Transport for London

Minutes of the Finance Committee

Conference Rooms 1 and 2, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Thursday 6 October 2022

Members of the Committee
Anne McMeel (Chair)
Ben Story (Vice-Chair)
Prof. Greg Clark CBE (via Teams) (up to Minute 39/10/22)
Seb Dance
Anurag Gupta
Dr Nina Skorupska CBE (via Teams)

Government Special Representative
Becky Wood (via Teams)

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel

Staff

Helen Chapman	Director of Licensing and Regulation (via Teams)
Andrea Clarke	Director of Legal (via Teams)
Darren Crowson	Policy Manager, Taxi and Private Hire (via Teams)
Alex Davidson	Commercial Manager, Elizabeth Line (via Teams)
Laura Davies	Head of Strategic Planning and Governance (via Teams)
Julie Dixon	Director of Customer and Revenue (via Teams)
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Laura Grant	Head of Procurement Professional Services (via Teams)
Joanna Hawkes	Director of Corporate Finance
Lorraine Humphrey	Director of Risk and Assurance (via Teams)
Shamus Kenny	Head of Secretariat
Glyn Lenton	Senior Category Manager Eng and Utilities (via Teams)
Paul Mason	Group Treasurer (via Teams)
Pritesh Patel	Head of Financial Planning and Analysis
Christopher Plummer	Head of Policy, Taxi and Private Hire (via Teams)
Rajiv Sachdeva	Interim Group Finance Director (via Teams)
Christopher Tann	Head of Financial Accounting and Tax
Shashi Verma	Director of Strategy and Chief Technology Officer (via Teams)

In Attendance

Luke Webster	Assistant Director, Group Treasury and Chief Investment Officer, Greater London Authority (GLA)

34/10/22 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. 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 that no apologies for absence had been received. Professor Greg Clark CBE 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. The meeting was quorate.

It was Andy Byford’s last attendance at a meeting of the Committee, following the announcement of his resignation to return to North America. Personally, and on behalf of the Committee, the Chair expressed her sincere thanks for the Commissioner’s huge efforts in improving TfL’s finances over the last two years, which had been one of his main objectives. She wished him all the very best in his future endeavours.

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.

35/10/22 Declarations of Interests

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.

36/10/22 Minutes of the Meeting of the Committee held on 22 June 2022

The minutes of the meeting of the Committee held on 22 June 2022 were approved as a correct record and signed by the Chair.

37/10/22 Matters Arising and Actions List

Howard Carter introduced the paper, which set out progress against actions agreed at previous meetings of the Committee.

Two further updates were provided in relation to actions from the meeting on 22 June 2022. On the review of travel concessions for cleaning contractors, Patrick Doig confirmed that the Mayor had announced changes to travel concessions for low paid staff working for TfL contractors and the estimated cost of £10m per year would be fully funded by the GLA. On the overall procurement strategy on major contracts, the Chair had agreed to defer the item to the next meeting of the Committee following the recent departure of the Chief Procurement Officer.

The Committee noted the actions list.

38/10/22 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, since the meeting on 22 June 2022, there had been five uses of Chair's Action: three in relation to extensions to the funding settlement with Government (prior to a long-term settlement being agreed by the Board on 30 August 2022); one in relation to changes to the Santander Cycles – 2022 Scheme Tariff Change; and one in relation to extending the terms of the Elizabeth line Concession Agreement by two years.

There had been four uses of Procurement Authority by the Commissioner in relation to: Old Street Design and Build contract variation; SAP Managed Services Agreement contract variation; Automatic Train Control Project – Appointment of a Programme Partner; and Speed Awareness Courses contract award. There had also been one use of Land Authority by the Chief Finance Officer in relation to Aldgate High Street – disposal.

There had been two Mayoral Directions to TfL in relation to: revision of the Mayor's Transport Strategy and road-user charging guidance (MD2987, 20 May 2022); and September 2022 fares revision (MD3028, 2 September 2022).

The Committee noted the paper.

39/10/22 Finance Report – Period 5, 2022/23

On behalf of the Committee, the Chair welcomed Luke Webster, Assistant Director, Group Treasury and Chief Investment Officer at the GLA, to the meeting and noted and welcomed the financing facility assistance that the GLA was providing as a contingency back-up to allow TfL to put forward a legal budget.

Patrick Doig and Pritesh Patel introduced the report, which set out TfL's financial results to the end of Period 5, 2022/23 – the year-to-date period ending 20 August 2022.

On 30 August 2022, TfL agreed a new funding settlement with the Government covering a 19-month period until March 2024. While longer than previous agreements, it was significantly shorter than the genuine long-term funding for capital investment TfL would have liked and on which all metros around the world relied.

