

**Board**



**Date: 27 July 2022**

**Item: Report of the Meeting of the Finance Committee held on 22 June 2022**

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**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 22 June 2022. The meeting was held virtually to avoid any potential disruption to travel arrangements due to the industrial action on the railway network during that week. As the meeting was not held in person, all decisions were taken using Chair's Action. The meeting was webcast to TfL's YouTube channel to ensure the public and press could observe the proceedings and decision making.

## **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 22 June 2022 were published on 14 June 2022, with the Finance Report published on 17 June 2022. The papers 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 Members of the Committee were:
- (a) Use of Delegated Authority;
  - (b) Finance Report – Period 2, 2022/23;
  - (c) Update on Income from Developers Through Planning Obligations and Other Funding Mechanisms to Deliver TfL Transport Priorities;
  - (d) Funding Update on TTL Properties Limited;
  - (e) Revenue Collection Contract Extension;
  - (f) Speed Awareness Courses Contract Award; and
  - (g) Enterprise Risk Update – Supply Chain Disruption (ER5).

- 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 6 October 2022.

## **4 Issues Discussed**

### **Use of Delegated Authority**

- 4.1 Members of the Committee noted the paper on the use of delegated authority. Since the meeting on 9 March 2022, there had been four uses of Chair's Action: one relating to the Actuarial Valuation of the TfL Pension Fund; and three contract extensions for Cleaning Services, iBus and Mechanical and Electrical Maintenance Services. There had been two uses of Procurement Authority by the Commissioner in relation to High Voltage Power Upgrade Framework call-off contracts and the SAP Master Service Agreement contract variation.
- 4.2 There had been no approval of Procurement Authority by the Chief Finance Officer nor any approval of Land Authority by the Commissioner or Chief Finance Officer. There had also been no Mayoral Directions to the Board within the remit of the Committee.

### **Finance Report – Period 2, 2022/23**

- 4.3 Members of the Committee noted TfL's financial results to the end of Period 2, 2022/23 – the year-to-date ending 28 May 2022. TfL was on track to deliver on its Budget approved by the Board on 23 March 2022, on track with its declining trajectory of Government support required due to the coronavirus pandemic and therefore on track to achieve financial sustainability by April 2023 as required by Government.
- 4.4 Although TfL was on a declining trajectory of Government revenue support required due to the pandemic, £1.2bn of Government revenue support was still required this financial year. Of this, £0.3bn was secured in the last funding agreement to 24 June 2022 so TfL needed to secure another circa £900m for the remainder of the financial year.
- 4.5 TfL also needed to secure longer-term capital funding from Government as, without this in place, an approach of managed decline saw deteriorating asset conditions and no new enhancement schemes beyond those already underway and those required to be compliant with safety and other statutory regulations. Managed decline also meant very significant service reductions, specifically an 18 per cent reduction of the bus network and a nine per cent reduction on the Underground.
- 4.6 Results showed TfL was on track through a combination of increasing income and careful cost control, which was reducing net cost of operations. Passenger income was in line with Budget with journeys at 77 per cent of pre-pandemic levels, which was up from 68 per cent at the end of the last financial year. The opening of full Elizabeth line services on 24 May 2022 showed Elizabeth line journeys were up two million, a 50 per cent increase

from Period 1, 2022/23. The opening week had significant interest and more data was required to observe the underlying trends. Other operating income including Road User Charging income, advertising and property was £14m better, mainly from higher advertising revenue.

- 4.7 Total operating costs showed an overall variance of just £3m on £1.1bn of costs to date, although there were some headwinds of almost £20m from bad debt pressures. Inflation pressures were also crystallising on some Rail contracts which had been offset by one off savings so far. Like-for-like operating costs in real terms were down on this time last year, showing the continued progress made in keeping the cost base as low as possible.
- 4.8 Total capital expenditure, including renewals and new capital investment to enhance the network, was just £5m or three per cent higher than Budget, with some acceleration of programmes to earlier in the year. This demonstrated the strength of delivery despite the challenges of short-term funding agreements.
- 4.9 Based on the current funding agreement, TfL was managing cash to an average level of £1.2bn. Cash balances were just over £1.1bn, slightly lower than Budget, largely a result of a delayed payment of Government extraordinary revenue grant.
- 4.10 TfL was facing some significant external headwinds and risks which were starting to emerge. The Budget assumed further journey growth over the coming year but continued strike disruption and the cost of living crisis would likely cause a downward pressure on demand, with post-pandemic travel patterns and new behaviours not yet clear. Reduced volumes on both Congestion Charging and Ultra Low Emission Zone payment rates were leading to a higher level of bad debt, likely driven by cost of living challenges and increasing fuel prices. Inflation continued to increase beyond budget assumptions and the UK economy had contracted for the last two months, with higher inflation starting to emerge in some of TfL's supply chain contracts.
- 4.11 TfL had worked diligently and tirelessly to ensure that it met the conditions that came with the Government funding, including setting a path back to financial sustainability by April 2023.
- 4.12 Discussions continued with Government on how this issue could be resolved. At the time of the Committee meeting, the current funding deal was due to expire on 24 June 2022 and an extension was expected to be agreed to allow discussions to conclude. Members would continue to be kept updated on progress.

