

Transport for London

Minutes of the Finance Committee

**Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Wednesday 9 October 2024**

Members

Anne McMeel (Chair)
Deborah Harris-Ugbomah (Vice Chair)
Zoë Billingham CBE
Seb Dance (from Minute 49/10/24 inclusive)

Government Observer

Samantha Collins-Hill Deputy Director, London Partnerships and Delivery,
Department for Transport

Executive Committee

Andrea Clarke General Counsel
Rachel McLean Chief Finance Officer

Staff

James Collins	Corporate Finance Senior Manager (D&R)
Justine Curry	Interim Director of Legal
Patrick Doig	Group Finance Director and statutory Chief Finance Officer
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director of Corporate Finance
Lorraine Humphrey	Director of Risk and Assurance
Shamus Kenny	Head of Secretariat
Heather McStay	Head of Procurement - FM
Collan Murray	Head of Procurement and Commercial Improvement
Henry Yeomans	Head of Procurement – Track and Fleet

44/10/24 Apologies for Absence and Chair's Announcements

Apologies for absence had been received from Professor Greg Clark CBE and Anurag Gupta. Seb Dance had given apologies for lateness. The meeting was quorate.

Andy Lord, Commissioner, was unable to attend the meeting.

The Chair welcomed everyone to the meeting, particularly new Board Members Deborah Harris, as Vice Chair, and Zoë Billingham CBE, as it was their first meeting of the Finance Committee. The meeting was 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.

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.

45/10/24 Declarations of Interests

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date.

Since the last meeting of the Committee, Anne McMeel had been appointed as a Non-Executive Director to the National Crime Agency Board.

There were no interests to declare that related specifically to items on the agenda.

46/10/24 Minutes of the Meetings of the Committee held on 11 July and 19 August 2024

The minutes of the meetings of the Committee held on 11 July and 19 August 2024 were approved as correct records, and the Chair was authorised to sign them.

47/10/24 Matters Arising and Actions List

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

An update in relation to the actions on the Taxi Trade and Kerbside Review Timescale from the meetings on 8 March and 21 June 2023 would be circulated to Committee Members following the meeting. **[Action: Alex Williams / Claire Mann]**

The Committee noted the updated actions list.

48/10/24 Use of Delegated Authority

Andrea Clarke introduced the item. Since the meeting of the Committee on 11 July 2024, there had been no use of specific authority delegated by the Board, nor any Mayoral directions to the Board within the remit of the Committee.

There had been one use of Chair's Action for Procurement Authority, unbudgeted Financial Authority, and Programme and Project Authority specifically in respect of the Capital Commitments, for the award of New Advertising Arrangements for Rail (including London Underground) and for Bus Shelters.

Several bus operating contracts had required unbudgeted Financial Authority approval by the Chief Finance Officer. There had also been four uses of Procurement Authority in relation to: the Digital Spot Speed Cameras contract; the Fire Protection (Rail) maintenance contract; Trust Fund Payments for claims processed through TfL's Private Medical Benefit Administrator contract; and the Telephony Maintenance contract ancillary services.

The Committee noted the paper.

49/10/24 Finance Report – Period 5, 2024/25

Rachel McLean and Patrick Doig introduced the item, which set out TfL's financial results to the end of Period 5 of 2024/25, the year-to-date ending 17 August 2024.

TfL was currently dealing with an ongoing cyber security incident. With support from the National Cyber Security Centre and the National Crime Agency, it identified some suspicious activity on 1 September 2024 and took action to limit access. TfL continued to work with partners to conduct a thorough investigation into the incident. The National Crime Agency was leading the law enforcement response and as such limited information could be shared. The incident occurred after the end of Period 5 and did not form part of the report but would be included in updates to future meetings.

Period 2 had seen growth in passenger journeys compared to last year, although the growth this financial year so far had been lower than expected. The trend continued into Period 5 but the rate had slowed further. Travel patterns tended to change in the month of September, which would provide further insight into the extent to which the trends would impact the second half of the year and the longer-term.

The trend on passenger demand continued to be the primary focus of TfL's work to analyse performance and improve forecast results this year. TfL historically had a strong track record of accurately forecasting passenger demand and was investigating three broad areas for analysis around the economy, return to work patterns and service levels, with the economy being the dominant factor. Some of the drivers for the shortfall in passenger income included: lower income growth, which was affecting the choices of individuals and households; lower wage growth for younger adults who used TfL's services more; inflation costs; higher housing costs, particularly in London; higher interest rates; and economic uncertainty.

Evidence to date suggested that the rate of growth in commuter related demand had started to decline but was now beginning to stabilise, and employment levels continued to grow across London. Some service levels continued to perform below TfL's expectations, which was anticipated to have an impact on levels of demand. This included the Central line on London Underground, which TfL had plans in place for improvement in autumn 2024.

