

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 9 March 2022

Members of the Committee

Anne McMeel (Chair)
Ben Story (Vice-Chair)
Seb Dance
Anurag Gupta (via Teams)
Dr Nina Skorupska CBE (via Teams)

Government Special Representative

Becky Wood

Board Member also in attendance

CLlr Julian Bell (via Teams)

Executive Committee

Andy Byford	Commissioner (via Teams)
Howard Carter	General Counsel
Simon Kilonback	Chief Finance Officer
Lilli Matson	Chief Safety, Health and Environment Officer

Staff

Andrea Clarke	Director of Legal (via Teams)
Graeme Craig	Director of Commercial Development
Darren Crowson	Policy Manager, Taxi and Private Hire (via Teams)
Daniel Curry	Senior Safety, Health and Environment Manager (via Teams)
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director of Corporate Finance (via Teams)
Lorraine Humphrey	Director of Risk and Assurance (via Teams)
Shamus Kenny	Head of Secretariat
Glyn Lenton	Lead Commercial Manager, Category Management (via Teams)
Paul Mason	Group Treasurer (via Teams)
Rachel McLean	Chief Finance Officer, Crossrail and Finance Director, TfL Operations (via Teams)
James Norris	Interim Head of Project Assurance (via Teams)
Graham Robinson	General Manager, Taxi and Private Hire (via Teams)
Rachel Shaw	Head of Financial Accounting and Tax (via Teams)
Jonathan Wharfe	Supply Chain Director, London Underground

Also in attendance

Alison Munro	Chair of Independent Investment Programme Advisory Group (IIPAG) (via Teams)
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01/03/22 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting, including the new Committee Members Seb Dance and Anurag Gupta. Howard Carter reported that that an apology for absence had been received from Professor Greg Clark CBE. Anurag Gupta and Dr Nina Skorupska CBE were attending via Teams and were able to take part in the discussions but were not counted toward the quorum. Dr Nina Skorupska CBE indicated that she would need to leave for part of the meeting. The meeting was quorate with three Committee members attending in person.

In her new role as Chair of the Committee, Anne McMeel expressed her thanks for the advice and support she had received, in particular from Ben Story as her predecessor as acting Chair and Vice-Chair, and from key staff. She looked forward to continuing the important work of the Committee.

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, to ensure the public and press could observe the proceedings and decision-making.

On behalf of the Committee, the Chair thanked Simon Kilonback who, after 12 years at TfL, was leaving the organisation in April 2022 to take on a new challenge as Chief Finance Officer (CFO) of G.Network. During his impressive career at TfL, he had played a central role in bringing the organisation to the cusp of financial sustainability before the coronavirus pandemic and in making it ever more efficient. He had been key to stabilising TfL's finances during the pandemic, securing support from Government and setting the organisation on a path to future financial sustainability. The Chair wished him all the very best for the future.

In January 2022, it was announced that following Simon Kilonback's departure in April, Rachel McLean would be the interim CFO. Following medical advice, she had made the difficult decision not to take up the post of interim CFO but would continue in her current role as CFO, Crossrail Limited and Finance Director, TfL Operations. A full internal and external recruitment process would commence to select a new permanent CFO as soon as possible and a shorter recruitment process would commence to select an interim CFO until the role could be filled permanently. Members would be kept updated on this.

Andy Byford welcomed Anne McMeel to her first meeting as Chair of the Committee. On behalf of TfL, he also thanked Simon Kilonback for his responsible financial stewardship which meant TfL was able to withstand the critical months of the pandemic and for his exhaustive work on the funding negotiations.

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.

02/03/22 Declarations of Interests

The agenda item on the Funding Update on TTL Properties Limited included information on potential lenders. Professor Greg Clark CBE had a potential conflict of interest due to his role with HSBC. He had not been provided with the exempt information in the Part 2 paper and was not present at the meeting.

All other Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date and there were no interests to declare that related specifically to items on the agenda.

03/03/22 Minutes of the Meeting of the Committee held on 24 November 2021

The minutes of the meeting of the Committee held on 24 November 2021 were approved as a correct record and signed by the Chair.

04/03/22 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.

05/03/22 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, 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 and two relating to the extension of contracts for Premises and Fabric Maintenance and Security Services.

There had been no use of Procurement Authority by the Commissioner or the Chief Finance Officer and no use of Land Authority.

There had been one Mayoral Direction to TfL in relation to March 2022 fare changes (MD2937, 14 February 2022).