Given the challenging position on national finances and political uncertainty, TfL was confident that it was the best settlement it could secure. Combined with the action TfL was taking and the support the Mayor had provided, the settlement meant TfL could avoid the devastating managed decline scenario and it underpinned a higher level of critical asset renewals and allowed TfL to restore its programme of delivering capital enhancements.

While the settlement provided the framework to move away from managed decline, it did not provide the full funding for this to happen. It left TfL with an additional savings target of £230m over the funding period: £90m this year and £140m in 2023/24. TfL was reshaping its plan and preparing a new Budget and Business Plan to be presented to the Board in December 2022.

Although TfL had more certainty, there were still significant risks to its financial position, including delivering the existing efficiencies programme, the additional savings target of £230m over the next two years and risks to non-passenger income. A key part of the strategy to manage these risks was the £500m facility established by the GLA, recoverable from future grants, which ensured that TfL could balance its Budget if further efficiencies could not be confirmed quickly. It also provided enough certainty to continue to let longer-term contracts while TfL worked on the plan to deliver the further savings.

TfL had been working hard to explain the funding settlement to a range of stakeholders including the major credit rating agencies. Standard & Poor’s had affirmed TfL’s credit rating at A+/A-1 in May 2022, reflecting its view that Government would continue to provide adequate support to TfL and citing the support from the GLA.

When the Quarter 1, 2022/23 performance was presented to the Board in July 2022, several risks were set out, including inflation and rising bad debt, which had started to crystallise as expected. TfL was managing those as planned, demonstrating its robustness of forecasting and tight grip on finances.

Some favourable trends had emerged since then, which were a combination of financial tailwinds and the hard work of TfL teams to deliver further savings. This year, TfL now expected to outturn favourably by around £100m and deliver the £90m further savings required in 2022/23. However, the medium-term risks were increasing, making 2023/24 more challenging.

For 2022/23, total income was within two per cent of Budget as journeys continued to recover, with latest journeys at around 81 per cent of pre-coronavirus pandemic levels. For other operating income streams, favourable advertising conditions were driving higher revenue than expected.

Core operating costs remained within one per cent of Budget. With the funding settlement underpinning renewals spend, TfL had saved on maintenance spend and avoided stranded operating expenses that would have resulted from managed decline.

Capital enhancement was within three per cent of Budget, largely due to slippage on third-party funded projects outside of TfL’s control. Capital renewals were nine per cent lower than Budget, largely due to resource constraints, but TfL was actively managing the renewals portfolio and remained confident it would deliver the full year budget of £600m. TfL was working to deliver the increased renewals budget provided in the funding settlement of £635m, although the delays to agreeing the funding settlement made it challenging to increase delivery by this amount over the remainder of the financial year 2022/23.

Cash balances were around £1.1bn, as TfL continued to manage cash to an average of £1.2bn in line with the funding settlement. It was noted that there was an error on slide 15 of the published appendix to the Finance Report, which should have stated that cash balances were £70m lower than Budget rather than £870m lower. The £70m variance was the result of lower Government support received in August 2022 while the new funding settlement was being finalised.

Since the last meeting of the Committee on 22 June 2022, TfL had mitigated the largest risk it faced by resolving the funding situation with Government. The funding settlement provided protection on passenger demand volatility and inflation. However, it still faced several external headwinds and risks to achieving financial sustainability, especially into next year. TfL was confident it could mitigate the risks through active management of the remaining contingency and the GLA financing facility. It also remained confident in achieving financial sustainability in 2023/24 but the risks were increasing.

Key risks included economic uncertainty as UK economic growth remained poor and latest forecasts suggested this may continue for a second successive quarter. TfL was protected on passenger income with the funding settlement but remained exposed to risks on non-passenger income. Continued cost of living challenges, such as inflationary pressures reducing disposable income and increasing bad debt levels, were being carefully monitored as these could also reverse public transport journey growth.

Inflation exposure was greatest into 2023/24, which would be largely determined by inflation rates in February to April 2023. TfL was currently well hedged on energy prices but had exposure in 2023/24. While TfL would be protected by the new inflation mechanism in the funding settlement, its cost base would rise and create pressure beyond the settlement period.

Interest rates were clearly on an upward trajectory, although around 90 per cent of TfL's debt was based on fixed interest rates and the interest costs of its short-term commercial paper was effectively hedged by investing cash reserves.

Plans for the savings programme were challenging, with TfL committed to delivering £730m of savings to 2024/25. In addition, it had a target to save £230m by the end of 2023/24 to ensure a balanced budget. TfL had a strong track record of delivering savings and was confident it could deliver the existing programme of change and the additional savings.