TfL had plans to mitigate some of the cost pressure and was strengthening additional soft controls over discretionary expenditure that it put in place several months ago. A TfL-wide exercise was looking at existing trends where expenditure was lower than Budget and identifying strategic opportunities to do more fine tuning, noting that the stretch to save more on operating costs was only around two per cent of total expenditure over the year.

Capital renewals were up compared to the last financial year, as TfL increased renewals investment to start to mitigate the backlog of asset replacement. Enhancements spend was expected to be a little lower than last year, due to the agreement to defer some payments and the variation under the Manufacture and Supply Agreement for the Deep Tube Upgrade Programme with Siemens Mobility Limited in response to the Government funding settlement in 2024/25.

Average cash balances for the financial year had been maintained above the minimum cash requirement of £1.3bn. At the end of Period 5, TfL's cash balance was £1.27bn, which was £140m below Budget due to timing differences.

There had been just over two per cent cumulative growth in customer journeys from the last financial year, compared to the six per cent year-on-year growth budgeted for and in addition to nine per cent growth in 2023/24. Journeys were 52 million lower than Budget and total revenue was £78m, which was four per cent lower than Budget. TfL had forecast that this could increase to around £150m lower than Budget by year end.

TfL was able to mitigate an element of the pressure so the operating surplus was forecast to be £100m lower than Budget at £61m for the full financial year. Every penny of the surplus generated was committed entirely to supporting TfL's Investment Programme. Operating costs were one per cent lower than Budget, mainly from cost control and contingency held to mitigate risks on revenue. The Budget included delivery of £259m of savings this financial year, including £130m of recurring savings. Real terms like-for-like operating costs were over £100m lower than in 2020/21.

Another key measure was the level of accounting reserves and TfL planned to rebuild its usable reserves by the end of 2025/26, which was a key feature of the Budget.

In July 2024, Moody's had upgraded TfL's long-term and short-term credit ratings by one notch to A2/P-1 and changed the outlook to stable. The rating was based on significant improvements in TfL's operating performance, which Moody's expected to be sustained with growing operating surpluses over the medium-term.

TfL started 2024/25 with a £250m contribution from Government for its major capital investment programmes, the majority of which was received in 2023/24. It continued to work with the constructive support of Government to make the case for a multi-year settlement for capital to enable greater efficiency in planning and procurement. Positive discussions with Government continued and were currently focused on the 2025/26 funding arrangements. TfL continued to demonstrate the positive impact its expenditure had on jobs and growth, not only in London and the South-East but across the UK.

A deep-dive into TfL's work to minimise bad debt, including the comprehensive programme to tackle the worsening trend of repeat and persistent fare evasion, would be brought to a future meeting of the Committee. **[Action: Rachel McLean]**

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

50/10/24 Treasury Activities

Joanna Hawkes and James Collins introduced the item, which provided an update on TfL's key treasury activities for the period from 24 February to 20 September 2024.

There had been some minor impact to workflows during the cyber security incident, although treasury activities and banking systems remained operational throughout with no disruption to payments and key stakeholders were being kept informed.

Credit rating agency Fitch had revised TfL's outlook to stable from negative. S&P Global Ratings and Moody's had both upgraded the long-term and short-term rating for TfL with a stable outlook. Benefits from the upgrades included reduced costs of commercial paper borrowing.

TfL continued to comply with its liquidity policy and minimum cash levels. It continued to diversify cash investments and just under 94 per cent of investments remained short-

dated maturing within two months. The weighted average investment yield was 5.01 per cent.

The Budget set out an incremental borrowing amount of £470m, in addition to £250m of refinancing. Borrowing of £580m was completed, including the £300m facility to support the DLR rolling stock replacement programme. The balance of outstanding commercial paper had increased, partly due to Government permission to issue in Euros and US dollars.

TfL continued to work with its banking provider HSBC, Places for London and the London Transport Museum to implement automated direct debit mandates to replace the paper-based systems and streamline processes.

The ongoing collaboration project with the Greater London Authority (GLA) had progressed well and the project team now operated the same treasury management system as TfL, which had been a major milestone. Secondment agreements were progressing and onboarding of GLA colleagues had begun. On the back-office collaboration, the shared service agreement was being finalised and expected to go live in November 2024.

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

51/10/24 Prudential Indicators – Outturn for the Year Ending 31 March 2024

Patrick Doig introduced the item, which set out TfL's performance against the prudential indicators for the financial year 2023/24. The prudential indicators and debt limits were approved by the Board on 29 March 2023.

TfL's 2023/24 draft Statement of Accounts had been used to calculate the outturn. The audit of the accounts had been delayed due to the cyber security incident. Should there be any material change to the draft accounts before finalisation, the indicators would be updated and presented to the next meeting of the Committee.

