Agenda

Meeting: Finance Committee

Date: Wednesday 23 June 2021

Time: 10.00am

Place: Teams Virtual Meeting

Members

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

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

How decisions will be taken during the current social distancing measures

The 2020 regulations that provided the flexibility to hold and take decisions by meetings held using videoconference expired on 6 May 2021.

While social distancing measures remain in place to manage the coronavirus pandemic, Members will attend a videoconference briefing held in lieu of a meeting of the Committee. Any decisions that need to be taken within the remit of the Committee will be discussed at the briefing and, in consultation with available Members, will be taken by the Chair using Chair's Action. A note of the decisions taken, including the key issues discussed, will be published on tfl.gov.uk.

As far as possible, TfL will run the briefing as if it were a meeting but without physical attendance at a specified venue by Members, staff, the public or press.

- Papers will be published in advance on tfl.gov.uk How We Are Governed
- Apart from any discussion of exempt information, the briefing will be webcast live for the public and press on TfL's 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; 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 15 June 2021

Agenda
Finance Committee
Wednesday 23 June 2021

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interests

General Counsel

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

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

3 Minutes of the Meeting of the Committee held on 10 March 2021
(Pages 1 - 16)

General Counsel

The Chair, following consultation with the Committee, is asked to approve the minutes of the meeting of the Committee held on 10 March 2021 and to sign them.

4 Matters Arising and Actions List (Pages 17 - 22)

General Counsel

The Committee is asked to note the actions list.

5 Use of Delegated Authority (Pages 23 - 28)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 29 - 44)

Chief Finance Officer

The Committee is asked to note the report.

7 TfL Roadside Advertising (Pages 45 - 46)

Chief Finance Officer

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

8 TfL Energy Purchasing and GLA Energy Procurement Collaboration Programme (Pages 47 - 52)

Chief Safety, Health and Environment Officer

The Chair, following consultation with the Committee, is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, and endorse the GLA to offer an optional finance instrument to potential bidders for Power Purchase Agreement 2.

9 Sale of Lillie Bridge Depot (Pages 53 - 66)

Director Commercial Development

The Chair, following consultation with the Committee, is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, and approve Land Authority for the disposal of Lillie Bridge Depot and Ashfield House to Earls Court Partnership Limited, the joint venture between Delancey/APG and TfL.

10 Funding Update on TTL Properties Limited (Pages 67 - 82)

Director Commercial Development

The Committee is asked to note the paper.

11 Update on Income from Developers Through Planning Obligations and Other Related Funding Mechanisms to Deliver TfL Transport Priorities (Pages 83 - 98)

Director City Planning

The Committee is asked to note the paper.

12 Enterprise Risk Update - Supply Chain Disruption (ER5) (Pages 99 - 104)

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 105 - 110)

General Counsel

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

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 6 October 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.

Agenda Part 2

17 TfL Roadside Advertising (Pages 111 - 116)

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

18 TfL Energy Purchasing and GLA Energy Procurement Collaboration Programme (Pages 117 - 118)

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

19 Sale of Lillie Bridge Depot (Pages 119 - 132)

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

20 Enterprise Risk Update - Supply Chain Disruption (ER5) (Pages 133 - 138)

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

Transport for London

Minutes of the Finance Committee

Teams Virtual Meeting
10.00am, Wednesday 10 March 2021

Members of the Committee
Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Heidi Alexander
Prof Greg Clark CBE (present from Minute 07/03/21 (part))
Anne McMeel

Government Special Representative
Clare Moriarty DCB

Executive Committee

Andy Byford	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Simon Kilonback	Chief Finance Officer
Shashi Verma	Chief Technology Officer and Director of Strategy