#### **Update on Income from Developers Through Planning Obligations and Other Funding Mechanisms to Deliver TfL Transport Priorities**

- 4.13 Members of the Committee noted an update for the 2021/22 financial year on the Mayoral Community Infrastructure Levy (MCIL) income, which supported the delivery of the Elizabeth line, and an overview of other

developer contributions that had been secured to contribute towards the delivery of the Mayor's Transport Strategy (MTS).

- 4.14 During the year, TfL secured: £143m in MCIL, £66m in Section 106 agreements, £26m in Section 278 agreements, and the boroughs had reported on £187m in Borough Community Infrastructure Levy (BCIL), much of which was expected to be spent on transport and public realm.
- 4.15 Income from developers had shown some positive signs of recovery, with MCIL receipts being the highest since collecting began. BCIL income had fallen during the pandemic, albeit expenditure by the boroughs had been steady for two years running, with 60 per cent of income spent, a positive trend given historical problems with establishing governance and having shovel-ready projects to spend income on. TfL had leveraged third-party funding through its work, including via the Growth Fund (£100m), the Levelling Up Fund (£66m), the Housing Infrastructure Fund (£361m), and the Royal Docks Enterprise Zone (£35m). TfL had also secured funding for feasibility studies for both the DLR extension to Thamesmead and the West London Orbital.
- 4.16 Given TfL's financial situation as a result of the pandemic, TfL was more reliant on these sources of income to continue to develop much-needed transport schemes that mitigated and drove growth, and enabled it to deliver the MTS and London Plan.

#### **Funding Update on TTL Properties Limited**

- 4.17 Members of the Committee noted the update since the meeting on 9 March 2022. TTL Properties Limited (TTLP) would operate as a financially independent company within TfL with a committed three-year, non-recourse revolving credit facility for up to £200m. As a non-recourse facility, TfL had no obligation to support TTLP and the lenders had no claim on TfL but, in extremis, TfL would need to be prepared to let TTLP fail which could mean the loss to the TfL Group of some or all of the assets vested in TTLP.
- 4.18 Affordability analysis had demonstrated that TTLP could operate without financial support from TfL. TTLP was a viable and sustainable business with mitigating options that would ensure it would not fail even under multiple stress scenarios. To facilitate the non-recourse nature of the funding, several existing guarantees would need to be removed or not renewed.
- 4.19 Following consultation with Members, the Chair:
- (a) approved a bespoke TTLP Treasury Management Strategy and Policy, which set out how TfL would continue to manage the funding, liquidity and cash arrangements for TTLP, albeit with cash managed on a segregated basis and within revised authority limits and tighter liquidity requirements;
  - (b) endorsed TTLP entering into the non-recourse revolving credit facility for up to £200m, which was subsequently approved by the TfL Chief

Finance Officer in accordance with the Treasury Management Strategy and Policy for TTLP;

- (c) approved the non-renewal and/or phasing out of the existing TfL and Transport Trading Limited guarantees in favour of TTLP and its subsidiaries over the next financial year;
- (d) approved the issuance of new guarantees, for the current financial year and subsequent years, and approved Land Authority for the provision by TTLP in respect of any of its subsidiaries (whether presently existing or to be formed) of letters of comfort, guarantees under Section 479C of the Companies Act 2006 and the dividend policy for TTLP.

4.20 The paper also provided an update on governance, insofar as this related to the debt funding. A fuller update was given to the Land and Property Committee at its first meeting on 30 June 2022.

#### **Revenue Collection Contract Extension**

4.21 Members of the Committee noted that the Revenue Collection Contract (RCC) was let to Cubic Transportation Systems Limited with an initial term of seven years commencing August 2015 and expiring in August 2022. In September 2017, TfL exercised its option to extend the RCC for a period of three years until August 2025. In order to plan and deliver the replacement of the RCC (under a project referred to as Proteus) in an orderly and prudent manner, in particular to manage the various contingent factors that would affect market engagement and potentially bidder solutions, the Chair, in consultation with Members, approved additional Procurement Authority to extend the contract by a further year to August 2026.

#### **Speed Awareness Courses Contract Award**

4.22 The Chair, following consultation with Members, approved Procurement Authority for TfL to enter into a contract to provide Speed Awareness Courses (SAC) across London from 6 September 2022 to 5 September 2025. The contract would facilitate the ongoing commitment by TfL to deliver road safety education through SAC to eligible offenders caught speeding and to further contribute to the safety of London's roads.

#### **Enterprise Risk Update – Supply Chain Disruption (ER5)**

4.23 Members of the Committee noted TfL's current position on supply chain disruption following the impact of global supply chain disruptors, including Brexit, the coronavirus pandemic and the Russia-Ukraine conflict. Members noted the preventative controls and mitigating actions the Procurement & Commercial team had undertaken to actively manage the supply chain disruption and appropriately reduce risk.

#### **List of appendices to this report:**

None

**List of Background Papers:**

Papers submitted to the Finance Committee on 22 June 2022

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