

Board



Date: 29 March 2023

Item: Report of the Meeting of the Finance Committee held on 8 March 2023

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 8 March 2023.

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 8 March 2023 were published on 28 February 2023 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 10, 2022/23;
- (c) Treasury Activities, Policies and Strategy;
- (d) Investment Management Strategy 2023/24 – Non-Financial Assets;
- (e) Taxi Fares and Tariffs Update;
- (f) Update on Forthcoming Key Procurement Activities;
- (g) Independent Investment Programme Advisory Group Procurement and Commercial Improvement Programme;
- (h) Future Operational Network; and
- (i) London Overground Class 378 Fleet Leases.

- 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 21 June 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 23 November 2022, there had been two uses of Chair's Action in relation to: Bus Shelter Advertising Concession; and Surface Technology Contract Retender Award.
- 4.2 There had been five uses of Procurement Authority by the Commissioner in relation to: Microsoft Retender Contract Award; Advertising Panel LEDs Tranche 2 and 3, contract variation; TfL spend on the Greater London Authority (GLA) Collaborative Media Planning Buying Contract Award; Extended Fleet Support Agreement for Sub Surface Lines and Victoria Line Upgrade; and Bus Shelter Advertising Rights Concession.
- 4.3 There had been four Mayoral Directions to TfL in relation to: September 2022 fares revision; Permanent changes to free travel arrangements for older Londoners; March 2023 Fare Changes; and the Low-Paid Transport Workers' Concession Scheme, which is fully funded by the GLA.
- 4.4 Following the publication of papers for the meeting, the original Mayoral Direction on March 2023 Fare Changes was replaced with a new Direction to correct administrative errors that had resulted in some fares being stated incorrectly. The corrections did not change the overall average increase in fares.

Finance Report – Period 10, 2022/23

- 4.5 The Committee noted TfL's financial results to the end of Period 10, 2022/23, the year-to-date ending 7 January 2023. Performance to date showed TfL was on track to deliver the Revised Budget, approved in December 2022 as part of the 2023 Business Plan, and to achieve financial sustainability in financial year 2023/24.
- 4.6 There were significant external risks and headwinds facing into the next performance year, such as economic uncertainty, inflationary pressures and achieving the savings targets. TfL was working hard to mitigate these as part of the 2023/24 Budget, through a combination of management action including working capital management and cost control, contingencies and other tailwinds.
- 4.7 Passenger journeys continued to show recovery and were 79 per cent of pre-coronavirus pandemic levels. This was a slight drop from the previous period, which was at 84 per cent, largely due to the prolonged periods of industrial action across national rail services, which also impacted parts of TfL's network. Growing passenger demand was a key focus as set out in the Business Plan.

- 4.8 Operating costs were broadly in line with the Revised Budget and reflected the work to manage cost pressures in light of inflationary pressures. While inflation had driven up like-for-like operating costs on prior years, the real terms costs were around £500m lower than 2018/19.
- 4.9 Total staff levels were just under 300 lower than pre-pandemic levels and slightly up from the end of last year. Permanent employee numbers were almost 600 lower than before the pandemic and 250 down from last year. Agency and non-permanent labour (NPL) had increased by over 300 since the end of 2019/20 but remained significantly lower than 2015/16 levels. Ongoing labour market issues and funding uncertainty earlier in the financial year hampered TfL's ability to recruit. A buoyant external market had also contributed to these issues.
- 4.10 Capital enhancement was within two per cent of Revised Budget and capital renewals were three per cent or £12m lower than Revised Budget. On renewals, TfL aimed to deliver as much as possible with the £635m envelope set by the funding settlement but would likely outturn closer to the original budget of £600m.
- 4.11 Cash balances continued to be maintained at below £1.2bn on average, in line with the funding settlement condition.

Treasury Activities, Policies and Strategy

- 4.12 The Committee approved the Treasury Management Strategy (TMS) for 2023/24, which comprised the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits. The Committee also approved TfL Finance Limited entering into the Derivative Investments.
- 4.13 The Committee approved the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments. These supported TfL's commitment to financial prudence through risk management.
- 4.14 The Committee approved the TTL Properties Limited (TTLP) TMS, which comprised the Borrowing Strategy, the Investment Strategy, the Liquidity Strategy and Banking and Cash Management provision. The Committee also approved the Treasury Management Policies for TTLP.
- 4.15 The managing Chief Finance Officer would approve any non-material changes they considered necessary to the proposed TfL Pension Fund Policy, approved by the Committee in draft in March 2022, once the final regulations had been published, and would issue it in final form. If any material changes were necessary, further approval from the Committee would be sought.
- 4.16 The Committee noted an update on key treasury activities for the period from 17 September 2022 to 17 February 2023, including a summary of the changes to the Treasury Management Policies and Strategies. During the period, TfL had complied at all times with the TMS, the Treasury

Management Policies and the Derivatives Policy, along with the GLA Responsible Investment Policy, the TTLP TMS and TTLP Treasury Management Policies.

Investment Management Strategy 2023/24 – Non-Financial Assets

- 4.17 The Committee approved the Investment Management Strategy (IMS) 2023/24 – Non-Financial Assets. The IMS set out how TfL planned to manage and grow its various commercial assets and sat alongside the TMS approved at the same meeting.

