

Transport for London

Minutes of the Finance Committee

Teams Virtual Meeting 10.00am, Wednesday 22 June 2022

Members of the Committee

Anne McMeel (Chair)
Prof. Greg Clark CBE
Seb Dance
Anurag Gupta
Dr Nina Skorupska CBE

Government Special Representative

Becky Wood

Board Members also in attendance

Julian Bell
Bronwen Handyside
Marie Pye
Peter Strachan (except for Minute 28/06/22)

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Stuart Harvey	Chief Capital Officer

Staff

Andrew Anderson	Head of Payments Products Transformation
Fiona Brunskill	Director of People and Culture Change
Graeme Craig	Director, Commercial Development
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Sarah Gasson	Chief of Staff, Commissioner
Jackie Gavigan	Secretariat Manager
Charlotte Gohil	Commercial Manager – Vehicles Category
Laura Grant	Head of Procurement Professional Services
Joanna Hawkes	Director of Corporate Finance
Philip Hewson	Head of Procurement, Strategy and Performance
Lorraine Humphrey	Director of Risk and Assurance
Shamus Kenny	Head of Secretariat
Emma Lucas	Chief of Staff, Chief Finance Officer
Pritesh Patel	Head of Financial Planning and Analysis
Jonathan Patrick	Chief Procurement Officer
Stuart Reid	Head of Insights and Direction
Rajiv Sachdeva	Interim Group Finance Director
Shashi Verma	Director of Strategy and Chief Technology Officer
Alex Williams	Director of City Planning
Ken Youngman	Divisional Finance Director, Commercial Development

19/06/22 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting which 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 would be taken using Chair's Action.

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.

Howard Carter reported that an apology for absence had been received from Ben Story. Julian Bell, Bronwen Handyside, Marie Pye and Peter Strachan were attending as members of the Board.

The Chair confirmed that under section 100B(4)(b) of the Local Government Act 1972, she had agreed that the late item for the agenda that was published on 17 June 2022 would be considered as a matter of urgency. The item was the Finance Report – Period 2, 2022/23 and was accepted as urgent to allow for the latest financial information available to be provided.

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.

20/06/22 Declarations of Interests

Since the last meeting of the Committee, and as reported to the Board on 8 June 2022, there had been two changes to declarations made by Members:

- 1 Professor Greg Clark CBE had stepped down from his role at HSBC Group on 26 May 2022; and
- 2 Ben Story had started a new role as Chief Operating Officer of Sustainable Development Capital LLP, at the start of May 2022.

For transparency, Peter Strachan declared a potential conflict of interest due to his role as a Board Member of UKROEd (UK Road Offender Education), which was included in his declarations of interest. On that basis, he would leave the meeting and not take part in the Committee discussion of agenda Items 10 and 18, Speed Awareness Courses Contract Award.

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.

21/06/22 Minutes of the Meeting of the Committee held on 9 March 2022

The Chair, following consultation with the Committee, approved the minutes of the meeting of the Committee held on 9 March 2022 as a correct record and would sign them at a later date.

22/06/22 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.

23/06/22 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, 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.

There had been no approval of Procurement Authority by the Chief Finance Officer nor any approval of Land Authority by the Commissioner or the Chief Finance Officer. There had also been no Mayoral Directions to TfL within the remit of the Committee.

During the recent consultations with Members on the extension of contracts through the use of Chair's Action, Members had requested a report on the overall procurement strategy on the major contracts with expiry dates within the next two years and this had been added to the forward plan for the next meeting of the Committee on 6 October 2022.

Regarding the Cleaning Services Contract Extension, which was approved by the use of Chair's Action on 28 March 2022, Board Member Bronwen Handyside asked if there was any option for the decision to be brought back to the Board, using the three-month break clause in the contract, with a view to bringing the cleaning services back in-house. The National Union of Rail, Maritime and Transport Workers (RMT) had said that it was not involved in the consultation of the review process in a meaningful way or given the opportunity to make alternative proposals. There had also been no update on the review of free travel for cleaners.

