top of the 31 per cent increase in 2022/23. Cumulative growth was almost seven per cent in the year to date. Passenger journeys were at 90 per cent of pre-coronavirus pandemic levels, up from 85 per cent at the end of last financial year.

Like-for-like operating costs were six per cent higher than last year, despite year-on-year inflation of eight per cent, so a fall in real terms. Operating costs were currently two per cent lower than budget, mainly from contingencies which were held to mitigate risks on operating income which TfL had now retired.

The headline operating surplus was £145m, which was £78m better than budget. Excluding Places for London, this was £112m so was on track to deliver the £102m operating surplus forecast in the budget, with some costs being backend phased and renewals spend expected to ramp up. Some small risks remained on operating income and savings delivery but TfL expected to manage these and had retired the majority of its central contingency.

Capital renewals were within one per cent of budget, with the full-year outturn expected to be around £750-£760m with some acceleration of the spend into this year. Capital enhancements were expected to end the year between £80-90m lower than budget but in a controlled way to offset the lack of inflation support provided by Government.

Cash balances were in line with budget at around £1.2bn, as required in the August 2022 funding settlement. The forecast at the end of the year was around £1.3bn usable cash which was the maximum TfL was allowed to exit 2023/24 under the funding settlement.

TfL had met all the funding conditions within its control under the August 2022 funding settlement and this information would be included in the next Commissioner's Report to the meeting of the Board in June 2024. **[Action: Andy Lord]**

An informal briefing on the future savings and investment programme, with a focus on high level savings generation and retention, would be provided to all Board Members later in 2024. **[Action: Rachel McLean / Secretariat]**

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

09/03/24 Treasury Activities, Policies and Strategies

Joanna Hawkes introduced the item, which provided an update on TfL's key treasury activities for the period from 23 September 2023 to 23 February 2024, including a summary of the changes to the Treasury Management Policies and Strategies.

Luke Webster, Assistant Director, Group Treasury and Chief Information Officer, Greater London Authority (GLA), attended the meeting for this item.

The paper sought approval of the proposed TfL Treasury Management Strategy (TMS) for 2024/25, the proposed TfL Treasury Management Policies (TMP) and the proposed TfL Group Policy Relating to the Use of Derivative Investments (Derivatives Policy), along with the proposed Places for London Limited (Places, TfL's property development company) Treasury Management Strategy (Places TMS) and the Places for London Treasury Management Policies (Places TMP). Approval of these strategies and policies was within the authority of the Committee.

During the reporting period, TfL had complied at all times with the TfL TMS, the TfL TMP, the Derivatives Policy, the Places TMS and the Places TMP, as approved by the

Committee on 8 March 2023, along with the GLA Responsible Investment Policy, approved by the Mayor on 25 April 2023.

In November 2023, Moody's upgraded TfL's long-term credit rating to A3 from Baa1 and the outlook had moved from Stable to Positive. TfL's ratings with Standard & Poor's and Fitch had been affirmed and remained unchanged at A+ (Positive) and AA- (Negative).

TfL's ongoing investment collaboration with the GLA was progressing and approval had been received from the GLA Group Collaboration Board in December 2023 for the design and to proceed with the implementation. The collaboration was expected to conclude in June 2024, at which point TfL expected to invest further in the London Treasury Liquidity Fund LP.

A paper would be brought to the next meeting of the Committee with the final results of the collaboration including the completed guarantee and an explanation of the governance process. Joanna Hawkes would engage with Committee Member Anurag Gupta on how the governance would work in certain scenarios.

[Action: Joanna Hawkes]

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

1 approved the proposed TfL Treasury Management Strategy (TMS) 2024/25, attached as Appendix 1 to the paper, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy;

2 approved the proposed TfL Treasury Management Policies, attached as Appendix 2 to the paper;

3 approved the proposed TfL Group Policy Relating to the Use of Derivative Investments, attached as Appendix 3 to the paper;

4 approved the proposed Places for London Limited Treasury Management Strategy, attached as Appendix 4 to the paper, including the Borrowing Strategy, the Investment Strategy, the Liquidity Strategy and Banking and Cash Management explanation;

5 approved the proposed Treasury Management Policies for Places for London Limited, attached as Appendix 5 to the paper; and

6 following approval of the TMS 2024/25 (1 above) and approval of the TfL Group Policy Relating to the Use of Derivative Investments (Derivatives Policy) (3 above), approved, pursuant to Section 49 of the Transport for London Act 2008 (as amended by the Transport for London Act 2016, together the Act), and in accordance with the Derivatives Policy for 2024/25, Transport for London Finance Limited (as a qualifying TfL subsidiary for the purposes of the Act) entering into derivative investment(s) in relation to:

(a) mitigating exchange rate risk related to specific currency exposures arising from the procurement of goods or services by any member of the TfL Group or grants or revenues payable in currencies other than Sterling to any member of the TfL Group in the ordinary course of

business as soon as practicable once the quantum of exchange rate risk to any member of the TfL Group is established;

(b) mitigating exchange rate risk arising from any TfL Group investments in foreign currencies and/or any TfL Commercial Paper (Euros or US Dollars) borrowing in accordance with the TMS 2024/25;

(c) mitigating commodity rate and/or price risk related to specific commodity (including fuel and electricity) exposures arising from the procurement of goods or services by any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of commodity risk to any member of the TfL Group is established;

(d) mitigating interest rate risk and if applicable currency risk related to any existing, imminent and future TfL Group borrowing (including any leases), once the borrowing has become certain and authorised in accordance with the TMS 2024/25;

(e) mitigating inflation risk related to specific exposures arising from the procurement of goods or services by any member of the TfL Group once the quantum of inflation risk to any member of the TfL Group is established; and

(f) mitigating risk related to any index reflecting any of the above matters referred to in resolutions 6 (a) to (e) above.

10/03/24 Investment Management Strategy 2024/25 – Non-Financial Assets

Joanna Hawkes introduced the item, which sought approval of the proposed Investment Management Strategy 2024/25 – Non-Financial Assets. The strategy set out how TfL planned to manage and grow its various commercial assets. Approval of the strategy was within the authority of the Committee and would be noted at a meeting of the Land and Property Committee.

Statutory guidance required the strategy to include reference to other non-financial assets held primarily for or partially to generate profit. The strategy sat alongside TfL's Treasury Management Strategy, which addressed financial investments and was approved at this meeting of the Committee (see Minute 09/03/24).

The strategy had been updated to clarify which items of non-financial investment were managed through TfL's subsidiary, Places for London Limited (Places) and which were managed directly by TfL. The strategic objectives had been updated to align with the shareholder objectives agreed between TfL and Places, and the strategy relating to Media and Telecommunications had been updated to reflect the latest developments.

Consideration would be given to streamlining the paper in future based on how the Land and Property Committee and the Finance Committee operated long-term going forward.

[Action: Joanna Hawkes]

The Committee noted the paper and approved the Investment Management Strategy 2024/25 – Non-Financial Assets, attached at Appendix 1 to the paper.

11/03/24 Taxi Fares and Tariffs Update

Helen Chapman and Darren Crowson introduced the item, which provided an update on the outcome of the 2023/24 taxi (black cab) fares and tariffs review and sought approval of changes to fares and tariffs.

TfL was responsible for the licensing and regulation of London's taxi and private hire services. It regulated taxi fares and set the maximum taxi fares that could be charged. When considering changes to taxi fares and tariffs, TfL tried to strike an appropriate balance between taxi drivers being fairly paid and taxi users getting fair, reasonable and affordable fares.

The review found that taxi drivers' operating costs included large increases in vehicle costs, electricity/charging and insurance. A cost index was used to track changes to their costs and average national earnings, resulting in a total cost index figure of 8.92 per cent in 2023/24.

TfL consulted on different options for fares and tariffs for consideration by respondents. After reviewing all the responses to the consultation and considering the issues raised, and the positive and negative impacts identified, TfL recommended increasing Tariffs 1, 2 and 3 by the total cost index figure to reflect the change in taxi drivers' operating costs and average national earnings. It also recommended making the Tariff 4 rates the same as the Tariff 2 rates to simplify the tariff structure and to continue to incentivise taxi drivers to accept longer journeys.

TfL sought views on reducing the Heathrow extra fee that drivers charged passengers to cover part of the cost of the taxi feeder park fee. After reviewing all the responses and considering the issues and impacts, TfL recommended reducing the Heathrow extra to £2.00 to maintain the longstanding arrangement of the Heathrow extra being around half of the taxi feeder park fee and to recognise that taxi drivers did not pay the taxi feeder park fee every time they entered a taxi rank at Heathrow Airport. It also recognised that, after a significant fall in taxi use during the coronavirus pandemic, demand for taxis at the airport had recovered.

TfL also sought views on increasing the fixed-fare between Wimbledon station and the All England Lawn Tennis Club (AELTC) and Southfields station and the AELTC during the Wimbledon Tennis Championships. After reviewing all of the responses and considering the issues and impacts, TfL recommended increasing the fixed-fare to £3.50 per passenger to encourage taxi drivers to use the taxi ranks during the Championships and to increase the supply of taxis available.

Given the emphasis assigned to the consultation responses, consideration would be given to ways of verifying which stakeholder group respondents belonged to and of declaring their interests for future consultations. **[Action: Helen Chapman]**

With the increase in more electric taxi vehicles and given the variable ways and costs of charging vehicles, consideration would be given to the use of other reference prices, in addition to energy prices, as part of the benchmarking of electric charges for future reviews. **[Action: Helen Chapman]**

As part of the regular discussions that Andy Lord and Alex Williams had with the Chief Executive and his team at Heathrow Airport, the need to install more electric vehicle charging points for use by taxi drivers at the airport would be raised.

[Action: Andy Lord / Alex Williams]

The Committee noted the paper and approved:

1 increasing Tariffs 1, 2 and 3 by the total Cost Index figure (+8.92 per cent) to reflect the change in both taxi drivers' operating costs and average national earnings;

2 making the Tariff 4 rates the same as the Tariff 2 rates;

3 reducing the Heathrow extra from £3.60 to £2.00; and

4 increasing the fixed-fares for shared-taxis that operate between Wimbledon Station and the All England Lawn Tennis Club (AELTC) and Southfields Station and the AELTC during the Wimbledon Tennis Championships.

12/03/24 Track Labour Framework Extension

Jonathan Wharfe and Henry Yeomans introduced the item, which provided an update on the Track Labour Framework and sought additional Procurement Authority for the external track labour resources required to supplement London Underground's direct labour for the financial year 2024/25.

The external, skilled labour was deployed across the network to support safety critical maintenance, enhancements and renewals of track assets. The framework was let following a competitive tender process and awarded to five suppliers. Commercial negotiations had taken place with each supplier to agree fixed 12-month rates giving the greatest opportunity to deliver value for money and mitigate future cost pressures.

In June 2023, the Committee approved the extension of the framework until March 2025 and granted Procurement Authority to March 2024, as part of the transition to a new approach to the market for the service. It was noted at the time that additional Procurement Authority would be sought to March 2025 after funding discussions with Government had concluded. It was likely that a further extension in time and value would be sought from the Committee later in 2024/25 as the transition arrangements progressed, depending on the outcome of the re-procurement and required mobilisation timescales. Members would be provided with an update prior to any request being submitted to the Committee for approval. **[Action: Rachel McLean / Jonathan Wharfe]**

Due to the complexity of the work involved, an informal briefing on the Track contracts strategy and delivery would be provided to Committee Members in April 2024.

[Action: Rachel McLean / Secretariat]

Non-permanent labour (NPL) was a collective term used for a variety of different resources that TfL used. TfL was focused on reviewing the use of some very specialist individuals where a more permanent solution was needed but there was a valid case for contracts with suppliers to provide resource to deal with peak demand in workshops and call centres. Consideration would be given to demonstrating the different categories of NPL in future papers. **[Action: Rachel McLean]**

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and approved Procurement Authority for £112.4m for external track labour resources procured through the London Underground Track Labour Framework for the period to March 2025, giving a total Procurement Authority of £701.15m.

13/03/24 London Transport Museum: Covent Garden Site

Trevor Sandford introduced the item, which provided an update on potential future proposals for development of London Transport Museum's (LTM) site in Covent Garden.

Elizabeth McKay, Director and Chief Executive Officer, LTM, attended the meeting for this item.

LTM had occupied the flower market building in Covent Garden since 1980. LTM was London's third fastest recovering attraction in the post-coronavirus pandemic market and footfall and income was now capped by space and capacity constraints at peak times. The paper set out the options to alleviate the constraints.

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

14/03/24 Forthcoming Key Procurement Activities

Heather McStay introduced the item, which provided a summary of the major new procurements or contract extensions planned over the next two years and decisions that were anticipated to be required from the Committee by way of Chair's Action over the next six months. It also highlighted significant forthcoming procurements that required approval at officer level during that period.

The two-year look ahead included those projects with an estimated value of £1m or over and covered 224 contracts with an estimated total value of £27bn, and equivalent annual spend of £2.9bn when prorated by the length of the contracts.

In Operations and Professional Services, two contract awards were forecast to require Committee approval by Chair's Action in the next six months. Since the publication of the paper, a further decision by Chair's Action was anticipated shortly.

An informal briefing on the strategy for future wider concessions procurement would be provided to Committee Members, to take place in line with the strategy harmonisation.
[Action: Rachel McLean / Secretariat]

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

15/03/24 Risk and Assurance Report Quarter 3 2023/24

Lorraine Humphrey introduced the item, which provided an overview of the status of, and changes to, Enterprise Risk 5 – Efficient and high performing supply chains and effective procurement (ER5), Enterprise Risk 7 – Financial resilience (ER7) and Enterprise Risk 9 – Changes in customer demand (ER9). It also summarised the findings from the assurance activity associated with the risks.

A paper on ER9 was on the agenda for this meeting (see Minute 16/03/24). The 12-month rolling schedule was being developed which would confirm when the other risks would be reported to the Committee.

At the end of Quarter 3, in December 2023, 50 per cent of the internal audit plan had been delivered and the 85 per cent target was expected to be met as the work rate picked up. There had been a poorly controlled audit around cycle hire and bad debt. There had been several referrals of alleged counter-fraud and corruption through the website. The target to disseminate the referrals within 10 days was being met and new cases had been created. The most-risky parts of the business were being targeted, resulting in some poorly controlled and requires improvement audits.

On overdue audit actions, there were 66 open actions on the three risks that the Committee was responsible for, 18 of which were overdue and six were more than 100 days overdue but were now all closed. TfL had a clear focus on dealing with and closing the audit actions as soon as possible. Additional measures had been put in place to prevent actions becoming overdue and the trend was improving.

Consideration would be given to the broader landscape and strategies across all forms of bad debt and whether a separate paper should be brought to a future meeting of the Committee on the wider financial implications, in addition to the work on fare evasion that was already reported to the Customer Service and Operational Performance Panel.

[Action: Rachel McLean]

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

16/03/24 Enterprise Risk Update – Changes in Customer Demand (ER9)

Alex Williams introduced the item, which provided an update on the current understanding and control measures on Enterprise Risk 9 – Changes in customer demand, which was a broad risk with significant potential implications for TfL's financial sustainability and delivery of its transport strategy.

Passenger demand had now stabilised and was around 90 per cent of pre-coronavirus pandemic levels. Protection against revenue volatility would cease on 31 March 2024 when the August 2022 Government funding settlement ended, which would increase the level of TfL's exposure to change in customer demand and increase the potential impact of the risk to financial sustainability. As passenger demand had increased by six per cent this financial year, the overall risk score had been reduced from Very High to High, following the risk assessment.

The level of risk of customer demand being too low to meet income targets and deliver against TfL’s strategic priorities had reduced since the pandemic, based on the strong demand growth over the current financial year and the current demand stability. TfL would continue to improve passenger demand to achieve the six per cent passenger growth target set in the 2024/25 Budget, which would mitigate the risk of further reduction in demand.

Longer-term scenario planning considered a wide basket of indicators, including technology innovations, and were updated each year to help shape the passenger forecasts for the next Business Plan. Artificial intelligence would be factored into the longer-term forecasts going forward including the fast-moving nature of this area.

[Action: Alex Williams]

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

17/03/24 Members’ Suggestions for Future Discussion Items

Andrea Clarke introduced the item. No additional suggestions were raised for future discussion items on the forward plan or for informal briefings, other than those already noted during the meeting.

The Committee noted the forward plan.

18/03/24 Any Other Business the Chair Considers Urgent

There was no other urgent business to discuss.

19/03/24 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Thursday 11 July 2024 at 10.00am.

20/03/24 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 7 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: TfL Prudential Indicators 2024/25 to 2026/27; Finance Report – Period 11, 2023/24; Treasury Activities, Policies and Strategies; Track Labour Framework Extension; London Transport Museum: Covent Garden Site; Forthcoming Key Procurement Activities; Risk and Assurance Report Quarter 3 2023/24; and Enterprise Risk Update – Changes in Customer Demand (ER9).

The meeting closed at 1.16pm.

Chair: ____________________________________

Date: _____________________________________

Finance Committee

Date: **11 July 2024**

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.

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: Andrea Clarke, General Counsel
Email: AndreaClarke@tfl.gov.uk

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Appendix 1

Finance Committee Actions List (to be reported to the meeting on 11 July 2024)

Actions from the meeting held on 13 March 2024

Minute No.	Item/Description	Action By	Target Date	Status/Note
04/03/24	**Matters Arising and Actions List – Roadside Advertising Assets Disposal** Should approval by Chair's Action not subsequently be required, the Roadside Advertising Assets Disposal paper seeking approval would be circulated to the Committee for information.	Rachel McLean/ Secretariat	April 2024	**Completed.** The decision was within the authority level for the Commissioner. The paper was circulated to Members on 10 April 2024. See action 45/10/23 below.
07/03/24	**TfL Prudential Indicators 2024/25 to 2026/27 – Reducing Debt Costs** Consideration would be given to modelling the debt service coverage ratio and the operating surplus profile to help reduce debt costs as part of the scenario planning for the next Business Plan process.	Rachel McLean	July 2024	To be included as part of the scenario planning process as one of the metrics that is included in the 2025 Business Plan model, which is currently being prepared. This underpins our planning process and any future business plans that may be provided to the Board for approval.
08/03/24 (1)	**Finance Report – Period 11, 2023/24 - Funding Conditions** TfL had met all the funding conditions within its control under the August 2022 funding settlement and this information would be included in the next Commissioner's Report to the meeting of the Board in June 2024.	Andy Lord	June 2024	**Completed.** The information was included in the Commissioner's Report to the meeting of the Board on 12 June 2024.
08/03/24 (2)	**Finance Report – Period 11, 2023/24 – Briefing on Future Savings and Investment Programme** An informal briefing on the future savings and investment programme, with a focus on high	Rachel McLean/ Secretariat	June 2024	**Completed.** A briefing was held on 19 June 2024. All Board Members were invited to attend.

Minute No.	Item/Description	Action By	Target Date	Status/Note
	level savings generation and retention, would be provided to all Board Members later in 2024.			
09/03/24	**Treasury Activities, Policies and Strategies - Greater London Authority Group Collaboration Investment Governance** A paper would be brought to the next meeting of the Committee with the final results of the collaboration including the completed guarantee and an explanation of the governance process. Joanna Hawkes would engage with Committee Member Anurag Gupta on how the governance would work in certain scenarios.	Joanna Hawkes	July 2024	**Completed.** A paper is on the agenda for this meeting.
10/03/24	**Investment Management Strategy 2024/25 – Non-Financial Assets – Streamlining Report** Consideration would be given to streamlining the paper in future based on how the Land and Property Committee and the Finance Committee operated long-term going forward.	Joanna Hawkes	February 2025	Paper to be reviewed as part of the next annual update of the strategy.
11/03/24 (1)	**Taxi Fares and Tariffs Update – Verifying Consultation Respondents** Given the emphasis assigned to the consultation responses, consideration would be given to ways of verifying which stakeholder group respondents belonged to and of declaring their interests for future consultations.	Helen Chapman	February 2025	To be reviewed as part of the next annual taxi fares and tariffs review consultation.
11/03/24 (2)	**Taxi Fares and Tariffs Update – Benchmarking Electricity Charges** With the increase in more electric taxi vehicles and given the variable ways and costs of	Helen Chapman	February 2025	To be included as part of the next annual taxi fares and tariffs review.

Minute No.	Item/Description	Action By	Target Date	Status/Note
	charging vehicles, consideration would be given to the use of other reference prices, in addition to energy prices, as part of the benchmarking of electric charges for future reviews.			
11/03/24 (3)	**Taxi Fares and Tariffs Update – Electric Vehicle (EV) Charging Points at Heathrow Airport** As part of the regular discussions that Andy Lord and Alex Williams had with the Chief Executive Officer (CEO) and his team at Heathrow Airport, the need to install more EV charging points for use by taxi drivers at the airport would be raised.	Andy Lord/ Alex Williams	July 2024	Heathrow Airport has confirmed that there are seven EV chargers in the taxi feeder park that are available for use exclusively for taxis. The design for the additional taxi EV chargers is well underway and installation is planned by early 2026. The Deputy Mayor for Transport, Commissioner and Chief Customer and Strategy Officer are due to meet the new CEO of Heathrow Airport Limited in July and will raise this matter at that meeting.
12/03/24 (1)	**Track Labour Framework Extension – Update Paper** Members would be provided with an update prior to any request being submitted to the Committee for approval.	Rachel McLean/ Jonathan Wharfe	June 2024	**Completed.** An update was provided at the briefing on 19 June 2024. Approval of the Committee will be sought via a Chair's Action paper.
12/03/24 (2)	**Track Labour Framework Extension – Briefing on Track Contracts Strategy** Due to the complexity of the work involved, an informal briefing on the Track contracts strategy and delivery would be provided to Committee Members in April 2024.	Rachel McLean/ Secretariat	April 2024	**Completed.** A briefing was held on 8 April 2024. All Board Members were invited to attend.
12/03/24 (3)	**Track Labour Framework Extension – Non-Permanent Labour (NPL) Categories** TfL was focused on reviewing the use of some very specialist individuals where a more	Rachel McLean	June 2025	**Completed**. Within the current Track Labour frameworks the scope is very generalist i.e. labourer or engineer. Within the new Track Works and Resources

Minute No.	Item/Description	Action By	Target Date	Status/Note
	permanent solution was needed but there was a valid case for contracts with suppliers to provide resource to deal with peak demand in workshops and call centres. Consideration would be given to demonstrating the different categories of NPL in future papers.			(TW&R) tender, currently at Expression of Interest stage, we have two categories for general Track Labour and for specialist labour broken down to Track Engineer, Construction Engineer etc. The next tender covers all pan-TfL rail modes working on the track environment specifically. This will not include workshops and call centres as TW&R is specific to Track. This will be picked up however in 2025 when we start to look at the next strategy beyond TW&R.
14/03/24	**Forthcoming Key Procurement Activities – Briefing on Wider Concessions** An informal briefing on the strategy for future wider concessions procurement would be provided to Committee Members, to take place in line with the strategy harmonisation.	Rachel McLean/ Secretariat	August 2025	An informal briefing will be arranged which all Board Members will be invited to attend.
15/03/24	**Risk and Assurance Report Quarter 3 2023/24 – Broader Bad Debt Landscape** Consideration would be given to the broader landscape and strategies across all forms of bad debt and whether a separate paper should be brought to a future meeting of the Committee on the wider financial implications, in addition to the work on fare evasion that was already reported to the Customer Service and Operational Performance Panel.	Rachel McLean	October 2025	The Finance team are working on various issues related to bad debt, particularly in relation to Road User Charging, and an update will be bought to the Committee once that work has matured.

Minute No.	Item/Description	Action By	Target Date	Status/Note
16/03/24	**Enterprise Risk Update – Changes in Customer Demand (ER9) – Artificial Intelligence Forecasts** Longer-term scenario planning considered a wide basket of indicators, including technology innovations, and were updated each year to help shape the passenger forecasts for the next Business Plan. Artificial intelligence would be factored into the longer-term forecasts going forward including the fast-moving nature of this area.	Alex Williams	July 2024	To be included as part of the scenario planning process for the 2025 Business Plan.

Actions from previous meetings

Minute No.	Item/Description	Action By	Target Date	Status/Note
59/11/23	**TfL Energy Purchasing: Crown Commercial Service – Energy Purchasing Strategy** A revised Energy Purchasing Strategy for the future that went beyond the current procurement would be brought to a future meeting of the Committee.	Lilli Matson	July 2024	**Completed.** A paper is on the agenda for this meeting.
61/11/23 (1)	**Forthcoming Key Procurement Activities – Procurement Act 2023** An update paper on the implementation of the new Procurement Act 2023 would be brought to a future meeting of the Committee.	Rachel McLean	July 2024	**Completed.** A paper is on the agenda for this meeting.
61/11/23 (4)	**Forthcoming Key Procurement Activities – Briefing on Procurement and Commercial Review**	Rachel McLean/ Secretariat	October 2024	Internal updates on this work will conclude in July/August. A progress update on the Procurement and Commercial Review will

Minute No.	Item/Description	Action By	Target Date	Status/Note
	An informal briefing would be provided to Committee Members, subject to the timing of the work already underway on the emerging vision for the Procurement and Commercial function.			be brought to the meeting of the Committee on 9 October 2024.
45/10/23	**Roadside Advertising Assets Disposal – Additional Information** Members asked that additional information be included in the paper when it came back to the Committee for approval in relation to: the proportion of the wider portfolio of roadside advertising that the sites represented; the percentage revenue from the overall roadside advertising activity and any consequences for the remaining activity; if there were any alternative uses for the land; and assurance that the most competitive and best value offer had been generated.	Stephen Dadswell	April 2024	**Completed.** The decision was within the authority level for the Commissioner. The paper was circulated to Members on 10 April 2024. See action 04/03/24 above.
21/06/23	**Matters Arising and Actions List – Taxi Trade and Kerbside Review Timescale** In relation to action 09/03/23(2) on a review of the place of the taxi trade within London's transport network, Howard Carter confirmed that there had been representations from the trade for a review. A kerbside review would be carried out first to look at issues on the effective use of space on the TfL Road Network, which would then be evaluated for any future review on London's road space more generally. The timescale for the kerbside review would be circulated to the Committee.	Alex Williams/ Claire Mann	July 2024	We have completed work on the kerbside framework and adopted this as a planning tool. We are currently applying the framework to reviewing parking and loading allocation on a trial corridor on the TfL Road Network before carrying out a wider review of the network. We are in process of developing a plan for disseminating the framework for adoption across relevant TfL teams and departments. We are refreshing the taxi and private hire action plan and held seven listening

Minute No.	Item/Description	Action By	Target Date	Status/Note
				sessions with taxi and private hire stakeholders in March 2024. This will be followed by another round of engagement with the trade in July 2024, as well as engagement with wider stakeholder groups such as the Independent Disability Advisory Group, Inclusive Transport Forum and the Youth Panel. The refresh of the plan will consider a range of different themes including interaction at the kerbside. See action 09/03/23(2) below.
25/06/23	**Procurement and Commercial Improvement Programme – Cost Management Update** An update would be submitted to the meeting of the Committee in March 2024, once the standardisation work was completed at the end of 2023 and there was more clarity on next steps, particularly around the options for a future IT systems solution such as SAP Ariba.	Rachel McLean/ Luke Jarvis	October 2024	On the forward plan for the meeting of the Committee on 9 October 2024.
09/03/23 (2)	**Taxi Fares and Tariffs Update – Future of London's Licensed Taxi Trade** On the future of London's licensed taxi trade, given the ageing demographic profile and reducing numbers of taxi drivers, officers would review when and where would be the right forum to discuss this and take it forward, potentially at an informal briefing specifically looking at the demographics issue and the further adoption of new technology.	Alex Williams/ Claire Mann	Ongoing	We agree that there is a case for a review of the place the taxi trade has within London's transport network. See action 21/06/23 above.

