MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Wednesday 25 November 2020

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

Government Special Representative

Clare Moriarty DCB

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 17 November 2020

Agenda
Finance Committee
Wednesday 25 November 2020

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 Meetings of the Committee held on 30 September and 16 October 2020 (Pages 1 - 14)

General Counsel

The Committee is asked to approve the minutes of the meetings of the Committee held on 30 September and 16 October 2020 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 15 - 22)

General Counsel

The Committee is asked to note the updated actions list.

5 Use of Delegated Authority (Pages 23 - 26)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 27 - 48)

Chief Finance Officer

The Committee is asked to note the report.

7 H1 2020/21 Scorecard Results (Pages 49 - 52)

Chief Finance Officer

The Committee is asked to note the H1 Scorecard and approve the proposed mitigation.

8 TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements (Pages 53 - 60)

Chief Safety, Health and Environment Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, approve the procurement authority and endorse the proposed procurement process.

9 Capitalisation of TTL Properties Limited (Pages 61 - 66)

Director Commercial Development

The Committee is asked to note the paper, approve the capitalisation of TTL Properties Limited and establishment of the credit facility, and authorise delegated authority.

10 Procurement Transformation Update (Pages 67 - 70)

Chief Finance Officer

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

11 Maintenance and Management Contract for TfL Road Tunnels and Pumping Stations (Pages 71 - 74)

Managing Director, Surface Transport

The Committee is asked to note the paper.

12 Enterprise Risk Update - Supply Chain Disruption (ER5) (Pages 75 - 78)

Chief Finance Officer

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

13 Members' Suggestions for Future Discussion Items (Pages 79 - 84)

General Counsel

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

14 Any Other Business the Chair Considers Urgent

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

15 Date of Next Meeting

Wednesday 10 March 2021 at 10.00am.

16 Exclusion of the Press and Public

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

17 TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements (Pages 85 - 92)

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

18 Procurement Transformation Update (Pages 93 - 102)

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

19 Enterprise Risk Update: Supply Chain Disruption (ER5) (Pages 103 - 108)

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

[page left intentionally blank]

Transport for London

Minutes of the Finance Committee

Teams Virtual Meeting
10.00am, Wednesday 30 September 2020

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

Government Special Representative
Clare Moriarty

Board Members in attendance
Cllr Julian Bell
Kay Carberry CBE

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Simon Kilonback	Chief Finance Officer
Lilli Matson	Chief Safety, Health and Environment Officer

Staff

Mushtaq Ali	Interim Head of Internal Audit
Andrea Clarke	Director of Legal
Tanya Coff	Finance Director, London Underground
Patrick Doig	Finance Director, Surface Transport
Sarah Gasson	Chief of Staff to Commissioner
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director, Corporate Finance
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
Paul Mason	Group Treasurer
Jennifer Payne	Corporate Finance, Senior Manager
Rajiv Sachdeva	Head of Financial Planning and Analysis
Rachel Shaw	Head of Financial Accounting and Tax
Alexandra Sorkina	Head of Corporate Debt Fund and Risk Management

38/09/20 Apologies for Absence and Chair's Announcements

All Members of the Committee were in attendance.

The Chair welcomed everyone to the meeting including Clare Moriarty, who had been confirmed as the Government Special Representative to the Finance Committee. The invitation to attend the meeting had been extended to all Members of the Board. TfL's meetings now fell within the Flexibility of Local Authority Meetings Regulations 2020. The meeting was broadcast live on YouTube, except for the discussion of the information on Part 2 of the agenda, which was exempt from publication.

The Chair had agreed to acceptance of late papers for the Update on Funding Negotiations and Comprehensive Spending Review items, in accordance with Section 100B(4)(b) of the Local Government Act 1972, as the information in relation to them was not available at the time that the agenda papers were published.

This was the last meeting of the Finance Committee for Tanya Coff, as she was leaving TfL to join the Restoration and Renewal Delivery Authority. On behalf of all Members, the Chair thanked Tanya for her significant contribution to the work of the Committee and to TfL, and wished her success in her new role.

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

39/09/20 Declarations of Interests

Howard Carter introduced the item. Members' declarations of interests were published on tfl.gov.uk and were up to date.

40/09/20 Minutes of the Meeting of the Committee held on 24 June 2020

The Committee approved the minutes of the meeting held on 24 June 2020 as a correct record. The minutes would be provided to the Chair for signature at a future date.

41/09/20 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.

42/09/20 Decision Making During Covid-19 Emergency Measures and Use of Delegated Authority

Howard Carter introduced the paper, which set out the arrangements for how TfL was conducting its meeting cycle while social distancing and travel restrictions remained in place. It also provided an update on the use of delegated authority.

As TfL was now included in the amended Regulations that permitted local authorities to meet by videoconference, decisions could be made by the Committee rather than through Chair's Action.

Members noted that, since the meeting of the Committee on 24 June 2020, there had been no use of authority delegated by the Board and one use of Chair's Action, to approve Procurement Authority to award contracts to bidders for the London Highway Maintenance and Projects Frameworks.

Appendix 1 listed the use of Delegated Authority since the last meeting, six in relation to Procurement Authority and two for Land Authority. There had been two further uses of Delegated Authority by the Chief Finance Officer in relation to: Land Authority of £14.5m, relating to a land swap around Southwark station; and Land Authority of £6.95m for the sale of property and station development costs at Hounslow West.

On 28 September 2020, the Mayor announced and directed TfL to implement the London Cleaner Vehicle Support and Scrappage Scheme, which supported the Ultra-Low Emission Zone. The new scheme expanded the range of vehicles covered by the previous scrappage schemes that covered vans and mini-buses and cars and motorcycles.

The Committee noted the meeting arrangements during the Covid-19 emergency measures and the use of Delegated Authority.

43/09/20 Finance Report

Tony King and Rajiv Sachdeva introduced the report, which set out TfL's financial results to the end of Period 5, 2020/21 – the year-to-date period ending 22 August 2020. A summary of year-to-date financial performance was shown against the Revised Budget and the previous year. The presentation was consistent with how the original 2020/21 Budget had been presented.

On 29 July 2020, the Board reviewed and approved the Revised Budget for 2020/21, which replaced the interim Emergency Budget for the year. The Revised Budget reflected updated passenger journey and income modelling, as well as further cost savings and changes to capital programmes. It was based on the funding and financing agreement with central Government of £1.6bn to the end of Period 7, 2020/21.

TfL's operating deficit, without Government support, was £1,422m at the end of Period 5, over £1.3bn worse than the same time last year. Total operating income was £1.5bn lower than the same time last year. Capital spend was almost £200m lower than last year, partly a result of the earlier Safe Stop of projects at the start of the pandemic lockdown, but also due to pausing projects and new expenditure controls. Cash balances were around £1.5bn, although without Government support TfL was losing on average £300m cash reserves each period.

Passenger income was £35m higher than Revised Budget, with Tube income increasing at a fairly constant rate. Bus income was also increasing but the rate of growth had dipped since Period 4, 2020/21. Other operating income was £11m better than Revised Budget, mainly from Congestion Charge volumes, extension of hours of operation, and an increase in cost to £15 from June 2020. Furlough income was £13m higher than

Revised Budget, with just over 3,700 staff in the scheme in Period 5. In addition, staff levels had reduced by just over 600 since the start of the year.

Core operating costs were £51m lower than Revised Budget and £15m lower than the same time last year. Additional costs from the coronavirus pandemic were almost £100m, with direct costs of £36m for cleaning and protective equipment etc. and a further £62m from stranded labour and Safe Stop of projects. The net cost of operations was £115m better than Revised Budget.

Total capital expenditure was broadly in line with Revised Budget but significantly lower than last year. Borrowing was £337m in the year to date and was part of the £1.6bn package agreed with Government in May 2020. Total TfL cash balances, excluding those for Crossrail construction, were £1,584m at the end of Period 5, down from £2,054m at the end of 2019/20.

Since 2015, TfL had undertaken significant transformation work to reduce costs and maximise assets to create revenue. Control measures since the coronavirus pandemic included a headcount freeze and reductions in non-permanent and permanent labour. The Finance Commitment Oversight Group had been operating since June 2020, to oversee all financial commitments and spend. It reviewed budgeted items and restart of projects via a weekly submission regime that provided visibility and challenged spend across the organisation. Financial approval levels were being reviewed, with greater emphasis on cash flow planning accuracy and rigour for divisional reviews, to ensure tightening of spend and commitment controls.

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. **[Action: Simon Kilonback/Tony King]**

An update on progress with the procurement transformation since the appointment of the Chief Procurement Officer would be brought to the November meeting of the Committee.
[Action: Simon Kilonback/Jonathan Patrick]

Further analysis of the short-term and medium-term impact on the future of TfL as a consequence of the furloughed activity and deferred works and programmes would be brought to a future meeting of the Committee. **[Action: Simon Kilonback]**

The Committee noted the report.

44/09/20 Update on Funding Negotiations

The Chair had agreed to the late publication of the paper to ensure it provided the Committee with the most up to date information on the funding negotiations with Government.

Andy Byford said that before the coronavirus pandemic, TfL was on the path to achieving a level of financial self-sufficiency almost unheard of for a transport authority. The pandemic had massively impacted its finances and significantly reduced fares revenue.

The current funding agreement with Government expired on 17 October 2020 and TfL was in active discussions on its immediate funding requirements. The Secretary of State for Transport and the Mayor had a productive meeting on 23 September 2020 and it was hoped that details of a funding deal from Government would be concluded imminently.

Crossrail was also significant to the negotiations, as without agreed further funding, the project would no longer be able to meet its financial commitments or let new contracts. TfL was in active discussions with Government on a solution to securing Crossrail funding and hoped to conclude these discussions shortly and to open the railway as soon as possible.

Simon Kilonback took the Committee through the paper and related supplemental information on Part 2 of the agenda, which set out the continuing impacts of the coronavirus pandemic on TfL's finances and the need for additional funding as set out in the Revised Budget presented to the Board on 29 July 2020. The Revised Budget was predicated on a funding package being provided by Government. The paper described the position with Government and the status of discussions regarding funding support.

The uncertainty in relation to TfL's funding position going forward required the consideration of measures to preserve TfL's liquidity, prioritised for maintaining service levels and stewardship of its core network. Expenditure on non-critical spend had been restricted which would inevitably have detrimental impacts to certain projects in the Investment Programme.

TfL had a statutory obligation to produce a balanced budget, to provide confidence that income and expenditure were matched in the short and medium-term; with the fall in passenger revenue, this could only be achieved with further Government support or new funding sources. The remaining cash balance was also a contributing factor to the urgency of discussions, as TfL's liabilities, such as bus operator contracts, greatly outweighed its income and cash balances.

TfL had suspended new financial commitments and was considering other measures necessary to avoid the need to issue a Section 114 report, such as pausing all new Streetspace funding commitments, non-critical project spend and new contracts, all of which had a significant impact for its supply chain. Additional spend controls could mean pausing the start of new projects that required longer term funding certainty, such as bus electrification.

The Committee would be updated on the outcome of the latest funding negotiations for TfL and Crossrail as soon as it was available. **[Action: Simon Kilonback]**

Consideration would be given to how best to update the Committee on the Crossrail governance transition. **[Action: Howard Carter]**

The Committee noted:

1. **the paper and the exempt supplemental information on Part 2 of the agenda; and**

2. **the continuing impact of the coronavirus pandemic on TfL's finances and the urgent requirement for Government funding to be agreed as envisaged in the Revised Budget.**

45/09/20 Comprehensive Spending Review

The Chair had agreed to the late publication of the paper to ensure it provided the Committee with the most up to date information, following the formal completion of the GLA's Spending Review submission.

Andy Byford provided the context to the item that, alongside its immediate funding requirements, TfL needed to agree a stable and sustainable long-term Government funding framework in order to support longer-term economic recovery for London and the UK. Sustained long-term funding would enable TfL to keep services running safely and reliably, and to both plan and deliver the next 10 years of modernising the city's ageing infrastructure. Confidence in funding would also enable TfL to further support jobs across the UK through its extensive supply chain, and boost productivity through a wide range of shovel ready projects to help kick start the economy.

Simon Kilonback took the Committee through the paper, which set out TfL's Spending Review prospectus of its long-term vision of what it could deliver with secure, committed funding. The protection of mass transit would boost the economy, making the best use of limited space in cities; it would also allow TfL's integrated authority to give the best user experience between all modes, improving efficiency and saving journey time. TfL had a big part to play in helping achieve the Government's goal of zero carbon transport by 2050 or sooner. Many of its interventions directly progressed this, including electrifying the 9,000 vehicle bus network which would lead the way for the rest of the UK market, whilst preventing a car-led recovery and reducing CO_2 emissions from transport.

To deliver the full package of schemes in the prospectus would require funding of around £3bn per annum for 10 years. The package of investment would: maintain TfL's ageing assets, while adding capacity; accelerate the green recovery and investment in green transport; and regenerate areas to unlock new homes and jobs.

The Committee noted the Spending Review submission.

46/09/20 TfL Prudential Indicators Outturn

Tony King introduced the paper, which reported on TfL's performance against the indicators for the financial year 2019/20. On 27 March 2019, the Board approved the prudential indicators and debt limits for TfL for the 2019/20 financial year. TfL was required by regulation to adopt prudential indicators that supported decision making on planned capital expenditure, borrowing and treasury management activities. On 25 March 2019, the Mayor approved the debt limits.

No penalties were applied to a local authority for breaching individual indicators, except for the Authorised Limit. Due to a change in the Leases accounting standard (IAS 17 to IFRS 16), from the time the prudential indicators were approved, the TfL Group had exceeded its total Authorised Limits when outturn was illustrated against the 2019/20 Statement of Accounts. On an IAS 17 basis of preparation however, both the TfL Corporation and the TfL Group were within their total Authorised Limits for the year ended 31 March 2020. As this was the accounting basis under which the Authorised Limits were set, no technical breach was assessed as having occurred and no penalties therefore applied. The ratio of financing costs to net revenue stream indicator was acknowledged as an estimate and variations could occur in the ordinary course of business. The driver of the breach was understood and non-consequential.

Prudential indicators for the current year, 2020/21, were based on the original 2020/21 Budget. TfL would assess whether the indicators should be revised, given the significant changes expected to 2020/21 financials resulting from the coronavirus pandemic as part of preparations for the 2020 Mayoral Budget submission. A paper would be brought back to the Committee if, following consultation with the GLA, a decision to restate the prudential indicators was reached.

The Committee noted the paper.

47/09/20 Treasury Activities

Simon Kilonback and Joanna Hawkes introduced the paper and related supplemental information on Part 2 of the agenda, which provided a brief update on key treasury activities for the reporting period from 22 February to 11 September 2020.

TfL had been managing its short-term liquidity to operate more effectively through the challenging period of the coronavirus pandemic by adjusting its cash balances accordingly. During the reporting period, TfL's credit rating agencies had downgraded its ratings, partly owing to the impact of the coronavirus. TfL remained compliant with all Treasury Management Policies.

The focus and practices around improving the quality and consistency of the short-term cash forecasting had increased, as part of the KPMG review remit to demonstrate the need for the H1 funding, in order to maintain the minimum liquidity required.

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

48/09/20 TfL Energy Update: Renewable Power Purchase Agreements

Lilli Matson introduced the paper and related supplemental information on Part 2 of the agenda, which set out the proposed Energy Purchasing Strategy and renewable energy procurement roadmap out to 2030.

The strategy outlined how TfL planned to procure renewable energy through Power Purchase Agreements in order to meet its ambition to operate a zero-carbon railway, with a specific intention of using TfL's size and position to stimulate growth across the renewable energy generation sector.

The key components were to: diversify TfL's power purchase volumes between three renewable options, with a core focus on long-term agreements that offered the strongest renewable credentials; initially procure up to 20 per cent of the current power requirements through two tenders in 2021, comprising long-term and medium-term agreements; and approach the market longer term for renewable energy volumes approximately every two years over the next decade to reduce risk.

The exact timing and volumes under each of the three options would be adapted according to unfolding market conditions. Implementation of the strategy was subject to certainty of TfL's long-term funding and ability to enter into long-term financial commitments.

The procurement parameters for both mid-term and long-term agreements were in development, incorporating information gathered directly from the market engagement exercise. The documents would be finalised by November 2020 and presented to the November meeting of the Committee. **[Action: Lilli Matson]**

Subject to appropriate approvals, the first agreement tender was anticipated to be launched in spring 2021. Further collaboration with the GLA to explore how a combined approach which built on the strategy may deliver further benefits was ongoing and expected to be completed by December 2020. It was anticipated that this work would shape agreement procurements for TfL beyond the immediate strategy.

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.
[Action: Lilli Matson / Andy Byford]

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

49/09/20 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.

50/09/20 Any Other Business the Chair Considers Urgent

There was no other urgent business.

51/09/20 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 25 November 2020 at 10.00am.

52/09/20 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 5 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Update on Funding Negotiations; Treasury Activities; and TfL Energy Update: Renewable Power Purchase Agreements.

The meeting closed at 1.32pm.

Chair: ____

Date: ____

[page left intentionally blank]

Transport for London

Minutes of the Finance Committee

Teams Virtual Meeting
2.00pm, Friday 16 October 2020

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

Government Special Representatives
Andrew Gilligan
Clare Moriarty DCB

Board Members in attendance
Cllr Julian Bell
Kay Carberry CBE
Bronwen Handyside
Dr Nelson Ogunshakin OBE
Mark Phillips
Dr Lynn Sloman

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Vernon Everitt	Managing Director, Customers, Communication and Technology
Simon Kilonback	Chief Finance Officer
Andy Lord	Managing Director, London Underground and TfL Engineering
Gareth Powell	Managing Director, Surface Transport
Tricia Wright	Chief People Officer

Staff

Andrea Clarke	Director of Legal, General Counsel
Sarah Gasson	Chief of Staff to Commissioner
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Corporate Finance Director
Shamus Kenny	Head of Secretariat
Tony King	Group Finance Director and Statutory Chief Finance Officer
Emma Lucas	Chief of Staff, Chief Finance Officer
Tim Steer	Assistant Director for Transport, Infrastructure and Connectivity, Greater London Authority

53/10/20 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting and explained that all Members of the Board had been invited given the significance of the issues to be discussed. All Members of the Committee and most Members of the Board were present. Apologies for absence were received from Board Members Dr Mee Ling Ng OBE and Dr Alice Maynard CBE.