Staff

Andrea Clarke	Director of Legal
Julie Dixon	Head of Information, Design and Partnerships
Patrick Doig	Finance Director, Surface Transport
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director, Corporate Finance
Kate Keane	Chief of Staff to Commissioner
Shamus Kenny	Head of Secretariat
Tony King	Group Finance Director and Statutory Chief Finance Officer
Polly Lethbridge	Senior Risk Manager
Emma Lucas	Chief of Staff, Chief Finance Officer
Paul Mason	Group Treasurer
Rachel McLean	Finance Director, London Underground and TfL Engineering, and Chief Financial Officer, Crossrail
Clive Mills	Non-Permanent Labour Manager
Pritesh Patel	Senior Financial Planning Manager
Rajiv Sachdeva	Head of Financial Planning and Analysis
Sian-Enetia Sharp	Recruitment Delivery Lead
Alexandra Sorkina	Head of Corporate Debt Fund and Risk Management
Martin Taylor	Head of Business Strategy
Clive Walker	Director of Risk and Assurance
Ken Youngman	Finance Director, Commercial Development

01/03/21 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. 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. While Members would discuss as much of the items in public as possible, information related to TfL’s business and financial affairs would need to be discussed in private. When the exempt information needed to be considered, the recording would be stopped for the press and public.

Howard Carter reported that an apology for absence had been received from Dr Nina Skorupska CBE. Prof Greg Clark CBE had given an apology for lateness, as he had another Greater London Authority Group meeting to attend and would join this meeting from 11.00am.

The deferral of the Mayoral and London Assembly Elections meant the meeting of the Board had to be brought forward to 16 March 2021; as the papers for that meeting were published ahead of this meeting, the Chair would provide a verbal update to the Board on the items on the agenda that sought a recommendation from the Committee to the Board.

Agenda Item 8, TfL Scorecard 2021/22, had been withdrawn from this meeting and would be considered by the Board at its meeting on 16 March 2021.

The Chair reminded those present that safety was paramount at TfL and encouraged Members to raise any safety issues during discussions on a relevant item or with TfL staff after the meeting. There were no specific issues raised at the meeting.

The Chair confirmed that he would leave the Board in May 2021 due to other work commitments and so this was his last meeting as Chair and a member of the Committee. He thanked everyone involved in the Committee’s work. He believed it had achieved a huge amount due to the diligence and significant work of the Members and staff who supported its meetings.

On behalf of the Executive team and TfL colleagues, Andy Byford thanked Ron Kalifa OBE for his chairmanship, professionalism, knowledge, wisdom and guidance, and for being an advocate for transport in the city. He had rightly held TfL to account and equally understood the circumstances in which it operated and offered unfailing support. Andy Byford wished him the very best for the future.

Heidi Alexander endorsed the comments and expressions of gratitude and added that Ron Kalifa OBE had provided a great service to TfL over the last five years. She thanked him for his personal support to her, and for the leadership he had shown and the contribution he had made, which was hugely appreciated.

02/03/21 Declarations of Interests

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

He informed the meeting of a potential future interest for Dr Nina Skorupska CBE. Subject to approval by the Royal BAM Group AGM on 14 April 2021, she would be appointed to the Royal BAM Group Supervisory Board. Her declaration had been updated and published on the website to list the potential appointment; this would be updated again with her biography following the decision of the Royal BAM Group AGM.

TfL had robust processes in place to manage any potential conflicts and Dr Nina Skorupska CBE would not receive exempt papers, nor take part in any Committee or Board discussions, relating to members of the Royal BAM Group, which included Civil BAM Nuttall and BAM Construct UK.

Howard Carter added that he was not aware of any items on the agenda where a Member would need to declare a specific interest and leave the meeting during its discussion. No Members declared any interests that were relevant to items on the agenda.

03/03/21 Minutes of the Meeting of the Committee held on 25 November 2020

The Committee approved the minutes of the meeting held on 25 November 2020 as a correct record. The minutes would be provided to the Chair for signature at a future date.

04/03/21 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.

05/03/21 Use of Delegated Authority

Howard Carter introduced the paper. Members noted that, since the meeting of the Committee on 25 November 2020, there had been no use of authority delegated by the Board nor use of Procurement or Land Authority granted by the Commissioner or the Chief Finance Officer.

There had been two uses of Chair's Action, in consultation with members of the Committee. On 29 December 2020, the Chair approved the award of the Maintenance and Management Contract for TfL Road Tunnels and Pumping Stations. On 4 March 2020, after the publication of the papers for this meeting, the Chair approved a Settlement Agreement with members of the Silver Thames Connect consortium, relating to the award of the Silvertown Tunnel project agreement.