Howard Carter confirmed that the use of Chair's Action was sometimes necessary if a decision was urgent and needed to be taken before the next scheduled meeting of the Committee. The decision to approve the cleaning services contract extension had been taken correctly by Chair's Action, with Members given the opportunity to comment and the outcome of the decision reported to the Board. There were various types of delegations set out in TfL's Standing Orders and a summary note would be sent to Committee Member Anurag Gupta. **[Action: Howard Carter]**

Jonathan Patrick confirmed that, following the approval by Chair's Action, the contract had been extended and outsourced for a further three years.

Fiona Brunskill confirmed that the team had met with the RMT on three occasions to discuss the details of the review process and that there was a significant cost to bringing the cleaning services in-house. The contract had already been reviewed at the point of the three-month break clause and the decision was made to extend for a further three years. Work would begin in 18-months' time to prepare for the review ahead of the next break clause and TfL would continue to keep the contract under review, as it did for all large contracts.

Seb Dance said that he would be keen to see any alternative proposals that did not increase the financial pressure on TfL, at a time when resources were very limited and all expenditure was being examined.

Fiona Brunskill confirmed that, once the travel review for cleaners was concluded, the outcome would be presented back to the appropriate parties. **[Action: Fiona Brunskill]**

The Committee noted the concerns and issues raised by Bronwen Handyside in relation to the extension of the cleaning services contract, which reinforced the concerns shared by Members on the need to limit the use of Chair's Action to agree contract extensions to allow their debate at Committee meetings. The issues would be addressed as part of the overall procurement strategy on major contracts report that would be brought to the next meeting of the Committee. **[Action: Jonathan Patrick]**

The Committee noted the paper.

24/06/22 Finance Report – Period 2, 2022/23

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

Patrick Doig and Pritesh Patel introduced the report, which set out TfL's financial results to the end of Period 2, 2022/23 – the year-to-date period ending 28 May 2022.

TfL was on target to deliver the Budget approved by the Board on 23 March 2022, including meeting the 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.

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 around £900m for the remainder of the financial year.

TfL also needed to secure longer-term capital funding from Government. Without long-term capital funding 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.

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 than Budget, mainly from higher advertising revenue.

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 the same period time last year, showing the continued progress made in keeping the cost base as low as possible.

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.

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.

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 industrial action 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.

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. At the time of the Committee meeting, the current funding settlement 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.

The Committee noted the report.

25/06/22 Update on Income from Developers Through Planning Obligations and Other Funding Mechanisms to Deliver TfL Transport Priorities

Alex Williams introduced the paper, which provided 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).

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.

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 coronavirus 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 Docklands Light Railway extension to Thamesmead and the West London Orbital railway.

Given TfL's financial situation as a result of the pandemic, it 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.

The context for developer funding could change significantly in future, under the Government's intention to proceed with a new Infrastructure Levy, which would replace the CIL and Section 106 systems. Proposals indicated that MCIL would be retained but BCIL would be replaced by the new levy. While Section 106 could remain for the largest developments, there would be new, complex arrangements that would likely make it more difficult to secure infrastructure to make developments sustainable, workable, and acceptable to Londoners.

The detail of the proposals and wider implications for TfL were still being clarified. There was a risk that the availability of funding for transport was reduced, particularly given that affordable housing was proposed to be part of the new levy and likely to be a high priority for most local authorities. Further detail of how the levy would operate in practice would be set out in draft regulations expected in 2023. The Committee would continue to be kept updated of any significant changes.

Alex Williams would check and inform Prof. Greg Clark CBE whether the revenues generated from development activity under the Infrastructure Levy would be retained in the local authority they related to. **[Action: Alex Williams]**

The Committee noted the paper.