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 had agreed to the meeting being called with fewer than five clear days' public notice and to the acceptance of late papers, in accordance with Standing Order 33 and Section 100B(4)(b) of the Local Government Act 1972. Members needed to consider an update on progress with Government on securing ongoing funding before the current TfL funding agreement expired on 17 October 2020. As discussions with Government were ongoing, the papers could not be published any earlier.

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 item in public as possible, the information related to a commercial negotiation with Government and TfL's financial affairs which Members needed to discuss in private. When the exempt information needed to be considered, the recording would be paused for the press and public; the meeting would be reopened following the consideration of the exempt information to provide a summary of any issues discussed and to conclude the meeting so the outcome was clear.

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.

54/10/20 Declarations of Interests

Howard Carter introduced the item. Declarations of interests were published on tfl.gov.uk and were up to date.

There were potential conflicts of interest for some Members present, who would need to leave the meeting if the following issues were discussed in any detail:

(a) Borough funding: Cllr Julian Bell as a member of London Councils; and
(b) Banking arrangements or contracts in which HSBC had an interest: Prof Greg Clark CBE due to his role with the bank.

55/10/20 Funding Update

The Chair began by explaining that TfL had actively supported the Government's lockdown guidance to supress the spread of Covid-19, while continuing to provide reliable transport services for essential workers and as London started to move out of lockdown. TfL had also worked hard to support its staff and contractors, and to look after its tenants and supply chain. The huge loss of fares and other income had had a substantial impact on its finances and would have medium and long-term consequences.

The Board had been kept informed of TfL’s efforts and the impact on its staff, services and finances. The meeting was being held as there was an urgent need to discuss TfL’s financial position and agree next steps as the initial funding agreement with Government in May 2020 was due to expire.

On behalf of all Members, the Chair thanked Andy Byford and Simon Kilonback for their work with Government to negotiate another funding settlement. TfL played an essential role for London and the United Kingdom economy, and it was essential that it could continue to do so effectively.

Andy Byford introduced the item by explaining that TfL’s finances had been decimated by the Covid-19 crisis and as a result, it had agreed an extraordinary funding and financing package with Government on 14 May 2020 for the first half of the financial year. The package came to an end on 17 October 2020 and urgent grant support was required in order to keep London’s transport system operating in the face of the ongoing crisis.

Prior to the effect of coronavirus on TfL’s finances, the net cost of operations was on track to be £100m better than the revised budget for 2019/20, and almost £220m better than last year. The financial issues the pandemic had caused were exacerbated by TfL’s over-reliance on fares income, which was far more so than any other major world city.

Although passenger numbers were starting to rise, demand for the Tube was only around 35 per cent and 60 per cent for buses, with TfL’s weekly income down £45m compared to last year. To keep services running for the remainder of this financial year, TfL needed £2bn revenue grant funding and £2.9bn for the financial year 2021/22. In calculating these amounts, TfL had stripped its spending back to the bare minimum from a safety perspective and in the context of the objective it shared with Government to protect transport services as much as possible. There was also uncertainty over the next few months as London moved into the ‘High’ local Covid-19 alert level.

TfL was engaged in constructive discussions with Government and had received a formal funding proposal from the Department for Transport (DfT) on 9 October 2020. TfL and DfT had since been working together to agree a deal. Andy Byford thanked Simon Kilonback for his leadership and the Finance, Legal and operational teams for their exceptional hard work and continuing support.

Simon Kilonback explained that the Revised Budget for the second half of the financial year, approved by the Board on 29 July 2020, set out the cost of delivering services and the level of investment required to allow the safe operation of services, based on revenue scenarios, social distancing measures and the level of services required. The Revised Budget was submitted to Government and TfL had been working with the DfT and KPMG to respond to questions on the Budget requirement.

Since receiving the funding proposal document from DfT, TfL’s negotiations had focused on the quantum and mechanics of the funding agreement to achieve a mechanism that would adequately cover the uncertainty posed by the impact of Covid-19 on its services going forward. As anticipated, there were several conditions attached to the funding offer and ongoing discussions were taking place on these at a political level. As the negotiations were live, Members were provided with more detail when the meeting was closed to the press and the public and sought assurance on the approach that would allow enough comfort for TfL's suppliers to accept the offer.

To enable the constructive talks to continue, the DfT had formally offered TfL a rollover of the existing funding agreement and terms for 14 days, until 31 October 2020. TfL would continue to make the case for a longer-term deal, to be agreed as quickly as possible, to provide TfL and its suppliers to have certainty on the transport services and investment programme that were vital for London.

Heidi Alexander commented that talks with Government needed to continue to find a way through the financial problems that the Covid-19 crisis had caused for TfL. Londoners relied on public transport and there was a collective responsibility to ensure it continued to run, as not everyone could work from home. Huge progress had been made but some differences needed to be resolved, such as the Government's proposals for extended congestion zone charges and the removal of free travel from under 18s and over 60s, at a time when Londoners faced genuine hardship.

The Chair concluded that there was clearly a desire and willingness to reach an appropriate outcome. He thanked the Government Special Representatives for their support in helping to find a solution and thanked everyone involved for their significant work to help keep London moving.

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

56/10/20 Any Other Business the Chair Considers Urgent

There was no other urgent business.

57/10/20 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 25 November 2020 at 10.00am.

58/10/20 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 5 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the item on Funding Update.

The meeting closed at 3.40pm.

Chair: ___________________________________

Date: ____________________________________

Agenda Item 4

Finance Committee

Date: **25 November 2020**

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
Number: 020 3054 7832
Email: HowardCarter@tfl.gov.uk

[page left intentionally blank]

Finance Committee Action List (to be reported to the meeting on 25 November 2020)

Actions from the meeting of the Finance Committee held on 30 September 2020

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	January 2021	The Revised Budget replaced the Emergency Report at the end of July 2020 (which also included a similar amount of gross savings). Since then, our reporting has shifted to compare actual results against the Revised Budget. The new H2 2020/21 funding agreement sets out a further savings target of £160m for H2. We are in the process of setting up monthly performance tracking against this target and it is proposed we will include this in future Finance Reports in 2020/21.
43/09/20 (2)	**Finance Report – Procurement Transformation Update** An update on progress with the procurement transformation since the appointment of the Chief Procurement Officer would be brought to the November 2020 meeting of the Committee.	Simon Kilonback/ Jonathan Patrick	November 2020	Completed: A paper on progress with the Procurement Transformation is on the agenda for this meeting.

43/09/20 (3)	**Finance Report – Future Impact of Furloughed Activity and Deferred Works** Further analysis of the short-term and medium-term impact on the future of TfL as a consequence of the furloughed activity and deferred works and programmes would be brought to a future meeting of the Committee.	Simon Kilonback	October 2020	A paper on the impact of furloughed staff and deferred programmes was submitted to the Programmes and Investment Committee in October 2020.
44/09/20 (1)	**Update on Funding Negotiations – Crossrail Funding** The Committee would be updated on the outcome of the latest funding negotiations for TfL and Crossrail as soon as it was available.	Simon Kilonback	October / November 2020	The Board was briefed and updated in October 2020 on the TfL funding and given an update on Crossrail discussions. Further information will be provided as soon as it is available.
44/09/20 (2)	**Update on Funding Negotiations – Crossrail Governance Transition** Consideration would be given to how best to update the Committee on the Crossrail governance transition.	Howard Carter	October 2020	Completed: A Chair's Action on Crossrail: Governance Transition was taken in September 2020 and subsequently agreed by the Board at its meeting in October 2020. An Elizabeth Line Committee has been established.
48/09/20 (1)	**TfL Energy Update – Renewable Energy Procurement Agreements** The procurement parameters for both mid-term and long-term agreements were in development, incorporating information gathered directly from the market engagement exercise. The documents would be finalised by November 2020 and presented to the November meeting of the Committee.	Lilli Matson	November 2020	Completed: A paper on Renewable Energy Procurement Agreements is on the agenda for this meeting.

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	January 2021	This work is developing with plans for a proposed CSR sustainability report and engagement with relevant Board Members is planned.

Actions from previous meetings of the Finance Committee

Minute No.	Description	Action By	Target Date	Status note
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	January 2021	This was put on hold due to the social distancing requirements to manage the coronavirus pandemic. This will be taken forward in 2021/22.

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	November 2020	The Capitalisation of TTL Properties Limited paper on the agenda for this meeting sets out the financial structure for Commercial Development. The Governance Structure paper is on the forward plan for March 2021.
16/03/20 (1)	**Members' Suggestions for Future Discussion Items – Electric Vehicle Energy Taskforce** An Energy as a Service item was suggested: a discussion on the link between transport and electric charging and TfL becoming involved in the next round of the Electric Vehicle Energy Taskforce discussions.	Alex Williams	November 2020	Completed: On 13 November 2020, members of the Committee, along with other members of the TfL Board, received a copy of the report setting out our progress against the Electric Vehicle Infrastructure Taskforce's Delivery Plan, published last summer.
16/03/20 (2)	**Members' Suggestions for Future Discussion Items – Rapid Charging Points** A Rapid Charging Points item was suggested: a strategic discussion on rapid charging points, covering market confidence, supply and communications issues, and potential quick wins in changing infrastructure in the right places to improve access.	Alex Williams	November 2020	Completed: On 13 November 2020, members of the Committee, along with other members of the TfL Board, received a copy of the report setting out our progress against the Electric Vehicle Infrastructure Taskforce's Delivery Plan, published last summer.

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	January 2021	Further to the circulation of the development sites information, initial contact was made with Members during September 2020. Briefings are being arranged but this work is also impacted by the social distancing requirements to manage the coronavirus pandemic. This will be taken forward in 2021/22.

[page left intentionally blank]

Finance Committee

Date: **25 November 2020**

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 30 September 2020, there has been:

(a) no use of authority delegated by the Board nor Chair's Action;

(b) no use of Procurement and Land Authority granted by the Commissioner or the Chief Finance Officer; and

(c) no Mayoral Directions to TfL

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 30 September 2020.

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 no use of Chair's Action since the meeting on 30 September 2020.

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 30 September 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 No Mayoral Directions have been announced since the meeting on 30 September 2020.

List of appendices to this report:

None.

List of Background Papers:

Minutes from previous meetings of the Committee.

Contact Officer: Howard Carter, General Counsel
Number: 020 3054 7832
Email: HowardCarter@tfl.gov.uk

[page left intentionally blank]

Finance Committee

Date: **25 November 2020**

Item: **Finance Report – Period 7, 2020/21**

This paper will be considered in public

1 Summary

1.1 The Finance Report presentation sets out TfL's financial results to the end of period 7, 2020/21 - the year-to-date ending 17 October 2020.

2 Recommendation

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

3 Revised financial targets

3.1 On 29 July 2020, the Board reviewed and approved the Revised Budget for 2020/21, which replaced the interim Emergency Budget for this year. The Revised Budget reflected updated passenger journey and income modelling, as well as further cost savings and changes to capital programmes. It is also based on the funding and financing agreement – £1.6bn to the end of Period 7, 2020/21 – with central government.

4 Financial Reporting to the Committee

Finance Report – Period 7, 2020/21

4.1 The Finance Report presentation 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 original 2020/21 Budget.

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

List of Background Papers:
None

Contact Officer: Simon Kilonback, Chief Finance Officer
Number: 020 3054 8941
Email: SimonKilonback@tfl.gov.uk

[page left intentionally blank]

Finance Report
Period 7, 2020/21

Management results from 1 April 2020 – 17 October 2020

25 November 2020

Section 1

Period 7, 2020/21 results

Page 30

H1 Headlines

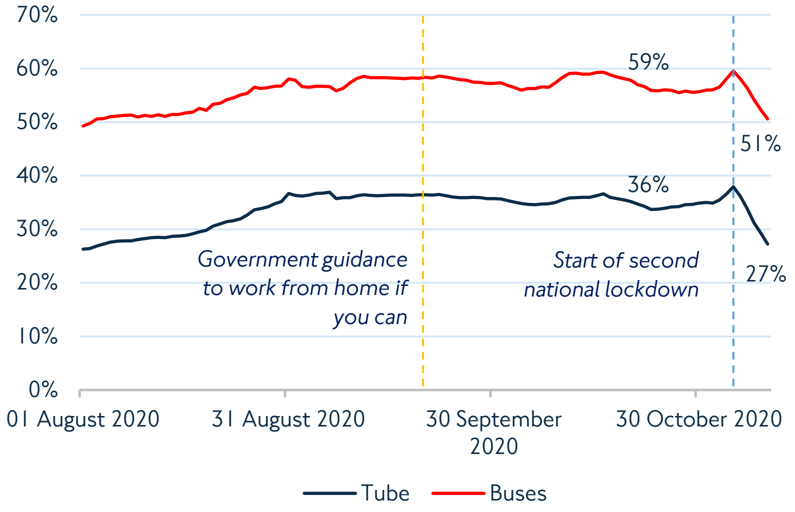
Passenger journeys and income remain significantly down on last year; weekly income over £50m lower compared to last year. Journeys and passenger income up on prior periods, but plateaued in later weeks following the Government's advice that people should work from home if they can, London entering Tier 2 restrictions, followed by new national lockdown.

We have kept our costs down through planned savings, lower network costs at the height of the pandemic, as well as new savings this year.

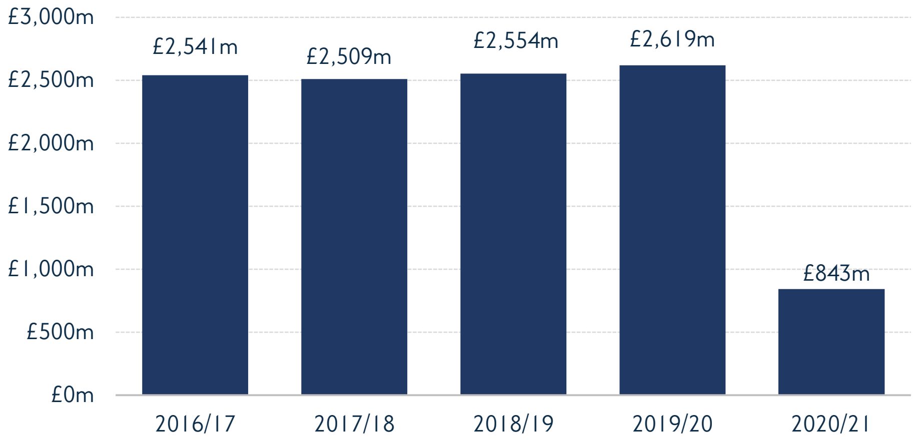
As part of the agreement reached with government in May 2020, we received funding and financing support of £1.6bn in H1, 2020/21. Without this, our cash balances are declining at an average rate of £300m each period.

Headlines

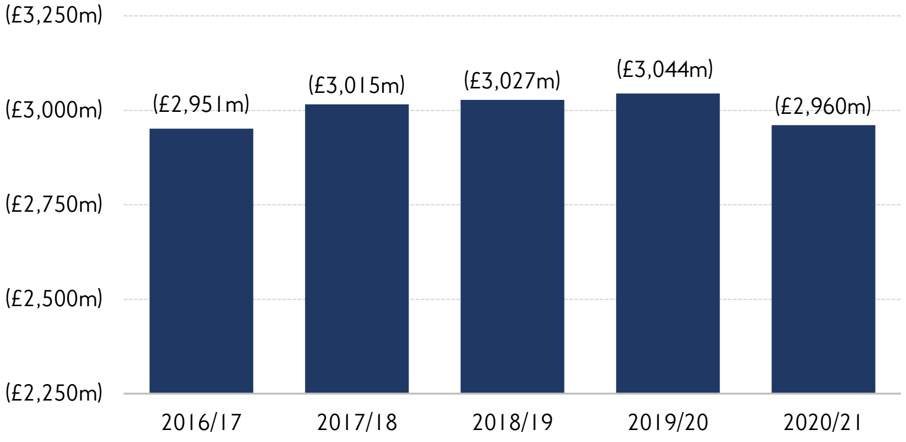
Slowing of journey growth towards the end of the Quarter; growth has stalled in recent weeks



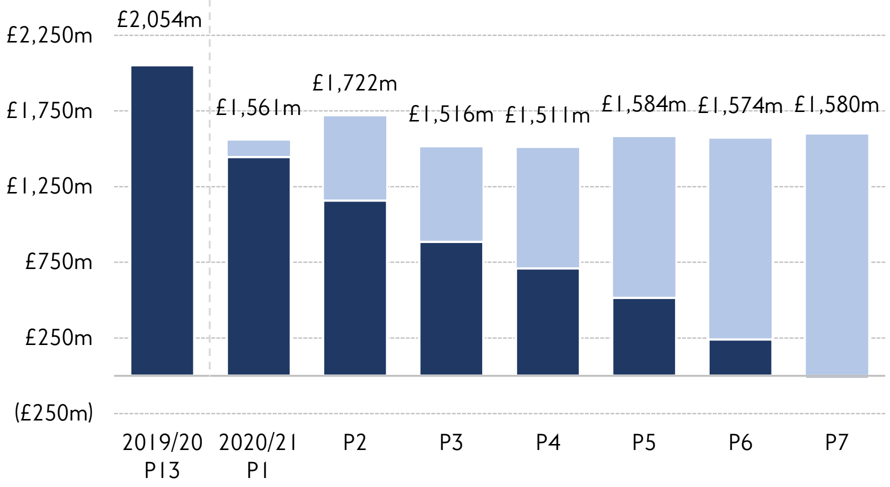
Passenger income up on earlier in the year, but almost 70% lower than last year



Core operating costs over £80m lower than last year, with savings and lower costs at the height of the pandemic mitigating inflation



Cash balances down; without funding and financing from government, we are losing an average of £300m per period



Operating account

Net cost of operations is £366m better than Revised Budget, driven by higher journey volumes, savings and one off cost reductions, and additional funding from government.

Operating account

Operating account (£m)	Year to date, 2020/21 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Passenger income	843	631	212	34%	2,619	(1,776)	-68%
Other operating income	384	355	29	8%	536	(152)	-28%
Total operating income	**1,227**	**986**	**241**	**24%**	**3,155**	**(1,928)**	**-61%**
Business Rates Retention	504	504	0	0%	496	8	2%
Revenue grant	9	6	3	61%	44	(36)	-80%
Government furlough grant	60	40	20	50%	0	60	N/A
Total income	**1,800**	**1,535**	**264**	**17%**	**3,695**	**(1,896)**	**-51%**
Operating costs [1]	(3,415)	(3,450)	35	-1%	(3,367)	(48)	1%
Coronavirus direct operating costs	(37)	(48)	10	-22%	0	(37)	N/A
Coronavirus safe stop and stranded labour costs [2]	(86)	(70)	(15)	22%	0	(86)	N/A
Net operating surplus	**(1,616)**	**(1,915)**	**299**	**-16%**	**328**	**(1,944)**	**-592%**
Net financing costs	(247)	(247)	0	0%	(241)	(6)	3%
Net cost of operations after financing	**(1,863)**	**(2,162)**	**300**	**-14%**	**87**	**(1,950)**	**-2234%**
Capital renewals	(144)	(148)	5	-3%	(214)	71	-33%
Net cost of operations	**(2,007)**	**(2,311)**	**304**	**-13%**	**(127)**	**(1,879)**	**1479%**
Extraordinary revenue grant	1,095	1,033	62	6%	0	1,095	N/A
Net cost of operations after extraordinary revenue grant	**(912)**	**(1,278)**	**366**	**-29%**	**(127)**	**(784)**	**617%**

1 - 2020/21 operating leases presented on IFRS16 basis

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

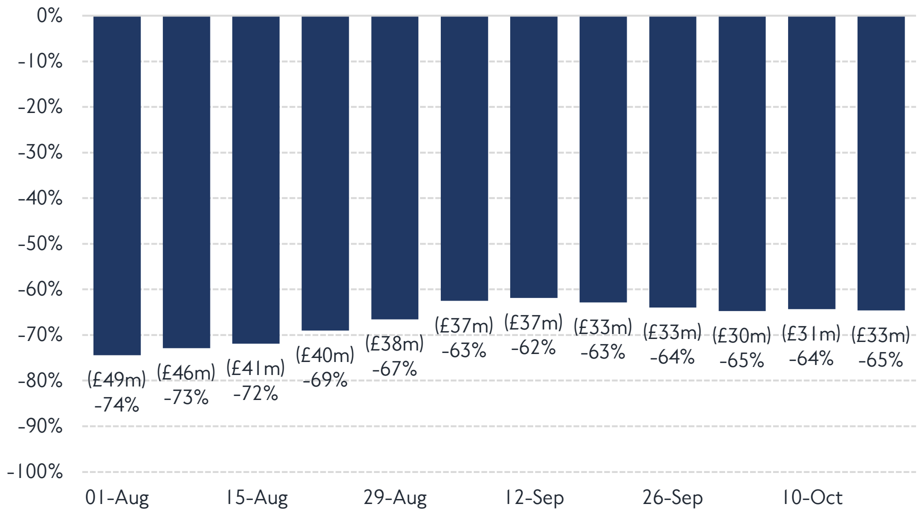
Passenger journeys and other operating income

Both Tube and bus journeys are starting to see a decline in journeys compared to last year. Final week of Quarter 2 saw Tube journeys down 63% on last year; down to 65% by the end of P7. Similar trajectory on buses, which were down 41% in the final week of Quarter 2, but 44% lower than last year at the end of P7.

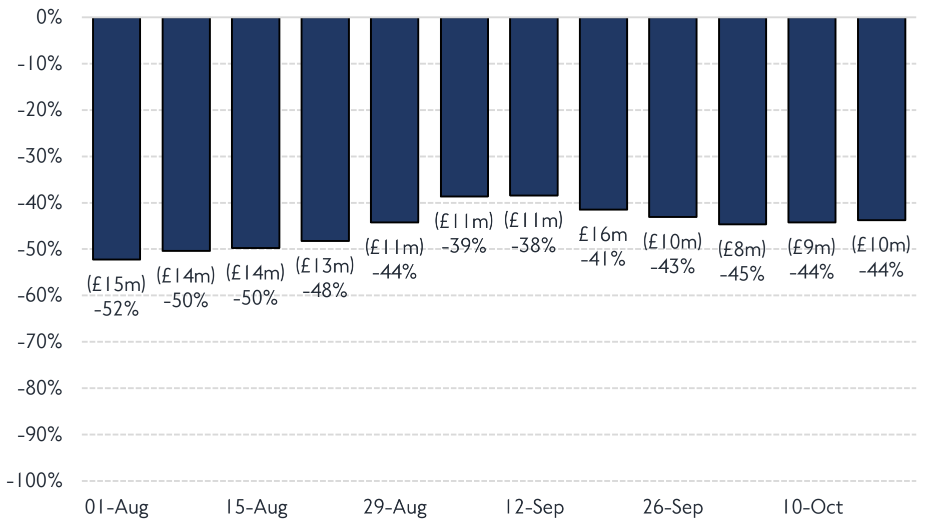
Congestion Charge volumes have increased, a result of the temporary extension of charging hours. Along with the reintroduction of charging, and the increase in daily charge in June 2020, this has increased income by around £2m per week.

Passenger journeys and income

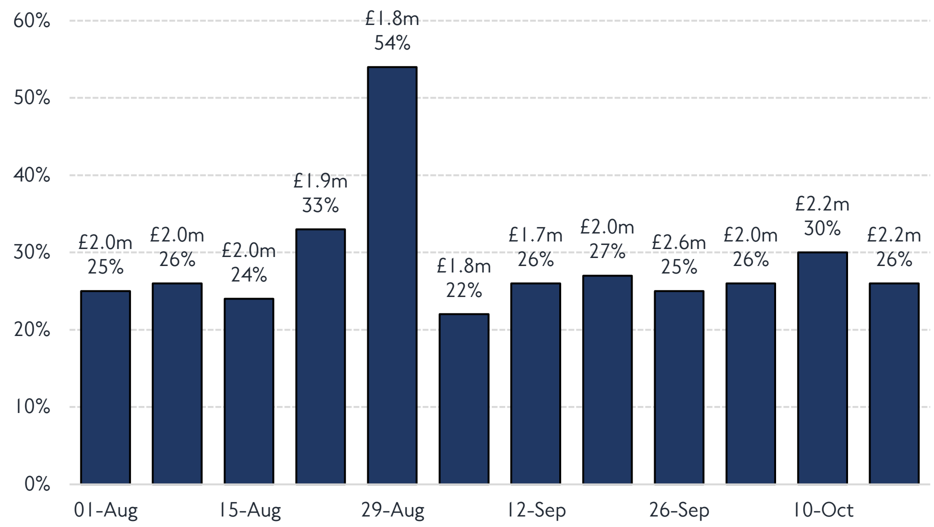
Tube journeys and income: % year-on-year change



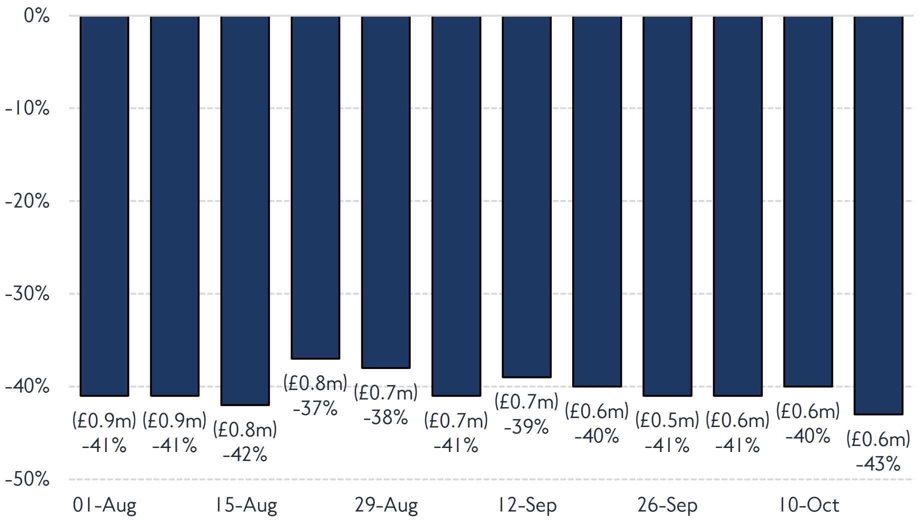
Bus journeys and income: % year-on-year change



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



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

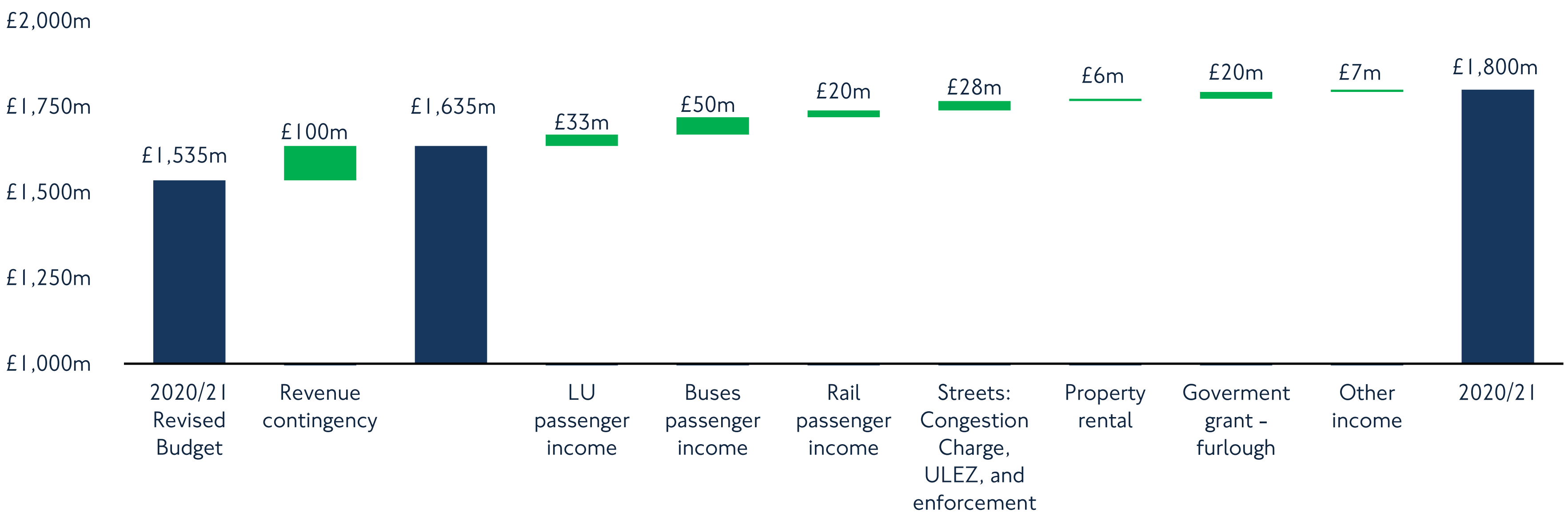


Total income

Underlying income – after adjusting for £100m revenue contingency – is £164m better than Revised Budget.

Passenger income is £112m better than the Revised Budget, with journeys 132 million higher. Streets income has benefitted from temporary changes to the Congestion Charge, including the extension of charging hours and increase in price. Property rental income has held up much better than expected.

Total income: year to date, 2020/21

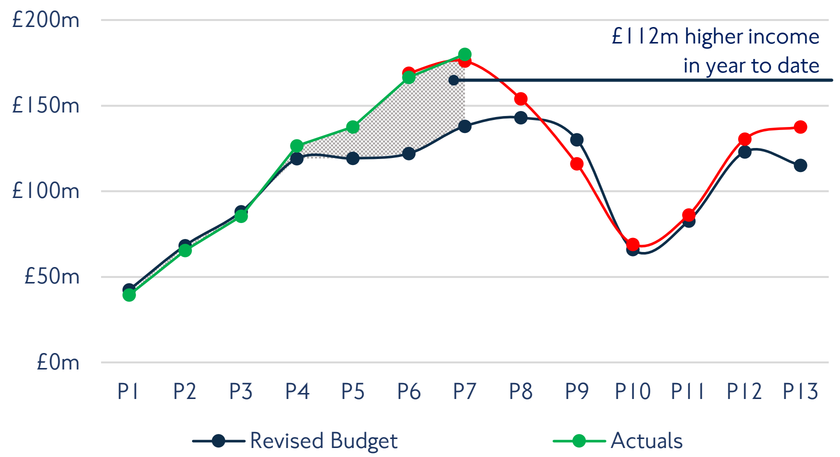


£112m

higher than Revised Budget

Underlying passenger income up on Revised Budget; future upsides dependent on government restrictions and employees returning to work

Passenger income: actuals, Revised Budget and latest modelled scenario (excl. revenue contingency and Oyster write off income)



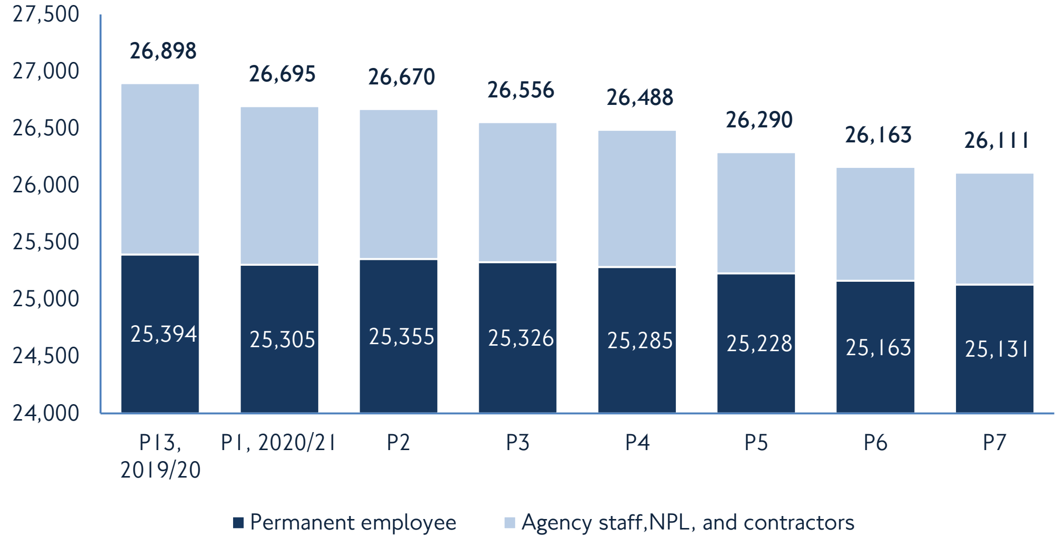
Staff

We have reduced total headcount by 787 (3%) since the end of last year, predominantly from lower agency staff and non-permanent labour, which is down 35%. Against Budget, staff levels are 1,342 lower.

Almost 1,800 staff furloughed at the end of Period 7, down from over 7,000 at the start of the year, Income from the furlough scheme stands at £60m in the year to date.

Staff excl. Crossrail construction

Headcount trends since the end of last year



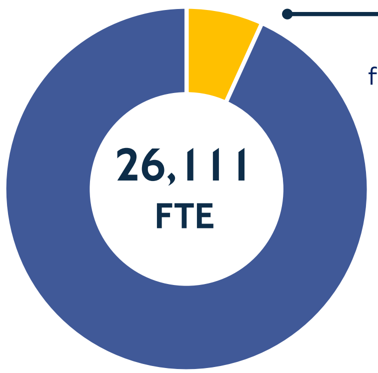
787

reduction in staff since end of 2019/20

c.£3m

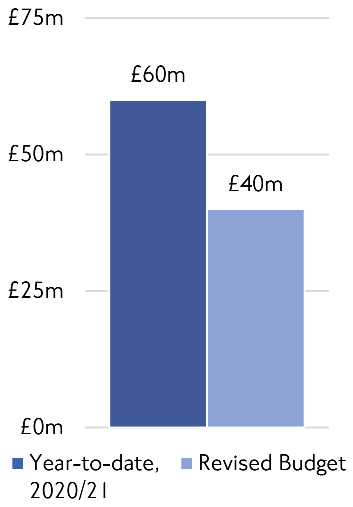
additional savings per period compared to end of last year

Headcount and furloughed workers



1,774 staff (7%) furloughed at end of Period 7, 2020/21

Job Retention Scheme income



Year to date position £20m better than Revised Budget

Operating costs

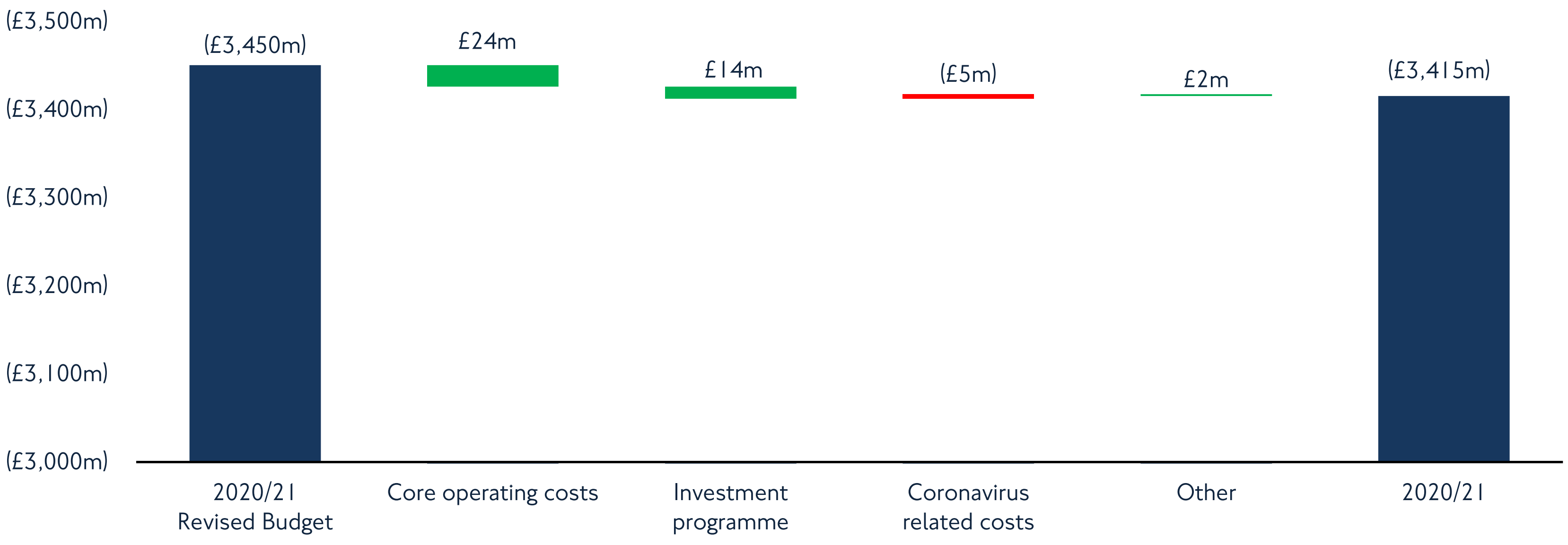
Operating costs £35m lower than Revised Budget, driven by lower core costs – mainly back office savings and one offs – and lower investment costs. Most timing differences from earlier periods have now reversed.