There had been two Mayoral Directions to TfL, both previously reported to the Board. On 30 November 2020, the Mayor published a Direction to TfL (MD2724) in relation to implementing the financial support fund for Seven Sisters Market traders. On 14 January 2021, the Mayor published a Direction to TfL (MD2730) in relation to March 2021 fare changes.

The Committee noted the paper.

06/03/21 Finance Report

Tony King and Rajiv Sachdeva introduced the report, which set out TfL's financial results to the end of Period 11, 2020/21 – the year-to-date period ending 6 February 2021. Year-to-date financial performance was shown against the Revised Budget and the previous year. On 9 December 2020, the Board reviewed and approved the new Budget for 2020/21 and 2021/22 (the TfL Budget, which replaced the Revised Budget). The TfL Budget reflected updated passenger journey and income modelling, as well as cost savings and changes to capital programmes. It also reflected the new funding and financing agreement with Government for H2, 2020/21, which provided up to £1.8bn of financial support.

Financial performance was ahead of predicted revenue, and costs were being driven down and controlled in line with the approved TfL Budget, which incorporated the revenue true-up mechanism and the £160m cost savings as part of the H2 funding deal.

Passenger journeys and income had declined significantly since mid-December 2020, with London entering Tier 4 restrictions and the third national lockdown from early January 2021. Weekly passenger income was over £65m lower compared to last year. Journeys had been flat since January 2021 but were up on the first lockdown in 2020, with Tube journeys almost three times higher and bus journeys almost double. Congestion Charge volumes were broadly in line with last year for most of the period. Weekly income was just over £1m higher than last year, driven by the increase in daily charges from June 2020.

Operating costs were lower than target and down on last year. Costs were kept down through the planned savings programme, lower network costs in the first wave of the coronavirus pandemic and other one-off savings this year. Cash balances were broadly stable, with the agreement with Government for H2 providing a base level of funding, as well as funding for losses in passenger revenue up to an agreed level.

The net cost of operations was £122m better than target, driven by higher journey volumes offset by revenue top-up funding included in the extraordinary revenue grant, cost reductions, contingency release and lower coronavirus related costs.

Total staff headcount had reduced by 777 since the end of last year, with almost two-thirds of the reduction through lower numbers of agency staff and non-permanent labour. Compared to the original Budget, staff numbers were down by almost 1,500.

Total capital expenditure was £57m lower than target, driven by a slower ramp up in capital renewals and lower property investment spend. Property and asset receipts were £94m down on target, mainly driven by the delayed disposal of Tottenham Court Road and Davies Street.

Expected full-year outturn was a deficit of almost £3.8bn, before funding and financing support from Government. Compared to the forecast in December 2020, this was an improvement of just over £420m, driven by higher passenger income and lower operating costs. Against last year, the expected deficit was just over £3.3bn worse, with total income £3.4bn lower. Total operating costs were expected to be almost £60m lower, despite additional coronavirus related costs of £160m this year. Underlying core costs were expected to outturn almost £180m lower than last year, as a result of the savings programme and one-off upside this year.

As part of the H2 funding agreement, TfL was committed to making net savings from income and capital of £160m against the H2 Revised Budget. Savings of £256m had been made so far in H2. After adjusting for timing differences and accounting and grant changes, it expected to reach £235m by year end and was improving its working capital, so expected to see a one-off cash upside from this.

TfL was facing several key risks at year end, including uncertainty on Government funding going into 2021/22 and the impacts of Brexit on its supply chain.

Simon Kilonback confirmed that the H2 funding deal saw Government largely take on the passenger revenue risks owing to reduced ridership and Government policy in response to the pandemic, whilst TfL retained the revenue risks around road user charging income, media and commercial retail income. TfL had incurred direct cost increases of over £150m fighting the pandemic and was focussed heavily on managing down the costs it could control to make the required £160m savings. It had made £80m like-for-like improvements on core operating costs, of which holding down staff vacancies was a key part.

