Transport for London

Minutes of the Finance Committee

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

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

Government Special Representative
Becky Wood

Board Member
Cllr Julian Bell

Executive Committee

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

Staff

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

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

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

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

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

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

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

39/10/21 Declarations of Interests

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

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

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

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

41/10/21 Matters Arising and Actions List

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

The Committee noted the actions list.

42/10/21 Use of Delegated Authority

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

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

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

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

The Committee noted the paper.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee noted the report.

44/10/21 Treasury Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee noted the paper.

47/10/21 Funding Update on TTL Properties Limited

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee noted the forward plan.

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

There was no other urgent business.

51/10/21 Spending Review Submission

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

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

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

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

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

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

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

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

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

The Committee noted the Spending Review submission.

52/10/21 Date of Next Meeting

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

53/10/21 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Treasury Activities; Funding Update on TTL Properties Limited; and Power Purchase Agreement (PPA 1 – Operational Assets).

The meeting closed at 1.10pm.

Chair: ___________________________________

Date: ____________________________________