Coronavirus costs – including cleaning, PPE, social distancing as well as stranded labour costs * - are £123m in the year to date, broadly in line with Revised Budget.

Page 36

Compared to last year, underlying costs are £74m lower - after adjusting for additional coronavirus costs - driven by savings and lower operating costs from running fewer services at the height of the pandemic.

Operating costs: year to date, 2020/21



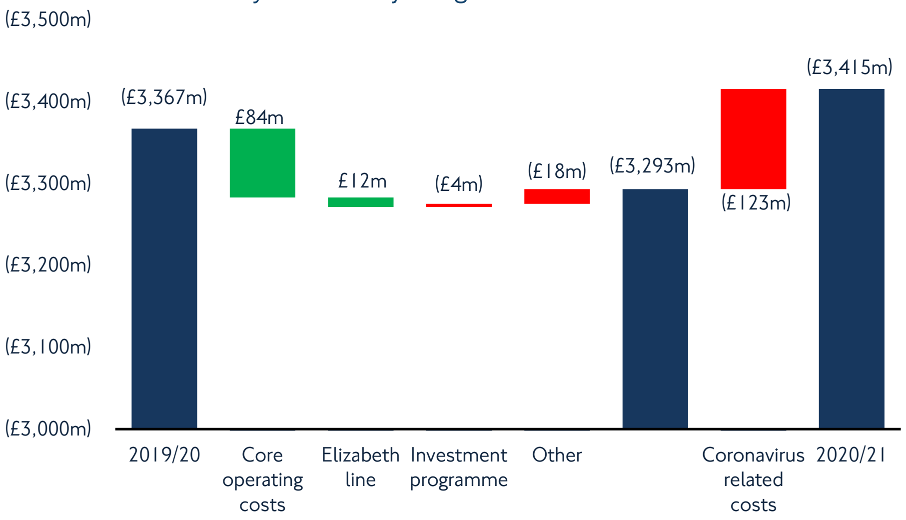
£35m

lower than Revised Budget

Lower costs from combination of timing, one offs and additional savings

Operating costs: year-to-date 2020/21 compared to 2019/20

£74m lower than last year after adjusting for new coronavirus related costs



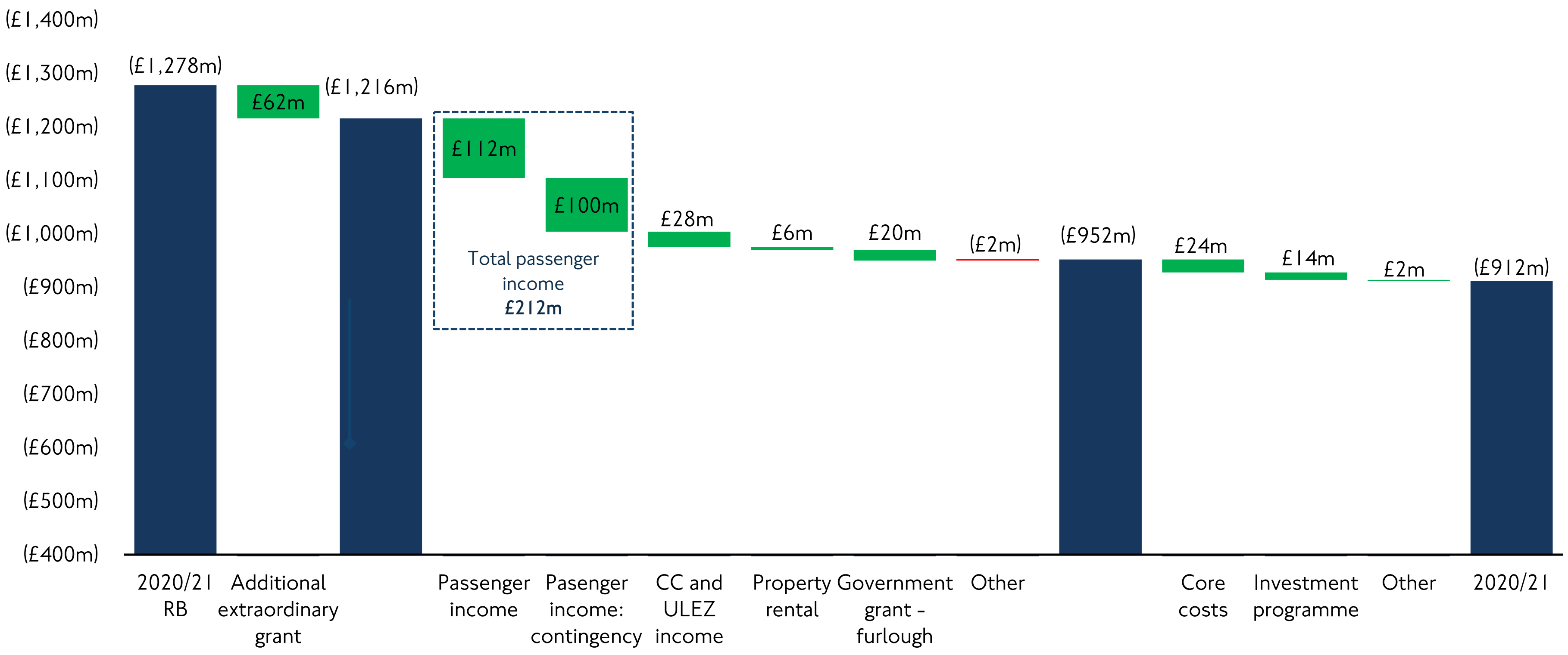
* Stranded labour costs are staff costs for capital projects – we have paused some non-safety critical capital projects, which means these costs do not currently appear in the capital account

Net cost of operations

Net cost of operations £366m better than Revised Budget, driven by additional funding from government, £112m higher passenger income, and £100m of revenue contingency.

Page 37

Net cost of operations



Capital account

Total capital expenditure is £44m lower than Revised Budget.
We will be reviewing our capital programme based on affordability. As part of the H2, 2020/21 funding agreement with government, we have committed to make further savings of £160m this year – through higher income and operating and capital savings - and it is likely we will need to pause some investment in the near term.

Capital account: year to date, 2020/21

	Year to date, 2020/21				Year to date, 2019/20		
Capital account (£m)	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
New capital investment	(364)	(404)	40	-10%	(540)	176	-33%
Crossrail	(404)	(372)	(32)	9%	(561)	157	-28%
Total capital expenditure	**(768)**	**(776)**	**8**	**-1%**	**(1,101)**	**333**	**-30%**
Financed by:							
Investment grant	473	473	0	0%	464	9	2%
Property and asset receipts	5	42	(36)	-87%	148	(143)	-96%
Borrowing	507	478	29	6%	(1)	507	-96265%
Crossrail borrowing	350	385	(35)	-9%	0	350	N/A
Crossrail funding sources	67	70	(2)	-3%	505	(437)	-87%
Other capital grants	71	66	5	7%	96	(25)	-26%
Total	**1,474**	**1,514**	**(40)**	**-3%**	**1,213**	**261**	**21%**
Net capital account	**706**	**738**	**(32)**	**-4%**	**112**	**594**	**528%**
Capital renewals	(144)	(148)	5	-3%	(214)	71	-33%
New capital investment	(364)	(404)	40	-10%	(540)	176	-33%
Total TfL capital expenditure	**(508)**	**(552)**	**44**	**-8%**	**(754)**	**246**	**-33%**

Capital expenditure

Total capital expenditure £44m lower than Revised Budget; spend to date is almost £250m lower than this time last year, reflecting safe stop of non-critical projects at the height of the pandemic.

Page 39

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

Capital renewals and new capital investment (£m)	Year to date, 2020/21 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Major projects	**(234)**	**(249)**	**15**	**-6%**	**(347)**	**114**	**33%**
Northern Line Extension	(53)	(55)	1	-3%	(85)	32	37%
Four Lines Modernisation	(46)	(55)	9	-17%	(145)	99	68%
Major Stations	(37)	(40)	3	-7%	(49)	12	24%
Railway Systems Enhancements	(6)	(7)	0	-7%	(7)	1	14%
Piccadilly line trains	(42)	(40)	(2)	5%	(26)	(16)	-60%
DLR Rolling Stock	(22)	(25)	3	-14%	(9)	(13)	-153%
Barking Riverside	(23)	(21)	(2)	9%	(21)	(2)	-9%
Silvertown Tunnel	(4)	(5)	1	-26%	(5)	1	20%
Elizabeth line - infrastructure	**(16)**	**(15)**	**(0)**	**1%**	**(10)**	**(6)**	**-58%**
LU	**(90)**	**(97)**	**7**	**-8%**	**(177)**	**88**	**49%**
Capital renewals	(74)	(77)	3	-4%	(154)	80	52%
New capital investment	(16)	(20)	5	-23%	(24)	8	34%
Surface Transport	**(125)**	**(138)**	**13**	**-9%**	**(140)**	**15**	**11%**
Healthy Streets	(22)	(26)	4	-14%	(51)	29	57%
Surface - assets	(34)	(36)	1	-4%	(17)	(17)	-99%
Surface Tech	(7)	(7)	1	-8%	(5)	(2)	-44%
Public Transport	(28)	(33)	5	-15%	(47)	19	40%
Air Quality and environment	(34)	(36)	2	-5%	(20)	(14)	-68%
Corporate programmes	**(28)**	**(31)**	**4**	**-11%**	**(51)**	**23**	**46%**
Professional Services	(35)	(35)	(0)	0%	(48)	13	27%
Media	8	4	4	90%	(3)	11	344%
Commercial Development	**(16)**	**(21)**	**5**	**-25%**	**(28)**	**12**	**43%**
Estates and facilities	(0)	(1)	1	-67%	(0)	0	15%
Property development	(16)	(20)	5	-23%	(28)	12	43%
Total TfL	**(508)**	**(552)**	**44**	**-8%**	**(754)**	**246**	**33%**

Cash balances

Cash balances are £357m higher than Revised Budget, driven by higher than expected income, and £90m additional funding and financing. Cash balances are almost £500m lower than at the end of last year.

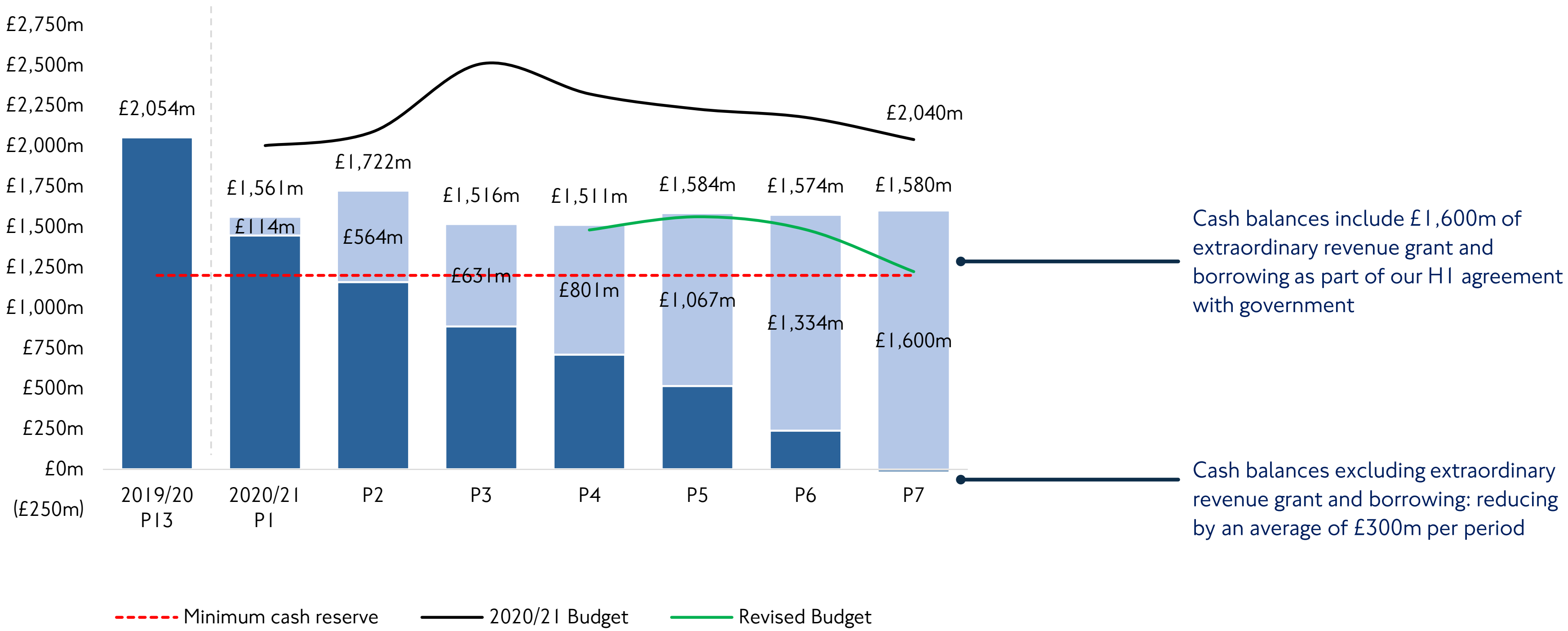
Cash balances include £1.6bn of funding and financing, agreed as part of the H1 funding and financing package agreed with government in May 2020.

The H2, 2020/21 funding agreement with government, coupled with strong cost control, will ensure our cash balances remain above our minimum cash reserve – 2 months of day-to-day costs – over the remainder of the year.

Cash balances and latest forecast

£m	2019/20 closing	Prior periods' movement	P7 movement	P7, 2020/21 Closing cash	Revised Budget	Variance to Revised Budget
TfL cash balances (excl. Crossrail)	2,054	(480)	6	1,580	1,223	357

TfL cash balances since end 2019/20



2020/21 full year outlook

Latest trends

Returning to the workplace (1)
Up to 8 November, 58% of employees nationally have returned to the workplace; slight reversal of previously improving trend following changes in government and start of second national lockdown on 4 November. Trend mirrored in those working from home only, which has increased from 24% in late September to 27%

Furloughing (2)
The latest release from HMRC, showing data to the end of August, shows:

- 557,400 employees in London furloughed on 31 August 2020, representing 13% of eligible employees
- London has highest rate of furloughed employees of UK regions

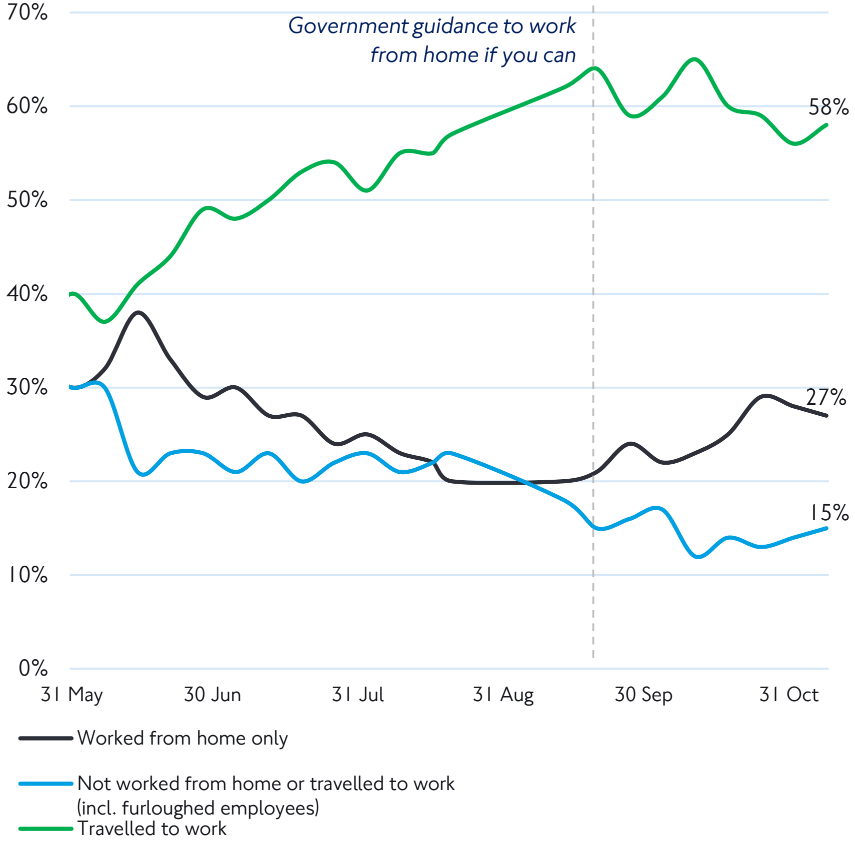
Footfall (3)
Recent data from Google suggests footfall across London is significantly down on pre-pandemic levels:

- As of 13 October, retail and recreation sites were 43% lower than before the pandemic. City of London down 77% while some of the outer suburbs close to 25%.

Latest trends

1) Returning to the workplace

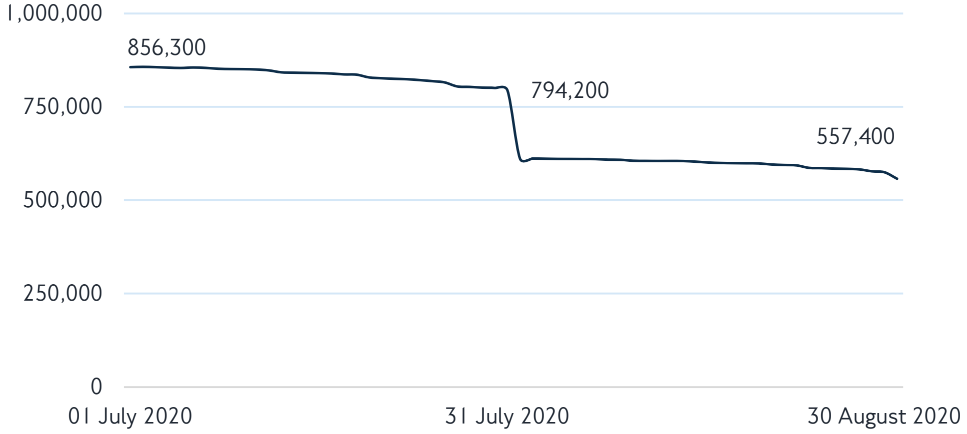
Some reversal of return to the workplace over recent weeks – now at 58% compared to 65% towards the end of September. Employees working from home only increased in line with this drop, standing at 27% in early November.



Source: ONS *Coronavirus and the latest indicators for UK economy and society (5 November 2020)*

2) Employees on furlough

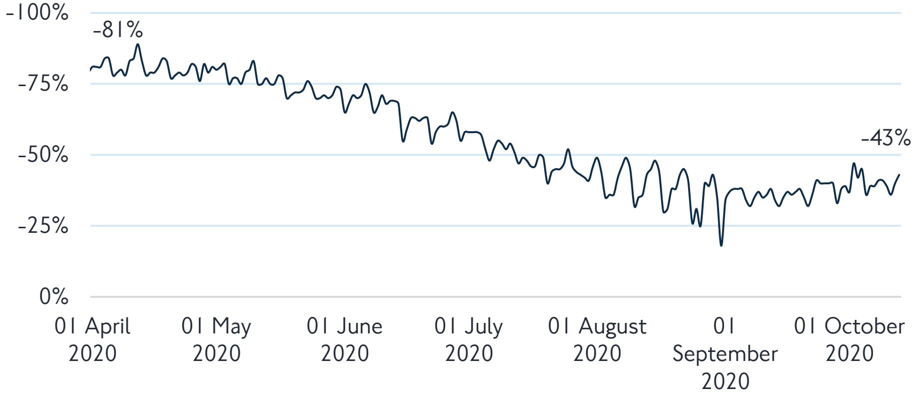
Number of employees furloughed in London at just over 550,000 (13% of eligible employees) at the end of August



Source: HMRC *JRS statistics* (October 2020)

3) Footfall in London

Footfall levels as % of pre-pandemic baseline have improved, but remain low and with large borough differences



Source: Google Community Mobility Data (25 October 2020). Retail and recreation metric shown for Greater London. Data based on users who have location services activated on device.

2020/21 full year outlook

Latest trends

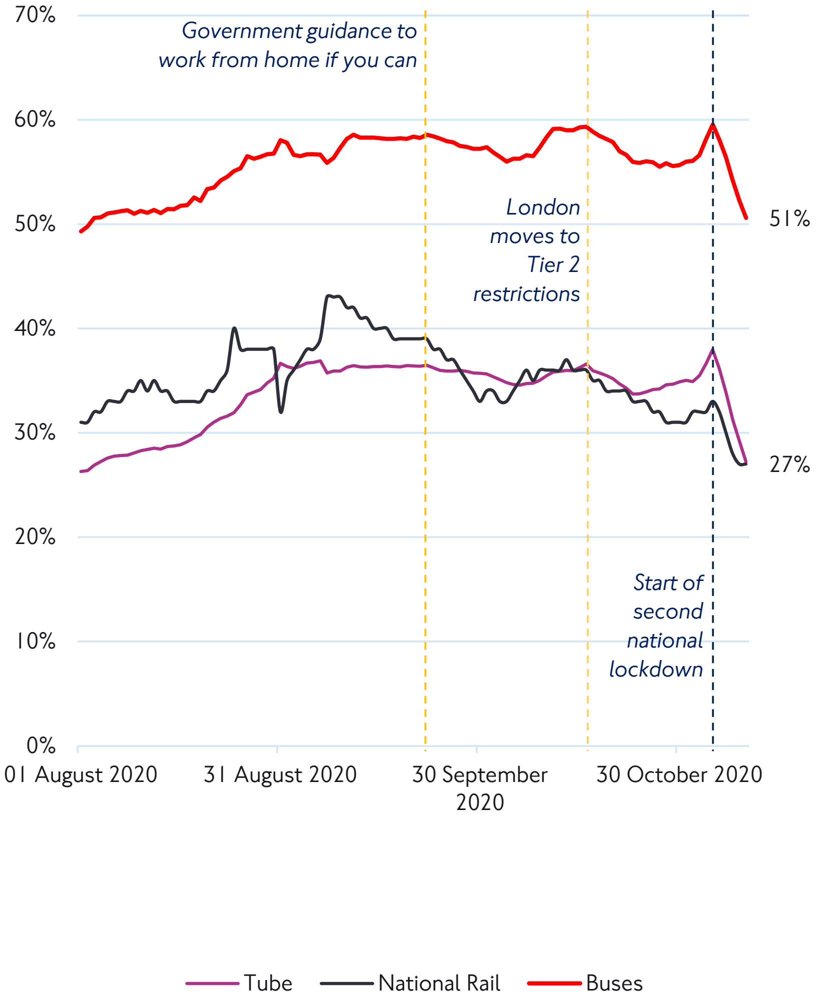
Journey trends (4)

Journey growth compared to last year began to slow towards the end of last period. Latest trends show growth has largely reversed since updated government guidance, introduction of Tier 2 restrictions in London, followed by second national lockdown from 4 November.

Latest trends

4) Journey trends

Journey growth has plateaued since mid-September. Government guidance to work from home if possible, coupled with introduction of Tier 2 restrictions in London, has resulted in further journey decline.



Source: TfL (7 day rolling average compared to last year); DfT *Transport use during the coronavirus pandemic. Trends to 9 November 2020*

Section 2

Period 7, 2020/21 results

London Underground

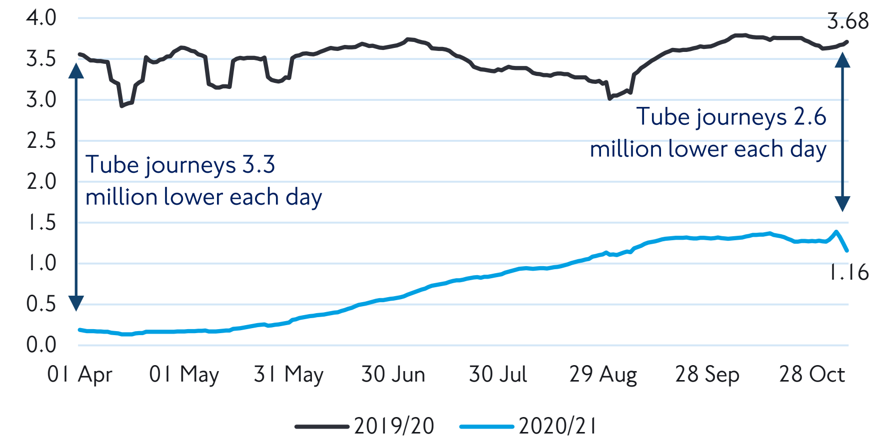
Total Tube journeys now 27% of last year's demand, compared to 37% at the end of Quarter 2; passenger income almost £1.2bn lower than this time last year.

Continued cost control has largely mitigated pressures from inflation and additional costs arising from coronavirus (PPE, social distancing, as well as stranded labour costs).

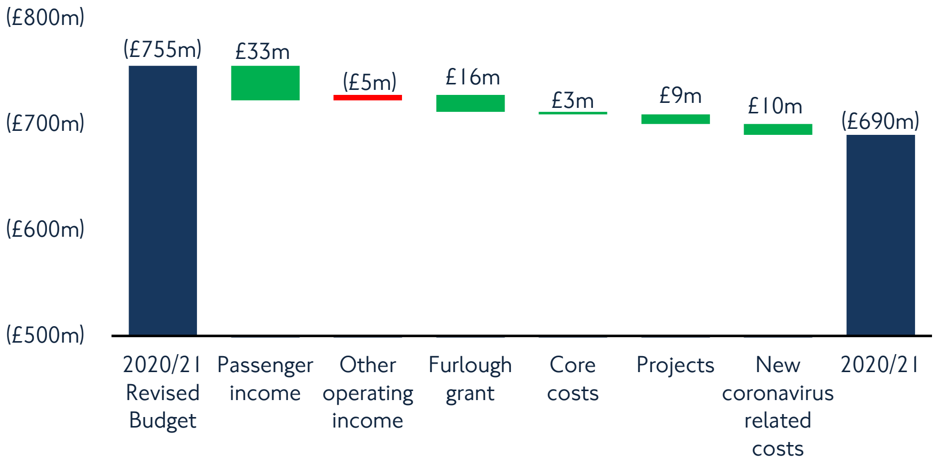
London Underground

Operating account (£m)	Year to date, 2020/21				Year to date, 2019/20		
	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Passenger income	351	318	33	10%	1,513	(1,163)	-77%
Other operating income	6	11	(5)	-45%	22	(15)	-71%
Total operating income	**357**	**329**	**28**	**8%**	**1,535**	**(1,178)**	**-77%**
Government furlough grant	39	23	16	70%	0	39	N/A
Total income	**396**	**352**	**44**	**12%**	**1,535**	**(1,139)**	**-74%**
Operating costs	(1,086)	(1,107)	22	-2%	(1,068)	(17)	2%
Net operating surplus	**(690)**	**(755)**	**65**	**-9%**	**467**	**(1,156)**	**-248%**
Indirect costs	(143)	(241)	99	-41%	(153)	10	-7%
Net financing costs	(157)	(157)	0	0%	0	(157)	N/A
Capital renewals	(74)	(77)	3	-4%	(154)	80	-52%
Net cost of operations	**(1,063)**	**(1,231)**	**167**	**-14%**	**160**	**(1,223)**	**-766%**
New capital investment	**(16)**	**(20)**	**5**	**-23%**	**(24)**	**8**	**-34%**

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



Net operating surplus compared to Revised Budget



Elizabeth line

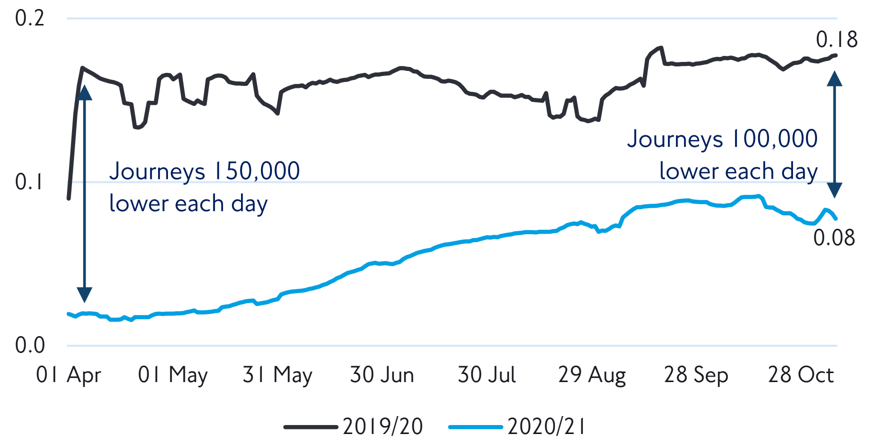
Passenger journeys slightly up on Revised Budget, but around 45% of last year at the start of November 2020.

Page 45

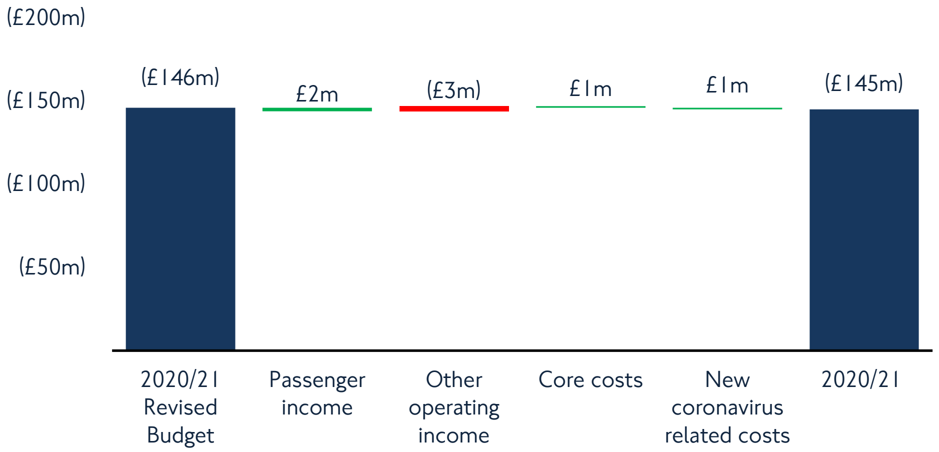
Elizabeth line

Operating account (£m)	Year to date, 2020/21 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Passenger income	21	19	2	11%	59	(38)	-64%
Other operating income	3	6	(3)	-45%	5	(2)	-39%
Total operating income	**24**	**25**	**(1)**	**-2%**	**64**	**(40)**	**-62%**
Government furlough grant	1	1	0	2%	0	1	N/A
Total income	**25**	**25**	**(1)**	**-2%**	**64**	**(39)**	**-61%**
Operating costs	(169)	(172)	2	-1%	(182)	12	-7%
Net operating surplus	**(145)**	**(146)**	**2**	**-1%**	**(118)**	**(27)**	**23%**
Indirect costs	(3)	(9)	6	-67%	(4)	1	-25%
Net financing costs	(49)	(49)	0	0%	0	(49)	N/A
Net cost of operations	**(197)**	**(204)**	**8**	**-4%**	**(122)**	**(75)**	**61%**
New capital investment	(16)	(15)	(0)	1%	(10)	(6)	58%
Crossrail construction	(404)	(372)	(32)	9%	(561)	157	-28%
Total capital investment	**(419)**	**(387)**	**(32)**	**8%**	**(571)**	**152**	**-27%**

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



Net operating surplus compared to Revised Budget



Buses, Streets & Other operations

Bus journeys saw some slight growth in the period, with upsides against revised Budget. However, journeys are substantially down on last year: around 50% at the start of November, compared to 41% lower in the final week of Quarter 2. Congestion Charge up, driven by increases in CC pricing and increased hours of operations.

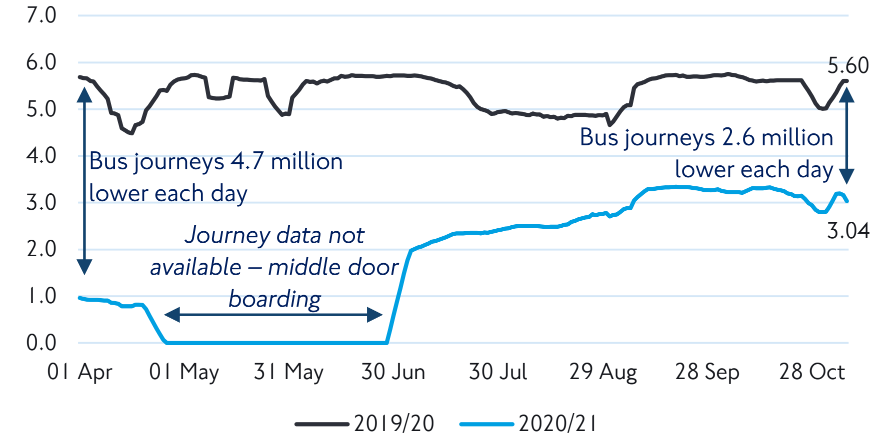
Operating costs higher than Revised Budget, driven by higher bus performance payments and higher coronavirus operating costs, including new bus driver protection screens.