The outturn for the financial year 2023/24 was satisfactory upon comparison with the prudential indicators and within acceptable limits. The authorised limit, the ceiling set for debts and other liabilities, had not been exceeded.

Deviations from the approved limits were the ratio of financing costs to net revenue stream where the outturn was above the approved indicator. This did not represent an increase in the underlying interest charge and cash cost of direct and indirect debt and was largely driven by the portion of grant income allocated to capital being higher than assumed in the March 2023 Budget, which reduced the net revenue stream. The outturn was considered within a reasonable range of the estimates set. Also, the ratio of net income from investments was a small percentage of the net revenue stream. The outturn was considered within a reasonable range of the estimates set and did not indicate a disproportionate reliance on commercial and investment income.

The Committee noted the paper.

52/10/24 Public Service Obligations Regulations 2023 – Contract for the Provision of Railway Services by London Underground

Andrea Clarke introduced the item, which sought Procurement Authority for entry into a contract between TfL and London Underground for the provision of the Underground services, as required by the Public Service Obligations in Transport Regulations 2023.

The regulations set out the public service obligations relating to public transport. The previous contract was enshrined in EU law and was due to expire at the end of November 2024. A new arrangement needed to be put in place to comply with the new UK regulations, which was required solely for London Underground as the regulation provided that an in-house operation, such as London Underground, was separate from the TfL legal entity. A direct award would be made through a basic contract setting out the minimum requirements for another period for a maximum of 15 years.

The Committee noted the paper and approved Procurement Authority for entry into a contract between TfL and London Underground for the provision of the Underground services as required by the Public Service Obligations in Transport Regulations 2023, as described in the paper.

53/10/24 Track Protection Resources Contract Extension

Henry Yeomans introduced the item, which sought Procurement Authority for external Track Protection Resources procured through the London Underground Track Labour Frameworks for the period from January to March 2025.

The existing Track Labour Frameworks had Procurement Authority until March 2025, approved by the Committee in March 2024. The Procurement Authority allocated to Track Protection Resources would, however, only last until December 2024 and a short extension was required to complete the current tender process and mobilisation period for the new contract.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and approved Procurement Authority for £7.27m for external Track Protection Resources procured through the London Underground Track Labour Frameworks for the period to March 2025, giving a total Procurement Authority of £708.42m.

54/10/24 Extension and Increase in Procurement Authority for Cleaning Contract with ABM Facility Services UK Limited

Heather McStay introduced the item, which sought additional Procurement Authority for the contract extension for the supply of cleaning services across the TfL estate.

Cleaning services on the network were of a specialist nature and were essential to ensuring the protection of TfL assets, its people and customers, and ensuring safety standards were met. A six-month extension of the current contract, from 16 September 2025 to the end of March 2026 was required to enable further work on the development of integrated pan-TfL specifications to inform the new contract tender exercise.

The Committee noted the paper and the exempt supplementary information on Part 2 of the agenda and approved additional Procurement Authority in the sum set out in the paper on Part 2 of the agenda for the supply of cleaning services across the TfL estate.

55/10/24 Procurement and Commercial Review

Rachel McLean introduced the item, which provided an update on TfL's Procurement and Commercial (P&C) Review, including cost management practice, and highlighted developments since the last update to the Committee in June 2023.

The Procurement and Commercial Improvement Programme (PCIP), which ran from January 2020 to March 2023, had succeeded in delivering several benefits, including the implementation of SAP Ariba, a new P&C Management Framework and a top-level leadership structure. Along with other TfL support functions, P&C had integrated into business partnering within the different modes and there was more opportunity for engagement with the supply chain and extra value for money in integrated pan-TfL procurements and post-contract awards.

Following wider changes to TfL's Chief Officer structure, several key opportunity areas in the PCIP were paused and remained outstanding. These include a review of the wider P&C organisation and capital capability, which would need to be designed to align to the new organisation and ways of working.

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

56/10/24 Forthcoming Key Procurement Activities

Heather McStay introduced the item, which provided a 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 highlighted significant forthcoming procurements that required approval at officer level during that period.

The two-year look ahead included only those projects with an estimated value of £1m or over and covered 310 contracts with an estimated total value of £20bn. The summary information had been broken down to show the revenue and expenditure activity separately and contracts that were linked were shown grouped together.

In Operations (excluding concessions), two contract awards were currently forecast to require approval from the Committee by way of Chair's Action in the next six months and two would require approval from the Committee at a future meeting.

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

57/10/24 Risk and Assurance Report Quarter 1 2024/25

Lorraine Humphrey introduced the item, which provided an overview of the status of, and changes to: Enterprise Risk 3 – Environment including climate adaptation (ER03); Enterprise Risk 5 – Supply chain disruption and ineffective procurement and contract management (ER05); Enterprise Risk 7 – Financial resilience (ER07); and Enterprise Risk 9 – Changes in customer demand (ER09). It also summarised the findings from the assurance activity associated with the risks completed by the Risk and Assurance Directorate during Quarter 1 of 2024/25 (1 April to 22 June 2024).

