

Board



Date: 23 March 2022

Item: Report of the Meeting of the Finance Committee held on 9 March 2022

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 9 March 2022.

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 9 March 2022 were published on 1 March 2022 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) Finance Report;
 - (c) Treasury Management Strategy 2022/23;
 - (d) Treasury Management and Derivative Investments Policies;
 - (e) Treasury Activities;
 - (f) Investment Management Strategy 2022/23 - Non-Financial Assets;
 - (g) Independent Investment Programme Advisory Group Procurement Process Review;
 - (h) Funding Update on TTL Properties Limited;
 - (i) Taxi Fares and Tariffs Update; and
 - (j) GLA Group Collaborative Procurement of Power Purchase Agreements.

- 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 22 June 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 24 November 2021, there had been seven uses of Chair's Action, five exercising authority delegated by the Board in relation to TfL's funding arrangements (reported elsewhere on the agenda for this meeting of the Board) and two relating to the extension of contracts for Premises and Fabric Maintenance and Security Services.
- 4.2 There had been no use of Procurement Authority by the Commissioner or the Chief Finance Officer and no use of Land Authority.
- 4.3 There had been one Mayoral Direction issued to TfL in relation to March 2022 fare changes (MD2937, 14 February 2022), reported elsewhere on the agenda for this meeting of the Board.

Finance Report

- 4.4 The Committee noted TfL's financial results to the end of Period 11, 2021/22 – the year-to-date ending 5 February 2022.
- 4.5 Total passenger journeys were at 66 per cent of pre-coronavirus pandemic levels in the Period. Passenger income was almost double that of last year, but approximately £1.5bn lower than pre-pandemic levels.
- 4.6 Like-for-like operating costs, after adjusting for new services, exceptional costs and projects, were broadly flat over the last five years, which represented a real term decrease. Cash balances were just over £1.2bn and were expected to maintain around this level during the current funding agreement.
- 4.7 A new funding agreement was finalised with Government on 25 February 2022. The new agreement, which extended to 24 June 2022, would provide revenue top up, up to an agreed level, for passenger income, as well as base funding of £200m.
- 4.8 The Committee discussed the ongoing impact and additional cost of deferring capital expenditure due to short-term funding settlements and the steps being taken to ensure that capital budgets were not underspent at year end. Discussions continued with Government on the need to build up cash reserves, so TfL was able to absorb future shocks. The Committee noted that inflation would be a serious cost pressure for 2022/23.

Treasury Management Strategy 2022/23

- 4.9 Under the authority delegated by the Board on 29 July 2020, the Committee approved the Treasury Management Strategy (TMS) for 2022/23, which comprised the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits. The Committee also approved TfL Finance Limited entering into the Derivative Investments.
- 4.10 The Committee also noted the proposed draft TTL Properties Limited (TTLP) Treasury Management Strategy. Committee approval would be sought at a future meeting, once TTLP's future arrangements had been finalised.
- 4.11 Members supported the approach taken to the assessment of environmental, social and governance performance as part of the counterparty credit review process and that such factors should continue to be considered in TfL's supply chain.

Treasury Management and Derivative Investments Policies

- 4.12 Under the authority delegated by the Board on 29 July 2020, the Committee approved the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments. These supported TfL's commitment to financial prudence through risk management. There were no material changes to the Policies for 2022/23.
- 4.13 The Committee noted the proposed draft TTLP Treasury Management Policies, which would be submitted to a future meeting of the Committee for approval once TTLP's future arrangements had been finalised.
- 4.14 The Committee also approved the TfL Pension Fund Policy on Notifiable Events in draft form and authorised the managing Chief Finance Officer to approve any changes they consider necessary once the final regulations have been published and to issue a final form.

Treasury Activities

- 4.15 The Committee noted an update on key treasury activities for the period from 17 September 2021 to 17 February 2022 (the Reporting Period). During the Reporting Period, TfL had complied at all times with the TMS, the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments for 2021/22, including the Greater London Authority (GLA) Responsible Investment Policy. There were no issues to draw to the attention of the Board.

Investment Management Strategy 2022/23 - Non-Financial Assets

- 4.16 Under the authority delegated by the Board on 29 July 2020, the Committee approved the Investment Management Strategy (IMS) 2022/23 – Non-Financial Assets. The IMS set out how TfL planned to manage and grow its

various commercial assets and sat alongside the TMS approved at the same meeting.