Page 46

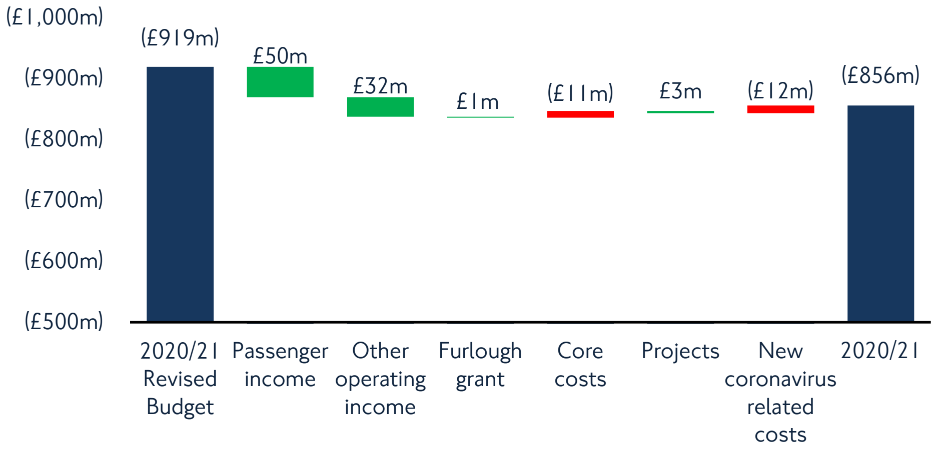
Buses, Streets & Other operations

Operating account (£m)	Year to date, 2020/21 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Passenger income	358	308	50	16%	788	(430)	-55%
Other operating income	264	232	32	14%	301	(37)	-12%
Total operating income	**622**	**540**	**82**	**15%**	**1,090**	**(468)**	**-43%**
Government furlough grant	9	8	1	19%	0	9	N/A
Total income	**631**	**548**	**83**	**15%**	**1,090**	**(458)**	**-42%**
Operating costs	(1,487)	(1,467)	(20)	1%	(1,465)	(22)	2%
Net operating surplus	**(856)**	**(919)**	**63**	**-7%**	**(375)**	**(480)**	**128%**
Indirect costs	(53)	(65)	12	-18%	(50)	(3)	6%
Net financing costs	(23)	(23)	0	0%	0	(23)	N/A
Capital renewals	(43)	(44)	1	-2%	(19)	(23)	121%
Net cost of operations	**(974)**	**(1,051)**	**76**	**-7%**	**(445)**	**(530)**	**119%**
New capital investment	**(59)**	**(64)**	**6**	**-9%**	**(76)**	**17**	**-23%**

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



Net operating surplus compared to Revised Budget



Rail

Rail journeys – from London Overground, DLR and Trams – around 50% of last year at the end of Quarter 2, now down to 42%.

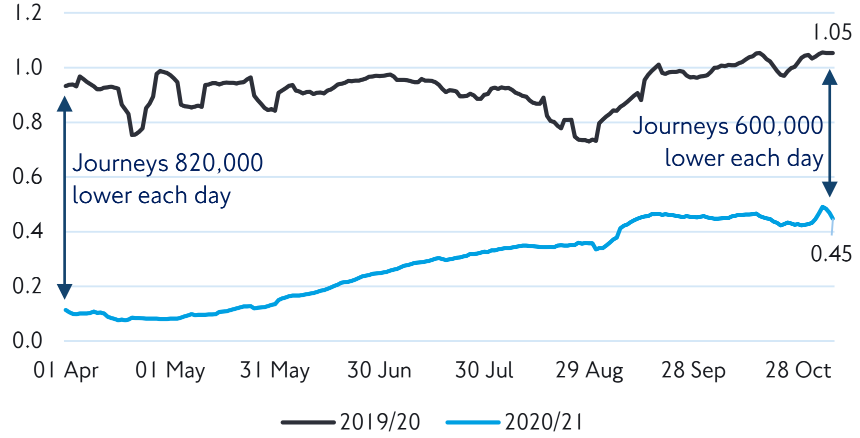
Operating costs remain in line with last year and £11m better than Revised Budget, driven by one offs, furloughing of operators' employees at the height of the pandemic and slower delivery of new London Overground trains.

Page 47

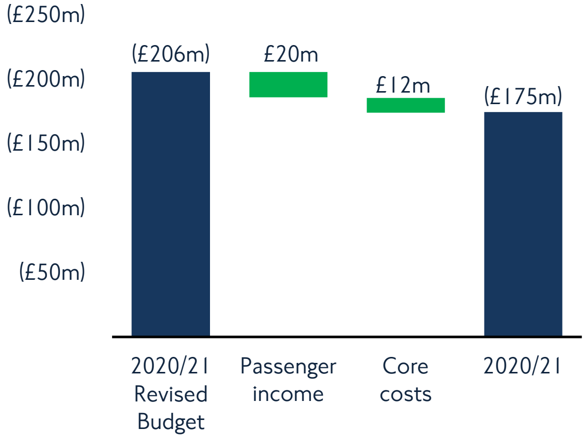
Rail

Operating account (£m)	Year to date, 2020/21 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Passenger income	72	52	20	38%	227	(155)	-68%
Other operating income	3	3	(0)	-12%	16	(13)	-82%
Total operating income	**75**	**55**	**19**	**35%**	**243**	**(169)**	**-69%**
Government furlough grant	0	0	0	92%	0	0	N/A
Total income	**75**	**56**	**20**	**35%**	**243**	**(168)**	**-69%**
Operating costs	(250)	(261)	11	-4%	(250)	0	0%
Net operating surplus	**(175)**	**(206)**	**31**	**-15%**	**(7)**	**(168)**	**2452%**
Indirect costs	(9)	(10)	1	-10%	(8)	(1)	12%
Net financing costs	(15)	(15)	0	0%	0	(15)	N/A
Capital renewals	(17)	(18)	1	-4%	(21)	4	-20%
Net cost of operations	**(216)**	**(249)**	**33**	**-13%**	**(36)**	**(180)**	**497%**
New capital investment	(7)	(12)	5	-40%	(24)	17	-70%

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



Net operating surplus compared to Revised Budget



Major Projects Directorate

Total capital spend slightly behind revised Budget, from new savings, acceleration on Barking Riverside, and some slippage across other projects.

A series of Deep Dive reviews have taken place to assess and address the full impacts of the coronavirus pandemic and related programme issues. The output of the reviews will be reflected in the Quarter 2 Investment Programme Report.

Major Projects Directorate

Operating account (£m)	Year to date, 2020/21 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Year to date, 2019/20 Last year	Variance to last year	% variance to last year
Other operating income	4	4	1	17%	1	3	273%
Total operating income	4	4	1	17%	1	3	273%
Government furlough grant	3	1	1	78%	0	3	N/A
Total income	7	5	2	33%	1	6	485%
Operating costs	(32)	(32)	1	-2%	(6)	(26)	430%
Net operating surplus	(25)	(27)	2	-9%	(5)	(20)	416%
Indirect costs	(14)	(15)	1	-6%	(16)	2	-13%
Net financing costs	0	0	0	N/A	0	0	N/A
Capital renewals	(1)	(3)	2	-68%	(13)	12	-92%
Net cost of operations	(39)	(45)	5	-12%	(33)	(6)	18%
New capital investment	(233)	(246)	13	-5%	(335)	102	-30%

Four Lines Modernisation

Signalling software development work continued with contractor throughout the pandemic and continues to support testing and go-live plans for year 2020/21. The coronavirus pandemic resulted in the suspension of District line operator training for the new Communication Based Train Control. While this is being restarted there remains a risk on the availability of trained and familiarised operators to support service. This may result in a further delay of the planned go-live date.

Northern line Extension

On 25 October, we successfully completed high voltage energisation to the Northern Line Extension switch rooms, which will enable the start of commissioning key systems and dynamic systems testing later this year.
We continue to work with Thales to progress the design of signalling software upgrades which are the key enablers for operating trains on the new line extension and being available for revenue service.

Bank Station Upgrade

The project continues to progress amid the pandemic. Following a return to comparable pre-pandemic site levels, social distancing measures along with increases in welfare capacity, are facilitating delivery.
All tunnelling excavation works have now completed except Northern line southbound running tunnels. This marks a major milestone since tunnelling began in 2017. The project continues to make good progress on the remaining civil works which are due to be completed by the end of winter.

Finance Committee

Date: **25 November 2020**

Item: **H1 2020/21 Scorecard Results**

This paper will be considered in public

1 Summary

1.1 This paper sets out TfL's Scorecard results for H1 2020/21 compared to the targets approved by the Board in June 2020.

2 Recommendation

2.1. **The Committee is asked to note the H1 2020/21 Scorecard.**

3 Background

3.1 The H1 2020/21 Scorecard reflected TfL's response to the coronavirus pandemic, specifically targeting measures relevant to the timeframe of the initial crisis. The H1 scorecard was deliberately targeted to kickstart the recovery to the pandemic, through an extremely challenging period. The H1 scorecard prioritised:

(a) running the maximum service to support social distancing and London's economic recovery;

(b) shifting focus of the investment programme to reallocation of street space to support walking and cycling and to avoid a car-led recovery;

(c) continued safety and wellbeing of our workforce and customers, reflected by our targets on those killed and seriously injured on the road network and our transport services;

(d) colleague wellbeing that in addition seeks to ensure there is no disparity in how our people are experiencing the crisis; and

(e) operating within the strict financial envelope set out in the Government funding settlement. Preserving our liquidity is critical, which we can best manage through controlling our operating and capital costs.

4 H1 2020/21 Scorecard results

4.1 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.

5 Remuneration

5.1.1 Senior Manager's performance awards have been stopped for 2020/21; there is, therefore, no financial impact from successful achievement of the H1 Scorecard.

6 H2 2020/21 Scorecard

6.1.1 The H2 2020/21 Scorecard was approved by the Board in October 2020/21. We will continue to report progress to the Board in the Commissioner's Report.

List of appendices to this report:

Appendix 1: TfL Scorecard H1 2020/21

List of Background Papers:

None

Contact Officer: Simon Kilonback, Chief Finance Officer
Number: 020 3054 8941
Email: SimonKilonback@tfl.gov.uk

Appendix 1: Scorecard measures and targets for H1 2020/21

Measure	H1 results (pre mitigation)	Target	Floor target	Target weighting	H1 weighted result	Commentary
Safety and Operations						
People killed and seriously injured in road traffic collisions per million journey stages	0.44	0.78 KSIs per million journey stages	0.83 KSIs per million journey stages	10.0%	**10.0%**	Road casualties: 1,551 KSIs (factored) in H1 of which 56 were fatalities. In terms of risk we have exceeded our H1 target (0.44 actual vs 0.78 target) largely due to the rapid return to normal (or above normal) traffic levels since the end of the first full lockdown. The challenge for H2 will be to prevent the rise in risk rate that we saw in the first lockdown.
Customers and workforce killed and seriously injured per million passenger journeys	0.09	0.20 KSIs per million passenger journeys	0.21 KSIs per million passenger journeys	10.0%	**10.0%**	Across Public Transport, 63 KSIs were recorded in H1, of which three were fatalities. The fatalities were all customers using the London Underground as a result of a slip, trip or fall, a platform/ train interface incident and crime related incident (assault or trespass). The initial challenge for H2 will be to ensure that KSI rates remain at similar levels despite the reduction in passenger journeys in light of the current lockdown.
Operations						
% of normal service delivered (compared to pre-coronavirus levels) – Bus	99.00%	94%	87%	7.5%	**7.5%**	The target assumed a gradual return to full service levels by period 8. In practice, TfL and the operators worked together to ensure that service levels were increased earlier to enable social distancing at the lower levels of capacity and to support the schools return. Additional school services and a higher level of operational performance contributed to the target being exceeded.
% of normal service delivered (compared to pre-coronavirus levels) – Rail	96.00%	98%	90%	5.0%	**3.75%**	The target was not met largely due to unforeseen circumstances, including the impacts of 'safe stop' and social distancing on Crossrail works at Whitechapel caused more frequent closures on the East London Line than expected. The reintroduction of the North London Line ten trains per hour (tph) peak frequency (as opposed to eight tph) originally planned for September was refused by Network Rail due to performance concerns (reinstatement is now planned for December 2020, when a wholly recast timetable will be introduced). A number of other minor alterations to 'ramp-up' occurred due to greater than expected impact of 'COVID-safe' practices.
% of normal service delivered (compared to pre-coronavirus levels) – Tube	89.73%	83%	75%	7.5%	**7.5%**	The target assumed an incremental increase in service levels during the summer. In practice once the working timetables were restored in May, crewing efficiency improved significantly and weekday service levels rapidly improved. Weekend service levels subsequently improved as more lines were able to move from emergency to scheduled timetable operation. Sustaining service levels remain a challenge given the constraints around training and attrition of Train Operators.
Customer						
Percentage of Londoners who agree TfL cares about its customers	57%	53%	47%	10.0%	**10.0%**	Score expected to decline during H1 because of the impact of the coronavirus on our financial situation: customers' perception of value for money fell as a result of the government bailout conditions, and a lack of investment dampened the feeling we are making progress. New pain points emerged, and raised anxiety levels sharpened the impact of the existing ones. However, this was counter-balanced somewhat by our response to the pandemic, where customers broadly felt we balanced service provision, safety measures and clarity of communication. The net result was we finished H1 above target.
People						
Wellbeing survey	62.00%	3%-point improvement	No change	7.5%	**7.5%**	This first wellbeing survey in June set a baseline with a target to improve wellbeing across staff overall by 3 percentage points. The second survey showed an improvement with an increase of 3 percentage points from 59% to 62%. The survey also measured whether there was any disparity between different groups and set a target to not exceed a 'margin of error' of 3% disparity between BAME and non-BAME and Male and Female results.
Wellbeing equality – BAME disparity	2.00%pts	Max. 3%pt disparity	Max. 5%-point disparity	3.75%	**3.75%**	
Wellbeing equality – gender disparity	0.00%pts	Max. 3%pt disparity	Max. 5%-point disparity	3.75%	**3.75%**	We are committed to making sure there is no disparity between groups of people as part of our commitment to achieving a fully inclusive organisation. The scores for BAME and non-BAME and Male and Female fall within the margin of error. It is important to note that the two surveys differed. Wave 1 in June allowed colleagues to complete the survey multiple times (if they

Measure	H1 results (pre mitigation)	Target	Floor target	Target weighting	H1 weighted result	Commentary
						wanted to). For Wave 2 colleagues could only fill in once as it formed part of Viewpoint. Wave 2 was added at the end of the Viewpoint survey which impacted the length of the survey. The number of responses also differed. In wave one 8,778 and wave two 17,293
Finance						
Maintaining liquidity	£1,580m	£1.2bn	£1.2bn	12.5%	**12.5%**	Cash balances maintained through higher passenger revenue, road user charging revenue (including Congestion Charge) and government funding, coupled with lower operating costs through reduced staff numbers and cost controls, lower capital expenditure and other one offs
Opex vs Revised Budget	£3,415m	£3,450m	£3,450m	2.5%	**2.5%**	£35m better from lower staff costs, cost controls and one offs
Capex vs Revised Budget	£508m	£552m	£552m	2.5%	**2.5%**	£44m lower from slow start to the year from safe stop of projects
Delivery						
Milestone delivery	98%	90%	0%	10.0%	**10.0%**	All 11 TfL H1 strategic milestones completed; 2 delivered late, resulting in overall delivery rate of 98%. Two milestones delayed due to MPD BRE delay (Thames waterworks completion), this was caused by Thames Water Beckton plant unable to process sludge and MPD Bank (completion of tunnel primary lining for the new DLR triple escalator), delayed due to unforeseen work complexity of tunnel lining on new DLR triple escalators
Elizabeth line: commence use of signalling and train software configuration for dynamic testing in the tunnels	03/09/2020	25/09/2020	16/10/2020	2.5%	**2.5%**	Delivery of Bombardier/ Siemens train and signalling software for dynamic testing and trial running completed.
Delivery of Streetspace programme – Highway reallocation to pedestrians	22,516m^2	22,000m^2	18,000m^2	2.5%	**2.5%**	During H1 between May and September (4 months) we created 22,516 m^2 of extra space for pedestrians on our Transport for London Road (TLRN) network. We have continually reviewed these social distancing schemes and have amended, upgraded and even removed schemes as a result to ensure that the space is used to its best for Londoners.
Delivery of Streetspace programme – improved cycling infrastructure	61.6km	57km	47km	2.5%	**2.5%**	The London Streetspace Plan delivered 61.6km of new or upgraded cycle infrastructure in H1, exceeding a challenging target of 57km. Achieving this target required close collaboration with the London Boroughs and other key stakeholders, ensuring these improvements could be delivered at a fast pace for the benefit of Londoners.
Total TfL Scorecard					**98.75%**	

Finance Committee

Date: **25 November 2020**

Item: **TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements**

This paper will be considered in public

1 Summary

1.1 On 30 September 2020, the Committee noted a paper on energy, which set out 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. This paper provides an update on the implementation of that strategy with the current energy purchasing arrangements and risk management strategy and:

(a) seeks Procurement Authority to continue with Crown Commercial Services (CCS) to allow the continuation of the current energy purchasing arrangements and risk management strategy, albeit reduced to allow for 20 per cent of the energy volume to be purchased through PPAs; and

(b) sets out the proposed procurement process for energy through two renewable PPAs, with a target date for delivery during financial year 2021/22 and during financial year 2023/24.

1.2 The proposed approach will 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, in line with our commitment to run a zero-carbon railway by 2030.

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 business affairs of TfL.

2 Recommendations

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

(a) approve 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);

(b) endorse 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:

(i) 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;

(ii) 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) note that Procurement Authority for the PPAs will be sought in due course.

3 Background – Existing Purchasing Route and risk management strategy for the financial year 2023/24

3.1 TfL has an annual aggregated requirement for the supply of electricity of ~1600GWhs (gigawatt hours) and ~80 GWhs of natural gas, which is equivalent to approximately 420,000 average domestic electricity consumers.

3.2 TfL has been fully utilising the procurement services and frameworks of CCS for energy purchasing since 2013. This has enabled TfL to have additional commercial leverage by subscribing to the largest buyer of energy in the UK and aggregating its volume with other public sector organisations.

