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 24 November 2021

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

Government Special Representative
Becky Wood

Board Members also in attendance
Cllr Julian Bell (via Teams)
Anurag Gupta (via Teams)
Bronwen Handyside (via Teams)
Mark Phillips (via Teams)

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Vernon Everitt	Managing Director, Customers, Communication and Technology
Stuart Harvey	Director of Major Projects (via Teams)
Simon Kilonback	Chief Finance Officer
Lilli Matson	Chief Safety, Health and Environment Officer (via Teams)
Gareth Powell	Manging Director, Surface Transport
Shashi Verma	Chief Technology Officer and Director of Strategy

Staff

Andy Baldock	Business Strategy Manager (via Teams)
Andrea Clarke	Director of Legal (via Teams)
Daniel Curry	Senior Safety, Health and Environment Manager (via Teams)
Matt Denham	Head of Procurement - Indirect
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director of Corporate Finance (via Teams)
Lorraine Humphrey	Interim Director of Risk and Assurance (via Teams)
Shamus Kenny	Head of Secretariat
Glyn Lenton	Lead Commercial Manager, Category Management
Rachel McLean	Chief Finance Officer, Crossrail and Divisional Finance Director, London Underground (via Teams)
Rajiv Sachdeva	Head of Financial Planning and Analysis

Ben Tate	Head of Property Development
Ken Youngman	Divisional Finance Director, Commercial Development

54/11/21 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. Howard Carter reported that no apologies for absence had been received. Dr Nina Skorupska CBE, who was a member of the Committee, was attending via Teams and would not therefore count towards the quorum of the meeting. Cllr Julian Bell, Bronwen Handyside, Mark Phillips and Anurag Gupta were attending as members of the Board.

It was the first opportunity to welcome the three new Members who had recently joined the Board – Anurag Gupta, Marie Pye and Peter Strachan. Anurag Gupta joined the meeting via Teams in advance of the Board considering appointments to Committees and Panels. The Chair welcomed the new Members on behalf of all colleagues on the Board.

The meeting was being broadcast live on YouTube, except for the discussion of the information on Part 2 of the agenda, which was exempt from publication. While Members would discuss as much of the items in public as possible, information related to TfL's business and financial affairs would need to be discussed in private. When the exempt information needed to be considered, the recording would be stopped for the press and public.

The Chair confirmed that under section 100B(4)(b) of the Local Government Act 1972, he had agreed that the urgent item for the agenda that was published on 17 November 2021 would be considered as a matter of urgency. The item was the Implications of Reduced Funding for TfL and was accepted as urgent to allow for the latest financial information available to be provided.

The Chair reordered the agenda to take item 11a (Implications of Reduced Funding for TfL) immediately before agenda item 6 (Finance Report). The minutes reflect the amended meeting 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 TfL staff after the meeting. There were no specific issues raised at the meeting.

55/11/21 Declarations of Interests

Howard Carter introduced the item. Members' declarations of interests were published on tfl.gov.uk and were up to date. The declarations of interests for the new Members would be published on the website shortly.

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.

56/11/21 Minutes of the Meeting of the Committee held on 6 October 2021

The minutes of the meeting of the Committee held on 6 October 2021 were approved as a correct record and signed by the Chair.

57/11/21 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.

58/11/21 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, since the meeting of the Committee on 6 October 2021, there had been no use of Chair's Action, no use of authority delegated by the Board, no use of delegated authority to approve Land Authority by the Commissioner or the Chief Finance Officer and no Mayoral Directions to TfL.

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

The Committee noted the paper.

59/11/21 Implications of Reduced Funding for TfL

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

Andy Byford and Simon Kilonback introduced 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.

With the current funding agreement for TfL due to expire on 11 December 2021, there was less than three weeks for the Government to provide longer-term funding certainty and, in turn, London's economic recovery. A lack of Government help would mean far-reaching consequences for transport in London and all those who relied on it. A damaging vicious circle of underinvestment and service cuts would take London back to the 1970s and 1980s era of an ageing, infrequent and unreliable transport network that was both unappealing to passengers and inadequate for the city to thrive.

In his previous role as President of New York City Transit, Andy Byford knew first-hand the damage that underinvestment could bring on a city's transport system such as outdated signalling systems, worn-out infrastructure and inadequate system capacity that stemmed from failure to keep up with the investment needs of London's primary comparator. He had repeatedly warned that a similar situation could easily befall London if TfL was not adequately funded.

