

Transport for London

Minutes of the Finance Committee

**Conference Rooms 1 and 2, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Wednesday 23 November 2022**

Members of the Committee

Anne McMeel (Chair)
Ben Story (Vice-Chair)
Professor Greg Clark CBE
Seb Dance
Dr Nina Skorupska CBE

Government Special Representative:

Becky Wood (via Teams)

Executive Committee

Andy Lord	Interim Commissioner
Howard Carter	General Counsel
Lilli Matson	Chief Safety, Health and Environment Officer
Rachel McLean	Chief Finance Officer
Alex Williams	Chief Customer and Strategy Officer

Staff

George Barratt	Senior Category Manager IT, London Underground
Richard Burke	Commercial Manager (via Teams)
Andrea Clarke	Director of Legal (via Teams)
Daniel Curry	Senior SHE Environment Manager (via Teams)
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Carl Eddleston	Head of Asset Operations
Antony Fahy	Senior Category Manager IT, Surface
Elizabeth Fletcher	Business Strategy Manager (via Teams)
Jackie Gavigan	Secretariat Manager
Laura Grant	Head of Procurement Professional Services (via Teams)
Joanna Hawkes	Director of Corporate Finance (via Teams)
Lorraine Humphrey	Director of Risk and Assurance (via Teams)
Shamus Kenny	Head of Secretariat
Glyn Lenton	Senior Category Manager Eng and Utilities (via Teams)
Patrice Locker	Senior Risk Manager (via Teams)
Pritesh Patel	Head of Financial Planning and Analysis

52/11/22 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 an apology for absence had been received from Anurag Gupta. The meeting was quorate.

The Chair welcomed Andy Lord to his first meeting in his new role and congratulated Rachel McLean on her appointment as TfL's managing Chief Finance Officer. She thanked Patrick Doig, Group Finance Director and statutory Chief Finance Officer, who led TfL's Finance team and played a key role in securing a long-term funding settlement with Government.

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.

53/11/22 Declarations of Interests

Members confirmed that their declarations of interests, as published on [tfl.gov.uk](https://www.tfl.gov.uk), were up to date and there were no interests to declare that related specifically to items on the agenda.

54/11/22 Minutes of the Meeting of the Committee held on 6 October 2022

The minutes of the meeting of the Committee held on 6 October 2022 were approved as a correct record and signed by the Chair.

55/11/22 Matters Arising and Actions List

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

A further update was provided in relation to an action on Crossrail Asset Restructuring from the meeting on 6 October 2022. Rachel McLean confirmed that working level discussions with the Department for Transport (DfT) continued and an agreement in principle was reached to carry out a simple restructuring through an exchange of letters. This would be put to Ministers for a decision and the time limit for completion was the end of the 2022/23 financial year, which DfT colleagues were aware of and supported.

The Committee noted the actions list.

56/11/22 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, 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.

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.

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.

There had been no Mayoral Directions to TfL.

The Committee noted the paper.

57/11/22 Finance Report – Period 7, 2022/23

Rachel McLean and Patrick Doig introduced the report and related supplementary information on Part 2 of the agenda, which set out TfL's financial results to the end of Period 7, 2022/23 – the year-to-date period 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.

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 would be presented to the Board at its meeting on 7 December 2022 and fed into the draft Greater London Authority (GLA) Budget.

Total income was within one per cent of Budget, with passenger journey levels at 82 per cent of pre-coronavirus pandemic levels and remained broadly in line with the prior period and with Budget. Weekends were almost back to pre-pandemic levels but Mondays and Fridays were more challenging. 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.

Core operating costs remained within one per cent of Budget as risks identified previously continued to crystallise, such as the impact of rising inflation and increasing Road User Charging bad debt. These pressures had been offset through lower pension deficit payments as well as other tailwinds, and TfL was confident it would deliver the remaining savings required to close the funding gap for this financial year, although pressures remained and were growing for next year.

Capital enhancement was within two per cent of Budget, with the underspend primarily due to slippage on third party funded projects, largely due to factors outside of TfL's

control. It was forecast to deliver very close to the capital envelope set by the funding settlement over the full year.

Capital renewals were eight per cent lower than Budget, largely due to resource constraints, but TfL continued to actively manage its renewals portfolio to deliver its full year £600m budget, although the work bank was significant for the final quarter. TfL had challenged itself to deliver the higher level of renewals of £635m set by the funding settlement.

Cash reserves were maintained at around £1.2bn on average in line with the funding settlement condition. Total cash balances were just over £1.1bn, £182m lower than at the start of the year. Cash balances were £85m lower than Budget, largely a result of lower levels of Government support than assumed in the Budget.

TfL faced several external headwinds and risks in staying on track to achieve financial sustainability next year but was working to mitigate them and retained both budget contingency and the GLA financial facility. Key risks included economic uncertainty as UK growth remained poor with a forecast of a recession and a rise in unemployment.

Inflationary pressures on TfL's cost base, including energy costs, continued to rise with UK inflation which was forecast to take longer to reduce than previously expected. There was minimal impact for the rest of the financial year as most contracts were locked in but with increasing pressure on next year. Savings targets were stretching with a target of £230m additional savings by the end of 2023/24, following the new funding settlement with Government.