3.3 The competitively tendered framework arrangements set up by CCS are used for energy purchasing by all central government, local authorities and many other organisations across the public and not-for-profit sectors. TfL has a contract with CCS which enables it to access the electricity and gas frameworks let by CCS and enter into the pre-agreed contract terms with suppliers appointed to the framework, currently EDF Energy (EDF) for electricity and Corona Energy for gas (Total Gas and Power (TGP) for gas from 2022).

3.4 CCS leverages its position and aggregates customer volumes to deliver sustainable savings and to provide an enhanced managed service delivering value directly to its customers.

3.5 By combining customer volumes, CCS can exert greater buying power in the marketplace and reduce charges/costs incurred through supplier margin, bid/offer spread and brokerage fees. TfL saves around £6.1m per annum through this benefit of aggregation with the wider public sector.

3.6 The aggregation of volume with other public sector customers creates further benefits for TfL by reducing the relative proportion of more expensive peak volume versus cheaper baseload volume. This, together with a reduction in overall residual volume (unpredictable electrical usage), further reduces TfL’s expenditure by around £1.1m per annum.

3.7 On average and based on the last five years’ trading performance, CCS has outperformed the market traded average. This delivers an annualised saving of £0.9m per annum for TfL. A summary of CCS energy savings applicable to TfL are detailed below.

TfL CCS Benefit Summary	Savings
Aggregation	£6.1m
††Trading Performance	£0.9m
Load-Shaping (residual)	£1.1m
Total	**£8.1m per annum**

††Annualised performance based on five-year average. Figures provided by CCS in accordance with agreed benefits methodologies and are subject to independent audit by the Government Internal Audit Agency.

3.8 There are no financial penalties for reduced or increased consumption under the CCS supply arrangements. The CCS framework also obliges the framework supplier (EDF) to deliver (or "sleeve") energy directly procured by a customer from a generator via a PPA (with price and duration of the sleeving arrangement to be agreed between TfL and the framework supplier). Therefore, continued use of the CCS framework provides flexibility and a delivery route for any renewable energy TfL procures via a PPA

4 CCS Risk Management

4.1 As the largest aggregator of gas and electricity purchasing requirements in the UK, CCS has skilled in-house market analysts and risk management specialists and has robust independent governance procedures in place.

4.2 The CCS frameworks offer several risk management products for its customers. The current proposal is that TfL continues to use the product it has used to date which comprises a minimum purchasing window ahead of delivery e.g. from December 2020 CCS will be looking to procure electricity and gas in respect of the financial year commencing in April 2023.

4.3 The product incorporates a minimum volume profile that CCS must purchase in order to provide minimum coverage levels closer to delivery; this is designed to mitigate the impact of wholesale market price spikes and provides greater budget certainty. This strategy is complemented by a stop loss mechanism which limits customers' exposure to wholesale electricity and gas price volatility where market prices reach a certain threshold.

4.4 CCS also can unlock/sell back previously hedged volumes, if it believes the market fundamentals indicate potential upside, though this mechanism is limited to and operated within the established stop loss parameters.

4.5 The effectiveness and operation of the purchasing strategy is overseen by the CCS External Risk and Governance Board; current members include the Ministry of Defence, Ministry of Justice, National Procurement Service (Wales), Guy's and St Thomas' NHS Foundation Trust, Department for Work and Pensions, Royal Borough of Kensington and Chelsea, and TfL. The board is chaired by an independent expert, Patrick Heren.

5 Financial Year 2023/24

5.1 In line with the gating procedure considered by the Committee in December 2017, this paper seeks Procurement Authority of £199m to continue with the procurement of energy for financial year 2023/24 through the CCS frameworks. This will allow TfL to continue its purchasing and risk management strategy, which protects TfL against wholesale market price volatility whilst providing opportunities to secure the wholesale energy at a low market price.

5.2 The amount requested includes five per cent risk (in line with previous years), is aligned with the draft Business Plan, and is based on the Department for Business Energy and Industry Strategy (BEIS) wholesale energy price forecast plus all expected Non-Energy Costs (NECs) i.e. transmission, distribution, system costs and environmental levies for both CCS and PPA procured volumes.

5.3 This amount does not include energy volume (20 per cent of estimated total) proposed to be sourced via the PPAs describe in section 7 onwards of this paper.

5.4 NECs for this delivery period are expected to make up approximately £109m of the cost TfL pays, with approximately £74m of that resulting from statutory environmental charges intended to support and incentivise new zero carbon energy generation, which are payable on all electricity delivered via the grid.

5.5 Continuing to source through the established CCS framework for this period will provide the opportunity to purchase energy ahead of delivery (if financially beneficial to do so), while managing price risk and providing flexibility to source zero-carbon energy alongside this arrangement.

5.6 Separate authority requests for purchases beyond March 2024 will be made in line with our commitment to move to zero carbon sources of electricity for our rail operations and will be submitted to the Committee in due course.

6 Update – energy purchases for delivery from April 2022 to March 2023

6.1 Further to the approval of Procurement Authority for the financial year 2022/23 by Chair's Action in December 2019, TfL has now secured 21 per cent of its energy requirement for the financial year starting April 2022. Together with the remaining energy at the current market price, TfL's mark to market cost position is £74m (i.e. excluding all NECs).

6.2 Whilst the market has been volatile over the last 12 months and in addition to Covid-19, which temporarily impacted the availability of wholesale pricing for this period, CCS has secured a significant hedge at lower than expected prices, allowing us to report that, after adding NECs, the anticipated final cost at the meter for April 2022 to March 2023 will be £209m, £25m below the £234m authority granted by the Committee in December 2019.

6.3 Subject to endorsement of this paper, previously agreed volumes for FY 2022-23 will be reduced with CCS to allow for the introduction of the PPAs described below.

7 Procurement of Power Purchase Agreements

Background

7.1 As set out in the September 2020 Committee paper, over the last eight months TfL has worked with both the CCS energy category team and strategic energy consultant, Baringa, to develop an Energy Purchasing Strategy in line with the Mayor's Transport Strategy and London Environment Strategy carbon objectives

7.2 This work has focused on developing a clearly defined energy purchasing strategy for the incremental procurement of renewable energy direct from generators. This is in line with our commitment to move to zero carbon sources of electricity for our rail operations.

7.3 Detailed work has been undertaken to identify potential sources of renewable energy, including market analysis covering availability, forecast costs of renewable generation and how the wholesale price is likely to develop to 2030.

Opportunity

7.4 Historically in the UK, renewables generators have received government subsidy to help meet the cost of providing renewables. However, as the cost of renewables has fallen, these subsidies are not required and no longer available for all forms of renewable technology. Moreover, the falling cost of renewable technologies is fundamentally changing power markets across the globe. In the UK, renewables now account for around 37 per cent of all power generation, and onshore wind and solar are cost competitive with fossil fuelled alternatives. Estimates based on energy production and consumption in 2018 indicate that carbon dioxide emissions are now 39 per cent lower than in 1990[1].

7.5 Renewable assets financed in in the early 2000s are coming to the end of their government subsidy period.

7.6 It is this market evolution (with the falling cost of technology and end of subsidy period) that provides the strategic opportunity for large energy users like TfL to move away from traditional power sourcing arrangements, by purchasing electricity directly from renewable generators under medium to long term PPAs, different price structures and potentially lower cost electricity could be secured.

8 Proposed PPAs

8.1 The September 2020 Committee paper sets out a Renewable Energy Purchasing Road Map to 2030 (Appendix 1, section 7). This sees a staged approach to building up renewable energy PPAs over the next 10 years. This approach offers TfL the benefit of being able to learn and adapt as the renewable market evolves.

8.2 The proposed PPA arrangements have been developed with internal and external stakeholders, specialist advice and tested through an early market engagement exercise. Careful consideration has been given to ensure proposed renewable energy purchasing, through one or more PPAs, complements TfL's existing risk management strategy.

8.3 TfL's approach is designed so that renewable energy can be integrated with the existing CCS framework energy supply contract with EDF (subject to agreement of competitive pricing and terms). This would be implemented through a separate arrangement known as a "Sleeving Agreement".

8.4 Each PPA tranche could provide up to 150 GWhs per annum of renewable energy to TfL (totalling 300GWh (gigawatt hours), which equates to 20 per cent of TfL's

[1] Source: UK Energy in Brief 2019, BEIS

current annual requirement) and represents a significant step on TfL's Renewable Energy Purchasing Roadmap.

8.5 The proposal is to procure two PPAs in parallel, although commencement of energy delivery is staggered due to the type of PPA selected:

(i) PPA 1 is a medium-term PPA that will specifically target Operational Assets (of generators) and, subject to a successful procurement, will deliver renewable energy to TfL by the end of financial year 2021/22; and

(ii) PPA 2 is a long-term PPA that will specifically target New Build Assets (of generators) and, subject to a successful procurement and project construction, will deliver renewable energy to TfL by the end of financial year 2023/24.

9 Route to Market

PPA 1

9.1 Whilst both PPA 1 and PPA 2 can be expected to be similar with regard to volume procured, as PPA 1 will be procuring renewable energy from Operational Assets, a less tailored procurement route can be used. Therefore, PPA 1 will be procured through the CCS Dynamic Purchasing System (DPS) 'HELGA' (Heat and Electrical Generation Assets).

9.2 HELGA has been specifically developed for procurements of PPAs supporting renewables generation. There are several benefits of using HELGA for the PPA 1 procurement, such as an automated, electronic process using existing supplier selection tools/systems and new suppliers can apply to join the DPS at any point. HELGA also benefits from having a fully developed base suite of contracts established by CCS, which can be tailored to TfL requirements. In addition, CCS will provide procurement management support throughout the process.

PPA 2

9.3 As PPA 2 will be for New Build Assets, a more flexible procurement route is preferred, specifically to enable TfL to issue bespoke terms, for example, to allocate risk and liability in the event of delayed construction of the generating infrastructure. For this reason, PPA 2 will be procured via the negotiated procedure with prior call for competition under the Utilities Contracts Regulations and detailed assessment of potential accounting and legal issues will be conducted.

Procurement Strategies

9.4 The procurement strategies for both PPA 1 and PPA 2 are in the final development phase and will be finalised during December and January 2021 respectively. The proposed programme and dates thereafter are detailed in Section 10.

10 Programme and Key Dates

10.1 The dates set out below are subject to certainty about TfL's long-term funding and therefore the ability for TfL to enter into long-term financial commitments. They are also subject to accounting and legal review.

10.2 The dates set out below assume there are no material changes in the cost of energy or market condition, prior to, or during any part of the procurement processes and the contract award recommendations for each of the PPAs will be reviewed by the Financial Commitment Oversight Group (FCOG) prior to award. Procurement Authority for the PPAs will be sought from the Committee in due course.

10.3 Initial work to establish whether there is a potential route for the GLA Group to aggregate its energy demand and leverage additional benefit is due to complete at the end of November 2020. This includes a potential GLA investment offering to prospective renewable developers that could drive additional value. Subject to consideration at the GLA Collaboration Board, any Group wide initiative and possible future implementation approach will be considered in TfL renewable energy procurements.

Date	**Event**
December 2020	GLA Collaboration Board
December 2020	Agree Procurement Strategy for PPA 1
January 2021	Agree Procurement Strategy for PPA 2
March 2021	Release of Tender Documentation for PPA 1
May 2021	Release of Tender Documentation for PPA 2
June 2021	Update to the Committee
October 2021	Update to the Committee
By March 2022	First Delivery of Renewable Energy from PPA 1
By March 2024	First Delivery of Renewable Energy from PPA 2

List of appendices to this report:

Exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers:

Finance Committee paper, 30 September 2020, TfL Energy Update: Renewable Power Purchase Agreements

Contact Officer: David Jones, Deputy Chief Procurement Officer
Number: 020 7027 5396
Email: davidjones@tfl.gov.uk

Finance Committee

Date: **25 November 2020**

Item: **Capitalisation of TTL Properties Limited**

This paper will be considered in public

1 Summary

1.1 This paper considers the capital requirement of TTL Properties Limited and recommends a structure to capitalise that company with funds to manage the current capital-neutral business plan for developing TfL's property portfolio and seeks authorities to do so.

1.2 The structure provides a strong capital base for TfL's wholly owned property development company (TTL Properties Limited) and will support potential future funding options.

2 Recommendations

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

(a) approve the capitalisation of TTL Properties Limited through the issue of up to £2.1bn ordinary share capital;

(b) approve the establishment of an intercompany revolving credit facility of £25m; and

(c) authorise 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.

3 Background

3.1 On 1 April 2019, the Committee approved under Chairs Action the consolidation of commercial and other property assets from across the TfL group into TTL Properties Limited. The consolidation of assets is a key component in the creation of a ring-fenced, self-financing property development company within TfL.

3.2 Eighty-nine per cent of these property assets (by value) have been transferred into TTL Properties Limited either by the grant of new long leases or assignment of existing leases. The aggregated consideration payable by TTL Properties Limited for these property assets is around £1.5bn, based on market valuations undertaken by TfL's external valuers and on director's valuations of market value. The consideration will be paid through simple intercompany account transactions.

3.3 TTL Properties Limited has an investment programme totalling £1bn over 10 years to deliver over 10,000 homes and increased annual income for TfL. The cost of this capital programme for investment in property is to be paid for with no call upon TfL's group funding arrangements, under a capital neutral plan, so that no transport infrastructure funding is diverted into property. A significant proportion of this funding will come from the disposal of surplus / redundant assets from across TfL which has already been identified.

3.4 Certain TfL property assets were identified for such disposal in the appendix to the previous asset consolidation paper but, as agreed with the Department for Transport, further work will be undertaken to finalise a list of non-operational property assets that are surplus, will not generate future revenues and are not otherwise required for safeguarding activity. These additional assets will also then be considered for disposal. TTL Properties Limited will take responsibility for the disposal of these assets to maximise value and take direct receipt of the proceeds of sale.

3.5 TTL Properties Limited needs a capital structure to pay for these asset transfers including settling the current intercompany account balances and transferring across assets identified for disposal. This paper proposes formalising the funding arrangements of TTL Properties Limited with £2.1bn of equity, made up of the main tranche of commercial assets valued at £1.5bn plus £0.6bn for the other "for sale" assets.

3.6 The paper also proposes an intercompany revolving credit facility with TfL of £25m to meet in-year working capital requirements of TTL Properties Limited.

4 Options

4.1 Available internal funding options for capitalisation include: capital grants from TfL to TTL Properties Limited; the issue of shares by TTL Properties Limited; equity loan notes; and intercompany loans. Each is discussed below:

(a) Capital Grant: this would involve paying a capital grant to TTL Properties Limited from TfL Corporation. The full grant would need to be recognised in TTL Properties Limited's Income and Expenditure statement as revenue income in the year of grant. It would not form part of a permanent capital structure, simply being reflected in reserves, and creates an accounting anomaly in the year of grant. It is not attractive for either TfL or TTL Properties Limited as a long-term structuring option.

(b) Issue of Shares: share capital would be issued to TfL by Transport Trading Limited (TTL), as TTL Properties Limited's holding company, and TTL would in turn invest in new share capital of TTL Properties Limited. The issuance of new shares is a standard method of equity issuance, enabling both a permanent capital base and relatively simple share ownership transactions.

(c) Equity Loan Notes with TfL Corporation: equity loan notes are effectively capital, having no fixed repayment terms nor involving any funding charge. This option requires the drawing up of intercompany loan agreements. If required in future (e.g. to help raise external third-party investment) they could be converted into share capital.

(d) Interest bearing Intercompany Loans with TfL Corporation: Interest bearing intercompany loans create a flexible funding structure to manage variations in cash requirements. The intercompany loan mechanism is how TfL currently passes borrowing down to other subsidiaries. With TTL Properties Limited, it can create a TfL group tax benefit as the interest cost would be tax deductible in TTL Properties Limited, but TfL Corporation is not taxed on the income.

5 Proposed structure

5.1 The recommendation is to fund TTL Properties Limited with ordinary share capital to create the initial asset base and reflect the asset transfer transactions. In addition, it is proposed to set up an intercompany revolving credit facility to help with working capital, which will also create a credit line and enable some further investment spend if required.

5.2 The structuring proposed is very simple, with very low debt compared with a comparable commercial property business of this nature. Private property companies are usually funded with a mix of capital and debt. Real Estate Investment Trust do however tend to launch with equity investment only. There is little need for actual debt in TTL Properties Limited because under Commercial Development's existing capital-neutral plan to build 13,000 homes the plan is self-funding.

5.3 This initial set up could alternatively be achieved with lower share capital and a higher level of intercompany debt than proposed above. A 30 per cent gearing level would be a commercially acceptable level and a £500m intercompany loan has been considered alongside a £1.6bn share issue. This would have some internal tax benefit. The considered view, however, is that it would be better to have a simpler arrangement initially whilst retaining flexibility to introduce other forms of funding as TfL's own funding position becomes clearer.

5.4 The structuring sets the business up as a functioning entity, with measurable outcomes and identifiable equity returns, including managing asset values. It will enable comparability with private businesses, and the development of a credit track record.

5.5 The equity shareholding structure proposed enables TfL to manage its 100 per cent equity stake as considered appropriate in the future, through simple share transactions.

5.6 TTL Properties Limited will distribute earnings to TfL in the form of dividends.

5.7 Interest payments on any intercompany debt funding will be based on market rates.

5.8 Due to the ongoing nature of the asset transfers (i.e. there are still some assets remaining to be transferred) and accounting regulations, the share capital will need to be issued in tranches.

5.9 Contractual details of the loan funding are to be drafted, but should enable flexible drawdown and repayment terms, with market related rates of interest.

5.10 Equity investment reflecting the value of company's assets is the sort of approach to capitalisation that a prudent private sector investor would take and is, therefore, State aid compliant.

6 Tax

6.1 There is no cash tax outflow from these transactions.

6.2 Property transfers are all within the same tax group, meaning that no Corporation Tax liability will arise and nor will there be liability to pay SDLT so long as TTL Properties Limited remains within the TfL Group for at least three years.