While operating under tight controls and with no long-term funding agreement in place, TfL had stopped all but safety critical spend. Lack of certainty over the timing and content of the funding deal meant that TfL suppliers were facing scrutiny from their own investors and lenders over whether TfL could meet its commitments to them. Lack of capital certainty was hampering TfL's ability to maintain and renew existing assets, which had long lead-in times with the majority already on contract for this financial year, and 80 per cent of next year's budget already contractually committed.

Cash balances were £1,634m at the end of the period, £85m lower than forecast. This was driven by unfavourable working capital movements that would reverse by year end. As part of the H2 agreement, TfL had so far received £765m of base funding from Government, as well as £278m revenue top-up funding. As part of the new funding agreement, TfL was required to return the £260m excess funding provided in H1, 2020/21. This would be repaid to Government when the new funding agreement expired at the end of 2020/21.

In response to the first wave of the pandemic, TfL ran down its cash balances from March to May 2020 by nearly £1bn, which reduced its resilience to meet commitments and other challenges. As TfL borrowing was restrained and it could not afford to borrow in the forecasted future, holding cash was its only shock absorbing mechanism. TfL had been downgraded by the rating agencies due to the pandemic and its cash balances were significantly less than those held by other transport authorities, which impacted on credit ratings. Without a long-term capital funding deal, it would be difficult to endorse procurement authority for long-term contracts and commitments coming up, which would impact on Tube and bus services. Significant cash balances in excess of £1.2bn were fundamental to withstand shocks in maintaining financial commitments and assessing financial sustainability.

The Committee noted the report.

07/03/21 2021/22 Budget and Funding Discussion

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 development of the Budget and the ongoing discussions with Government on TfL funding.

Simon Kilonback introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on the 2021/22 budget process and ongoing negotiations with Government on funding support for 2021/22 and beyond, as the current funding and financing agreement expired on 31 March 2021. The proposed 2021/22 budget was currently being reviewed and assumptions updated with due consideration to the status of negotiations with Government. If negotiations had not concluded by 16 March 2021, the known adjustments would be made to the draft Budget approved in December 2020 and financial authority would be made that flowed from the Budget subject to the outcome of the funding deal. Once a new funding deal was agreed and the implications worked through, a revised budget for 2021/22 would be presented to the Committee and Board for approval.

Since the recent Government announcement for a roadmap out of lockdown, TfL had worked rapidly to provide the current view of demand and revenue trends based on the latest understanding of passenger behaviour coming out of lockdown. The core focus of the 2021/22 budget year was to support London’s economic recovery and reopening, and for TfL to be ready when passengers were ready to come back to public transport. Travellers needed to feel confident that services were safe, frequent and reliable to encourage them back and would not accept the levels of overcrowding people were used to before the coronavirus pandemic. The turn up and go frequency of TfL services enabled London to be a city supported by public transport to get around and for air quality advances not to be lost by a car-led recovery.

Since the December 2020 Budget was approved, TfL had seen a reduction in expected funding requirement for 2020/21 from £3.3bn to £3.2bn, due to improved revenue to date and a slowdown of capital spending as a result of uncertainty around future funding. The underlying funding gap for 2021/22 had improved from £3.1bn due to business rates retention and additional council tax precept revenue. The funding gap ranged from £2.6bn and £3.2bn as a result of uncertainty over passenger demand. The funding gap for 2022/23 was assumed to be £1.5bn, an improvement of £0.3bn against the December 2020 Budget, due to aligning buses to the Financial Sustainability Plan passenger income, including a 4 per cent service reduction from July 2021 and favourable business rates retention and council tax precept rolled over from 2021/22.

TfL’s Financial Sustainability Plan, published and submitted to Government in January 2021 as part of the H2 funding agreement commitment, had a higher level of ambition than Budget. The Plan set out the route to financial sustainability and a 10-year plan for social, environmental and diversity sustainability.