Minute No.	Item/Description	Action By	Target Date	Status/Note
58/11/22	**TfL Power Purchase Agreements – Energy Prices and Purchasing** To date, TfL's Energy Purchasing Strategy protected it from the highest of energy prices, however there was increasing risk from energy prices to its operating cost base. TfL was reviewing its overall approach to energy purchasing to ensure it remained robust, agile and fit for purpose in the current market. An update would be provided to the Committee in spring 2023.	Lilli Matson	July 2024	**Completed.** A paper is on the agenda for this meeting.

Finance Committee

Date: **11 July 2024**

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 report to the meeting of the Committee on 13 March 2024, there has been:

(a) no use of specific authority delegated by the Board, nor any Mayoral directions to the Board;

(b) two uses of Chair's Action in relation to the London Cycle Hire Scheme (LCHS) Sponsorship Commercial Strategy and Track Delivery Partnership Contract Year 6; and

(c) one use of Chair's Action, on behalf of the Programmes and Investment Committee, in relation to approving authorities relating to the Elizabeth line: Service Frequency Increase to Support High Speed 2 (HS2);

(d) use of unbudgeted Financial Authority in relation to bus contracts.

1.3 This paper also provides information on 11 grants of Procurement Authority, in relation to:

(a) Pan-Fleet – Sub Surface Railway – Renewal of Bespoke Metals;

(b) Bus Stops Shelters Supply, Install and Repair Contracts;

(c) Piccadilly line upgrade: Depots Delivery Integrator Contract Extension;

(d) Structural Maintenance Services Contract (Bridges and Structures);

(e) Track Maintenance Vegetation and Fencing Contract;

(f) Chiltern Railways Track And Station Agreements;

(g) Fabric Maintenance Services Contract;

(h) Facilities Fabric, Mechanical and Electrical Maintenance Contract;

(i) Network Rail Services on Rail for London Managed Infrastructure 2024-2026;

(j) Electric Vehicle Salary Sacrifice Scheme; and

(k) Pan TfL 1FM (one facilities management) Fire Maintenance Service Contract.

1.4 Similar papers are submitted to the Land and Property Committee and the Programmes and Investment Committee in respect of the use of Chair’s Action, Authorities granted by the Commissioner and the Chief Finance Officer and any relevant Mayoral Directions that fall within the remit of those Committees.

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 specific authority delegated by the Board.

4 Use of Chair’s Action

4.1 Under Standing Order 112, 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 three uses of Chair’s Action since the last report.

London Cycle Hire Scheme Sponsorship Commercial Strategy

4.3 Further to a briefing, on 17 April 2024 Members were provided with a paper setting out the commercial strategy for the letting of the sponsorship rights for the LCHS from May 2025.

4.4 On 22 April 2024, the Chair of the Committee, in consultation with available Members, noted the paper and the supplementary information provided in an exempt appendix and approved Procurement Authority for the proposed LCHS sponsorship arrangements, which will be announced shortly.

4.5 The use of Chair’s Action was considered appropriate due to the cumulative value of the sponsorship rights and the need to finalise a contract before this meeting of the Committee. The public paper relating to this request will be published on tfl.gov.uk once the sponsorship arrangements have been announced.

Track Delivery Partnership Contract Year 6

4.6 Further to a briefing, on 23 April 2024 Members were provided with an update on the Track Delivery Partnership contract.

4.7 On 26 April 2024, the Chair of the Committee, in consultation with available Members, noted the paper and the exempt appendix and approved additional Procurement Authority of £24.76m for the sixth year of the Track Delivery Partnership contract with Balfour Beatty Rail Limited, giving a total Procurement Authority of £244.76m for that contract.

4.8 The use of Chair's Action was considered appropriate as a decision was required before this meeting of the Committee. The public paper relating to this request has been published on tfl.gov.uk.

Elizabeth Line: Service Frequency Increase to Support HS2

4.9 With the agreement of the Chair of the Programmes and Investment Committee (due to a declared interest) this Chair's Action request was submitted to the Chair of the Finance Committee.

4.10 In December 2023, the Programmes and Investment Committee approved authorities for five additional Elizabeth line trains to support HS2 customers. On 4 June 2024, members of this Committee and members of the Programmes and Investment Committee (except for its Chair) received a paper that proposed 10 additional trains to support service enhancements on the Elizabeth line to respond to the pressures and opportunities on the network.

4.11 On 6 June 2024, the Chair of this Committee, in consultation with available Members of the Programmes and Investment Committee (excluding its Chair) and this Committee, noted the paper and the exempt supplementary information. Subject to receipt of a final signed funding letter from Government (which was subsequently received) she approved unbudgeted Financial Authority, Programme and Project Authority, and Procurement Authority for the service enhancements.

4.12 The use of Chair's Action was considered appropriate as a decision to enter into the agreement was required before the meeting of the Programmes and Investment Committee scheduled for 26 June 2024 and the decision was critical to agreeing the contract variation with Alstom and issuing the notice to proceed with the order for 10 additional trains for the Elizabeth line in line with the funding conditions set by Government. The public paper will be published on tfl.gov.uk in due course.

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 related to Places for London Limited will 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 164.

Unbudgeted Financial Authority: Bus Contracts

5.5 There has been an increasing cost pressure in tender prices for bus operating contracts, which was not fully anticipated when the 2024/25 Budget was set, largely driven by inflation and market conditions. This has been compounded by an increase in the size of the tender programme for this year, due to the early termination of contracts by operators.

5.6 Consequently, a number of bus operating contracts have required unbudgeted Financial Authority, which has been approved by the Chief Finance Officer. The total value of the unbudgeted Financial Authority for 204/25 is £17.2m, although the annualised impact in future years is £57.1m per annum.

Procurement Authority (All figures are cumulative)

5.7 The use of Procurement Authority within the remit of the Committee, reported below, includes items omitted in error from the last report.

5.8 **Pan-Fleet – Sub Surface Railway – Renewal of Bespoke Metals:** The Commissioner approved Procurement Authority of £50,266,000 for bespoke components (generally metal fabrications) for business-as-usual activities.

5.9 **Bus Stops Shelters Supply, Install and Repair Contracts:** The Commissioner approved Procurement Authority of £47,833,529 for the South contract and £80,484,297 for the North contract.

5.10 **Piccadilly line upgrade: Depots Delivery Integrator Contract Extension:** The Commissioner approved Procurement Authority of £27,524,862 for the extension of the contract between TfL and Lendlease Construction (EMEA) Limited and Jacobs UK Limited joint venture.

5.11 **Structural Maintenance Services Contract (Bridges and Structures):** The Commissioner approved Procurement Authority of £77,900,000 to extend the contract with Dyer and Butler Limited to continue delivery of reactive and maintenance activities for Civil assets across London Underground.

5.12 **Track Maintenance Vegetation and Fencing Contract:** The Commissioner approved Procurement Authority of £61,776,000 for a further extension of contract under existing terms with Cleshar.

5.13 **Chiltern Railways Track And Station Agreements:** The Commissioner approved Procurement Authority of £49,200,000 to extend the current Track Access Agreement and Station Access Agreements for a further two years for the period April 2024 to March 2026.

5.14 **Fabric Maintenance Services Contract:** The Commissioner approved Procurement Authority of £97,169,220 for the award of the contract to Close Brothers Rail Limited, for the supply of fabric maintenance services within stations, depots and other buildings – primarily for London Underground with other 'rail' related business areas within TfL.

5.15 **Facilities Fabric, Mechanical and Electrical Maintenance Contract:** The Commissioner approved Procurement Authority of £75,600,000 for the award of the contract to Vinci Construction UK.

5.16 **Network Rail Services on Rail for London Managed Infrastructure 2024-2026:** The Commissioner approved Procurement Authority of £61,110,096 for payments due under connection agreements and operating services agreements.

5.17 **Electric Vehicle Salary Sacrifice Scheme:** The Commissioner approved Procurement Authority of £50,000,000 for the award of the contract to Tuskerdirect Limited, under the Crown Commercial Services Framework.

5.18 **Pan TfL 1FM (one facilities management) Fire Maintenance Service Contract:** The Commissioner approved Procurement Authority of £69,800,000 for the extension of the contract with Equans Services Limited.

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 Mayoral decision papers inviting the Mayor to issue a direction 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 relating to TfL are reported to the Board's Committees for discussion as soon as possible after they are received by TfL or published. Regular reports will list the relevant Directions for as long as they are applicable.

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

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

6.7 Mayoral Directions to TfL addressing technical issues with our statutory powers or commercial development activities within the remit of this Committee are reported to this Committee. There have been no Directions issued to TfL within the remit of the Committee since the last meeting.

List of appendices to this report:
None

List of Background Papers:

London Cycle Hire Scheme Sponsorship Commercial Strategy Chair's Action paper, issued 17 April 2024 (to be published in due course)
Track Delivery Partnership Contract Year 6 Chair's Action paper, issued 23 April 2024
Elizabeth line Chair's Action paper, issued 4 June 2024
Greater London Authority Decision Making Database

Contact Officer: Andrea Clarke, General Counsel
Email: AndreaClarke@tfl.gov.uk

Finance Committee

Date: **11 July 2024**

Item: **Finance Report – Period 2, 2024/25**

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 2, 2024/25 - the year-to-date ending 25 May 2024.

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. 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 Financial Reporting to the Committee

Finance Report – Period 2, 2024/25

3.1 The Finance Report Presentation at Appendix 1 provides a summary of year-to-date financial performance against the Budget approved by the Committee on 13 March 2024.

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

Contact Officer: Rachel McLean, Chief Finance Officer
Email: RachelMclean@tfl.gov.uk

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Finance Report

Period 2, 2024/25

Management results from 1 April 2024 – 25 May 2024

TfL Finance Committee

11 July 2024

We are aiming to grow our operating surplus to increase our ability to invest

We delivered an operating surplus in 2023/24, reinvesting this in maintaining and improving our network. Our 2024/25 Budget builds on this foundation, aiming to grow our surplus and increase our ability to invest. We will do this by continuing to deliver on our financial strategy:

Grow and diversify our revenue

- Cumulative journey growth of 4% compared to last year. We are targeting 6% year-on-year journey growth over the full year, on top of the 9% we saw in 2023/24
- Despite growth on last year, journeys are 18 million lower than Budget
- Total revenue is 2% lower than Budget.

Deliver recurring cost savings

- Operating costs are 1% lower than Budget, mainly from contingency held to mitigate risks on revenue
- We are targeting £259m of savings this year, including *£130m of recurring savings. We currently expect to deliver this, although there remain some risks.

Grow our operating surplus

- We had budgeted for an operating surplus in the year to date – lower passenger income means we have a small deficit of £2m
- Other operating income is broadly in line with Budget
- We expect to deliver an operating surplus this year, but there are risks to revenue which need to be managed.

Fund our capital investment

- Our operating surplus funds capital investment.
- Capital renewals are £142m in the year to date, £41m up on last year as we increase renewals investment to address the backlog of asset replacement
- Renewals are £10m higher than Budget, from an early ramp up in spend. We expect to hit Budget over the full year
- We continue to make the case to government for a long-term funding settlement.

Maintain liquidity to protect us against shocks

- Cash balances are just under £1.4bn, and lower than Budget, mainly from timing of an asset sale and adverse working capital
- We aim to maintain cash balances at around £1.3bn in line with our treasury policy
- The GLA financing facility of £350m offers additional protection against shocks and risks.

*Incorrect figure of £138m amended to correct figure of £130m after publication.

Our progress

Our underlying revenue has increased by over £900m since 2020/21, with increases from all revenue sources.

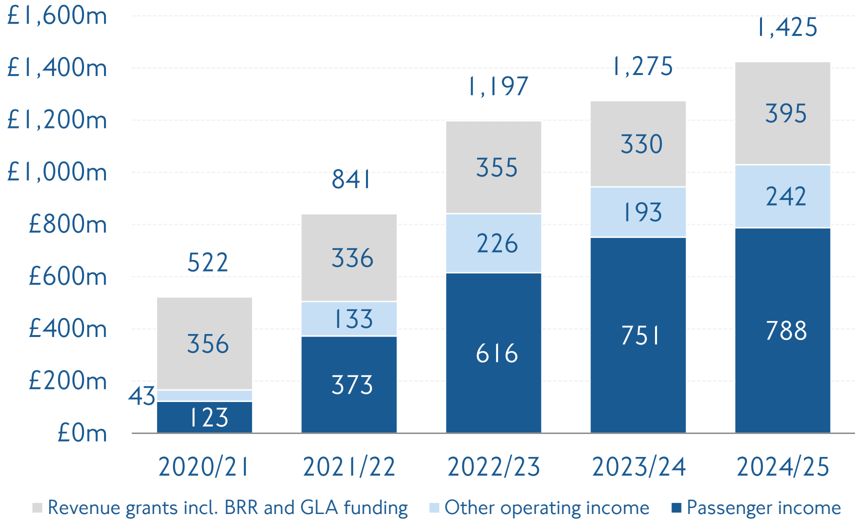
Real terms like-for-like operating costs are over £100m lower than in 2020/21.

We turned an operating deficit into a surplus in 2023/24 through revenue increases and cost control. We are currently making a small deficit, but have budgeted to make a surplus of £161m this year.

For the duration of the Department for Transport (DfT) funding agreement from August 2022 to end of March 2024, we were required to maintain usable cash below £1.2bn, and below £1.3bn at the end of Quarter 4, 2023/24. Outside of this timeframe, average cash balances have been maintained above our minimum cash requirement.

Grow and diversify our revenue

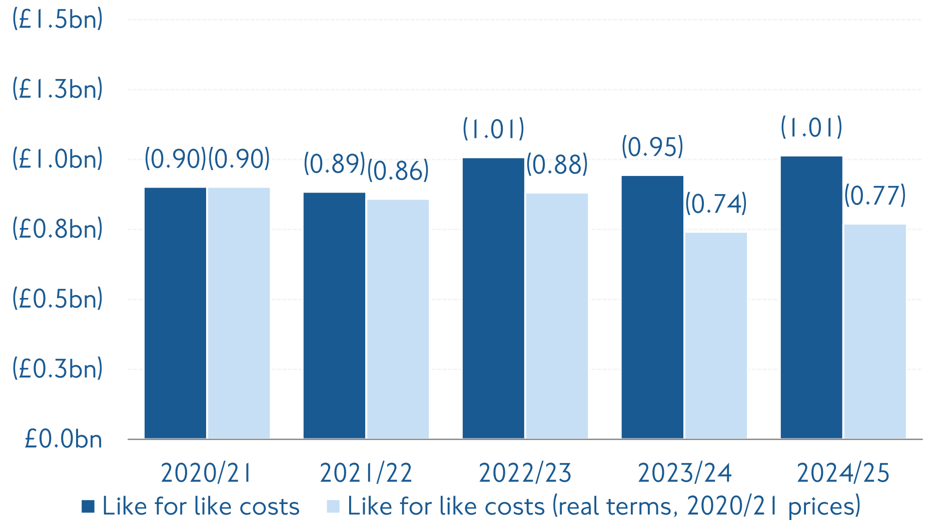
Revenue (excluding extraordinary funding) – Year to Period 2 (£m)



NB: Excludes all HMG pandemic related funding and one-off GLA funding

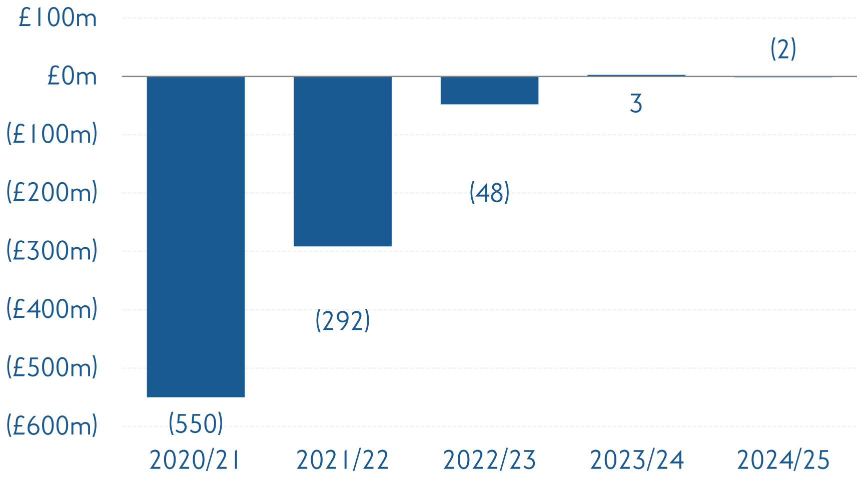
Deliver recurring cost savings

Like-for-like costs since 2020/21 – Year to Period 2 (£bn)



Grow our operating surplus

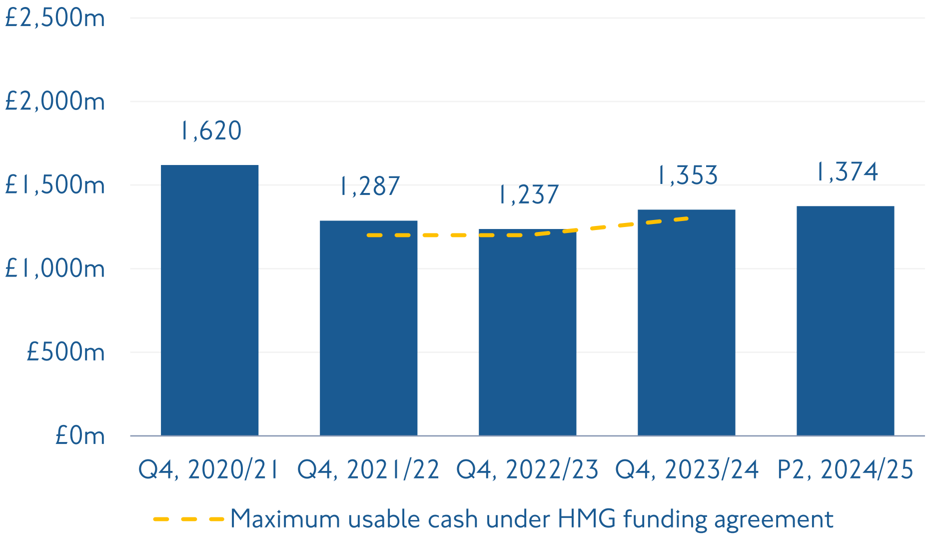
Operating surplus / (deficit) – Year to Period 2 (£m)



NB: Excludes all HMG pandemic related funding

Maintaining liquidity to protect us against shocks

Cash balance (£m)



Passenger journeys

In 2024/25 we have budgeted 6% year-on-year growth in demand. Journeys to date are 4% up on last year, but lower than Budget.

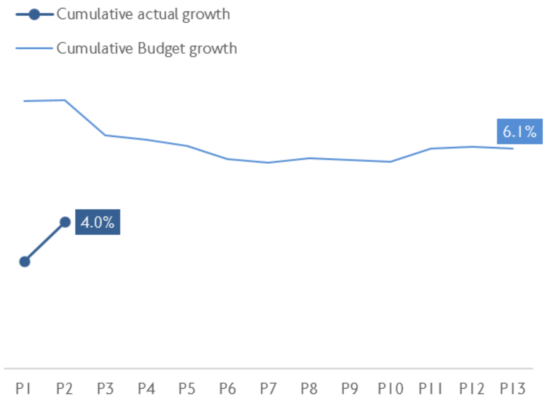
There are several factors thought to be impeding growth to date:

- Seasonality – timing of Easter, school holidays and the weather all have a strong influence on demand at this time of year
- National Rail strikes
- Service performance is below expectations, particularly on the Central and Northern lines
- Economy – recent indicators show weaker employment and retail sales growth within the London economy than assumed in our Budget.

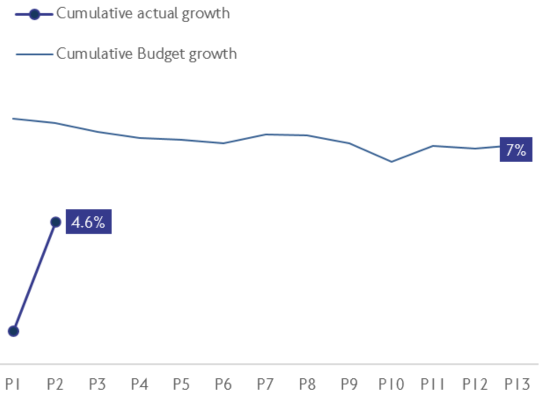
We are reviewing trends each period and updating our forecasts with our latest position on the risk to Budget.

Passenger journeys year-on-year growth and comparison to Budget

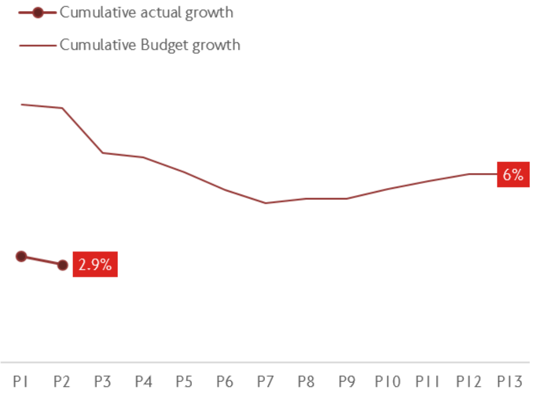
TfL		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	287	(6.5)	13.8	5.1%
	Y	549	(17.7)	21.3	4.0%



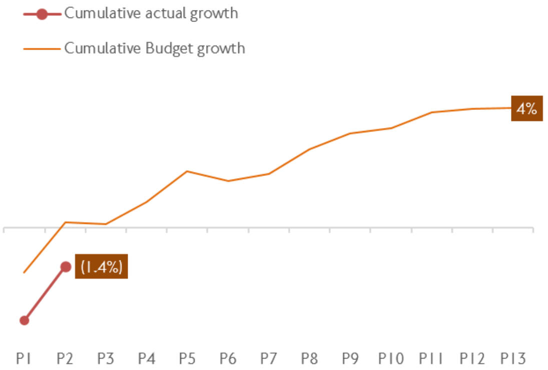
LU		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	95	0.3	7.0	8.0%
	Y	182	(5.5)	7.9	4.6%



Bus		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	151	(6.9)	3.9	2.7%
	Y	288	(12.9)	8.1	2.9%



Rail		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	24	(0.3)	0.1	0.5%
	Y	45	(0.7)	(0.6)	-1.4%

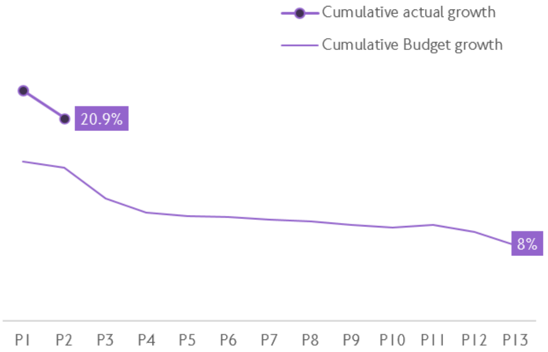


LO		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	15	(0.1)	0.5	3.8%
	Y	28	(0.9)	1.1	3.9%

DLR		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	8	(0.2)	(0.2)	-2.2%
	Y	15	0.0	(0.7)	-4.7%

Tram		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	1	(0.1)	(0.3)	-15.6%
	Y	2	0.1	(1.0)	-31.9%

EL		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	18	0.5	2.8	18.4%
	Y	34	1.4	5.9	20.9%



EL journeys are estimates and are subject to revision

Income statement

Total revenue is £28m behind Budget in the year to date, driven by lower passenger growth than expected. Other operating income is broadly in line with Budget.

Our core operating costs are £8m higher than Budget, mainly from higher bad debt charges from roads enforcement income. Investment programme costs are £12m lower than Budget from timing of scrappage payments and a timing contribution for Ferry Lane investment. Exceptional costs are £10m lower from central contingency – this is held to mitigate revenue uncertainty in the year.

Capital renewals are £10m higher than Budget, from timing differences. We expect to meet our Budget target of £795m this year.