The Committee noted the paper.

06/03/22 Finance Report – Period 11, 2021/22

Patrick Doig introduced the report, which set out TfL's financial results to the end of Period 11, 2021/22 – the year-to-date period ending 5 February 2022. Variances were shown against the Revised Budget approved by the Board in July 2021.

A further funding settlement was finalised with Government on 25 February 2022. The settlement extended to 24 June 2022 and would provide revenue top up, up to an agreed level, for passenger income, as well as base funding of £200m.

Total passenger journeys were at 66 per cent of pre-coronavirus pandemic levels in the Period, which was slightly below target, with Tube journeys at 58 per cent and buses at 72 per cent of pre-pandemic levels. Total journeys began to pick up again towards the end of the Period, following the easing of working from home guidance from 27 January 2022. Journeys in the week commencing 26 February 2022, before industrial action, were 77 per cent of pre-pandemic demand, with Tube journeys at 68 per cent and buses at 84 per cent. These high volumes were very close to those experienced in the latter weeks of Period 9 and were expected to continue.

The success of the expansion of the Ultra Low Emission Zone (ULEZ) scheme in October 2021 resulted in very high levels of compliance and consequently TfL received less revenue than anticipated when the Budget was set. The challenge in estimating the number of unique vehicles travelling in the zone without cameras in operation had resulted in lessons learnt from the experience, with improved modelling and extrapolation of data for future schemes.

On the net cost of operations, the day-to-day operating deficit including capital renewals and financing costs, before Government funding, was £1.8bn which was £295m better than Budget. The current deficit was almost £1.3bn better than last year, largely driven by higher passenger journeys income and higher operating income, mainly from Road User Charging. Passenger income was £2.58bn in the year to date, almost 90 per cent higher than last year, but just over £250m lower than Budget.

Total operating costs were £337m lower than Budget. Underlying costs were £118m better due to lower staff costs, service and demand related savings and some timing differences. Contingency of £80m was budgeted to mitigate high risks on the operating account, including ULEZ expansion income and costs.

Staff levels were 360 lower than pre-pandemic levels and had recently increased following the introduction of Northern Line Extension operations, as well as ramping up preparations for Elizabeth line services. Permanent employee numbers were broadly in line with last year and TfL faced recruitment and retention challenges as a result of funding uncertainty. Further information on the impact and complications of short-term funding had been provided to the Audit and Assurance Committee and would also be circulated to this Committee. **[Action: Patrick Doig]**

Total capital expenditure was £368m lower than Budget, partly a result of the stop-start nature of funding agreements, as well as their short-term nature. The Docklands Light Railway project was £26m lower than Budget, with costs delayed pending the outcome of the recent funding settlement.

Cash balances were just over £1.2bn and were expected to maintain around this level during the current funding agreement.

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 utilised before the 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.

The Committee noted the report.

07/03/22 Treasury Management Strategy 2022/23

Joanna Hawkes and Paul Mason introduced the paper and related supplemental information on Part 2 of the agenda, which set out the proposed Treasury Management Strategy (TMS) for 2022/23. The TMS included TfL's proposed strategies for investment, borrowing, liquidity and risk management for the financial year 2022/23, as well as proposed counterparty exposure limits. It also set out TfL's borrowing requirement. The Chartered Institute of Public Finance and Accountancy (CIPFA) had recently updated its Treasury Management and Prudential Codes, which were reflected in the

TMS for 2022/23. Environmental, social and governance investment considerations had been introduced to the counterparty credit review process and such factors would continue to be considered in TfL's supply chain. It was proposed to change the commercial paper maturity limit, in response to the changes in Public Works Loan Board lending terms, to aim to have no more than £200m of short-term borrowing maturing in any six-business-day period during 2022/23. It was also proposed to adjust the derivative counterparty exposure limits to align with investment counterparty exposure limits.

TTL Properties Limited (TTLP) would start to become more financially independent on 1 April 2022, with TfL managing the treasury related tasks on its behalf. The proposed draft TTLP TMS comprised strategies for borrowing, investment, liquidity, as well as banking and cash management. Committee approval would be sought at a future meeting, once TTLP's future arrangements had been finalised.

[Action: Joanna Hawkes/Graeme Craig]

Approval of the TMS was a matter reserved to the Board. On 29 July 2020, the Board delegated to the Committee approval of the TMS and any changes to the TMS during any year. The Committee was asked to exercise that authority in relation to the TMS for 2022/23.

