

Board



Date: 7 December 2022

Item: Report of the Meeting of the Finance Committee held on 23 November 2022

This paper will be considered in public

1 Summary

- 1.1 This paper provides a summary of the items considered by the Finance Committee at its meeting on 23 November 2022.

2 Recommendation

- 2.1 **The Board is asked to note the report.**

3 Committee Agenda and Summary

- 3.1 The papers for the meeting of the Committee held on 23 November 2022 were published on 15 November 2022 and are available on the [TfL website](#) with a link to the video recording of the meeting on [TfL's YouTube channel](#).

- 3.2 The main matters considered by the Committee were:

- (a) Use of Delegated Authority;
- (b) Finance Report – Period 7, 2022/23;
- (c) TfL Power Purchase Agreements;
- (d) Surface Technology Contracts Retender;
- (e) Communications, CCTV, Access Control and Security Systems Maintenance and Upgrade Services Contract – Increase to Procurement Authority; and
- (f) Enterprise Risk Update – Changes in Customer Demand (ER09).

- 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 8 March 2023.

4 Issues Discussed

Use of Delegated Authority

- 4.1 The Committee noted the paper on the use of delegated authority. Since the meeting on 6 October 2022, there had been no use of Chair's Action. There had been two uses of unbudgeted Financial Authority by the Commissioner in relation to: Occupational Health and Wellbeing - Outsourcing Physiotherapy Services and Trauma Counselling; and Change Transformation Delivery Partner.
- 4.2 There had been two uses of Procurement Authority by the Commissioner in relation to; Road User Charging Next Generation 2025 Acceleration and Road User Charging Now Changes Tactical Approach using Crown Commercial Service Framework Call Off Agreements; and Hazardous Materials Framework (contractors) extension. It was clarified that the third use of Procurement Authority reported in the paper in relation to the extension of the Metro newspaper distribution agreement had not yet been decided and an update would be brought to the next meeting.
- 4.3 There had been five uses of Land Authority by the Chief Finance Officer in relation to: Edgware (Conditional Joint Venture); Build to Rent; Wembley Park; Lillie Bridge Depot; and Cockfosters. It was proposed that the use will be reported to the Land and Property Committee going forward.
- 4.4 There had been no Mayoral Directions to TfL.

Finance Report – Period 7, 2022/23

- 4.5 The Committee noted TfL's financial results to the end of Period 7, 2022/23, the year-to-date ending 15 October 2022. Based on performance to date and with a funding settlement with Government until the end of March 2024, TfL remained on track to achieve operating financial sustainability in 2023/24. Members noted the detail on progress against each of the funding settlement conditions and what it meant for TfL finances.
- 4.6 As agreed with Government, TfL was providing periodic financial reporting to the Department for Transport and its advisors, who recently noted the good progress being made towards meeting the requirements of the funding settlement. TfL was engaging with Members on the development of its first Business Plan since 2019, which is elsewhere on the agenda for this meeting for approval.
- 4.7 Passenger journey levels were at 82 per cent of pre-coronavirus pandemic levels and remained broadly in line with the prior period and with budget. Journeys on the Elizabeth line were much higher than expected and showed very strong performance as TfL continued to work to the full operating service in May 2023.
- 4.8 While the year-to-date position and full year forecast was broadly positive, some like-for-like operating costs were increasing due to inflationary

pressures, and TfL continued to face significant risks due to the economic uncertainty and high inflation rates. This was being managed through effective cost control measures and working capital management.

- 4.9 Members requested a briefing ahead of its next meeting on key risks, progress against funding settlement actions and the savings programme.

