Board

Date: **8 December 2021**

Item: **Report of the Meeting of the Finance Committee held on 24 November 2021**

This paper will be considered in public

1 Summary

1.1 This paper provides a summary of the items considered by the Finance Committee at its meeting on 24 November 2021.

2 Recommendation

2.1 **The Board is asked to note the report.**

3 Committee Agenda and Summary

3.1 The papers for the meeting of the Committee held on 24 November 2021 were published on 16 and 17 November 2021 and are available on the TfL website with a link to the video recording of the meeting on TfL's YouTube channel.

3.2 The main matters considered by the Committee were:

(a) Use of Delegated Authority;

(b) Implications of Reduced Funding for TfL;

(c) Finance Report;

(d) Build to Rent Joint Venture Agreement;

(e) TfL Energy Purchasing: Crown Commercial Service; and

(f) Enterprise Risk Update – Changes in Customer Demand (ER09).

3.3 A summary of the items considered and decisions taken is provided below. The more detailed minutes of the meeting will be published ahead of the meeting of the Committee on 9 March 2022.

4 Issues Discussed

Use of Delegated Authority

4.1 The Committee noted the paper on the use of delegated authority. Since the meeting on 6 October 2021, there had been: no use of Chair’s Action; no use of authority delegated by the Board; four uses of Procurement Authority granted by the Commissioner or the Chief Finance Officer but no use of Land Authority; and no Mayoral Directions to TfL.

Implications of Reduced Funding for TfL

4.2 The Committee noted the paper, which provided an updated view of TfL’s financial position. It considered recent developments and gave an updated outlook over the medium-term period covered by the recent Government Comprehensive Spending Review (CSR), 2022/23 to 2024/25.

4.3 TfL was required to make a submission to the Greater London Authority Budget process on 26 November 2021. As a local authority for statutory financial purposes, it was obliged to prepare a budget that was balanced over both the short and medium-term. Therefore, the budget submission had to demonstrate a credible path to closing the funding gap and maintaining a balanced budget. The paper considered what actions were required to close the current funding gap, in the absence of any further external support, and what the wider impacts of such actions would be.

4.4 There remained significant uncertainty on the level of available funding over this time period, which would be determined by the pace and level of recovery of passenger demand and the final level of Government funding. The Independent Panel report, published in December 2020, highlighted a long-term funding gap of £2bn per annum, which had since been proven through updated work on TfL’s funding gap through the Financial Sustainability Plan (FSP) and its submission to the CSR. Since the 2019 Business Plan, the structural shift in demand due to the coronavirus pandemic meant a significant loss of passenger revenue in future years with hybrid working and reduced tourism, compounded by Brexit.

4.5 The Government stipulated in the last TfL emergency financial agreement that the Mayor and TfL had to raise an additional £500m-£1bn per year from 2023/24. As yet there had been no agreement between the Mayor and Government on proposed revenue raising options and therefore no budget assumptions could be made based on TfL having this extra revenue.

4.6 The potential required savings necessitated by TfL’s legal requirement to balance its budget represented the ‘Managed Decline’ scenario first laid out in the FSP. TfL had been clear about the severe impacts to services and the wider economy, were Managed Decline to take place. In the absence of capital and revenue funding pledges from Government, it had to move to planning for this scenario. TfL would need to start enacting some changes immediately to start realising the financial savings in future years.

4.7 TfL would continue to make the case for additional Government funding and to support the recovery of passenger demand, which would help mitigate the need to take all the actions set out in the paper and allowed TfL to play its role in supporting the economic recovery, decarbonisation and levelling up across the country.

Finance Report

4.8 The Committee noted TfL's financial results to the end of Period 7, 2021/22 – the year-to-date period ending 16 October 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.

4.9 Journey numbers had improved and were 68 per cent of pre-pandemic levels. Passenger income was £1.5bn in the year to date, which was 10 per cent below budget due to slower demand. This time last year, income was almost £1.8bn down on pre-pandemic levels and was now £1bn down.

4.10 Current funding condition savings target were ahead of plan by £127m, including lower staff costs at over 500FTE below budget, due to high attrition in all areas, recruitment challenges in the market and a backlog of vacancies in all divisions. TfL had cut back on all but essential recruitment so the gap was likely to increase.

4.11 Through the ongoing savings programme and further one-off savings last year and this year, like for like costs had held stable, absorbing inflation and rebased for service changes, the Elizabeth line, Ultra Low Emission Zone and exceptional costs.

4.12 Cash balances were at £1.635bn, which represented a point in time. Closing cash balances on 22 November 2021 were £1.354bn. TfL would have run out of cash in Period 7 had it not received the level of Government funding this year

Build to Rent Joint Venture Agreement

4.13 The Committee noted the paper and approved the proposed amendments to the Connected Living London Joint Venture Agreement (JVA) and the incorporation of the associated Funding Condition within the site-specific agreements for lease.

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

TfL Energy Purchasing: Crown Commercial Service

4.15 The Committee noted the paper and approved Procurement Authority of £402m for the purchase of electricity and natural gas across TfL during the

2024/25 and 2025/26 financial years, via the existing frameworks competitively procured by the Crown Commercial Service (CCS). It also noted that future TfL Business Plans would need to continue to make provision for the supply of energy updating each year to the latest forecast based on TfL's requirements.

4.16 TfL had developed an Energy Purchasing Strategy in line with the Mayor's Transport Strategy, the London Environment Strategy and TfL's own carbon ambitions as set out in the Corporate Environment Plan.

4.17 Extending the existing arrangements with CCS allowed the continuation of the current energy purchasing arrangements and risk management strategy, albeit reduced to allow for energy volume to be purchased through a Power Purchase Agreement (PPA). This approach ensured the ongoing supply of cost competitive electricity and gas supplies for TfL's operations in the near term, while also enabling the transition over coming years to renewable energy, in line with TfL's commitment to run a zero carbon railway by 2030. Continued use of CCS also supported planned future PPA procurements.

Enterprise Risk Update – Changes in Customer Demand (ER09)

4.18 The Committee noted the paper, which sets out TfL's current understanding and control measures on Enterprise Risk 09 – Changes in Customer Demand. This was a very broad risk, with huge potential implications for TfL's financial and transport strategy. The coronavirus pandemic had seen the risk realised in an unprecedented way, creating uncertainty for the medium and long-term.

4.19 The risk sat at the heart of TfL's business so scored extremely highly. The financial impact it could create was exceptionally high, as had been experienced over the past 18 months. It also had a fundamental influence over TfL's relationship with customers and stakeholders and the long-term prosperity outlook for London.

4.20 Given the current exceptional circumstances, all four risk impact categories were considered to be outside tolerance. However, through the management actions described in the paper, there was much TfL could do, and was doing, to control and mitigate the risk.

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the Finance Committee on 24 November 2021

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