Under the recommended scenario to decarbonise by 2030, TfL could cover the costs of operations, maintenance and financing by 2023/24, and could also start to cover the cost of its core renewals by 2024/25. This assumed an additional new income source either through retention of the Vehicle Excise Duty or Greater London Boundary Charge. It also assumed that TfL would receive the right level of funding support from Government for 2021/22, and focussed on a long-term solution from 2022/23 onwards, requiring around £1.5bn to £1.6bn per year to 2030, which was consistent and relatively small compared to the first 20-year funding cycle and significantly less than the amount suggested by the

Natural Infrastructure Committee. Asset strategy work would assess asset condition and proper whole life cost based on efficiency and economy, the Mayor's Transport Strategy and understanding of priorities. Public money was being wasted due to the need to stop and start projects and TfL required a mechanism for capital funding, like Highways England and National Rail, to enable planning by control periods.

The December 2020 Budget had assumed revenue recovery over the course of the year and further lockdowns or significant suppression into winter 2021/22. The Government roadmap for easing restrictions would see a return to normal life from 21 June 2021, but it could not be assumed that passenger demand would bounce back to pre-pandemic levels or revenue scenarios return to almost full recovery. TfL was planning on the basis of a gradual passenger return and reopening, with a focus on recovery for the central activity zone, though a further winter suppression mandated by Government or public behaviour was also anticipated. Even with revenue recovery between 75 to 95 per cent by end of year, the funding gap requirement was between £2.1bn to £2.5bn in H1, with a further gap of between £0.5bn to £0.7bn in H2.

The Financial Sustainability Plan included £730m of recurring savings over the years 2019/20 – 2024/25, a large proportion of which were in London Underground modernisation and supply chain, as well as bus services. Elements of the savings plan going forward contained considerable risk as they were more difficult to achieve and could impact industrial relations. Government expected TfL to deliver savings to at least this level, so any additional savings would be used to de-risk the existing savings, rather than make incremental savings.

The proposed 2021/22 Budget was aligned to the Financial Sustainability Plan over the medium term, and the updated forecast showed a reduction in extraordinary revenue grant funding requirement from £3.1bn to £2.7bn in 2021/22. There were a range of possible outcomes from £2.6bn to £3.2bn, depending on how quickly ridership returned under the Government roadmap. TfL had a trajectory to reach a deficit of around £600m by 2024/25, based on the new income sources. TfL could not cover all renewals or enhancements without £1.5 - £1.6bn per annum.

Under funding constraint, TfL's capital investment programme had prioritised safety critical works and deferred less critical renewals, which had implications on future cost and scope of works needed. The Financial Sustainability Plan set out how TfL could rebuild to a level of investment that allowed for critical renewals. Renewals were currently around £380m and TfL planned to reach pre-pandemic levels of around £800m to £900m. This was based on the two-year asset strategy and condition work, assuming current level of services.

The capital prioritisation framework was agreed with the Board and Department for Transport in December 2020. It split renewals and enhancements into defined categories, with percentages showing the total four-year baseline capex in each category and contractual commitments considered separately. Over 75 per cent of investment was in the minimum and minimum plus categories.

TfL was facing an unbalanced set of risks and opportunities mainly due to the revenue impact. Assuming passenger income was protected in any future funding deal, significant other income risks remained linked to ridership and pressures on costs.

Shashi Verma confirmed that ridership levels were currently around 25 per cent of normal demand on the Tube and 45 per cent on buses. Approximately 70 per cent of normal volume was expected by autumn 2021 and 80 per cent expected in a year's time, but it could only be 60 per cent as uncertainty remained. A detailed assessment would be carried out in response to each stage of unlocking and whether there was a slow or fast reaction, including behaviour changes, changes to working patterns and London's changing population over time.

Andy Byford confirmed that a single, co-ordinated change management function was being consolidated to set up a centre of excellence and change management team that would report to a Change Steering Committee. This function would track the complexity of the savings programme in terms of quantum and timing, and whether it was on track to meet the desired outcomes and critical success factors.

Heidi Alexander confirmed that she would contact Board Members individually for their views on the priorities and choices to be made for transport innovation in the longer term.

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

1 note the update on the proposed 2021/22 budget and the funding negotiations with Government; and

2 endorse the approach to the proposed 2021/22 budget process as set out in the paper.