26/06/22 Funding Update on TTL Properties Limited

Graeme Craig and Joanna Hawkes introduced the paper and related supplementary information on Part 2 of the agenda, which provided an update on the assurance work undertaken since the last meeting. 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.

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.

The paper sought approval for a bespoke TTLP Treasury Management Strategy and Policy, which was a matter reserved to the Committee. The proposed policy 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. The appendix to the paper had been republished as one combined appendix containing both the Treasury Management Strategy and the Treasury Management Policies for TTLP. Both documents were unchanged from the drafts published and considered by the Committee at its meeting on 9 March 2022.

The paper also sought approval for the proposed dividend policy: that 100 per cent of all operating profit would be returned to TfL as a dividend. Funds from any capital disposal and Joint Venture dividends would be recycled into the TTLP business. An update on governance, insofar as this related to the debt funding, was included and a fuller update would be provided to the Land and Property Committee at its first meeting on 30 June 2022.

With commercial funding in place, TTLP would be able to build dozens of medium-density, high-amenity, high-accessibility, low-carbon developments across the capital. TTLP would be delivering tens of thousands of new homes and millions of square feet of new sustainable commercial space where Londoners most want to live and work. TTLP would also generate a growing dividend of tens of millions of pounds a year to TfL, and manage an asset base whose value would double to £4bn in a decade. TTLP would do so while taking no funding from TfL and assuming no direct grant funding from Government.

The Chair, following consultation with the Committee, noted the paper and the exempt supplementary information in Part 2 of the agenda and:

- 1 approved the Treasury Management Strategy and Policy for TTL Properties Limited (TTLP), as attached in Appendix 1;**
- 2 endorsed TTLP entering into the non-recourse revolving credit facility for up to £200m, as described in the paper, approval to be sought from the TfL Chief Finance Officer in accordance with the Treasury Management Strategy and Policy for TTLP (approved above);**
- 3 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 year, as described in the paper;**
- 4 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:**

(a) **letters of financial comfort to the relevant subsidiary's directors setting out that, while they remain a subsidiary, they will be put in funds to pay their debts as they fall due; and**

(b) **guarantees under section 479C of the Companies Act 2006; and**

5 approved the dividend policy for TTLP described in the paper.

27/06/22 Revenue Collection Contract Extension

Shashi Verma introduced the paper and related supplementary information on Part 2 of the agenda, which sought additional Procurement Authority for the extension of the Revenue Collection Contract (RCC). The 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 in an orderly and prudent manner, in particular to manage the various contingent factors that would affect market engagement and potentially bidder solutions, it was now proposed that the RCC be extended by a further year to August 2026.

The Oyster readers were a critical component of the revenue collection system and had performed well since their installation in 2011. They were coming to the end of their design life and needed to be replaced to mitigate the risk to TfL's revenue collection. There was a programme in place to replace the multi-application readers, however external factors such as the semi-conductor shortages exacerbated by the war in Ukraine meant it had become apparent that the August 2025 delivery date was not achievable and a one-year extension on this was proposed.

The RCC was one of TfL's biggest outsourced contracts and the programme in place ensured the contract remained competitive. A critical factor at the point of transition was the need to provide the incoming contractor with a clean system of new, stable readers to retain the competitiveness of the tender to the market, so the terms of the proposed extension were considered reasonable and value for money in the circumstances. The Committee would be kept updated on the wider procurement process around the RCC.

[Action: Shashi Verma]

The Chair, following consultation with the Committee, noted the paper and the supplementary information in Part 2 of the agenda and:

- 1 approved additional Procurement Authority at the amounts set out in the supplementary paper on Part 2 of the agenda for the extension of the Revenue Collection Contract (RCC), as described in the paper; and**
- 2 noted that, as extended, the RCC will have a duration beyond the end of the current TfL Budget, future Business Plans and Budgets will need to provide for the remaining years of operation.**

28/06/22 Speed Awareness Courses Contract Award

Peter Strachan declared a potential conflict of interest in this item due to his role as a Board Member of UKROEd (UK Road Offender Education), which was included in his declarations of interest. He left the meeting and took no part in the discussion of this item.