£m	Actuals	Variance to Budget		Variance to last year	
Underlying passenger income	788	(24)	-3%	36	5%
DfT revenue top up	0	0	N/A	(52)	-100%
Passenger income	**788**	**(24)**	-3%	**(15)**	-2%
Other operating income	242	2	1%	49	25%
Business rates retention	334	0	0%	39	13%
Other revenue grants	69	(6)	-8%	20	40%
Revenue	**1,432**	**(28)**	-2%	**93**	7%
Core operating costs	(1,203)	(8)	-1%	(118)	-11%
Investment programme operating costs	(24)	12	34%	8	25%
Exceptional costs	(1)	10	92%	(1)	-189%
Operating surplus before interest and renewals	**205**	**(13)**	-6%	**(18)**	-8%
Capital renewals	(142)	(10)	-7%	(41)	-40%
Net interest costs	(65)	(2)	-3%	3	4%
Operating surplus / (deficit)	**(2)**	**(25)**	-17%	**(56)**	53%

Income statement excludes Places for London

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Operating surplus

Our operating deficit is £25m worse than Budget. After adjusting for timing differences – mainly in capital renewals and Investment Programme operating costs – we are making a small surplus of £1m, but are £22m behind Budget.

We are seeing a combined £42m pressure on our surplus from demand and volume pressures on passenger income, enforcement income and enforcement payment rates. Costs are otherwise performing better than Budget.

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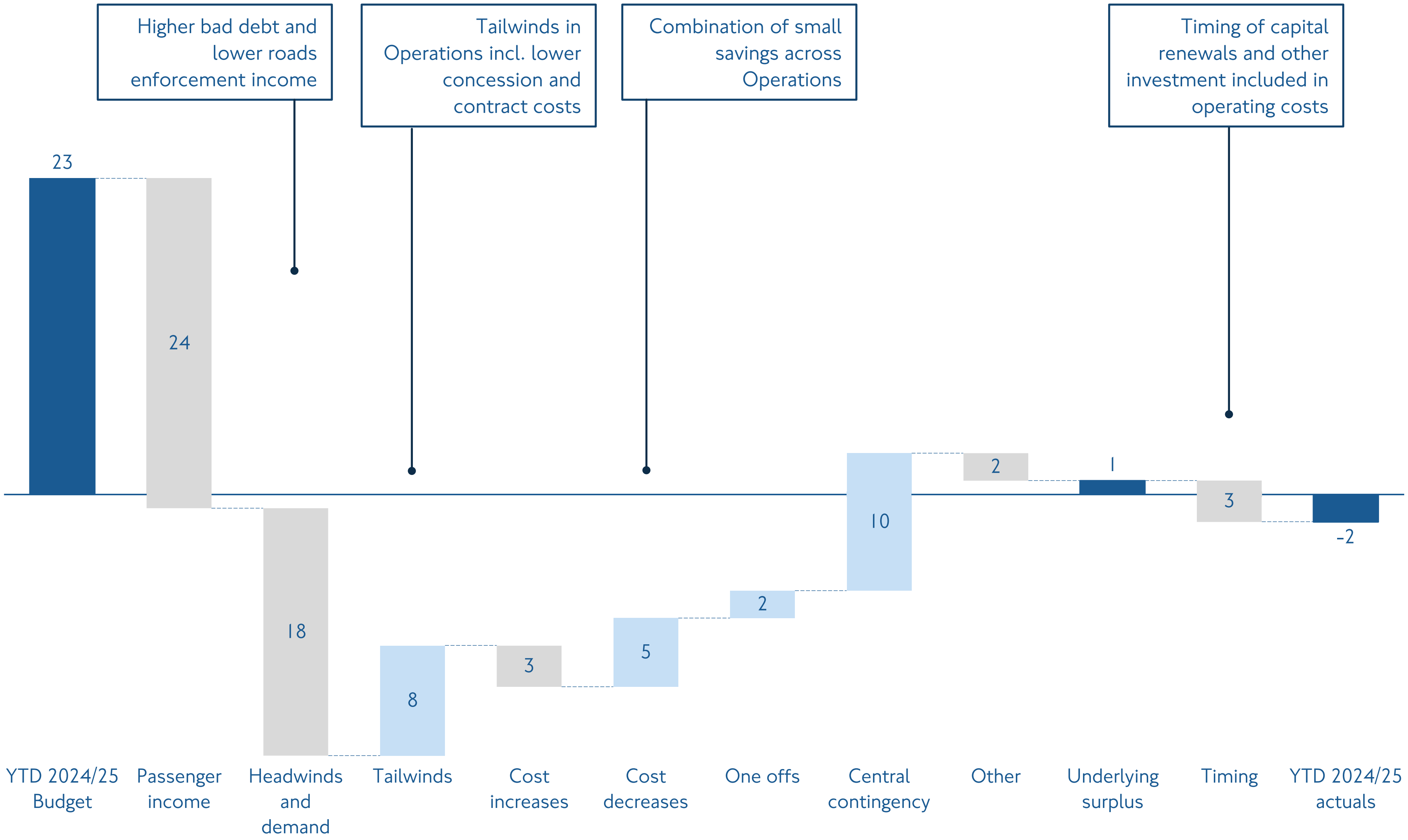
Operating surplus/ (deficit) variance to Budget (£m)



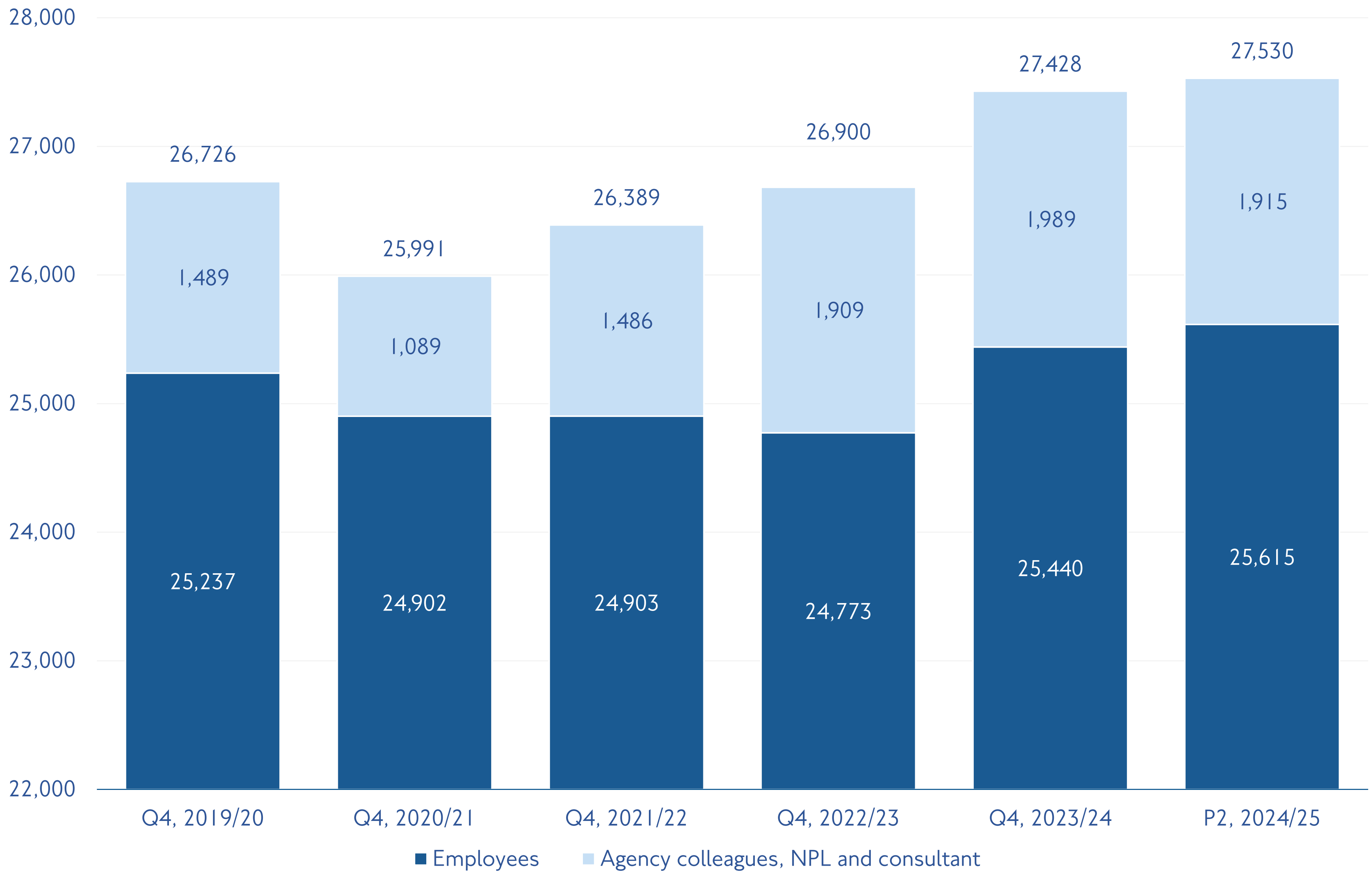
Colleagues

The increase in headcount reflects the ramp up of our capital programme and new services introduced in the last three years, including the Elizabeth line, Northern Line Extension and Barking Riverside extension.

Permanent employee numbers are slightly above pre-pandemic levels, and up on last year, driven by recruitment of graduates and apprenticeship trainees, and ramp up of our capital programmes.

Agency and NPL colleagues have increased by just over 400 since the end of 2019/20, but remain significantly lower than 2015/16 levels. NPL offers flexibility, particularly through time of change and temporary peaks in demand.

Headcount trends since 2019/20



Capital renewals

Capital renewals are £142m in the year to date, £41m up on last year as we increase renewals investment to address the backlog of asset replacement.

Renewals spend is £10m higher than Budget in the year to date, largely a result of acceleration of LU renewals (civils, track maintenance and staff welfare) spend into earlier in the year. We expect to hit our Budget by year end.

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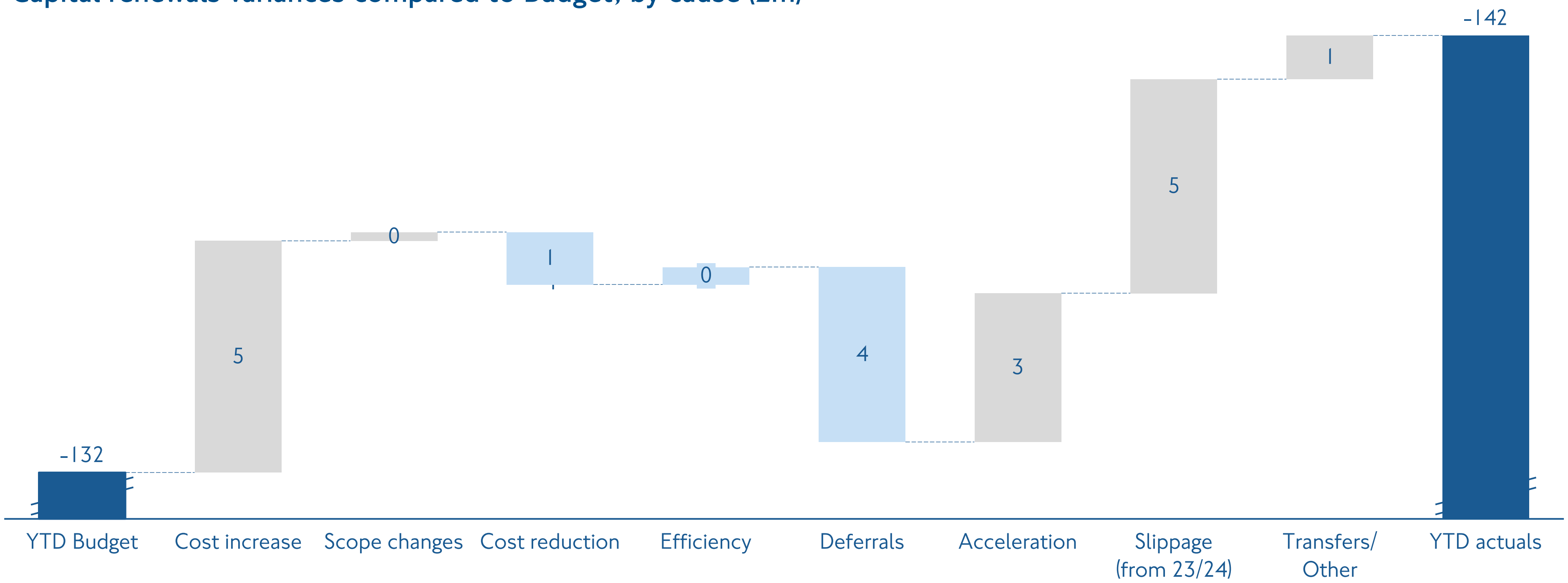
£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(1)	0	26%	(0)	(0)
Silvertown Tunnel	(0)	0	80%	(0)	0%
Streets, Bus & RSS Renewals	(38)	(3)	-9%	(18)	-85%
Environment	(4)	(0)	-10%	(2)	-135%
Rail & Station Enhancements	(0)	(0)	N/A	0	54%
LU Renewals	(75)	(7)	-11%	(16)	-27%
Technology	(19)	2	9%	(3)	-20%
Estates Directorate	(3)	(0)	-11%	(3)	-795%
Other (TPH, City Planning, Group etc)	(1)	(1)	264%	1	60%
Total	**(142)**	**(10)**	-7%	**(41)**	-40%

Capital renewals variances compared to Budget, by cause (£m)



Capital enhancements

Capital enhancements £131m in the year to date, £5m lower than last year.

Enhancements spend is in line with Budget in the year to date, with £5m of Barking Riverside income claims now expected in Quarter 2, and some slippage on cycling and bus schemes in Safe & Healthy Streets.

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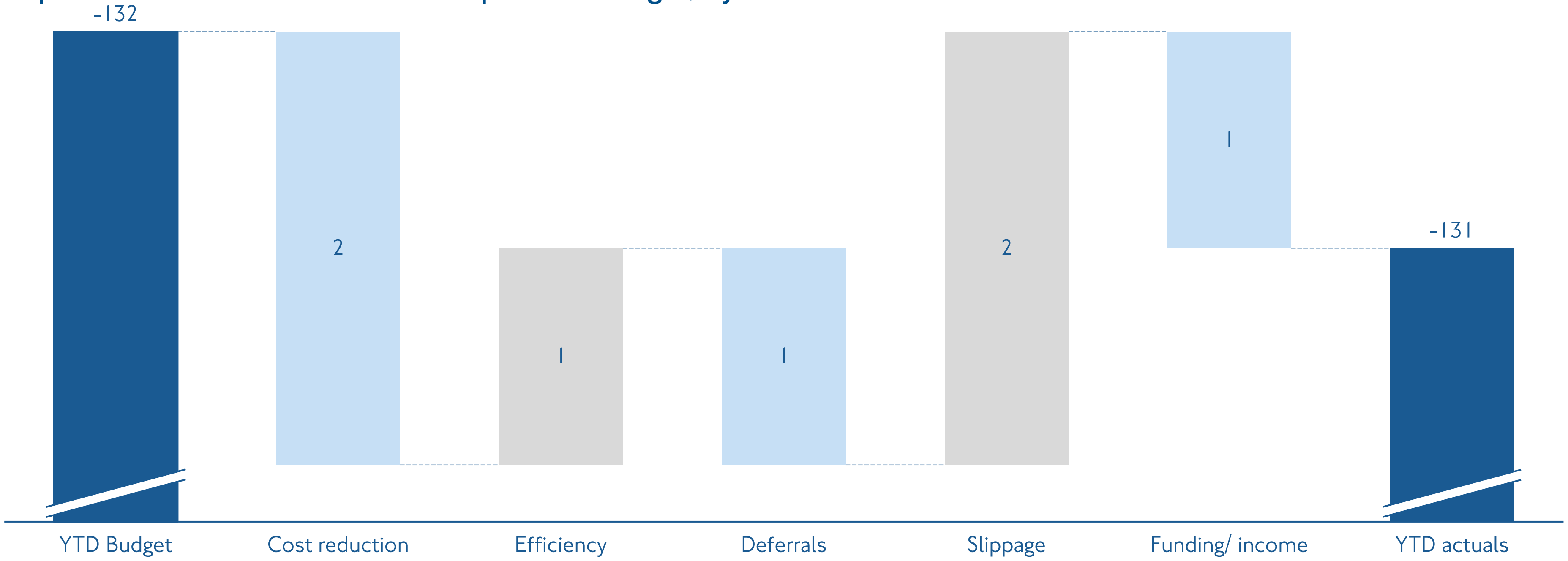
£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(11)	2	15%	5	32%
DLR Rolling Stock Replacement	(35)	1	3%	0	1%
Piccadilly Line Upgrade	(43)	0	1%	(1)	-3%
Bakerloo Line Trains	(0)	0	53%	(0)	-231%
Trams replacement	(0)	1	65%	(0)	-24%
Silvertown Tunnel	(1)	2	56%	1	41%
Other Enhancements	(40)	(5)	-16%	0	0%
Total TfL excl. Places and Crossrail	**(131)**	**0**	0%	**5**	4%
Places for London	(14)	7	33%	12	46%
Crossrail	(3)	7	70%	7	69%
Total	**(148)**	**15**	9%	**25**	14%

Capital enhancements variances compared to Budget, by cause (£m)



Cash flow

Cash balances are just over £1.35bn at the end of Period 2, over £140m lower than Budget and slightly up on last year.

Our cash balances are lower than Budget mainly as a result of a delayed asset sale - which is now expected in Quarter 2 – and adverse working capital, the latter from the final DfT revenue top up payment, which was received after the end of Period 2.

Our Treasury policy is to ensure we have on average 60 days of operating costs as our minimum cash balance, which will allow us to meet our payment obligations.

We maintain other sources of liquidity including an overdraft facility, a short-term financing facility and the £350m GLA financing facility to absorb any shocks and withstand strategic, safety and operational risks.

Cash balances

£m	Actuals	Variance to Budget		Variance to last year	
Opening balance	1,353	(56)	-4%	115	9%
Change in cash balance	21	(85)	-80%	(18)	-46%
Closing balance	**1,374**	**(141)**	-9%	**97**	8%

Cash flow statement

£m	Actuals	Variance to Budget		Variance to last year	
Operating surplus before capital renewals and interest	205	(13)	-6%	(18)	-8%
Less LTIG and LTM	0	0	164%	(1)	-84%
Cash generated / (used) from operating activities	***205***	***(13)***	*-6%*	***(19)***	*-8%*
Capital renewals	(142)	(10)	-7%	(41)	-40%
New capital investment	(131)	0	0%	5	4%
Investment grants and ring-fenced funding	31	(78)	-71%	(154)	-83%
Working capital movements	(138)	(42)	-45%	(26)	-23%
Cash generated / (used) from investing activities	***(379)***	***(129)***	*-52%*	***(215)***	*-132%*
Free cash flow	**(174)**	**(142)**	-455%	**(234)**	-388%
Net interest costs	(65)	(2)	-3%	3	4%
Net borrowings	260	59	30%	213	454%
Cash generated / (used) from financing activities	***195***	***57***	*42%*	***216***	*-1,029%*
Change in cash balance	**21**	**(85)**	-80%	**(18)**	-46%

Reserves

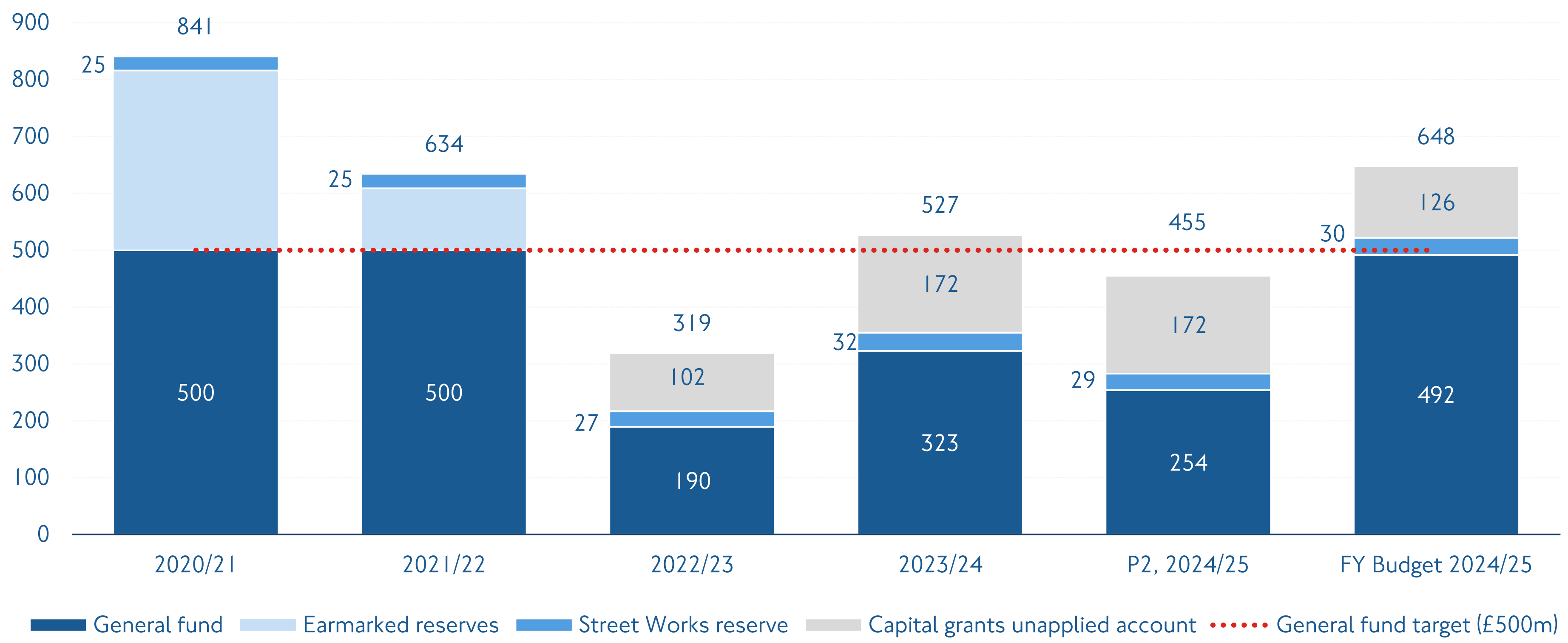
The pandemic has seen a material reduction in TfL's usable reserves, which primarily consist of its General Fund, Earmarked Reserves and Capital Grants Unapplied.

Usable reserves are generally lower than TfL's cash balance, as elements of cash will be restricted for certain purposes and because cash payments are made in arrears in-line with supplier payment terms.

At the end of 2022/23, TfL's General Fund reserves fell below our target of £500m. This was largely driven by the purchase of the Class 378 rolling stock. The savings from this purchase over the remaining life of the assets will further support TfL as it rebuilds its usable reserves.

The 2024 Business Plan set out our plan to grow usable reserves back to target levels by the end of 2025/26.

Usable reserves (£m)



- Usable reserves of the Corporation are those that can be applied to fund future expenditure. They are made up of the General Fund, Earmarked Reserves, the Capital Grants Unapplied Account and the Street Works Reserve
- The General Fund represents sufficient cash-backed reserves held by the Group to cover risks that may arise. The Group has a target General Fund balance of £500m, which was increased from £150m at the start of the pandemic in March 2020
- Usable reserves at the end of 2023/24 were higher than Budget due to the December 2023 capital settlement from the DfT.
- Usable reserves at the end of P2 2024/25 decreased by £72m primarily due to adverse working capital movements.

Debt

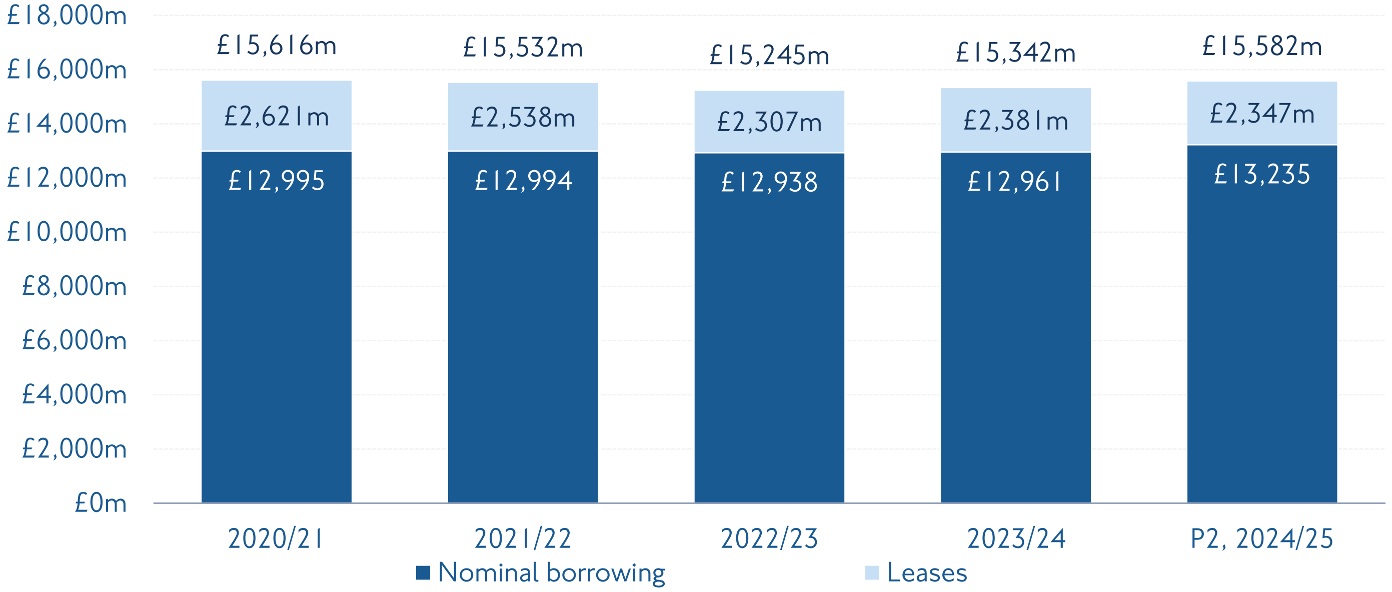
We have borrowed from a range of sources to help fund our capital programme, including Crossrail and major upgrades to our tube network.

Our level of outstanding borrowing has increased by £274m for the year, bringing our total borrowing balance to £13,235m. This is driven by an increase in our long and short-term borrowing, to suit our cash and liquidity needs.

Our total debt is forecast to increase in later this year as we borrow to fund our investment programme and the Silvertown Tunnel opens and comes on balance sheet.

