

Transport for London

Minutes of the Finance Committee

**Conference Rooms 1 and 2, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Wednesday 11 October 2023**

Members

Anne McMeel (Chair)
Anurag Gupta (Vice-Chair)
Professor Greg Clark CBE (via Teams)
Seb Dance

Government Special Representative

John Hall

Executive Committee

Andrea Clarke	Interim General Counsel
Andy Lord	Commissioner
Rachel McLean	Chief Finance Officer

Staff

Justine Curry	Interim Director of Legal
Stephen Dadswell	Head of Corporate Finance
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Oliver Gearing	Finance Director - Operations
Joanne Hawkes	Director of Corporate Finance
Lorraine Humphrey	Director of Risk and Assurance
Shamus Kenny	Head of Secretariat
Patrice Locker	Senior Risk Manager
Paul Mason	Group Treasurer
Heather McStay	Head of Procurement, Facilities Management
Pritesh Patel	Head of Financial Planning and Analysis
Christopher Tann	Head of Financial Accounting and Tax
Jonathan Wharfe	Director of Procurement and Commercial Operation

37/10/23 Apologies for Absence and Chair's Announcements

An apology for absence had been received from Dr Nina Skorupska CBE. Professor Greg Clark CBE was attending the meeting via Teams and was able to participate in the discussion but did not count toward the quorum. The meeting was quorate.

The Chair welcomed everyone to the meeting, particularly the new Procurement and Commercial team apprentices and graduates, who observed the meeting from the public gallery. The meeting was being broadcast live to TfL's YouTube channel, 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.

It was Anurag Gupta's first meeting as Vice-Chair. The Chair expressed her gratitude for the advice and support received from his predecessor as Vice-Chair, Ben Story, and looked forward to continuing the important work of the Committee.

As Anurag Gupta would need to leave the meeting at 12 noon, at which it would be inquorate, the Chair reordered the agenda so that the meeting was quorate for all items that required a decision. The items on Roadside Advertising Assets Disposal, London Overground Infrastructure Maintenance Contract Extension, and Fabric and Drainage Maintenance Services Contract Extension were taken immediately before the item on Prudential Indicators – Outturn for the year ending 31 March 2023. The minutes reflect the meeting agenda order.

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 the appropriate member of the Executive Committee after the meeting.

38/10/23 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.

39/10/23 Minutes of the Meeting of the Committee held on 21 June 2023

The minutes of the meeting of the Committee held on 21 June 2023 were approved as a correct record and the Chair was authorised to sign them.

40/10/23 Matters Arising and Actions List

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

The Committee noted the updated actions list.

41/10/23 Use of Delegated Authority

Andrea Clarke introduced the paper. Members noted that since the last meeting of the Committee, on 21 June 2023, there had been one use of Chair's Action in relation to the Crossrail Assets Restructuring.

There had been one use of Procurement Authority by the Commissioner in relation to the GTT Network Contract Variation.

The paper referenced one Mayoral Direction to TfL in relation to Withdrawal of Day Travelcards on the TfL Network. Since the publication of the paper, the Mayor directed TfL to implement and operate the 18-25 Care Leavers' Discounted Travel Concession Scheme as soon as practicable before the end of February 2024. This would provide

Care Leavers with half-price adult fares on the TfL bus and tram network. TfL would fund the development and ongoing costs of this new concession from its existing budgets, including utilising previous financial support for Mayoral ticketing priorities which had already been provided by the Greater London Authority.

The Committee noted the paper.

42/10/23 Finance Report – Period 5, 2023/24

Patrick Doig and Pritesh Patel 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 5 of 2023/24, the year-to-date ending 19 August 2023. Performance to date continued to show strong results and TfL was successfully rebuilding its finances, delivering an operating surplus and was on track to achieve financial sustainability this financial year.

In July 2023, the Department for Transport (DfT) confirmed that TfL would not receive £181m of inflation funding for this financial year. After some changes to the DfT revenue top-up mechanism to reflect last year's fares rises, this created a £137m funding gap for 2023/24. TfL would mitigate this gap through a combination of deferring capital expenditure and short-term financing options.

TfL was actively growing passenger demand, while creating new sources of revenue to reduce reliance on fares income. In Period 5, cumulative growth was on target at just over six per cent. Passenger journeys were relatively steady at 89 per cent of pre-coronavirus pandemic levels, up from 85 per cent at the end of 2022/23. There was some pressure on road enforcement income from the delays to the Deployable Enforcement Cameras rollout. Overall, total revenue was in line with budget.

TfL continued to make recurring cost savings. Like-for-like operating costs were seven per cent higher than last financial year, despite year-on-year inflation of 11 per cent, so a fall in real terms. Operating costs were two per cent lower than budget, mainly from contingencies not yet used. There were some cost pressures from bus operator performance payments, due to improving performance. There were also some timing differences in delivering savings, but TfL remained committed to delivering almost £230m of savings this year.

In the year to date, TfL made an operating surplus of £47m, excluding revenue top-up from Government, which was £85m better than budget. The headline surplus was £143m which was £72m better than budget. After adjusting for timing differences for later delivery of savings and contingency, the surplus was £25m better than budget. TfL remained on track to deliver an underlying operating surplus in 2023/24.

TfL was focussing on fully funding its capital programme with a long-term Government agreement and affordable level of debt. Capital renewals were slightly lower than budget but were expected to be in line with available funding of £736m over the full year. Capital enhancements continued to slip and were £70m below budget, partly due to funding uncertainty.

Cash balances were in line with budget at just over £1.2bn, as set out in the funding agreement. The GLA financing facility of £500m was maintained for additional protection against shocks and risks.

John Hall advised that the fiscal environment had changed enormously since the funding agreement was made. The DfT was having to cover its own inflation costs and difficult decisions had to be made, although it was not ideal that TfL had not received the inflation funding decision earlier in the year.

There was also uncertainty around capital funding for the next financial year. TfL submitted its 2024/25 Capital Business Case to the DfT in September 2023 and expected an outcome on capital funding in the autumn. It was crucial to confirm funding with Government well in advance of March 2024, when TfL's budget was finalised, and active discussions were underway. Without capital funding confirmation, TfL would have to reprioritise its Business Plan, undoing the progress made under the current funding agreement. It would again need to start making difficult choices relating to reducing service levels, asset renewals and delaying non-committed investment.

Specific work was underway to demonstrate how the Elizabeth line was providing economic growth in London and across the South East. To help demonstrate and draw a direct link between ridership across the network and the economic value to London and the wider United Kingdom (UK), other information would be consolidated (such as case studies on the impacts on tourism, the West End of London, employment and the additional bus services), to articulate the benefits of investing in transport services.

[Action: Rachel McLean]

A chart from the DfT showing the proportion of capital funding across UK transport would be circulated to the Committee for additional context.

[Action: Andy Lord]

Further consideration would be given to the possible outcomes of the Crossrail 2 funding workstream and TfL would continue to discuss the safeguarding for the scheme with the DfT.

The Committee noted the Finance Report and the exempt supplementary information on Part 2 of the agenda.

43/10/23 Prudential Indicators – Outturn for the year ending 31 March 2023

Patrick Doig and Christopher Tann introduced the paper, which set out TfL's performance against the prudential indicators for the financial year 2022/23.

The prudential indicators and debt limits were approved by the Board on 23 March 2022. These were based on figures in TfL's Budget and 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 2022/23 Statement of Accounts had been used to calculate the outturn. The outturn for the financial year 2022/2023 was satisfactory upon comparison with the prudential indicators, albeit that there were ongoing constraints on TfL's ability to further borrow to fund capital investment. TfL had managed its debt within the limits approved by the Board but there were two metrics that were above the approved limits, for reasons that were allowable under the Prudential Code.

The overall capital expenditure for the Group and the Corporation was exceeded but was based on the March 2022 Budget, which was prepared prior to the August 2022 Government funding agreement. The main driver for the Corporation increase was funding the purchase of the Class 378 London Overground rolling stock.

The ratio of financing costs to net revenue stream, which measured TfL's net financing costs, had been exceeded due to higher levels of capital expenditure so more grant income was allocated to capital spend.

The Committee noted the paper.

44/10/23 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 18 February to 22 September 2023.

In May 2023, credit rating agency Standard & Poor's revised its outlook on TfL to positive from stable and affirmed the ratings 'A+/A-1', largely due to return to ridership. Ratings with Moody's and Fitch remained unchanged. TfL continued to monitor the affordability of future borrowing plans, using the debt affordability ratios presented to the Committee in March 2023.

TfL continued to manage its liquidity levels and the maximum duration of investments had remained at three months. Investments remained short dated, with 93 per cent maturing within two months. The weighted average investment yield was 5.36 per cent.

Work with TfL's commercial property subsidiary, Places for London Limited (formerly TTL Properties Limited), continued to enable it to meet its treasury management requirements including the production of cash forecasts, which enabled TfL to begin depositing surplus cash.

On risk management, TfL remained well hedged at 93 per cent and continued to monitor its foreign exchange and interest rate risk, using derivatives to hedge material exposures. TfL had £12,725m in outstanding borrowing with an average tenor of 19.46 years and a weighted average interest rate of 3.46 per cent. TfL estimated an incremental borrowing requirement of £191m for 2023/24.

Automation of the daily CHAPS payment process was successfully implemented in May 2023. TfL was working with its banking provider and outsourced partner to build a new virtual bank account structure as part of the Places for London Limited Client Split Project, which was expected to be completed by late October 2023.

Ongoing collaboration with the Greater London Authority (GLA) and its investment subsidiary, London Treasury Limited (LTL), continued to progress. Focus remained on integrating treasury processes with banking and settlements of securities, which was proposed to be provided by TfL as a shared service. Investment management would be managed by LTL with TfL seconding two of its Treasury team, with one full-time equivalent resource allocation to assist in due course.

The Chair expressed her thanks to Anurag Gupta and Ben Story for their work with the Treasury team and the GLA on the set-up of the new arrangements, which was very helpful and had resulted in a good outcome.

It was anticipated that TfL's Treasury Management Policy would be revised in future due to increased investment with the GLA. Consideration would be given to whether some constraints could be relaxed to take advantage of investment options that were available now that cash was yielding more benefits than previously. **[Action: Joanna Hawkes]**

Following a separate discussion with Anurag Gupta, a briefing note on the potential benefits and risks of borrowing commercial paper in other currencies would be circulated to the Committee. **[Action: Joanna Hawkes]**

Members noted that the figures on foreign exchange hedges in table 4.6 in the Part 2 paper had inadvertently been juxtaposed.

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

45/10/23 Roadside Advertising Assets Disposal

Stephen Dadswell introduced the paper and related supplementary information on Part 2 of the agenda, which provided an update on the planned disposal of some of TfL's income-producing roadside advertising assets in return for capital income.

When the Committee last received a paper on Roadside Advertising in June 2021, the assets were considered saleable and the cash injection was needed. Since then, significant development work had been carried out. All revenue generating assets were valuable but roadside media were regarded as non-core assets. Most of TfL's advertising revenue came from London Underground and bus shelters, which were not in scope of the proposal.

It was anticipated that approval of Land Authority to enter into the contracts was necessary, this would be sought at a future meeting of the Committee, or via Chair's Action. Members requested that additional information be included in the paper when it came back to the Committee for approval in relation to: the proportion of the wider portfolio of roadside advertising that the sites represented; the percentage revenue from the overall roadside advertising activity and any consequences for the remaining activity; if there were any alternative uses for the land; and assurance that the most competitive and best value offer had been generated. **[Action: Stephen Dadswell]**

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

46/10/23 London Overground Infrastructure Maintenance Contract Extension

Jonathan Wharfe introduced the paper and related supplementary information on Part 2 of the agenda, which sought Procurement Authority for the extension of the current London Overground Infrastructure Maintenance Contract of up to two years.

The contract was operationally critical for the maintenance of infrastructure assets controlled directly by London Overground and to ensure the smooth running of the London Overground rail service.

The contract was awarded by Rail for London Limited (RfL) in January 2018 to Cleshar Contract Services Limited for an initial contract term of five years, with the option to extend for further periods up to a total of 36 months. To date, a 12-month extension had been implemented and the current expiry date was 31 March 2024. RfL proposed to extend the term of contract for up to a further two years until 31 March 2026, to retender and ensure the correct commercial terms were in place.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and granted Procurement Authority, at the sum set out in the related paper on Part 2 of the agenda, for the extension of up to two years of the London Overground Infrastructure Maintenance Contract, as described in the paper and the related paper on Part 2 of the agenda.

47/10/23 Fabric and Drainage Maintenance Services Contract Extension

Heather McStay introduced the paper and related supplementary information on Part 2 of the agenda, which sought additional Procurement Authority for the contract extension for the provision of fabric and drainage maintenance services across the London Underground estate, including stations, depots and substations. The works preserved the day-to-day safety of services.

The contract was awarded to Lanes Group Plc in 2017 for an initial period of five years, concluding on 24 June 2022, with an option for TfL to extend for up to a further 36 months.

The contractual option to extend was exercised on 25 June 2022 for a period of 19 months to 24 January 2024, with Procurement Authority approved by the Committee via Chair's Action on 28 January 2022. That extension facilitated development of the fabric and drainage scope for the retender of the contract. To achieve the benefits of the latest procurement strategy, a further extension of elements of the current contract was required, to align service end dates with contract arrangements currently being procured.

The total cumulative Procurement Authority sought for the extended contract was within the values specified in the procurement process under which the contract was originally let.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and granted additional Procurement Authority, in the sum set out in the related paper on Part 2 of the agenda, for the extension of a contract for the supply of Fabric and Drainage Maintenance Services across the TfL estate.

48/10/23 Enterprise Risk Update – Financial Resilience (ER07)

Patrick Doig introduced the paper and related supplementary information on Part 2 of the agenda, which provided an update on Enterprise Risk 07 – Financial Resilience (ER07). This was the first time that the risk had been presented to the Committee.

Changing market conditions, financial shocks, stakeholder relationships or internal delivery issues lead to the risk of TfL not having sufficient financial resources to make sufficient progress towards its strategic objectives. The paper outlined the scope of ER07, current assessment, preventative controls, mitigation activities in place and improvement plans to reduce TfL's risk across its financial activities.

In 2023/24, TfL was currently on course to achieve financial sustainability and deliver an operating surplus, which meant that financial resilience had reverted to being an Enterprise Risk, rather than a live issue. Capital funding remained a strategic issue for TfL and continued to be managed accordingly.

Although TfL's financial position had improved since 2020/21, there remained strategic risks to its financial resilience, categorised as systemic risk, liquidity risk, solvency risk, credit risk and operating risk. Areas focussed on for improvement were cash forecasting and cash management, as TfL would be operating with a tighter cash position for the foreseeable future. Improvements were underway to understand and track cash across the management structure of the organisation which would result in enhanced reporting.

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

49/10/23 Members' Suggestions for Future Discussion Items

Andrea Clarke introduced the item.

Members noted that a number of informal briefings were scheduled, particularly around Business Planning which was the focus for the next few months.

The Committee noted the forward plan.

50/10/23 Any Other Business the Chair Considers Urgent

There was no other urgent business to discuss.

51/10/23 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 22 November 2023 at 10.00am.

52/10/23 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: Finance Report – Period 5, 2023/24; Treasury Activities; Roadside Advertising Assets Disposal; London Overground Infrastructure Maintenance Contract Extension; Fabric and Drainage Maintenance Services Contract Extension; and Enterprise Risk Update – Financial Resilience (ER07).

The meeting closed at 12.09pm.

Chair: _____

Date: _____