Members requested that, as with previous efficiencies and transformation programmes, the key milestones be broken down into the various components with RAG ratings against each, along with the key risks, who owned the risks, the threat posed by the risks and mitigations against risks. This information would provide assurance and enable the Committee to track progress. Patrick Doig confirmed that TfL's internal Change Steering Group used a similar tracker that included a breakdown of targets, what was secured, what was in progress and what was at risk, and that a version of the tracker would be brought to each meeting of the Committee. On tracking key risks, financial exposure was already included in the report, but information on key risks would be enhanced and made more transparent in the report and the accompanying verbal update.

[Action: Patrick Doig]

On tracking the progress and delivery of all the conditions related to the funding agreement, Patrick Doig confirmed that TfL was in the process of agreeing the scorecard with the Department for Transport which was also used by the internal Oversight Group, and suggested that the same tracker be used for the Committee to provide assurance that delivery was on track. The savings tracker monitored the £1bn savings required as a formal target and was part of the business planning process. **[Action: Patrick Doig]**

Members suggested that there be more focus on income generation in the organisation and the potential for it, and that an income strategy be developed which focussed on the potential income streams available and a proactive approach be taken to chasing income streams. Patrick Doig confirmed that he would work though the request and would update the Committee on the best approach to achieve this. **[Action: Patrick Doig]**

On the increase in agency, non-permanent labour (NPL) and consultant staff levels, Patrick Doig confirmed that the drivers were that the budget had been restarted on the Investment Programme and that the main labour source in the technology sector was

NPL, which had seen an increase against budget this year and the gap was growing due to the challenge in permanent recruitment. Delays in funding and broader markets conditions had made it increasingly challenging to recruit talent to certain sectors.

Members asked if there were pinch points where TfL needed to supplement staff with consultants and NPL due to the recruitment challenges, where those were across different business areas, in what roles and types of personnel, and the understanding of those risks and trends. Where benefits to underlying costs and lower staff costs were shown, Members also asked if these were one-offs for efficiencies or due to a lack of staff and the struggle to recruit them. Patrick Doig confirmed that TfL was currently in a position of overall financial savings on staffing, some of which could become a permanent saving as TfL continued to reshape and restructure its businesses, although this was not the case in most areas. A more detailed analysis would be provided to the Safety, Sustainability and Human Resources Panel but the pressure was most acute in specific market sectors and TfL would not recruit NPL to fill vacancies unless they were in critical areas. **[Action: Fiona Brunskill]**

The Committee noted the report.

40/10/22 Prudential Indicators – Outturn for the year ending 31 March 2022

Patrick Doig and Christopher Tann introduced the paper, which set out TfL's performance against the prudential indicators for the financial year 2021/22.

The prudential indicators and debt limits were approved by the Board on 16 March 2021. These were based on figures in TfL's Budget and Business Plan as approved by the Board on 9 December 2020, adjusted for known significant changes in assumptions relating to revenue, cost and funding where relevant, and subject to assumptions on future Government funding at the time these limits and indicators were approved.

TfL's 2021/2022 Statement of Accounts was used to calculate the outturn. The outturn for the financial year 2021/2022 was satisfactory upon comparison with the prudential indicators approved and TfL had stayed within the authorised limit for total external debt. The prudential indicators for next year would include some local indicators that would potentially provide some further insight into the sustainability and affordability of TfL's capital expenditure and investment plans.

The Committee noted the paper.

41/10/22 Treasury Activities

Joanna Hawkes and Paul Mason introduced the paper and related supplementary information on Part 2 of the agenda, which provided an update on key treasury activities for the reporting period from 17 February to 16 September 2022.

There had been significant market disruption and activity over the last six months. TfL had negotiated multiple funding agreements with Government and faced economic uncertainty in the form of increasing interest rates and inflation.

TfL kept in close contact with its lenders, who had remained supportive of its position, and took comfort from the level of ongoing and continuing support from the Government. Credit rating agencies Standard & Poor's and Fitch had not changed their ratings during the reporting period, reflecting their expectation that TfL would continue to receive adequate Government support until it achieved financial sustainability. Moody's had downgraded their rating due to the short-term nature of the funding agreements at the time of downgrade, and their view on the potential impacts of weak economic growth and high inflation on passenger demand.

TfL had been largely insulated from the impact of rising interest rates, due to a high level of fixed rate debt, at 91.8 per cent. Cash balances of approximately £1.2bn were invested in short-term instruments, with some upward movement in the interest receivable on these funds.