Prudential indicator debt limits	£m
Nominal borrowing	13,235
Operational boundary	13,454
Authorised limit	14,654

Total debt (£m)



90%

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

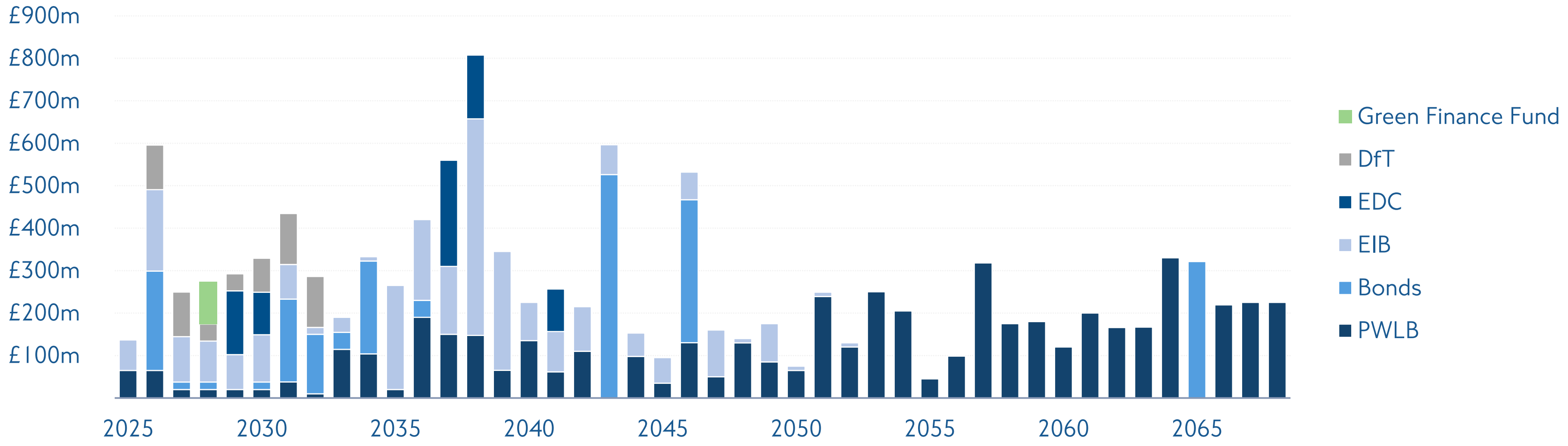
3.6%

The weighted average interest rate on our borrowing is around 3.6%

19-years

The weighted average tenor of our borrowing is around 19 years

TfL borrowing maturity profile



Credit ratings

We are rated by three major credit rating agencies. This allows us to attract interest from a wide pool of investors and gives us access to a range of funding sources.

There have been no changes since our Quarter 4 update to the Board.

	S&P	Moody's	Fitch
Long-term rating	AA-	A3	AA-
Outlook	Stable	Positive	Stable
Short-term rating	A-1+	P-2	F1+
Last changed/affirmed	May 2024	Nov 2023	Apr 2024

S&P

On 20 May 2024, S&P upgraded TfL's long-term credit rating to AA- from A+ and the short-term credit rating to A-1 from A-1. The outlook is stable. The key drivers for S&P include the post-coronavirus pandemic recovery in passenger demand, which S&P expects to remain high, cost-efficiency measures, supporting our ability to cope with external shocks and rebuild flexibility within our operations and the expectation of a gradual increase in capital investments and the quality of services.

Moody's

On 15 November 2023, Moody's upgraded our long-term credit rating from Baa1 to A3 and changed the outlook from stable to positive. This reflects the recovery to date and the work into achieving ongoing financial sustainability. The positive outlook reflects Moody's expectation that we will continue to build our financial surplus. A sustained improvement in operating performance and a multi-year funding agreement with Government with minimal conditions could lead to a further upgrade. Moody's published an issuer comment "London mayor's policy plans support credit quality" in May 2024, following the re-election of Sadiq Khan. Moody's see this as credit positive for TfL, but still highlight the uncertainty around a long-term capital funding settlement for TfL.

Fitch

Fitch reaffirmed our credit rating in January 2024 and upgraded the outlook from negative to stable on 15 April 2024, reflecting the change in the UK rating (with which our rating is equalised).

Divisional summaries

London Underground

Tube journeys are almost 5% higher than last year, although lower than Budget. Journeys are almost 8 million higher than last year and 5.5 million lower than Budget. Passenger income is £16m down on Budget, a result of lower journeys.

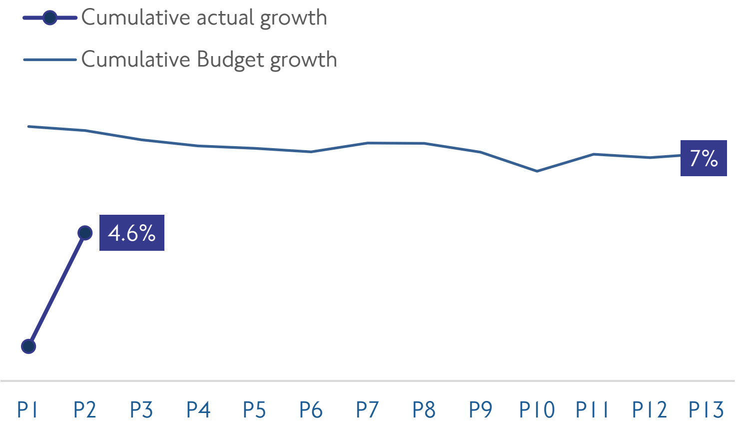
Operating costs are broadly in line with Budget, with Central line improvements costs offset by savings.

Capital renewals are £77m in the year to date, £14m up on last year and £5m higher than Budget. This is a result of higher than expected spend at the start of the year. We expect to hit Budget by year end.

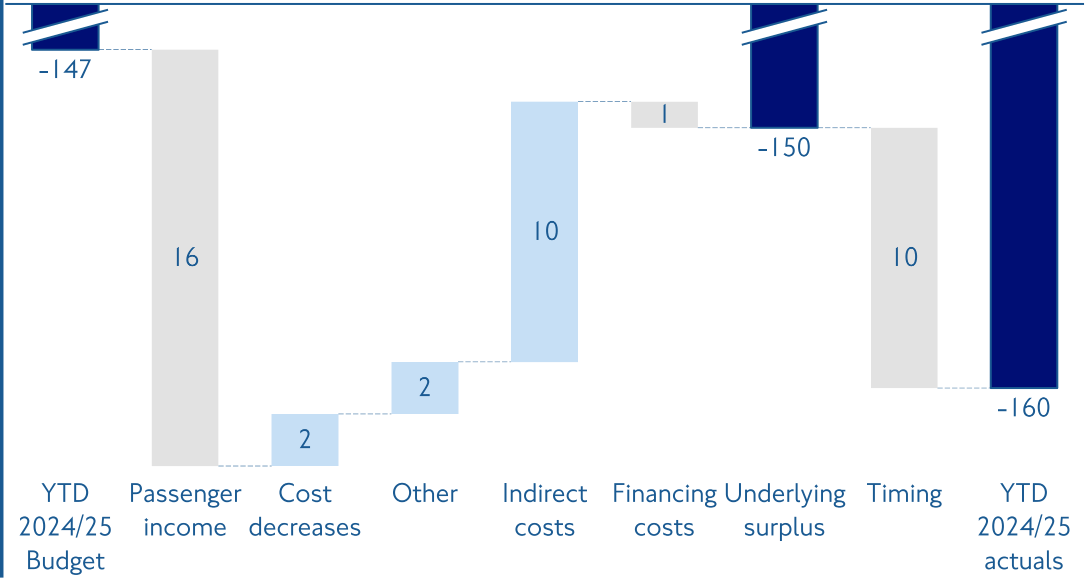
Income statement (£m)	Actuals	Variance to Budget		Variance to last year	
Passenger income	385	(16)	-4%	2	1%
Other operating income	4	-	0%	-	0%
Revenue	**389**	**(16)**	**-4%**	**2**	**1%**
Operating costs	(373)	(1)	0%	(33)	-10%
Net contribution	**16**	**(17)**	**-52%**	**(31)**	**-66%**
Indirect costs	(57)	10	15%	17	23%
Net financing costs	(42)	(1)	-2%	2	5%
Capital renewals	(77)	(5)	-7%	(14)	-23%
Operating surplus / (deficit)	**(160)**	**(13)**	**-9%**	**(26)**	**-20%**
New capital investment	**(65)**	**2**	**3%**	**(3)**	**-4%**

Tube journeys year-on-year growth

Passenger journeys (m)	Variance to Budget (m)	Variance to 2023/24 (m)	Variance to 2023/24 (%)
182	(5.5)	7.9	4.6%



Operating surplus/ (deficit) compared to Budget



Elizabeth line

Elizabeth line journeys continue to show strong growth. Journeys are 21% higher than last year and are higher than Budget. Passenger income is in line with Budget and £24m higher than last year.

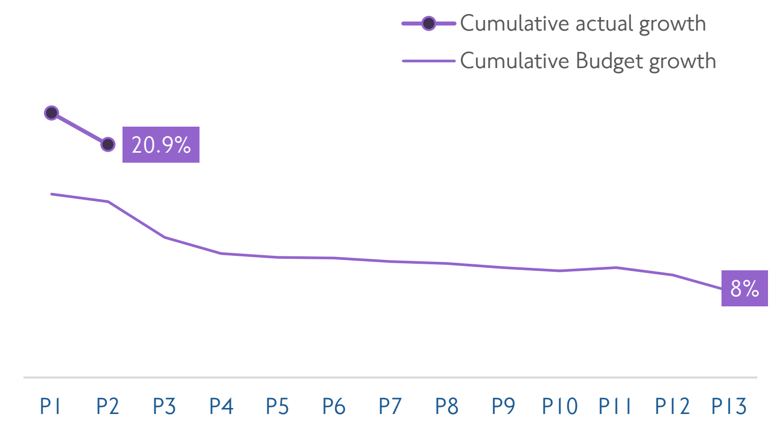
Operating costs are in line with Budget.

We are now investing in new trains for the Elizabeth line, which will improve train frequency and capacity. These trains will be funded by the DfT and help boost our supply chains.

Income statement (£m)	Actuals	Variance to Budget		Variance to last year	
Passenger income	97	-	0%	24	33%
Other operating income	2	1	100%	1	100%
Revenue	**99**	**1**	1%	**25**	34%
Operating costs	(79)	-	0%	(13)	-20%
Net contribution	**20**	**1**	5%	**12**	150%
Indirect costs	(2)	2	50%	-	0%
Net financing costs	(13)	-	0%	1	7%
Capital renewals	(2)	(1)	-29%	(1)	-67%
Operating surplus / (deficit)	**3**	**2**	1486%	**12**	128%
New capital investment	(1)	(0)	-12%	(0)	-105%
Crossrail project	(3)	7	70%	7	69%
Total new capital investment	**(4)**	**7**	66%	**7**	65%

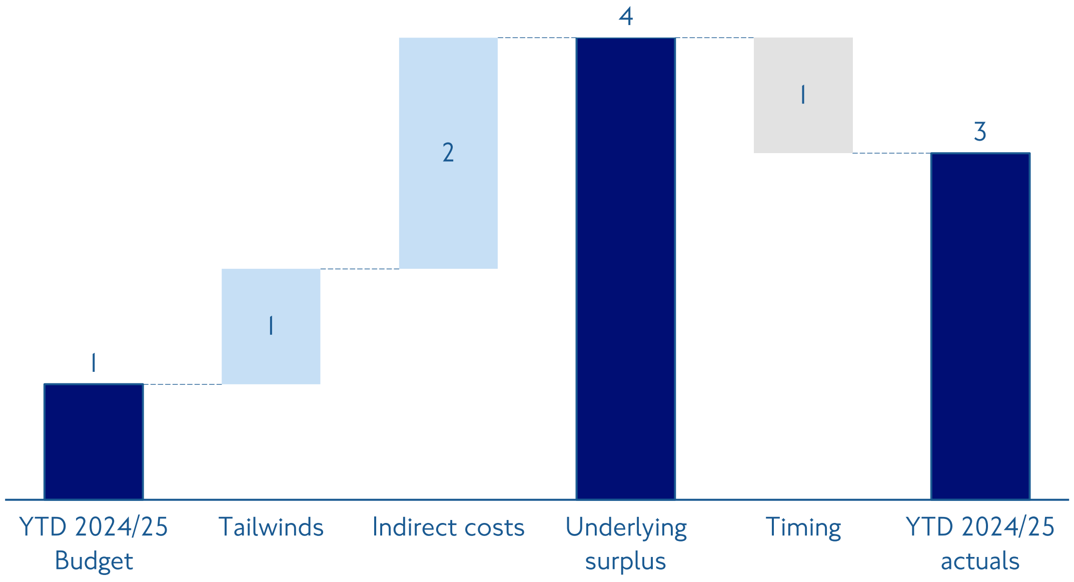
Elizabeth line journeys year-on-year growth

Passenger journeys (m)	Variance to Budget (m)	Variance to 2023/24 (m)	Variance to 2023/24 (%)
34	1.4	5.9	20.9%



EL journeys are estimates and are subject to revision

Operating surplus/ (deficit) compared to Budget



Buses, Streets & Other operations

Including Congestion Charge, Low Emission Zone (LEZ) and Ultra Low Emission Zone (ULEZ)

Bus journeys are almost 3% higher than last year, but are down on Budget. Journeys are 288 million in the year to date, 13 million lower than Budget. Passenger income is £7m lower than expected.

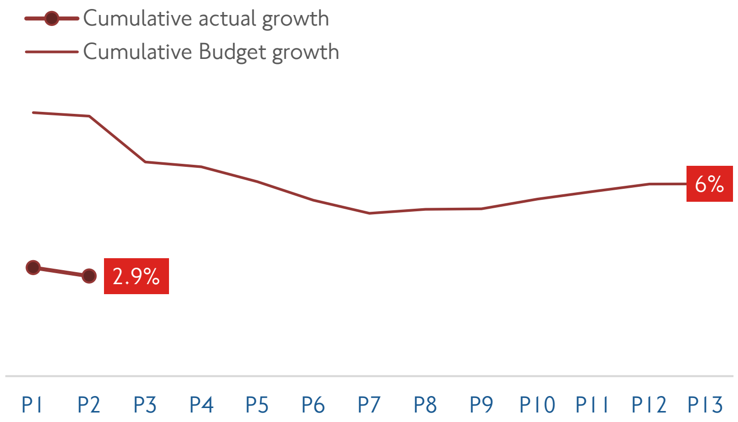
Other operating income is broadly in line with Budget, with higher road user charging income (from Congestion Charge and ULEZ) offset by lower road enforcement penalty income.

Operating costs are £4m (1%) higher than Budget, mainly from higher bad debt in ULEZ, a result of lower payment rates.

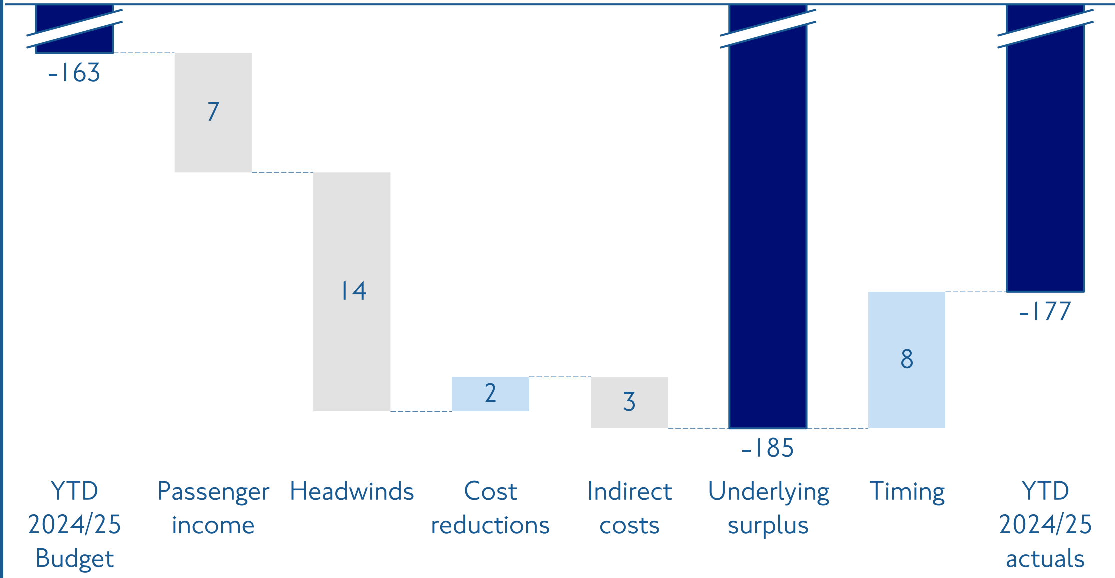
Income statement (£m)	Actuals	Variance to Budget		Variance to last year	
Passenger income	241	(7)	-3%	8	3%
Other operating income	194	1	1%	41	27%
Revenue	**435**	**(6)**	-1%	**49**	13%
Operating costs	(559)	(4)	-1%	(58)	-12%
Net contribution	**(124)**	**(10)**	-9%	**(9)**	-8%
Indirect costs	(20)	(3)	-18%	(8)	-67%
Net financing costs	(4)	-	0%	-	0%
Capital renewals	(29)	(1)	-3%	(8)	-37%
Operating surplus / (deficit)	**(177)**	**(14)**	-8%	**(25)**	-16%
New capital investment	**(21)**	**2**	9%	**13**	38%

Bus journeys year-on-year growth

Passenger journeys (m)	Variance to Budget (m)	Variance to 2023/24 (m)	Variance to 2023/24 (%)
288	**(12.9)**	**8.1**	**2.9%**



Operating surplus/ (deficit) compared to Budget



Rail

Including London Overground, DLR and Trams

Rail journeys are 1.4% lower than last year, with growth on London Overground offset by lower journeys on the DLR and Trams. Overall journeys are 45 million in the year to date, 0.7 million lower than Budget.

Operating costs are within 1% of Budget.

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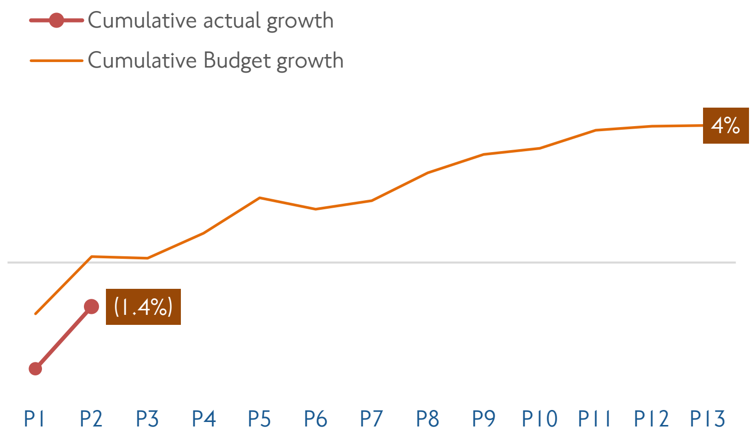
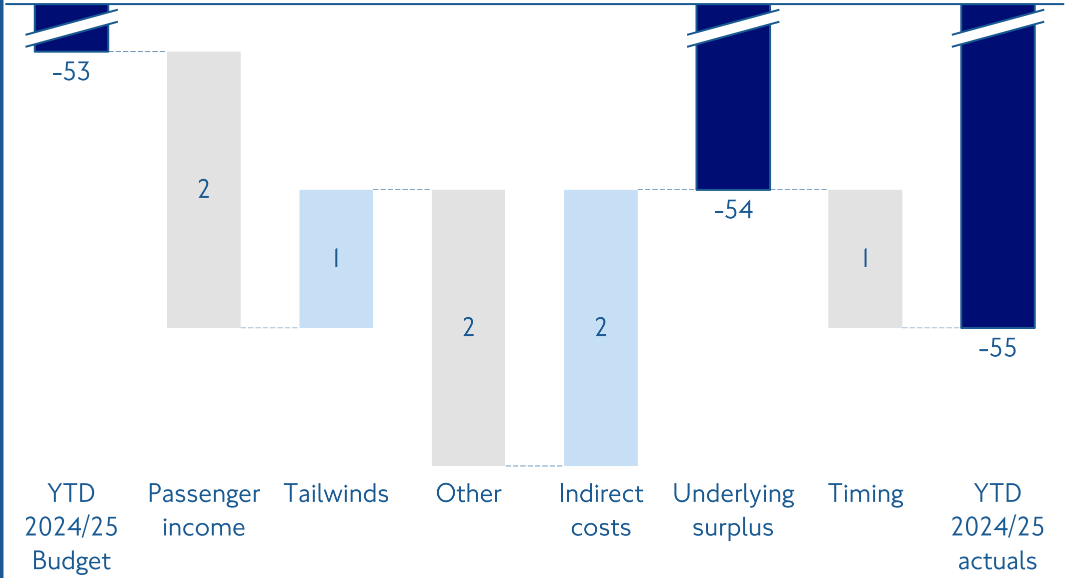
Income statement (£m)	Actuals	Variance to Budget		Variance to last year	
Passenger income	63	(2)	-3%	(2)	-3%
Other operating income	2	-	0%	1	100%
Revenue	**65**	**(2)**	**-3%**	**(1)**	**-2%**
Operating costs	(91)	(1)	-1%	(4)	-5%
Net contribution	**(26)**	**(3)**	**-13%**	**(5)**	**-24%**
Indirect costs	(4)	2	33%	-	0%
Net financing costs	(5)	-	0%	-	0%
Capital renewals	(20)	(1)	-6%	(13)	-169%
Operating surplus / (deficit)	**(55)**	**(2)**	**-4%**	**(18)**	**-47%**
New capital investment	**(41)**	**(4)**	**-10%**	**(3)**	**-8%**

Rail journeys year-on-year growth

Passenger journeys (m)	Variance to Budget (m)	Variance to 2023/24 (m)	Variance to 2023/24 (%)
45	(0.7)	(0.6)	-1.4%



Operating surplus/ (deficit) compared to Budget



Finance Committee

Date: **11 July 2024**

Item: **Greater London Authority Treasury Collaboration**

This paper will be considered in public

1 Summary

1.1 This paper provides an update on recent progress in relation to the investment collaboration between TfL Treasury and the Greater London Authority's (GLA) investment subsidiary London Treasury Limited (LTL).

1.2 As many of the key milestones of the collaboration are moving towards imminent completion, we feel sufficient progress has been made to allow us to seek approval from the Committee in relation to an increase in TfL's counterparty investment limit in respect of London Treasury Liquidity Fund LP (LTLF) from £10m to £900m, as anticipated in TfL's Treasury Management Strategy 2024/25 (included as Appendix 1) and TfL's Treasury Management Policies (TMP) (included as Appendix 2).

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

2 Recommendation

2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and to authorise the managing Chief Finance Officer to approve an increase in the TfL investment counterparty limit in respect of London Treasury Liquidity Fund LP from £10m to £900m, following confirmation from the Group Treasurer of satisfactory delivery of the changes proposed under the GLA investment collaboration, as anticipated in TfL's Treasury Management Strategy 2024/25 and TfL's Treasury Management Policies approved by the Committee in March 2024.**

3 TfL Investment Requirements

3.1 In March 2024, the Committee approved the TfL TMP for 2024/25. The TMP include TfL counterparty investment limits, with the investment limit for LTLF currently being £10m. The TMP also provide that following the satisfactory delivery of the changes proposed under the GLA collaboration, approval will be sought from the Committee for the LTLF exposure limit to increase to £900m. At that meeting of the Committee we also proposed the requirements for TfL to be able to substantively invest in LTLF and thereby increase the exposure limit to

£900m. These requirements were that the operational processes and systems operated by LTL would be to an equivalent, or better, standard to those TfL currently operate; and that the investment strategy will provide no greater risk than TfL currently takes or is protected by further guarantees. Good progress has been made in implementing the Treasury Management System, Quantum, for LTL. The expected date for it to go live is 27 July 2024. Shared service and secondment agreements are in the process of being finalised and operational procedure documents are being written and agreed between LTL and TfL.

4 Operational Processes and Systems

4.1 TfL and LTL formed a joint working group to identify and design a solution for LTL to automate their systems and for both organisations to have one service provider to enable shared back office and front office operations. Significant progress has been made to roll out Quantum to LTL. Fidelity National Information Services (FIS) have been appointed to roll out Quantum to LTL, as principal portfolio manager of LTLF. LTL are expected to go live with the Quantum treasury management system in July 2024.

4.2 The use of Quantum will ensure there is further segregation of duties in the operational processes of investments made for the fund, provide a complete audit trail for activity, and ensure that many of the critical tasks in investing for the fund, currently supported by spreadsheets, are completed using an external treasury management system.

4.3 FIS has finalised the design of Quantum and the project is currently in the user acceptance testing phase. Once completed, we expect that LTL will transition from its current spreadsheet-based system to the external treasury management system Quantum. This will mean that the investments managed by LTL will follow processes and systems of an equivalent standard to TfL.

4.4 A second phase of the Quantum roll-out may follow the go live in July 2024. The purpose of this is to capture investments managed by external investment managers within Quantum. As these investments are placed and managed by specialist managers, there is no direct operational risk to TfL from these investments. Therefore, we do not believe this phase needs to be completed before investing further in LTLF.

4.5 In addition to the use of Quantum, we will concurrently work to finalise and implement a shared service arrangement in which TfL provide back office services including settlements, confirmations, bank reconciliations to the GLA and LTL. This provides further comfort to TfL in the form of further segregation of duties, with a specialist independent team administering these financial transactions.

4.6 Through the collaboration with the GLA and LTL, TfL will be reimbursed for the proportion of resource cost associated with delivering the back office services. In addition, secondment arrangements are being finalised to allow TfL’s incumbent investment team to provide a proportion of its resource to LTL.

5 Investment Strategy

5.1 Our investment in LTLF will have two components, a core commitment to LTLF, representing two per cent of expected investment balances over the next year; and loan contributions which make up the remaining 98 per cent of the investment.

5.2 Loan contributions are available for daily redemption, subject to LTLF's General Partner's ability to facilitate such a redemption. The core contribution is only redeemable three years after initial investment in the fund, following complete withdrawal from LTLF. Both the core commitment and loan contributions are covered by the guarantee provided by the GLA.

5.3 To help manage and facilitate redemption requests, we will provide a cash forecast detailing anticipated redemptions and investments in the fund. We will also invest a portion of TfL's cash balance ourselves, in liquid short-term investments to provide liquidity to meet ongoing cash requirements and absorb excess volatility in our cash balances without relying completely on LTLF.

6 Fund Governance

6.1 Any changes to LTLF's investment strategy (other than material changes as set out under paragraph 6.2 below), or admission of a new limited partner to the fund, require approval by 70 per cent by number of voting limited partners, voting at a meeting of the Limited Partners' Advisory Committee (LPAC) or approving through written resolution. The quorum required for an LPAC meeting is 75 per cent by number of voting limited partners representing at least 50 per cent of the core account balances held in the fund. Where written resolution is used, the required approval threshold must likewise be met from limited partners representing at least 50 per cent of the core account balances.

6.2 Material changes to the investment strategy, such as changes to the strategic asset allocation, value at risk limit, permitted investments and investment duration, are subject to unanimous approval from all voting limited partners who individually hold more than 2.5 per cent of the core account balances.

6.3 Based on the current fund size, if TfL invested £900m in LTLF, we would represent around 20 per cent of the fund by value and be one of six limited partners in the fund.

6.4 LTL operate with two investment committees; the Investment Advisory Committee and the Investment Committee.

6.5 The purpose of the Investment Advisory Committee is to challenge, scrutinise and provide advice concerning recommendations by the investment team including; asset allocation, the investment strategy of LTLF and strategic investments proposals. The Investment Advisory Committee is not decision making. There is at least one independent member required by the membership of the Investment Advisory Committee. Minutes of the Investment Advisory Committee discussions will be provided to the LPAC for when changes to the investment strategy are proposed.

6.6 The Investment Committee provides challenge, oversight and approval in relation to the investment management process and activities of LTLF. It may also seek the advice of the Investment Advisory Committee and make recommendations to LTLF's General Partner or the LPAC as required.

6.7 LTL have agreed to having a TfL representative as one of the members of the Investment Advisory Committee while TfL is an investor in the fund.

List of appendices to this report:

Appendix 1: TfL Treasury Management Strategy

Appendix 2: TfL Treasury Management Policies

Exempt supplementary information is included in the paper on Part 2 of the agenda.

List of background papers:

None

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Appendix 1

TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2024/25

1 SUMMARY

1.1 This Treasury Management Strategy (TMS) 2024/25 comprises the:

(i) Investment Strategy;

(ii) Borrowing Strategy;

(iii) Liquidity Strategy; and

(iv) Risk Management Strategy.

2 BACKGROUND

2.1 The TMS 2024/25 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2021;

(ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2021; and

(iii) the Statutory Guidance on Local Government Investments (the 'Investments Guidance') issued by the Department for Levelling Up, Housing and Communities (DLUHC), formerly known as the Ministry of Housing, Communities and Local Government, last updated in 2018, with respect to treasury investments.

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

2.3 All references to 'investments' in the TMS 2024/25 refer to investments held for treasury management purposes only and do not cover non-treasury or non-financial assets related investments.

3 POLICIES AND DELEGATIONS

3.1 The TMS 2024/25 will be implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments.

3.2 The arrangements for the implementation, execution, operation and administration of the TMS 2024/25, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer[1], Director of Corporate Finance and Group Treasurer, with the exception of the matters specified in 3.3, provided no decision contravenes the TMS 2024/25, the Treasury Management Policies, or the TfL Group Policy Relating to the Use of Derivative Investments.

3.3 With respect to the investment of cash balances, the Investment Strategy contained within the TMS 2024/25 will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG). LTM and LTIG will each determine and apply their own investment strategy which will better meet their individual requirements in respect of its investment of cash balances, subject to such strategies and policies and any deviations from or changes to any of them being approved in advance, from time to time, by the Corporate Finance Director or Group Treasurer.

3.4 With respect to Places for London Limited (Places), Places' borrowing, investment and liquidity strategies and its banking and cash management will be subject to such strategies and banking and cash management related provisions set out in any Finance Committee approved Places Treasury Management Strategy.

4 STRATEGIC OBJECTIVES

4.1 The objectives underpinning the TMS 2024/25 are:

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

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

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

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

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

[1] References to managing Chief Finance Officer in this document mean the managing (non-statutory) Chief Finance Officer.

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

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

5 INVESTMENT STRATEGY

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

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

Investing with the Greater London Authority (GLA)

5.3 As part of the ongoing GLA collaboration, TfL is planning to increase its investment in London Treasury Liquidity Fund LP (LTLF) in accordance with the limit stated in TfL’s Treasury Management Policy LTLF’s assets are managed in accordance with the investment strategy included in Annex 1. TfL’s investment in LTLF will comprise 98 per cent of loan contributions redeemable on a daily basis, and two per cent of core commitment which may be redeemed upon exit from the fund.

5.4 This means that of TfL’s cash, up to £900m will be managed by LTLF in accordance with the LTLF Investment Strategy as determined by the fund’s General Partner and agreed by the Limited Partners, consistent with the strategy approved by the Mayor, laid out in Annex 1 to this document and previously shared with the Finance Committee.

Investment managed by TfL

5.5 The remaining cash not invested in LTLF will be directly managed by TfL in accordance with this investment strategy and the limits detailed in the TfL Treasury Management Policies. This cash will be retained for managing shorter cashflows arising from daily and weekly fluctuations and will be invested in highly secure overnight, or short-term investments of one month or less to ensure TfL has sufficient liquidity to meet its forecast payment obligations.

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

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

5.8 At the time of investment, all investments will be rated a minimum of A-2, P-2 or F2 by Standard & Poor's, Moody's or Fitch Ratings credit rating agencies. Investments with counterparties that have a credit rating of less than any of A-1, P-1 or F1 will have a combined total of no more than £240m.

5.9 TfL will consider the risk of its overall portfolio as well as individual investments, seeking to diversify its investments as much as possible and have regard to the exposure to any one counterparty, country, industry, investment type, and credit. Until a substantial investment is made in LTLF, TfL will target allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time. TfL will seek to invest cash responsibly by investing in counterparties with strong Environmental, Social and Governance (ESG) performance and policies.

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

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

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

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

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

5.13 TfL will seek to achieve year-to-date returns greater than the year-to-date average benchmark of SONIA (Sterling Overnight Index Average), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as MMFs.

6 BORROWING STRATEGY

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

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

6.3 TfL's borrowing requirement for 2024/25 is expected to be approximately £717m, excluding rolling short-term commercial paper. This amount consists of £247m maturing borrowing that we intend to refinance, and £470m of new incremental borrowing.

6.4 In addition to the expected TfL borrowing, Places may raise its own borrowing to meet its capital requirements. This funding would be non-recourse to TfL and is included in the Places Treasury Management Strategy and Policies.

6.5 The total value of outstanding borrowing and other long-term liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board (as required by the Local Government Act 2003). TfL seeks to achieve its borrowing objectives by maintaining access to capital markets through its Euro Commercial Paper programme, Euro Medium Term Note programme and stand-alone capital market transactions. It will complement this with loans and other facilities from financial institutions and/or other public bodies, such as the GLA's Green Finance Fund. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (or any future body replacing it), a readily available source of liquidity. Other sources of finance will be used where they further TfL's stated objectives.

6.6 As debt service represents a relatively significant part of TfL's annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement. While fixed rates of borrowing are generally preferred, as they provide more certainty, TfL will assess the merits of having a certain amount of floating debt, where it is consistent with the borrowing and risk management objectives. TfL's policy is to have at least 75 per cent of all outstanding borrowing at fixed interest rates and no more than 25 per cent of borrowing at variable rates. TfL aims to match the variable rate borrowing with cash-in-hand to offset fluctuations in the short-term interest rates.

6.7 Borrowing is expected to be drawn predominantly in Sterling. However, HM Treasury has provided consent for TfL to access commercial paper markets in Euros and US Dollars, and TfL will access these markets when appropriate. Any foreign currency exposures arising from foreign currency borrowing will be subject to risk mitigation measures consistent with the principles of the Risk Management Strategy.

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

6.9 TfL will consider opportunities to arrange loan facilities that enable drawdowns of debt in future years. Where TfL has the ability and option to do so it will consider fixing drawdowns beyond the 2024/25 financial year, in order to mitigate interest rate risk related to future borrowing requirements.

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

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

7 LIQUIDITY STRATEGY

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

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

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

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

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

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

8 RISK MANAGEMENT STRATEGY

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

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

8.3 The objectives of the Risk Management Strategy are to:

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

(ii) holistically manage financial risks across the whole of TfL; and

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

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

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

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

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

(d) inflation risk across TfL and its subsidiaries; and

(e) price risk on any investment activities.

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

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

Annex 1 – LTLF Investment Strategy

1. Background

1.1 This document sets out the investment strategy for the London Treasury Liquidity Fund (LTLF) for the financial year 2024-25.

1.2 The main changes in the strategy from previous years, which have been agreed in principle by LTLF's Limited Partners' Advisory Committee (LPAC), are summarised below:

(a) A new Strategic Lending allocation of 5% of the fund is to be created by taking 5% from Core Liquidity (now 50% rather than 55%). Liquidity has been maintained by reducing the maximum Weighted Average Life (WAL) of Core Liquidity from 90 days to 60 days.

(b) Strategic Lending (a new 5% allocation) and Strategic Investments (the existing 10% allocation) have performance benchmarks of SONIA + 200bps and + 300bps respectively, giving LTLF the flexibility to take advantage of a wider range of investment opportunities. Previously strategic investments had a benchmark return of SONIA + 400bps, set in a very different interest rate environment and which ruled out a number of investments that could usefully contribute to achieving the targeted return while remaining within acceptable risk parameters.

(c) In section 3, Counterparty and Investment Limits, investments are categorised as Specified (S) or Non-Specified (NS) in accordance with the statutory guidance. Previously there was a NS* category where the investments concerned had to be managed by an FCA regulated manager. Since all investments have to be managed by FCA regulated managers under the current fund structure, this category is redundant and has been replaced by NS.

(d) Section 3.3 has been redrafted to clarify how the exposure limits are calculated, in particular, how forecast average balances are used for measuring limits for longer-term investments. This highlights how important it is to work in partnership to create accurate forecast cash-flow information, which then enables LTLF to meet Limited Partners' liquidity requirements in the most efficient manner possible.

(e) In Table 5, cash exposure limits to individual counterparties are now reduced. These reduced limits promote a diversification of counterparties and better reflects how the portfolio is run in practice: the previous limits were a relic from times when it was envisaged the overall fund balances could be more volatile. A new limit of 10% of the portfolio to any one Local Authority counterparty (previously not limited) has been added. This reflects the fact that while Local Authorities are considered by the partnership to carry UK Sovereign equivalent risk, there is nevertheless the possibility of stressed Local Authority cash-flows in the short term. LTL's Investment Team undertakes due diligence on any Local Authority before any investment is made, avoiding those with excessive borrowing or well-publicised funding issues or suspected financial mismanagement where appropriate.

(f) To bring consistency, a maximum limit on any new investment has been proposed across both Strategic Lending and Other Strategic Investments of 3% of assets under management at the point of commitment.

(g) With Strategic Investments, while seen as longer-term investments, the intention is to have regular liquidity. This will come from a diversified portfolio of closed investments returning capital each year plus investments that offer redemption options within 12 months. An initial limit of at least 33% of the portfolio being liquid within one year was included in the 2023-24 investment strategy. Reviewing the investment opportunities available, to avoid overly restricting opportunities, it is proposed to set the percentage at 25% rather than 33%.

2. Strategic Asset Allocation

2.1 The proposed strategic asset allocation for the investment strategy is as follows:

Asset type		Allocation	Gross expected return
Core liquidity WAL ≤ 60 days	Overnight liquidity	10%	SONIA
	Short-term deposits or investment grade debt	40%	SONIA
Medium-term	Senior RMBS Expected WAL ≤ 3.5 years	35%	SONIA + 30bps
	Strategic lending Expected WAL ≤ 5 years	5%	SONIA + 200bps
Long-term core balance	Other strategic investments	10%	SONIA + 300bps
Total		100%	SONIA + 50bps

Glossary

RMBS:	Residential Mortgage-Backed Securities
SONIA:	Sterling Overnight Index Average rate
WAL:	Weighted Average Life
Gross expected return:	Expected gross return before fees and expenses incurred directly by LTLF

2.2 LTLF has the following objectives and risk profile:

<u>Security of Capital</u>

(a) The portfolio 95% VaR (value at risk) should not exceed 2%.

(b) The VaR will be assessed at least semi-annually using appropriate professional advice.

<u>Liquidity</u>

(c) LTLF aims to meet all properly constituted withdrawal requests from its Limited Partners.

<u>Yield</u>

(d) LTLF targets a net return of at least SONIA + 40 bps over a rolling three-year period.

3. Counterparty and Investment Limits

3.1 Table 1 sets out the range of specified and non-specified investments permitted by LTLF. Specified and non-specified investments are as defined in the Statutory Guidance on Local Government Investments issued by the Department for Levelling Up, Housing and Communities (DLUHC) under the Local Government Act 2003.

3.2 The following key applies:

S = Specified (These are sterling investments with high credit quality and a maturity period of not more than 365 days, or those which could be for a longer period but where the lender has the right to be repaid within 365 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.)

NS = Non-Specified (Non-specified investments are any other type of investment. They normally offer the prospect of higher returns but carry a higher risk.)

3.3 LTLF will make best efforts to maintain at least 50% of all investments (or underlying investments) in the form of Specified Investments.

Table 1

Investment type	**Eligibility criteria**	**≤ 1 year to maturity at time of investment**	**> 1 year to maturity at time of investment**	**Maximum total exposure** (see 3.3)
Senior Unsecured Debt, e.g. • Deposits • Call Accounts • Notice Accounts • Certificates of Deposit • Loans • Commercial Paper • UK Gilts and T-Bills • All other senior unsecured bonds	Issuer (and security where separately rated) Investment Grade (IG) defined per **Table 3** OR UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) OR Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per **Table 2**	S	NS	Aggregate 100%, individual limits determined by **Table 5**

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure (see 3.3)
Money Market Funds	Fitch AAA_{mmf} or above See **Table 3** for equivalents from other agencies Daily liquidity	S	*N/A*	100% Not more than 20% per fund
Other Collective Investment Schemes e.g. Enhanced Cash Funds	Fitch AAA_{f} or equivalent from other agencies per **Table 3**	NS	*N/A*	20%
Covered Bonds	Bond rating Fitch $AA+_{sf}$ or equivalent from other agencies per **Table 3** AND Issuer rated Fitch A- or above or equivalent from other agencies per **Table 3**	NS	NS	20%
Repurchase Agreements (Repo)	Counterparty meets senior unsecured criteria AND proposed collateral (Min 100%) itself meets permitted investment criteria OR Collateralisation is >102% with UK Gilts / T-Bills	S – UK gilts or T-Bills AND counterparty meets senior unsecured criteria NS – other	*Not permitted*	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria
Senior UK Prime	Bond rating	NS	NS	35%

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure (see 3.3)
or Buy-to-Let Residential Mortgage-Backed Securities (RMBS)	Fitch AA+$_{sf}$ or above or equivalent from other agencies per **Table 3**			
Medium-Term Strategic Lending	See **Section 5**	NS	NS	5%
Other Strategic Investments	See **Section 6**	NS	NS	10%

3.4 LTLF's assets under management ("AUM") can vary in the short-term as its Limited Partners deposit and withdraw their treasury funds in the normal course of business.

3.5 For short-term core liquidity assets, exposure is measured against LTLF's AUM on the day.

3.6 For medium and long-term assets, LTLF measures exposure against the forecast average daily AUM for the year ahead ("Forecast AUM") based on forecast cash-flows provided by its Limited Partners. The Forecast AUM is used to fix cash limits for the quarter ahead with such limits being recalculated at least quarterly. If revised forecast cash-flows are received during a quarter that adjust the Forecast AUM by more than 20%, then new cash limits will be set during that quarter.

4. Credit Ratings and Country Limits

4.1 Maximum direct exposures to non-UK financial institutions apply by country, based on the relevant sovereign ratings outlined in the table below:

Table 2 – Country Limits

Max. Aggregate Exposure (%)	Fitch Sovereign Rating	S&P Sovereign Rating	Moody's Sovereign Rating
25	AAA	AAA	Aaa
15	AA+	AA+	Aa1
5	A	A	A

Note: for non-UK, non-financial institutions, or in circumstances such as an instrument being issued through a subsidiary domiciled in one country but guaranteed or otherwise secured by a parent in another, the risks and appropriate country limit (if any, in the case of multinational corporations) in which to aggregate the exposure will be considered on a case-by-case basis and determined by the relevant portfolio manager.

4.2 Table 3 sets out the range of investment grade ratings used by LTLF and its portfolio managers.

Table 3 – Permitted Credit Ratings and Equivalence Mappings

Issuer and/or Senior Unsecured Bond Ratings					
Long-term			Short-term		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2
Structured Finance Ratings					
Fitch	Moody's	S&P			
AAA_{sf}	Aaa (sf)	AAA (sf)			
$AA+_{sf}$	Aa1(sf)	AA+ (sf)			
Money Market Fund Ratings					
Fitch	Moody's	S&P			
AAA_{mmf}	Aaa-mf	AAAm			
Other Permitted Fund Ratings					
Fitch	Moody's	S&P			
AAA_{f}	Aaa-bf	AAAf			

4.3 For core liquidity investments, lower ratings are balanced by higher ones in order to maintain a credit risk on rated instruments that is no greater than a 12-month deposit with an AA- institution. This is determined by assigning a credit factor to each rated investment per Table 4 and calculating a weighted average portfolio credit factor (PCF). This must remain below 5 and no single instrument may exceed 10.

Table 4 – Credit Factors

Credit Factors based on Issuer Default Rating (Fitch and Fitch Equivalents) Use instrument rating or if not rated, rating of Issuer									
Days	AAA	AA+	AA	AA–	A+	A	A–	BBB+	BBB
O/N	0.01	0.01	0.01	0.01	0.02	0.03	0.04	0.07	0.10
2-7	0.02	0.04	0.06	0.10	0.15	0.20	0.30	0.50	0.80
8-30	0.10	0.15	0.25	0.40	0.60	0.75	1.30	2.10	3.50
31-60	0.20	0.30	0.50	0.80	1.20	1.50	2.60	4.20	7.00
61-90	0.25	0.50	0.75	1.25	1.50	2.50	5.00	7.50	10.00
91-120	0.35	0.65	1.00	1.50	2.30	3.30	6.60	10.00	13.50
121-150	0.40	0.80	1.25	2.10	2.90	4.20	8.30	12.50	16.50
151-180	0.50	1.00	1.50	2.50	3.50	5.00	10.00	15.00	20.00
181-210	0.60	1.20	1.75	3.00	4.00	5.80	11.70	17.50	23.50
211-240	0.70	1.30	2.00	3.30	4.70	6.60	13.30	20.00	27.00
241-270	0.75	1.50	2.25	3.75	5.25	7.50	15.00	22.50	30.00
271-300	0.80	1.70	2.50	4.20	5.80	8.30	16.70	25.00	33.50
301-330	0.90	1.85	2.75	4.60	6.50	9.20	18.50	27.50	37.00
331-397	1.00	2.00	3.00	5.00	7.00	10.00	20.00	30.00	40.00
398-730	2.70	5.30	8.00	13.00	19.00	27.00	43.00	69.00	106.00

4.4 For the purposes of the above, UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) securities are treated as the long-term UK Sovereign rating, reflecting the UK's highly centralised and interdependent public finance regime.

4.5 Exposure limits to individual counterparties are determined by the colour bands assigned under the Colour Banding Methodology supplied by Link Asset Services.

Table 5 – Concentration Limits

Cash Exposure Limits – applied to individual counterparties		
Band	**Overnight**	**> 1 day**
UK Sovereign (see 4.7)	100%	100%
UK Local Authorities (see 4.7)	10%	10%
Yellow	20%	20%
Purple	20%	15%
Orange	15%	15%
Red	15%	10%
Green	10%	5%
No Colour	5%	5%

4.6 The bands above are calculated based on a range of credit ratings data, including published rating watches and outlooks.

4.7 Exposure to an individual counterparty in the UK Sovereign band has been set at 100% to cater for a severe market disruption scenario when all funds might be best placed with a UK Government institution. Notwithstanding their UK Sovereign status, Local Authorities' cash-flows may be temporarily stressed. Following the principles of good portfolio management and diversification, cash exposure to an individual Local Authority is limited to 10% of LTLF's AUM.

5. Medium-Term Strategic Lending

5.1 Medium-term strategic lending is a portfolio of individual lending or financing transactions seeking to earn higher returns than the core liquidity or RMBS assets but with a low risk of capital impairment.

5.2 Such opportunities may involve situations where market capacity may be limited or restricted despite ample security being available or where flexibility is sought by the borrower e.g. around early repayment without penalty. An example transaction would be the provision of secured loan finance to an investment fund.

Gross expected return	SONIA + 200bps
Concentration risk	No individual medium-term strategic lending investment to exceed 3% of LTLF's Forecast AUM at the point of commitment

5.3 The expected WAL of medium-term strategic lending will not exceed five years.

5.4 Medium-term strategic lending will be secured on assets or cash-flows except where the borrower is (or is guaranteed by) an investment-grade counterparty (Fitch BBB or better, see Table 3) or a public body with credible sovereign support.

6. Long-Term Core Balance – Other Strategic Investments

6.1 In general terms, the other strategic investments allocation is seeking returns similar to those expected of a well-funded institutional pension fund.

Gross expected return	SONIA + 300bps

6.2 The other strategic investments allocation will be deployed on a best ideas basis across a range of asset classes, seeking investments anticipated to achieve the expected return and demonstrate a level of volatility that will keep the overall expected VaR within the limit set in Section 2.2 above.

6.3 The following limits will apply to the other strategic investments allocation:

Criteria	**Limit**
Overall expected portfolio volatility	95% VaR ≤ 2%
Concentration risk	No individual other strategic investment to exceed 3% of LTLF's Forecast AUM at the point of commitment
Sector diversification	
Infrastructure (debt and equity)	< 50% of other strategic investments allocation
Real estate (debt and equity)	< 50% of other strategic investments allocation
SME (debt and equity)	< 50% of other strategic investments allocation
Other debt and equity (public and private)	< 50% of other strategic investments allocation

6.4 LTLF will not directly hold land or property.

6.5 While the other strategic investments allocation is made up of medium to longer term investments, liquidity remains important. Investments will be managed to ensure a regular flow of capital distributions, and where funds lack contractual redemption windows or other clear options to exit, the expected final maturity dates will be appropriately diversified.

Investments capable of redemption or sale on a recognised market within 12 months plus expected capital distributions from other strategic investments within 12 months	> 25% of other strategic investments allocation

6.6 LTL may seek the approval of the Alternative Investment Fund Manager (AIFM) and LPAC of LTLF in relation to new investment opportunities under the other strategic investments allocation, where such new investment opportunities are in a new fund or in a new product (the Reserved Investment Decisions).

7. Hedging

7.1 Investments denominated in foreign currency may be made under the medium-term strategic lending and other strategic investments allocations, provided that any currency risk is captured in the regular VaR analysis of LTLF and where necessary or desirable, such investments are hedged into sterling within the investment itself or with an overlay, with the related terms and level of hedging to be determined by LTLF after consultation with the LPAC.

7.2 Any portfolio managers undertaking hedging will be required to maintain appropriate policies on the use of hedging instruments, which must provide that any credit or liquidity risk arising from such instruments is limited to counterparties that meet the criteria of LTLF's core liquidity allocation.

7.3 The denomination of Limited Partners' investment in LTLF will always be sterling.

8. Investment Limit Exceptions

8.1 Any active exception (i.e. an exception due to an action by a portfolio manager) to the investment limits set out in the investment strategy requires the prior approval of the AIFM and the LPAC.

8.2 Where passive exceptions (i.e. exceptions due to changes in the value of the portfolio) to the investment limits set out in the investment strategy occur, they will be reported to the Investment Committee of LTL and to the AIFM. Any rebalancing of the portfolio in the event of passive exceptions will be at the discretion of the Chief Investment Officer of LTL (or such officer's designated deputy, in cases of absence).

9. Environmental Social and Governance (ESG) Considerations

9.1 LTLF's investment portfolio will be managed in accordance with the GLA Group Responsible Investment Policy.

TRANSPORT FOR LONDON

TREASURY MANAGEMENT POLICIES

TREASURY MANAGEMENT POLICIES

1 BACKGROUND

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

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2021;

(ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2021; and

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

1.2 The Investments Guidance requires investment strategies to be published for treasury and non-treasury investments such as property portfolios. All references to 'investments' in this document and the TfL Group Policy Relating to the Use of Derivative Investments refer to investments held for treasury management purposes only and do not cover non-treasury and/or non-financial assets related investments.

1.3 CIPFA recommends that all public service organisations adopt a series of clauses for effective treasury management, and which this document duly incorporates, including the creation and maintenance of:

(i) a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

(ii) suitable treasury management practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.4 Under the Treasury Management Code, Transport for London (TfL) is required to adopt Prudential Indicators and Treasury Management Indicators (together the 'Prudential Indicators') that support planned capital expenditure, borrowing and treasury management activities. TfL's Prudential Indicators (approved separately at least annually by the Board) are outside the scope of this Policies document.

1.5 This document, therefore, sets out TfL's treasury management policies and practices, including approach to risk management of its treasury management activities. It also sets out authorities and delegations for treasury management activities.

2 TREASURY MANAGEMENT POLICY STATEMENT

2.1 TfL defines its treasury management activities as:

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

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

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

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

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

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

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

2.5 The policies and practices in this document apply to TfL and all its subsidiaries, save where specified otherwise and save as approved otherwise by the Finance Committee in respect of Places for London Limited.