Stuart Harvey and Laura Grant introduced the paper and related supplementary information on Part 2 of the agenda, which sought 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.

The safety camera network to detect offences contributed significantly to reaching the targets for casualty reduction and the objective to reduce the number of people being killed or seriously injured on London's roads, in line with TfL's Vision Zero goal of eliminating all deaths and serious injuries from London's transport network by 2041. The safety camera network also contributed significantly to traffic management and keeping traffic moving in a safe, efficient manner.

TfL had a requirement to offer SAC training to those who are eligible and convicted of a speeding offence and had been offering SAC since 2012. It operated as a cost recovery opportunity for TfL to reinvest in safety camera operations. The contract had been competitively tendered under procurement regulations and the preferred vendor outlined, based on the most economically advantageous tender, which was a move away from incumbent supplier. It was a three-year contract with a two-year extension, with a clear rebate mechanism and termination of convenience clause that could be exercised by TfL.

The Chair, following consultation with the Committee, noted the paper and the supplementary information in Part 2 of the agenda and:

- 1 approved Procurement Authority of the amount set out in the paper included on Part 2 of the agenda for the proposed contract for Speed Awareness Courses (SAC), as described in the paper; and**
- 2 noted that the SAC contract will have a duration beyond the end of the current TfL Budget, future Business Plans and Budgets will need to provide for the remaining years of operation.**

29/06/22 Enterprise Risk Update – Supply Chain Disruption (ER5)

Stuart Harvey and Philip Hewson introduced the paper and related supplementary information on Part 2 of the agenda, which provided an update on Enterprise Risk 5 - Supply Chain Disruption. It outlined 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.

It outlined the preventative controls and mitigating actions the Procurement & Commercial team had undertaken to actively manage the supply chain disruption and appropriately reduce risk.

It was an important time to look at this Enterprise Risk as TfL was starting to see impacts in the supply chain such as logistics issues, lack of availability of materials, labour shortages and inflation effects. Work on supplier relationship management was enabling TfL to develop strong relationships to support suppliers.

TfL had been dealing with the effects of the risks posed by the pandemic for the last three years and had successfully repurposed the established risk process for Brexit to deal with the effects. There were still supply chain issues arising from the pandemic, particularly with supply from the Far East and China. Residual risks and effects from Brexit remained in certain supply chains, such as trams which were manufactured and had parts reconditioned in Austria.

TfL was in a strong position working alongside its suppliers, other industry groups and Government to understand the nature of the risks and the measures to take to deal with supply chain disruption. As a result of the recent establishment of the Procurement & Commercial function, TfL had a governance, risk and assurance function that specifically looked at the broader range of risks, such as supply financial risks and commercial risks as they emerged. This approach ensured that risks were understood and treated consistently, and suppliers were treated equitably, using an holistic approach to risk management.

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

30/06/22 Members' Suggestions for Future Discussion Items

Howard Carter introduced the item. It was suggested that, as high inflation continued and the general business environment weakened, plus the delay in the funding settlement from Government, some analysis on the potential adverse rating reactions and what the adverse consequences might be for TfL be added to the forward plan for future discussion at an appropriate date. **[Action: Patrick Doig / Secretariat]**

No other suggestions were raised for future discussion items on the forward plan or for informal briefings.

The Committee noted the forward plan.

31/06/22 Any Other Business the Chair Considers Urgent

There was no other urgent business.

32/06/22 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Thursday 6 October 2022 at 10.00am.

33/06/22 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: Funding Update on TTL Properties Limited; Revenue Collection Contract Extension; Speed Awareness Courses Contract Award; and Enterprise Risk Update – Supply Chain Disruption (ER5).

The meeting closed at 12.30pm.

Chair: _____

Date: _____