6.3 Interest on any intercompany loan balance from TfL payable by TTL Properties Limited will benefit the Group's tax position because the Corporation itself is not subject to Corporation Tax on the interest income while the interest cost is tax deductible in TTL Properties Limited. This impact will not be material under this proposal.

6.4 The interest payable will need to be at arm's length market rates and terms.

6.5 The interest deduction will be restricted if TTL Properties Limited is considered to be "thinly capitalised" for tax purposes (i.e. the level of debt is greater than the company would have been able to borrow on its own resources in an arm's length transaction). We are working on the basis that HM Revenue and Customs would consider a debt / equity ratio of up to 50:50 as acceptable. On this basis, TTL Properties Limited funded with a gearing level of around one per cent, if drawn, would be well within the acceptable parameter.

7 Governance

7.1 TTL Properties Limited is established within TfL and so long as TfL holds a controlling interest in that company, it will be a TfL subsidiary company and will therefore be subject to all Standing Orders and governance mechanisms as well as the same statutory framework as the rest of TfL.

7.2 To achieve our objectives and operate as effectively as possible as an income-generating property function, we need robust and efficient governance structures to achieve the required performance management and pace of decision making.

7.3 We are currently working on detailed proposals to strengthen the governance surrounding our property activities and a proposal will be presented to the Committee in due course.

8 Future Funding

8.1 Though not part of this proposal, the opportunity exists in the future to finance property activities utilising TTL Properties Limited’s own balance sheet. This could include a specific credit line secured against the company’s income stream or bringing in third-party equity. Any such propositions would require changes to TfL’s funding restrictions and would require support from the Government.

8.2 Recently, as part of TfL’s submission to Government on the Comprehensive Spending Review (CSR), we identified that with access to debt and / or equity we could deliver a total of 47,000 homes across our property development pipeline. In the CSR submission, we emphasised that Housing Infrastructure Funding would help accelerate delivery. In building tens of thousands of new homes, alongside our significant commercial portfolio, we can support billions of pounds of construction activity, which will provide massive benefit to the supply chain as well as increase our revenues and significantly grow the value of our asset base.

8.3 Sustainability remains critical to our development programme, and this has been reflected by 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 is the first time that TfL’s Commercial Development team has participated in the real estate benchmarking assessment process and the result is outstanding for a first-time entrant. The entry this year focused on TfL’s property development portfolio, with the aim of entering TfL’s operational and wider commercial portfolios in future years.

9 Public Sector Equality Duty

9.1 The Equality Act 2010 places a duty on TfL, in the exercise of its functions, to have due regard to the need to eliminate discrimination, harassment and victimisation and to advance equal opportunity and foster good relations between people who share relevant protected characteristics and those who do not. The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation.

9.2 There are not considered to be any equalities implications arising out if this decision to authorise the funding of TTL Properties Limited. The equalities implications of decisions about the use and development of the properties transferred into the company will be considered, supported by equalities impact assessments as appropriate, on an ongoing basis in accordance with the public sector equality duty.

List of Appendices to this Report:

None

List of Background Papers:

Deloitte report [Exempt from publication]

Contact Officer: Ken Youngman, Finance Director - Commercial Development
Number: 020 3054 7738
Email: KenYoungman@tfl.gov.uk

Finance Committee

Date: **25 November 2020**

Item: **Procurement Transformation Update**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to provide an overview, background and context for Procurement and Supply Chain (P&SC) Improvement Programme, hereafter Improvement Programme.

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 business affairs of TfL.

2 Recommendation

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

3 Programme Summary

3.1 The Programme is to transform the end to end Source to Pay (S2P) Lifecycle process across TfL.

3.2 The organisational units which the Programme will interact with to transform the S2P process are:

(a) London Underground
(b) Surface;
(c) Major Projects Directorate
(d) Crossrail;
(e) Professional Services;
(f) Commercial Development; and
(g) Greater London Authority (GLA) Collaborative Categories[1]

[1] Goods and services for which TfL provide framework contracts to enable GLA to buy against such as Travel, Print Services

4 Background

Procurement and Supply Chain (P&SC) Background

4.1 P&SC manages estimating, procurement, contract and cost management across the TfL organisation as well as supporting procurement related activities for Greater London Authority.

4.2 The team delivers several services, including:

(a) sourcing;
(b) contracting;
(c) operational procurement;
(d) contract management;
(e) supplier relationship management; and
(f) estimating and cost management.

4.3 The above activities are supported by core activities, including:

(a) governance and assurance;
(b) system, data and reporting; and
(c) supplier intelligence.

Accounts Payable Function Background

4.4 The Accounts Payable team reports through the Business Services Function (BSF) and is included as part of the scope of the Programme. BSF is part of the Customers, Communication and Technology office function (CCT) within TfL. Recently formed in March 2020, BSF brings together core functions to support Professional Services across Finance, HR and Procurement.

5 Case for Change

5.1 P&SC recognises the need to transform how it delivers its services across the organisation. The case for change can be summarised as:

(a) services delivered by P&SC need to meet the demands of the business;
(b) some processes across Source to Pay require detail developing;
(c) there are manual steps in some of the processes, time for which would be better served driving insights; and
(d) current technology landscape supporting the procurement process requires upgrading in parts.

6 Improvement Programme Overview

6.1 The Programme will deliver phases of change across the following elements (subject to consultation, where required):

(a) updated operating model for P&SC to work consistently across the business;
(b) consistent and efficient S2P processes across TfL that are compliant with procurement regulation;
(c) upgraded technology systems landscape to support the process;
(d) fit for purpose data architecture; and

(e) an end to end reporting suite, driving insights for timely decision making.

List of appendices to this report:

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Jonathan Patrick, Chief Procurement Officer
Number: 07521 094985
Email: JonathanPatrick@tfl.gov.uk

[page left intentionally blank]

Finance Committee

Date: **25 November 2020**

Item: **Maintenance and Management Contract for TfL Road Tunnels and Pumping Stations**

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 maintenance and management contract for TfL's road tunnels and pumping stations (T&PS Contract). It is anticipated that approval of Procurement Authority to enter into the T&PS Contract will be required before the next meeting of the Committee and will, therefore, be sought under Chair's Action.

1.2 The T&PS Contract is required to enable TfL to fulfil statutory duties and ensure a safe, reliable and resilient service is provided to customers across London. It includes the essential maintenance of TfL's road tunnels and highway pumping stations located on and around the Transport for London Road Network (TLRN).

2 Recommendation

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

3 Background

3.1 Surface Transport currently manages its supply chain requirements in support of business activities covering infrastructure inspection, operation, maintenance, renewals and enhancements through a suite of contract which are due to expire on or around 31 March 2021. The T&PS Contract is the second submission from this contract suite, following award of the London Highway Maintenance and Projects Framework in October 2020.

3.2 Delivery of road tunnel and pumping station management and maintenance is fundamental in ensuring that a safe, reliable and resilient service is provided to customers across London. Typical maintenance activities include emergency call out, reactive repairs to tunnels and pump station assets, safety inspections, other routine and cyclic maintenance activities, maintenance of tunnel outstation management equipment and delivery of minor capital renewal requirements.

3.3 The works and services to be delivered under the T&PS Contract are currently delivered through multiple contracts, predominantly the London Highways Alliance Contract (LoHAC) and the tunnel outstation maintenance (TOM) contract. These existing contracts are due to expire on 31 March 2021, with no extension options for LoHAC. The TOM contract does have further extension options if required, however it was identified that efficiencies would be made to combine the

TOM contract requirements with the tunnels and pumping stations requirements at the earliest opportunity.

3.4 TfL is the highway authority for the TLRN and has a statutory duty under the Highways Act 1980 to maintain the public highway. The Traffic Management Act 2004 places a duty on TfL to, 'manage the road network with a view to securing and facilitating the expeditious movement of people and goods', which includes the provision and maintenance of assets that support this activity. These duties are further expanded upon through national and international industry standards and guidance. The T&PS Contract is required to ensure that TfL has the necessary capacity and expertise within the supply chain to fulfil these duties at the location of 10 of TfL's 12 road tunnels and 106 pumping stations which are in scope of this contract.

3.5 The T&PS Contract will play a vital role in supporting the Mayor's Transport Strategy goals and Vision Zero targets, including:

(a) a good public transport experience – maintaining assets in a good condition to support a safe and reliable network; and

(b) safe speeds, safe streets, safe vehicles and safe behaviours – supporting a holistic approach to delivery which recognises that all parts of the 'system' need to work in combination.

3.6 The current organisation, general industry and financial climates have been considered extensively in the development of the T&PS Contract, notably around the coronavirus pandemic and TfL's current financial situation. Various provisions have been incorporated to safeguard TfL and deliver best value to TfL throughout the contract term.

3.7 An OJEU compliant procurement process was followed, using the Competitive Procedure with Negotiation. This provided TfL with the option to negotiate relevant aspects with the suppliers to optimise delivery solutions, explore cost savings and secure best value.

4 Procurement Summary

Contract Approach

4.1 Due to the critical nature of works and services to be delivered under the T&PS Contract, a single supplier will be appointed to provide a single point of responsibility for the management and maintenance of TfL's road tunnels and pump stations. Appointing a specialist supplier for these key assets will ensure consistency in the delivery of works and services, enhance critical operational relationships, ensure effective and more timely response to reactive requirements and introduce a consistent performance regime, which will incentivise positive behaviours and promote best working practices.

4.2 The T&PS Contract includes a critical interface with the new London Highway Maintenance and Projects Frameworks (LHMPFs) (authority for which was approved by the Committee in September 2020). To ensure efficiencies are achieved, notably through the formation and continuation of collaborative relationships, the duration of the T&PS Contract and LHMPFs will be at an initial eight years with the option to extend by a further four years. Ensuring this consistency in terms will also allow for joint consideration of these contractual arrangements at their expiry, which was crucial due to the nature of the interface. To provide flexibility to TfL should the anticipated efficiencies not materialise, a break clause has been included at four years.

Evaluation and Supplier Selection

4.3 A robust selection process was followed, with financial checks undertaken, to ensure that suppliers retain both the operational and financial capacity and capability to meet the requirements.

4.4 As part of the tender process, suppliers were required to submit initial tender submissions on 1 July 2020. These comprised full financial and quality submissions, which informed discussions during the subsequent negotiation stage. The outcome of the initial evaluation was that two suppliers failed to achieve the minimum quality thresholds and were excluded. Following conclusion of the negotiations, the remaining suppliers were invited to review their initial financial submission to reflect the outcome of the negotiation stage. Minor changes were made to the tender documentation and final financial submissions were received on 22 October 2020. The outcome of the evaluation and recommendations will be included, along with the necessary cost analysis activities which are still being progressed, in the paper seeking approval from the Committee.

Coronavirus Pandemic Implications

4.5 The impact of the coronavirus pandemic was highlighted as a key risk and identified as an area which could lead to considerable price uncertainty to both TfL and the suppliers over the course of the contract term. Mitigation provisions have been incorporated, linked to Government guidance, with the opportunity provided to suppliers to tender adjustments following the negotiation phase against their base rates and prices. These adjustments, obtained within a competitively tendered process to obtain best value, account for restrictions as a result of social distancing and other costs which may be incurred as a result of the coronavirus pandemic. They will only apply when working restrictions are required in accordance with the Government guidance. Suppliers were therefore not required to price the coronavirus pandemic related risks within their tendered base rates and prices.

Mobilisation and Contract Readiness

4.6 In recognition of the scale and complexity of mobilisation of a contract of this nature, a workstream is being progressed in collaboration with a wide range of stakeholders from across TfL. The key objectives of this workstream are to ensure contract readiness and implement a robust contract management plan, through a range of activities including training and systems development.

4.7 From the commencement of the process, provision of an adequate mobilisation period has been recognised as a key risk. It is regarded that the setup and interface of systems between the supplier and TfL and the appointment and training of key staff are time intensive activities. Acknowledging the current impact of the coronavirus pandemic, there is a strong likelihood that this will provide additional challenges in ensuring a state of readiness exists to commence delivery of the works and services from 1 April 2021.

4.8 Achievement of a three month mobilisation period, prior to commencement of the works and services in April 2021, provides extensive opportunity for TfL's project management team to work closely with the supplier to ensure excellent contract management principles are developed collaboratively and embedded into both the operational and commercial approach to the contract from the outset. Further, this provides necessary timescales for the successful mobilisation of operational premises, systems, plant and equipment and the training of staff.

Key Milestones

4.9 Detailed analysis is currently 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 T&PS Contract. A workstream is also being undertaken in parallel to compare current and future costs. The output of these activities is required to support the request for Procurement Authority and the activities are due to be completed to facilitate submission of an approval paper to the Committee.

4.10 The programme for approval of Procurement Authority for the T&PS Contract anticipates a decision enabling commencement of the standstill period prior to the Christmas period in December 2020 and award of the T&PS Contract in early January 2021, with the full service to commence on 1 April 2021.

List of appendices to this report:

None

List of Background Papers:

None

Contact Officer: Gareth Powell, Managing Director Surface Transport
Number: 07725 924646
Email: GarethPowell@tfl.gov.uk

Finance Committee

Date: **25 November 2020**

Item: **Enterprise Risk Update: Supply Chain Disruption (ER5)**

This paper will be considered in public

1 Summary

1.1 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.

1.2 The impact of supply chain disruption due to the coronavirus pandemic and Brexit uncertainty is expected to have a negative impact on financial health of TfL's Tier 1 suppliers. As the effects of the coronavirus pandemic and a possible hard Brexit fully materialise; further disruption to the wider supply chain (Tier 2's and 3's) is also expected.

1.3 Failure to identify poor supplier financial health could result in a further increase in the TfL cost base.

1.4 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 business affairs of TfL.

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 TfL relies heavily on contracted goods and services to enable safe and reliable journeys. These goods and services are provided by suppliers, many of whom are key to the running of TfL. As a result of the coronavirus pandemic, the following factors have caused disruption to the supply chain:

(a) a safe stop halt to Construction;

(b) a reduction in cash flow;

(c) furlough of staff;

(d) PPE shortages;

(e) staff illness;

(f) further Government legislation and guidance as a result of the coronavirus pandemic; and

(g) border delays.

3.2 Brexit without a trade deal with the European Union could have a substantial impact on the cost and availability of certain materials, finished products, and contracted services. Further disruption to the supply chain could include:

(a) border delays with goods and services directly contracted or part of the supply chain from the EU;

(b) tariff charges on World Trade Organisation terms; and

(c) regulatory change for standardised processes such as procurement, rail and aviation;

3.3 TfL currently monitors the financial health of suppliers who are critical to the running of TfL.

3.4 There is a rising risk of insolvency across our supply chain as the economic effects of the coronavirus pandemic and Brexit are seen.

3.5 Therefore, TfL's Procurement and Supply Chain Directorate have preventative controls in place to manage supply chain risk.

4 Consequences

4.1 Without preventative controls and processes to manage supply chain risk, TfL would be at risk of operational and financial implications:

(a) increased costs: Increased cost of materials, finished products, and contracted services; and

(b) project delivery delays: Project delays due to the unavailability of materials, finished products, and contracted services; and

(c) operational services disruption: Disruption to operational services due to the unavailability of materials, finished products, and contracted services.

5 Preventative Controls

5.1 The following controls and processes have been implemented across all business areas to increase TfL’s understanding of supply chain risks, issues and financial exposure:

(a) supply chain risks and issues register with mitigation plans;

(b) a supplier financial health monitoring process;

(c) regular reporting and executive review; and

(d) supplier communication and engagement.

6 Actions

6.1 Brexit based risks and issues are being incorporated into the supply chain risks and issues register. These will continue to be populated as Brexit risks and issues become realised and contingency plans will be developed and monitored.

6.2 Ongoing collaboration will be needed across Procurement and Supply Chain and with TfL's operational business areas to develop contingency plans for all financially high-risk suppliers.

List of appendices to this report:

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Simon Kilonback, Chief Finance Office
Number: 020 3054 8941
Email: simonkilonback@tfl.gov.uk

[page left intentionally blank]

Agenda Item 13

Finance Committee

Date: **25 November 2020**

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

Contact Officer: Howard Carter, General Counsel
Number: 020 3054 7832
Email: HowardCarter@tfl.gov.uk

Finance Committee Forward Plan 2020/21

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)

10 March 2021		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Activities	CFO	To note.
Treasury Management Strategy 2021/22	CFO	To approve (delegated by the Board).
Treasury Management and Derivative Investments Policies 2021/22	CFO	To approve (delegated by the Board).
TfL Investment Strategy 2021/22 – Non-Financial Assets	CFO	To note and recommend Board approval.
TfL Scorecard 2021/22	CFO	To note and recommend Board approval.
General Fund Balance	CFO	To approve.
TfL Budget 2021/22 - informal	CFO	To note and recommend Board approval.
TfL Prudential Indicators 2022/23 to 2023/24 – informal	CFO	To note and recommend Board approval.
TTL Properties Ltd Governance Structure	D Comm Dev	To approve.
Enterprise Risk Update – Financial Sustainability (ER7) (to be confirmed)	MD - CFO	To note.

Enterprise Risk Update – Modal mix misaligned to strategic policy objectives (ER 9) (to be reviewed)	MD – CCT	To note.

Regular items:

- Use of Delegated Authority (General Counsel) covers Chair's Action, Procurement Authority etc.
- 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 – November) (CFO)
- Enterprise Risk Update – Financial Sustainability (ER7) (annual – March) (MD - CFO) (to be confirmed)
- Enterprise Risk Update – Modal mix misaligned to strategic policy objectives (ER9) (annual – March) (MD – CCT) (to be reviewed)

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

Finance Committee Forward Plan 2020/21

- 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 (CFO) - action from Board meeting on 22 January 2020.
- Transport Innovation (MD - Surface) – Member suggestion for future discussion item from 11 March 2020 meeting.
- Board Engagement with Major Projects (CFO & GC) - action from meeting on 6 March 2020, to be taken forward following the approval of a revised Budget for 2020/21.

As at 17 November 2020

[page left intentionally blank]