Borrowing Policy

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

2.7 Under section 2(3) of the Local Government Act 2003, TfL may not, without the approval of HM Treasury, borrow other than in Sterling. All borrowings will be in Sterling save where HM Treasury grants approval to borrow in alternative currencies, in which case TfL may borrow in line with any currency approval from HM Treasury. TfL received such approval from HM Treasury on 5 December 2023 in relation to the issuance of short dated Commercial Paper in Euro and US Dollars (only). Any such Euro and/or US Dollars Commercial Paper debt issuance will be hedged to mitigate against foreign exchange movements in line with our Risk Management Strategy.

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

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

2.10 To manage refinancing risk and in accordance with CIPFA guidance, TfL will consider upper and lower limits on the maturity structure of borrowing. These limits are set out annually in the Prudential Indicators paper and have been reproduced as Table 1.

Table 1 – Maturity Structure of Borrowing

	Upper Limit	Lower Limit
<1 year	20%	0%
1 year to <2 years	10%	0%
2 years to <5 years	25%	0%
5 years to <10 years	40%	0%
10 years and above	80%	50%

Investment Policy

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

2.12 The managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will approve individual counterparties and will set individual counterparty exposure limits (Approved Investment Counterparty list) following detailed analysis of each counterparty and its impact on the overall portfolio, including sector and country concentration risk and subject to the limits set out in Table 2.

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

2.13 The counterparty limits set out below will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG). LTM and LTIG will each determine and apply their own investment strategy and counterparty limits in respect of its investment of cash balances, subject to such strategies and policies and any deviations from or changes to any of them being approved in advance, from time to time, by the Director of Corporate Finance or Group Treasurer.

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

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

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

Table 2 – Investment counterparty exposure limits

<table>
<tr><th colspan="2">Moody’s</th><th colspan="2">Standard & Poor’s</th><th colspan="2">Fitch</th><th rowspan="2">Exposure limit per counterparty (£m)</th></tr>
<tr><th>ST</th><th>LT</th><th>ST</th><th>LT</th><th>ST</th><th>LT</th></tr>
<tr><td rowspan="2">P-1</td><td>Aaa
Aa1
Aa2
Aa3
A1</td><td>A-1+</td><td>AAA
AA+
AA
AA-</td><td>F1+</td><td>AAA
AA+
AA
AA-
A+</td><td>120</td></tr>
<tr><td>A2
A3</td><td>A-1</td><td>A+
A</td><td>F1</td><td>A+
A
A-</td><td>90</td></tr>
<tr><td>P-2</td><td>A3
Baa1
Baa2</td><td>A-2</td><td>A-
BBB+</td><td>F2</td><td>A-
BBB+
BBB</td><td>60</td></tr>
<tr><td>P-3</td><td>Baa2
Baa3</td><td>A-3</td><td>BBB
BBB-</td><td>F3</td><td>BBB
BBB-</td><td>0</td></tr>
<tr><td colspan="6">UK Sovereign</td><td>Unlimited</td></tr>
</table>

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

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

2.19 The exposure limit for London Treasury Liquidity Fund LP (LTLF) is set at £10m. Following the satisfactory delivery of the changes proposed under the GLA collaboration, approval will be sought from the Finance Committee for the LTLF exposure limit to increase to £900m. Annex 1 of the Treasury Management Strategy contains the latest approved Investment Strategy of LTLF for 2024/25.

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

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

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

Liquidity Policy

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

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

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

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

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

TREASURY MANAGEMENT AUTHORITIES AND DELEGATIONS

3 RESPONSIBLE OFFICERS

3.1 The Treasury Management Policies will apply to TfL and all its subsidiaries, save in respect of the matters specified in 2.13, 3.2 and 14.1. The Treasury Management Policies will be implemented, operated and administered through the Treasury team within the Corporate Finance Directorate.

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

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

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

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

3.6 The arrangements for the implementation, execution, operation and administration of the TMS, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer, Director of Corporate Finance and Group Treasurer, provided no decision contravenes the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the

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

Use of Derivative Investments. Subject as otherwise provided for in the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments, the Treasury officers will enter into any appropriate documentation.

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

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

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

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

4 BORROWING

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

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

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

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

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

5 INVESTMENTS

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

5.2 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will set individual investment counterparty exposure limits, which will be within any limits approved by the Finance Committee in Table 2 above.

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

6 BANKING

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

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

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

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

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

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

TREASURY MANAGEMENT PRACTICES (TMPs)

7 TREASURY RISK MANAGEMENT – TMP1

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

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

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

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

8 PERFORMANCE MEASUREMENT – TMP2

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

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

9 DECISION-MAKING AND ANALYSIS – TMP3

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

10 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES – TMP4

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

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

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

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

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

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

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

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

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

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

12 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6

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

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

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

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

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

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

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

13 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS – TMP7

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

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

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

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

14 CASH AND CASH FLOW MANAGEMENT – TMP8

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

15 MONEY LAUNDERING – TMP9

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

16 TRAINING AND QUALIFICATIONS – TMP10

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

17 USE OF EXTERNAL SERVICE PROVIDERS – TMP11

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

18 CORPORATE GOVERNANCE – TMP12

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

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

Finance Committee

Date: 11 July 2024

Item: Annual Update on Third-Party Funding Secured Through Spatial Planning

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This paper will be considered in public

1 Summary

1.1 This paper provides an update on income secured by TfL Spatial Planning to support TfL's objectives. It includes information on the collection of Mayoral Community Infrastructure Levy (Mayoral CIL or MCIL), other developer contributions secured through planning, and wider third-party funding sources (related to housing/growth/ regeneration).

2 Recommendation

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

3 Background/Introduction

3.1 This report provides information for the 2023/24 financial year on:

(a) contributions for Crossrail through the Mayoral CIL and the Crossrail Supplementary Planning Guidance;

(b) local planning authority CIL expenditure;

(c) section 106 and other developer contributions for transport projects; and

(d) other third-party funding contributing to transport such as government grants.

3.2 As part of its statutory role, TfL Spatial Planning assesses the transport impacts of proposed developments across London and negotiates appropriate transport 'mitigations' which seek to ensure the transport network is fit for purpose as the city grows. These can be in the form of financial contributions from developers or works in-kind such as the delivery of the new entrance, with lift access, to King's Cross St. Pancras Underground station south of the Euston Road which is currently being built out as part of a development. Later this year the new entrance to Paddington Bakerloo line station will open. It has been delivered as part of the Paddington Cube development and will provide SFA and increased ticket hall and gateline capacity. The team is responsible for:

(a) advising the Mayor on transport issues associated with planning applications of potential strategic importance referred to him under the Town and Country Planning (Mayor of London) Order 2008 (referable applications). As part of this TfL Spatial Planning attends the weekly Mayoral/Deputy Mayoral Planning meetings to ensure that TfL's requirements and priorities are understood;

(b) responding to consultations carried out by local planning authorities within London on the transport implications of planning applications which are not referable to the Mayor;

(c) collecting Mayoral CIL and other Crossrail contributions to pay down debt associated with its delivery; and

(d) masterplanning and development of transport requirements and solutions in key areas of London/interchanges to help unlock development opportunities (and the interface with Places for London, Network Rail and other partners), for example at Victoria and Stratford.

3.3 Table 1 below summarises the income from developers in 2023/24. This continues to be a strong income stream to support the delivery of the Mayor's Transport Strategy (MTS), despite the challenging economic situation.

Table 1:Developer income received and secured by TfL Spatial Planning in 2023/24

Developer income: received	
Mayoral CIL	£156.3m
Section 106 (paid this year)	£6m
Section 278 (spend)	£14.5m
Developer income: secured/negotiated	
Section 106 (secured through planning)	£38m
Section 278 (secured)	£10.6m

3.4 In addition to the funds set out in Table 1, planning authorities in London spent £109m in Borough CIL, much of which went towards transport and public realm.

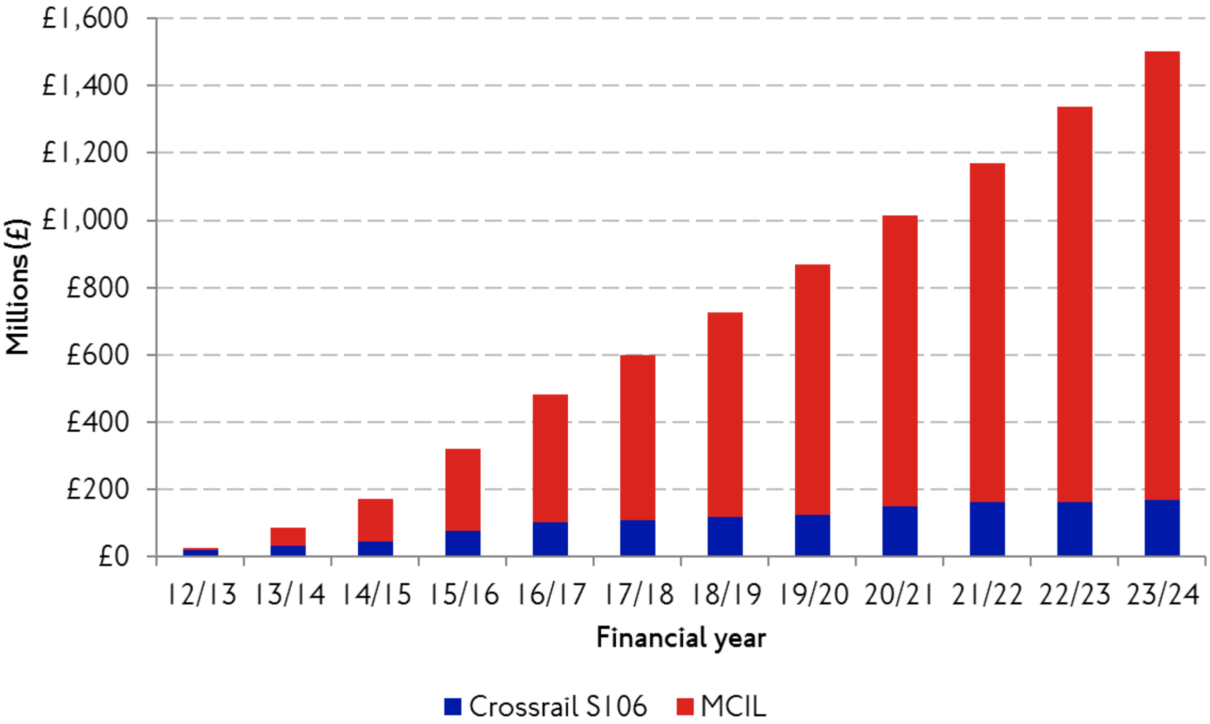
3.5 Through our work, the TfL Spatial Planning team (TfL Spatial Planning) has also continued to leverage other third-party funding, including more than £30m through the Government's Levelling Up Fund, a significant allocation through the Housing Infrastructure Fund and £150m has been ringfenced for the Docklands 2.0 area through the Brownfield, Infrastructure and Land Fund.

3.6 These third-party funding sources play an increasingly critical role in delivering TfL objectives, such as step-free access (SFA), Healthy Streets, and enabling new homes and jobs and TfL Spatial Planning continues to seek further opportunities. As such one of our Finance roadmap milestones this year is to develop a Third-party Funding Action Plan intended to optimise and better coordinate these opportunities and help manage and mitigate risks.

4 Developer contributions for the Elizabeth line

4.1 The Crossrail funding agreement between Government and TfL requires TfL to raise funds towards the Elizabeth line through developer contributions. Most of these funds have been and continue to be raised through Mayoral CIL with additional funds received through historical Crossrail section 106 agreements. Total MCIL receipts have now reached £1.33bn, while Crossrail section 106 receipts amount to £168m. This brings the total collected from both sources to £1.5bn. The value of MCIL and Crossrail section 106[1] receipts since 2012 is set out in Figure 1.

Figure 1: Cumulative MCIL and section 106 Crossrail receipts



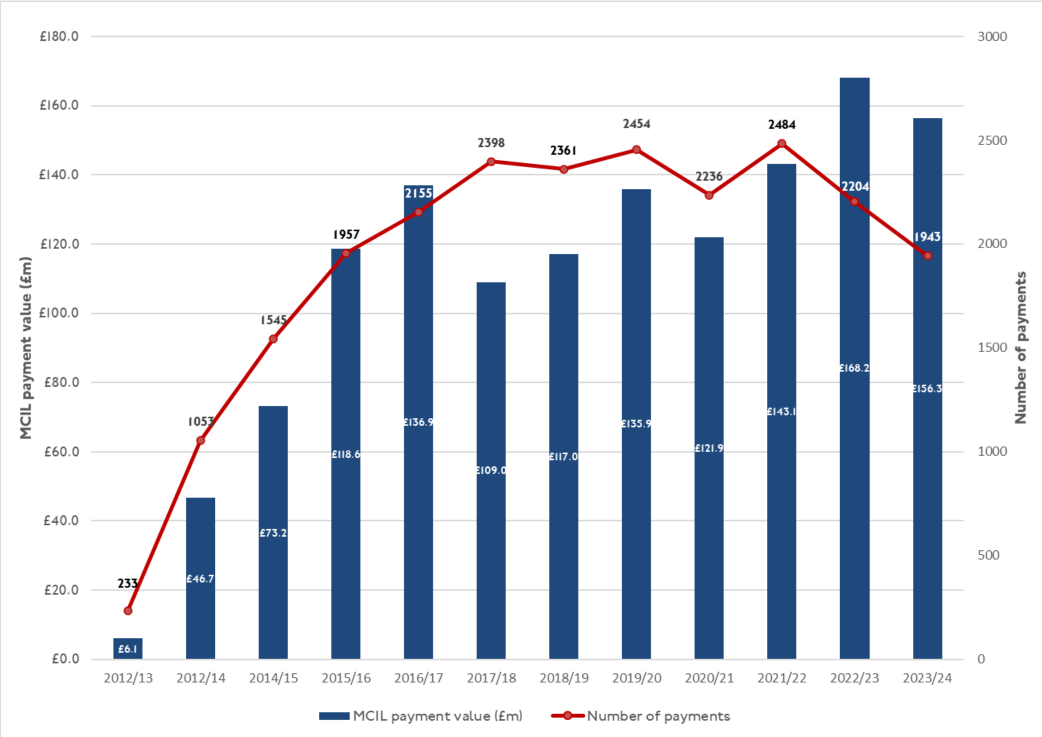
4.2 CIL becomes payable when developments commence, and the number of individual payments can therefore act as an indicator of the level of development activity. In London, the local planning authorities act as collecting authorities, collecting Mayoral CIL on the Mayor's behalf. Figure 2 shows the trends in total annual Mayoral CIL receipts and the number of payments since Mayoral CIL was introduced in 2012. There is some volatility in the past few years, and after an initial bounce back following the coronavirus pandemic, development activity has

[1] While the Crossrail Funding Planning Obligations Supplementary Planning Guidance (2016) was superseded by MCIL2 in 2019, funds are sometimes received from historic planning permissions. Funds are received from retail, office and hotel developments within central London, the Isle of Dogs, and from developments within 1km of a Crossrail station.

slowed for a second consecutive year, reflecting increased pressures, from higher building and borrowing costs.

4.3 Notwithstanding, the 2023/24 annual receipt remains healthy (£156.3m) and is the second highest ever received.

Figure 2: Annual MCIL receipts and numbers of payments since April 2012



Mayoral CIL2 biennial review

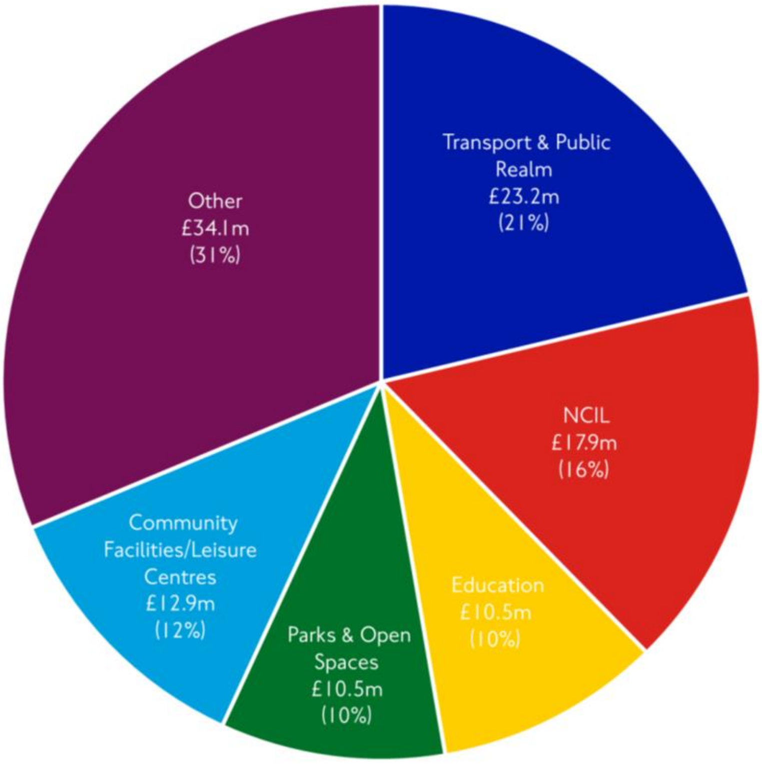
4.4 As part of the Mayor's commitment to monitor the operation of MCIL, there is ongoing monitoring of MCIL income and rates, and biennial reviews which consider potential opportunities and options for change over time. The next biennial review is due to be published towards the end of this calendar year and procurement for this will commence shortly.

4.5 MCIL receipts are paid across to the GLA as part of the agreements in 2018 and 2020 to provide additional Crossrail funding. The GLA undertook additional borrowing against MCIL and Business Rate Supplement income.

5 Borough CIL

5.1 Planning authorities can set Borough CIL which is an infrastructure levy similar to the Mayoral CIL. The funding collected from developers through Borough CIL can be put towards the provision, improvement, replacement, operation, or maintenance of infrastructure. Borough CIL receipts make an important contribution to the delivery of a range of infrastructure projects across London. Figure 3 shows the ways in which local authorities spent Borough CIL in 2023/24.

Figure 3: Borough CIL expenditure by infrastructure type 2022/23



TfL and Borough CIL

5.2 TfL Spatial Planning works with planning authorities across London to identify opportunities for Borough CIL income to deliver transport infrastructure. Historically, spend has been relatively high on transport and public realm, however, with increasing financial pressures we have observed a downward trend as funding has been directed toward other types of infrastructure. Year-on-year data shows that in the space of two years spend on transport and public realm has reduced from 47 per cent in 2020/21 to 21 per cent in 2022/23. However, expenditure in this category was still £23m in 2022/23. Expenditure in the ‘other’ category[2] has increased from three per cent in 2020/21 to 31 per cent in 2022/23, and spending on parks and open spaces has doubled from five per cent to 10 per cent in the same period.

5.3 We will continue to work closely with planning authorities across London on prioritising the delivery of transport infrastructure to help deliver the MTS. There are opportunities to leverage this funding through programmes such as SFA, and we have some notable examples, including:

(a) Hounslow West, where the borough have committed £1m towards improving SFA, with acknowledgement of the need for future additional commitments as the scheme progresses; and

(b) West Hampstead station where Camden have acknowledged the potential for significant monies to be allocated to match fund planning obligations already secured.

[2] The ‘other’ category applies to those projects where there was limited information available and/or a project transcends categories.

5.4 These would deliver further step free stations on the network, supporting a key Mayoral priority.

5.5 Having a prioritised pipeline of deliverable schemes would help optimise opportunities and we are working with colleagues across TfL to support design and feasibility work for potential future priorities e.g. through the Sustainable Housing and Accessibility Fund.

Neighbourhood CIL

5.6 Authorities in receipt of Borough CIL funds are required, in line with regulations, to spend at least 15 per cent of their income in consultation with local communities where they are collecting these monies. We have previously successfully bid for allocation of these funds for feasibility work in relation to pedestrian improvements along the A41 Finchley Road, which have had community support and support from local political leaders. This area of Borough CIL represents opportunities where the delivery of TfL priorities align with those of local communities. Where boroughs have high Borough CIL income, (at least) 15 per cent of receipts represents significant levels of funding, and therefore we will continue to liaise with boroughs on this.

6 Section 106 agreements

6.1 Planning applications, whether referred to the Mayor or not, are often approved subject to a package of transport mitigation measures which reflect negotiations by TfL Spatial Planning with developers and the local planning authority. We seek to ensure that transport requirements are prioritised as far as possible and aim to ensure that developments promote active travel, contribute appropriately to public transport, and minimise adverse traffic impacts.

6.2 The measures that are negotiated vary in type and scale but must accord with the legal test for section 106 planning obligations (which requires that contributions be for infrastructure/services that are directly related to the development, necessary to make the development acceptable in planning terms, and fairly and reasonably related in scale and kind to the development). These obligations can cover works at any scale from multimillion pound projects to small – but still important and impactful - interventions such as wayfinding and bus stop improvements. In 2023/24 more than £38m in section 106 planning obligations were successfully secured through negotiations with developers and boroughs, a slight increase on the level secured in 2022/23. Meanwhile, we received £6m against previously secured planning obligations as they reached their trigger points during the development process.

6.3 As well as financial contributions, TfL Spatial Planning secures mitigations delivered as works ‘in-kind’. These are built by developers, often on-site, and can be significant in both cost and scale. A significant ‘in-kind’ scheme negotiated in 2023/24 is in relation to the O2 redevelopment at Finchley Road. As well as a significant contribution to West Hampstead station highlighted above, this will also require delivery of improvements for multiple modes, including delivery of a station box for Finchley Road station and new bus stands and driver facilities.

6.4 TfL Spatial Planning also negotiates and manages the delivery of highway improvements on the TfL Road Network under section 278 agreements. The total value usually amounts to millions of pounds each year, often delivering critical infrastructure that contributes to the delivery of Healthy Streets and Vision Zero as well as renewing our assets through these opportunities. These schemes are funded and maintained by developers at no expense to TfL. We currently have 380 projects in our programme worth around £150m.

6.5 In 2023/24, more than 80 projects were completed, with associated spend during that year of £14.5m. These have delivered bus service improvements, enhanced public realm and safety, optimised junction movement and subway works, traffic calming measures and tree planting, with project highlights for the team including the completion of:

(a) 27-83 Brompton Rd (£1.4m) delivering widened footways to better serve people walking near the new Knightsbridge station entrance and a more convenient crossing that enables straight across movements rather than a staggered crossing;

(b) 1 Hook Rise (£1.1m) which includes traffic calming, widened footways, parking restrictions and tree planting to complement the TfL Healthy Streets scheme at Tolworth roundabout;

(c) Victoria Nova Contra flow (£5m) delivering a new signalised pedestrian crossing improving safety and convenience for people walking and significant bus journey time improvements though highway redesign and better signal timings at this complex crossing;

(d) 1-5 Grosvenor Place (£800,000) improving the public realm and footway, including safeguarding the underpass structure. This involved relocating street furniture and optimising walking movements; and

(e) New Kent Rd (£1m) delivering improvements to our assets such as repaving and landscaping and provision of a new signalised crossing and improved cycleways.

7 Other third-party funding

7.1 In line with previous updates to the Committee, this section gives an overview of our work leveraging wider funding opportunities with a particular focus on housing, infrastructure and regeneration. Where funding agreements have been reported previously, the update focuses on the latest status and any changes over the past year.

Sustainable Housing and Accessibility (SHA) Fund

7.2 The SHA Fund has been established in the Business Plan in recognition of the increasingly important contribution that leveraging third-party funding makes to delivering additional public transport capacity and SFA and in unlocking and supporting sustainable growth. Delivering housing is clearly a key priority politically and for Londoners and the focus on it is likely to continue to grow. SHA Fund projects also deliver wider objectives around mode shift, inclusion, decarbonisation and revenue generation. On average, we aim to raise one to two pounds of third-party funding for every pound spent by TfL through the SHA Fund at a programme level.

7.3 The SHA Fund has £128m budgeted to 2029/30 with £8m in 2024/25 allocated to short-listed upgrades at Northolt, West Hampstead, North Acton (announced in summer 2023 as part of our forward programme of SFA schemes) and Pontoon Dock stations:

(a) Northolt was due to be constructed prior to the pandemic and further work was undertaken to analyse the design, constructability and cost. Although this project may be fully funded by TfL it aligns with local sustainable growth objectives;

(b) the West Hampstead project has been prioritised for concept design following the significant third-party funding highlighted earlier in the paper;

(c) North Acton station has been prioritised for concept design as it plays a key role in Old Oak and Park Royal Development Corporation infrastructure plans and has also secured significant planning obligation funding; and

(d) Pontoon Dock forms part of our DLR Royal Docks programme and is discussed later under Royal Docks Enterprise Zone.

7.4 The projected benefits of the SHA Fund include unlocking more than 12,100 new homes, supporting tens of thousands of jobs and four new SFA stations through the current committed pipeline, with the potential for 10 to 12 additional station upgrades. More than £130m of third-party funding will be leveraged from allocated projects and we aim to achieve approximately a 7,000-tonne reduction in carbon dioxide emissions through reducing car use linked to the mode shift associated with car free developments. Such developments also deliver revenue benefits given the level of expected public transport use from car-free households. We will be continuing to work across TfL and the Greater London Authority (GLA) and with boroughs and other partners to optimise the role of the SHA Fund in delivering SFA and unlocking homes in a sustainable way.

Levelling Up Fund (LUF) round three

7.5 The £4.8bn LUF contributes to infrastructure across the UK, including regenerating town centres and high streets, upgrading local transport, and investing in cultural and heritage assets.

7.6 In November 2023 55 projects were awarded a share of £1bn from the third and final round of the LUF. Five transport schemes were allocated £150m and 50 town centre regeneration schemes were given £825m. The awards were for bids submitted in round two which were not originally funded but were assessed as high-quality and able to deliver quickly. London was awarded £30.39m for two projects: Reconnected Croydon (£18.9m) and Levelling Up Angel Edmonton (£11.9m).