TfL Power Purchase Agreements

- 4.10 The Committee noted an update on TfL's progress towards operating a net zero railway by 2030 by procuring renewable electricity, and a summary of the issues encountered with its first Power Purchase Agreement (PPA) tender and the proposed next steps.
- 4.11 In June 2022, TfL launched a tender to procure a 15-year PPA for 12.5 per cent of TfL annual volume of renewable electricity. Despite significant market engagement, the response was limited with only four submissions which failed to pass the initial stage. TfL worked with external energy advisors Arup and tested the market to improve participation, and planned to relaunch a revised PPA tender in October 2022. Since then, the Government introduced the Energy Prices Bill with potential implications for the wholesale price of renewable electricity so the proposed re-launch was paused. Developments regarding the legislation would be closely monitored and, if no structural changes were required and the Government's current timeline was maintained, TfL would be able to re-launch in early January 2023.
- 4.12 To date, TfL's Energy Purchasing Strategy protected it from the highest of energy prices, however there was increasing risk from energy prices to its operating cost base. TfL was reviewing its overall approach to energy purchasing to ensure it remained robust, agile and fit for purpose in the current market. An update would be provided to the Committee in spring 2023.

Surface Technology Contracts Retender

- 4.13 The Committee noted the briefing on the procurement process for the Surface Technology Contracts Retender (STCR) for the supply, install, maintenance and disposal of Automated Traffic Signals (ATS), Variable Message Signs (VMS), Overheight Vehicle Detectors (OVD) and CCTV.
- 4.14 Extensive analysis determined that a change to the geographical split for the delivery of services covering ATS, VMS and OVD could deliver increased value for money. STCR had therefore moved from five geographic areas to three areas. Analysis also demonstrated that, if a bidder were to win two of the geographic areas, it could generate even greater economies of scale. STCR would award a framework agreement which mirrored the three geographic areas and provided resilience to TfL should a main contractor deliver poor performance or suffer financial distress. The framework would also act as a mechanism to compete high value capital works to drive additional value. Under STCR, CCTV services would be delivered under one

contract as per the incumbent contract. The current contracts would all expire on 31 July 2023.

- 4.15 It was anticipated that the procurement process would be concluded during December 2022 and approval of Procurement Authority to enter into the contracts would be required before the next meeting of the Committee in March 2023 and would therefore be sought via Chair's Action.
- 4.16 On the contribution made by the boroughs towards the cost of the provision of the services, Members asked that more information on the recharge mechanism be included in the paper when Procurement Authority was sought.
- 4.17 Members welcomed the opportunity for a site visit to Palestra to demonstrate the innovation and technology behind the traffic signalling systems.
- 4.18 The Chair had agreed that the Procurement Strategy on Major Contracts paper be deferred to the meeting of the Committee in March 2023.

Communications, CCTV, Access Control and Security Systems Maintenance and Upgrade Services Contract – Increase to Procurement Authority

- 4.19 In 2019 TfL awarded a contract for the communications, CCTV, access control and security systems maintenance and upgrade services across the TfL estate. The contract was awarded for an initial period to 31 March 2027, with an option for TfL to extend for up to five years.
- 4.20 No fundamental changes were proposed to the contract or the operational delivery strategy. The contract continued to provide value for money but estimated values for upgrade works were based on budget allowances in the TfL approved Business Plan at that time.
- 4.21 The Committee approved additional Procurement Authority to cover immediate requirements for the services until its next meeting, at which point further work would have been undertaken to confirm estimates for future years.

Enterprise Risk Update – Changes in Customer Demand (ER09)

- 4.22 The Committee noted the current position on changes in customer demand, which was a broad risk at the heart of TfL's business so scored highly. The financial impact it created was exceptionally high, as experienced over the course of the coronavirus pandemic. It also had a fundamental influence over TfL's relationship with customers and stakeholders and the long-term prosperity outlook for London.
- 4.23 Protection against revenue volatility was afforded until March 2024 as part of the Government funding agreement but did not mitigate the risk to TfL's financial sustainability from April 2024 onwards, or the risk to policy aims which were impacted by mode shift, such as carbon reduction.

4.24 Although lower than last year, all four risk impact categories were still considered to be outside tolerance. The risk had materialised and remained a top priority to monitor and mitigate against further falls in customer demand. Actions to drive customer demand were key to achieving TfL's strategic aims.

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the Finance Committee on 23 November 2022

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