The Government was investing in better transport around the country which was wholeheartedly supported. TfL was ready to help the Government address challenges beyond London, for example by helping to bring contactless payment to hundreds of stations outside the Capital as part of the Government's recently reaffirmed strategy, as well as contributing significantly to the green recovery.

London was the engine of the UK's economy, contributing a net £36.1bn to the Treasury. Money for investment, flowing from London to the Treasury to the regions, could only continue if London continued to function efficiently, which was only possible with a properly funded transport network.

There would also be far-reaching consequences for the 43,000 people around the country in Falkirk, Bolton, Derby, Liverpool, Yorkshire and beyond, whose jobs relied on work currently provided through TfL's extensive supply chain that pumped billions of pounds into areas outside of London. For every £1 invested on the London Underground, 55p was paid to workforces located outside London, with TfL contracts contributing around £7bn to the economy overall.

Failure to invest in London would result in the work to decarbonise the economy, clean up air quality and tackle the climate emergency coming to a standstill. It would hold back investment to support mode shift towards walking, cycling and public transport; in green technologies required for the transition to a national zero emission bus fleet and the wider energy transition to renewable energy; and the ability to protect nationally important assets in the face of increasingly extreme weather events.

Public transport demand continued to recover and grow, with demand for public transport now averaging 75 per cent of pre-coronavirus pandemic ridership and major employers continuing to plan their return to work arrangements.

A managed decline scenario which TfL now faced would make travelling much more difficult, reduce the attractiveness of public transport, damage revenues and undermine the recovery.

Following the second funding agreement from October 2020, TfL submitted its Financial Sustainability Plan (FSP) to Government in January 2021, which showed the path to financial sustainability by 2023/24. The FSP also made clear that TfL had a long-term structural funding gap for capital investment which existed before the pandemic of c.£1.6bn, including a new revenue source contribution from London.

Budget assumptions were being updated as part of the annual process for submission to the Greater London Authority's (GLA) Budget. As a local authority for statutory purposes, TfL was obliged to prepare a budget that was balanced over both the short and medium-term, and demonstrated a credible path to closing the funding gap and maintaining a balanced budget.

Since the FSP, passenger income was £141m lower than budgeted and demand was not recovering as quickly as hoped, so a more realistic revenue profile would need to be adopted for future years. Greater compliance with the hugely successful Ultra Low

Emission Zone scheme meant lower revenue than expected so revised forecasts were needed. Inflation and the cost of energy had increased dramatically in recent months, causing a significant pressure on total costs.

There had been no agreement between the Mayor and Government on proposed revenue raising options, for the £500m-£1bn that London and TfL were expected to raise from 2023/24, so TfL could not currently assume this revenue would materialise until discussions progressed. The Government also stated as part of their CSR that TfL would not receive any additional capital funding on top of the retained business rates the GLA already received, and re-confirmed it did not intend to provide any further revenue support beyond March 2023. On this basis, TfL's funding gap would increase by on average £400m per annum from 2022/23 to 2024/25, compared to the previous Revised Budget.

The knock-on impacts were far reaching across TfL, its stakeholders and suppliers, as well as for transport, London and the UK's recovery. On capital, TfL would be forced to adopt the managed decline scenario which meant only projects already underway, or those required to be compliant with safety and other statutory regulations, would continue with no new investment by TfL in the transport network. No proactive progress would be made towards Vision Zero safety, decarbonisation, improving air quality or active travel to support a shift towards more sustainable modes.

No new step-free stations would be started, as only those currently in construction would continue. Existing contracts such as the Docklands Light Railway and Piccadilly line rolling stock would presumably continue, although these and other contractually committed schemes could be revisited if savings were not deliverable or contributing factors worsened.

Deferring renewals meant an increased risk of unreliability and maintenance costs to keep life expired assets running. This would lead to customer disruption, also due to a slowdown in routine works such as improving lifts and escalators. Reducing expenditure on London Underground works, which had a substantial supply chain in delivering renewals, would have a direct impact on jobs in this sector of the economy. The new station box at Elephant & Castle would be constructed by the developer but TfL would be unable to fit it out into an operational station.