Risk review workshops had been undertaken for all Enterprise Risks. ER03 fell within the remit of the Committee due to the investment required. ER05 and ER07 papers were on the agenda for consideration at this meeting and ER03 and ER09 would be scheduled for future meetings of the Committee.

The audit plan for the next six months was approved but would be reviewed should any changes be needed because of the cyber security incident. Four audit reports were issued and there were two requires improvement reports. A series of weather audits had been undertaken for heat, heavy rain and flooding, wind, snow and ice to enable the operations teams to test their plans, which had fed into changes and pan-TfL scenario exercises. A memo was issued for the TfL Scorecard year-end results audit. The four overdue audit actions had now been closed.

More detail on overall control of supply chain issues around conflicts of interest including internally was requested going forward. A backward look across all the risk findings would be undertaken for the audit actions for the Procurement and Commercial function, and colleagues who regularly engaged with the supply chain, to ensure any additional controls and changes in accountability were designed into the later stages of the change programme. Details would be included in the next change programme update to the Committee.

[Action: Rachel McLean / Lorraine Humphrey]

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

58/10/24 Enterprise Risk Update – Supply Chain Disruption and Ineffective Procurement and Contract Management (ER05)

Collan Murray introduced the item, which provided an update on Enterprise Risk 5 – Supply chain disruption and ineffective procurement and contract management (ER05). The title of ER05 was amended in June 2024 to provide a clearer articulation of the risk subject. The previous title of ER05 was - Efficient and high performing supply chains and effective procurement.

Failure to sufficiently identify and appropriately manage risks arising internally from how TfL procured and contracted its supply chain, and externally from market factors, could cause adverse impacts on safety, increase costs, cause delays to project delivery and interrupt operational services. The paper outlined the scope of ER05, current assessment, preventative controls, mitigation activities and improvement plans to reduce TfL's risk across its supply chain activities.

The current risk rating was very high due to the value of investment in the supply chain and the potential impact of major supply chain disruption, with plans to move to a high

rating with mitigations. The probability of the risk was high due to volatility in the complex political and economic global market and the breadth of the supply chain, with a target to move to medium.

The overall control effectiveness rating was requires improvement, which reflected the need for increasingly sophisticated responses to the complex global supply chain risk landscape. Key mitigation initiatives included: supplier risk monitoring; centralised co-ordination of supply chain risks; strengthening the Procurement and Commercial Risk Management Framework; and key supplier relationship management.

The future Procurement Strategy and way forward, including responsible procurement, would either be considered at a briefing or a future agenda item.

[Action: Rachel McLean]

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

59/10/24 Enterprise Risk Update – Financial Resilience (ER07)

Patrick Doig introduced the item, which provided an update on Enterprise Risk 7 – Financial resilience (ER07). 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.

TfL's finances were still recovering from the coronavirus pandemic and the impact on its reserves and liquidity, and TfL hoped to progress towards more long-term capital funding certainty. The revenue true-up mechanism under the Government funding conditions had ended and the risk had passed back to TfL. This was a systemic risk for TfL as it was more dependent on revenue as a percentage of income and created a mismatch between long-term funding of contractual capital commitments and short-term revenue streams.

Key controls included: demand forecasting; planning, budgeting and reporting variances; and liquidity and research policies to help identify, plan for and mitigate financial risks. TfL's key focus was improving demand forecasting, including the detailed work on deeper understanding of the issues, and improving customer demand.

The Committee would be updated on the range of additional benefits of having longer-term capital funding certainty, beyond the obvious advantages of being able to plan and identify projects more readily.

[Action: Rachel McLean]

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

60/10/24 Members' Suggestions for Future Discussion Items

Andrea Clarke introduced the item. No additional suggestions were raised for future discussion items on the forward plan, other than those already noted during the meeting.

The Committee noted the forward plan.

61/10/24 Any Other Business the Chair Considers Urgent

There was no other urgent business to discuss.

62/10/24 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 18 December 2024 at 10.00am.

63/10/24 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 7 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, 2024/25; Treasury Activities; Track Protection Resources Contract Extension; Extension and Increase in Procurement Authority for Cleaning Contract with ABM Facility Services UK Limited; Procurement and Commercial Review; Forthcoming Key Procurement Activities; Risk and Assurance Report Quarter 1 2024/25; Enterprise Risk Update – Supply Chain Disruption and Ineffective Procurement and Contract Management (ER05); and Enterprise Risk Update – Financial Resilience (ER07).

The meeting closed at 12.16pm.

Chair: _____

Date: _____