Independent Investment Programme Advisory Group Procurement Process Review

- 4.17 At the request of the Committee, the Independent Investment Programme Advisory Group (IIPAG) had reviewed TfL's Procurement Process. While there were no major or systemic failings identified, risks remained in the evaluation of bids and how these were uniformly and methodically recorded to reduce the risk of successful legal challenge.
- 4.18 The Committee noted the report and the management response, which accepted the IIPAG recommendation to establish a 'three lines of defence' assurance framework for procurements. Following a review of how comparator organisations undertake procurement assurance and further dialogue with IIPAG, the TfL model would be submitted to the Audit and Assurance Committee and other issues raised by IIPAG would be addressed as part of the continuous improvement programme.

Funding Update on TTL Properties Limited

- 4.19 The Committee noted an update on the work undertaken on the property workstream of the Financial Sustainability Plan (FSP) and the wider activity to operate TTLP as a dedicated commercial property company within TfL. The update covered progress on the TTLP Business Plan, funding negotiations with lenders and the development of governance and operating models.
- 4.20 Access to capital had constrained the progress of the housing programme since 2020. The proposed model would see TTLP become one of the major housing development companies in London, delivering both the Mayor's affordable housing objectives and contributing to TfL's long-term financial sustainability. Engagement with potential lenders showed support for the Business Plan.
- 4.21 A paper on the establishment of a Land and Property Committee, to provide Board oversight of TTLP activity, appears elsewhere on the agenda for this meeting.
- 4.22 **Taxi Fares and Tariffs Update**
- 4.23 TfL is responsible for the licensing and regulation of London's taxi (black cab) and private hire services. It also regulates taxi fares and sets the maximum taxi fares that can be charged.
- 4.24 Reviews were undertaken to ensure a sustainable trade by balancing two competing needs. The costs of operating a taxi had substantially increased and so there needed to be an appropriate level of remuneration to attract and retain drivers. Inflation, particularly with fuel prices, was likely to be a key issue in the year ahead. Taxis also provide an important service as part of

the transport mix, including for disabled people and to enable safe travel at night, so fares need to be affordable.

- 4.25 No review of taxi fares and tariffs had been undertaken in 2020 due to the impact of the measures to manage the spread of the coronavirus on the trade. A review was undertaken in 2021 and a consultation commenced in December 2021. The Committee noted the impact of the coronavirus pandemic and the outcome of the consultation on three proposals for fares and tariffs. Following the consultation, a modified version of the third option was proposed.
- 4.26 The Committee also noted specific proposals in relation to Heathrow Airport where the operator had increased its fees and introduced a new charge, partly in response to the impact of the coronavirus on its income and partly to address its own air quality targets by encouraging greater use of public transport.
- 4.27 The Committee approved:
- (a) increasing the minimum fare from £3.20 to £3.80;
 - (b) increasing Tariffs 1 and 2 by 5.51 per cent;
 - (c) freezing Tariffs 3 and 4;
 - (d) increasing the maximum Heathrow Extra from £2.80 to £3.60; and
 - (e) introducing a charge of up to £5.20 which taxi drivers can add when dropping off passengers in one of the terminal drop-off zones at Heathrow Airport unless their taxi has been registered for a Blue Badge concession.
- 4.28 Members noted how the industry was engaged with in relation to fares and tariffs and for other TfL and Mayoral policies that may impact the trade. A further review would be undertaken within 12 months. In the interim, Members requested an update paper in six-month's time to show the impact of the fare changes, cost pressures such as fuel prices and the situation at Heathrow, particularly once the Elizabeth line opened.

GLA Group Collaborative Procurement of Power Purchase Agreements

- 4.29 The Committee noted an update on TfL's engagement with the GLA Group Energy Procurement Collaboration Programme with the GLA, the Metropolitan Police, the London Fire Commissioner, and the London Legacy Development Corporation (the GLA Group) and the proposed entry into a Memorandum of Understanding (MoU).
- 4.30 The Programme aimed to pool the electricity demand of TfL with that of other GLA Group bodies with smaller energy requirements, to allow the GLA Group to benefit from enhanced purchasing power, reduce carbon emissions

and reduce the cost of the electricity procured, through the joint procurement of renewable Power Purchase Agreements (PPAs).

- 4.31 Members noted the update on this work and an overview of the proposed MoU between members of the GLA Group, which had been produced to establish cooperation for future joint procurement of renewable energy. Upon signing the MoU, TfL would be committing to evolve from its current own energy procurement strategy for PPAs, to developing one with the rest of the GLA Group in respect of electricity demand. Members supported this approach subject to it being clear that the needs of TfL in terms of procurement and timing had to have precedent as it was by far the largest consumer of electricity within the GLA Group.
- 4.32 Members noted that alongside, but independently of this, the GLA had been working to establish a financing facility, with the GLA as a minority investor, that could contribute to the funding of the renewable assets developed to deliver those PPAs (the GLA Financing Facility).

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the Finance Committee on 9 March 2022

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