MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Wednesday 10 March 2021

Time: 10.00am

Place: Teams Virtual Meeting

Members

Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Heidi Alexander
Prof Greg Clark CBE
Anne McMeel
Dr Nina Skorupska CBE

Copies of the papers and any attachments are available on tfl.gov.uk How We Are Governed.

To maintain social distancing in the current circumstances, the meeting will be held by videoconference or teleconference. The meeting remains open to the public, except for where exempt information is being discussed as noted on the agenda, as it will be webcast live on the TfL YouTube channel.

A guide for the press and public on attending and reporting meetings of local government bodies, including the use of film, photography, social media and other means is available on www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf.

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Jackie Gavigan, Secretariat Manager; Telephone: 020 7084 2954; email: v_JackieGavigan@tfl.gov.uk.

For media enquiries please contact the TfL Press Office; telephone: 0343 222 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Tuesday 2 March 2021

Agenda
Finance Committee
Wednesday 10 March 2021

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interests

General Counsel

Members are reminded that any interests in a matter under discussion must be declared at the start of the meeting, or at the commencement of the item of business.

Members must not take part in any discussion or decision on such a matter and, depending on the nature of the interest, may be asked to leave the room during the discussion.

3 Minutes of the Meeting of the Committee held on 25 November 2020 (Pages 1 - 10)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 25 November 2020 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 11 - 18)

General Counsel

The Committee is asked to note the updated actions list.

5 Use of Delegated Authority (Pages 19 - 22)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 23 - 46)

Chief Finance Officer

The Committee is asked to note the report.

7 2021/22 Budget and Funding Discussion - To Follow

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda.

8 TfL Scorecard 2021/22 - To Follow

Chief Finance Officer

The Committee is asked to note the paper and recommend that the Board approve the TfL Scorecard for 2021/22.

9 Treasury Management Strategy 2021/22 (Pages 47 - 64)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, approve the Treasury Management Strategy (TMS) for 2021/22 including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits, note the proposals for derivative investments have been approved, and subject to approval of the TMS 2021/22 and the Derivatives Policy, approve TfL Finance limited entering into the Derivative Investments.

10 Treasury Management and Derivative Investments Policies (Pages 65 - 84)

Chief Finance Officer

The Committee is asked to note the paper, and approve the proposed Treasury Management Policies and the proposed TfL Group Policy relating to the use of Derivative Investments.

11 Treasury Activities (Pages 85 - 92)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda.

12 Investment Strategy 2021/22 - Non-Financial Assets (Pages 93 - 102)

Director Commercial Development

The Committee is asked to note the paper, recommend that the Board delegate approval of the Investment Strategy for 2021/22 for Non-Financial Assets and, subject to the delegation of authority, approve the Strategy.

13 Financing New Equity in TTL Properties Limited (Pages 103 - 106)

Chief Finance Officer

The Committee is asked to note the paper and approve the grant of Procurement Authority for a loan to fund the acquisition of ordinary share capital in TTL Properties Limited.

14 RideLondon Cycling Event Delivery Partner Agreement (Pages 107 - 112)

Managing Director, Customers, Communication and Technology

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, and grant Procurement Authority for the award of the Delivery Partner Agreement to London Marathon Events Limited in respect of the RideLondon cycling event from 2022 to 2031, which supersedes Procurement Authority granted in August 2019 in respect of the RideLondon cycling event.

15 GLA Collaborative Recruitment Services (Pages 113 - 114)

Chief People Officer

The Committee is asked to note the paper.

16 Capita Access and WAN Contract: Procurement Authority Uplift (Pages 115 - 116)

Chief Technology Officer and Director Strategy

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, and approve an uplift of Procurement Authority.

17 Enterprise Risk Update - Changes in Customer Demand (ER9)
(Pages 117 - 122)

Chief Technology Officer and Director Strategy

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda.

18 Members' Suggestions for Future Discussion Items (Pages 123 - 128)

General Counsel

The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.

19 Any Other Business the Chair Considers Urgent

The Chair will state the reason for urgency of any item taken.

20 Date of Next Meeting

Wednesday 23 June 2021 at 10.00am.

21 Exclusion of the Press and Public

The Committee is recommended to agree 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), in order to consider the following items of business.

Agenda Part 2

22 2021/22 Budget and Funding Discussion - To Follow

Exempt supplemental information relating to the item on Part 1 of the agenda.

23 Treasury Management Strategy 2021/22 (Pages 129 - 134)

Exempt supplemental information relating to the item on Part 1 of the agenda.

24 Treasury Activities (Pages 135 - 138)

Exempt supplemental information relating to the item on Part 1 of the agenda.

25 RideLondon Cycling Event Delivery Partner Agreement
(Pages 139 - 144)

Exempt supplemental information relating to the item on Part 1 of the agenda.

26 Capita Access and WAN Contract: Procurement Authority Uplift
(Pages 145 - 150)

Exempt supplemental information relating to the item on Part 1 of the agenda.

27 Enterprise Risk Update - Changes in Customer Demand (ER9)
(Pages 151 - 158)

Exempt supplemental information relating to the item on Part 1 of the agenda.

Transport for London

Minutes of the Finance Committee

Teams Virtual Meeting
10.00am, Wednesday 25 November 2020

Members of the Committee
Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Heidi Alexander
Prof Greg Clark CBE
Anne McMeel

Government Special Representative
Clare Moriarty DCB

Board Member in attendance
Cllr Julian Bell

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Simon Kilonback	Chief Finance Officer
Lilli Matson	Chief Safety, Health and Environment Officer

Staff

Ben Berry	Senior Commercial Manager, Supplier Strategy
Neal Clark	Senior Divisional Financial Controller
Daniel Curry	Senior SHE Environment Manager
Patrick Doig	Finance Director, Surface Transport
Sarah Gasson	Chief of Staff to Commissioner
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director, Corporate Finance
Philip Hewson	Head of Procurement, Strategy and Performance
David Jones	Deputy Chief Procurement Officer
Shamus Kenny	Head of Secretariat
Tony King	Group Finance Director and Statutory Chief Finance Officer
Glyn Lenton	Lead Commercial Manager, Category Management
Emma Lucas	Chief of Staff, Chief Finance Officer
Caroline Pallister	Head of Procurement, Surface
Jonathan Patrick	Chief Procurement Officer
Jennifer Payne	Corporate Finance, Senior Manager
Heather Renton	Projects Programme Manager
Pritesh Shah	Head of Procurement Transformation
Clive Walker	Director of Risk and Assurance
Ken Youngman	Finance Director, Commercial Development

59/11/20 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. Howard Carter reported that no apologies for absence had been received.

TfL's meetings now fell within the Flexibility of Local Authority Meetings Regulations 2020. The meeting was being broadcast live on YouTube, except for the discussion of the information on Part 2 of the agenda, which was exempt from publication.

The Chair explained that there was some information on Part 2 of the agenda, which was exempt from publication and consideration in public. While Members would discuss as much of the items in public as possible, information related to TfL's business affairs would need to be discussed in private. When the exempt information needed to be considered, the recording would be stopped for the press and public.

To reflect TfL's focus on safety, the Chair invited Members to raise any safety issues within the remit of the Committee with him. Any other safety issues could be discussed with General Counsel or an appropriate member of the Executive Committee after the meeting.

60/11/20 Declarations of Interests

Howard Carter introduced the item. Members' declarations of interests were published on tfl.gov.uk and were up to date. He was not aware of any items on the agenda where a Member would need to declare a specific interest and leave the meeting during its discussion. No Members declared any interests that were relevant to items on the agenda.

61/11/20 Minutes of the Meetings of the Committee held on 30 September and 16 October 2020

The Committee approved the minutes of the meetings held on 30 September and 16 October 2020 as correct records. The minutes would be provided to the Chair for signature at a future date.

62/11/20 Matters Arising and Actions List

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

The Committee noted the actions list.

63/11/20 Use of Delegated Authority

Howard Carter introduced the paper. The Committee noted that, since the meeting of the Committee on 30 September 2020, there had been no use of authority delegated by the Board nor Chair's Action. There had been no use of Procurement and Land Authority granted by the Commissioner or the Chief Finance Officer. There had been no Mayoral Directions to TfL.

The Committee noted the paper.

64/11/20 Finance Report

Simon Kilonback and Tony King introduced the report, which set out TfL's financial results to the end of Period 7, 2020/21 – the year-to-date period ending 17 October 2020. A summary of year-to-date financial performance was shown against the Revised Budget and the previous year. On 29 July 2020, the Board reviewed and approved the Revised Budget for 2020/21, which reflected updated passenger journey and income modelling, as well as further cost savings and changes to capital programmes.

The period was covered by the H1 funding and financing agreement with the Government. The H1 agreement had been extended, from 17 October to 31 October 2020, as negotiations for H2 funding were finalised. The H2 funding and financing agreement was agreed on 31 October 2020. In line with the commitments in the new H2 agreement, TfL was making a further £160m of savings this financial year, delivered through a combination of income generation, operating and capital savings and deferrals.

Passenger journeys and income remained significantly lower than last year, with Tube journeys 65 per cent down and buses 44 per cent down. Overall passenger income was down by almost 70 per cent against last year, which was just under £1.8bn.

Core operating costs were over £80m lower than last year, which reflected the work done to keep costs low such as holding vacancies, supply chain savings and lower network costs at the height of the pandemic. A number of additional controls had been implemented to ensure continued control of future commitments and costs, and to help uphold liquidity. These included use of the Financial Commitment Oversight Group; headcount controls on permanent, contract and temporary employees except critical roles; spend control initiatives such as looking at financial approval levels, guidance to business on managing cash and future commitment; and significant focus on cash flow planning and accuracy with greater rigour on divisional reviews and payment timings.

Overall spend on capital renewals and new capital investments was around £44m, or 8 per cent lower than the Revised Budget, and significantly lower than last year, with spend down by 33 per cent. With capital spend nearly 10 per cent lower than Budget, the underspend was being reviewed, alongside other options, to meet the additional savings target of £160m. This included reviewing the deliverability, sequencing, efficiencies and scope of major projects; tech and data programmes; renewals and enhancements on the Underground; as well as schemes such as Healthy Streets, Liveable Neighbourhoods and other projects, while still maintaining H1 levels of overall active travel. Work on Crossrail was £30m higher than budget, though £160m lower than last year.

Cash balances remained reasonable, closing at £1.58bn at the end of the period, primarily as a result of the £1.6bn funding and financing package agreed with Government. Without this, an average of £300m cash was being lost every period. Preserving liquidity and holding the minimum level meant that, as well as satisfying the rating agencies, TfL could meet its fixed commitments such as bus and other contracts, operational costs to run services, payroll and interest payments.

Overall net cost of operations, excluding extraordinary revenue grant from Government in the year-to-date, showed a deficit of over £2bn, an improvement on the Revised Budget of £304m. With the extraordinary revenue grant, the deficit stood at around £900m, an improvement on the Revised Budget of £366m. Year-to-date passenger and other operating income were £241m better than Revised Budget, and equated to around two thirds of the overall improvement. Operating costs were £35m lower than budget, driven by some one-off savings.

Congestion Charge volumes continued to increase since the reintroduction of charging, extension of charging hours, and increase in daily charge, ending the period at 26 per cent higher than last year. Ultra-Low Emission Zone volumes dropped to 43 per cent down compared to last year.

Staff levels were now 787 FTE lower than at the end of 2019/20. Cost reductions were seen across all business units, which reflected the additional cost and commitment control measures that had been instituted. Since the report was published, the number of staff still on furlough had subsequently fallen to approximately 650, who were largely shielding as a result of the coronavirus.

Looking ahead, the second spike of the pandemic would likely be earlier than assumed in the Revised Budget, which could see passenger volumes reduced from budgeted levels of 70 per cent down on last year, to reductions of 80-85 per cent. Whilst the Revised Budget included a contingency in H1 to cover revenue uncertainties, this contingency would now be required to help mitigate the impacts of an earlier and more prolonged second spike in H2, which could see passenger revenues reduced from the current Revised Budget of £680m by £100-200m, compared to H1 expected revenues of c£800m.

Clare Moriarty DCB asked if forward looking information could be included in the report, such as forecast outturn as well as year-to-date for revenue contingency, cost base changes and cash balances etc. to help understand the consequences of any variances at end of year. Simon Kilonback confirmed that it was a summary level report for the period but that forecast outturns would be included in the forthcoming Budget submission. Since the funding deal had been concluded, further lockdown measures were imposed which had a significant impact on revenue. Operating costs were within one per cent of the Revised Budget so were an accurate and realistic forecast. A quarterly reforecast exercise was conducted to understand and control the cost base in a fast changing environment. Further spend and cash control measures were in place and scrutinised by the Executive team.

Work was underway on reporting period 9 to work through where the £160m cost savings would fit and what it meant for cash flows and implications for next year's budget. Capital renewals would be taken account of and forecast as part of the forthcoming Budget submission. TfL was working with KPMG and Department for Transport colleagues to go through the monthly forecast of cash flows since July 2020, to provide detailed analysis and understanding of cash drivers and cash requirements for year end.

Financial authority for the Crossrail project had been exhausted, the impact of which meant it was unable to fill vacancies, could not settle commercial arrangements and was unable to provide assurance to enter contracts in good faith. The Greater London Authority had agreed to additional borrowing to fund £825m of the further £1.1bn funding needed, but urgent Government engagement and assurance was required on providing the additional funding so the project could be completed. Clare Moriarty DCB advised that the Government was working hard to resolve the funding issue as an urgent priority, and that she would reinforce the need for urgency to agree the funding, which was critical to the continuation of the project, back to Government.

The Committee noted the report.

65/11/20 H1 2020/21 Scorecard Results

Simon Kilonback introduced the paper, which set out TfL's Scorecard results for H1 2020/21 compared to the targets approved by the Board in June 2020. The H1 Scorecard reflected TfL's response to the coronavirus pandemic, specifically targeting measures relevant to the timeframe of the initial crisis. It was deliberately targeted to kickstart the recovery to the pandemic, through an extremely challenging period.

The safety and wellbeing of staff and customers remained the top priority. TfL continued to measure those killed and seriously injured on the road network and transport services, and there was a new measure of staff wellbeing that sought to ensure there was no disparity in how the diverse workforce was experiencing the crisis. TfL was running the maximum service while supporting social distancing and London's economic recovery. TfL's Investment Programme was pivoting to focus on re-allocation of street space to support walking and cycling, including the new Streetspace schemes. It was preserving liquidity by controlling operating and capital costs.

To account for the uncertainty of the period and unfolding events, the two approaches taken to target setting were to set a floor target for most metrics that ensured an appropriately wider range of performance was recognised, and to set up a change control process which allowed the business to adjust metrics and targets where they were no longer appropriate.

The total Scorecard performance in H1 2020/21 was 98.75 per cent. All measures, except one, were better than target, with many showing improvement following an earlier and stronger recovery than assumed. There were no senior manager performance awards for 2020/21, which meant there was no financial impact from successful achievement of the H1 Scorecard.

The H2 2020/21 Scorecard was approved by the Board in October 2020 and progress would continue to be reported to the Board in the Commissioner's Report.

The Committee noted the H1 2020/21 Scorecard.

66/11/20 TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements

Lilli Matson, David Jones and Glyn Lenton introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on the implementation of TfL's strategy to procure renewable energy through Power Purchase Agreements (PPAs) in order to meet its ambition to operate a zero-carbon railway by 2030. The paper sought approval of Procurement Authority to continue with Crown Commercial Services (CCS) to allow the continuation of the current energy purchasing arrangements and risk management strategy, and endorsement of the proposed procurement process for the purchase of electricity through two PPAs.

The approach would ensure the ongoing supply of cost competitive electricity supplies for TfL's operations in the near term, while also enabling the transition over coming years to renewable energy. It protected TfL against wholesale market price volatility whilst providing flexible opportunities to secure the wholesale energy at a low price in a fast moving market.

TfL was the largest consumer of electricity in London and aimed to shift 20 per cent of demand to renewable sources through this procurement by target delivery dates between 2021 through to 2024, resulting in a reduction of around seven per cent of TfL's carbon emissions. This was part of an ongoing strategy to transition all of TfL's rail traction electricity to renewable sources and be carbon neutral across the transport network by 2030.

Agreement of the PPAs and their procurement would be brought back to a future meeting of the Committee and was dependent on securing longer-term future funding, which would enable TfL to sign long-term contracts. **[Action: Lilli Matson]**

The Committee noted the paper and the exempt supplemental information on Part 2 of the agenda and:

1 approved Procurement Authority of £199m for the purchase of electricity and natural gas across TfL during the 2023/24 financial year, via the existing frameworks competitively procured by the Crown Commercial Service (CCS);

2 endorsed the proposed procurement process for the purchase of electricity through two Purchase Power Agreements (PPAs) for renewable energy (representing ~20 per cent of estimated demand) as follows;

(a) a medium-term PPA that will target operational assets, is intended to deliver renewable energy to TfL by the end of financial year 2021/2022 and will be procured via the CCS dynamic purchasing system;

(b) a long-term PPA that will target new build assets, will be competitively tendered and subject to project construction, will deliver renewable energy to TfL by the end of financial year 2023/2024; and

(c) noted that Procurement Authority for the PPAs will be sought in due course.

67/11/20 Capitalisation of TTL Properties Limited

Simon Kilonback, Graeme Craig and Ken Youngman introduced the paper, which considered the capital requirement of TTL Properties Limited, recommended a structure to capitalise the company, with funds to manage the current capital-neutral business plan for developing TfL's property portfolio, and sought authorities to do so.

The structure provided a strong capital base for TfL's wholly owned property development company (TTL Properties Limited) and would support potential future funding options. On 1 April 2019, the Committee approved, under Chair's Action, the consolidation of commercial and other property assets from across the TfL group into TTL Properties Limited. The consolidation of assets was a key component in the creation of a ring-fenced, self-financing property development company within TfL.

Over the last four years, TfL had shifted into the planning and delivery of property development on its land, to deliver 10,000 homes and generate both recurring income and growing capital values. A clear strategy sat behind the housing development activities to deliver much needed housing and a recurring revenue stream for reinvestment in transport, and a growing capital value as a basis for an efficient property vehicle that would fund itself. A capital neutral plan had been developed around the properties to be delivered and those that could be disposed of, such as 55 Broadway, so money could be reinvested in the housing and property ambitions of TfL. It would also help to deliver the accommodation savings built into the Business Plan.

There was an opportunity to increase the ambition of the vehicle which would be discussed with Government as part of the detailed work that was underway on the long-term sustainability plan. Freeing up the vehicle to enable borrowing against the value of the assets and future income streams could enable the delivery of 3,000 homes a year for 25 years, and increase gross revenues for TfL from £90m pre-Covid-19 to £400m a year.

The strategy being adopted for Build to Rent property meant TfL was not subject to property cycles and was built around transport hubs, and allowed TfL to use property assets to help fund its core programme. The capitalisation brought all TfL property and land that could be developed into a single vehicle by removing inter-company transactions and converting it into share capital.

Sustainability remained critical to the development programme and this was reflected in TfL being recognised with a five-star rating by GRESB, one of the leading environmental, social and governance benchmarks for real estate and infrastructure investments across the world. It was the first time that TfL's Commercial Development team had participated in the benchmarking process and the result was outstanding for a first-time entrant. The entry focused on TfL's property development portfolio, with the aim of entering TfL's operational and wider commercial portfolios in future years, and a paper would be brought to a future meeting of the Safety, Sustainability and Human Resources Panel.

[Action: Graeme Craig]

The Committee noted the paper and:

1 approved the capitalisation of TTL Properties Limited through the issue of up to £2.1bn ordinary share capital;

2 approved the establishment of an intercompany revolving credit facility of £25m; and

3 authorised TfL Delegated Officers and any relevant Subsidiary Entity of TfL to do all such things as they consider necessary or desirable to facilitate the capitalisation of TTL Properties Limited including:

(a) authority to finalise the terms of any agreement or other documentation related to the capitalisation and credit facility referred to above; and

(b) authorise the execution (whether by deed or otherwise) of any documentation to be entered into in connection with the completion and implementation of capitalisation and credit facility referred to above including (without limitation) all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents.

68/11/20 Procurement Transformation Update

Jonathan Patrick introduced the paper and related supplemental information on Part 2 of the agenda, which provided an overview and the background and context for the Procurement and Supply Chain Improvement Programme. The programme managed estimating, procurement, contract and cost management across TfL, as well as supporting procurement related activities for the Greater London Authority. It would transform the end to end procurement and supply chain process across all the organisational areas of TfL.

The programme would deliver phases of change through an updated procurement and supply chain operating model that worked consistently across the business; consistent and efficient processes compliant with procurement regulation; upgraded technology systems to support the process; data architecture and an end to end reporting suite, driving insights for timely decision-making.

The original start date for the programme was April 2020 which, due to delays caused by Covid-19, was approximately eight months behind schedule, although the new Head of Procurement Transformation was now in place and improvements were anticipated before the end of the fiscal year. The restructure process was a large undertaking that reflected the complexity of TfL and would require some culture change, as well as engagement with internal stakeholders and supply partners.

A further update on progress with the procurement transformation would be brought back to a future meeting of the Committee. **[Action: Simon Kilonback / Jonathan Patrick]**

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

69/11/20 Maintenance and Management Contract for the TfL Road Tunnels and Pumping Stations

Patrick Doig and Caroline Pallister introduced the paper, which provided information on the proposed award of the maintenance and management contract for TfL’s road tunnels and pumping stations. The contract was required to enable TfL to fulfil statutory duties and ensure a safe, reliable and resilient service was provided to customers across London. It included the essential maintenance of TfL’s road tunnels and highway pumping stations located on and around the TfL Road Network.

Detailed analysis was being undertaken to review pipeline data and historic spend, in order to accurately determine the value of future works and services to be delivered under the contract. A workstream was also being undertaken in parallel to compare current and future costs. The output of these activities was required to support the request for Procurement Authority and the activities were due to be completed to facilitate submission of an approval paper to the Committee. The programme for approval of Procurement Authority for the contract anticipated a decision enabling commencement of the standstill period prior to December 2020 and award of the contract in early January 2021, with the full service to commence on 1 April 2021.

As it was anticipated that approval of Procurement Authority to enter into the contract would be required before the next meeting of the Committee, Members agreed that authority could be sought under Chair's Action, and suggested that the accompanying papers include some more background information and context to the proposed award, including any challenges experienced and mitigating actions.

[Action: Patrick Doig / Caroline Pallister]

The Committee noted the paper.

70/11/20 Enterprise Risk Update: Supply Chain Disruption (ER5)

Jonathan Patrick and Philip Hewson introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on Enterprise Risk 5 - Supply Chain Disruption, and explained the current understanding of the status of the risk and the control measures that were kept under continuous review and formed a core part of the business planning process.

Failure to sufficiently identify and manage supply chain disruption due to the coronavirus pandemic and a hard Brexit could result in an increase in TfL's cost base, delays to project delivery and interruption to operational services. Failure to identify poor supplier financial health could result in a further increase in the TfL cost base.

TfL currently monitored the financial health of suppliers who were critical to the running of TfL, as there was a rising risk of insolvency across its supply chain as the economic effects of the coronavirus pandemic and Brexit were seen. Preventative controls and enhanced processes had been implemented across all business areas to increase TfL's understanding and management of supply chain risks, issues and financial exposure.

An additional briefing note would be provided to Members on the ongoing work with the Transport Innovation team to encourage more innovative suppliers and newcomers in emerging markets to do business with TfL, through changes to evaluation in the procurement process. **[Action: Jonathan Patrick / Philip Hewson]**

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

71/11/20 Members' Suggestions for Future Discussion Items

Howard Carter introduced the item. No additional suggestions were raised for future discussion items on the forward plan or for informal briefings.

The Committee noted the forward plan.

72/11/20 Any Other Business the Chair Considers Urgent

There was no other urgent business.

73/11/20 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 10 March 2021 at 10.00am.

74/11/20 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements; Procurement Transformation Update; and Enterprise Risk Update: Supply Chain Disruption (ER5).

The meeting closed at 1.18pm.

Chair: ___________________________________

Date: ____________________________________

Finance Committee

Date: **10 March 2021**

Item: **Matters Arising and Actions List**

This paper will be considered in public

1 Summary

1.1 This paper informs the Committee of progress against actions agreed at previous meetings of the Finance Committee.

2 Recommendation

2.1 **The Committee is asked to note the Actions List.**

List of appendices to this report:

Appendix 1: Actions List

List of Background Papers:

Minutes of previous meeting of the Finance Committee.

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

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Finance Committee Action List (to be reported to the meeting on 10 March 2021)

Actions from the meeting of the Finance Committee held on 25 November 2020

Minute No.	Description	Action By	Target Date	Status note
66/11/20	**TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements (PPAs)** Agreement of the PPAs and their procurement would be brought back to a future meeting of the Committee and was dependent on securing longer-term future funding, which would enable TfL to sign long-term contracts.	Lilli Matson	June 2021	The planned procurement of the first two PPAs is moving ahead as planned, with the first PPA due to be released to market in early spring 2021. This will be brought to a future Committee meeting for final approval.
67/11/20	**Capitalisation of TTL Properties Limited – GRESB** Sustainability remained critical to the development programme and this was reflected in TfL being recognised with a five-star rating by GRESB, one of the leading environmental, social and governance benchmarks for real estate and infrastructure investments across the world. It was the first time that TfL's Commercial Development team had participated in the benchmarking process and the result was outstanding for a first-time entrant. The entry focused on TfL's property development portfolio, with the aim of entering TfL's operational and wider commercial portfolios in future years, and a paper would be brought to a future meeting of the Safety, Sustainability and Human Resources Panel.	Graeme Craig	February 2021	**Completed:** An update was provided to the Safety, Sustainability and Human Resources Panel on 10 February 2021.

68/11/20	**Procurement Transformation Update** A further update on progress with the procurement transformation would be brought back to a future meeting of the Committee.	Simon Kilonback/ Jonathan Patrick	March 2021	**Completed:** A Procurement Update paper is on the agenda for the meeting of the Audit and Assurance Committee on 17 June 2021.
69/11/20	**Maintenance and Management Contract for the TfL Road Tunnels and Pumping Stations** As it was anticipated that approval of Procurement Authority to enter into the contract would be required before the next meeting of the Committee, Members agreed that authority could be sought under Chair's Action, and suggested that the accompanying papers include some more background information and context to the proposed award, including any challenges experienced and mitigating actions.	Patrick Doig/Caroline Pallister	December 2020	**Completed:** The Maintenance and Management Contract for TfL Road Tunnels and Pumping Stations was approved by Chair's Action on 29 December 2020, as reported in the Use of Delegated Authority paper on the agenda for this meeting.
70/11/20	**Enterprise Risk Update: Supply Chain Disruption (ER5)** An additional briefing note would be provided to Members on the ongoing work with the Transport Innovation team to encourage more innovative suppliers and newcomers in emerging markets to do business with TfL, through changes to evaluation in the procurement process.	Jonathan Patrick/Philip Hewson	March 2021	**Completed:** A briefing note on the work of the Transport Innovation team was circulated to Members on 1 March 2021.

Actions from previous meetings of the Finance Committee

Minute No.	Description	Action By	Target Date	Status note
43/09/20 (1)	**Finance Report – Revenue and Capital Savings Analysis Exercise** An analysis and reconciliation exercise was being undertaken into the revenue and capital savings targets set in the Emergency Budget against what had been achieved so far, and for the whole year looking ahead, as a result of the spend and control measures. This would be included in the Finance Report brought to the November meeting of the Committee.	Simon Kilonback/ Tony King	March 2021	**Completed:** The P11 Finance Report on the agenda for this meeting includes progress against the £160m additional savings target set out in the H2 2020/21 funding agreement.
48/09/20 (2)	**TfL Energy Update – Widening Sustainability Work** Consideration would be given to what else TfL could do to widen and accelerate its sustainability work in this area, and the implications of doing that, and brought back to Members at an appropriate forum. Andy Byford confirmed that he would also pick up the discussion with Ben Story outside of the Committee meeting.	Lilli Matson/Andy Byford	Summer 2021	The plan is progressing well and is due to be published in summer 2021. The Board will be kept informed.