Taxi Fares and Tariffs Update

- 4.18 TfL is responsible for the licensing and regulation of London's taxi (black cab) and private hire services. It also regulates taxi fares and sets the maximum taxi fares that can be charged. When considering changes to taxi fares and tariffs, TfL tries to strike an appropriate balance between taxi drivers being fairly paid and taxi users getting fair, reasonable and affordable fares.
- 4.19 TfL consulted on five different options for fares and tariffs for consideration by respondents. In addition to the different options for fares and tariffs, TfL also sought views on changes to the extra charge for booked taxis and the fixed-fare, shared-taxi scheme that operated at Wimbledon during the Tennis Championships.
- 4.20 After reviewing all of the responses to the consultation and considering the issues raised, and the positive and negative impacts identified, TfL recommended an increase to taxi fares and tariffs and implementing a modified version of Option 3 so that Tariff 3 was increased by 7.61 per cent instead of being frozen.
- 4.21 The Committee approved:
- (a) increasing Tariffs 1, 2 and 3 by 7.61 per cent;
 - (b) removing the requirement for the extra charge for taxi hirings arranged by telephone, mobile phone, smart phone, mobile application, any application software and by use of the internet to be added to the taximeter;
 - (c) increasing some of the fixed-fares for shared-taxis that operate during the Wimbledon Tennis Championships; and
 - (d) amending one of the authorised places where the fixed-fare, shared-taxi scheme operates from during the Wimbledon Tennis Championships.
- 4.22 In October 2022, the Committee considered an update on the potential impact on taxi drivers at Heathrow Airport following the opening of the Elizabeth line. It noted that since then there had been a strong recovery in demand for taxis at the airport. To date, there had not been any reported

decreases in the demand as a result of the Elizabeth line opening, and last year was the busiest year in terms of taxi movements through the feeder park, since figures started being recorded in 2010.

Update on Forthcoming Key Procurement Activities

- 4.23 The Committee noted the update on the major new procurements or contract extensions which would need approval before the next meeting of the Committee in June 2023.
- 4.24 The Committee had previously requested greater visibility of future procurement activity and that the use of Chair's Action was limited as far as possible to allow debate to take place at Committee meetings. While the business cycle and timetables for contract awards could not exclude the use of Chair's Action, improved planning and reporting was enabling increased advanced notice of forthcoming approvals required.
- 4.25 Key forthcoming procurement activities included two contract extensions or variations that would require Committee approval by Chair's Action, and three other significant procurements that required approval at officer level during the period.

Independent Investment Programme Advisory Group Procurement and Commercial Improvement Programme

- 4.26 The Independent Investment Programme Advisory Group (IIPAG) had reviewed TfL's Procurement and Commercial Improvement Programme since it started in 2019 and this was IIPAG's third report.
- 4.27 There had been significant changes to the Procurement and Commercial leadership in 2022 and the function now came under the Chief Finance Officer. Although certain key and significant milestones had been delivered, IIPAG concluded that some concerns remained and still required action, including the fitness of revised processes and systems for capital delivery, and the lack of an improvement programme for cost estimating and cost management.
- 4.28 The Committee noted the report and the management response, which accepted the IIPAG recommendations. Under the new leadership, the revised priorities included: a refresh of the Procurement and Commercial Improvement Programme objectives and plan; ensuring the main SAP Ariba roll-out was successful; a drive to transition the new Management Framework to business-as-usual working; scrutiny and tightening of control and compliance; and reduction of NPLs and consultants in its workforce.

Future Operational Network

- 4.29 The Committee noted the update on the strategy for the ongoing provision of critical radio communication and data network services on the London Underground, and the proposed approach to execute and deliver the strategy,

ahead of a request for approval by Chair's Action to invest further in the Connect System infrastructure.

- 4.30 The data networks which underpinned the Connect System needed replacing, and the strategy was to deploy a new multiservice data network (Future Operational Network or FON) within London Underground. The available commercial options had been considered and the optimal way to deliver the FON would have a much wider utility for TfL than just supporting the existing radio system and Connect data network services.

London Overground Class 378 Fleet Leases

- 4.31 The Class 378 train fleet was built for the provision of services on London Overground and specifically the infrastructure section operated by Rail for London (RfL). Due to the specific requirements of the section, RfL needed to retain use of the Class 378 fleet or procure a new fleet in the future to ensure continued operation of services across the route.
- 4.32 Current demand on the London Overground was at 87 per cent of pre-pandemic levels and was predicted to grow over the Business Plan period. The Class 378 fleet was a key part of servicing this demand. The operational and fleet strategy was to retain the Class 378 fleet until life expired in 2044. This approach was also assumed in TfL's Capital Strategy approved by the Board in December 2021, and subsequent updates which were noted by the Board in December 2022.
- 4.33 There were various financial risks associated with the lease arrangements, including interest rate and refinancing risks, and options for the mitigation of these risks.
- 4.34 The Committee approved unbudgeted Financial Authority for RfL terminating the existing 2007 lease and the 2013 lease relating to the Class 378 fleet, and approved unbudgeted Financial Authority and Procurement Authority for the lease termination and purchase of the Class 378 fleet.
- 4.35 Any new borrowing and existing hedging arrangements associated with the termination of the leases and the purchase of the Class 378 fleet would be authorised in accordance with the Treasury Management Policy.

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the Finance Committee on 8 March 2023

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk