

Board



Date: 12 June 2024

Item: Report of the Meeting of the Finance Committee held on 13 March 2024

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 13 March 2024.

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 13 March 2024 were published on 5 and 8 March 2024 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) TfL Budget 2024/25;
- (c) TfL Prudential Indicators 2024/25 to 2026/27;
- (d) Finance Report – Period 11, 2023/24;
- (e) Treasury Activities, Policies and Strategies;
- (f) Investment Management Strategy 2024/25 – Non-Financial Assets;
- (g) Taxi Fares and Tariffs Update;
- (h) Track Labour Framework Extension;
- (i) London Transport Museum: Covent Garden Site;
- (j) Forthcoming Key Procurement Activities;
- (k) Risk and Assurance Report Quarter 3 2023/24; and
- (l) Enterprise Risk Update – Changes in Customer Demand (ER9).

- 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 July 2024.

4 Issues Discussed

Use of Delegated Authority

- 4.1 The Committee noted the paper on the use of delegated authority. Since the meeting of the Committee on 22 November 2023, there had been one use of specific authority delegated by the Board in relation to approval of the 2024 TfL Business Plan; and one use of Chair's Action in relation to the capital funding settlement with the Department for Transport (DfT).
- 4.2 There had been five grants of Procurement Authority in relation to: FM Mechanical and Electrical Maintenance (Rail) contracts; Through the Line Strategic Thinking contract; Collaborative Print Management contract; London Cable Car Operations and Maintenance Contract Re-procurement; and Vehicle licensing, inspection services and an end-to-end information technology system contract. There had been one grant of unbudgeted Financial Authority in relation to urgent maintenance resources for Central line recovery and unbudgeted Financial Authority granted in relation to bus operating contracts.
- 4.3 There had been three Mayoral Directions to TfL relating to: the March 2024 Fare Change which included freezing TfL-regulated fares set by the Mayor; introducing a trial of all-day off-peak fares on Fridays on all TfL rail services and pay-as-you-go fares on National Rail services in London; and amending the existing London Vehicle Scrappage Scheme Delegation and Direction to confirm that TfL was able to use the Scheme to fund the donation and removal of non-compliant vehicles from use in Greater London to Ukraine.

TfL Budget 2024/25

- 4.4 The Committee approved the TfL Budget for 2024/25, which built on the 2024 Business Plan. On 6 March 2024, the Board had delegated approval of the Budget to the Committee.
- 4.5 TfL would deliver an operating surplus in 2023/24, all of which was reinvested into maintaining and improving the network. The Budget built on this foundation and showed how TfL would grow its operating surplus to increase its ability to invest. Government recognised that it was not possible for TfL to fully fund all major projects and asset replacement from its own sources of income. It would still need sufficient and long-term capital funding from Government to commit to and deliver the long-term investment required to replace major assets such as rolling stock, signalling and critical roads, bridges and structures.

- 4.6 Progress on delivering against the Budget would be reported to the Committee and Board throughout 2024/25. As required under the 2024/25 capital funding settlement with Government, TfL would also continue to provide quarterly financial reporting to the DfT and its advisers, update them on how it was maintaining operational financial sustainability and on progress with the requirements of the funding settlement.

TfL Prudential Indicators 2024/25 to 2026/27

- 4.7 The Committee approved TfL's Prudential Indicators and the Treasury Management Indicators for 2024/25 and the following two years, and the annual Policy Statement on Minimum Revenue Provision.
- 4.8 TfL's borrowing limits and other Prudential Indicators were consistent with the proposed Treasury Management Strategy for 2024/25, which was also approved at the meeting, and the principles underpinning the proposed long-term TfL Capital Strategy.

Finance Report – Period 11, 2023/24

- 4.9 The Committee noted TfL's financial results to the end of Period 11 of 2023/24, the year-to-date ending 3 February 2024.
- 4.10 Performance continued to show strong results and TfL was successfully implementing its finance strategy and remained on track to achieve operational financial sustainability in the 2023/24 financial year. At 10 months into 2023/24, TfL was within 0.4 per cent of its revenue budget, one per cent of core costs, one per cent of capital renewals and one per cent of financing costs.
- 4.11 TfL had met all the funding conditions within its control under the August 2022 Government funding settlement. An informal briefing on the future savings and investment programme, with a focus on high level savings generation and retention, would be provided to all Board Members later in 2024.

Treasury Activities, Policies and Strategies

- 4.12 The Committee noted TfL's key treasury activities for the period from 23 September 2023 to 23 February 2024 and approved the TfL Treasury Management Strategy for 2024/25, the TfL Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments (Derivatives Policy), along with the proposed Places for London Limited (TfL's property development company) Treasury Management Strategy and the Places for London Treasury Management Policies. Approval of these strategies and policies was within the authority of the Committee.
- 4.13 TfL's ongoing investment collaboration with the Greater London Authority (GLA) was progressing and approval had been received from the GLA Group Collaboration Board in December 2023 for the design and to proceed with the implementation. The collaboration was expected to conclude in June 2024, at

which point TfL expected to invest further in the London Treasury Liquidity Fund LP.