06/03/20	**Finance Report – Board Engagement with Major Projects** In response to the information provided on the total capital expenditure by programme including capital renewals, it was agreed that consideration be given to the process for how to organise as a Board to engage with the major projects.	Simon Kilonback/ Howard Carter	Summer 2021	Once the current restrictions have eased, and subject to Members availability, MPD will facilitate a range of site visits over summer 2021. 2021 will see the delivery of Northern Line Extension into revenue service and Members will have an opportunity to see the great progress on projects such as Barking Riverside Extension and Bank Station Capacity Upgrade. In the absence of site visits, we will facilitate a series of virtual visits.
10/03/20	**Investment Strategy 2020/21 – Non-Financial Assets – DevCo Report** It was confirmed that a paper on governance and other elements of the investment programme would be submitted to the meeting of the Committee in June 2020. It was requested that the commercial and property development aspects of the paper be shared with the Acting Director of Housing and Land at the Greater London Authority, so that collaborative working was aligned with the high-profile developments. It was also requested that the paper include information on assurance of the financial independence from the core operating business and information on the capability within TfL to deliver the schemes.	Graeme Craig	TBC 2021	The Financing New Equity in TTL Properties Limited (TTLP) paper is on the agenda for this meeting. The TTL Governance Structure item is on the forward plan: the arrangements are dependent on the outcome of the TfL Financial Sustainability Plan discussions, which are currently underway.

44/12/19	**Strategic Risk Update – Inability to Deliver Predicted Revenue Growth (SR8)** In response to a suggestion that individual Members be encouraged to adopt a project to enable deep understanding of its challenges, risks and solutions, it was agreed that a list of projects that were suitable for Board Member involvement would be circulated to Members in order to assess interest.	Graeme Craig	Summer 2021	Once the current restrictions have eased, and subject to Members availability, Member briefings will be arranged. This will be taken forward in 2021/22.

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Finance Committee

Date: **10 March 2021**

Item: **Use of Delegated Authority**

This paper will be considered in public

1 Summary

1.1 The use of delegated authority is a standing item on the agenda to inform the Committee of any use of delegated authority by the Committee, through Chair's Action or of Procurement or Land Authority (in respect of matters within the Committee's remit) granted by the Commissioner and the Chief Finance Officer in accordance with delegated authorities under TfL's Standing Orders since the last meeting of the Committee. The paper also provides information on Mayoral Directions to TfL within the Committee's remit.

1.2 Since the meeting of the Committee on 25 November 2020, there has been:

(a) one use of Chair's Action, in relation to the award of the Maintenance and Management Contract for TfL Road Tunnels and Pumping Stations;

(b) no use of authority delegated by the Board nor use of Procurement and Land Authority granted by the Commissioner or the Chief Finance Officer; and

(c) two Mayoral Directions to TfL in relation to implementing financial support fund for Seven Sisters Market traders (MD2724, 30 November 2020) and March 2021 fare changes (MD2730, 14 January 2021).

within the remit of the Committee.

1.3 A similar paper is submitted to the Programmes and Investment Committee in respect of any use of Chair's Action or Procurement Authority and Programme and Project Authority granted by the Commissioner and the Chief Finance Officer in respect of matters within that Committee's remit, together with relevant Mayoral Directions.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Use of Authority Delegated by the Board

3.1 There has been no use of authority delegated by the Board since the meeting on 25 November 2020.

3.2 Elsewhere on the agenda for this meeting, you are asked to exercise authority delegated by the Board in relation to the approval of the Treasury Management Strategy and related Treasury Management Policies. Any exercise of that authority will be verbally reported to the meeting of the Board on 16 March 2021, as the papers for that meeting are published ahead of this meeting of the Committee.

4 Use of Chair's Action

4.1 Under Standing Order 114, in situations of urgency, the Board delegates to each of the Chair and the Chairs of any Committee or Panel the exercise of any functions of TfL on its behalf, including the appointment of Members to Committees and Panels. Any use of Chair's Action is reported to the next ordinary meeting.

4.2 There has been one use of Chair's Action since the meeting on 25 November 2020.

Maintenance and Management Contract for TfL Road Tunnels and Pumping Stations

4.3 On 29 December 2020, the Chair, in consultation with Members, approved entering into the Maintenance and Management Contract for TfL Road Tunnels and Pumping Stations, from 1 April 2021 to 31 March 2029, with the winning supplier and granted Procurement Authority. The contract fulfils statutory duties and ensures a safe, reliable and resilient service is provided to customers across London.

4.4 The use of Chair's Action was considered appropriate as a decision was required before this meeting to secure a required three-month mobilisation period that would ensure supplier readiness to properly commence the works and services from 1 April 2021.

4.5 Further information is included in the Chair's Action paper published on tfl.gov.uk. The supplementary appendix remains exempt from publication.

5 Procurement and Land Authority Approvals

5.1 Procurement Authority is the authority to make a binding or contractual commitment with a supplier for the purchase of goods, services, land or works or to receive income arising from TfL Group activities in the areas of goods, services land or works.

5.2 Land Authority is the authority to engage in a Land Transaction or to dispose of any assets.

5.3 The Board had delegated to the Committee approval of unlimited Procurement Authority and Land Authority in relation to Transactions and Commercial Development opportunities. The approvals delegated to the Commissioner and the Chief Finance Officer are set out in the Table of Authorities in Standing Order 170.

5.4 There has been no use of use of delegated authority to approve Procurement or Land Authority by the Commissioner and the Chief Finance Officer since the meeting on 25 November 2020.

6 Mayoral Directions to TfL

6.1 The Greater London Authority Act 1999 (as amended), permits the Mayor to issue to TfL general directions as to the manner in which TfL is to exercise its functions or specific directions as to the exercise of its functions (or not to exercise a power specified in the direction). Directions are also often made in relation to the implementation of matters in respect of which the Mayor delegates statutory powers to TfL.

6.2 The Mayor makes Mayoral Directions through Mayoral Decisions. Papers for Mayoral Directions set out the financial and other implications. If those implications change over time, that will be reported to the GLA.

6.3 All Mayoral Decisions are issued in writing, with the information that is not exempt from publication included on the GLA's Decisions Database on its website: https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC.

6.4 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes. Mayoral Directions relating to TfL are reported to the Board's Committees for discussion as soon as possible after they are received by TfL or published. Regular reports will list the relevant Directions for as long as they are applicable.

6.5 Annually the Audit and Assurance Committee considers the list as part of its consideration of the annual audit plan to ensure that appropriate audit resource is applied to assurance on TfL's work in implementing Mayoral Directions. This will also be kept under review at each quarterly meeting of that Committee.

6.6 A summary of current Mayoral Directions to TfL is maintained on the "How we are governed" page on our website, with links to the relevant Mayoral Decisions: https://tfl.gov.uk/corporate/about-tfl/how-we-work/how-we-are-governed. That page will be updated as and when further Directions are made.

6.7 Mayoral Directions to TfL addressing technical issues with our statutory powers or related to our commercial development activities are reported to this Committee.

6.8 Since the last meeting, there have been two Mayoral Directions issued to TfL.

Financial support fund for Seven Sisters Market traders (MD2724)

6.9 On 30 November 2020, the Mayor directed TfL to provide direct financial assistance of up to £500,000 to the traders from Seven Sisters Market. The financial support is intended to see the traders through the transition period since the closure of the TfL owned building that housed the market and the provision of a temporary market at Apex Gardens in 2021. This was reported to the Board on 9 December 2020.

March 2021 fares changes (MD2730)

6.10 As part of the funding settlement with Government, dated 31 October 2020, the Mayor committed to implementing an overall increase on fares of Retail Price Index (RPI) +1 per cent. On 14 January 2021, the Mayor approved a Fares Revision to deliver this commitment, while ensuring the increase in fares is as affordable as possible for Londoners. The fares increase will be implemented from 1 March 2021. This was reported to the Board on 3 February 2021.

6.11 A summary of the fares revision is:

(a) Bus and tram single fares increase by 5p to £1.55 and the daily bus and tram cap is raised to £4.65. The Bus & Tram Pass season price is increased to £21.90 for a 7 Day ticket. The Hopper fare, which was introduced in September 2016, will remain in place, permitting multiple free bus and tram transfers within an hour.

(b) On the Tube in Zones 1-6 and other rail services in London where Tube fares apply Pay As You Go (PAYG) fares will typically increase by 10p or 20p. A number of fares, including PAYG fares for children, remain unchanged.

(c) Travelcard prices and the associated PAYG caps will increase from 1 March by RPI+1 per cent. These increases reflect national government rail fares policy, over which the Mayor has no control. As a result, Travelcard season ticket prices and the associated all day PAYG Travelcard caps increase by 2.6 per cent overall. Fares on TfL services for journeys from outside London are subject to guidance from the Department for Transport, with the same fares applying on Train Operating Company (TOC) and TfL services.

List of appendices to this report:

None.

List of Background Papers:

Minutes from previous meetings of the Committee.
Greater London Authority Decision Making Database

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Finance Committee

Date: **10 March 2021**

Item: **Finance Report – Period 11, 2020/21**

This paper will be considered in public

1 Summary

1.1 The Finance Report included at Appendix 1 sets out TfL's financial results to the end of period 11, 2020/21 - the year-to-date ending 6 February 2021.

2 Recommendation

2.1 **The Committee is asked to note the Finance Report.**

3 Revised financial targets

3.1 On 9 December 2020, the Board reviewed and approved the new Budget for 2020/21 and 2021/22 (the TfL (GLA) Budget), which replaced the Revised Budget. The TfL (GLA) Budget reflected updated passenger journey and income modelling, as well as cost savings and changes to capital programmes. It is also based on the new funding and financing agreement with Government for H2, 2020/21 which provides up to £1.8bn of financial support.

4 Financial Reporting to the Committee

Finance Report – Period 11, 2020/21

4.1 The Finance Report provides a summary of year-to-date financial performance against the Revised Budget and last year. The presentation is consistent with how we have presented the TfL (GLA) 2020/21 Budget.

List of appendices to this report:
Appendix 1: Finance Report

List of Background Papers:
None

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Finance Report
Period 11, 2020/21

Management results from 1 April 2020 – 6 February 2021

Finance Committee
10 March 2021

Section 1

Period 11, 2020/21 results

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Headlines

Passenger journeys and income have seen significant decline since mid-December 2020, with London entering Tier 4 restrictions, third national lockdown from early January. Weekly income is now over £65m lower compared to last year. Journeys are up on the first lockdown in 2020: Tube journeys almost three times higher, with Bus journeys almost double

Operating costs are lower than target and down on last year. We have kept costs down through our planned savings programme, lower network costs in the first wave of the pandemic, and other one off savings this year.

Cash balances are broadly stable, with the agreement with government for H2 providing a base level of funding as well as funding for losses in passenger revenue (up to an agreed level).

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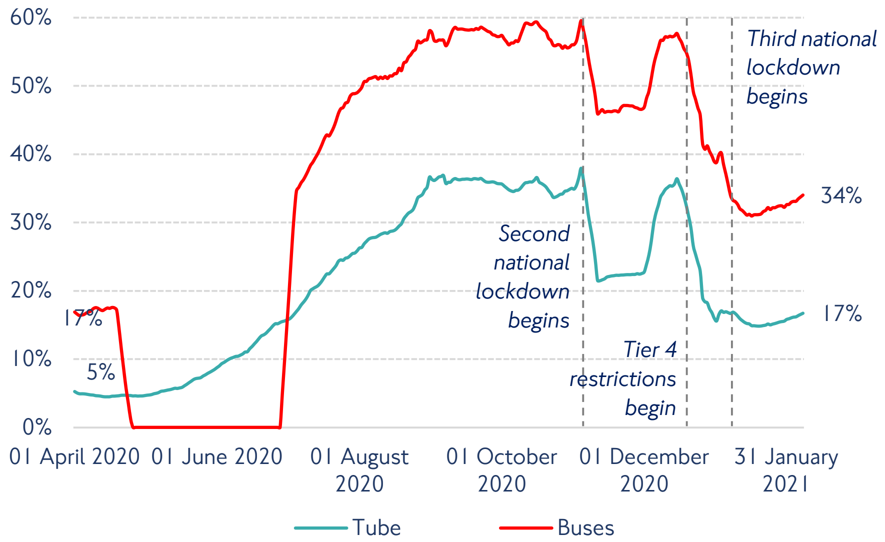
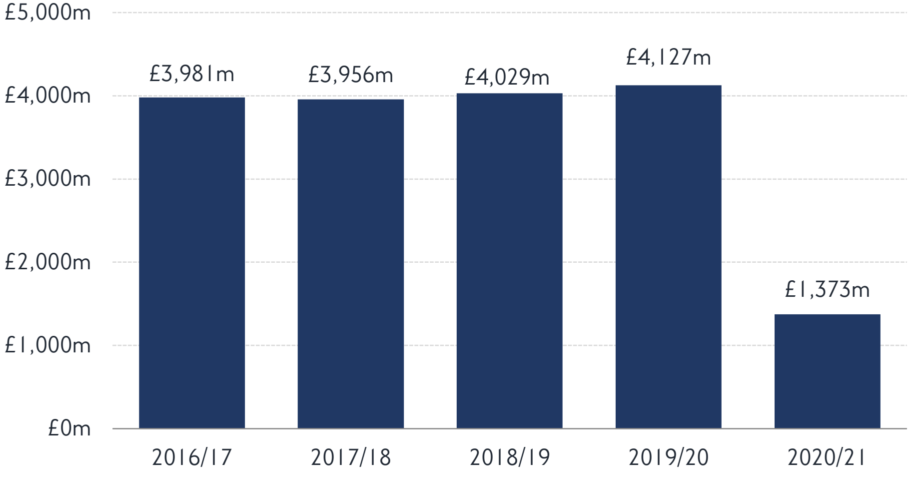
Headlines

Decline in journeys before Christmas 2020 – current levels broadly in line with June/ July 2020

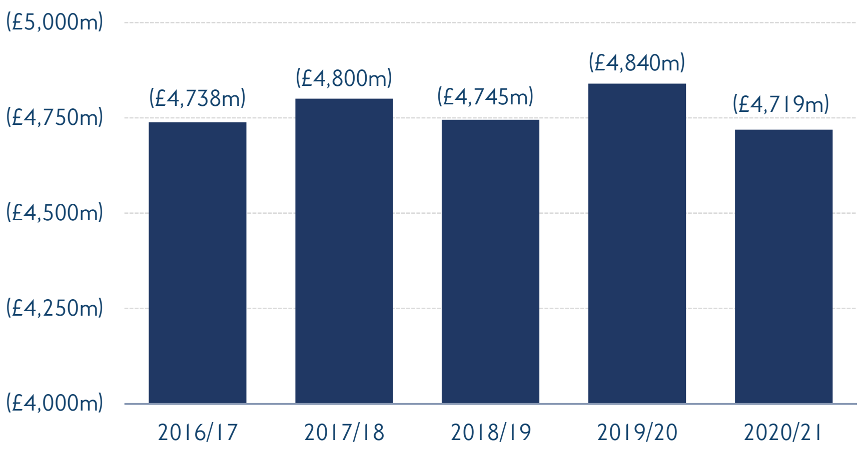


Passenger income up on earlier in the year, but almost 70% lower than last year



Individual years show year to date passenger income to end of Period 11

Core operating costs just over £120m lower than last year, from savings, and one offs during the first wave of the pandemic



Individual years show to date core operating costs to end of Period 11

Cash balances broadly stable following H2 agreement with Government

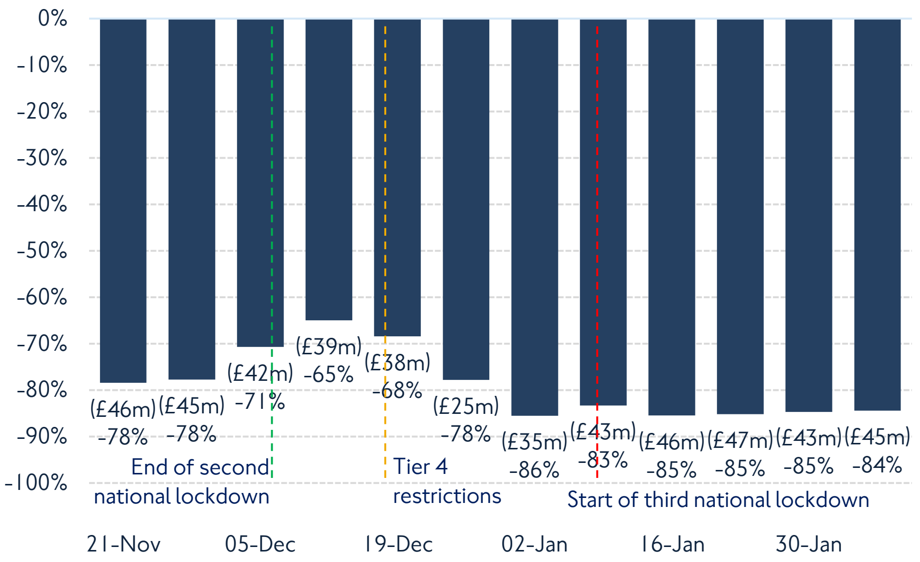
Passenger journeys and other operating income

Both Tube and bus journeys saw some decline following the introduction of Tier 4 restrictions in December 2020 coupled with Christmas holiday period. Journeys have been flat since the third national lockdown in January 2021, with weekly passenger income around £65m lower than last year.

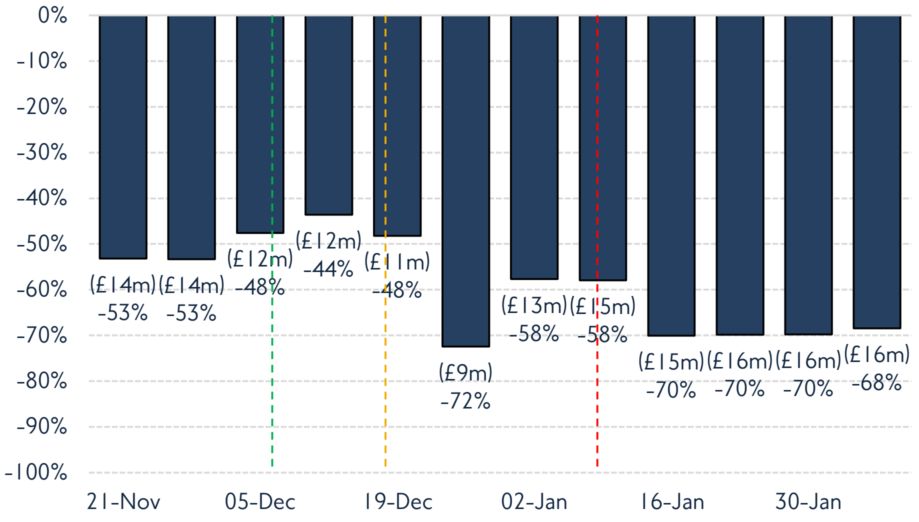
Congestion Charge volumes are broadly in line with last year for most of the period. The temporary changes to the scheme meant we charged in the period between Christmas and New Year, when the charge is normally suspended. Weekly income is just over £1m higher than last year, driven by the increase in daily charges from June 2020.

Passenger journeys and income

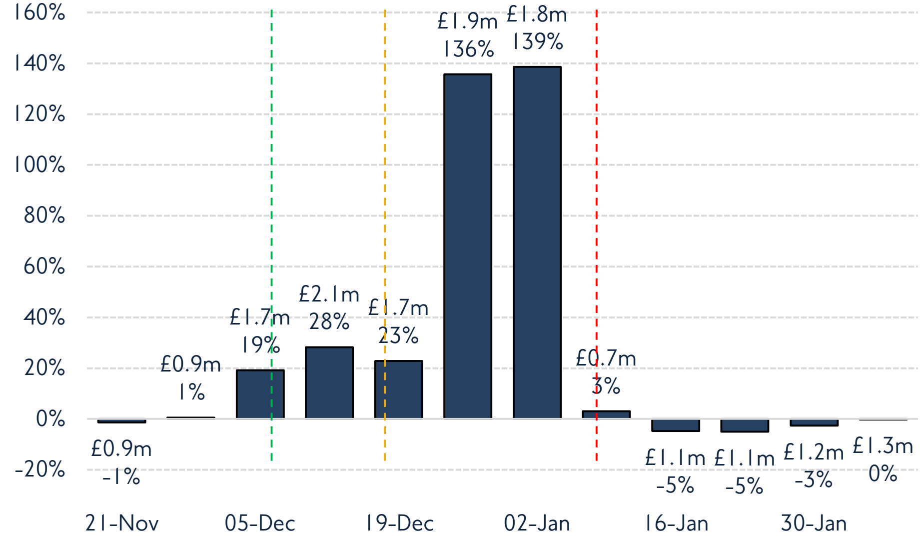
Tube journeys and income: % year-on-year change



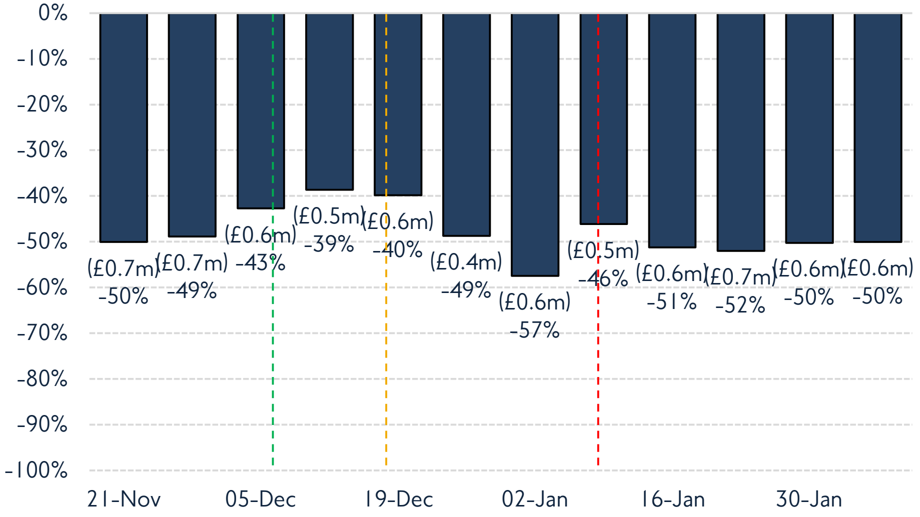
Bus journeys and income: % year-on-year change



CC volumes and income: % year-on-year change



ULEZ volumes and income: % year-on-year change



Operating account

Net cost of operations is £122m better than target, driven by higher journey volumes (offset by revenue top up funding included in extraordinary revenue grant), cost reductions, contingency release and lower coronavirus related costs.

Operating account

Operating account (£m)	Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Last year	Variance to last year	% variance to last year
	Year to date, 2020/21				Year to date, 2019/20		
Passenger income	1,373	1,212	161	13%	4,127	(2,754)	-67%
Other operating income	641	644	(3)	0%	851	(210)	-25%
Total operating income	**2,014**	**1,856**	**158**	**9%**	**4,978**	**(2,964)**	**-60%**
Business Rates Retention	814	814	0	0%	802	12	2%
Revenue grant	50	21	29	138%	71	(21)	-30%
Government furlough grant	58	60	(3)	-4%	0	58	N/A
Total income	**2,935**	**2,751**	**184**	**7%**	**5,850**	**(2,915)**	**-50%**
Operating costs [1]	(5,376)	(5,466)	89	-2%	(5,353)	(23)	0%
Coronavirus direct operating costs	(46)	(56)	9	-17%	0	(46)	N/A
Coronavirus safe stop and stranded labour costs [2]	(99)	(106)	6	-6%	0	(99)	N/A
Net operating surplus	**(2,441)**	**(2,715)**	**273**	**-10%**	**497**	**(2,938)**	**-591%**
Net financing costs	(375)	(376)	1	0%	(357)	(18)	5%
Net cost of operations after financing	**(2,816)**	**(3,091)**	**274**	**-9%**	**140**	**(2,956)**	**-2112%**
Capital renewals	(268)	(287)	19	-7%	(372)	103	-28%
Net cost of operations	**(3,084)**	**(3,378)**	**293**	**-9%**	**(232)**	**(2,853)**	**1231%**
Extraordinary revenue grant	2,031	2,203	(172)	-8%	0	2,031	N/A
Net cost of operations after extraordinary revenue grant	**(1,053)**	**(1,175)**	**122**	**-10%**	**(232)**	**(821)**	**355%**

1 - 2020/21 operating leases presented on IFRS16 basis; accounting basis for PFI changed in P11, 2020/21 – year to date and prior year costs have been restated
2 - Stranded labour costs are staff costs for capital projects – we have paused some non-safety critical capital projects, which means these costs do not currently appear in the capital account

Total income

Underlying income – after adjusting for £100m revenue contingency – is £84m higher than target.

Underlying passenger income (excluding contingency) was £54m better than target, driven by upsides on all services.

Road User Charging income (including income from the Congestion Charge and ULEZ schemes) was (£7m) lower than target, with volumes lower than expected.

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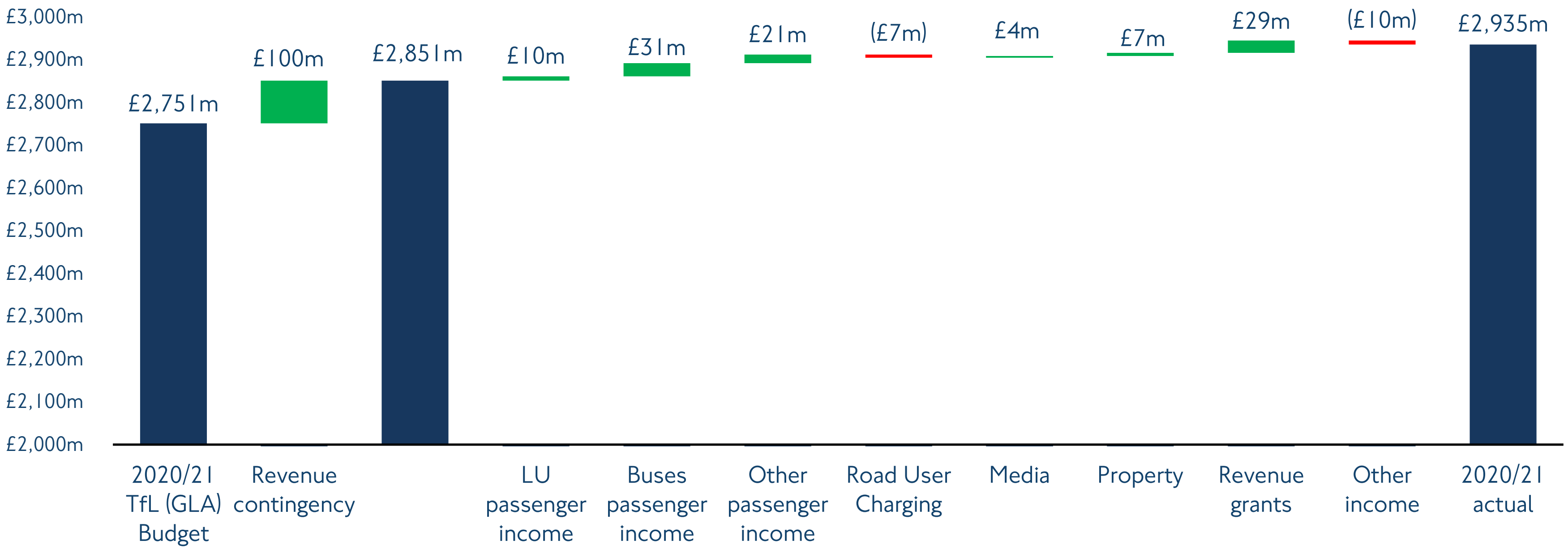
Other revenue grants are £29m higher than target, a result of Emergency Active Travel funding from the DfT (£20m) as well as £5m for school transport funding.