TfL had not yet seen economic conditions impact on passenger demand, although growth in bus passenger demand had plateaued. It was protected by the revenue true-up mechanism until March 2024. The funding settlement also provided some protection on inflation on operating costs but the quantum for 2023/24 was uncertain.

Andy Lord confirmed that work was underway to identify opportunities to further increase ridership and revenue that included stakeholder engagement and discussions with key business groups. TfL had a good understanding of the impact of economic cycles and employment levels pre-pandemic but could not rely on those historic travel patterns being repeated, so was looking at a range of impacts as part of the business planning analysis.

TfL continued to remain on track to achieving financial sustainability by 2023/24 despite the risks. It was working hard to mitigate the risks faced through a combination of management action, including working capital management and cost control, contingencies and other tailwinds. It was reshaping its plan which would be brought to the Board at its meeting on 7 December 2022 as part of the 2023 Business Plan.

Many areas of core delivery and expenditure were going well, particularly major enhancement projects and London Underground renewals, with challenges for annual work banks to maximise delivery within the available capital funding. Recruitment continued to be a challenge particularly for scarce resources in technology, specialist engineering and commercial skills, which was a driver for the increase in use of non-permanent labour.

Andy Lord confirmed that a robust process was in place, managed by the Executive team through the internal Change Steering Group, to track details of recurring and non-

recurring savings which were tracked against the larger savings programme target, alongside periodic business reviews. The Our TfL Programme looked at efficiencies and change across the whole of the organisation, and the sustainable delivery of savings and ambition to provide a better proposition for customers and colleagues. Details of the Our TfL Programme would feature in the upcoming business planning session and at future Board meetings. **[Action: Andy Lord/Rachel McLean]**

Members requested a briefing on key risks, progress against funding settlement actions and assumptions within the savings programme. **[Action: Rachel McLean/Secretariat]**

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

58/11/22 TfL Power Purchase Agreements

Lilli Matson introduced the paper, which provided 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.

In June 2022, TfL launched a tender to procure a 15-year PPA for 12.5 per cent of TfL's 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.

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. **[Action: Lilli Matson]**

The Committee noted the paper.

59/11/22 Surface Technology Contracts Retender

Rachel McLean and Carl Eddleston introduced the paper and briefed the Committee 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.

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.

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.

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.

[Action: Rachel McLean/Carl Eddleston]

Members welcomed the opportunity for a site visit to Palestra to demonstrate the innovation and technology behind the traffic signalling systems.

[Action: Carl Eddleston/Secretariat]

The Committee noted the paper.

60/11/22 Communications, CCTV, Access Control and Security Systems Maintenance and Upgrade Services Contract – Increase to Procurement Authority

Rachel McLean introduced the paper and related supplementary information on Part 2 of the agenda. 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.

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.

Additional Procurement Authority was sought to cover immediate requirements for the services until the meeting of the Committee in March 2023, during which time further work would have been undertaken to confirm estimates for future years.

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 provision of maintenance and upgrade services for Communications, CCTV, Access Control and Security Systems across the TfL estate.

61/11/22 Enterprise Risk Update – Changes in Customer Demand (ER09)

Alex Williams introduced the paper and related supplementary information on Part 2 of the agenda, which provided an update on 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.

Protection against revenue volatility was afforded until March 2024 as part of the Government funding settlement 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.

TfL had experienced profound changes in customer demand due to the pandemic and faced the challenge of recovery in difficult economic times. Previous scenario planning and hybrid forecasting had proved to be accurate and would be updated in early 2023 to reflect the further period of uncertainty and the likely impact on discretionary travel during a recession.

A revised customer strategy to drive customer demand was underway which was much broader than just marketing, including factors such as how to enhance the quality of customer experience of public transport as expectations were now higher, and working with the supply chain and across the bus network on how to achieve this.

On work to anticipate the future shape and size of London, Alex Williams confirmed that the fundamentals of the London Plan and the Mayor's Transport Strategy were sound with a growing and more sustainable city forecast, although the pace of delivery would be slower. The Annual Travel in London report would be brought to the Board meeting in December 2022 and provided more data and analysis of key trends and developments affecting travel in London.

Members asked if consideration had been given to how tourists and different types of visitors coming to London for work experienced and viewed the public transport, their expectations and which channels they used to access it. Alex Williams confirmed that targeting to inform people about the network was difficult due to the nature and complexity of the city but he would look into it and consider how this might be achieved.

[Action: Alex Williams]

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

62/11/22 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, other than those already noted during the meeting.

The Chair noted that she had agreed that the Procurement Strategy on Major Contracts paper be deferred to the meeting of the Committee in March 2023.

The Committee noted the forward plan.

63/11/22 Any Other Business the Chair Considers Urgent

There was no other urgent business.

64/11/22 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 8 March 2023 at 10.00am.

65/11/22 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Finance Report – Period 7, 2022/23; Communications, CCTV, Access Control and Security Systems Maintenance and Upgrade Services Contract – Increase to Procurement Authority; and Enterprise Risk Update – Changes in Customer Demand (ER09).

The meeting closed at 12.17pm.

Chair: _____

Date: _____