Investment Management Strategy 2024/25 – Non-Financial Assets

- 4.14 The Committee approved the Investment Management Strategy 2024/25 – Non-Financial Assets, which set out how TfL planned to manage and grow its various commercial assets. Approval of the strategy was within the authority of the Committee and would be noted at a meeting of the Land and Property Committee.
- 4.15 The strategy had been updated to clarify which items of non-financial investment were managed through TfL's subsidiary, Places for London and which were managed directly by TfL. The strategic objectives had been updated to align with the shareholder objectives agreed between TfL and Places for London, and the strategy relating to Media and Telecommunications had been updated to reflect the latest developments.

Taxi Fares and Tariffs update

- 4.16 The Committee noted the update on the outcome of the 2023/24 taxi (black cab) fares and tariffs review and approved increasing Tariffs 1, 2 and 3 by the total Cost Index figure (+8.92 per cent) to reflect the change in both taxi drivers' operating costs and average national earnings; making the Tariff 4 rates the same as the Tariff 2 rates; reducing the Heathrow extra from £3.60 to £2.00; and increasing the fixed-fares for shared-taxis that operate between Wimbledon station and the All England Lawn Tennis Club (AELTC) and Southfields station and the AELTC during the Wimbledon Tennis Championships.
- 4.17 The review found that taxi drivers' operating costs included large increases in vehicle costs, electricity/charging and insurance. TfL consulted on different options for fares and tariffs for consideration by respondents. It reviewed all of the responses to the consultation and considered the issues raised, and the positive and negative impacts identified.

Track Labour Framework Extension

- 4.18 The Committee noted the update on the Track Labour Framework and approved additional Procurement Authority for the external track labour resources required to supplement London Underground's direct labour for the financial year 2024/25. The external, skilled labour was deployed across the network to support safety critical maintenance, enhancements and renewals of track assets.
- 4.19 In June 2023, the Committee approved the extension of the framework until March 2025 and granted Procurement Authority to March 2024, as part of the transition to a new approach to the market for the service. It was noted at the time that additional Procurement Authority would be sought to March 2025 after funding discussions with Government had concluded. It was likely that a further extension in time and value would be sought later in 2024/25 as the

transition arrangements progressed. A further update paper would be brought to the next meeting of the Committee.

- 4.20 Due to the complexity of the work involved, an informal briefing on the Track contracts strategy and delivery was provided to Committee Members in April 2024, which all Board Members were invited to attend.

London Transport Museum: Covent Garden Site

- 4.21 The Committee noted the update on potential future proposals for development of London Transport Museum's (LTM) site in Covent Garden.
- 4.22 LTM had occupied the flower market building in Covent Garden since 1980. LTM was London's third fastest recovering attraction in the post-coronavirus pandemic market and footfall and income was now capped by space and capacity constraints at peak times. The Committee noted the options to alleviate the constraints.

Forthcoming Key Procurement Activities

- 4.23 The Committee noted the summary of the major new procurements or contract extensions planned over the next two years and decisions that were anticipated to be required from the Committee by way of Chair's Action over the next six months. It also noted the significant forthcoming procurements that required approval at officer level during that period.
- 4.24 The two-year look ahead included those projects with an estimated value of £1m or over and covered 224 contracts with an estimated total value of £27bn, and equivalent annual spend of £2.9bn when prorated by the length of the contracts.
- 4.25 An informal briefing on the strategy for future wider concessions procurement would be provided to Committee members, to take place in line with the strategy harmonisation.

Risk and Assurance Report Quarter 3 2023/24

- 4.26 The Committee noted the overview of the status of and changes to Enterprise Risk 5 – Efficient and high performing supply chains and effective procurement (ER5), Enterprise Risk 7 – Financial resilience (ER7) and Enterprise Risk 9 – Changes in customer demand (ER9). It also noted the findings from the assurance activity associated with the risks.
- 4.27 A separate update paper on ER9 was considered at the meeting. The 12-month rolling schedule was being developed, which would confirm when the other risks would be reported to the Committee.
- 4.28 The 85 per cent target for delivery of the internal audit plan was expected to be met as the work rate picked up. There had been a poorly controlled audit around cycle hire and bad debt. There had been several referrals of alleged counter-fraud and corruption through the website. The most-risky parts of the business were being targeted, resulting in some poorly controlled and

requires improvement audits. TfL had a clear focus on dealing with and closing the audit actions as soon as possible. Additional measures had been put in place to prevent actions becoming overdue and the trend was improving.

Enterprise Risk Update – Changes in Customer Demand (ER9)

- 4.29 The Committee noted the update on the current understanding and control measures on ER9 – Changes in customer demand, which was a broad risk with significant potential implications for TfL’s financial sustainability and delivery of its transport strategy.
- 4.30 Passenger demand had now stabilised and was around 90 per cent of pre-pandemic levels. Protection against revenue volatility was due to end by 31 March 2024, in line with the August 2022 funding settlement with Government, which would increase the level of TfL’s exposure to change in customer demand and increase the potential impact of the risk to financial sustainability. As passenger demand had increased by six per cent in the 2023/24 financial year, the overall risk score had been reduced from Very High to High, following the risk assessment.
- 4.31 Longer-term scenario planning considered a wide basket of indicators, including technology innovations, and were updated each year to help shape the passenger forecasts for the next Business Plan. Artificial intelligence would be factored into the longer-term forecasts going forward including the fast-moving nature of this area.

List of appendices to this report:

None

List of Background Papers:

Papers submitted to the meeting of the Finance Committee held on 13 March 2024

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