Total income: year to date, 2020/21



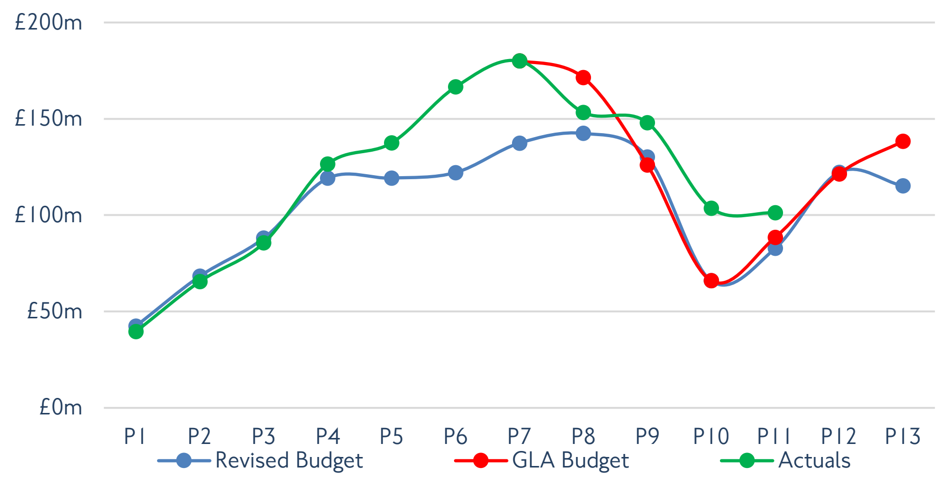
£84m

higher than target

Underlying passenger income £54m up on target with P11 journeys better than expected. Some risk over remaining periods if journeys remain flat, but minimised through H2 agreement with government.

Risk on Road User Charging income, but partly offset from improved bad debt rates.

Passenger income: actuals, TfL (GLA) Budget and Revised Budget (excl. revenue contingency and Oyster write off income)



Operating costs

Operating costs £89m lower than target, driven by lower core costs – partly from lower bad debt as a result of lower Road User Charging volumes – and contingency release.

Coronavirus costs – including cleaning, PPE, social distancing as well as stranded labour costs * - are £145m in the year to date.

Our savings programme remains on track to deliver £325m of savings this year. This includes £150m of recurring savings, which we will also see the benefit of in future years. As set out in our Financial Sustainability Plan, we are targeting to make savings of £730m from 2019/20 to 2024/25.

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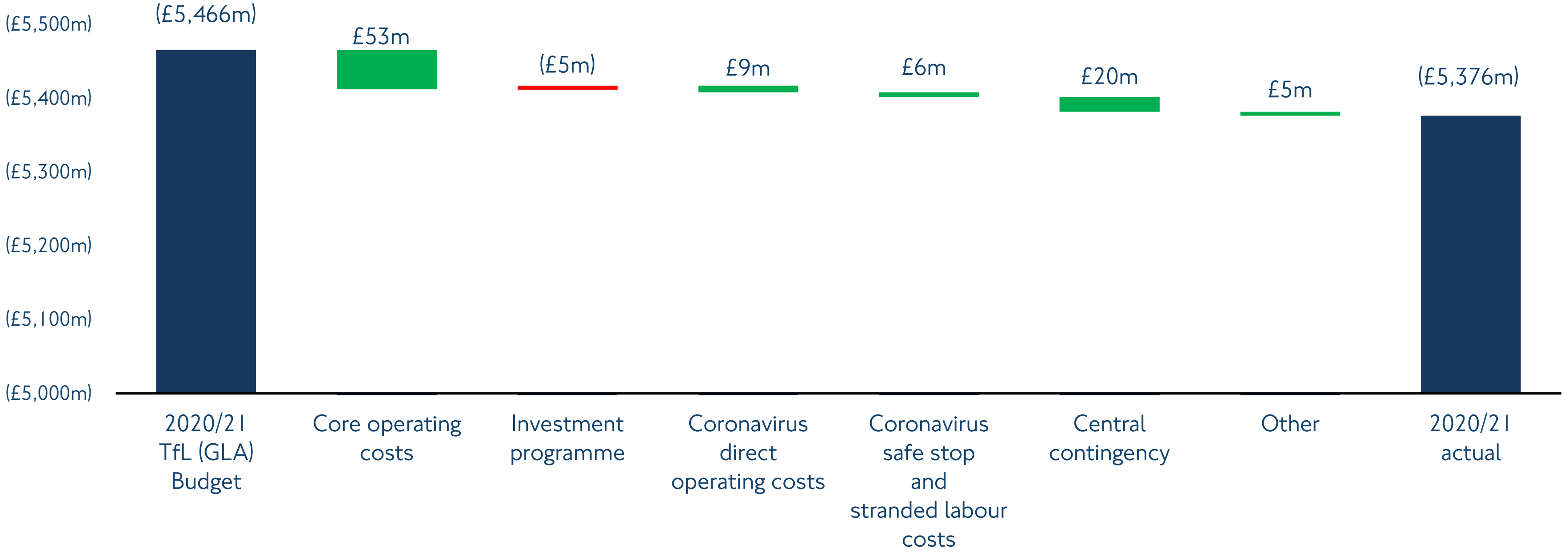
Operating costs: year to date, 2020/21



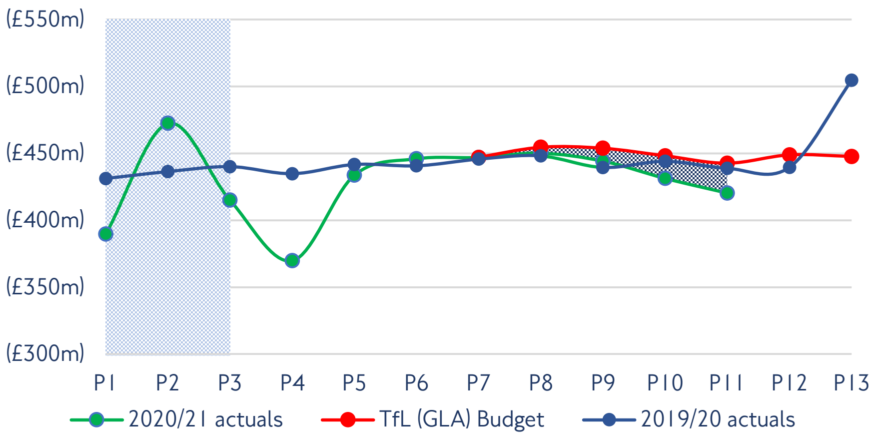
£89m

lower than target

Lower costs from combination of lower bad debt (driven from lower RUC volumes and improved rates with PCNs), further savings, and contingency release.

* Stranded labour costs are staff costs for capital projects – we have paused some non-safety critical capital projects, which means these costs do not currently appear in the capital account

Core operating costs: actuals for 2019/20 and 2020/21, TfL (GLA) Budget
Costs trending under last year, a result of savings and one offs



Staff

We have reduced total headcount by 777 (3%) since the end of last year, with almost two-thirds of the reduction through lower agency staff and non-permanent labour.

Compared to our original Budget, staff numbers are down by almost 1,500.

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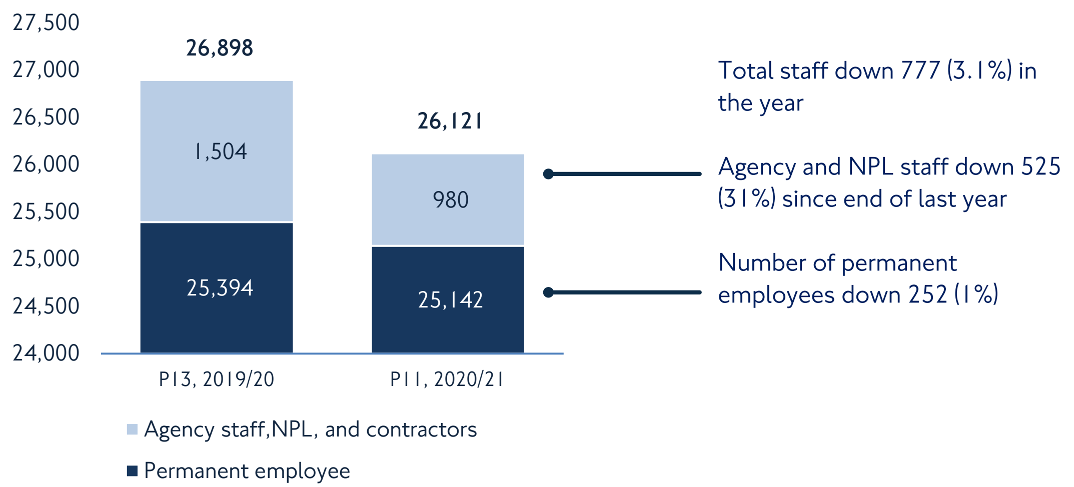
Staff excl. Crossrail construction

Headcount trends since the end of last year



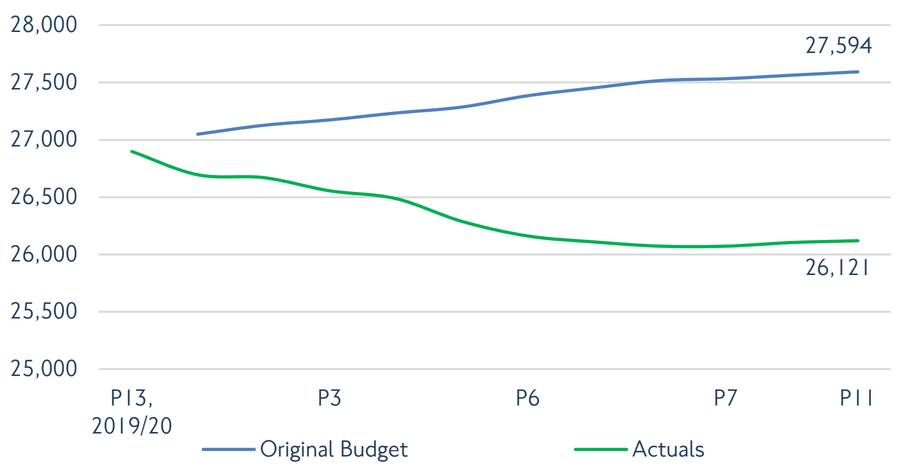
777

reduction in staff since end of 2019/20

c.£4m

additional savings per period compared to end of last year

Total staff (FTE): Actuals and original TfL Budget 2020/21



1,472

reduction in staff compared to our original Budget

Capital account

Total capital expenditure £57m lower than target, driven by slower ramp up in capital renewals and lower property investment spend.

Property and asset receipts are £94m down on target, mainly driven by the delayed disposal of Tottenham Court Road and Davies Street. Since the end of P11, we have completed the sale of Tottenham Court Road.

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Capital account: year to date, 2020/21

Capital account (£m)	Year to date, 2020/21 Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
New capital investment	(653)	(691)	38	-5%	(835)	181	-22%
Crossrail	(620)	(666)	47	-7%	(880)	260	-30%
Total capital expenditure	**(1,273)**	**(1,357)**	**84**	**-6%**	**(1,715)**	**442**	**-26%**
Financed by:							
Investment grant	764	764	0	0%	750	14	2%
Property and asset receipts	8	102	(94)	-92%	150	(143)	-95%
Borrowing	602	602	0	0	(249)	851	(3)
Crossrail borrowing	564	629	(65)	-10%	0	564	N/A
Crossrail funding sources	71	69	2	3%	803	(731)	-91%
Other capital grants	117	110	6	6%	161	(45)	-28%
Total	**2,127**	**2,278**	**(151)**	**-7%**	**1,615**	**511**	**32%**
Net capital account	**854**	**920**	**(67)**	**-7%**	**(99)**	**953**	**-960%**
Capital renewals	(268)	(287)	19	-7%	(372)	103	-28%
New capital investment	(653)	(691)	38	-5%	(835)	181	-22%
Total TfL capital expenditure	**(921)**	**(978)**	**57**	**-6%**	**(1,206)**	**285**	**-24%**

Capital expenditure

Total capital expenditure is £57m lower than target; spend to date this year is over £285m lower than this time last year, reflecting safe stop of non-critical projects at the height of the pandemic, and planned deferrals in H2, 2020/21.

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Capital expenditure by programme: year to date, 2020/21

Capital renewals and new capital investment (£m)	Year to date, 2020/21				Year to date, 2019/20		
	Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Last year	Variance to last year	% variance to last year
Major projects	**(404)**	**(412)**	**9**	**-2%**	**(502)**	**99**	**20%**
Northern Line Extension	(91)	(91)	0	0%	(141)	50	35%
Four Lines Modernisation	(81)	(86)	5	-5%	(210)	128	61%
Major Stations	(58)	(62)	4	-7%	(74)	16	22%
Railway Systems Enhancements	(9)	(9)	0	-3%	(12)	3	27%
Piccadilly line trains	(79)	(82)	2	-3%	(52)	(28)	-54%
DLR Rolling Stock	(37)	(38)	1	-1%	(18)	(19)	-107%
Barking Riverside	(41)	(37)	(4)	12%	(32)	(8)	-26%
Silvertown Tunnel	(7)	(8)	1	-12%	37	(44)	118%
Elizabeth line - infrastructure	**(30)**	**(31)**	**1**	**-3%**	**(16)**	**(13)**	**-82%**
LU	**(173)**	**(189)**	**17**	**-9%**	**(297)**	**125**	**42%**
Capital renewals	(146)	(159)	13	-8%	(257)	111	43%
New capital investment	(26)	(30)	4	-13%	(41)	14	35%
Surface Transport	**(231)**	**(232)**	**1**	**0%**	**(246)**	**15**	**6%**
Healthy Streets	(38)	(42)	4	-10%	(86)	48	56%
Surface - assets	(65)	(59)	(5)	9%	(42)	(23)	-56%
Surface Tech	(12)	(12)	0	0%	(7)	(5)	-79%
Public Transport	(50)	(57)	7	-13%	(72)	22	31%
Air Quality and environment	(66)	(67)	1	-1%	(39)	(27)	-68%
Surface Deliverability overlay	-	6	(6)	-100%	-	-	N/A
Corporate programmes	**(53)**	**(68)**	**14**	**-21%**	**(81)**	**28**	**34%**
Professional Services	(63)	(75)	12	-15%	(78)	14	18%
Media	10	7	3	42%	(4)	13	375%
Commercial Development	**(29)**	**(45)**	**16**	**-35%**	**(62)**	**33**	**53%**
Estates and facilities	(0)	(2)	2	-90%	(2)	2	92%
Property development	(29)	(44)	14	-33%	(60)	31	52%
Total TfL	**(921)**	**(978)**	**57**	**-6%**	**(1,206)**	**285**	**24%**

Cash balances

Cash balances are £1,634m at the end of the Period, (£85m) lower than forecast. This was driven by unfavourable working capital movements that will reverse by year end.

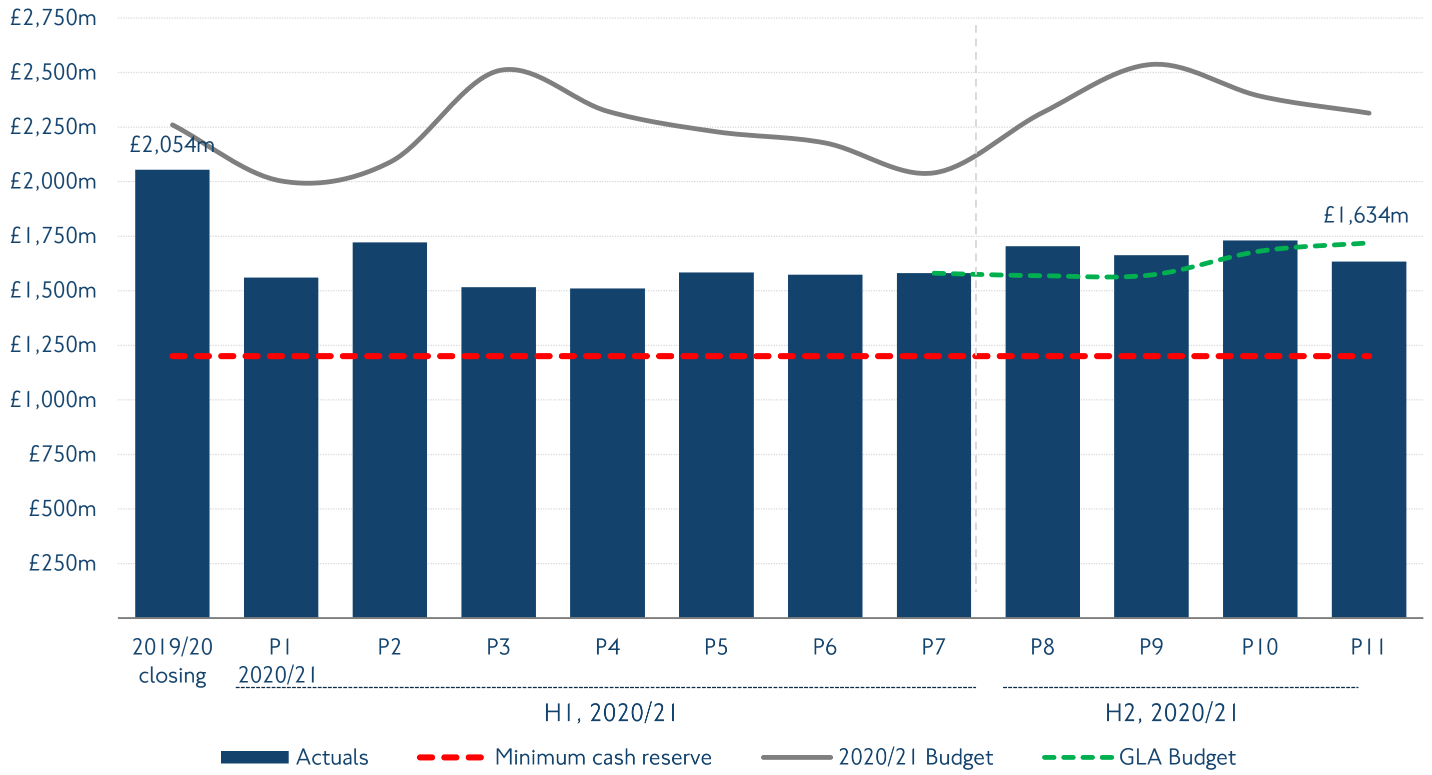
As part of the H2 agreement with government, we have so far received £765m of base funding from government, as well as £278m revenue top up funding.

As part of the new funding agreement, we are required to return the 'excess' funding provided in H1, 2020/21 (£260m). This will be repaid to government when the new funding agreement expires at the end of 2020/21.

Cash balances and latest forecast

£m	2019/20 closing balances	Prior periods' movement	P11 movement	P11, 2020/21 closing cash	TfL (GLA) Budget	Variance to TfL (GLA) Budget
TfL cash balances (excl. Crossrail)	2,054	(324)	(96)	1,634	1,719	(85)

TfL cash balances since end 2019/20



2020/21 full-year outturn

Our expected full-year outturn is a deficit of almost £3.8bn before funding and financing support from Government.

Compared to our forecast in December 2020, this is an improvement of just over £420m. driven by higher passenger income, and lower operating costs.

Against last year, our expected deficit will be just over £3.3bn worse, with total income £3.4bn lower. Total operating costs are expected to be almost £60m lower, despite additional coronavirus related costs (£160m) this year; underlying core costs are expected to outturn almost £180m lower than last year, a result of our savings programme and one off upside this year.

Operating account

	Full year, 2020/21				Full year, 2019/20		
Operating account (£m)	**Latest forecast**	**TfL (GLA) Budget**	**Variance to TfL (GLA) Budget**	**% variance to TfL (GLA) Budget**	**Last year**	**Variance to last year**	**% variance to last year**
Passenger income	1,606	1,480	126	8%	4,751	(3,145)	-66%
Other operating income	755	768	(13)	-2%	1,023	(268)	-26%
Total operating income	**2,361**	**2,248**	**113**	**5%**	**5,774**	**(3,413)**	**-59%**
Business Rates Retention	969	969	0	0%	988	(19)	-2%
Revenue grant	55	27	27	50%	117	(63)	-53%
Government furlough grant	58	60	(3)	-5%	0	58	N/A
Total income	**3,442**	**3,305**	**138**	**4%**	**6,879**	**(3,437)**	**-50%**
Operating costs [1]	(6,414)	(6,678)	264	-4%	(6,473)	59	-1%
Coronavirus direct operating costs	(61)	(71)	10	-16%	(9)	(52)	560%
Coronavirus safe stop and stranded labour costs [2]	(101)	(118)	18	-18%	(19)	(81)	421%
Net operating surplus	**(2,971)**	**(3,373)**	**402**	**-14%**	**407**	**(3,378)**	**-831%**
Net financing costs	(440)	(442)	2	-1%	(411)	(29)	7%
Net cost of operations after financing	**(3,411)**	**(3,815)**	**404**	**-12%**	**(4)**	**(3,407)**	**85067%**
Capital renewals	(348)	(366)	18	-5%	(453)	105	-23%
Net cost of operations	**(3,759)**	**(4,181)**	**422**	**-11%**	**(457)**	**(3,302)**	**722%**
Extraordinary revenue grant	2,447	2,589	(142)	-6%	0	2,447	N/A
Net cost of operations after extraordinary revenue grant	**(1,312)**	**(1,592)**	**280**	**-21%**	**(457)**	**(855)**	**187%**

1 - 2020/21 operating leases presented on IFRS16 basis; accounting basis for PFI changed in P11, 2020/21 – year to date and prior year costs have been restated
2 - Stranded labour costs are staff costs for capital projects – we have paused some non-safety critical capital projects, which means these costs do not currently appear in the capital account

£160m of additional savings in H2, 2020/21

As part of the H2 funding agreement with the DfT, we have committed to making net savings – from income and capital - of £160m against the H2 Revised Budget.

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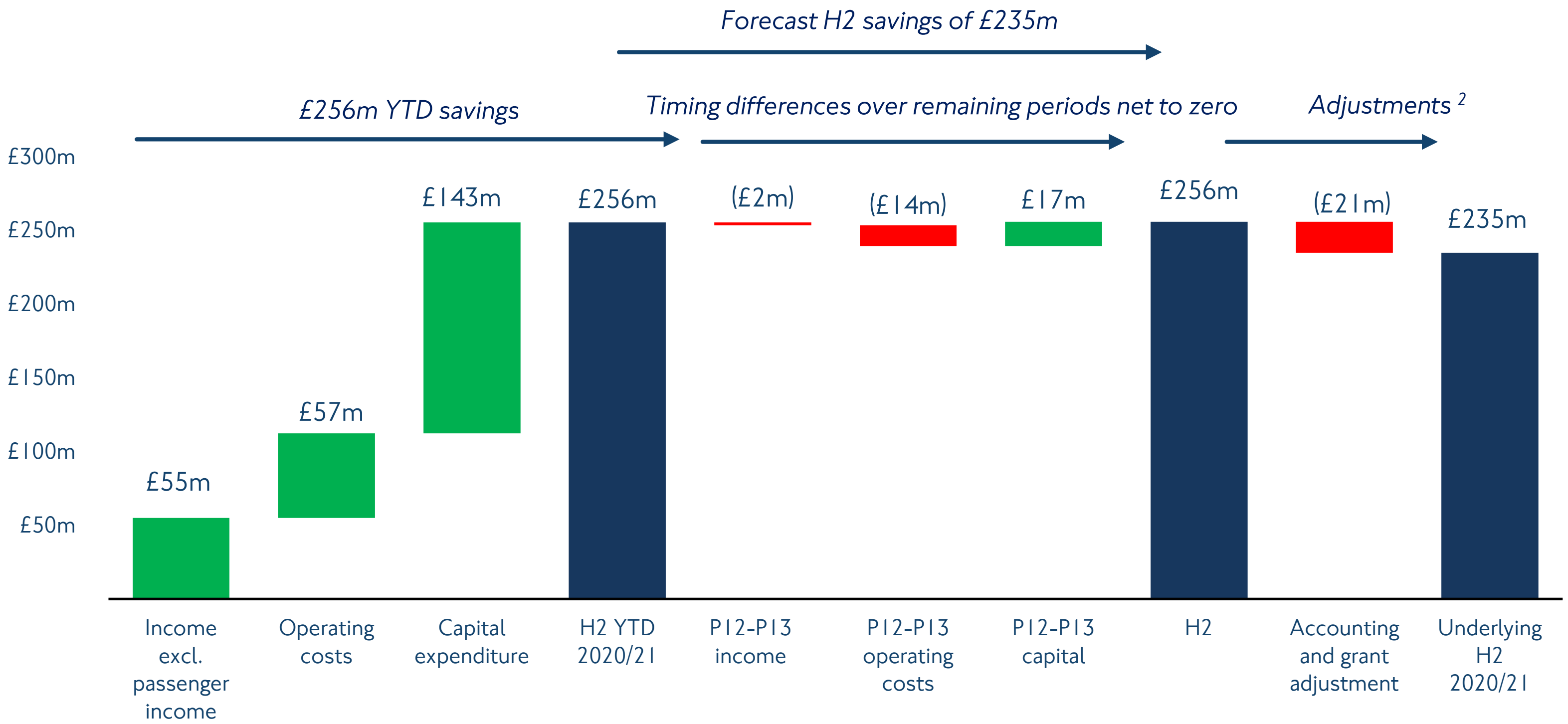
We have made savings of £256m so far in H2. After adjusting for timing differences and accounting and grant changes, we expect this to reach £235m by year end. On top of this, we are improving our working capital and expect to see a one off cash upside from this.

Additional savings of £160m

We are committed to making £160m of net savings in H2, 2020/21, against the Revised Budget

	H2 year to date, 2020/21			H2, 2020/21				
	H2 actuals	Variance to RB	Target savings: TfL (GLA) Budget	H2 latest forecast	H2 Revised Budget	H2 savings	Adjustments	H2 net savings
Income incl. other revenue grants, excl. BRR	296	55	32	415	362	53	(13)	40
Operating costs	(1,939)	57	3	(2,951)	(2,994)	43	(8)	35
Capital expenditure incl. capital grants	(367)	143	80	(663)	(823)	160	-	160
Net savings [1]	(2,011)	256	114	(3,199)	(3,455)	256	(21)	235



1 - Savings exclude property and asset receipts
2 - Adjustments: a) GR/IR corrections in P10-P11 of £8m (no cash impact); b) removal new Emergency Active Travel funding (£20m), less £8m expenditure to be incurred this financial year

2020/21 full year outlook

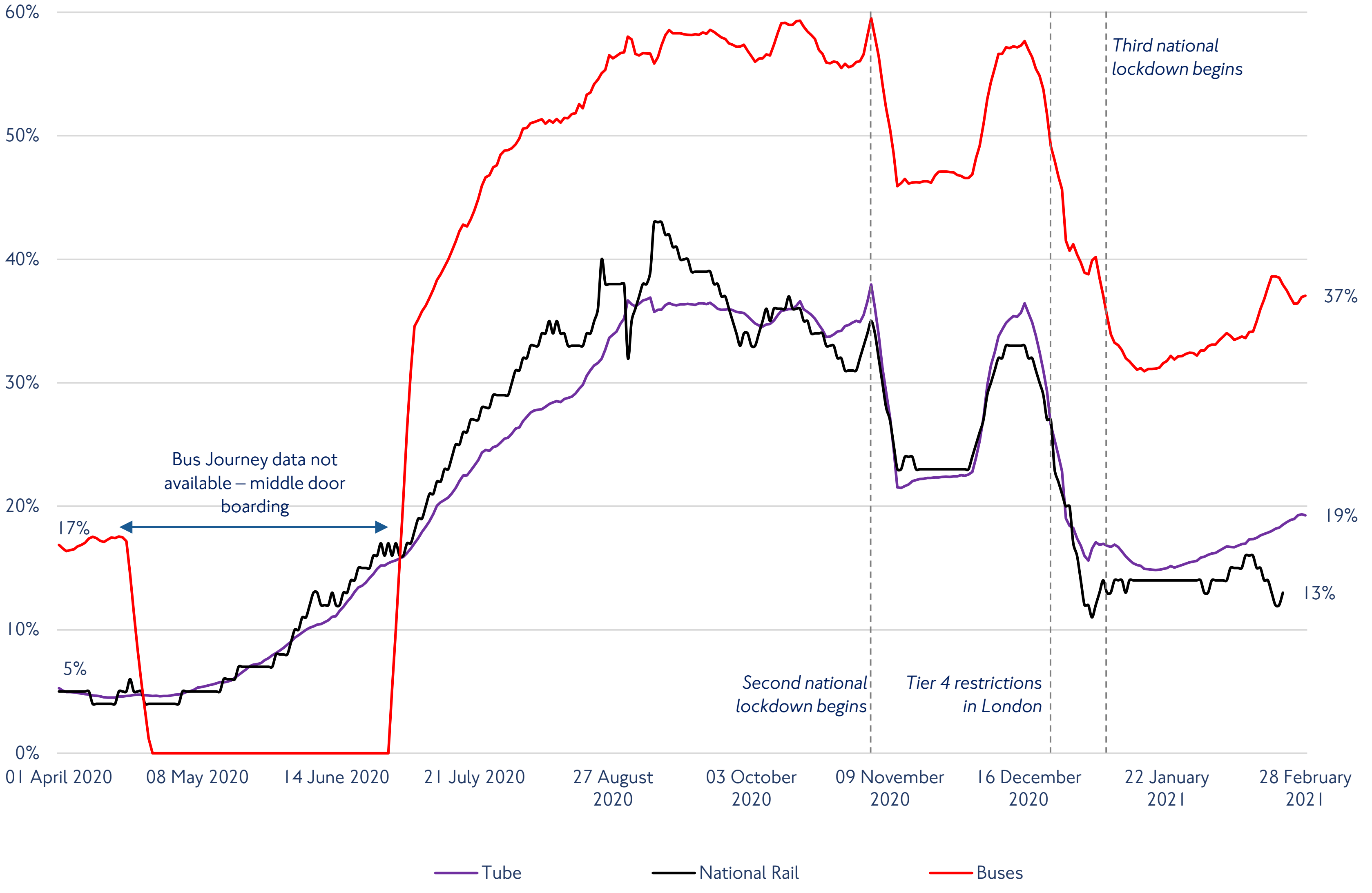
Latest journey trends

Tube, Bus and National Rail journeys saw sharp drop following introduction of national lockdown on 5 January 2021. Tube journeys are now 19% of last year's demand, while bus journeys are around 37%. Tube journey demand patterns are mirrored by those on the National Rail network.

We are seeing higher journeys than during the first national lockdown in March 2020.Tube journeys are over three times higher, while bus journeys have doubled.

Latest trends

Latest journey trends to 28 February 2021



Source: TfL (7 day rolling average compared to last year); DfT *Transport use during the coronavirus pandemic*. Trends to 28 Feb 2021 for TfL services; to 22 Feb for National Rail.

Key issues and risks

We have a number of risks at year end, including uncertainty on government funding going into 2021/22, impacts of Brexit on our supply chain, as well as the end of year audit.

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2021/22 Funding agreement

Our current H2 funding agreement with government expires on 31 March 2021. This means for the new financial year 2021/22, beginning on 1 April 2021, there is no certainty on maintaining our cash position until a satisfactory agreement is concluded.

Negotiations with government are ongoing. However, based on current progress it is unlikely these will be concluded in time to publish a new 2021/22 Budget in the current financial year.

Without agreed funding for 2021/22, our cash balances will decrease rapidly. In April 2020, during the first wave of the pandemic, cash balances reduced by almost £500m.

Brexit impact

TfL's Procurement & Supply Chain (P&SC) continue to monitor the impacts of Brexit on our supply chain. 71 key risks are currently being actively managed.

22 of these risks have been classified as high risk, with the key issues being:

- Delays to import of goods from the EU
- Increase in tariffs/ costs
- Shortages in non-UK labour and services sourced from the EU
- FOREX/ current inflation
- Supplier failure and resulting impact on TfL's operations, assets or network

Year end audit

The interim audit for 2020/21 is progressing smoothly with no issues identified as yet from the auditors. The auditors are in the process of reviewing our Financial Sustainability Plan and forecasts to inform their work on Going Concern in relation to the 20/21 audit. They are also aiming to prepare a report on our Climate Change reporting for the Audit and Assurance Committee in June 2021.

Key risks to the 2020/21 audit include:

- Ongoing uncertainty re TfL's longer term funding position – our audit opinion is likely to need to include a 'Material Uncertainty' clause re going concern (as per the 2019/20 audit)
- Lower level of audit materiality, and increased audit requirements in relation to Value for Money and Going concern will increase workload pressures on TfL Staff
- Increased focus on judgement areas (e.g. impairment provisions, property valuations, expected credit loss provisions) as a result of coronavirus pressures

Section 2
Period 11, 2020/21 results: Divisional performance

London Underground

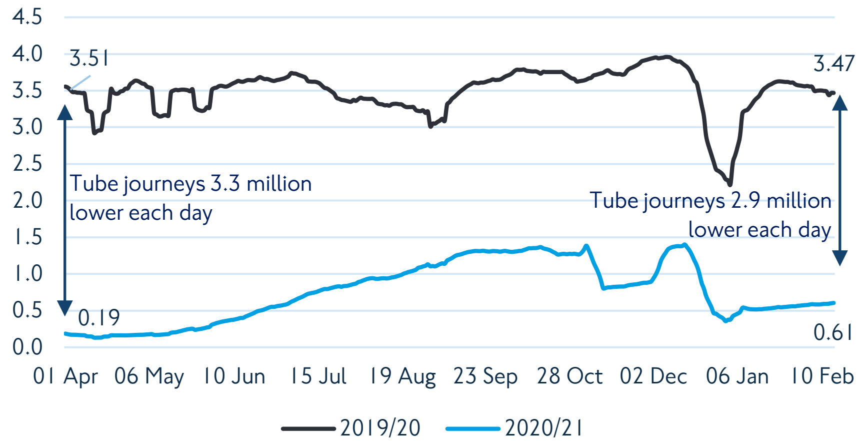
Tube journeys 85% lower than last year in the period, significantly down from the pre-Christmas period. Passenger income is now over £1.8bn lower than this time last year.

Continued cost control and savings have helped keep costs down; core operating costs are almost £60m lower than last year. Overall operating costs are £25m higher than last year, a result of £94m additional costs arising from coronavirus (PPE, new cleaning regimes, social distancing as well as stranded labour costs).

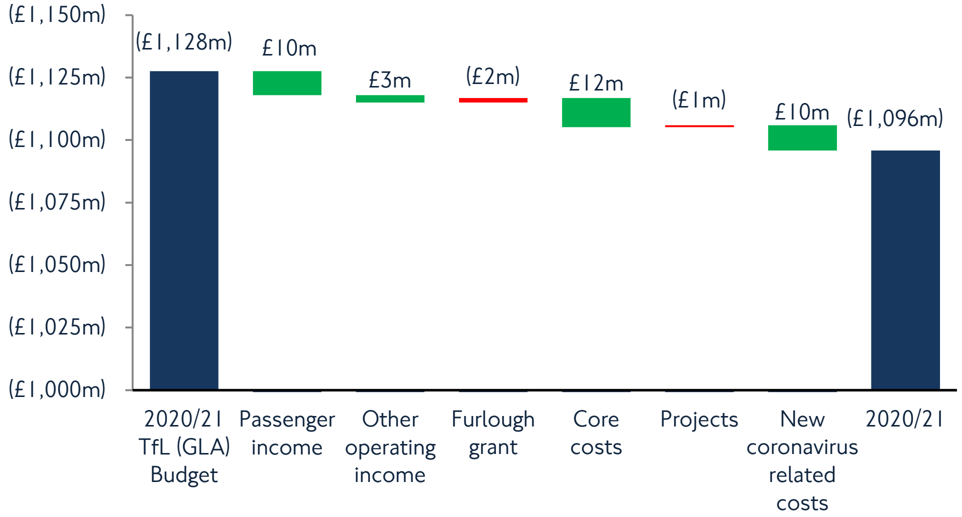
London Underground

Operating account (£m)	Year to date, 2020/21				Year to date, 2019/20		
	Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Last year	Variance to last year	% variance to last year
Passenger income	560	551	10	2%	2,386	(1,826)	-77%
Other operating income	16	13	3	21%	29	(13)	-45%
Total operating income	**576**	**564**	**13**	**2%**	**2,415**	**(1,839)**	**-76%**
Government furlough grant	37	39	(2)	-4%	0	37	N/A
Total income	**614**	**603**	**11**	**2%**	**2,415**	**(1,801)**	**-75%**
Operating costs	(1,710)	(1,730)	21	-1%	(1,685)	(25)	1%
Net operating surplus	**(1,096)**	**(1,128)**	**32**	**-3%**	**730**	**(1,826)**	**-250%**
Indirect costs	(240)	(346)	106	-31%	(280)	40	-14%
Net financing costs	(238)	(239)	1	0%	(227)	(11)	5%
Capital renewals	(146)	(159)	13	-8%	(257)	111	-43%
Net cost of operations	**(1,720)**	**(1,871)**	**152**	**-8%**	**(33)**	**(1,686)**	**5044%**
New capital investment	**(26)**	**(30)**	**4**	**-13%**	**(41)**	**14**	**-35%**

Daily Tube journeys (millions, 7-day rolling average)



Net operating surplus compared to TfL (GLA) Budget



Elizabeth line

Passenger journeys broadly in line with target, but passenger income over 60% lower than this time last year.

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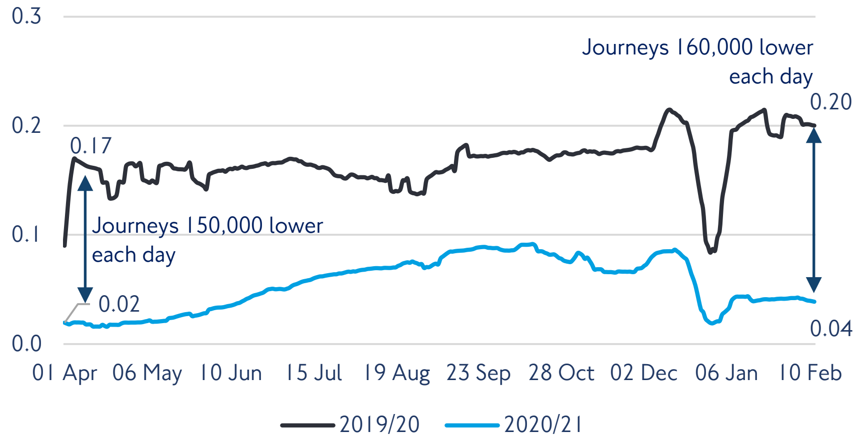
Elizabeth line

Operating account (£m)	Year to date, 2020/21 Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Passenger income	34	31	4	12%	98	(64)	-65%
Other operating income	6	7	(0)	-5%	8	(2)	-22%
Total operating income	**40**	**37**	**3**	**9%**	**106**	**(66)**	**-62%**
Government furlough grant	0	1	(0)	-2%	0	0	N/A
Total income	**41**	**38**	**3**	**8%**	**106**	**(65)**	**-62%**
Operating costs	(277)	(277)	0	0%	(294)	17	-6%
Net operating surplus	**(236)**	**(240)**	**4**	**-2%**	**(188)**	**(48)**	**25%**
Indirect costs	(6)	(15)	9	-60%	(8)	2	-25%
Net financing costs	(74)	(74)	0	0%	(71)	(4)	5%
Net cost of operations	**(316)**	**(329)**	**13**	**-4%**	**(267)**	**(49)**	**19%**
New capital investment	(30)	(31)	1	-3%	(16)	(13)	82%
Crossrail construction	(620)	(666)	47	-7%	(880)	260	-30%
Total capital investment	**(649)**	**(697)**	**48**	**-7%**	**(896)**	**247**	**-28%**

Daily Elizabeth line journeys (millions, 7-day rolling average)



Net operating surplus compared to TfL (GLA) Budget

Buses, Streets & Other operations

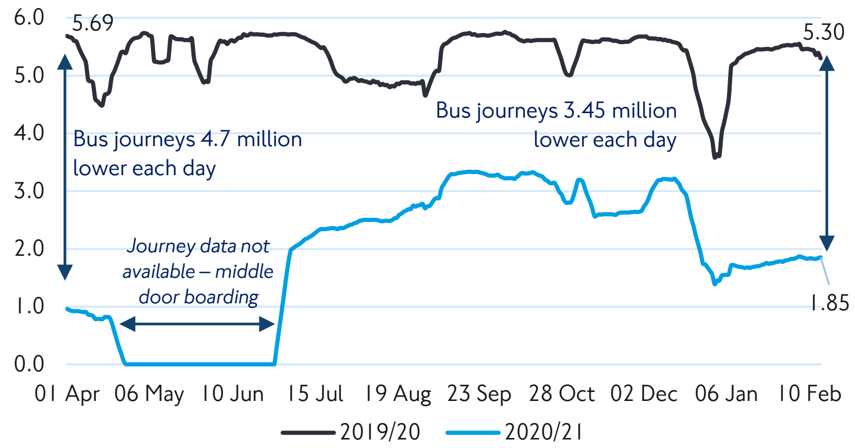
Bus journeys down since December, and are now around 35% of last year's levels. Congestion Charge (CC) and ULEZ income was higher than last year in Quarter 3; since December, income is trending down, but we expect to hit target by year end.

Operating costs lower than target, a result of lower bad debt – driven by lower Road User Charging volumes, as well as improved payment rates on PCNs – and lower bus costs. Total operating costs slightly up on last year, as a result of new coronavirus related costs, including new bus driver protection screens.

Buses, Streets & Other operations

Operating account (£m)	Year to date, 2020/21				Year to date, 2019/20		
	Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Last year	Variance to last year	% variance to last year
Passenger income	595	565	31	5%	1,238	(642)	-52%
Other operating income	435	441	(6)	-1%	468	(33)	-7%
Total operating income	**1,031**	**1,006**	**24**	**2%**	**1,706**	**(675)**	**-40%**
Government furlough grant	9	9	(0)	-3%	0	9	N/A
Total income	**1,040**	**1,016**	**24**	**2%**	**1,706**	**(666)**	**-39%**
Operating costs	(2,368)	(2,391)	23	-1%	(2,355)	(13)	1%
Net operating surplus	**(1,329)**	**(1,375)**	**47**	**-3%**	**(650)**	**(679)**	**104%**
Indirect costs	(94)	(116)	21	-18%	(101)	7	-7%
Net financing costs	(35)	(35)	0	0%	(33)	(2)	5%
Capital renewals	(79)	(72)	(7)	10%	(49)	(30)	60%
Net cost of operations	**(1,537)**	**(1,598)**	**61**	**-4%**	**(834)**	**(703)**	**84%**
New capital investment	**(109)**	**(109)**	**(1)**	**1%**	**(129)**	**20**	**-15%**

Daily bus journeys (millions, 7-day rolling average)



Net operating surplus compared to TfL (GLA) Budget

Rail

Rail journeys – from London Overground, DLR and Trams – around 25% of last year, down from 50% at the end of Quarter 3.

Operating costs are broadly in line with last year and target.

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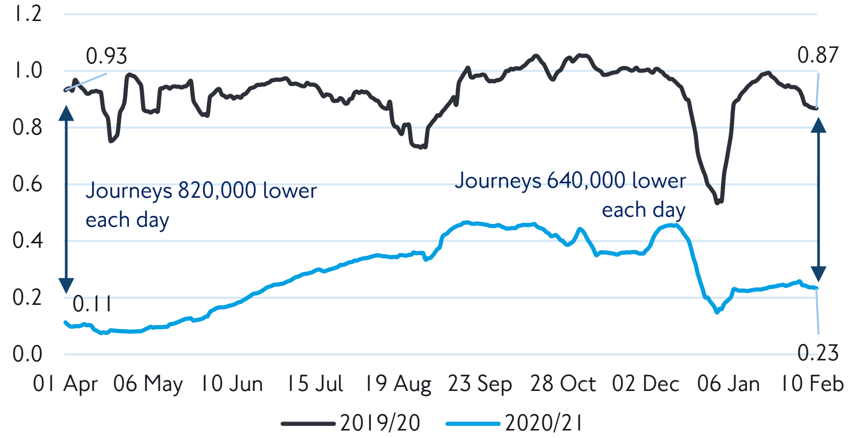
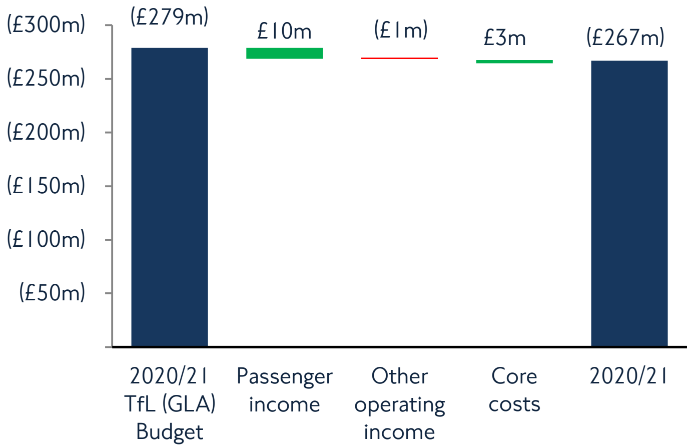
Rail

Operating account (£m)	Year to date, 2020/21 Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Passenger income	118	108	10	9%	359	(241)	-67%
Other operating income	5	6	(1)	-19%	21	(16)	-77%
Total operating income	**123**	**114**	**9**	**8%**	**380**	**(257)**	**-68%**
Government furlough grant	0	0	(0)	-7%	0	0	N/A
Total income	**124**	**115**	**9**	**8%**	**380**	**(256)**	**-67%**
Operating costs	(390)	(394)	3	-1%	(393)	3	-1%
Net operating surplus	**(267)**	**(279)**	**12**	**-4%**	**(13)**	**(254)**	**2018%**
Indirect costs	(15)	(17)	2	-11%	(17)	2	-12%
Net financing costs	(23)	(23)	0	0%	(22)	(1)	5%
Capital renewals	(24)	(33)	8	-26%	(36)	11	-32%
Net cost of operations	**(329)**	**(352)**	**23**	**-6%**	**(87)**	**(242)**	**278%**
New capital investment	**(19)**	**(19)**	**(1)**	**3%**	**(33)**	**13**	**-40%**

Daily Rail journeys (millions, 7-day rolling average)



Net operating surplus compared to TfL (GLA Budget)



Major Projects Directorate

Year to date capital spend lower than target. Deferrals and some slippage across Four Lines Modernisation and Bank. Cost increase on Barking Riverside extension following VOWD assessment, but no impact on cash or final cost.

Major Projects Directorate

Operating account (£m)	Year to date, 2020/21				Year to date, 2019/20		
	Actuals	TfL (GLA) Budget	Variance to TfL (GLA) Budget	% variance to TfL (GLA) Budget	Last year	Variance to last year	% variance to last year
Other operating income	6	8	(2)	-21%	16	(10)	-63%
Total operating income	6	8	(2)	-21%	16	(10)	-63%
Government furlough grant	2	3	(0)	-6%	0	2	N/A
Total income	8	10	(2)	-17%	16	(8)	-48%
Operating costs	(36)	(39)	4	-9%	(10)	(26)	271%
Net operating surplus	(27)	(29)	2	-6%	6	(34)	-526%
Indirect costs	(27)	(26)	(1)	4%	(32)	5	-16%
Net financing costs	0	0	0	N/A	0	0	N/A
Capital renewals	(3)	(3)	0	-6%	(16)	14	-85%
Net cost of operations	(57)	(58)	1	-1%	(42)	(15)	35%
New capital investment	(402)	(410)	8	-2%	(486)	84	-17%

DLR Rolling Stock

The final design phase has been completed and manufacturing has now commenced. The Beckton Depot enabling package has been awarded and tender evaluation has been completed for the Beckton Depot northern sidings works, with approval given to award this contract.

Authority to enter into the grant agreement for the Housing Infrastructure Fund works to delivery 14 additional trains and stabling capacity was approved in December 2020, and the grant agreement has now been signed.

Northern Line Extension

The first passenger test trains ran successfully on the new extension on the 19 and 25 December 2020. The extension remains on track to be available for revenue service in autumn this year.

The focus going forward will be on the work packages and resources required for supporting the start of trial operations planned for summer 2021.

Barking Riverside Extension

On 3 January 2021, we completed the major signalling stage (stage nine of 16) that was cancelled at Easter 2020 due to the first wave of the coronavirus pandemic. It had not been possible to undertake this work any earlier because the entire rail systems plan needed to be reworked and new possession requirements, including for this extended closure, arranged with Network Rail and the operators.

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Finance Committee

Date: **10 March 2021**

Item: **Treasury Management Strategy 2021/22**

This paper will be considered in public

1 Summary

1.1 This paper sets out the proposed Treasury Management Strategy (TMS) for 2021/22. The TMS 2021/22 comprises the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits.

1.2 Approval of the TMS is a matter reserved to the Board. However, on 29 July 2020 the Board delegated to the Committee approval of the TMS and any changes to the TMS during any year. At its meeting on 10 March 2021, the Committee is asked to exercise that authority in relation to the TMS for 2021/22.

1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL.

2 Recommendations

2.1 **Under the authority delegated by the Board, the Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and:**

(a) **approve the TMS 2021/22, attached at Appendix 1, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits;**

(b) **note that the proposals to the Committee for derivative investments set out in Recommendation 2.1(c) have been approved by the statutory and managing Chief Finance Officers[1], as required under the TfL Group Policy Relating to the Use of Derivative Investments (the 'Derivatives Policy'); and**

(c) **subject to the approval of the TMS 2021/22 and also approval of the Derivatives Policy by the Committee (pursuant to a separate item on the agenda), approve, pursuant to Section 49 of the Transport for London Act 2008 (as amended by the Transport for London Act 2016, together the Act), and in accordance with the Derivatives Policy for 2021/22,**

[1] References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999. References to managing Chief Finance Officer in this document mean the Managing Director (Chief Finance Officer).

Transport for London Finance Limited (as a qualifying TfL subsidiary for the purposes of the Act) entering into derivative investment(s) in relation to:

(i) mitigating exchange rate risk related to specific currency exposures arising from the procurement of goods or services by any member of the TfL Group or grants or revenues payable in currencies other than Sterling to any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of exchange rate risk to any member of the TfL Group is established;

(ii) mitigating exchange rate risk arising from any TfL Group investments in foreign currencies in accordance with the TMS 2021/22;

(iii) mitigating commodity rate and/or price risk related to specific commodity (including fuel and electricity) exposures arising from the procurement of goods or services by any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of commodity risk to any member of the TfL Group is established;

(iv) mitigating interest rate risk and if applicable currency risk related to any existing, imminent and future TfL Group borrowing (including any leases), once the borrowing has become certain and authorised in accordance with the TMS 2021/22;

(v) mitigating inflation risk related to specific exposures arising from the procurement of goods or services by any member of the TfL Group once the quantum of inflation risk to any member of the TfL Group is established; and

(vi) mitigating risk related to any index reflecting any of the above matters referred to in paragraphs 2.1(c)(i) to (v).

3 Treasury Management Strategy 2021/22

3.1 The TMS 2021/22 includes TfL's proposed strategies for investment, borrowing, liquidity and risk management for the financial year 2021/22, as well as proposed counterparty exposure limits. It sets out TfL's borrowing requirement for 2021/22.

3.2 The TMS has been updated to remove reference to incremental borrowing amounts agreed with HM Treasury since these limits were only agreed up to the end of 2020/21. The document has also been amended to reflect that approval of the Treasury Management Strategy has been delegated from the Board to the Committee. Changes have been proposed to the investment counterparty exposure limits and these are discussed later in this paper.

3.3 There are no other material changes proposed for the TMS 2021/22.

3.4 All references to 'investments' in the TMS 2021/22 refer to investments held for treasury management purposes only and do not cover non-treasury related investments.

4 Market outlook

4.1 Globally, economies and governments have been managing the impacts of the coronavirus pandemic for just over a year. The economic outlook for the United Kingdom (UK), like many other major economies will be sensitive to progress in vaccination rollouts, new virus variants and other measures which prevent restrictions from being eased.

4.2 The UK's heavily weighted services economy has made it vulnerable to the coronavirus restrictions. The economic impact of the UK government's economic stimulus package resulted in a substantial increase in government debt that may cause fiscal stress in the future. Sterling however has appreciated to three-year highs against the Euro and US Dollar as a result of the efficiency in which the UK's vaccination programme has been rolled out.

4.3 Negotiations between the UK and European Union in relation to the UK's departure, has resulted in an agreement which avoids the potential damage from a "no deal" Brexit. The agreement could reduce market volatility and ease the UK's recovery.

4.4 Markets have reacted positively to the Bank of England's (BOE) decision to keep interest rates on hold in its February 2021 meeting. The Monetary Policy Committee (MPC) voted unanimously to keep the policy rate unchanged at 0.1 per cent and the total asset purchase target at £895 billion. Any reduction in interest income as a result of low interest rates is expected to be offset by the reduction in interest expense on our floating rate debt. The BOE's comments are supportive of an economic bounce-back post pandemic.

5 Investments

5.1 Investment returns are expected to remain close to zero throughout 2021/22. The BOE has instructed financial markets to prepare for negative interest rates while stressing it is not an indication of future monetary policy. We will continue to seek positive returns on all investments by opportunistically investing cash in high quality, liquid counterparties. Security will be prioritised before liquidity; and liquidity before yield.

5.2 Investment yields will continue to be influenced by market supply and demand of Sterling debt relative to other currencies, primarily Euro and US Dollar. The attractiveness of investing in Euro or US Dollar securities will vary depending on the foreign exchange forward market.

Environmental, social and governance (ESG) investment funds

5.3 We expect to see an ongoing focus on ESG investments and policies in 2021/22. The United Nations Climate Change Conference will be held in the UK in 2021, postponed from 2020 due to coronavirus, and ESG has been selected by the Association of Corporate Treasurers as its key theme this year. A number of fund managers have already launched ESG specific funds and we expect an increase in product offerings across the industry. While we continue to comply with the GLA Responsible Investment Policy, we are exploring opportunities to invest in ESG products.

Investment yield benchmark

5.4 The investment portfolio will continue to be benchmarked against the market standard seven-day London Interbank Bid Rate (LIBID) until January 2022. A replacement benchmark will be used for the remainder of 2021/22 upon the cessation of London Inter-Bank Offered Rate (LIBOR). It is anticipated Money Market Funds, that currently benchmark against seven day LIBID, will change to a similar methodology referencing the Sterling Overnight Index Average (SONIA) in the near future. Our intention is to align our benchmark with an industry standard.

6 Borrowing

2021/22 Borrowing requirement and sources

6.1 The total borrowing requirement for 2021/22 is expected to be approximately £770m as set out in the TMS. We will borrow the remainder of the available funds under the Department for Transport (DfT) facility for the Crossrail project. We have drawn £619m of the available £750m and expect to draw around a further £55m before the end of 2020/21. The amount to be drawn in 2021/22 is therefore expected to be £74m, although this may change depending on Crossrail's cash requirements for the remainder of 2020/21.

6.2 The significant reduction to our revenues as a result of the coronavirus pandemic has materially impacted the affordability of other future borrowing, and we are therefore not planning to undertake any other incremental borrowing in the coming years. It is unlikely that we will have sufficient resources to make any principal repayments in the next few years. We therefore plan to refinance all debt maturities until 2024/25. This includes the repayments due under the £750m facility with DfT, which will need to be refinanced or restructured ahead of the first repayment, expected in early 2022/23.

6.3 Currently we expect £360m of debt maturities in 2021/22 (excluding commercial paper) that will be refinanced during the year, subject to the tenor of the borrowing yet to be raised by 31 March 2021. In addition, we will seek to refinance £336m of variable rate loans from the Public Works Loan Board (PWLB). These loans were entered into as part of the first extraordinary funding and financing agreement entered into with government in May 2020 and were arranged under the applicable PWLB terms at the time. Since arranging these loans, the margin payable on new certainty rate loans from the PWLB has reduced by 1 per cent. We expect to refinance these loans at a lower interest rate during 2021/22, without being subject to early repayment penalties.

6.4 We retain several options for borrowing during the year, including public and private capital markets transactions, issuance under our commercial paper programme, and the PWLB. Borrowing from the capital markets would require an update to the relevant documentation before issuance is possible.

7 Liquidity management

7.1 The Liquidity Policy is expected to require a minimum cash balance of £1.2bn[2] for

[2] Based on the operating costs of £7,015min the GLA Budget for the year ending 31 March 2022.

the year ending 31 March 2022. In addition to operational cash movements and any unexpected events, we must consider additional risks and uncertainties, such as business interruptions, supply chain risks, potential financial or market shocks, and specific funding risks. As a result of these risks we would often expect to need a higher level of cash reserves. Therefore in addition to the minimum level set out in our Liquidity Policy, we will aim to rebuild our cash reserves to near pre-pandemic levels over the coming years, as recommended in our Financial Sustainability Plan. In practice, this means holding higher cash balances than the minimum set out in our Liquidity Policy to ensure we maintain a level of financial resilience that corresponds to our size and risk profile. Over the shorter term, however, we are likely to remain reliant on government support to ensure we maintain the minimum cash balance of £1.2bn in line with our Liquidity Policy.

8 Risk management

Foreign exchange

8.1 Any new foreign currency exposures will continue to be identified as part of ongoing engagement with the commercial teams across the business. Due to the limited visibility of future capital investment at present, the exposure to foreign exchange risk in relation to future contracts for the most part is not sufficiently certain to be managed efficiently. We will continue to consider options for mitigating this risk in line with the principles outlined in the TMS.

Commodities and inflation

8.2 As part of the Energy Purchasing Strategy, TfL is looking to procure renewable energy through Power Purchase Agreements (PPAs). The initial tenders are expected to commence in spring 2021. We will consider several options, including for a GLA led investment fund to provide financing to renewable assets that will supply TfL’s energy requirements under the PPA. While the exact pricing structure of any agreement is currently being developed, it is probable that it will be linked to an inflation index, such as CPI. Risk mitigation options will be considered and implemented alongside the procurement process.

9 Investment counterparty exposure limits

9.1 Approved counterparties are regularly monitored to ensure their credit risk profile remains appropriate and are formally reassessed through detailed credit reviews undertaken annually at a minimum. Our current individual counterparty credit limits are defined according to a percentage cap of the portfolio balance, determined by its credit rating. Following a review of our investment limits, aimed at improving the efficiency of dealing activities, we are proposing to change the investment counterparty exposure limits methodology to use a notional amount based on the credit rating of the counterparty.

9.2 The proposed notional limits have been set by applying the previous concentration limit percentages on a portfolio balance of £1.2bn. This results in lowering our counterparty exposure limits compared to the previous TMS when the portfolio balance is greater than £1.2bn. Table 1 below demonstrates the impact this proposed change would have on counterparty exposure limits based on a portfolio balance of £1,569m, which was our portfolio balance as at 19 February 2021.

9.3 Reducing counterparty exposure limits will not restrict investment opportunities because of the diverse range of approved counterparties available to invest in. Extensive testing has been undertaken to support the changing counterparty exposure limits, including considering the implication under a range of portfolio sizes. Notional limits have been applied to and tested on our internal investment limits, which will continue to be set at a more prudent level ensuring the limits set out in the TMS are not exceeded. Counterparty exposure limits will continue to be reviewed throughout the year to ensure concentration risk remains at an appropriate level.

9.4 Similarly, we also propose to change the limit for the total investments in A-2, P-2 or F2 by Standard & Poor's, Moody's or Fitch Ratings credit rating agencies, from 20 per cent of the portfolio to £240m, which is equivalent to 20% of a £1.2bn portfolio.

9.5 These changes will allow us to automate the process of generating limits by using our Treasury Management System software, further improving efficiency, accuracy and the quality of our controls.

Table 1 – Concentration limit per investment counterparty, existing investment counterparty exposure limit and proposed investment counterparty exposure limit

Moody's		Standard & Poor's		Fitch		Concentration limit per counterparty (as a percentage of total portfolio)	Existing exposure limits based on portfolio balance as at 19 February 2021 (£m)	Proposed exposure limits per counterparty (£m)
ST	**LT**	**ST**	**LT**	**ST**	**LT**			
P-1	Aaa Aa1 Aa2 Aa3 A1	A-1+	AAA AA+ AA AA-	F1+	AAA AA+ AA AA- A+	10%	157	120
	A2 A3	A-1	A+ A	F1	A+ A A-	7.5%	118	90
P-2	A3 Baa1 Baa2	A-2	A- BBB+	F2	A- BBB+ BBB	5%	78	60
P-3	Baa2 Baa3	A-3	BBB BBB-	F3	BBB BBB-	0%	0	0
UK Sovereign						100%	Unlimited	Unlimited

List of appendices to this report:

Appendix 1: Treasury Management Strategy 2021/22

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of background papers:

None

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TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2021/22

1 SUMMARY

1.1 This Treasury Management Strategy (TMS) 2021/22 comprises the:

(i) Investment Strategy;

(ii) Borrowing Strategy;

(iii) Liquidity Strategy;

(iv) Risk Management Strategy; and

(v) Counterparty Exposure Limits.

2 BACKGROUND

2.1 The TMS 2021/22 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the ‘Treasury Management Code’) issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017;

(ii) the Prudential Code for Capital Finance in Local Authorities (the ‘Prudential Code’) issued by CIPFA and last updated in 2017; and

(iii) the Statutory Guidance on Local Government Investments (the ‘Investments Guidance’) issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in 2018, with respect to treasury investments.

2.2 This strategy will be updated at least annually and submitted for the approval of the Finance Committee.

3 POLICIES AND DELEGATIONS

3.1 The TMS 2021/22 will be implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments.

3.2 The arrangements for the implementation, execution, operation and administration of the TMS 2021/22, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer[1], Director of Corporate Finance and Group Treasurer, provided no decision contravenes the TMS 2021/22, the Treasury Management Policies, or the TfL Group Policy Relating to the Use of Derivative Investments.

4 STRATEGIC OBJECTIVES

4.1 The objectives underpinning the TMS 2021/22 are:

(i) to ensure that sufficient cash and liquidity facilities are available to enable TfL to discharge its financial obligations when they become due, in accordance with approved budgets;

(ii) to undertake treasury management operations with primary regard for the security and liquidity of capital invested;

(iii) to maximise the yield from investments consistent with the security and liquidity objectives identified above;

(iv) to undertake treasury management activities having regard to Prudential Indicators (including Treasury Management Indicators) and to remain at all times within the Authorised Limit for external borrowings;

(v) to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money;

(vi) to support TfL's commitment to maintaining its credit rating relative to that of the UK Government as it recognises the value of its strong credit rating; and

(vii) to use TfL subsidiaries' statutory power relating to risk management to manage financial market risks across TfL, with the primary objective of reducing volatility or increasing certainty in the Business Plan and achieving greater value for money through reducing costs or protecting revenues.

5 INVESTMENT STRATEGY

5.1 The Investment Strategy will be applied in accordance with the strategic objectives listed in 4.1.

5.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds, the overriding principle being the prioritisation of security before liquidity and liquidity before yield.

5.3 Where possible, TfL will seek to maximise active investment in counterparties, rather than passive investments held through Money Market Funds (MMFs). This allows greater control over the quality of investments, may allow higher

[1] References to managing Chief Finance Officer in this document mean the Managing Director (Chief Finance Officer).

returns, and reduces fees. Some MMF investments will still be required for liquidity purposes.

5.4 The maturity profile of investments will reflect the expected cash flow requirements of TfL and accommodate for forecast variability.

5.5 All investments will have a maximum tenor of one year and at the time of investment will be rated a minimum of A-2, P-2 or F2 by Standard & Poor's, Moody's or Fitch Ratings credit rating agencies, with no more than £240m invested in counterparties with a credit rating of less than any of A-1, P-1 or F1.

5.6 TfL will consider the risk of its overall portfolio as well as individual investments, seeking to diversify its investments as much as possible and have regard to the exposure to any one counterparty, country, industry, investment type, and credit. TfL will target allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time.

5.7 TfL will invest in instruments including: sovereign Treasury bills and bonds, UK Debt Management Office deposits, repurchase agreements, bank deposits, certificates of deposit, bonds, commercial paper, floating rate notes, MMFs or any other instrument allowing TfL to achieve the objectives set out in 4.1. Due to the short term nature of TfL's investments and the desire not to lose any principal, TfL will not invest in equity.

5.8 TfL may invest in non-sterling denominated investments where:

(i) currency is bought in advance of a payment or payments in that currency, or where the currency is otherwise received and TfL can identify other future expenditures in that currency to offset against; or

(ii) instruments denominated in currencies other than Sterling are swapped back to GBP as a matter of course.

5.9 TfL will generally hold investments to maturity, however where the Director of Corporate Finance or the Group Treasurer deems it appropriate, TfL may seek to break or resell fixed term investments early (including where doing so will result in TfL incurring penalties or crystallising a loss), in order to protect TfL against potential losses, meet unexpected liquidity requirements, improve its investment return or for ethical or reputational reasons.

5.10 TfL will seek to achieve year to date returns greater than the year to date average benchmark of seven day London Interbank Bid Rate (LIBID), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as MMFs. LIBID will be replaced by a suitable alternative benchmark rate, once a new market standard is identified as part of a discontinuation of the London Interbank Offered Rate (LIBOR).

6 BORROWING STRATEGY

6.1 The Borrowing Strategy will be applied in accordance with the strategic objectives listed in 4.1.

6.2 TfL's objective is to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money.

6.3 TfL's annual borrowing requirement for 2021/22 is set out in Table 1.

Table 1 – expected 2021/22 borrowing requirement

Description	**£m**
Refinancing of debt maturing within 12 months, excluding rolling short-term commercial paper	360.2
Refinancing of PWLB variable rate loans	336.0
Expected borrowing requirement for 2021/22 (excluding borrowing under the £750m DfT facility for Crossrail)	**696.2**
Crossrail borrowing under the £750m DfT loan facility	74.0*
Expected total borrowing requirement for 2021/22	770.2

* Based on latest information at the time of submission. Exact amount may increase or decrease depending on phasing of Crossrail cash requirements.

6.4 TfL will borrow the remainder of the £750m loan facility provided by the Department for Transport for Crossrail purposes. The exact amount remaining under this facility for 2021/22 will depend on Crossrail's cash requirements over the coming weeks and is expected to be £74m according to the latest forecast. There will be no other incremental borrowing in 2021/22.

6.5 The notional amount of outstanding borrowing is expected to be £13,070m at the end of 2021/22.The total value of outstanding borrowing and other long-term liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board (as required by the Local Government Act 2003).

6.6 TfL seeks to achieve its borrowing objectives by maintaining access to capital markets through its Euro Commercial Paper programme, Euro Medium Term Note programme and stand-alone capital market transactions, and complementing this with loans and other facilities from financial institutions where appropriate. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (or any future body replacing it), a readily available source of liquidity. Other sources of finance will be used where they further TfL's stated objectives.

6.7 As debt service represents a relatively significant part of TfL's annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement. While fixed rates of borrowing are generally preferred, as they provide more certainty, TfL will assess the merits of having a certain amount of floating debt, where it is consistent with the borrowing and risk management objectives. TfL aims to have at least 75 per cent of all outstanding borrowing at fixed interest rates and up to 25 per cent of borrowing at variable rates.

6.8 All borrowing is expected to be drawn in Sterling, as currently permitted by HM Treasury. Should TfL receive HM Treasury approval to raise debt in foreign currencies, any foreign currency exposures arising from such borrowing will be subject to risk mitigation measures consistent with the principles of the Risk Management Strategy.

6.9 Given the long life of the majority of the assets financed by TfL, TfL's objective is to have a weighted average tenor of debt of at least 15 years. TfL will aim to structure its borrowing in a way that avoids large concentrations of debt of the same maturity in order to minimise the refinancing risk. The limits for maturity structure of borrowing are set out on annual basis, as suggested by the Treasury Management Code, and are the subject of a separate Prudential Indicators document approved by the Board.

6.10 TfL will consider opportunities to arrange loan facilities that enable drawdowns of debt in future years. Where TfL has the ability and option to do so it will consider fixing drawdowns beyond the 2020/21 financial year, in order to mitigate interest rate risk related to future borrowing requirements.

6.11 The source, tenor, currency (subject to 6.9) and interest rate basis of individual debt transactions will be determined on a case by case basis taking into account value for money, TfL's risk appetite, market conditions, interest rate expectations, investors' preferences, the impact on TfL's debt maturity profile and target weighted average tenor.

6.12 TfL will consider opportunities to buy back, refinance, or otherwise restructure existing liabilities (including leases) where doing so represents value for money, or will improve the structure of TfL's liabilities, or facilitate changes to TfL's corporate structure.

7 LIQUIDITY STRATEGY

7.1 The Liquidity Strategy will be applied in accordance with the strategic objectives listed in 4.1.

7.2 The TfL Group (excluding Crossrail Limited, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) will aim to hold sufficient cash and short-term investments to ensure it maintains a level of financial resilience that corresponds to TfL's size and risk profile, and in any event will hold a minimum level of cash and short-term investments as defined in the Treasury Management Policies. In practice this means TfL expects to hold higher cash balances than the absolute minimum set out in the Liquidity Policy.

7.3 Where appropriate, the cash and short-term investments will be supplemented by access to external liquidity sources, such as bank overdrafts, revolving credit facilities and other standby credit facilities. The adequacy of the external liquidity sources will be reviewed on an ongoing basis and TfL will arrange and maintain these facilities as required.

7.4 Bank overdrafts and standby credit facilities will not be used in the normal course of business, however TfL would consider borrowing temporarily within the Authorised Limit to address short-term liquidity needs, where it represents prudent management of TfL's financial affairs.

7.5 Cash and short-term investment balances ring-fenced for the construction of Crossrail will be managed to ensure sufficient liquidity to meet Crossrail Limited's forecast payment obligations.

7.6 In order to limit the liquidity risk created by rolling the commercial paper programme, TfL will aim to manage its maturities so that no more than £200m of short-term borrowings fall due for repayment in any three-day period.

8 RISK MANAGEMENT STRATEGY

8.1 The Risk Management Strategy will be applied in accordance with the strategic objectives listed in 4.1.

8.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds. It aims to mitigate financial risks to the extent possible, aiming to provide security of TfL's funds and certainty of costs and revenues.

8.3 The objectives of the Risk Management Strategy are to:

(i) reduce volatility or increase certainty relating to the impact of financial risks upon the Business Plan;

(ii) achieve greater value for money through reducing costs or protecting revenues; and

(iii) holistically manage financial risks across the whole of TfL.

8.4 TfL is materially exposed to a number of specific financial risks in the ordinary course of business, arising from the borrowing programme, the capital investment programme and certain ongoing contractual obligations. These risks include:

(a) interest rate risk related to TfL and its subsidiaries' existing or planned future borrowing requirements (including leases);

(b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by TfL or its subsidiaries; from receipts of grants or revenues payable to TfL or its subsidiaries in currencies other than Sterling; from any foreign currency borrowing (if permitted); and in the course of making foreign currency investments;

(c) commodity price and/or rate risk related to specific procurements or contracts across TfL and its subsidiaries containing a significant cost element for a commodity component and/or ongoing operational procurements such as power and fuel whether direct or indirect exposures; and

(d) inflation risk across TfL and its subsidiaries.

8.5 Financial risks will be identified, managed and controlled through a number of instruments, methods and techniques, including passing the risk to the counterparty where appropriate. Where the identified risks fall into the categories described in paragraph 8.4 and have highly probable exposures with a highly certain risk profile, TfL may use financial instruments to manage exposure to these risks.

8.6 Where TfL arranges derivative investments through its subsidiary, Transport for London Finance Limited, it may put in place intra-group arrangements to confer the benefit of those derivative investments to the TfL entity bearing the underlying risk.

9 COUNTERPARTY EXPOSURE LIMITS

9.1 The managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will approve individual counterparties and will set individual counterparty exposure limits following detailed analysis of each counterparty and its impact on the overall portfolio, including sector and country concentration risk.

9.2 The maximum exposure limit per investment counterparty will be within the counterparty exposure limits set out in Table 2. Counterparties within the same group will be classified as one counterparty for the purposes of the exposure limit. Where banks are required to have separate entities for retail (ring-fenced) and investment (non-ring-fenced) activities, TfL will apply separate counterparty exposure limits to the applicable entities. This may result in ring-fenced banks having different counterparty limits to non-ring-fenced banks.

9.3 To reduce investment risk and in line with the requirement to have primary regard to security, TfL aims to keep a diversified portfolio of investments by limiting exposures to individual counterparties. As the maximum tenor of investments is one year, short-term credit ratings will be the primary ratings used to determine these limits, as defined in Table 2.

9.4 As Moody's short-term credit rating does not have a P-1+ category, when a counterparty is rated P-1, its exposure limit will be based on the average limit derived from any Standard & Poor's and Fitch ratings. In the event the counterparty only has a short-term rating from Moody's and it is P-1, its limit will be £90m. Where it is rated P-2, its limit will be based on the average of all the rating agencies supplying a rating. If any of the rating agencies rates the counterparty A-3, P-3, or F3, no investments will be permitted.

Table 2 – Investment counterparty exposure limits

Moody's		Standard & Poor's		Fitch		Exposure limit per counterparty (£m)
ST	**LT**	**ST**	**LT**	**ST**	**LT**	
P-1	Aaa Aa1 Aa2 Aa3 A1	A-1+	AAA AA+ AA AA-	F1+	AAA AA+ AA AA- A+	120
	A2 A3	A-1	A+ A	F1	A+ A A-	90
P-2	A3 Baa1 Baa2	A-2	A- BBB+	F2	A- BBB+ BBB	60
P-3	Baa2 Baa3	A-3	BBB BBB-	F3	BBB BBB-	0
UK Sovereign						Unlimited

9.5 Where a counterparty does not have a short-term rating, the equivalent long-term rating as shown in the above table will be used to determine the counterparty exposure limit. Where a long-term rating maps to more than one limit, the lower limit will be used.

9.6 The exposure limit for TfL's clearing bank may be temporarily exceeded (for example, where cash is made available for investment after the daily deadline for deposits with other entities has passed).

9.7 Where an instrument benefits from a UK Government Guarantee, the limit will be that for the UK Sovereign rather than that of the entity.

9.8 For investments benefitting from collateral arrangements, the counterparty exposure will not be counted as the full face value of the investment, but will be calculated based on the potential shortfall caused by any expected movement in the value of the collateral.

9.9 TfL calculates its derivative counterparty exposures based on accepted market methodology. The current mark to market of each derivative is added to the potential future exposure (PFE). The PFE is calculated based on the maximum counterparty exposure assuming a 95 per cent confidence level of possible adverse future movements in interest rates or foreign exchange rates over the life of the instrument.

9.10 TfL expects to hold all derivative contracts to maturity. As such, exposures under derivative contracts are contingent exposures during the life of the contract. The contingent exposure is therefore the relevant risk factor rather than the notional value of the contract.

9.11 Derivative counterparty exposures have a limit based on long-term credit ratings, as these exposures will generally be for over one year. The limits are shown in Table 3.

Table 3 – Derivative counterparty exposure limits

Moody's	Standard & Poor's	Fitch	Derivative limit per counterparty (£m)	CSA threshold for new derivative counterparties* (£m)
Aaa	AAA	AAA	400	50
Aa1	AA+	AA+	400	40
Aa2	AA	AA	350	40
Aa3	AA-	AA-	250	40
A1	A+	A+	200	25
A2	A	A	175	25
A3	A-	A-	150	20
Baa1	BBB+	BBB+	0	0

* Will apply to new derivative counterparty ratings at the time the Credit Support Annex (CSA) is entered into.

9.12 Where a counterparty has a split rating, the limit for each rating is calculated as the average of the relevant limits for each rating available.

9.13 The proposed derivative counterparty exposure limits provide sufficient headroom for all proposed risk management activities in 2021/22. Derivative exposures are allocated over numerous approved counterparties to minimise concentration risk.

9.14 TfL will apply the investment and derivative limits as set out in this section for each counterparty unless circumstances outside its control prevent it from doing so. In this case the managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will implement appropriate replacement limits for that counterparty.

9.15 If any investment or derivative limit applicable to a counterparty changes while TfL has an outstanding investment or derivative with that counterparty it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits, or at the Director of Corporate Finance's or the Group Treasurer's discretion, may decide to allow an investment or derivative to run its course for economic reasons.

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Finance Committee

Date: **10 March 2021**

Item: **Treasury Management and Derivative Investments Policies**

This paper will be considered in public

1 Summary

1.1 This paper asks the Committee to approve the proposed Treasury Management Policies and the proposed TfL Group Policy Relating to the Use of Derivative Investments. This paper supports our commitment to financial prudence through risk management.

1.2 Approval of the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments are matters reserved to the Board. However, on 29 July 2020 the Board delegated to the Committee approval of the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments and any changes to these policies during any year. At its meeting on 10 March 2021, the Committee is asked to exercise that authority in relation to the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments.

2 Recommendations

2.1 **Under the authority delegated by the Board, the Committee is asked to note the paper and approve:**

(a) the proposed Treasury Management Policies in Appendix 1; and

(b) the proposed TfL Group Policy Relating to the Use of Derivative Investments in Appendix 2.

3 Treasury Management Policies

3.1 The Treasury Management Policies have been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of: (i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017; (ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017; and (iii) the Statutory Guidance on Local Authority Investments (the 'Investments Guidance') issued by the Ministry of Housing, Communities and Local Government in 2018.

3.2 The 2018 Statutory Guidance on Local Authority Investments requires investment strategies to be published for treasury and non-treasury investments such as property portfolios. All references to ‘investments’ in the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments refer to investments held for treasury management purposes only and do not cover non-treasury related investments.

3.3 CIPFA recommends that all public service organisations adopt a series of clauses for effective treasury management. Such clauses include the need for public service organisations to create and maintain:

(a) a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

(b) suitable treasury management practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

3.4 Under the Treasury Management Code, we are required to adopt Prudential Indicators and Treasury Management Indicators (together the ‘Prudential Indicators’) that support planned capital expenditure, borrowing and treasury management activities. Our Prudential Indicators will be the subject of an item on the agenda for the meeting of the Board in March 2021.

3.5 The Treasury Management Policies require us to have a Treasury Management Strategy (TMS) approved by the Committee on at least an annual basis. The TMS for 2021/22 is included as a separate item on the agenda for this meeting.

3.6 References to incremental borrowing amounts agreed with HM Treasury have been removed from the Treasury Management Policies since these limits were only agreed up to the end of 2020/21. The document has also been amended to reflect that approval of the Treasury Management Policies has been delegated from the Board to the Committee.

3.7 There have been no other material changes compared to the Treasury Management Policies approved in March 2020. A copy of the proposed policies is included in Appendix 1.

4 TfL Group Policy Relating to the Use of Derivative Investments

4.1 The TfL Group Policy Relating to the Use of Derivative Investments must be reviewed annually. The document has been updated to reflect that approval of the TfL Group Policy Relating to the Use of Derivative Investments has been delegated from the Board to the Committee.

4.2 There are no other material changes to the proposed policy. A copy is included in Appendix 2.

List of appendices to this report:

Appendix 1: Treasury Management Policies

Appendix 2: TfL Group Policy Relating to the Use of Derivative Investments

List of background papers:

None

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TRANSPORT FOR LONDON

TREASURY MANAGEMENT POLICIES

TREASURY MANAGEMENT POLICIES

1 BACKGROUND

1.1 This document has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017;

(ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017; and

(iii) the Statutory Guidance on Local Government Investments (the 'Investments Guidance') issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in 2018, with respect to treasury investments.

1.2 This document sets out TfL's policies and practices, including approach to risk management of its treasury management activities. It also sets out authorities and delegations for treasury management activities.

2 TREASURY MANAGEMENT POLICY STATEMENT

2.1 TfL defines its treasury management activities as:

(i) the management of the organisation's investments and cash flows;

(ii) its financing, banking, money market, capital market and derivative transactions;

(iii) the effective control of the risks associated with those activities; and

(iv) the pursuit of optimum performance consistent with those risks.

2.2 TfL regards the successful identification, monitoring and control of treasury risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 TfL acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, always in the context of effective risk management.

2.4 The following sections detail TfL's overarching policies for treasury management, including high level policies for borrowing and investments, as recommended by the Treasury Management Code.

Borrowing Policy

2.5 As required by the Local Government Act 2003, at all times, the aggregate of all TfL's borrowings will be within the Authorised Limit set by the Mayor and adopted by the Board.

2.6 Under section 2(3) of the Local Government Act 2003, TfL may not, without the approval of HM Treasury, borrow other than in Sterling. All borrowings will be in Sterling unless HM Treasury grants approval to borrow in alternative currencies, in which case TfL may borrow in any currency approved by HM Treasury.

2.7 Under section 13(1) of the Local Government Act 2003, TfL (the local authority) may not charge any of its property as security for money which it has borrowed or which it otherwise owes. All money borrowed by TfL (the local authority) shall be charged indifferently on all revenues of the authority. TfL subsidiaries however may charge their property as security for money which they borrow or otherwise owe, pursuant to Section 4 of the Transport for London Act 2016[1].

2.8 Where TfL is issuing new debt, or refinancing existing debt, it may be necessary or commercially desirable to draw the new debt prior to the repayment of the debt being refinanced, which may result in a temporary increase in liabilities above the planned incremental borrowing for the year. This is permitted, provided the position is temporary and TfL remains within the Authorised Limit at all times (i.e. it reflects the temporary utilisation of headroom between the planned incremental borrowing and the legal limit on TfL's liabilities).

Investment Policy

2.9 All cash balances will be invested having regard to the Investments Guidance, as applicable to treasury investments, and the GLA Responsible Investment Policy.

2.10 If any investment or derivative limit applicable to a counterparty under the Treasury Management Policies or Treasury Management Strategy (TMS) changes while TfL has an outstanding investment or derivative with that counterparty, it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits or, at the discretion of the Director of Corporate Finance or the Group Treasurer, may decide to allow an investment or derivative to run its course for economic reasons.

[1] Section 4 of the Transport for London Act 2016 has not yet entered into force. It will enter into force on a day appointed by TfL.

Liquidity Policy

2.11 For prudent financial management purposes, TfL will aim to maintain a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, on average, with respect to TfL Group (excluding ring fenced subsidiaries; Crossrail Limited, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited). Cash reserves include cash and short-term investments.

2.12 The total minimum cash reserve will consist of an operating cash reserve that allows TfL to meet its ongoing payment obligations and a strategic cash reserve that aims to provide contingency in case of unexpected events.

2.13 Actual cash balances fluctuate on a daily basis and could temporarily fall below the minimum requirement, but they are expected to stay within the operating cash reserve in the normal course of business. An assessment will be made as to whether any action is required by the Director of Corporate Finance and/or the Group Treasurer to address such temporary fluctuations, taking into account any undrawn credit facilities and access to commercial paper programme. If required, TfL may use short-term borrowing for working capital purposes, provided the position is temporary and TfL remains within the Authorised Limit at all times.

2.14 The strategic cash reserve will be held at a target level and, if the cash balance falls below the operating cash reserve and into the strategic cash reserve, it must be replenished as soon as possible.

2.15 The statutory and managing Chief Finance Officers[2] will be notified of any material changes in the usage of short-term sources of liquidity.

TREASURY MANAGEMENT AUTHORITIES AND DELEGATIONS

3 RESPONSIBLE OFFICERS

3.1 The Treasury Management Policies will be implemented, operated and administered through the Treasury team within the Corporate Finance Directorate and will be applied to TfL and all its subsidiaries whose monies are under the control of Treasury.

3.2 The managing Chief Finance Officer is responsible for advising the Finance Committee on investments, borrowing, derivatives, financial risk management, capital financing and also for the establishment and operation of banking arrangements necessary for the TfL Group business. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.

3.3 The statutory Chief Finance Officer is responsible for ensuring the execution of the Treasury Management Policies, as the designated Section 127 officer under the

[2] References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999. References to managing Chief Finance Officer mean the Managing Director (Chief Finance Officer).

Greater London Authority Act 1999. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.

3.4 The Director of Corporate Finance, the Group Treasurer and Treasury officers will implement, execute, operate and administer the TMS.

3.5 The arrangements for the implementation, execution, operation and administration of the TMS, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer, Director of Corporate Finance and Group Treasurer, provided no decision contravenes the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments. Subject as otherwise provided for in the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments, the Treasury officers will enter into any appropriate documentation.

3.6 The statutory or managing Chief Finance Officers or the Director of Corporate Finance or the Group Treasurer will appoint relevant Treasury officers to be authorised signatories for the purposes of paragraph 3.5.

3.7 Subject as otherwise provided for within these policies, no investments, borrowings or entry into credit arrangements (including, but not limited to any lease or other such arrangement that might count towards TfL debt or liabilities under relevant accounting standards) shall be permitted without the consent of the statutory or managing Chief Finance Officer or Director of Corporate Finance or the Group Treasurer.

3.8 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will provide guidance for accepting financial guarantees, performance bonds, letters of credit and other credit enhancing products, and this must be followed by TfL and/or its subsidiaries at all times.

3.9 For the purposes of this document, TfL Officers means the Commissioner, managing Chief Finance Officer, statutory Chief Finance Officer, General Counsel Director of Corporate Finance and Group Treasurer.

4 BORROWING

4.1 The managing Chief Finance Officer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL’s Authorised Limit). The Director of Corporate Finance or the Group Treasurer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL’s Authorised Limit) for a tenor of not more than 12 months.

4.2 Without further reference to the statutory or managing Chief Finance Officer, Treasury officers will use the Euro Commercial Paper programme and any other short-term facilities (e.g. overdraft, commercial paper, back-stop facilities or revolving credit facilities) to manage its liquidity requirements.

4.3 TfL Officers are authorised to approve and enter into any required agreements or other documentation in relation to the implementation of permitted borrowing.

4.4 The managing Chief Finance Officer may approve the pre-payment or refinancing of loans or re-purchase or redeeming of existing debt instruments.

4.5 TfL Officers will follow ongoing compliance and disclosure procedures set out in the TfL Disclosure Procedures Policy.

5 INVESTMENTS

5.1 The Director of Corporate Finance, Group Treasurer and Treasury officers may enter into investment related agreements and/or documentation required to execute the TMS.

5.2 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will set individual investment counterparty exposure limits, which will be within any limits approved by the Finance Committee in the Treasury Management Strategy.

5.3 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will approve investment and derivative counterparties.

6 BANKING

6.1 The Director of Corporate Finance or the Group Treasurer shall as and when necessary be authorised to:

(a) supply to TfL's financial institutions, lists of officials authorised to sign in respect of each and any account(s) of TfL and/or any TfL subsidiary together with specimen signatures;

(b) open further accounts for and on behalf of TfL and/or any TfL subsidiary and supply to the financial institutions, details of the signatories together with specimen signatures in respect of such account(s);

(c) notify the financial institutions of any restrictions on the operation of any such accounts; and

(d) agree on behalf of TfL and/or any TfL subsidiary the terms of any facility or service provided by the financial institutions including but not limited to general banking services, bonds, guarantees and credit limits.

6.2 The financial institutions shall be entitled to rely on any such details or notifications supplied by the Director of Corporate Finance, Group Treasurer or any Treasury officer confirmed in writing as having the same authority as the Director of Corporate Finance or the Group Treasurer.

TREASURY MANAGEMENT PRACTICES (TMPs)

7 TREASURY RISK MANAGEMENT – TMP1

7.1 The Director of Corporate Finance and/or the Group Treasurer will:

(a) design, implement and monitor all arrangements for the identification, management and control of treasury management risk;

(b) report annually to the Finance Committee on the adequacy/suitability thereof, and on any specific issues as directed by the Finance Committee; and

(c) report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect to the statutory and managing Chief Finance Officers.

8 PERFORMANCE MEASUREMENT – TMP2

8.1 TfL is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim within the framework set out in its Treasury Management Policy Statement.

8.2 The actual performance of the treasury management function will be measured using criteria to be agreed by the managing Chief Finance Officer.

9 DECISION-MAKING AND ANALYSIS – TMP3

9.1 TfL will maintain records of its key treasury management decisions and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time.

10 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES – TMP4

10.1 TfL will undertake its treasury management activities by employing recognised and approved instruments, methods and techniques and within the limits and parameters defined in its policies and practices.

10.2 Where TfL uses derivative instruments for the management of risks, these will be approved in accordance with the TfL Group Policy Relating to the use of Derivative Investments.

10.3 TfL and relevant subsidiaries intend to maintain their classification as professional clients with financial institutions under MiFID II in respect of all products and services that they receive.

10.4 All decisions on capital/project financing, borrowing, investment and derivatives will be made in accordance with TfL Standing Orders and relevant policies and strategies.

11 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITES, AND DEALING ARRANGEMENTS – TMP5

11.1 TfL considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the pursuit of optimum performance, and for the reduction of the risk of fraud or error, that activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.

11.2 The principle on which this will be based is a clear distinction between those charged with setting Treasury Management Policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

11.3 If for any reason there is intended to be or has been any departure from these principles, the Director of Corporate Finance and/or the Group Treasurer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements (below), and the implications properly considered and evaluated.

11.4 The Director of Corporate Finance and/or the Group Treasurer will ensure that there are clear lines of responsibilities, objectives and guidance for each post engaged in treasury management, and arrangements are in place for absence cover. The Director of Corporate Finance and/or the Group Treasurer will also ensure at all times those engaged in treasury management will follow the policies and procedures set out.

11.5 The Director of Corporate Finance and/or the Group Treasurer will ensure all transactions are recorded, and that procedures exist for the effective transmission of funds. The Director of Corporate Finance and/or the Group Treasurer will fulfil all such responsibilities in accordance with TfL's Treasury Management Policy Statement and Treasury Management Practices.

12 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6

12.1 TfL will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

12.2 As a minimum, the following reports will be produced:

(a) an annual report to the Finance Committee on the strategy to be pursued in the coming year;

(b) a mid-year report to the Finance Committee on the performance of the treasury management function; and

(c) an annual report to the Finance Committee on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any non-compliance with the organisation's Treasury Management Policy Statement and Practices.

12.3 The statutory and managing Chief Finance Officers will receive regular monitoring reports on treasury management performance, activities and risks.

12.4 In addition to the regular reporting requirements set out above, any non-compliance with the Treasury Management Policies or the Treasury Management Strategy must be immediately reported to the statutory and managing Chief Finance Officers. If the breach is material in the view of either the statutory or managing Chief Finance Officer, it must be reported to the Finance Committee as soon as practicable.

13 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS – TMP7

13.1 The Director of Corporate Finance and/or the Group Treasurer will prepare and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income.

13.2 TfL will account for its treasury management activities, for decisions made and transactions executed, in accordance with accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

13.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the treasury management function for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and practices.

13.4 The Audit and Assurance Committee will have responsibility for the scrutiny of Treasury Management Policies and this responsibility will be discharged through its regular scrutiny of the reports received from internal audit.

14 CASH AND CASH FLOW MANAGEMENT – TMP8

14.1 Unless statutory or regulatory requirements demand otherwise, all monies (with the exception of London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) in the hands of the TfL Group will be under the control of the Director of Corporate Finance and the Group Treasurer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Corporate Finance and the Group Treasurer will ensure that these are adequate for the purposes of monitoring compliance with the policy statement.

15 MONEY LAUNDERING – TMP9

15.1 TfL is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, if required by law or regulation, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this, are properly trained.

16 TRAINING AND QUALIFICATIONS – TMP10

16.1 TfL recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Corporate Finance and the Group Treasurer will recommend and implement the necessary arrangements.

17 USE OF EXTERNAL SERVICE PROVIDERS – TMP11

17.1 TfL recognises that it retains responsibility for treasury management decisions at all times. TfL recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods, by which their value will be assessed, are properly agreed and documented, and subjected to regular review. The monitoring of such arrangements rests with the Director of Corporate Finance and the Group Treasurer.

18 CORPORATE GOVERNANCE – TMP12

18.1 TfL is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

18.2 TfL has adopted and implemented the key principles and recommendations of the Treasury Management Code. This document is considered vital to the achievement of proper corporate governance in treasury management. The Director of Corporate Finance and the Group Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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TRANSPORT FOR LONDON GROUP

TFL GROUP POLICY RELATING TO THE USE OF DERIVATIVE INVESTMENTS

1 INTRODUCTION

1.1 TfL promoted a Bill in Parliament which included a range of provisions clarifying existing legislation and introducing new powers. The Bill completed its passage through Parliament in April 2008 and was granted Royal Assent on 22 May 2008 to become the Transport for London Act 2008 (as amended by the Transport for London Act 2016, the TfL Act). Section 49 of the TfL Act relates to powers to make arrangements for risk mitigation in respect of the prudent management of the financial affairs of TfL and its subsidiaries. The provision came into force on 22 July 2008.

1.2 TfL agreed with the House of Commons Committee considering the original Bill promoted by TfL that an approved annual policy on the use and governance of derivative investments to be entered into pursuant to section 49 of the TfL Act would be put in place.

1.3 Any amendments to this policy are subject to prior approval from the Finance Committee. Compliance with this policy is mandatory. It is primarily for the internal use and guidance of TfL and its subsidiaries only.

2 USE OF POWERS OF DERIVATIVE INVESTMENTS

2.1 The TfL Act confers powers to prudently manage certain financial risks. Any derivative investment entered into must be entered into solely for the purpose of managing such a risk and speculative investment in derivative investments is not permitted. The powers are subject to various restrictions and safeguards as set out in this policy.

3 RESTRICTIONS ON THE POWERS TO ENTER INTO DERIVATIVE INVESTMENTS

3.1 The powers to enter into derivative investments are subject to the following restrictions:

(a) the powers are only exercisable for the purposes of the prudent management of the financial affairs of TfL and its subsidiaries and of limiting the extent to which any TfL body[1] would be affected by changes in the following:

(i) interest rates;

(ii) exchange rates;

(iii) inflation of the United Kingdom or elsewhere;

[1] TfL body means TfL, any subsidiary of TfL, a joint venture of TfL or an associated undertaking of TfL.

(iv) rates or prices applicable to oil, electricity or any commodity which is used by any TfL body or by which a TfL body is affected or to which it is otherwise exposed under a relevant agreement;

(v) rates or prices applicable to any securities creating or acknowledging indebtedness issued by or on behalf of:

- the government of the United Kingdom;
- any state outside the United Kingdom;
- any body the members of which comprise states which include the United Kingdom or another EEA State; or
- any body the members of which comprise bodies whose members comprise states which include the United Kingdom or another EEA State; or

(vi) any index reflecting any of the matters referred to in paragraphs (i) to (v);

(b) only qualifying TfL subsidiaries (as defined in section 49) can enter into derivative investments and TfL itself cannot; and

(c) a qualifying TfL subsidiary can only enter into a derivative investment with TfL's consent and in accordance with any guidance or special or general directions given by TfL.

3.2 TfL is accountable for its subsidiaries' exercise of the powers and the usual TfL statutory requirements and safeguards apply. In particular, the exercise of the powers will fall within the statutory remit of TfL's Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999.

4 CORPORATE GOVERNANCE

4.1 The following governance controls and oversight of the use of the powers apply:

(a) any derivative investment must be in accordance with this policy;

(b) the Finance Committee is authorised to give consent on behalf of TfL to any derivative investment or a programme of derivative investments;

(c) the prior consent of the Finance Committee is required before a qualifying TfL subsidiary can enter into any derivative investment or a programme of derivative investments;

(d) the Finance Committee can issue any guidance or specific or general directions to any qualifying TfL subsidiary as to the manner in which it is to exercise its functions in relation to derivative investments;

(e) the Finance Committee will be provided with professional financial and legal advice, as required, in respect of their functions relating to the examination and approval of the exercise of the powers;

(f) the approval of the statutory Chief Finance Officer[2] is required before any derivative investment or programme of derivative investments is entered into, in recognition of the statutory role under local authority finance legislation;

(g) the approval of the managing Chief Finance Officer[3] is required before any derivative investment or programme of derivative investments is entered into;

(h) in respect of the derivative investments, the statutory and managing Chief Finance Officers will approve the types of instruments used;

(i) any one of the managing Chief Finance Officer, Director of Corporate Finance or Group Treasurer are authorised by the Finance Committee to give consent on behalf of TfL to approve derivative counterparties;

(j) any use of derivative investments will be monitored on a regular basis by the statutory Chief Finance Officer;

(k) any use of derivative investments will be reported in the TfL Group accounts in accordance with International Financial Reporting Standards (IFRS);

(l) the reporting of all derivative investments in the TfL Group accounts will be subject to audit by the TfL Group's auditors; and

(m) the recognised market standard legal documentation processes for derivative investments produced by the International Swaps and Derivatives Association will be used where appropriate with suitable TfL bespoke amendments.

5 RESPONSIBLE OFFICERS

5.1 The Director of Corporate Finance and the Group Treasurer will be responsible for:

(a) the proposal of all matters relating to the exercise of powers under section 49 of the TfL Act;

(b) reporting on a regular basis to the Finance Committee on the adequacy / suitability of the exercise of these powers, and on any specific issues as directed by the Finance Committee;

(c) reporting, as a matter of urgency, to the statutory and managing Chief Finance Officers, the circumstances of any actual or likely difficulty in achieving TfL's objectives in this respect; and

(d) responding to any queries of the statutory or managing Chief Finance Officers following the statutory or managing Chief Finance Officers' review of the regular reports.

5.2 The approval of the statutory and managing Chief Finance Officers is required before:

[2] References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999.

[3] References to managing Chief Finance Officer in this document mean the Managing Director (Chief Finance Officer).

(a) any derivative investment or programme of derivative investments is proposed to the Finance Committee; or

(b) any changes to the Risk Management Strategy is proposed to the Finance Committee.

5.3 The Director of Corporate Finance and/or the Group Treasurer will propose exposure limits to counterparties with whom TfL may enter into derivative investments. These limits will be approved by the Finance Committee as part of the Treasury Management Strategy, prior to the start of the relevant financial year.

5.4 In order to ensure compliance with the legal controls set out in section 49, the statutory and managing Chief Finance Officer is required to state that all legal controls in section 49 will be met before a transaction can be executed. In giving this approval, the statutory and managing Chief Finance Officer must seek the advice of General Counsel and other professional advisers as may be required.

5.5 Once all the necessary approvals required under this policy have been obtained, the Director of Corporate Finance, Group Treasurer and Treasury officers will be authorised to agree and execute any related documentation required in relation to the approved derivative investments or programme of derivative investments.

6 REPORTING REQUIREMENTS, MONITORING AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 TfL will ensure that regular reports are prepared and considered on the implementation of this policy; on the effects of decisions taken and the transactions executed in pursuit of this policy; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its derivative investment activities; and on the performance of the use of derivative investments.

6.2 As a minimum, the following reports will be produced:

(a) an annual report to the Finance Committee on the strategy to be pursued in the coming year;

(b) bi-annual reports to the Finance Committee on the performance of the treasury management function, including the status of the hedges in place; on the strategy to be pursued in the coming months; on the effects of decisions taken and the transactions executed over the review period, and on any non-compliance with this policy; and

(c) periodic reports to the statutory and managing Chief Finance Officers.

6.3 The statutory Chief Finance Officer will monitor the use of derivative investments on a regular basis and part of this process will include the review of the periodic reports.

7 ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 TfL will account for derivative investments, for decisions made and transactions executed, in accordance with best practice and commercial and accounting practices and standards, and with statutory and regulatory requirements in force at the time.

7.2 TfL will consult with external auditors as required regarding correct accounting treatment.

7.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the use of derivative investments for the proper fulfilment of their roles.

Policy Custodian and Owner

7.4 The owner of this policy is the Director of Corporate Finance and the Group Treasurer but its content and any amendments to it must be approved by the Finance Committee.

7.5 This policy will be reviewed annually.

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Finance Committee

Date: **10 March 2021**

Item: **Treasury Activities**

This paper will be considered in public

1 Summary

1.1 This paper provides a brief update on our key treasury activities for the period from 12 September 2020 to 19 February 2021 (the Reporting Period).

1.2 During the Reporting Period, we have complied at all times with the Treasury Management Strategy (TMS), the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments each approved by Finance Committee Chair's Action (as delegated by the Board) on 30 March 2020, including the GLA Responsible Investment Policy.

1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL or of a sensitive nature to our listed counterparties. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

3 Liquidity

3.1 The Treasury Management Policies state that, for prudent financial management purposes, TfL will aim to maintain a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equating approximately to £1.2bn. This policy was first introduced in December 2019, following an internal review. In practice, TfL's 2020/21 opening cash balance was near £2.0bn, reflecting a commitment to maintain a further risk buffer in addition to the minimum level for contingency purposes in the highly uncertain economic environment.

3.2 As a result of the coronavirus pandemic, the cash balance had fallen to £1.265bn on 18 May 2020 before the first grant instalment under the Extraordinary Funding and Financing Agreement with the government for the first half of the year (the H1 Extraordinary Funding and Financing Agreement) was received. Since then, TfL cash balances have consistently stayed above the minimum level.

3.3 As part of the conditions included in the Extraordinary Funding and Financing Agreement for the second half of the year (the H2 Extraordinary Funding and Financing Agreement), we have undertaken a further detailed review of TfL's liquidity policy, which informed our proposed approach to cash reserves in the Financial Sustainability Plan. The review, which included analysis of data from independent third parties, considered the credit rating agencies' assessment of liquidity, peer benchmarking, comparison to private sector practices and alternatives to cash. It confirmed that the 60 days' level is at the lower end of the agencies' liquidity criteria and that the TfL's pre-pandemic level of cash reserves equivalent to 90 to 100 days' worth of operating expenditure was more in line with our international peers. The comparison with the private sector provided useful context, but also highlighted significant differences in managing liquidity, driven by the commercial objectives and different risk profile of the private sector companies. As a result of the review, we have concluded that TfL's existing policy on minimum cash reserves does not require change, however it is proposed that higher cash reserves are rebuilt over the next few years for ongoing operational risk management purposes. This has been captured as one of the recommendations in the Financial Sustainability Plan.

4 Investment Update

4.1 We have continued to heavily prioritise security and liquidity over yield when investing TfL cash, in recognition of the internal and external challenges faced from coronavirus. While the immediate concern over the security of investment counterparties at the start of the pandemic has subsided, we have continued to invest a larger than historic share in highly rated UK government debt.

4.2 Due to the relatively short-term nature of the funding agreement with the government we opted to hold a greater than historic proportion of investments in short dated instruments over the Reporting Period. A total of 21 per cent of cash was held in highly rated, overnight money market funds and government collateralised repurchase agreements at the end of the Reporting Period. A total of 30 per cent of investments was due to mature within 7 days. The weighted average maturity (WAM) of investments over the Reporting Period has marginally increased from 22 days to 31 days.

4.3 While we have prioritised investments in short dated, highly rated instruments we have continued to seek opportunities to diversify the portfolio and maximise yield. As at 19 February 2021,f we held a diversified portfolio of investments in supra-national, government agencies and highly rated financial and corporate investments shown in Table 1.

Table 1: Weighted average maturity, investment allocation and maximum tenor at financial year end, the start of Reporting Period and end of Reporting Period

	30 Mar 20	12 Sep 20	19 Feb 21
Cash under management*	£2,089m	£1,701m	£1,568m
Weighted average maturity	35 days	22 days	31 days
Percentage of cash held overnight	26%	21%	21%
Percentage of cash maturing within 7 days	32%	38%	30%
Maximum permitted tenor	1 month	3 months	3 months
MMF	0%	12%	16%
UK government	33%	25%	41%
SSAs/agencies	23%	12%	9%
Repo	14%	37%	13%
Banks	14%	14%	15%
Corporates	16%	0%	6%

*Total cash under management for TfL Group, including Crossrail Limited

4.4 The investment return of cash under management marginally declined from 0.05 per cent at the start of the Reporting Period to 0.02 per cent at the end of the Reporting Period. This was primarily driven by holding a greater share of the portfolio in short dated, highly rated counterparties and lower investment returns. We avoided investing cash at negative interest despite an unprecedented pressure on investment yields over the end of the calendar year.

5 Borrowing Update

Current Borrowing

5.1 As at 19 February 2021, we had £12,883m outstanding borrowing with a weighted average maturity of 17 years and an average interest rate of 3.3 per cent. We have remained within the Authorised Limit of £14,445m for borrowing at all times during the Reporting Period.

5.2 During the Reporting Period, we borrowed £179m from the Public Works Loan Board (PWLB). This was £84m under the H1 Extraordinary Funding and Financing Agreement and £95m under the H2 Extraordinary Funding and Financing Agreement.

2020/21 borrowing requirement

5.3 Table 2 sets out our revised borrowing requirement for 2020/21.

Table 2 – 2020/21 borrowing requirement

Description	**Revised 2020/21 (£m)**
2020/21 incremental borrowing	Up to 600
Refinancing of debt maturing in 2020/21, including some rolling short-term commercial paper	337
Borrowing requirement for 2020/21 (excluding borrowing for the Crossrail project)	**Up to 937**
Borrowing drawn year to date:	
EDC Rolling Stock and Depot loan facility	100
PWLB borrowing under Extraordinary Funding and Financing Agreements	600
Commercial Paper	33
Total borrowed year to date	**733**
Remaining borrowing requirement for 2020/21 (excluding borrowing for the Crossrail project)	**Up to 204**
Borrowing for the Crossrail project under the Department for Transport (DfT) £750m Facility Agreement – to date	578
Borrowing for the Crossrail project under the DfT £750m Facility Agreement – remaining	172
Borrowing for the Crossrail project under the DfT £750m Facility Agreement – total facility	**750**

5.4 We have £204m of maturing debt still to refinance in 2020/21. The majority of this debt matures at the end of the financial year and we expect to refinance it shortly before its maturity. We will continue to monitor all our refinancing options and refinance this debt using the most appropriate short or long-term borrowing source, considering availability and value for money of our borrowing.

Borrowing under the H2 Extraordinary Funding and Financing Agreement

5.5 On 31 October 2020, the H2 Extraordinary Funding and Financing Agreement with the government was finalised. The funding package provides us with a core amount of £1bn for the period between 18 October 2020 and 31 March 2021 ("Support Period") and comprises:

(a) an Extraordinary Support Grant of £905m payable under section 101 of the Greater London Authority (GLA) Act 1999; and

(b) incremental borrowing of £95m from the Public Works Loan Board.

5.6 The above funding amounts assume that the passenger demand over the Support Period will stay at approximately 65 per cent of prepandemic levels. In recognition of the high level of uncertainty in predicting the future passenger revenue over the Support Period, the funding package in the H2 Extraordinary Funding and Financing Agreement permits modification of the total amount of the support grant up or down depending on actual passenger revenues. The amount of incremental borrowing is capped at £95m. Discussions continue to agree long-term funding plans.

Crossrail DfT £750m Facility Agreement

5.7 There are three commitments under the £750m Facility Agreement with the Secretary of State for Transport. During the Reporting Period, we have fully drawn under Commitments 1 and 2, and have started to drawdown under Commitment 3.

PWLB consultation on change of lending terms

5.8 The government has now published the outcome to the PWLB consultation and released new guidance regarding PWLB lending. The PWLB will not lend to any local authorities that plan to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

5.9 Following the release of the new guidance, the PWLB rate was lowered by 100bps for all new Standard Rate and Certainty Rate loans. The interest rate payable on a new fixed rate Certainty Rate loan would now be gilts plus 80bps.

PWLB Local Infrastructure Rate

5.10 In the 2020 Budget, the government announced a third round of lending to English local authorities at the Local Infrastructure Rate (LIR). The LIR is designed to incentivise local authorities to construct infrastructure and boost productivity, by providing lending at a reduced rate. The LIR rate is gilts plus 60bps which is a 20bps saving when compared with the Certainty Rate of gilts plus 80bps currently available to TfL.

5.11 In August 2020 we submitted an application linked to the Ultra Low Emission Zone (ULEZ) Expansion project for the maximum amount available per applicant of £100m and in November 2020 our application was approved, providing access to the full amount subject to sufficient capital spend on the project. We have partly utilised this borrowing in 2020/21 under the H2 Extraordinary Funding and Financing Agreement with the remaining amount planned for 2021/22. Provided we can draw the full amount, this will lead to a saving of £200k per annum in our annual interest payments.

6 Credit ratings

6.1 Our credit ratings, as at 19 February 2021, are shown in the table below.

Table 3: TfL's credit ratings as at February 2021

	Standard & Poor's (S&P)	Moody's	Fitch
Long-term rating	A+	A1	A+
Outlook	Negative	Negative	Stable
Short-term rating	A-1	P-1	F1+

6.2 On 21 October 2020, Moody's downgraded our long-term credit rating from Aa3 to A1 and assigned a negative outlook, concluding the rating under review for downgrade initiated by Moody's on 2 June 2020. The agency stated that the downgrade reflected the considerable negative pressures due to the coronavirus outbreak, in addition to pre-existing budgetary pressures from the removal of the government operating grant, the key project risk of the Elizabeth line and our high debt level.

6.3 In November 2020, both S&P and Moody's published analytical reports addressing the H2 Extraordinary Funding and Financing Agreement, noting their expectations around additional support being required beyond March 2021

S&P methodology changes

6.4 S&P have now published the new Global Not-For-Profit Transportation Infrastructure Enterprises (TIE) methodology which supersedes the Mass Transit Enterprise methodology that TfL was previously rated under. Going forward TfL will now be rated under the new TIE methodology.

7 Risk Management Update

Investment counterparty exposure limits and controls review

7.1 After identifying opportunities to improve our investment decision making processes, we completed an extensive review of our investment counterparty exposure limits, controls and procedures. This review aimed to improve the efficiency of dealing activities and transparency of our reporting and controls.

7.2 The review covered both our investment counterparty exposure limits approved under the TMS and our internal investment limits set within those TMS limits. Our internal investment limits are approved by the Director of Corporate Finance or Group Treasurer and are in place to ensure counterparty exposure never exceeds the TMS limits. As a result, our internal investment limits are set at a more prudent level.

7.3 Our current individual investment counterparty exposure limits are calculated as a percentage of the portfolio balance determined by its credit rating. We are proposing to change the methodology for calculating limits to use a notional amount based on the credit rating of the counterparty alone.

7.4 These notional limits have been initially set by applying the previous concentration limit percentages on a portfolio balance of £1.2bn. This has resulted in lower counterparty exposure limits compared to the previous TMS, when the portfolio balance is greater than £1.2bn. These more stringent limits are not considered restrictive based on the current number of approved counterparties. Extensive testing has been undertaken to support the changing counterparty exposure limits methodology, including considering the implication under a range of portfolio sizes.

7.5 We have also tested this change in approach using our internal investment limits. This has reduced the complexity in the investment process resulting in more efficient investment decision making. Furthermore, it allows an opportunity to automate the process of generating limits by utilising our Treasury Management System software, further improving efficiency, accuracy and the quality of our controls. Based on this, we are proposing to adopt this change of methodology to the TMS counterparty exposure limits. Internal investment limits will continue to be set at a more prudent level to the TMS limits, ensuring these will not be exceeded.

7.6 As part of the review, we also identified opportunities to improve our investment controls and procedures. As a result, a clear process for monitoring and generating the limits by the credit team has been established and is now clearly segregated from the investment team. This has resulted in improved tools to support investment decision making, leading to efficiencies and reducing operational risk.

Interest rates

7.7 As at 19 February 2021, floating rate debt comprised 6.0 per cent of total borrowing outstanding, within the maximum target of 25 per cent set out in our TMS for 2020/21.

7.8 The level of floating rate debt as a percentage of borrowings outstanding has been maintained over the Reporting Period. There was a slight increase of approximately 0.7 per cent in the second half of the year as a result of a slight increase in amount of outstanding commercial paper and £84m of variable rate PWLB borrowing. The interest rate expense risk is broadly offset by the interest income generated on cash investments.

LIBOR Transition Programme update

7.9 The London Interbank Offered Rate (LIBOR) is due to be discontinued after 2021, and Sterling Overnight Index Average (SONIA) has been selected as the preferred sterling risk-free rate by the Bank of England’s Working Group on Sterling Risk Free Reference Rates.

7.10 As part of stage 1 of our LIBOR Transition Programme we have identified our LIBOR exposure and determined the contracts we will proactively change prior to the cessation. This selection is based on the materiality of exposure and likelihood of the LIBOR reference being used post 2021.

7.11 In January we adopted the International Swaps and Derivatives Association IBOR Fallbacks Protocol for all our interest rate swaps, meaning these will automatically move from LIBOR to SONIA once LIBOR ceases. However, we can bilaterally agree a different methodology for changing to SONIA before then if required, for example if the underlying lease adopts SONIA earlier or uses a different calculation for using SONIA.

7.12 We have begun detailed discussions with lessors on some of the leases identified and aim to contact the remaining lessors by the end of Quarter 4 2020/21.

8 Banking

8.1 The final phase of the cash in transit services being transitioned to our new provider HSBC has been fully rolled out across the network. The final stations were migrated on 16 November 2020 ahead of the expected deadline of 30 November 2020. The project team continued to work with the custodian to monitor and resolve any operational issues which has now been completed.

8.2 We are working with our banking provider to migrate our existing Client Money Manager bank accounts from its legacy platform on to a new next generation virtual bank account platform. The new virtual account platform brings an enhanced user experience along with advanced statement and transactional reporting functionality. The migration of 1,670 sub accounts is expected to be completed by 30 September 2021

List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of background papers:

None

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Finance Committee

Date: **10 March 2021**

Title: **Investment Strategy 2021/22 – Non-Financial Assets**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to set out the proposed Investment Strategy for Non-Financial Assets 2021/22 set out in Appendix 1 ('the Strategy') and to seek authorities in relation to its approval.

1.2 The Strategy sets out how we plan to manage and grow our various commercial assets.

2 Recommendations

2.1 **The Committee is asked to note the paper and:**

(a) recommend that the Board delegates approval of the Investment Strategy for Non-Financial Assets (IMS) for 2021/22 and future years, and any changes to the IMS during the course of any year to the Finance Committee; and

(b) subject to a delegation of authority from the Board, approve the Investment Strategy 2021/22 – Non-Financial Assets, attached at Appendix 1.

3 Investment Strategy

3.1 Statutory guidance on Local Government Investments requires that TfL's Investment Strategy should include reference to "other non-financial assets that the organisation holds primarily for or partially to generate a profit".

3.2 The Strategy sits alongside TfL's Treasury Management Strategy, which addresses financial investments, the latest version of which is elsewhere on the agenda for approval at this meeting.

3.3 The Secretary of State recommends that the strategy should be presented for approval before the start of the financial year.

List of appendices to this report:
Appendix 1 – Investment Strategy for Non-Financial Assets 2021/22

List of Background Papers:
None

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Appendix 1

TRANSPORT FOR LONDON

INVESTMENT MANAGEMENT STRATEGY 2021/22 FOR NON-FINANCIAL ASSETS

1 SUMMARY

1.1 This Investment Management Strategy (IMS) 2021/22 describes the objectives of TfL's programme of investment in commercial assets, the associated sources of funding, the approach to managing risks arising from it and the relevant key performance indicators.

2 BACKGROUND

2.1 The IMS 2021/22 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and last updated in 2017;

(ii) the Statutory Guidance on Local Authority Investments (the '2018 Investments Guidance') issued by the Ministry of Housing, Communities and Local Government (MHCLG) in 2018; and

(iii) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by CIPFA and last updated in 2017.

2.2 As recommended by the 2018 Investments Guidance, this strategy will be updated at least annually and submitted for approval.

2.3 The IMS 2021/22 will be implemented, operated and administered under delegations of authority established in TfL Standing Orders.

3 STRATEGIC OBJECTIVES

3.1 The objectives underpinning the IMS 2021/22 are to:

(i) protect the income streams post the coronavirus pandemic and plan for growth – the long-term goal remains unchanged, that is, to produce a growing, sustainable operating surplus for TfL from its commercial assets;

(ii) fund the capital investment programme needed to achieve growth – this will continue our existing approach of funding expenditure from capital receipts (in the form of land sales, asset disposals and development returns);

(iii) establish new sources of funding through structural aspects of commercial property holdings in TfL – this will maximise the opportunity to enhance returns and value as well as enable future transactions; and

(iv) in line with the Mayor's Transport Strategy, deliver 10,000 new homes with at least 50 per cent affordable housing on projects brought to market since May 2016, as well as improve the accessibility of the transport system, including through incorporating additional step-free access as part of development schemes.

4 INVESTMENT PROGRAMME

4.1 The IMS 2021/22 is forward looking with substantial capital expenditure anticipated over a 10-year period. The main programmes of capital expenditure within the plan are listed in Table 1. While some of these investments aim to deliver capital income returns, the majority is set to deliver an ongoing rental stream and associated asset value.

Table 1 – Main programmes of capital expenditure 2020/21 to 2029/30

	Capital Plan Ranking by Expenditure (largest to smallest)
Residential – For Sale Joint Ventures	1
Retail Expansion and Estate Improvement	2
Residential – Build to Rent	3
Digital Media	4
Commercial Office Development	5
Telecoms	6

<u>Residential – For Sale Joint Ventures and Build to Rent</u>

4.2 The majority of the capital investment proposed in the IMS relates to real estate, with the largest sums directed to Residential – both For Sale projects and Build to Rent (BtR). TfL's development land is often in areas considered well located for residential development, and this investment aligns with our target in the Mayor's Transport Strategy to deliver 10,000 homes on our land. BtR has a track record of delivering real growth in rental income – that is, matching or exceeding inflation – and has remained a strong segment during the coronavirus pandemic.

4.3 TfL plans to invest in the development of for-sale residential units on land that is deemed suited to this purpose. Such development will deliver future profits, providing cash flow to reinvest, whilst contributing to new home delivery in London. In 2021/22, TfL will progress delivery on site of existing schemes, take others through planning and undertake the marketing of others.

4.4 Data from the independent real estate research consultancy Property Market Analysis (PMA) shows that from 2003 to 2018, when compared with the Consumer

Price Index (CPI), BtR delivered a 1.0 per cent real growth rate per annum for rental values in outer London and zero per cent growth per annum in inner London. This data includes a period of economic downturn during the 2007 global financial crisis. We propose to target outer London for BtR. In addition to resilience during downturns, BtR has low exposure to obsolescence.

4.5 The Residential Build to Rent (BtR) sector has been resilient in the face of the coronavirus pandemic. According to MSCI Inc. (formerly Morgan Stanley Capital International), total residential returns for the year to Q3 2020 were 2.4 per cent. This compares with 2.7 per cent for industrial, (0.7) per cent for office and (10.4) per cent for retail.

4.6 According to valuation data from global real estate practice CBRE, residential rent collection and occupancy rates have remained robust, averaging 97 per cent (Apr-Aug 2020) and 83 per cent respectively (Apr-Sept 2020). BtR schemes also appear to be benefiting from a 'Flight to Quality' as tenants seek high quality homes that offer designated workspace and amenities, a priority for those expecting to continue working from home in the future.

4.7 Forecasts from PMA project rental value growth of 3.4 per cent per annum for the period from 2020-2030 for residential BtR in outer London. Given these characteristics we will continue to invest in the sector, supporting the supply of housing whilst benefiting from the longer term, less volatile, rental growth prospects.

4.8 In order to deliver the BtR programme, TfL will invest in new site developments with selected partners. Building stock through new development delivers property at a discount to purchasing completed units, which enhances income yields and capital returns. A competitive tender process led to Grainger Plc being selected in 2019 as TfL's BtR delivery partner.

4.9 TfL's largest and most valuable site remains Earls Court. TfL will continue to progress our investment in Earls Court during 2021/22 with the aim of unlocking the site and enabling the future delivery of homes. Good progress has been made with our majority partner Delancey (acting on behalf of its client fund and APG).

4.10 In 2021/22, notable activity will include working towards consolidating the existing joint venture land with the adjoining Lillie Bridge Depot to create a 40-acre development site, progressing works to submit new plans, and commencing delivery of homes with a first phase at 344-350 Old Brompton Road. These activities will protect our investment holding, which has decreased substantially in recent years below the original investment value due to market changes, planning and other deliverability issues.

Retail Expansion and Estate Improvement

4.11 TfL will invest in new retail expansion on our current estate, and in line with a revised customer experience strategy, target investment in improving the existing retail portfolio. The wider environment for retail remains challenging, with PMA forecasting average annual falls in rental value in both central (3.2 per cent) and outer (5.7 per cent) London over the next five years.

4.12 TfL's assets are generally however in prime locations and have been traditionally resilient to economic upset. There is an opportunity to capitalise on the localisation agenda post the coronavirus pandemic and shift into growth areas such as logistics.

4.13 Historic investment has been limited, and there is an imperative to bring assets up to the required standard and reshape our offer for the new social environment. This investment will help protect our income streams, and, over time, drive higher average asset values and yields throughout the portfolio. TfL will utilise assets in new ways through more effective data analysis and targeting of suitable brands to enhance retail offerings. Programmes have been delayed due to the coronavirus pandemic but delivery will commence as conditions allow, supported by targeted reviews.

Digital Media

4.14 TfL has invested significantly in digital advertising assets in line with market developments. Returns across all media (digital and traditional posters) have been severely disrupted through the current pandemic, but there is expected to be a return which our assets will support. Over the plan period, there will be further digital investment in line with a need to refresh assets every six to seven years. Without such investment, revenue streams would decline. All capital expenditure will be carefully assessed based on expected returns.

Commercial Office Developments

4.15 Ownership of land around transport modes creates ancillary delivery options, such as office use. TfL will carefully consider its interests in sites suitable for office development. The market remains strong for prime assets, with a so-called ‘flight to quality’ seeing the most sustainable and best-located assets enjoying a significant premium over other stock. TfL’s options include maximising proceeds for sale or developing and holding for long-term income.

Telecoms

4.16 In 2021/22, TfL will conclude proposals to deliver public cellular services and a fibre optic data network across its tunnels and land. Our intention is to partner with established market players to deliver and manage these services. Levels of investment will be determined based on anticipated returns and risk level.

5 SOURCES OF FUNDING

5.1 Capital investment to generate operating income growth will mainly be funded out of capital receipts over the life of the Business Plan. There will be capital investment year on year across a programme allowing individual projects to develop and then achieve future projected returns.

5.2 Capital receipts from disposals and sales will be used to fund property developments. Income-generating assets with weak long-term income prospects, properties currently producing no income and sites with development potential will be identified and assessed. This process has commenced and, although slowed through the current pandemic, will continue in 2021/22.

5.3 Due to the relatively illiquid nature of the portfolio of property assets, the timing of receipts is not certain. Due diligence via forecasting will be undertaken to ensure future timings of investment commitments on development sites can be met.

5.4 TfL will use joint ventures as a primary delivery route for significant real estate projects where land interests will be sold into the joint venture, followed by investment in an equity interest in the joint venture. This method enables TfL to be flexible on capital investment levels and brings in skill sets and market specialisms to limit risk and improve return.

5.5 As set out in its Financial Sustainability Plan, TfL is also investigating alternative ways of funding real estate through consolidating our commercial property assets into a portfolio. Consideration will be given to the impact on TfL group activities, including borrowing limits and credit ratings in establishing the structures. Any funding will be conducted under Standing Orders delegation and working with TfL's Corporate Finance team.

6 RISK MANAGEMENT

6.1 The level of risk associated with non-financial investments described above will vary. This section seeks to address how this risk will be minimised to ensure good stewardship of public funds.

6.2 TfL will not enter into long-term project commitments until funding arrangements are clear, whether through disposals or other funding options. Investment will be limited dependent on funding capacity.

6.3 TfL will seek to minimise risk to assets and loss of capital value. Control will be retained over assets through ownership retention, step-in rights and other legal protections up to completion and payment. Credit and reputational risks will be assessed and monitored. Long-term contractual commitments will be fully assessed and reviewed.

6.4 TfL will manage real estate scheme risks through assessments of sustainability of income stream, planning risks, construction risks, stakeholder risks and political risks. In addition, two risks are considered in further detail:

(i) market / sales risk – development value across all joint ventures primarily focuses on the residential sector – TfL will manage risk levels through prudent assessment of sales values and likelihoods; and also through forward sales of affordable housing to Registered Providers who have a strong appetite to purchase stock; and

(ii) credit risk – there is a risk on availability of credit on a site-by-site basis and impact of long-term interest payments if sales demand is weak - TfL will not progress schemes unless funding sources are confirmed.

6.5 TfL will monitor and set appropriate levels of gearing across the real estate development portfolio to manage risk exposure. Prudent assumptions of 50 per cent gearing within development phases (loan to cost) and 40 per cent within the income-generating investment phase (loan to value) have been set as a benchmark. Alternative funding options will be carefully assessed as needed. Structures will be managed to ensure debt in Joint Ventures is within overall TfL borrowing limits. Interest cover ratios (rental values relative to interest to service debt) will be agreed in advance and tested to ensure they can be met prior to finalising any debt packages.

6.6 Measuring and managing forward commitments will be a key part of overall programme management, along with forecasting scheme outcomes regularly and testing for market conditions. TfL will manage exposures by reducing equity share in joint ventures, thus lowering investment requirements, and will cancel or defer projects as needed, should there be indications of a property downturn.

6.7 When assessing projects TfL will take a prudent approach to cost growth and value growth.

6.8 The investment programme focuses on markets where we have a natural advantage, namely our land holdings. This puts us in a strong position to invest capital compared with other operators in the market and minimises risk. It also means we can “hold” if market conditions are not conducive.

6.9 Investing in our property estate provides liquidity options in the form of underlying asset value which can be traded to manage overall risk. This is particularly relevant within the BtR portfolio where there is significant investor demand. TfL will manage exit options as part of its risk approach.

6.10 Valuations will be important factors in ensuring real estate investment decisions are justified. TfL will regularly assess fair value of assets relative to capital investment and loans to ensure informed decisions are made and compliance with loan terms is assured.

6.11 TfL will use independent experts as required to inform investment decisions. These will be procured on a case-by-case basis around the specific activity. Procurement will occur through TfL frameworks, where a competitive process ensures the most technically competent and most economical advisors are available as required.

6.12 Due diligence and competitive procurement processes are in place for our investment decision making. Suppliers will undergo a rigorous process including credit checks to demonstrate TfL is achieving best value and have financial indicators to protect our interests. Commercial contracts giving us ability to monitor and assess suppliers throughout the life of any project will be part of standard operational practice.

6.13 TfL will also use experts in property in its real estate governance process. The Commercial Development Advisory group (CDAG) consisting of property industry experts from a range of backgrounds, ensures all our property investment projects can be challenged and scrutinised.

6.14 As set out in TfL’s Financial Sustainability Plan, the governance structures for TfL property will be kept under review. Should new funding sources allow a significant increase in activity, the governance of TfL property will be strengthened in line with any commensurate increase in risk.

7 KEY PERFORMANCE INDICATORS

7.1 Subject to meeting security and liquidity requirements, yields and returns on capital investment will drive all decisions. Specific Key Performance Indicators (KPIs) will be used by TfL to assess and monitor investments:

(i) all projects will be expected to produce a positive **net present value** discounted at TfL’s standard rates;

(ii) all projects delivering rental income will be expected to achieve **yields** in excess of our cost of borrowing;

(iii) target geared **Internal Rate of Return (IRR)** will be measured - this will be based on market testing of development schemes as well as internal experience on schemes to date, and will vary according to the project taking into account the following considerations:

- delivery requirements within the Mayor's Transport Strategy (e.g. step free access as part of a development scheme, delivery of affordable housing) could reduce the IRR on specific schemes; and

- different market segments have different risk profiles and the IRR expectation will reflect this; and

(iv) TfL will measure **Return on Equity (ROE)**, showing levels of profit compared to TfL capital invested.

7.2 Third-party debt and capital investment will be utilised by TfL as required to promote growth. If the interest rate available is greater than the net yield on the property investment, TfL will review dilution of returns in assessing viability. Consideration will be given to the impact of debt on the group, specifically around financial ratios, as well as the impact on other investments in transport and infrastructure.

7.3 There is recognition that introduction of third-party capital does not in itself boost income returns – indeed, it may dilute income returns after allowance for any management fees introduced with the third-party capital. The introduction of investment partners will be driven more by the skills they bring, with the expectation of improvements in delivery and increases in income returns. Proposals for introduction of third-party capital will be tested against the requirement for liquidity. TfL will make an assessment as to whether a stake in an investment vehicle is likely to be more or less liquid than direct ownership of the properties.

7.4 TfL will have regular reviews of global innovation in terms of new sources of income around transport nodes.

7.5 A summary of key investment areas and rationale is set out below.

Investment Area	Overview	Rationale
Residential – For Sale Joint Ventures	Establish joint ventures with private sector companies to deliver capital receipts from land plus profits and deliver in excess of 2,700 homes.	Supports homes target. Sites typically have best sales potential with good residential values and strong market interest.
Residential – Build to Rent	Major investment on identified BtR sites, delivering over 3,000 homes. We expect to become one of London's leading operators and owner of BtR.	Delivers long term recurring rental stream and asset value growth. Demand and supply dynamic favours rented product in London.

Investment Area	Overview	Rationale
Earls Court Development	The largest single development contributing to TfL's homes target, working with our joint venture partner. Creating a new district and supporting thousands of jobs.	Largest single contributor to homes target.
Retail Enhancement and Estate Improvement	Create new commercial assets and invest in existing assets through asset management initiatives, including exploiting opportunities of long leasehold interests. Investment plans include enhanced maintenance of existing portfolio.	Delivers rapid increase in net income, makes best use of existing assets, and delivers enhanced customer experience.
Digital Media	Replacing life-expired assets and deliver new digital formats.	Investment in digital required to protect and grow revenues with consumer expectation of digital product, in conjunction with traditional media.
Commercial Office Developments	Opportunity to create prime commercial office space through over-station developments. Options exist to support rationalisation of TfL's office facilities	Station environment enhancement and delivering Grade A office space in attractive locations. Support cost savings for TfL

Finance Committee

Date: **10 March 2021**

Item: **Financing New Equity in TTL Properties Limited**

This paper will be considered in public

1 Summary

1.1 This paper considers the financing requirement of Transport Trading Limited (TTL) in relation to the equity funding issue of TTL Properties Limited (TTLP), as approved by the Committee at its meeting on 25 November 2020.

1.2 The paper seeks approval for the issue of an intragroup interest-bearing loan of up to £2.1bn by London Underground Limited (LUL) to TTL to facilitate the investment, by TTL, in new share capital of TTLP.

2 Recommendation

2.1 The Committee is requested to note the paper and approve the grant of Procurement Authority for a 25-year, interest bearing loan of up to £2.1bn by London Underground Limited to Transport Trading Limited, to fund the acquisition of ordinary share capital in[1] TTL Properties Limited.

3 Background

3.1 At its meeting on 1 April 2019, the Committee approved the consolidation of commercial and other property assets from across the TfL Group into TTLP. The consolidation of assets is a key component in the creation of a ring-fenced, self-financing property company within TfL.

3.2 Eighty-nine per cent of these property assets by value have already been transferred, or are about to be transferred, either through the grant of new long leases or through the assignment of existing leases. The aggregated consideration payable by TTLP for these property assets is estimated at £1.3bn, based on market valuations. Currently these transactions are reflected in TTLP's accounts as unsettled intercompany trading liabilities. A further £0.2bn of property assets are expected to be transferred in 2021/22 which are currently awaiting consent from the landlords of these property assets.

3.3 At its meeting on 25 November 2020, in order to provide TTLP with a capital structure to settle these short-term trading balances, the Committee approved a strategy to support the funding arrangements of TTLP through the issue of £2.1bn of equity to fund the main tranche of commercial assets valued at c£1.5bn, plus a further £0.6bn for other 'for sale' assets yet to be progressed. The purpose of the

[1] Recommendation corrected after publication to say "…acquisition of ordinary share capital **in** (not by) TTL Properties Limited".

share issue is to create a TTLP balance sheet with no debt in it (i.e. the transferred assets are funded entirely in the TTLP entity via equity).

3.4 TTL is the parent company of all of TfL's trading subsidiaries, including TTLP. As such it is the best placed entity through which the share issue should transact. It does not, however, have sufficient cash resources to invest in this initial equity issue. A funding structure is thus required by TTL to enable it to finance this investment.

4 Terms

4.1 The loan needs to be on commercial terms, including tenor and interest, to avoid any issues in respect of unlawful distributions. Without this approach, there is a risk that the loan and the property sale proceeds received would be viewed as linked transactions, which could result in the loan or part of it being viewed as an unlawful distribution.

4.2 It is considered that the terms available on a loan to TTL would be materially the same as those available to TfL. This is because most of TfL's assets are held by TTL and therefore TfL is likely to provide support to TTL as required. There is also a formal parent guarantee letter from TfL to TTL in place. This means is it reasonable to assume commercial investors and lenders would view the credit risk of TTL as materially the same as TfL, and that TTL could raise debt at materially the same cost and tenor as TfL could.

4.3 TfL has public debt outstanding for between one and 43 years. The proposed tenor of the intracompany loan is 25 years, with a bullet repayment at the end of the term. This term is within the range of tenors that are likely to be available to TTL on a commercial basis and will allow the business to mature and grow. It is expected that alternate repayment options will be possible as this maturity occurs. A single final repayment is seen in bond issues in the market, providing businesses with strategic long-term funding against long term assets, and thus considered an appropriate market facing solution in this case.

4.4 To ensure the interest rate payable on this loan is on commercial terms, the rate applied will be based on the interest rates of TfL's publicly traded outstanding debt, which reflects the rates commercial investors are willing to accept. The interest rate on this debt consists of two elements: an underlying rate; and a credit spread. The relevant underlying rate for this loan is the 25-year UK Government gilt yield, which would be fixed on the day the loan is drawn. A fixed credit spread would be added to the underlying rate. Based on TfL's public debt, the applicable credit spread is 0.78 per cent.

4.5 Given UK Gilt yields are constantly changing, the final 'all-in' interest rate on the loan will not be known with certainty until the time the loan is drawn. The closing 25 year gilt rate, on 22 February 2021, was 1.3 per cent and over the last six months it has ranged between approximately 0.7 per cent and 1.3 per cent. This would have resulted in an 'all-in' interest rate of between 1.48 per cent and 2.08 per cent, although due to constantly moving gilt yields the rate could move outside of this range at any time.

5 Affordability

6.1 Projected earnings of TTLP are diminished in the early years of the current financial plan due to recovery from the current pandemic, so dividends are unlikely to cover TTL's interest obligation until 2023. Thereafter operating profits in TTLP rise to around £60m and grow from there, which would be expected to provide good interest cover. It is proposed that the terms of the loan allow a roll up of interest payments in the early years as required.

6.2 The loan principal repayment equates to an annual £60m cash requirement, so to be repaid from earnings, annual dividends of £60m plus the interest costs are needed. The TTLP plan is expected to reach this level early in the 25-year loan term, in approximately 2026, with growth continuing well beyond this, allowing cumulative accretion to support the eventual repayment.

6 Key risks

6.1 For the above funding structure to work, TTL needs to be confident that it will have sufficient future revenue streams to both service the interest payments on the loan, but also its eventual capital repayment. As noted, an early-years roll up of interest is needed to manage interest, but thereafter income is planned to grow strongly. The capital repayment can be made out of higher dividends but also through future equity/funding restructures as the TTLP business matures.

6.2 TTL's primary source of income to service the loan is expected to take the form of dividends from TTLP (i.e. the return on its equity investment). Any change in strategy or future third-party investment into TTLP that may impact on the levels of returns to be made to TTL will therefore need to be considered carefully, as any shortfall in future revenue streams coming to TTL will require the loan servicing costs to be funded through other means. This could take the form of additional grant from the Corporation. This would reduce the level of usable funds held by the Corporation, and hence adversely impact on its ability to fund other cash requirements in the wider transport business. Other options include portfolio disposals by TTLP to provide the required cash flow.

7 Taxation

7.1 There are no tax implications of this loan structure for the TfL Group as both TTL and LUL are subject to corporation tax. Provided the conditions set out below are met, the interest payable by TTL will be a deductible charge for tax purposes in TTL whilst the interest receivable will constitute taxable income in LUL.

7.2 The interest deduction will be restricted if TTL is considered to be "thinly capitalised" for tax purposes (i.e. the level of debt is more than that it would have been able to borrow from an unrelated party in an arm s length transaction). However, as the loan structure would be set up on commercial terms, and TTL's debt ratios fall within acceptable levels for thin capitalisation purposes, this is not considered a cause for concern.

7.3 The 25 November 2020 Committee paper suggested that the funding of TTLP would be through equity injection from TTL, who would in turn issue new equity to TfL. Following further review and internal analysis an equity injection via TTL directly into TTLP would be a more optimum arrangement. The reason for this change is that profits from around the TTL group are required in order to fund the share purchase without drawing on any usable reserves of TfL.

7.4 An analysis of the distributable reserves position of the Group, and the tax implications, has ruled out any possibility of the vending subsidiaries being able to dividend the sale proceeds up the ownership chain to TTL. It is therefore proposed the monies required be loaned from LUL (being the subsidiary that realised the significant majority of the disposal gains) via an interest-bearing loan to TTL, to allow TTL to invest in new share capital issued by TTLP.

List of appendices to this report:

None.

List of background papers:

None.

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Finance Committee

Date: **10 March 2021**

Item: **RideLondon Cycling Event Delivery Partner Agreement**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to request approval for Procurement Authority to enter into a Delivery Partner Agreement (DPA) with London Marathon Events Limited (LME) to deliver the annual RideLondon cycling event from 2022 to 2031.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL and LME, and legally privileged advice. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and:

(a) grant Procurement Authority in the sum set out in the exempt supplementary paper for the award of the Delivery Partner Agreement to London Marathon Events Limited in respect of the RideLondon cycling event from 2022 to 2031, which Procurement Authority supersedes Procurement Authority granted in August 2019 in respect of the RideLondon cycling event; and

(b) note that the matters for which Authorities are sought above include commitments that extend beyond the period of the Business Plan and Budget as approved by the Board on 9 December 2020 and provision will, therefore, need to be made for those commitments in future Business Plans and Budgets.

3 Background

3.1 To provide a lasting legacy of the 2012 Olympics and Paralympics Games, the then Mayor asked TfL to develop a 'marathon on wheels', a world class festival of cycling. A key objective is that the event be cost neutral to TfL. This was a significant challenge, given the established model for such events was for the city to pay organisers hosting fees to cover the cost of staging an event.

3.2 In 2012, we awarded London & Surrey Cycling Partnership (LSCP) a five-year contract to deliver the Mayor's annual cycling event. We worked closely with LSCP and key stakeholders, including the GLA and London & Partners, to create and develop the event and the "RideLondon" brand.

3.3 After the inaugural event in 2013, RideLondon quickly established itself as the largest festival of cycling in the world, attracting 250,000 people to participate or spectate over each event weekend.