On Surface Transport, no new enhancements would start and only those currently underway would be completed. Old Street roundabout would be completed, but Vauxhall Cross, Wandsworth Gyratory and other major transformational schemes would not proceed. These schemes amounted to c.£350m spend, which would have been competitively awarded to a number of suppliers on TfL's framework. Stopping these schemes would impact the framework contractors, as well as their workforce and supply chains.

Cycleways already under construction would be completed but remaining sections would not be built and no new cycleways would be started. Deferring renewals would mean similar disruption on the road network as already seen in some areas, such as Hammersmith Bridge closing and Rotherhithe Tunnel resurfacing. These were unbudgeted in TfL's 2019 Business Plan but the pause on proactive renewals meant those assets deteriorating quicker and requiring closures for safety. Borough funding would have to reduce to match TfL's capital programme, leaving only a small provision for renewals.

On service levels, Tube services would be cut by nine per cent, and the bus network by 18 per cent. In practice, this meant over 100 routes would be withdrawn on the bus network and of the remaining routes, over 200 would have service frequency reductions. For the Tube network, impacts were being analysed for a full closure of a line or part of a line, compared to a number of smaller reductions across the whole network.

Bus electrification by 2030 would not be possible, due to the reduction in service levels and how quickly operators turned over vehicles. This would create a pause in ordering any new electric buses whilst TfL resized the network, which would disrupt the supply chain.

Some interventions would need to be made soon after the Revised Budget was agreed, on the assumption that no further funding was forthcoming. Changes to the bus network would start immediately as contracts came up for re-award, with changes to the Tube network taking slightly longer to materialise. Capital projects would similarly be stopped immediately with only those with committed expenditure continuing.

These interventions would go some way to closing the funding gap, reducing it to £1.1bn in 2022/23, and around £500m for both 2023/24 and 2024/25, although TfL would still be unable to balance the budget in those years. TfL was seeking resolution with Government, who had said revenue funding would be available for 2022/23, although there was no indication of when negotiations would start. TfL, the Mayor and Government needed to urgently work together on a sustainable funding agreement which prevented the impacts outlined and was more in line with funding models seen for other major global transport authorities.

The Committee noted the critical and sombre situation for TfL and London's transport network that was reflected in the paper, and asked that Members be kept informed of any progress with the funding negotiations as required.

[Action: Andy Byford/Simon Kilonback]

The Committee noted the paper.

60/11/21 Finance Report – Period 7, 2021/22

Simon Kilonback and Rajiv Sachdeva introduced the report, which set out 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.

Passenger journey numbers had improved and were 68 per cent of pre-coronavirus pandemic levels, with office workers trailing at 50 per cent. 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.

On London Underground, journeys were 65 per cent of pre-pandemic levels, compared to a target of 77 per cent, but showed a steady increase from the previous period where journeys were 59 per cent. An increase in commuter-based trips from 40 per cent of pre-pandemic levels at the end of the summer holidays was currently about 53 per cent.

Weekly station entries were returning quickest in east and north east London, reflecting employment profiles across the city. Demand was returning at all times but with morning peak slightly behind other times of the day. Weekend travel remained strong, with the latest week showing 74 per cent demand, compared to 64 per cent in the previous period.

On buses, journeys were 71 per cent just below target, with bus journeys largely steady since the end of the summer holidays. Weekday bus boarders were returning more consistently across outer London reaching 75 per cent, with smaller increases in central London.

Capital renewals were lower as TfL continued to govern all capital spend tightly through the Finance Commitment Oversight Group. All spend had been cut back to committed spend and in line with the managed decline scenario due to lack of visibility on future funding.

Current funding condition savings target was 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. 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.

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. Cash balances were expected to track below the Revised Budget in the next few periods as fares revenue was lower and so despite the revenue true-up mechanism, there would be less cash benefit in the funding period. £80m grant deferral from 18 October to 10 December 2021 was offered up to the Department for Transport to help stabilise the cash balance.

TfL had seen a strong return in advertising revenue as more people started using the system and there had been some significant investment in advertising assets. Clarification of the figure of 3,859 per cent variance for media shown on the Capital Expenditure slide would be provided. **[Action: Gareth Powell]**

The Committee noted the report.