The Committee noted the paper and the exempt supplemental information on Part 2 of the agenda, and under the authority delegated by the Board:

- 1 approved the Treasury Management Strategy (TMS) 2022/23, as set out in Appendix 1 of the paper, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits; and**
- 2 following approval of the TMS 2022/23 ((1) above) and approval of the TfL Group Policy Relating to the Use of Derivative Investments (Derivatives Policy) (Minute 08/03/22), 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 2022/23, 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 in accordance with the TMS 2022/23;**
 - (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 2022/23;**
- (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 2 (a) to (e).**

08/03/22 Treasury Management and Derivative Investments Policies

Joanna Hawkes and Paul Mason introduced the paper, which set out the proposed Treasury Management Policies and TfL Group Policy Relating to the Use of Derivative Investments, which supported the commitment to financial prudence through risk management. There were no material changes to the proposed policies for 2022/23.

The Pension Schemes Act 2021 introduced new Pensions Regulator powers and civil and criminal offences regarding the operation of defined benefit occupational pension schemes, such as the TfL Pension Fund. Proposed new notifiable events were anticipated to come into effect on 6 April 2022 and the proposed TfL Pension Fund Policy on Notifiable Events was included in draft form. It was also proposed that the managing Chief Finance Officer be authorised to approve any changes they considered necessary once the final regulations were published and to issue a final form.

The proposed draft TTL Properties Limited (TTLP) Treasury Management Policies were in line with TfL's and would be submitted to a future meeting of the Committee for approval once TTLP's future arrangements had been finalised.

[Action: Joanna Hawkes/Graeme Craig]

Approval of the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments were matters reserved to the Board. On 29 July 2020, the Board delegated to the Committee approval of the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments and any changes to these policies during any year. The Committee was asked to exercise that authority in relation to the Treasury Management Policies, the TfL Group Policy Relating to the Use of Derivative Investments and the TfL Pension Fund Policy on Notifiable Events.

The Committee noted the paper and under the authority delegated by the Board:

- 1 approved the Treasury Management Policies, as set out in Appendix 1 of the paper;**
- 2 approved the TfL Group Policy Relating to the Use of Derivative Investments, as set out in Appendix 2 of the paper;**
- 3 approved the TfL Pension Fund Policy on Notifiable Events in draft form in Treasury Management Policies, as set out in Appendix 4 of the paper, 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; and

- 4 noted the draft Treasury Management Policies for TTL Properties Limited, as set out in Appendix 3 of the paper.**

09/03/22 Treasury Activities

Joanna Hawkes and Paul Mason introduced the paper and related supplemental information on Part 2 of the agenda, which provided a brief update on key treasury activities for the reporting period from 17 September 2021 to 17 February 2022.

During the reporting period, TfL had complied at all times with the Treasury Management Strategy, the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments, including the Greater London Authority Responsible Investment Policy. There were no issues to draw to the attention of the Board.

On borrowing, refinancing for TfL for 2022/23 would be £694m, with a £500m bond maturing and £194m of other debts. It was planned to fully refinance all maturities and borrow £13bn at the end of the financial year including TTL Properties Limited borrowing. TfL would refinance through the Public Works Loan Board and would monitor pricing on all other markets at that time.

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

10/03/22 Investment Management Strategy 2022/23 – Non-Financial Assets

Graeme Craig and Joanna Hawkes introduced the paper, which set out the proposed Investment Management Strategy 2022/23 – Non-Financial Assets. The strategy set out how TfL planned to manage and grow its various commercial assets.

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.

Approval of the Investment Management Strategy – Non-Financial Assets was a matter reserved to the Board. On 29 July 2020, the Board delegated to the Committee approval of the Investment Management Strategy – Non-Financial Assets and any changes to it during any year. The Committee was asked to exercise that authority in relation to the Investment Management Strategy – Non-Financial Assets for 2022/23.

The Committee noted the paper and, under the authority delegated by the Board, approved the Investment Management Strategy 2022/23 – Non-Financial Assets, as set out in Appendix 1 to the paper.

11/03/22 Independent Investment Programme Advisory Group Procurement Process Review

James Norris and Alison Munro introduced the report and related supplemental information on Part 2 of the agenda, which set out the Independent Investment Programme Advisory Group (IIPAG) review of the Procurement Process.

At the request of the Committee, IIPAG had reviewed TfL's Procurement Process. The purpose of the review was to identify ways that TfL could reduce the risk of a challenge to its procurements by learning from recent experience. It included benchmarking with HS2 and National Highways on actions taken to minimise the risk of successful challenge.