3.4 In 2015, we extended the term of the contract with LSCP for a further two years. In 2018 an additional one-year extension was agreed to cover the 2020 event and to allow sufficient time to run a procurement process for a new contract for the RideLondon event from 2021.

4 Procurement of a New Delivery Partner

4.1 In late 2017, a process was started for procuring a delivery partner for the RideLondon event from 2021. After some early market engagement, following the issue of a Prior Information Notice on 29 March 2018, an Official Journal of the European Union (OJEU) notice was issued under the Concession Contracts Regulations 2016 on 2 June 2018.

4.2 The strategic objectives for the new event were set out in the OJEU notice and ITT (Event Objectives) (see Appendix). Only one, bidder London Marathon Events Limited (LME), submitted a bid in response to the invitation to tender.

4.3 After a period of evaluation and negotiation with LME, we agreed the key principles of the new Delivery Partner Agreement (DPA) based on the Event Objectives. The proposed new Delivery Partner Agreement was intended to replace the existing contract with LSCP which was due to expire after the 2020 RideLondon event.

4.4 In July 2019, the Committee approved entering into a new DPA with LME for the RideLondon events from 2021 to 2030.

4.5 However, in late 2019, before the new DPA could be finalised and signed, Surrey County Council (SCC) informed us that they would be holding a public consultation regarding their position as the outer London host council for the RideLondon event. As a result of this consultation, they confirmed that the event would no longer take place in Surrey, meaning that the route for future events would need to be re-planned and negotiated with alternative London Boroughs and outer London Councils.

4.6 In addition, due to outbreak of the coronavirus pandemic, the 2020 RideLondon event was cancelled. In its place we ran a campaign with LSCP to encourage cycling and staged a virtual event. The contract with LSCP expired after the 2020 campaign and virtual event were concluded.

4.7 As a result of the ongoing uncertainty for staging mass participation events, the decision was taken, with guidance from the Walking and Cycling Commissioner, not to hold an event in 2021 and instead run a campaign to encourage cycling (RideLondon Campaign 2021). The proposals for the RideLondon Campaign 2021 are separate from the new DPA and do not form part of the approvals being sought by this paper; approval for them will be sought at officer level in accordance with Standing Orders.

4.8 As a result of SCC's withdrawal from participating in the hosting of the event, the cancellation of the 2020 and 2021 events and the ongoing uncertainty around staging mass participation events we have renegotiated the terms of the DPA with LME but have retained the same strategic Event Objectives which underpin the event.

4.9 We have now reached agreement with LME on the terms of the new DPA and are seeking the Committee's approval to enter into a new DPA for the RideLondon events from 2022 to 2031. We need to enter into the new DPA as soon as possible to allow enough time to design and secure a new route, including consultation and agreements with relevant stakeholders London Boroughs and outer London councils, and for LME to secure new sponsors.

5 New RideLondon Event

5.1 As a result of the pandemic and the requirement to secure a new route, there have been several changes to the format of the event compared to previous events. The RideLondon event will continue to be an annual, world class, cycling event, unless a change is mutually agreed between TfL and LME. The future format and main changes are:

5.2 The new DPA will cover the events from 2022 to 2031;

(a) the event will be a one-day event held in Spring. Previously this was a two-day event held in the Summer;

(b) the previous event took place in London and Surrey. However due to SCC withdrawing from the event we need to agree a new route with LME. This is a significant undertaking that will take approximately 18 months to plan and seek relevant stakeholder agreements. It was considered that this would be more achievable with a one-day event. The DPA does, however, allow both parties to propose and agree changes to the route and nature of the event in later years;

(c) there will no longer be an Elite Men's Race. It has become increasingly difficult to agree a date for the event with the Union Cycliste Internationale (UCI), the world governing body for sports cycling which oversees international competitive cycling events. Without certainty of the date for the next event and its route, it is not possible to register the event in the UCI calendar. We will, however, maintain the Women's Elite Race, (the "Classique"). This will ensure that the event retains its world class status and TV coverage; and

(d) LME will secure sufficient income to cover all costs, so the event is cost neutral to TfL, the Mayor of London and London taxpayers.

5.3 The event will continue to offer:

(a) Fun Ride: A free family fun ride;

(b) Festival Activity: Family-friendly entertainment that encourages cycling for all;

(c) Elite Women’s race: on a closed road circuit; and

(d) Mass participation ‘Challenge Rides’ for up to 32,000 riders of all ages and riding ability offering different distances, for example 100-mile route for around 25,000 riders, a 45-mile route for around 5,000 participants and a 20-mile route for around 2,000 participants.

List of appendices to this report:

Appendix 1: Event Objectives

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers:

None

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Appendix 1

Event Objectives

To be the world's greatest celebration of cycling and for LME to deliver a world class event which achieves the following strategic objectives:

- Delivers a safe event with minimal impact on Londoners.

- Delivers a safe event for participants, spectators, staff, volunteers and road users.

- Manages impacts and delivers benefits so that Londoners and UK residents view the event positively.

- Ensure Londoners are informed of RideLondon's impact of any road or bridge closures via an appropriate and effective communications campaign.

- Inspires more Londoners to start cycling as part of their daily lives.

- Delivers an event which attracts new people to cycle and people that don't cycle regularly.

- Engages the full range of London's diverse communities in all London Boroughs.

- Particular focus on: Women; Black, Minority & Ethnic groups; Inactive people; People with disabilities; Young people; Elderly people.

- Creates a genuinely world class event, which is positively viewed by London residents and businesses, the rest of the UK, and internationally.

- Includes a mass participation event, recognised worldwide as one of the leading cycling events.

- Includes top quality elite event(s).

- Is part of London's calendar of high-profile events, which attracts mass spectators and showcases London's iconic assets, promoted by a robust marketing and PR strategy.

- Delivers economic benefit to London.

- Have a significant impact on the reputation of the London 'brand'; and people's predisposition to visit, invest and study here.

- Is cost neutral to TfL, the Mayor of London and London taxpayers; and facilitates investment in cycling.

- Secures and maintains sufficient income to cover all costs.

- Commercial partnerships share long term vision and synergy with the strategic objectives.

- Creates benefit to local communities in London and any regions the Event goes through.

- Creates benefit to local communities either via charity fundraising and/or other activity.

Wider GLA Objectives

Meets wider objectives from the Mayor’s Transport Strategy:

- Meet Healthy Streets agenda.

- Encourage mode shift from car to bikes.

- Contribute to the targets of the Mayor’s London Environment Strategy, particularly to improve air quality.

- Address Road danger reduction – Vision Zero.

- Healthy living.

Finance Committee

Date: 10 March 2021

Item: GLA Collaborative Recruitment Services

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to brief the Committee on the proposed award of the contract for the supply of contingent labour to TfL over the next four years by means of a collaborative framework agreement across the Greater London Authority (GLA) group.

1.2 It is anticipated that approval of Procurement Authority to enter into the Contract will be required before the next meeting of the Committee and will therefore be sought under Chair's Action.

1.3 The contingent labour contract is required to maintain delivery for staffing for critical engineering, IT, financial and other projects to enable TfL to fulfil statutory duties and ensure a safe, reliable and resilient service is provided to customers across London.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 The existing contracts with Hays Specialist Recruitment Services Limited which provides administrative, professional and IT roles and with engineering suppliers Fusion, Ruilion, Matchtech and Morson, have been in place for over four years and are expiring later this year.

3.2 The volume of temporary workers at TfL has reduced significantly, by 60 per cent since 2015, and more recently during the coronavirus pandemic following spending reviews. A new flexible delivery model is needed to deliver critical, specialist and project workers at the volumes required.

3.3 A collaborative procurement approach is being undertaken for TfL, the GLA, other GLA functional bodies and the Metropolitan Police Service in order to secure higher volume discounted rates and a single shared approach to procuring and delivering contingent labour. This facilitates the sharing of skilled resources by operating individual and shared talent pools.

3.4 The new framework agreement will predominantly cover contingent labour with a permanent recruitment solution to source employees where required.

3.5 A Managed Service Provider (MSP) model is the chosen and industry standard approach and provides a single point of contact for contingent workforce management including payroll and day-to-day workforce management and delivers a range of qualitative benefits as well as financial. The contract will also introduce new, robust financial disincentives for non-adherence with service delivery Key Performance Indicators.

3.6 Rail, track, maintenance and signalling areas require specialist second tier rail providers to meet delivery targets. Suppliers with proven rail delivery experience will partner with the single contracted MSP and provide direct local support to business managers onsite.

4 Procurement Summary

4.1 An OJEU compliant competitive tender process commenced in August 2020. This is being undertaken using the Competitive Procedure with Negotiation to replace the existing agreements, on expiry, with one framework agreement.

4.2 The framework and call-off contracts do not commit to a minimum spend or a minimum volume of services that may be delivered under the framework arrangement and does not offer exclusivity to the MSP.

4.3 The new framework will be set for three years, with the option for TfL to extend a further year.

4.4 TfL, GLA, GLA functional bodies and the Metropolitan Police Service can 'call-off' from the framework and enter into call-off contracts as required.

4.5 Contract management will be conducted by the GLA Collaborative Prourement team for contractual and commercial issues and supported by the Recruitment Delivery team in HR Services at TfL and each service recipient as required.

4.6 Further detail about the nature of the savings that we anticipate the contract will deliver will be provided when seeking Procurement Authority.

4.7 It is anticipated the procurement process will be concluded during April 2021, following which authorities will be sought.

List of appendices to this report:

None.

List of Background Papers:

None

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Finance Committee

Date: **10 March 2021**

Item: **Capita Access & WAN Contract: Procurement Authority Uplift**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to seek approval to increase the Procurement Authority in relation to the Capita Access & Wide Area Network (WAN) contract.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial or business affairs of TfL and tenderers. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and approve the uplift of the Procurement Authority in respect of the Capita Access & WAN Contract, to the sum set out in the paper on Part 2 of the agenda.**

3 Background

3.1 In May 2016, TfL approved our first Telecommunications and Data Network Strategy. The strategy set out our high-level approach to rationalising and consolidating TfL's data networks in order to realise the following benefits:

(a) reduce the cost of network services by: (i) removing unnecessary network complexity and duplication, and (ii) maximising TfL's buying power through the consolidation of network service contracts;

(b) reduce the time to market for new and changed services through the use of standardised network services; and

(c) present new opportunities to generate revenues through the exploitation of TfL's data network infrastructure and rights of way across London.

3.2 The Telecommunications and Data Network Strategy describes four portfolios of network services used by TfL. Our approach to the first of these portfolios - commodity outsourced networks – is to consolidate TfL's multiple commodity outsourced network service contracts onto a single, pan-TfL network service contract.

3.3 In December 2017, the Committee gave approval (including Procurement Authority approval) to enter into the initial five and a half year term (to August 2023) of a contract with Capita Business Services Limited (the Access & WAN Contract). This contract is the vehicle through which we are consolidating and rationalising our portfolio of commodity outsourced network services.

3.4 For the reasons set out in the related paper included on Part 2 of the agenda, there is now a requirement to increase the Procurement Authority approved in relation to the initial term of the Capita Access & WAN Contract.

List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of background papers:

None

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Finance Committee

Date: **10 March 2021**

Item: **Enterprise Risk Update - Changes in Customer Demand (ER9)**

This paper will be considered in public

1 Summary

1.1 This paper sets out our current understanding and control measures on Enterprise Risk 09: Changes in customer demand.

1.2 This is a very broad risk, with huge financial and strategic implications. The coronavirus pandemic has seen this risk realised in an unprecedented way, and created large-scale uncertainty for the medium and long term. This paper and the accompanying risk assessment sheet discuss some of the major issues around the risk and how it is controlled.

1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

3 Background

3.1 Demand for travel in London is highly complex. It covers all modes of transport, including public transport services run by TfL (for which we receive income) and National Rail services operated by the Government, and private transport modes including cars, bikes, walking, taxis/private-hire vehicles and innovations such as e-scooters. The demand for all of these modes is interrelated, dependent on many factors – especially economic and demographic – and constantly evolving. This risk covers demand across all these modes.

3.2 Changing customer demand has always been a significant risk, with even relatively minor changes having a significant impact on London's transport network and our finances. TfL's unusually high dependence on fares revenue over recent years has made this a particularly significant financial risk.

3.3 The Mayor's Transport Strategy (MTS) aims for 80 per cent of trips in London be undertaken by active, efficient and sustainable modes by 2041. As of 2019, 63 per cent of trips were by such modes. TfL therefore has a strategic objective to encourage customer demand to change over time away from private vehicles and towards public transport, walking and cycling. We need to ensure that the transport network both encourages and can accommodate this modal shift.

3.4 Traditionally, the risk has been monitored and controlled by forecasting using economic factors and assessment of the policy and market environment around transport. While these factors remain important, the coronavirus pandemic has caused previously unimaginable levels of change that cannot be understood by looking only at traditional forecasting methods.

3.5 The short-term changes in travel demand due to the pandemic have been enormous. Demand for travel overall has reduced substantially as people have shifted where possible to working from home and reduced or eliminated travel for leisure activities. The impact has been uneven across modes. Demand for public transport and particularly rail travel has reduced by as much as 95 per cent at times. The reduction on rail, including London Underground, is especially large because of rail's primary role in enabling people to access office and leisure activities in central London. Demand for private transport has also reduced but by a much smaller amount, particularly in outer London, as people walk and cycle more, and car use has returned closer to normal but still below pre-pandemic levels (around 20 per cent reduction from 2019 in summer 2020). This is in part because of continuing essential retail trips and also because some people feel safer using private vehicles than public transport. The combined effect of these changes, despite the reduction in car use, has seen sustainable mode share reduce from 63 per cent in 2019 to 55 per cent in mid-2020.

3.6 The longer-term impacts of the pandemic will take several years to fully understand. This creates many risks which are described in Section 4.

3.7 This risk and its control measures have always been kept under continuous review, being one of the key focal points of our annual business planning process and many other core business activities. We will need to adapt our ways of managing this risk to reflect the new circumstances around it, and this is described in Section 5.

4 Description of risk post-pandemic

4.1 It is not possible to know with high confidence what travel demand in London will be following the pandemic. This creates a number of risks as we have to plan for the transport network several years in advance given the long lead times to make changes. We must embed the management of risk and uncertainty in our planning processes to ensure we are resilient to many possible travel demand outcomes, as is described in Section 5.

4.2 Financially, we face a very large risk that demand for public transport does not return to previous levels at all. There is wide uncertainty around this, but the combination of expected economic weakness in future years coupled with behavioural changes that may see people shift to greater working at home are likely to have a negative impact on public transport demand. TfL's recent Financial Sustainability Plan has identified that the reduction in our passenger income over 5 years due to the pandemic is expected to be between £9bn and £11bn. TfL's previous financial model made us unusually reliant on fares income, so our future funding model must be resilient to the potential for ongoing lower ridership, albeit where social distancing and changed attitudes to crowding require continuing to run high-frequency services.

4.3 The demand for public transport influences the service levels we provide across London Underground, Buses and Rail. There is a somewhat circular relationship between these factors: higher demand requires higher capacity, and higher capacity enables higher demand. The reverse is also true, and reducing capacity has the potential to further reduce demand and create a self-reinforcing spiral of decline of ongoing reductions in public transport service and demand. We must be aware of this risk and carefully consider the case for any changes in service, ensuring that any changes do not have unreasonable disbenefits that prevent economic and social recovery after the pandemic.

4.4 Large changes to service levels risk increasing social inequalities, given the higher dependence of some groups on public transport, including those on lower incomes; the elderly; disabled travellers; and those from black, Asian and minority ethnic groups. Such impacts need to be assessed and form part of the decision-making process for changing service levels.

4.5 Given the uncertainty around future demand, we also need to be prepared for the possibility of high public transport demand in the medium and long term. If this future demand exceeds the capacity of public transport (particularly if service levels are reduced), this will create crowding, worsen reliability of services and reduce customer satisfaction and confidence in the network. This is important in the context where passenger tolerance of high crowding levels may be reduced following the experience of social distancing. It is also possible that increased working at home, if concentrated on particular days of the week, does not make as large a difference as might be expected to peak demand on the busiest days. It is important that future service levels are planned to be resilient to high as well as low demand scenarios, as adapting service levels quickly is difficult and inefficient, meaning a return of high demand over time coupled with service cuts could result in severe overcrowding for years to come.

4.6 Increased demand would require additional investment in the public transport network to expand capacity beyond its pre-pandemic level, for example more investment in London Underground trains, signalling and stations. The current constraints on TfL's finances mean funding such expansion would be challenging. Uncertainty around demand also impacts the business cases for expansion at present, but this does not mean expansion of capacity will not necessarily be needed. This again requires a flexible approach to planning investment and service levels, as described in Section 5.

4.7 On the road network, there are many risks associated with potential post-pandemic travel patterns. There is a clear desire to see a green recovery with better health and reduced pollution in the coming years, but this would be threatened if there is increased demand for travel by cars and goods vehicles. If trends such as increased home shopping and a potential reluctance to use public transport become embedded, this will lead to an increase in road vehicles and corresponding increases in congestion, carbon emissions, local air pollution and road danger. Increasing congestion would impact on bus performance and operating costs, and potentially further impact demand trends on that mode.

4.8 If private vehicle use and congestion increase, this would threaten TfL's progress towards important objectives embedded in the MTS, including the 80 per cent mode share aim as well as improvements in road safety, reduction in air pollution and decarbonisation. Addressing these challenges may require us to reassess how we manage the road network. We have already taken steps during the pandemic to promote walking, cycling and bus journeys, and measures in future that benefit all sustainable modes would be important, although our ability to influence travel patterns through such measures alone is limited.

4.9 There is an opportunity in the coming years to increase rates of walking and cycling, reflecting pre-existing trends as well as observed behaviour during the pandemic. If realised, this will have a positive impact on health, the environment and safety, and requires that adequate provision is made on the street network across London to meet the needs of all users. If TfL and boroughs do not have the ability, for financial, policy or legal reasons, to support these modes alongside improving bus performance, there is a risk that the potential for journeys across London to shift to sustainable modes will be constrained or that there will be increasing conflict between people walking, cycling, using private vehicles and buses.

4.10 Other modes of transport make up a small proportion of the total travel mix but have been growing in importance in recent years. These include private hire vehicles; cycle hire (both the system operated by TfL and those of other companies); e-scooters which we are preparing to trial though at present they are unlawful on the highway, and other potential modes that may not exist yet. There continues to be a wide range of potential outcomes for such transport options over the coming years, and these can be positive or negative in policy terms. The pandemic and changes to travel patterns may provide an opportunity for new market entrants to innovate quickly and meet new customer expectations. This creates a requirement for TfL to similarly respond quickly and have adequate powers to manage a safe network in all scenarios. Without such responsiveness and powers, there is a risk that new market entrants may increase congestion and road danger.

5 Response to risks

5.1 We are in the process of responding to the short-term impacts this risk has created as a result of the coronavirus pandemic. This includes working with the government on emergency funding arrangements that are resilient to the full range of outcomes for passenger revenue, and which diversify our revenue away from its high dependence on passenger income. We are also adapting our services where needed to meet the current needs of our customers and intervening in London's street network to support the aspirations for more walking and cycling to promote social distancing. We are supporting vaccine rollout to help enable the return to more normal activities and greater confidence for people using public transport.

5.2 Looking to the medium and long term, management actions to control the risk can be grouped under four themes:

Scenario and risk-based planning

5.3 We must forecast for multiple possible future outcomes and embed uncertainty into decision making on service levels, business planning and project business cases. This forecasting must be kept under regular review as new trends and evidence become available. Resilience of outcomes to multiple future scenarios, as opposed to strength of case in one core scenario, should be an important factor in assessing projects and investments. We will continue to monitor travel demand across London and issue the annual Travel in London report, including assessing how our future forecasts are influenced by the observed evidence.

Improving the quality of services

5.4 While TfL's finances are constrained, we must maximise the opportunity to improve our services wherever possible. Examples within this include developing a Bus Action Plan to ensure buses continue to be an attractive mode and are not impacted by a car-led recovery. Delivery of our capital programme, including opening the Elizabeth line as early as possible and continuing the modernisation of London Underground, will help to improve the network as customers return including helping to boost the recovery of central London. We must continue to improve conditions on the road network for people walking, cycling and using public transport. With regard to rented personal mobility (e.g. e-scooters), TfL needs to have city-wide permitting powers to provide a pan-London co-ordination role, manage public realm hazards, avoid a fragmented user experience and improve customer outcomes.

Managing demand

5.5 While TfL's ability to manage the demand for travel is limited, we do have tools to influence behaviour and will need to use these, in some cases in new ways. This includes marketing activity and fares policies designed to attract passengers back to public transport after the pandemic. New tools such as the TfL Go app will help customers to make informed travel decisions and avoid the busiest times on the network. We will need to keep our road user charging systems, including the existing Congestion Charge Zone, the expanding Ultra Low Emission Zone and new potential options such as the proposed Greater London Boundary Charge, under review to ensure they are effective at managing congestion and pollution.

Appropriately reviewing service levels

5.6 If changes in travel patterns become embedded post-pandemic, it will be appropriate to review the capacity provided on our public transport services. This should be undertaken on the understanding that changes take time to implement and the savings several years to fully materialise. Any such changes should be fully assessed including ensuring their resilience to uncertainty of long-term demand, minimising impact on disadvantaged groups in society and preventing a downward spiral of reduced service further reducing demand.

6 Overall assessment of risk

6.1 This is a broad risk at the heart of our business so scores extremely highly. In particular the financial impact it can create is exceptionally high, as has been experienced over the past year. It also has a fundamental role in influencing our relationship with customers and stakeholders, and is an important influence on our ambitions around safety, health and environment.

6.2 This risk will always be large and this is reflected in the target scores. Given the current exceptional circumstances, all four risk impact categories are considered to be outside tolerance. However, through the management actions described in Section 5 we can seek to control and mitigate the risk. Implementing these actions should mean that the risk is adequately controlled, and it has therefore been given this overall rating.

List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of background papers:

None

Contact Officer:	Vernon Everitt, Managing Director, Customers, Communication and Technology
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Finance Committee

Date: **10 March 2021**

Item: **Members' Suggestions for Future Discussion Items**

This paper will be considered in public

1 Summary

1.1 This paper presents the current forward plan for the Committee and explains how this is put together. Members are invited to suggest additional future discussion items for the forward plan. Members are also invited to suggest items for future informal briefings.

2 Recommendation

2.1 **The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.**

3 Forward Plan Development

3.1 The Board and its Committees and Panels have forward plans. The content of the plans arise from a number of sources:

(a) Standing items for each meeting: Minutes; Matters Arising and Actions List; and any regular quarterly or periodic reports. For this Committee, these are the Finance Report and Group Treasury Activities.

(b) Regular items (annual, half year or quarterly) which are for review and approval or noting: Examples for this Committee include the Prudential Indicators Outturn.

(c) Matters reserved for annual approval or review: Examples include the Treasury Management Strategy and policies on derivative investments.

(d) Programmes, Projects and Land Transactions at a level requiring Committee approval or review prior to Board approval. These are scheduled following advice from the operating business.

(e) Items requested by Members: The Deputy Chair of TfL and the Chair of this Committee will regularly review the forward plan and may suggest items. Other items will arise out of actions from previous meetings (including meetings of the Board or other Committees and Panels) and any issues suggested under this agenda item.

4 Current Plan

4.1 The current plan is attached as Appendix 1. Like all plans, it is a snapshot in time and items may be added, removed or deferred to a later date.

List of appendices to this report:

Appendix 1: Finance Committee Forward Plan

List of Background Papers:

None

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Finance Committee Forward Plan 2021/22

Membership: Ron Kalifa OBE (Chair), Ben Story (Vice-Chair), Heidi Alexander, Prof Greg Clark CBE, Anne McMeel and Dr Nina Skorupska CBE

Abbreviations: CFO (Chief Finance Officer), CTO (Chief Technology Officer), D (Director), MD (Managing Director), CCT (Customer, Communications and Technology), Comm Dev (Commercial Development), CPOS (Compliance, Policing and On-Street Services), CSHEO (Chief Safety, Health and Environment Officer), GC (General Counsel), ST (Surface Transport)

23 June 2021		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Developer Income (MCIL/CIL/s.106)	D City Planning	To approve.
Enterprise Risk Update – Supply Chain Disruption (ER5)	CFO	To note.

6 October 2021		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
TfL Prudential Indicators Outturn	CFO	To note.
Treasury Activities	CFO	To note.
General Fund Balance	CFO	To approve.

Finance Committee Forward Plan 2021/22

24 November 2021		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
TfL Business Plan 2021/22	CFO	To recommend Board approval.
TfL Capital Strategy 2021/22	CFO	To recommend Board approval.
Enterprise Risk Update – Changes in Customer Demand (ER9)	D Strategy & CTO	To note.

9 March 2022		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Activities	CFO	To note.
Treasury Management Strategy 2022/23	CFO	To approve (delegated by the Board).
Treasury Management and Derivative Investments Policies 2022/23	CFO	To approve (delegated by the Board).
TfL Scorecard 2022/23	CFO	To note and recommend Board approval.
General Fund Balance	CFO	To approve.
TfL Budget 2022/23 - informal	CFO	To note and recommend Board approval.
TfL Prudential Indicators 2022/23 to 2024/25	CFO	To note and recommend Board approval.
TfL Investment Management Strategy 2022/23 – Non-Financial Assets	D Comm Dev	To note and recommend Board approval.
Enterprise Risk Update – Financial Sustainability (ER7) (to be confirmed)	MD - CFO	To note.

Finance Committee Forward Plan 2021/22

Regular items:

- Use of Delegated Authority (covers Chair's Action, Procurement Authority etc.) (General Counsel)
- Finance Report (progress against budget including revenue generation targets like fares and Commercial Development activities) (CFO)
- Business Plan (annual – November) (CFO)
- Capital Strategy (annual – November) (CFO)
- Budget (annual informal – March) (CFO)
- Prudential Indicators Outturn (outcome from previous year - September) (CFO)
- Prudential Indicators (setting for current year - annual informal - March) (CFO)
- Treasury Activities (semi-annual – September and March) (CFO)
    - Additional updates to be provided where necessary.
- Treasury Management Strategy (annual – March) (CFO)
- Treasury Management and Derivative Investments Policies (annual – March) (CFO)
- Developer Income (MCIL/CIL/s.106) (annual – June) (D City Planning)
- Enterprise Risk Update – Supply Chain Disruption (ER5) (annual – June) (CFO)
- Enterprise Risk Update – Financial Sustainability (ER7) (annual – March) (MD - CFO) (to be confirmed)
- Enterprise Risk Update – Changes in Customer Demand (ER9) (annual – November) (D Strategy & CTO)

Additional items to be scheduled:

- Spending Review Issues (e.g. Business Rates Devolution) (CFO)
- Income Generation Proposals (CFO & CCT)
- Securing New Income Streams (CFO & CCT)
- TfL Strategy on Working Capital
- Commercial Development: Royal Oak
- Southwark Station Development (update)
- Broadway Sale
- Victoria Coach Station
- App Based Culture – paper to cover TfL perspective on the strategy, plans and issues for TfL e.g. TPH regulation
- Applied Solutions – pending the outcome of review on Consulting (D Comm Dev)
- Cubic and NY RUC Bid (D Strategy & CTO)
- Future Affordable Homes Sites Plan - action from Board meeting on 22 January 2020 (CFO)
- Transport Innovation – Member suggestion for future discussion item from 11 March 2020 meeting (MD - Surface)

As at 2 March 2021

Finance Committee Forward Plan 2021/22

- Board Engagement with Major Projects - action from meeting on 6 March 2020, to be taken forward following the approval of a revised Budget for 2020/21 (CFO & GC)
- TTL Properties Ltd Governance Structure – action from meeting on 10 March 2020, the future governance arrangements are dependent on the outcome of the TfL Financial Sustainability Plan discussions which are currently underway (D Comm Dev)