TfL's bond spreads in the secondary market had widened from around 140 basis points to 165 basis points, which was in line with general market movements. It remained significantly cheaper to refinance its maturing debt through the Public Works Loan Board (PWLB) than the bond markets and TfL refinanced a £500m bond maturity through the PWLB in August 2022.

TTL Properties Limited (TTLP) had entered into a three-year £200m revolving credit facility with three banks which was non-recourse to TfL. TTLP would be able to draw funds as required over the next three years to help fund its capital programme.

TfL had focussed on looking at ways to develop its approach to environmental, social and governance (ESG) investing and had evaluated several third parties, with the aim of procuring ESG data on potential and existing investment counterparties. Committee Members Ben Story, Anurag Gupta and Dr Nina Skorupska CBE offered their experience in this area to help design the ESG criteria for investment purposes and would meet with the treasury management experts to determine the next steps.

[Action: Joanna Hawkes]

On whether TfL's pension scheme had any exposure to leverage derivative instruments, Patrick Doig gave assurance that the TfL Pension Fund was not materially impacted by the recent market stressors and the trustees had taken a prudent approach of having a lower level of leverage and more liquidity, as the TfL pension scheme was unable to borrow. He would share with the Committee the latest interim update arising from the pension scheme's annual member meeting. **[Action: Patrick Doig]**

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 (Policies), which were approved by the Committee on 9 March 2022, along with the GLA Responsible Investment Policy.

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

42/10/22 GLA Investment Fund

Joanna Hawkes introduced the paper and related supplementary information on Part 2 of the agenda, which provided background information on potential collaboration between TfL and the GLA in respect of management of cash investments held by each of the GLA and TfL.

The GLA issued a letter to TfL on 30 August 2022 that provided TfL comfort that the GLA was prepared to make available a call-off facility of up to £500m over this and the following financial year, appropriately split between revenue and capital, to assist with enabling TfL to set a balanced budget. The GLA would need to recover the use of the call-off facility by reducing GLA's future grants to TfL from business rates, with the profile of such recovery to be agreed. The letter also explained that GLA's provision of financial support underlined greater co-ordination of treasury management activities between TfL and the GLA.

The GLA and TfL had been considering their intrinsically linked treasury management positions and working to facilitate improved, co-ordinated management. This included preparing for TfL to join the rest of the GLA Group in collective investment arrangements.

Committee Members Ben Story and Anurag Gupta offered their experience in this area and would meet with the GLA and TfL treasury management officers to discuss the detailed points, prior to any final proposals being made which would come back to the Committee for decision. **[Action: Joanna Hawkes]**

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

43/10/22 Taxi Fares and Tariffs Update

Helen Chapman introduced the paper, which provided an update on the impact of the changes to taxi fares and tariffs made in April 2022, of cost pressures for taxi drivers and the demand for taxis at Heathrow Airport, particularly following the opening of the Elizabeth line. It also provided an overview of the forthcoming taxi fares and tariffs consultation.

The demand for taxi journeys had recovered strongly during the spring and summer following the coronavirus pandemic. The rising cost of living may cause this to change for taxi users and continued to be monitored. There had also been no negative impact identified on taxi journeys to or from Heathrow following the opening of the Elizabeth line.

The rise in fuel costs had impacted on taxi drivers and the fare increase had helped them cover some of the additional increase in costs. TfL was tracking fuel prices, which impacted both electric and diesel taxis, and a small decrease in numbers had been noticed in recent weeks. No additional measures were needed at this stage, but it would continue to be monitored.

The cost index calculation for this year was high at 11.64 per cent and would shortly be going out to consultation to explore four different options. A paper with some recommendations would be brought to the meeting of the Committee in March 2023.
[Action: Helen Chapman]

Andy Byford confirmed that he had discussed with the marketing team the need to ensure there was very clear signage to the Elizabeth line from the Heathrow Airport terminals to ensure people knew it was the best way to travel into town.

The Committee noted the paper.

44/10/22 Crossrail Asset Restructuring

Patrick Doig and Christopher Tann introduced the paper. Due to different remits, both this Committee and the Elizabeth Line Committee were asked to approve elements of a restructure and simplification of the intragroup lease arrangements for the Crossrail Central tunnel Operating Section land and related assets. The proposal impacted solely on the internal TfL intragroup structuring and financing arrangements. There was no additional expenditure proposed, or impact on values reported at the consolidated TfL Group level.

The arrangements also required approval by the Department for Transport (DfT), as joint Sponsor, and these discussions were ongoing. Becky Wood, Government Special Representative, confirmed that the DfT was supportive in principle and was working through the responses to their detailed queries. She encouraged the ongoing collaborative working to achieve the agreement within the tight timeframe and offered her assistance in joining the discussions with TfL and the DfT if that would be helpful.