7.7 In addition, the government decision to allocate £43m for Colindale and Leyton station upgrades as part of LUF round 2 was formally confirmed in December 2023 following the approval of the business case. This is alongside significant contributions secured in previous years by the boroughs for Colindale station

(London Borough of Barnet, £14.8m section 106) and Leyton station (London Borough of Waltham Forest, £9m Borough CIL). At Colindale, works commenced on site in early 2024 with a six month station closure starting on 7 June 2024 to enable the installation of hoardings at platform level, demolition of the canopy and staircases, and construction of a deck across the railway cutting and new platform infrastructure. At Leyton, detailed design is wrapping up soon and a construction contract will be let in autumn this year. Works are expected to start in winter 2024.

7.8 In total, London has received £200.39m for transport related projects through the three rounds of the LUF.

Housing Infrastructure Fund (HIF)

7.9 The Government introduced the HIF in 2017 and so far, more than £4bn has been allocated to local authorities across the country. The HIF is divided between 'marginal viability funding' (MVF) schemes and 'forward funding' (FF) schemes. MVF is aimed at providing a missing piece of infrastructure to unlock housing while FF schemes are for strategic/high impact infrastructure projects.

7.10 Three London schemes are in receipt of HIF FF: DLR additional capacity (£257.4m); the East London line (£80.8m); and Meridian Water Infrastructure (£170m). The DLR and East London line schemes are both TfL schemes whereas Meridian Water is led by the London Borough of Enfield. Additionally, there are nine HIF MVF schemes in contract including South Circular Road/Catford (Lewisham, £10m). Updates on TfL HIF FF schemes are below.

DLR additional capacity update

7.11 Government has provided £257.4m for 11 new trains (to supplement 43 funded by TfL), an expanded depot at Beckton for stabling and servicing, power upgrade and signalling modifications to enable access to the new sidings. The programme also included enabling works to support oversight development at Poplar depot.

7.12 We continue to make progress on the HIF DLR scheme as part of TfL's wider DLR programme in accordance with the grant development agreement. Regular updates have been provided to the HIF London Delivery Board as well as the HIF DLR Project Board. We have made significant progress both in train manufacture and testing, delivery of depot works, and delivery of lineside infrastructure works, with the first new trains set to enter service in 2024.

7.13 In March, we submitted a material change request to the Department for Levelling Up, Housing and Communities (DLUHC) for c£20m funding to be transferred from the Poplar project to protect the Beckton depot works which have been subject to significant cost pressures. The Poplar element is no longer feasible within HIF timescales. The outcome of this request is due in summer 2024.

7.14 In March we hosted DLUHC and Department for Transport (DfT) colleagues at a Beckton depot site visit to demonstrate progress. The programme remains on track to unlock over 10,000 homes across Royal Docks and Isle of Dogs.

East London line (ELL) update

7.15 Six projects along the ELL were awarded £80.4m originally, however, the initial design work revealed cost inflation which meant that four projects were prioritised as part of a first phase (against the £80m envelope):

(a) Canada Water bus station upgrade to enable a new route;

(b) Surrey Quays station upgrade including new entrance and SFA; and

(c) traction power and signalling upgrade to enable an uplift in frequency to 18 trains per hour.

7.16 We remain in discussions with government, the London Borough of Lewisham and developers about the potential for additional funding to support the now unfunded Phase 2 scope which includes a new station at Surrey Canal Road between Queen’s Road Peckham station and Surrey Quays station and associated resilience measures to enable a frequency increase to 20 trains per hour.

7.17 The phase 1 programme is on track to meet its milestones and we are due to complete delivery in 2026. The programme remains on track to unlock over 7,000 homes across Southwark and Lewisham.

Brownfield, Infrastructure and Land Fund (BIL)

7.18 The BIL was announced in July 2023 to unlock strategic housing sites where brownfield, infrastructure or land projects face delivery and/or viability challenges. On inception £53m was confirmed for Old Oak and Park Royal Development Corporation with an additional £150m for other London projects. Homes England were delegated to assess, contract and manage the portfolio of strategic sites in London in line with Homes England’s established mechanisms.

7.19 Thamesmead Bus Transit (as an early phase of the DLR to Beckton Riverside and Thamesmead) has been allocated £23m subject to business case approval. Securing this funding will support sustainable public transport led growth in Thamesmead. Other shortlisted schemes include a £6m contribution to the Pontoon Dock station upgrade (see following section). All projects are subject to the BIL governance process established by the DLUHC, Homes England and the GLA. Final decisions are expected to be taken in 2024 with funds granted in the same year.

7.20 We continue to work with DLUHC, Homes England and the DfT on both the business case and potential funding package for the DLR extension to Beckton Riverside and Thamesmead. We submitted a strategic outline case in May 2023, which resulted in government launching the ‘Docklands 2.0’ concept which has seen greater national focus on housing delivery in London.

Royal Docks Enterprise Zone

7.21 The Royal Docks Enterprise Zone Programme Board was established in June 2023 as a joint partnership Board between the London Borough of Newham and the GLA. The Royal Docks has significant infrastructure requirements to support and accelerate housing delivery and commercial development. TfL is working with the GLA on several key station projects and TfL has so far received £3.75m to support feasibility and design work for this. We hope to be in a position to tender for a final design for Pontoon Dock station later this year and we are working to identify further third-party funding to help deliver the station, alongside TfL and GLA contributions. We will also continue to look at opportunities to progress the other priority stations.

Interchange programme

7.22 TfL Spatial Planning is working with the Investment Planning team to establish a programme of small-scale feasibility studies which work towards a future pipeline of station investments. Projects arising from the programme will exploit opportunities for third-party funding to minimise the cost of schemes to TfL/HM Treasury. We are also working with partners in order to part fun early feasibility work wherever possible.

7.23 We are also working with partners (including TfL Places for London, Network Rail and the local boroughs) on a number of strategic interchanges, including Victoria, Stratford and Waterloo. This involves wider masterplanning and working with other teams across TfL to try to identify solutions to challenging operational/other issues in order to unlock development opportunities while continuing to enable effective transport operations and/or capitalise on transport enhancement opportunities.

7.24 At Stratford, the development of the Strategic Outline Business Case (SOBC) was submitted to Government in July 2023. Network Rail, the London Borough of Newham and the London Legacy Development Corporation (LLDC) funded the SOBC studies totalling £800,000, with TfL providing in-kind support. Work to develop the SOBC further has now commenced. The enhanced study could require up to £4m from the joint sponsor group, which includes TfL Spatial Planning and Places for London. In addition to a financial contribution, TfL is providing specialist input around transport planning and modelling, masterplanning, and engineering, among other disciplines. Network Rail, the London Borough of Newham, LLDC and TfL have each pledged 25 per cent towards development costs between now and summer 2025.

Third-party Funding Action Plan

7.25 Our finances remain constrained and our current capital settlement with government is insufficient to deliver all our priority capital projects. As discussed through this paper, third-party funding can enable us to deliver more, providing us with additional funds to support growth and other priorities. A pro-active approach can attract funding from developers, the government, local authorities and other partners, while improved coordination is important to help manage complexity and risk.

7.26 We are therefore developing a Third-party Funding Action Plan for completion later in 2024 with three emerging priorities to:

(a) support the delivery of the Finance strategy;

(b) support the delivery of the Customer strategy and wider priorities in the Green and Safety strategies; and

(c) coordinate and manage third-party funding related accountabilities in TfL.

7.27 The Plan is being developed by a working group reporting to the Network Development and Third-Party Pipeline investment portfolio. Next steps include finalising the Action Plan for approval by the Investment Group and looking at how we reflect third-party funding in the upcoming Business Planning round and in key programmes such as SFA and enhancements.

8 Conclusion and next steps

8.1 Income from developers in 2023/24 has continued to be an important funding stream, supporting the delivery of the MTS and key TfL priorities. Funding generated through MCIL and Crossrail section 106 agreements has hit £1.5bn, a significant milestone and MCIL continues to play a vital role in the funding and financing arrangements for the Elizabeth line.

8.2 We have continued to work closely with government and boroughs to make the most of opportunities to access available funding. While London is still at a disadvantage in how some of these funds are prioritised, our work has ensured that London has not lost out. This has brought tens of millions of pounds to support the delivery of our investment.

8.3 Moving forward significant work is taking place in developing the Third-party Funding Action Plan which will increase the visibility of this work; enable us to have a better understanding of the opportunities and risks (and the optimal balance of these); and help inform how best to integrate these funding sources into TfL’s investment programmes and decisions.

List of appendices to this report:

None

List of Background Papers:

MCIL2 Charging Schedule: Mayor of London Community Infrastructure Levy 2 Charging Schedule (January 2019)

Supplementary Planning Guidance: Use of planning obligations in the funding of Crossrail and the Mayoral Community Infrastructure Levy (March 2016).

Community Infrastructure Levy Charging Schedule – Mayor of London (February 2012)

CIL Regulations 2010, as amended 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019

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Finance Committee

Date: **11 July 2024**

Item: **Energy Purchasing Strategy Update**

This paper will be considered in public

1 Summary

1.1 TfL has reviewed its Energy Purchasing Strategy (EPS) in light of market conditions, carbon targets and our experience to date. Corporate Power Purchase Agreements (PPAs) remain the preferred renewables purchasing option, with the remaining (non-PPA) volumes procured through the existing mechanism with the Crown Commercial Service (CCS) framework. To achieve our target to decarbonise our operations in line with net zero by 2030, this paper explains the intention that TfL increase the flexibility of the current strategy by allowing an increased volume of electricity procured via PPAs from 50 per cent up to 70 per cent, subject to value for money considerations. PPAs were last considered by the Committee at its meeting on 23 November 2022.

2 Recommendation

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

3 Background

TfL ambition

3.1 The Mayor's Transport Strategy, London Environment Strategy and TfL's Corporate Environment Plan set out the vision for a zero-carbon London and a specific target for TfL to achieve net zero carbon from its operations by 2030. Our strategy to achieve this involves removing fossil fuels, improving energy efficiency and installing on-site renewables. It is not currently possible to self-generate enough renewable electricity within London to run our transport network therefore, for the foreseeable future, we will be reliant on grid-delivered electricity for the operation of services across London.

3.2 This paper therefore pertains to electricity directly procured by TfL from the Great Britain (GB) electricity grid, which currently totals 41 per cent of our operational carbon emissions (337,000 tonnes CO_2e), and for the financial year 2023/24 has a cost of approximately £350m. To reach net zero from our operations by 2030 in line with our strategy, there is a need to transition our supply source 100 per cent renewable electricity.

3.3 This transition needs to be achieved in a way that both accelerates our progress towards decarbonisation, is financially prudent, and aligned with our broader energy purchasing requirements. PPAs satisfy these requirements and are the best organisational fit as they provide the required green credentials and ensure a financially sound approach. These points are explored further below.

Electricity grid generation mix

3.4 In the last decade the carbon intensity of grid electricity has dropped by almost two thirds, with coal power falling from one third of grid electricity generation to less than two per cent, and wind power more than tripling, to 29 per cent in 2023[1]. However, decarbonising the final third of grid supply presents a significant challenge, with the phasing out of gas generation and balancing of intermittent renewables, while meeting increased demand from heat and transport electrification.

3.5 Forecasts from the Government, National Grid and industry experts all demonstrate the electricity grid decarbonising through the late 2020s and 2030s, but even in the most ambitious scenarios, the grid is not seen to be near zero carbon until after 2030. The outgoing government’s current target is 2035.

3.6 Even with an extremely ambitious rollout of national policies and reforms relating to aspects such as grid infrastructure and planning alongside interventions in the market, it is still highly likely that TfL will need to undertake renewables purchasing to reduce emissions. This is due to the time taken to build new renewables assets and the 2030 target being just six years away.

TfL strategy

3.7 TfL’s current EPS was endorsed by the Committee in November 2020. To deliver upon that strategy, in 2023 TfL launched a PPA procurement (PPA Comet) (subsequent to a previous, withdrawn procurement) which is due to conclude in late summer 2024. It is anticipated that this will provide approximately 10 per cent of TfL’s electricity demand, with the contract requiring 80-200GWhs of renewable energy per annum.

3.8 In light of TfL’s experience to date, market conditions (including the recent energy crisis and its highlighting of the potential benefits of longer-term hedging mechanisms for energy), and the need to accelerate progress towards the 2030 carbon target, TfL, along with our energy advisors, has reviewed and updated its energy purchasing strategy as set out in this paper.

[1] National Grid ESO, 2024 https://www.nationalgrideso.com/news/britains-electricity-explained-2023-review

3.9 Since the formation of the original strategy, TfL has continued to engage with other public and private sector organisations, along with the renewables industry, to revise the approach. We are also working with other members of the Greater London Authority Group on its own energy purchasing guidelines and collaborative approach to electricity procurement, with which this strategy will be aligned.

4 Electricity purchasing options

4.1 Grid electricity purchasing is a contractual arrangement rather than a physical connection directly to a renewable asset. Therefore, the degree to which a renewable electricity contract can be understood as "green" depends on the contractual relationship between the end user and the renewable generation asset. The relationship is strongest where the contract brings new renewable generation online that would otherwise not have been developed. This is referred to as "additionality". A relationship is weaker where the contract is for renewable generation that already exists or was always going to be developed irrespective of supply arrangements. In this respect, TfL aims to use its purchasing power to bring new renewable generation online where possible (maximising additionality), stimulating the market within GB and creating jobs.

4.2 TfL considered a range of routes to procure energy as outlined in Figure 1.

4.3 Options 1 and 2 are available through our current contract procured through the CCS framework, with option one being our current BAU approach, which is the grid-mix. Option 2 (green tariff) offers the purchase of Renewable Energy Guarantees of Origin certificates, which are traded independently of the energy and therefore do not provide clear additionality to the GB grid. Option 3 is not currently available but would see an organisation such as the CCS providing a simpler route to market for renewable energy that provides additionality. Option 5 would involve capital expenditure, additional risk, alongside a PPA, but would provide additionality. Option 4 is via a PPA, which remains the best strategic fit, as outlined below.

	1) Grid procured (with grid-mix)	2) Green tariff	3) Public Buying Organisation PPA Solution	4) Power Purchase Agreements	5) Direct investment in assets
Is this route currently available / advisable?	✓ BAU Route	✓ Available through CCS	✗ Solutions are being developed but not yet available	✓ PPA market growing	✗ High risk to TfL and needs PPA
Does this meet our 'green credentials	✗ Grid not due to decarb till 2035	✗ Available Green Tariffs use REGOS and are not PPA backed	✓ Solutions in development should allow us to specify additionality	✓ Can specify an 'additional' PPA	✓ Would satisfy additionality

Figure 1 – Routes to purchase renewable energy, whether they are currently available to access and whether they satisfy TfL's aim for additional renewable generation

4.4 Within the GB wholesale electricity market the ability to hedge prices is limited to three to five years. PPAs can provide a long-term hedge (typically 10-15 years), removing exposure to volatile short-term pricing which supports TfL's risk appetite. Moving from wholesale exposure to CPI exposure more closely tracks to TfL's income, and helps support our budgeting process.

4.5 The key risk of a PPA is the opportunity cost, as we may lock in higher prices that subsequently fall in the future. Future PPA / market prices and mitigations are discussed below in sections 5 and 7 respectively. TfL also must be mindful of the need to demonstrate value in wider delivery and that achieving a competitive price vs. wholesale should not be the sole objective. Corporate PPAs accelerate GB grid decarbonisation, support green jobs and aid national security of supply. This consideration should help frame what represents value for money as we consider issues other than simple cost alone, acknowledging there may be a premium for a renewables long-term hedge.

5 Current Strategy

5.1 In November 2020, the Committee endorsed an approach to build up to 50 per cent of our total demand through PPAs in long-term agreements, with an incremental approach of going to market every two years. The remaining 50 per cent was assumed to be satisfied by a flexible green tariff, which would provide flexibility via emerging products in the market.

5.2 TfL has been utilising the procurement services and frameworks of CCS for energy purchasing since 2013. This has enabled us to take advantage of additional commercial leverage by subscribing to the largest procurer of energy in the UK and aggregating our volume with other public sector organisations.

5.3 Although the CCS has provided competitive prices in the past which have delivered cost savings against wholesale prices, they do not currently have an option available which is consistent with our net zero ambitions of additional renewable electricity. We will however continue to procure from CCS as the framework enables PPAs to be incorporated into our existing supply contract and the framework will still be used to procure non-PPA volumes.

6 Market Context

6.1 Figure 2 highlights how the wholesale electricity market moved from relative stability to extreme volatility in 2022. Following this period of volatility electricity prices have begun to soften once again, albeit not quite returning to previous levels, and retaining higher levels of volatility. Wholesale electricity prices are driven by the price of gas, as gas-fired electricity generation typically sets the marginal wholesale price. While current forecasts project gradual price decline of electricity wholesale prices for the next two decades, the GB energy market remains exposed to gas price shocks as it remains reliant on imported gas.

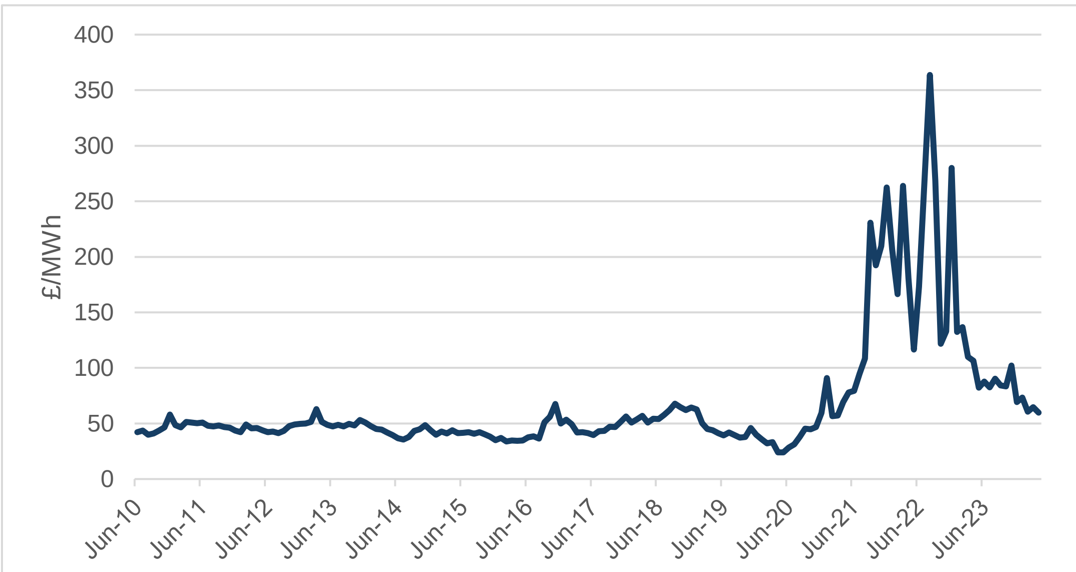

Figure 2 - Electricity Prices: day ahead baseload contracts- monthly average price (GB), Ofgem

6.2 In recent years there has been increased demand for renewables. Sustainability targets are pushing an increasing number of corporate buyers to pursue renewable PPAs. Although the number of PPA transactions is increasing, TfL remains ahead of the curve within the public sector, but others are now accelerating efforts and this is likely to increase long-term demand. To date, only a very small number of public sector PPAs have been entered into; the two most relevant being the City of London, and Network Rail. TfL often engages with peer organisations such as these, as well as large corporates in the private sector to share knowledge and lessons learned on renewables procurements and strategy.

6.3 The renewables industry has faced a number of challenges in recent years including the increasing cost of raw materials, rising cost of debt, longer-term supply constraints such as land availability and delays to grid connections. These factors have led to upwards pressure on PPA prices, and as long-term demand increases this is likely to push up against these longer-term supply constraints, and lead to increases in prices.

6.4 PPAs are typically priced with reference to both wholesale markets and the levelised cost of electricity (LCOE) – the cost associated with building and operating the asset. PPAs have historically tracked LCOE, though have been much more heavily influenced by wholesale forecasts in recent years given these represent the opportunity cost in the market at any given time. The LCOE is not forecast to reduce in the near term due to those upwards facing pressures referred to in 6.3. With a longer-term view, the Department for Energy Security and Net Zero (DESNZ) LCOE estimates for offshore wind project higher costs for a project commissioning in 2040 verses those with a commissioning date in 2025 (in real 2021 prices)[2]. For solar projects, DESNZ continues to forecast a real terms improvement in costs, but at a slower rate when compared to historic improvements. The last round of Government renewables auctions, Contracts for Difference (CfD), saw prices increase from previous years due to high inflation and rising project costs.

6.5 As the cost of energy and decarbonisation of the grid rise on the agenda, the policy and regulatory landscape in this area is evolving. DESNZ are undertaking a comprehensive assessment of electricity market design under the Review of Energy Market Arrangements (REMA) to ensure that it is fit for purpose, ensuring energy security, affordability, and decarbonisation. After two consultations, various new mechanisms, such as locational pricing, remain on the table and both the outcome and the exact timing of an announcement are yet to be known.

6.6 The imminent 2024 General Election sees a range of manifesto commitments around renewables and commitments to net zero. The Conservative Party commits to decarbonise electricity generation by 2035, while The Labour Party commits to clean power by 2030 along with the formation of Great British Energy. The challenge in the sector is about the ability to deliver. To accelerate, it will be essential for the Government to address the physical barriers to market, such as grid capacity constraints and planning system inefficiencies. Addressing these issues is expected to have a significant lead time and is unlikely to impact the PPA market ahead of any additional procurement launch dates. Some policies put forward mechanisms aimed at unlocking investment for projects, which may increase the number of projects available to TfL.

6.7 TfL will continue monitoring developments in the sector and remain engaged with trade bodies and other organisations as the outcome of REMA and the election become known.

7 Proposed strategy

7.1 TfL's objective is to meet net zero from its operations by 2030 via credible means and within our affordability constraints. For PPA Comet, which was launched in February 2023, a successful asset will be due to start generating electricity between

[2] Department for Energy Security and Net Zero, 2023
https://assets.publishing.service.gov.uk/media/6556027d046ed400148b99fe/electricity-generation-costs-2023.pdf

April 2025 and December 2028. Given these lead times, it is clear that it will not be possible to launch four additional procurements, each to secure a single asset PPA in a stepped approach, and expect those assets to deliver power by 2030. In the short-term, between now and 2027 (which is the period of time during which TfL would need to be active in the market in order to secure volumes able to come online by 2030), PPA prices are not expected to fall (in part, because corporate net zero ambitions over the coming years will continue to support prices around current levels). Therefore, there is a need and rationale to accelerate progress in order to meet our net zero target.

7.2 The experience TfL has gained through the PPA Comet procurement has demonstrated the need for flexibility in procurement approach, enabling greater agility in the way TfL is able to respond to the market. It is imperative over the coming years that TfL's strategy, and the way it is implemented, is therefore flexible and resilient to changing conditions, allowing us to act fast and capitalise on opportunities that present good value. Emphasis should therefore be placed on how TfL defines 'good value'.

7.3 Given Corporate PPAs still represent the only way for TfL to credibly secure renewable energy at scale and meet its net zero objectives, it is now appropriate to increase the ambition in this area and target up to 70 per cent of our required total supply needs (1.6TWh) via PPAs. Allowing this increase brings about flexibility to further capitalise on competitive prices, provided that TfL is able to find a way of intelligently and robustly assessing bids.

8 Delivering the strategy

8.1 In light of a strategy that sees TfL being responsive and opportunistic, the next PPA tranche must be capable of awarding larger volumes, should conditions be right, and target multiple PPAs / assets.

8.2 This approach, and the discretion that would therefore be needed for flexing award volumes, heightens the need for sound and reasoned decision making during the procurement; the methodology through which TfL will exercise its discretion will need to be clear upfront to bidders. This is likely to take the form of an intelligently-set price cap mechanism to guard against the key risk of locking in prices that may fall in the future. TfL has a strong preference not to publish a numerical cap, so as to avoid target pricing by bidders; instead, we would look to publish a methodology for how TfL would arrive at the cap, with the actual number agreed internally prior to receipt of bids in order to avoid any perceived bias.

8.3 The detailed methodology for a potential price cap or similar mechanism are still to be determined and subject to legal advice, but we would expect any price cap to consider long-term wholesale forecasts over the time horizon of PPAs being considered, and other possible benchmarks (e.g. CfD administrative strike prices, which consider LCOE and would therefore introduce assessment of 'fair price' in considering underlying costs, and CfD clearing prices). Assets considered to present value for money in this way would be eligible for award subject to other evaluation criteria and final rankings.

8.4 Also to be considered is the use of award ranges, whereby the volume TfL awards is dependent on pricing ranges of assets. This would allow TfL to contract for greater volumes where the cost savings appear more compelling. This will also mitigate the risk of measurement error in the price forecasts (an important benchmark which will likely be the basis of the price cap) as they are uncertain by their very nature.

8.5 In the short-term, TfL expects to continue to approach the market independently; suitable frameworks do not currently exist for the procurement of PPAs. TfL will continue to monitor market developments, including in relation to the CCS (and other public buying organisation) options, considering new routes to market which complement or better facilitate delivery as they emerge.

9 Next steps

9.1 The project team will consider the detailed mechanics and procurement strategy over the coming months. An outline of the procurement strategy including the PPA parameters will be brought to the Committee prior to commencing the next procurement.

List of appendices to this report:

None

List of background papers:

Finance Committee, TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements, 25 November 2020

Finance Committee, GLA Group Collaborative Procurement of Power Purchase Agreements, 9 March 2022

Finance Committee, TfL Power Purchase Agreements, 23 November 2022

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Finance Committee

Date: **11 July 2024**

Item: **Procurement Act 2023 Update**

This paper will be considered in public

1 Summary

1.1 The Procurement Act 2023 has a planned implementation date of 28 October 2024. The purpose of this paper is to brief the Committee on the core objectives and key changes of the reforms.

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

3 Background

3.1 The Procurement Act 2023 received Royal Assent in October 2023 and is planned to go live on 28 October 2024.

3.2 The main objectives of the reforms fall into three areas:

(a) to create a simpler and more flexible commercial system, introducing a single set of procurement regulations, replacing the three sets of legislation TfL currently operates under (Public Contracts Regulations 2015, Utilities Contracts Regulations 2016 and Concessions Contracts Regulations 2016);

(b) to open public procurement to new entrants, with an emphasis on reducing barriers to entry for Small and Medium Enterprises (SMEs); and

(c) to embed transparency through the commercial lifecycle, so that the spending of taxpayer money can be properly scrutinised.

