

Board



Date: 25 July 2023

Item: Report of the Meeting of the Finance Committee held on 21 June 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 21 June 2023.
- 1.2 As the meeting was inquorate, with two Members attending in person and three Members joining the meeting via Teams, all decisions were taken using Chair's Action. The meeting was webcast to TfL's YouTube channel to ensure the public and press could observe the proceedings and decision-making.

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 21 June 2023 were published on 13 June 2023, with the Track Labour Framework Extension paper published on 20 June 2023. The papers 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 Members of the Committee were:
 - (a) Use of Delegated Authority;
 - (b) Finance Report – Period 1, 2023/24;
 - (c) Annual Update on Third-Party Funding Secured Through Spatial Planning;
 - (d) Procurement and Commercial Improvement Programme – Cost Management;
 - (e) Procurement and Commercial Improvement Programme – Lessons Learnt;
 - (f) Forthcoming Key Procurement Activities;

- (g) Docklands Light Railway Franchise Procurement;
- (h) Elizabeth Line Concession Procurement;
- (i) Track Labour Framework Extension;
- (j) Capita Access and Wide Area Network Contract: Three Year Extension; and
- (k) Enterprise Risk Update – Efficient and High Performing Supply Chains and Effective Procurement (ER05).

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 11 October 2023.

4 Issues Discussed

Use of Delegated Authority

- 4.1 Members of the Committee noted the paper on the use of delegated authority. Since the last meeting of the Committee on 8 March 2023, there had been one use of Chair's Action in relation to the award of the Mechanical and Electrical Maintenance Services Contract Extension.
- 4.2 There had been four uses of Procurement Authority by the Commissioner in relation to: Microsoft Retender Contract Award Contact Centre Outsourced Services; Project Hina, Phase 2; Signalling System, Maintenance Support Contract for the Elizabeth line; and Service Evolution to ICT12804 Core Support Services.
- 4.3 There had been one Mayoral Direction to TfL in relation to the further financial support fund for Seven Sisters Market traders, which had already been reported to the Board and the Audit and Assurance Committee.

Finance Report – Period 1, 2023/24

- 4.4 Members of the Committee noted TfL's financial results to the end of Period 1, 2023/24, the year-to-date ending 29 April 2023. Performance to date showed strong results and TfL was on track to achieve financial sustainability this financial year.
- 4.5 Total revenue was three per cent (£18m) better than Budget and 26 per cent (£142m) higher than last year. Passenger income was two per cent higher than Budget and total journeys were 88 per cent of pre-coronavirus pandemic levels, up from 85 per cent at the end of 2022/23.
- 4.6 Operating costs were in line with Budget and like-for-like costs were five per cent higher than last year, despite year-on-year inflation of 11.4 per cent. TfL was committed to delivering almost £230m of savings this year.

- 4.7 The underlying operating surplus excluding revenue top-up from Government was £6m, which was a slight improvement on Budget. After adjusting for timing differences, the surplus was £25m better than Budget and TfL remained on track to deliver an operating surplus in 2023/24.
- 4.8 Capital enhancements were 18 per cent below target but expected to be in line with Budget at year-end. Capital renewals spend was 19 per cent (£9m) higher than Budget due to the timing of the London Underground renewals programme. TfL aimed to meet the available funding target of £736m.
- 4.9 Total cash balances were broadly in line with Budget at just under £1.1bn, excluding cash balances identified for Crossrail construction, which was in line with the funding agreement condition. TfL undertook additional short-term borrowing of £176m to offset some large scheduled capital milestone payments, while maintaining liquidity levels, bringing the total borrowing balance to £13,112m.
- 4.10 There were significant risks and challenges going forward, such as economic uncertainty, inflationary pressures and achieving the savings targets. TfL was working hard to mitigate these by driving up passenger demand and making continuous savings. It would need the support of Government to mitigate risks beyond its direct control, namely inflation pressures on TfL's cost base and securing capital funding beyond March 2024.

Annual Update on Third-Party Funding secured Through Spatial Planning

- 4.11 Members of the Committee noted an update for the 2022/23 financial year on third-party funding related to developer contributions and other sources targeted at supporting sustainable development, including Mayoral Community Infrastructure Levy (MCIL), which was used to repay Crossrail financing. It included an overview of other developer contributions secured to contribute towards the delivery of the Mayor's Transport Strategy (MTS).
- 4.12 During the year, TfL secured: £168.2m in MCIL receipts, the highest amount since MCIL was introduced in 2012; £37.9m in Section 106 agreements; £17m in Section 278 agreements, as well as around £1.1m revenue funding.
- 4.13 TfL had leveraged funding to support key step-free access objectives, including £1m Borough Community Infrastructure Levy for improved access at Hounslow West station; £10m from Section 106 for West Hampstead station; £43m from Greater London Authority Levelling Up funding for Colindale and Leyton Underground stations, as well as providing additional capacity to support the delivery of new, affordable homes.
- 4.14 TfL would work with all the successful boroughs from both rounds of the Levelling Up Fund to deliver their transport projects and to support any future bids. Work continued to deliver projects where funding was agreed in previous financial years, such as issuing a notice of intention to order 11 DLR trains and ongoing works at Beckton depot.