[Action: Christopher Tann / Patrick Doig]

At its meeting on 29 September 2022, the Elizabeth Line Committee considered a similar paper and, subject to the approvals required from this Committee, authorised officers to approve any amendments to the Crossrail Sponsors Agreement and/or Project Development Agreement and any other matter they considered necessary to implement the lease restructuring arrangements described in the paper.

The proposals increased efficiency and accountability and reduced costs. The assets would be accounted for in the business units that operated and maintained them. Savings of £100,000 per annum were anticipated in reduced audit fees, administration and reporting. If carried out in the first financial year, most of the benefits would be realised.

Specialist tax advice was sought to ensure there would be no tax risk and confirmed there would be no difference to the tax treatments based on the restructure. The tax paid and allowances claimed would not change, and Crossrail Limited and the assets transferring were part of the same tax group. The outcome of the tax treatments would be brought back to the Committee once implemented.

[Action: Christopher Tann / Patrick Doig]

The Committee noted the paper and, subject to receipt of the necessary consents from the Secretary of State:

1 approved the grant of Procurement Authority for an interest-bearing loan of up to £2.75bn by TfL Corporation to Rail for London (Infrastructure) Limited (RfL(I));

2 **approved the disposal by Crossrail Limited of the Crossrail Central tunnel Operating Section asset and related station infrastructure assets to fellow subsidiary undertakings of Transport Trading Limited; and**

3 **approved the grant of Land Authority for the assignment of the 150-year lease structures from TfL Corporation to RfL(I) and London Underground Limited.**

45/10/22 Premises and Fabric Maintenance for Elizabeth Line

Alex Davidson introduced the paper and related supplementary information on Part 2 of the agenda. Procurement Authority was sought for a variation to the existing 1FM premises and fabric maintenance services contract, to provide services to Elizabeth line stations, shafts and portals, up to 24 January 2024 when the current 1FM contract was due to expire. The request related to business-as-usual protection of safety critical assets.

The Committee noted the paper and the exempt supplementary information in Part 2 of the agenda and granted additional Procurement Authority, in the sum set out in the paper in Part 2 of the agenda, for the extension of a contract for the supply of premises and fabric maintenance services across the TfL estate.

46/10/22 Connect Contract Extension

Shashi Verma introduced the paper and related supplementary information on Part 2 of the agenda. Additional Procurement Authority and Programme and Project Authority was sought to extend the Connect Contract delivering London Underground's digital radio and transmission system for a further three years to 21 November 2026.

The ability to exercise the three-year term extension was envisaged under the Connect Contract previously signed with Thales. The radio technology used to run the Connect system was expected to be in use worldwide until the 2040s. The life extension made the system fit for purpose until approximately 2035, but further investment could extend the life of the system beyond that if needed. It was a necessary extension that also realised some savings.

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

1 **granted additional Procurement Authority of £115.7m (giving a total Procurement Authority of £392.6m) to extend the Connect Contract for three years, to provide operational and maintenance support and project delivery services;**

2 **granted additional Programme and Project Authority of £115.7m (giving a total Programme and Project Authority of £354.1m) to extend the Connect Contract for three years; and**

3 **noted that, as extended, the Connect 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.**

47/10/22 Bus Shelter Advertising Concession

Julie Dixon introduced the paper and related supplementary information on Part 2 of the agenda, which provided an overview of the advertising market and how TfL proposed to maximise its revenue from its advertising estate. Approval of unbudgeted Financial Authority and Procurement Authority was sought to extend the current Bus Shelter Advertising concession with JCDecaux.

The proposed extension would ensure the co-expiry in March 2025 of the contract and TfL's other key advertising contract: the Advertising Partnership Agreement with Global, which covered all Rail and Underground advertising.

Bringing the contracts together would strengthen TfL's position as an out-of-home media owner, generate more revenue and provided a single point of contact for brands and agencies to book commercial space on the TfL network.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and approved unbudgeted Financial Authority and Procurement Authority, in the sums set out in the paper on Part 2 of the agenda, for the proposed extension of the Bus Shelter advertising contract as described in the paper.

48/10/22 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.

The Committee noted the forward plan.

49/10/22 Any Other Business the Chair Considers Urgent

There was no other urgent business.

50/10/22 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 23 November 2022 at 10.00am.

51/10/22 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 Activities; GLA Investment Fund; Premises and Fabric Maintenance for Elizabeth Line; Connect Contract Extension; and Bus Shelter Advertising Concession.

The meeting closed at 12.34pm.

Chair: ______________________________________

Date: _______________________________________