4 Key changes in the new Procurement Act

4.1 Several contract award procedures from existing regulations are reduced to three procedures under the Procurement Act 2023. This will provide some flexibility for contracting authorities in designing procedures, described further in section 5. Appendix 1 illustrates how the existing procedures have been condensed.

4.2 Enhanced transparency requirements will span the full procurement lifecycle, making our procurement activity more visible. Alongside the Procurement Act 2023, the National Procurement Policy Statement (NPSS) (published on 13 May 2024 and coming into effect with the new legislation) also places an emphasis on contracting authorities reducing barriers to entry for SMEs, which enhanced transparency will support. With an awareness of removing barriers to entry when tendering, alongside enhanced visibility of our activity, this should benefit TfL by attracting new entrants to compete for contract awards.

4.3 We are in a good position to both comply with NPPS and take advantage of this opportunity, through work to deliver commitments in the Greater London Authority Group Responsible Procurement Policy, and work to develop the pipeline of forthcoming key procurement activities (that is already being shared with the Committee). Under the new Procurement Act 2023 there is greater opportunity for planned dialogue with suppliers as part of tender processes. This should be welcomed by suppliers and enable TfL to hear from them directly to understand challenges and clarifications.

4.4 The new legislation changes the focus of tender evaluation criteria from ‘Most Economically Advantageous Tender’ to ‘Most Advantageous Tender’, with the intention of enabling higher weighting to social value initiatives and responsible procurement policies. The NPPS also requires that contracting authorities should have regard to several social value outcomes in their procurement activities. The TfL responsible procurement team began introducing social value as part of our mandatory evaluation criteria in late 2023 and we have the opportunity to build on this further.

4.5 Regulation will be introduced regarding contract management. All contracts with a value over £5m must include at least three Key Performance Indicators (KPIs) and supplier performance against these will be publicly reported. The intention is to drive higher performance in supply chains and, potentially, to centrally exclude suppliers who pose unacceptable risks from contracting with public authorities.

5 Readiness

5.1 A six-month notice period for the commencement date of 28 October 2024 was issued by Government Commercial Function (GCF) in late April 2024. While timescales are tight, we are making good progress towards readiness for day one.

5.2 To manage the successful implementation of this business change, a programme group has been established with colleagues from impacted business areas. The focus now is planning for compliance with day one requirements. The group will also develop a roadmap to optimal adoption and work is underway to develop clear guidance for Procurement and Commercial colleagues about when and how they should use the more flexible procedures available under the new legislation and how TfL governance and assurance will apply. Not all requirements are mandatory, and some do not commence on day one of the new legislation.

5.3 The GCF has provided a learning and development offering with learning pathways tailored to the level of engagement required, including knowledge-drops available to suppliers. Alongside providing colleagues with appropriate access to this GCF learning and development offering, we are reviewing and updating our existing training and planning targeted training to fill any gaps specific to TfL.

5.4 To raise awareness of the changes, we have launched a ‘one-stop’ SharePoint web page providing an overview of the Procurement Act 2023, key changes and including direct access to learning. We are also planning proactive engagement with stakeholders to raise awareness more widely in TfL as the Procurement Act 2023 will impact other areas. For example, where contracts are managed by delivery functions outside of Procurement and Commercial.

5.5 To ensure suppliers are aware of the new legislation we will be sharing the relevant information produced by the GCF through existing networks.

6 Compliance

6.1 A new government Procurement Review Unit (PRU) will be established with the aim of improving capability and practices of contracting authorities by ensuring compliance with the Procurement Act 2023. It will focus on investigating systemic and institutional non-compliance, with expanded powers in the Procurement Act 2023 allowing for investigation of sub-central contracting authorities (including TfL), to make statutory recommendations and monitor progress.

6.2 Any PRU investigation findings would be captured in a report and contracting authorities may be requested to provide an action plan and progress reports in response. Both sets of reports may be published.

6.3 As always, our primary focus is on compliance with procedures as a responsible contracting authority. The programme group is putting in place guidance and processes outlining how we will engage with PRU in the event of an investigation, and how we consider any updates to NPPS, guidance or lessons learnt published as a result of investigations elsewhere.

List of appendices to this report:

Appendix 1: Diagram showing change from existing procedures into new procedures

Exempt supplementary information is included in the paper on Part 2 of the agenda.

List of Background Papers:

None

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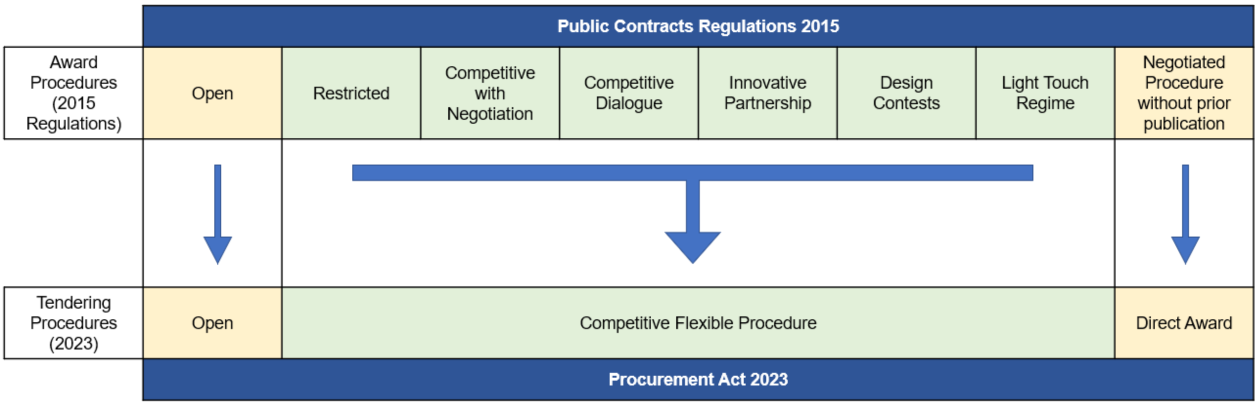
Appendix 1: Diagram showing change from existing procedures into new procedures



Finance Committee

Date: **11 July 2024**

Item: **Forthcoming Key Procurement Activities**

This paper will be considered in public

1 Summary

1.1 This paper sets out a summary of the major new procurements or contract extensions planned over the next two years and those that will require approval from the Committee over the next six months. It also highlights significant forthcoming procurements that require approval at officer level during that period.

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

3 Background

3.1 There is a recognised need to provide this Committee and other decision makers in TfL with a forward look on the pipeline of major procurements and those requiring decisions.

3.2 The Procurement and Commercial (P&C) function within TfL has worked to improve its forward planning, for example by consolidating multiple sources of data regarding the plans for contract renewals and new procurements. This has enabled P&C to establish a pipeline of activities over the next two years.

3.3 P&C's ability to plan the necessary governance and approval timescales, in conjunction with meetings of relevant Committees where appropriate, is, and will continue to improve. This will not entirely remove the possible need for out of cycle approvals to be sought by way of Chair's Action, either because of the conclusion of a procurement which falls naturally in timing between meetings, or because of an urgent requirement. The data sets are accurate as of 28 May 2024 and may be subject to change.

3.4 This paper sets out the approvals anticipated to be required from the Committee over the next six months and highlights significant forthcoming procurements that require approval at officer level during that period.

4 Two year look ahead

4.1 The two year look ahead is summarised below, including only those projects with an estimated value of £1m or over. The pipeline for strategy approvals and contract awards covers 271 contracts with an estimated total value of £18bn, and equivalent annual spend of £3.1bn, when prorated by the length of the contracts. This is broken down as follows:

P&C Division/Team	No	Estimated Value (£m)	Equivalent Annual Spend (£m)
CAPITAL	**85**	**6,734**	**1,331**
Places for London	8	525	326
Technology	35	2,078	301
Capital Systems	17	227	66
Capital Infrastructure	25	3,902	638
OPERATIONS	**186**	**11,426**	**1,854**
Fleet	46	243	79
Operations Infrastructure	61	1,893	259
Partnerships	10	85	16
Rail and Sponsored Services	17	622	106
Track	21	1,520	221
Indirects	21	5,704	955
Facilities Management	10	1,356	214
Grand Total	**271**	**18,161**	**3,186**

5 Planned procurement activity ahead of the next meeting

5.1 There are two business units within the P&C function, and the key forthcoming procurement activities for both are summarised below. Further details of these procurement activities are provided within the related paper on Part 2 of the agenda.

5.2 In Operations we are currently forecasting that five contract awards will require Committee approval in the next six months. We will also provide an update on the procurement process for each of the DLR, Elizabeth line and London Overground concessions.

5.3 In Capital, most decisions for contracts related to capital expenditure are routed through the Programmes and Investment Committee rather than to this Committee although all Members will receive the paper.

List of appendices to this report:

Exempt supplementary information is included in the paper on Part 2 of the agenda.

List of background papers:

None

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Finance Committee

Date: **11 July 2024**

Item: **TfL General Consumable Contract Extension**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to seek Procurement Authority to extend the current TfL General Consumable contract – Hayley Rail Vendor Managed Inventory (VMI) for a maximum period of three years and six months from 1 October 2024 to 31 March 2028.

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 or business affairs of TfL and tenderers. 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 and to grant Procurement Authority, at the sum set out in the related paper on Part 2 of the agenda, for the extension of up to the maximum available term of the TfL General Consumable Contract, as described in this paper and the related paper on Part 2 of the agenda, giving a total Procurement Authority as set out in the related paper on Part 2 of the agenda.**

3 Background

3.1 The pan-TfL framework agreement for the supply of general consumable goods was competitively tendered and awarded to Hayley Rail which commenced on 1 April 2020.

3.2 The initial duration of the framework was for four years with an option to extend the Term of the Agreement by a period of up to four years. Procurement Authority was granted at officer level for the sum anticipated be spent over the initial four years only; it was made clear that, should any option to extend the contract be exercised beyond that Authority, Procurement Authority would need to be sought at the Committee's level of authority.

3.3 At the end of that four-year period, the contract was extended for a period of six months by agreement with Hayley Rail. Due to underspend at that time, no additional Procurement Authority was required.

3.4 TfL proposes to extend the term of the agreement by a further three years and six months until 31 March 2028.

3.5 Hayley Rail supply a variety of maintenance materials including fixtures and fasteners, oils and greases, tools and Personal Protective Equipment (PPE) as well as the majority of the coronavirus PPE. This is critical to preserve the day-to-day safety of our services.

3.6 Hayley Rail is required to implement a VMI Solution for the supply of Goods, monitor stock levels and re-fill the VMI Items.

3.7 Contract Innovation Efficiency is an annual savings target that Hayley Rail have to deliver through innovative initiatives, some examples include:

(a) reduction in cost of T-Bolts for Central Line Improvement Project doors;
(b) reduction in cost of Laundered Bump Caps;
(c) reduction in cost of 10ml Flip Top Sanitiser (re-filled pocket size option); and
(d) Oil Filtration: Filtered used gearbox oil to be used again (further details below).

3.8 On Oil Filtration by Hayley Rail and TfL, the shortage of additives for rail specific gearbox grease and Shell Spirax S6 oil could impact on train availability and delay heavy maintenance programmes. Hayley Rail, together with Hydac (an industrial filtration company) and TfL, started a trial to claim used gearbox oil, filter the fluid and re-use. The trial was successful and Shell, TfL and gearbox manufacturer (IGW Industry) all approved the filtration.

3.9 The expected saving over the next four years from this initiative is about £70,000 (District and Hammersmith & City lines only) and £210,000 over the life of fleet. TfL calculates the carbon savings of 67 tons of CO_2, equivalent of taking 134 cars off the road or planting 3,350 trees. This could be extended to all 11 lines, Lifts and Escalators and all non-electric buses. Hayley Rail won TfL “Outstanding Carbon Reduction Initiative” award.

3.10 Another successful trial also led to the Victoria line extending its gearbox oil change periodicity from 150,000km to 300,000km. It is estimated that halving the periodicity will enable recurring savings of £12,000 per annum and deliver green benefits by preventing the annual disposal of 2,300 litres of waste oil.

3.11 Commercial discussions have taken place with Hayley Rail and the proposed extension gives the greatest opportunity to deliver value for money and mitigate future cost pressures.

List of appendices to this report:

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of Background Papers:

None

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Finance Committee

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Date: **11 July 2024**

Item: **Risk and Assurance Report Quarter 4 2023/24**

This paper will be considered in public

1 Summary

1.1 This report provides the Committee with an overview of the status of and changes to Enterprise Risk 5 (ER05) – Efficient and high performing supply chains and effective procurement, Enterprise Risk 7 (ER07) – Financial resilience and Enterprise Risk 9 (ER09) – Changes in customer demand in Quarter 4 (10 December 2023 to 31 March 2024) (Q4).

1.2 This report also summarises the findings from the assurance activity associated with these risks, based on work by TfL's Risk and Assurance Directorate.

1.3 A paper is included on Part 2 of the agenda, which contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business and financial affairs of TfL that is commercially sensitive and likely to prejudice TfL's commercial position; and information relating to ongoing fraud and criminal investigations and the disclosure of this information is likely to prejudice the prevention or detection of crime and the apprehension or prosecution of offenders. 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 report and the exempt supplementary information on Part 2 of the agenda.**

3 TfL Enterprise Risks

3.1 Risk review workshops have been undertaken for ER05, ER07 and ER09. ER05 and ER07 have been discussed by the Executive Committee and are scheduled to be presented at the next meeting of the Committee on 9 October 2024.

4 Annual Audit Plan

4.1 The rolling Internal Audit plan contains a series of third line audits that address all TfL Enterprise Risks. Audits against other Enterprise Risks are now reported to the applicable Committee or Panel. The Internal Audit six month plan and forward look was agreed at the March meeting of the Audit and Assurance Committee and contains audits against ER05 and ER07. Discussions are taking place internally about what audits should be undertaken on ER09 going forward.

5 Work of Note for Quarter 4

Internal Audit

5.1 Appendix 1 provides details of the Internal Audit audits undertaken in Q4. Audit reports issued are rated as either 'well controlled', 'adequately controlled', 'requires improvement' or 'poorly controlled'. Individual findings within audit reports are rated as high, medium or low priority.

5.2 Internal Audit issued six reports against ER07 in Q4. The audit of Group Treasury was rated as well controlled, Journals and the National Rail Reimbursement Scheme (PAYG) were rated as adequately controlled and Management of Property Voids, Ultra Low Emission Zone Extension Scrappage Scheme and Cost of Change were rated as requires improvement.

5.3 Two audits against ER05 are in progress, Procurement of the TfL Advertising contract and Management of the Lifts and Escalator Contract. There are also two audits against ER07, Use of Consultants and an Arts Council England grant review.

Counter-Fraud and Corruption

5.4 The Counter-Fraud and Corruption team investigates all allegations of fraud and corruption involving TfL employees, non-permanent labour and third parties (including suppliers, customers and organised criminal groups). Summaries of significant new and ongoing cases relating to supply chain and procurement activities are set out in the paper on Part 2 of the agenda. These cases are part of the wider fraud reporting that is submitted to the Audit and Assurance Committee.

6 Cancelled and Deferred Work

6.1 All cancellations and deferrals are undertaken in consultation with the relevant business teams. Three internal audits were deferred in Q4, two are against ER07 and related to grant certification work at the London Transport Museum where expenditure is yet to be incurred. These will be rescheduled for 2024/25. The Readiness for the new Procurement Act is against ER05 and has been moved to Quarter 1 of the 2024/25 audit plan to allow more progress to be made within Procurement and Commercial in this area.

7 Performance and Trends

7.1 Performance data is provided at Appendix 2 on progress against the audit plan, audit ratings, rating trends by Enterprise Risk and business unit and progress against actions, with comparisons provided across the last two years.

Internal Audit

7.2 Eighteen ER05, ER07 and ER09 audits were completed in the last four quarters, which is the same number as were delivered in the previous four. The number of 'requires improvement' has increased from four to eight and 'poorly controlled' remains at one for both periods. The number of memos issued has reduced from nine to two over the past four quarters, with a greater number of rated reports being issued. The is because we have changed our approach to how memos are used and want to apply more ratings to aid trend analysis. Six reports in the last four quarters were rated as ‘adequately controlled’ with one rated as ‘well controlled’.

7.3 Work continues with management teams and the Chief Officers on closing audit actions, particularly overdue actions. For ER05 and ER07 at the end of Q4 there were 57 open audit actions, only one of which was overdue by less than 30 days. There were no open audit actions for ER09. All actions that are overdue by more than 100 days are reported to the Audit and Assurance Committee.

List of appendices to this report:

Appendix 1: Internal Audits Completed in Quarter 4 of 2023/24 against ER05, ER07 and ER09

Appendix 2: Internal Audit Summary Quarter 4 2023/24

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

List of Background Papers:

None

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Appendix 1 – Internal Audits Completed in Quarter 4 (10 December 2023 to 31 March 2024) of 2023/24 against ER05, ER07 and ER09

ER07 Financial resilience

Chief Officer	Ref	Engagement Name	Objectives	Conclusion	Summary of Findings
Chief Finance Officer	23 015	Journals	Provide assurance on the adequacy and effectiveness of controls in place for processing journals.	Adequately Controlled	The Record to Account team are part of the Business Services Function and post journals that are prepared by their team and Finance Business Partners. We found that there is a robust control framework in place to support the preparing, review and posting of journals. Key controls and process/control owners have been identified, and there is a clear segregation of duties when processing journals. The audit evaluation and sample testing identified minor weaknesses in the preparation of the journal template.
Chief Finance Officer	23 046	Group Treasury	Review the adequacy and effectiveness of controls in place to manage Group Treasury activities in TfL.	Well Controlled	We found that treasury management controls were adequately designed and operating effectively.
Chief Finance Officer	23 047	National Rail Reimbursement Pay As You Go (PAYG) scheme	Provide assurance on the adequacy and effectiveness of controls in place governing the National Rail PAYG Scheme.	Adequately Controlled	There are adequate controls in place for processing staff travel reimbursement claims within the National Rail PAYG scheme. There is a risk of errors, omissions and delays due to the manual processes involved in recording and calculating amounts due to employees. While there are already some quality checks in place, management have agreed to introduce a more rigorous assurance process to verify the accuracy of claims and compliance with policies and procedures.
Chief Customer and Strategy Officer	23 043	Management of Property Voids in Places for London	Provide assurance on the adequacy and effectiveness of controls in place to manage property voids.	Requires Improvement	There was not always a clear audit trail to support the required activity and process. Asset Managers are to be recruited and will prepare and manage the Asset Management Plans and Asset Management

Chief Officer	Ref	Engagement Name	Objectives	Conclusion	Summary of Findings
					Strategy. Responsibilities for void management were inconsistent with the process. There was a lack of checks being performed on the voids periodic data reports. Moving forward, the process has been mapped and along with iAuditor will improve the audit trail, ensuring all the required activities are performed.
Chief Customer and Strategy Officer	23 007	Ultra Low Emission Zone (ULEZ) Expansion Scrappage Scheme	Provide assurance on the adequacy and effectiveness of the key controls governing the ULEZ Expansion Scrappage Scheme.	Requires Improvement	Applications for funds to scrap, replace or retrofit non-compliant ULEZ vehicles, with cleaner motorcycles, cars, vans and minibuses requires applicants to provide satisfactory supporting documents. TfL had not instructed the contractor, who process the applications, to verify these supporting documents with the issuing organisations. Additional checks have been introduced to identify duplicate claims.
Chief People Officer	23 044	Cost of Change	Provide assurance that planned financial benefits of change and return on investment are being realised across the change landscape.	Requires Improvement	There is a defined methodology for executing change programmes, key aspects of which are a governance regime and documented procedures. These ensure the existence of key controls for the efficient and effective management of programmes. In addition, continuous improvements are being made to the processes in order to further strengthen the control environment. We identified that the controls for identifying and recording financial and non-financial benefits and calculating costs need to be improved in order to accurately determine the viability of programmes.

Internal Audit Summary Quarter 4 2023/24 — Appendix 2

All Audit Progress against 2023/24 Plan

Action Management (ER05, ER07 and ER09) - By Enterprise Risk by Overdue Days

At the end of Q4 there was 1 overdue action against ER07 owned by Chief Operating Officer

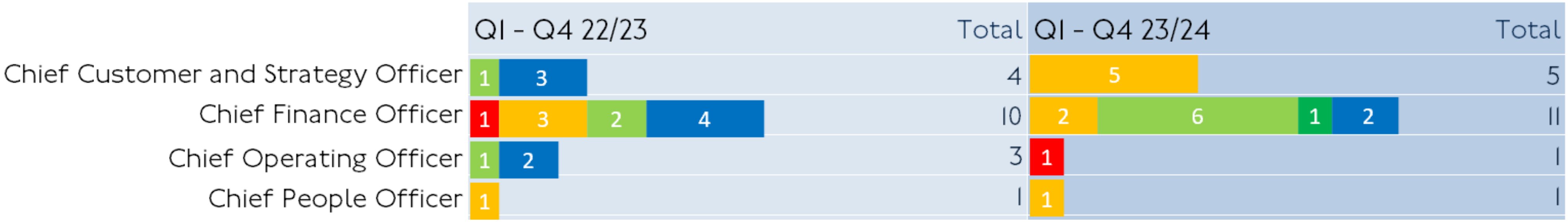
Action Management (ER05, ER07 and ER09) - By Directorate by Overdue Days

	Overdue Actions To Date	Closed on time (6-period)
Chief Capital Officer		0%
Chief Customer and Strategy Officer		86%
Chief Finance Officer		27%
Chief Operating Officer	1	13%
Chief People Officer		
Chief SHE Officer		75%
Crossrail		
General Counsel		

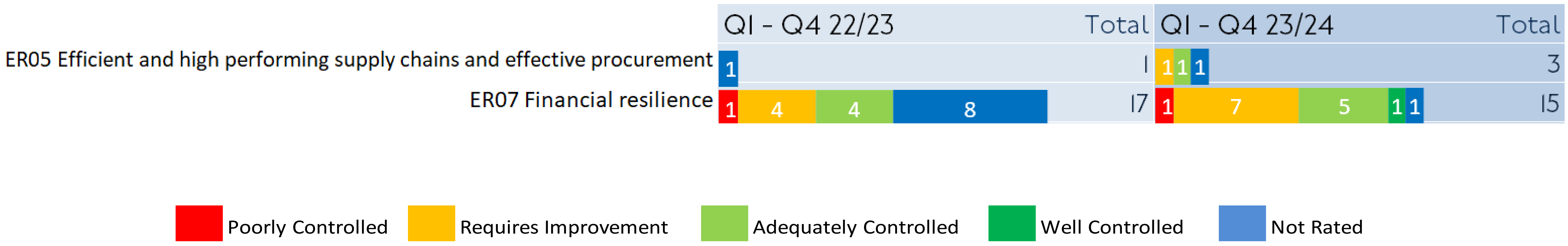
0-30 days　31-60 days　61-100 days　100+ days

ER05, ER07 and ER09

Audit Conclusion Comparison by Chief Officer Team (over 4 quarters)



Audit Conclusion Comparison by Enterprise Risk (over 4 quarters)



Finance Committee

Date: **11 July 2024**

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 and the Risk and Assurance Quarterly Report;

(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; and

(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 2024/25

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

Abbreviations: CCO (Chief Capital Officer), CCSO (Chief Customer and Strategy Officer), CFO (Chief Finance Officer), COO (Chief Operating Officer), CTO (Chief Technology Officer), CSHEO (Chief Safety, Health and Environment Officer), DCF (Director of Corporate Finance), DR&A (Director of Risk and Assurance), GC (General Counsel)

9 October 2024		
Use of Delegated Authority	GC	To note
Finance Report	CFO	To note
Prudential Indicators Outturn	CFO	To note
Treasury Activities	CFO	To note
Forthcoming Key Procurement Activities	CFO	To note
Risk and Assurance Quarterly Report	DR&A	To note
Enterprise Risk Update - Supply Chain Disruption and Ineffective Procurement and Contract Management (ER05)	CFO	To note
Enterprise Risk Update – Financial Resilience (ER07)	CFO	To note
Procurement and Commercial Improvement Programme – Cost Management Update	CFO	To note

Finance Committee Forward Plan 2024/25

18 December 2024		
Use of Delegated Authority	GC	To note
Finance Report	CFO	To note
2025 TfL Business Plan	CFO	To approve (delegated by the Board)
Forthcoming Key Procurement Activities	CFO	To note
Risk and Assurance Quarterly Report	DR&A	To note

26 February 2025		
Use of Delegated Authority	GC	To note
Finance Report	CFO	To note
Treasury Activities, Policies and Strategy	CFO	To approve (delegated by the Board)
Investment Management Strategy 2025/26 – Non-Financial Assets	DCF	To approve
Forthcoming Key Procurement Activities	CFO	To note
Risk and Assurance Quarterly Report	DR&A	To note
Enterprise Risk Update – Changes in Customer Demand (ER09) - TBC	CCSO	To note
Taxi Fares and Tariffs Update	COO	To approve

Finance Committee Forward Plan 2024/25

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)
- Prudential Indicators Outturn (outcome from previous year – October) (CFO)
- Treasury Activities (semi-annual – October and February/March) (CFO)
    - Additional updates to be provided where necessary
- Treasury Policies and Strategy (annual – February/March) (CFO)
- Update on Third-Party Funding Secured Through Spatial Planning (annual – June/July) (CCSO)
- Enterprise Risk Update – Supply Chain Disruption and Ineffective Procurement and Contract Management (ER05) (annual – October) (CFO)
- Enterprise Risk Update – Financial Resilience (ER07) (annual – October) (CFO)
- Enterprise Risk Update – Changes in Customer Demand (ER09) (annual – February/March TBC) (CCSO)
- Forthcoming Key Procurement Activities (CFO)
- Risk and Assurance Quarterly Report (DR&A)

Additional items to be scheduled:

- App Based Culture – paper to cover TfL perspective on the strategy, plans and issues for TfL e.g. TPH regulation

As at 3 July 2024

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Agenda Item 19

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Agenda Item 21

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Agenda Item 22

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