- 4.15 Given continued financial challenges, TfL continued to be proactive in seeking additional sources of funding to deliver MTS transport objectives, as well as unlocking new homes and ensuring growth was sustainable, and to pursue opportunities to fund schemes.

Procurement and Commercial Improvement Programme – Cost Management

- 4.16 Members of the Committee noted the update on improving cost management, which was a key priority within the Procurement and Commercial (P&C) Improvement Programme, following the recent review of the Independent Investment Programme Advisory Group (IIPAG).
- 4.17 The initial step would be to standardise the currently fragmented process, which would deliver immediate benefits to the management of capital project budgets. A standard process would also be a key enabler for further improvement, such as effective systemisation and automation, and the options for a future systems solution would be considered. Improvement work had also commenced on cost estimating and cost intelligence.

Procurement and Commercial Improvement Programme – Lessons Learnt

- 4.18 Members of the Committee noted the update on lessons learnt within the P&C Improvement Programme, following the recent IIPAG review. The programme aimed to reduce operating costs, improve processes and systems, and enhance the capability of the P&C team to improve the overall service offering and delivery of benefits for TfL.
- 4.19 Challenges that contributed to some of the delivery gaps included: deviation from the original programme scope; inconsistency of sponsorship and leadership; inadequacy of governance and oversight; multiple support partner procurements and changes; insufficient focus on capital-specific requirements; descoping of further operating model review activity; and SAP Ariba change management and delay issues.
- 4.20 Practices that contributed to the successes included: use of industry-leading support partners; inclusive engagement of stakeholder groups in design phases; P&C management framework in-person training; and transfer of Ariba scope of deployment and change support structure.
- 4.21 A detailed lessons learnt exercise on the SAP Ariba programme would be undertaken in June 2023. Progress updates on the 14 improvement workstreams would be brought to future Committee meetings to ensure that the lessons learnt were fully embedded in the new ways of working.

Forthcoming Key Procurement Activities

- 4.22 Members of the Committee noted the summary of the major new procurements or contract extensions that would require approvals over the next 12 months and those required from the Committee by way of Chair's

Action before its next meeting in October 2023. It also highlighted significant forthcoming procurements that required approval at officer level during that period.

- 4.23 There was a recognised need to provide the Committee and other decision-makers in TfL with a forward look on the pipeline of major procurements requiring decisions. The strategy approvals and contract awards due between June 2023 to May 2024 covered 165 contracts, with an estimated total value of £6bn and an equivalent annual spend of £1.43bn.
- 4.24 Planned procurement activities ahead of the next meeting of the Committee included three contract extensions or variations that would require approval by Chair's Action, and 12 other significant procurements that required approval at officer level during the period.

Docklands Light Railway Franchise Procurement

- 4.25 Members of the Committee noted the update on the forthcoming procurement process planned to be undertaken by Docklands Light Railway Limited (DLRL) for the new franchise for the provision of passenger operations and maintenance of the DLR.
- 4.26 Early market engagement meetings would be held with prospective bidders and DLRL intended to commence the procurement process by issuing a contract notice in summer 2023. Approval for the award of the new franchise agreement and related matters would be sought from the Committee in due course.

Elizabeth Line Concession Procurement

- 4.27 Members of the Committee noted the update on the forthcoming procurement process planned to be undertaken by Rail for London, a wholly owned subsidiary of TfL, for the new concession for the provision of passenger operations on the Elizabeth line.
- 4.28 Early market engagement meetings would be held with prospective bidders in June 2023. Approval for the award of the new concession agreement and related matters would be sought from the Committee in due course.

Track Labour Framework Extension

- 4.29 The Chair, following consultation with Members, approved the extension of the Track Labour Framework to March 2025; approved Procurement Authority for £588.75m for the period to March 2024; and noted a further request would follow for the financial year 2024/25.
- 4.30 The framework provided external track labour resources required to supplement London Underground's direct labour. The extension was critical to ensure continuity of supply to support safety critical maintenance, enhancements and renewals across the network.

Capita Access and Wide Area Network Contract: Three Year Extension

- 4.31 The Chair, following consultation with Members, granted Procurement Authority for the three-year extension of the Capita Access and Wide Area Network Contract.
- 4.32 In December 2017, the Committee granted Procurement Authority to enter into the contract with Capita Business Services Limited. The contract was the vehicle through which TfL was consolidating and rationalising its portfolio of commodity outsourced network services. The contract had an initial five-and-a-half-year term which ran until 9 August 2023.
- 4.33 The contract included options for TfL to extend its duration beyond the initial term and the current agreement extended the contract for a further three years to 9 August 2026.

Enterprise Risk Update – Efficient and High Performing Supply Chains and Effective Procurement

- 4.34 Members of the Committee noted TfL's current position on efficient and high-performing supply chains and effective procurement and the risk management approach to the increased scope of the risk, which now included capability, compliance, supply chain disruption and value for money.
- 4.35 Members noted the scope of the Enterprise Risk, current assessment, preventative controls, mitigation activities in place and improvement plans associated with upcoming P&C improvement workstreams to reduce TfL's risk across its procurement, commercial and supply chain activities.

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the Finance Committee on 21 June 2023

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