While the review concluded that there were no major or systemic failings, risks remained in the evaluation of bids and how these were uniformly and methodically recorded to reduce the risk of successful legal challenge. The management response set out in the report accepted the IIPAG recommendation to establish a 'three lines of defence' assurance framework for procurements. This framework should be risk-based with the level and detail of assurance being proportionate to the size, complexity and risk of the procurement in question.

Following a review of how comparator organisations undertook 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. **[Action: Jonathan Patrick]**

The Committee noted the report and the exempt supplemental information on Part 2 of the agenda and the management response set out in the report.

12/03/22 Funding Update on TTL Properties Limited

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 and the wider activity to operate TTL Properties Limited (TTLP), a wholly owned subsidiary entity of TfL, as a dedicated commercial property company.

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. With access to funding, TTLP was expected to bring forward 2,853 new homes next year, in addition to the 1,314 homes already being built.

Significant activity was underway towards setting up TTLP as a financially separate commercial property company within TfL from April 2022. Discussions continued with potential lenders to set up an unsecured revolving credit facility of up to £200m to cover the first three years of TTLP's capital requirements. A detailed Business Plan was being completed and stress tested to ensure the organisation remained viable under simultaneous headwind scenarios. The operating model was being developed to utilise the new TfL value chain work within TTLP. Operational benefits enabled TTLP to

leverage the significant skills and expertise of TfL's Corporate Finance and People and Change teams.

At its meeting on 23 March 2022, the Board would be asked to establish a Land and Property Committee to provide oversight of TTLP activity.

[Action: Howard Carter/Graeme Craig]

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

13/03/22 Taxi Fares and Tariffs Update

Graham Robinson and Darren Crowson introduced the paper, which provided an update on the taxi fares and tariffs review. If approved, the changes to the fares and tariffs would come into effect on 30 April 2022. It also provided an update on the impact of the coronavirus pandemic on London's taxi trade.

TfL was responsible for the licensing and regulation of London's taxi and private hire services. It also regulated taxi fares and set the maximum taxi fares that could be charged. Taxi fares and tariffs were normally reviewed annually.

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 provided an important service as part of the transport mix, including for disabled people and to enable safe travel at night, so fares needed to be affordable.

No review of taxi fares and tariffs had been undertaken in 2020 due to the impact on the trade of the measures taken to manage the coronavirus pandemic. A review was undertaken in 2021 and a consultation commenced in December 2021. The Committee noted the significant impact of the coronavirus pandemic on taxi drivers and the taxi trade, 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.

The Committee also noted specific proposals in relation to Heathrow Airport. The Airport operator had increased its fees and introduced a new charge, partly in response to the impact of the coronavirus pandemic on its income and partly to address its own air quality targets by encouraging greater use of public transport.

Members noted how the industry was engaged with in relation to fares and tariffs and for other TfL and Mayoral policies that might 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.

[Action: Howard Carter]

The Committee noted the paper and approved:

- 1 increasing the minimum fare from £3.20 to £3.80;**
- 2 increasing Tariffs 1 and 2 by 5.51 per cent;**

- 3 freezing Tariffs 3 and 4;
- 4 increasing the maximum Heathrow Extra from £2.80 to £3.60; and
- 5 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.

14/03/22 GLA Group Collaborative Procurement of Power Purchase Agreements

Lilli Matson introduced the paper, which provided an update on TfL's engagement with the GLA Group Energy Procurement Collaboration Programme with the Greater London Authority (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).

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).

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 meeting the needs of TfL in terms of procurement and timing, as it was the largest consumer of electricity within the GLA Group.

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).

The Committee noted the paper and the proposed entry by TfL into the Memorandum of Understanding described in the paper.

15/03/22 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.

It was confirmed that, as was usual practice, Members would be briefed in advance on the Business Plan and Capital Strategy items that were scheduled to be considered at the meeting of the Committee on 23 November 2022.

The Committee noted the forward plan.

16/03/22 Any Other Business the Chair Considers Urgent

There was no other urgent business.

17/03/22 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 22 June 2022 at 10.00am.

18/03/22 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 5 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Treasury Management Strategy 2022/23; Treasury Activities; Independent Investment Programme Advisory Group Procurement Process Review; and Funding Update on TTL Properties Limited.

The meeting closed at 12.38pm.

Chair: _____

Date: _____