61/11/21 Build to Rent Joint Venture Agreement

Graeme Craig, Ken Youngman and Ben Tate introduced the paper and related supplemental information on Part 2 of the agenda, which sought approval for a series of amendments to the Joint Venture Agreement (JVA) which TTL Build To Rent Limited entered into on 12 July 2019 with Connected Living London Limited (a wholly owned subsidiary of Grainger Plc), and the incorporation of the associated Funding Condition within the site-specific agreements for lease.

Subject to ongoing discussions with Government and TfL approvals, the New Baseline Plan would see TTL Properties (TTLP) start on sites that delivered 20,000 homes over the next 10 years. The projected annual return to TfL would increase from £6m in 2021/22 to £155.7m over 15 years. Over the same period, the value of TTLP's property assets were projected to rise from £2.22bn in 2021/22 to £4.46bn in 2035/36. This would be funded by commercial debt that was non-recourse to TfL. Peak debt requirement was forecast to be £500m in 2029/30, although the debt in the first three years remained modest at around £150m.

The need for the amendments to the JVA was driven by the risk introduced into TfL's ability to fund construction as a result of its short-term funding position. Grainger Plc had flagged concerns with continuing to invest should TfL not have funding for its share of costs when the construction funding was required.

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.

The Build to Rent programme would facilitate the delivery of a sustainable operating surplus from TfL's property assets for reinvestment into the transport system. This remained the primary objective and was consistent with TfL's current Business Plan and Commercial Development's Growth and Investment Strategy.

The Committee:

1 noted the paper and the supplementary information on Part 2 of the agenda; and

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

62/11/21 TfL Energy Purchasing: Crown Commercial Service

Lilli Matson, Glyn Lenton and Matt Denham introduced the paper, which sought Procurement Authority to extend the existing arrangements with Crown Commercial Services (CCS) to allow the continuation of the current energy purchasing arrangements and risk management strategy, albeit reduced to allow for energy volume to be purchased through a Power Purchase Agreement (PPA). It also updated the Committee on energy purchases since December 2020 through the CCS agreed frameworks.

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.

Extending the existing arrangements with CCS 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. A further PPA update would be provided in spring 2022. **[Action: Lilli Matson]**

Members asked that consideration be given to having a future discussion at this or another Committee on how to ensure value for money, effectiveness and better outcomes from CCS on energy, as greater influence and integration to decarbonise power for transport systems was needed, including building relationships and having a stronger voice with Network Rail. **[Action: Lilli Matson]**

The Committee:

1 **noted the paper;**

2 **approved Procurement Authority of £402m for the purchase of electricity and natural gas across TfL during the 2024/2025 and 2025/2026 financial years, via the existing frameworks competitively procured by the Crown Commercial Service; and**

3 **noted that future TfL Business Plans will need to continue to make provision for the supply of energy updating each year to the latest forecast based on TfL's requirements.**

63/11/21 Enterprise Risk Update – Changes in Customer Demand (ER09)

Vernon Everitt introduced the paper and related supplemental information on Part 2 of the agenda, which set out TfL's current understanding and control measures on Enterprise Risk 09 - Changes in Customer Demand (ER09).

ER09 was a very broad risk, with huge potential implications for TfL's financial and transport strategy. The coronavirus pandemic has seen the risk realised in an unprecedented way, creating uncertainty for the medium and long-term.

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.

Given the current exceptional circumstances, all four risk impact categories were considered to be outside tolerance. Implementing management actions to control and mitigate the risk would mean that the risk was adequately controlled. These included: agile forecasting methods to accommodate continued uncertainty; scenario and risk-based planning; appropriately reviewing service levels; improving the quality of services where possible; and managing demand to attract passengers back to public transport and keep road user charging systems under review to manage congestion and air quality.

Members asked that information be provided in future on measuring how the risk changed over time, to map any deterioration or improvement in the risk so as to better understand the impact of the actions being taken in the current environment.

[Action: Gareth Powell]

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

64/11/21 Members' Suggestions for Future Discussion Items

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

The Committee noted the forward plan.

65/11/21 Any Other Business the Chair Considers Urgent

There was no other urgent business.

66/11/21 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 9 March 2022 at 10.00am.

67/11/21 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: Build to Rent Joint Venture Agreement; and Enterprise Risk Update – Changes in Customer Demand (ER09).

The meeting closed at 12.47pm.

Chair: ____________________________________

Date: _____________________________________