08/03/21 Treasury Management Strategy 2021/22

Joanna Hawkes introduced the paper and related supplemental information on Part 2 of the agenda, which set out the proposed Treasury Management Strategy (TMS) for 2021/22. The TMS included TfL's proposed strategies for investment, borrowing, liquidity and risk management for the financial year 2021/22, as well as proposed counterparty exposure limits. It also set out TfL's borrowing requirement.

The TMS had been updated to remove reference to incremental borrowing amounts agreed with HM Treasury, since those limits were only agreed up to the end of 2020/21. Following a review of investment limits aimed at improving the efficiency of dealing activities, it was proposed to change the investment counterparty exposure limits methodology to use a notional amount based on the credit rating of the counterparty which could be tracked more easily. Counterparty exposure limits would continue to be reviewed throughout the year to ensure concentration risk remained at an appropriate level.

Similarly, it was proposed to change the limit for the total investments in A-2, P-2 or F2 by Standard & Poor's, Moody's or Fitch Ratings credit rating agencies, from 20 per cent of the portfolio to £240m, which was equivalent to 20 per cent of a £1.2bn portfolio. These changes would allow the process of generating limits to be automated using the TMS software, further improving efficiency, accuracy and the quality of controls. There were no other material changes proposed to the TMS for 2021/22. All investments referred to were held for treasury management purposes only.

Approval of the TMS was a matter reserved to the Board. On 29 July 2020, the Board delegated to the Committee approval of the TMS and any changes to the TMS during any year. The TMS had been amended to reflect the delegated authority and the

Committee was asked to exercise that authority in relation to the TMS for 2021/22. TfL's Prudential Indicators that supported planned capital expenditure, borrowing and treasury management activities would be considered by the Board on 16 March 2021.

The Committee noted the paper and the exempt supplemental information on Part 2 of the agenda, and under the authority delegated by the Board:

1. **approved the Treasury Management Strategy (TMS) 2021/22, as set out at in Appendix 1 of the paper, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits;**

2. **noted that the proposals to the Committee for derivative investments, as set out in 3 below, had been approved by the statutory and managing Chief Finance Officers, as required under the TfL Group Policy Relating to the Use of Derivative Investments (the 'Derivatives Policy'); and**

3. **subject to the approval of the TMS 2021/22 and the Derivatives Policy, approved, pursuant to Section 49 of the Transport for London Act 2008 (as amended by the Transport for London Act 2016, together the Act), and in accordance with the Derivatives Policy for 2021/22, Transport for London Finance Limited (as a qualifying TfL subsidiary for the purposes of the Act) entering into derivative investment(s) in relation to:**

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

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

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

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

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

    (f) mitigating risk related to any index reflecting any of the above matters referred to in paragraphs 3(a) to (e).

09/03/21 Treasury Management and Derivative Investments Policies

Joanna Hawkes introduced the paper, which set out the proposed Treasury Management Policies and TfL Group Policy Relating to the Use of Derivative Investments, which supported the commitment to financial prudence through risk management.

Approval of the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments were matters reserved to the Board. On 29 July 2020, the Board delegated to the Committee approval of the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments and any changes to these policies during any year, and the Committee was asked to exercise that authority.

References to incremental borrowing amounts agreed with HM Treasury had been removed from the Treasury Management Policies, since these limits were only agreed up to the end of 2020/21. The policies had been amended to reflect the delegated authority for approval. There were no other material changes to the proposed policies.

The TfL Group Policy Relating to the Use of Derivative Investments was reviewed annually and had been updated to reflect the delegated authority for approval. There were no other material changes to the proposed policy.

The Committee noted the paper and under the authority deleted by the Board, approved the:

1 Treasury Management Policies, as set out at Appendix 1 of the paper; and

2 TfL Group Policy Relating to the Use of Derivative Investments, as set out at Appendix 2 of the paper.

10/03/21 Treasury Activities

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 12 September 2020 to 19 February 2021. During the reporting period, TfL had complied at all times with the Treasury Management Strategy, the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments, including the GLA Responsible Investment Policy.

Over the last six months, Moody’s had downgraded TfL’s long-term credit rating in line with other credit agencies, reflecting caution in outlook on changes of behaviour in ridership and more homeworking in response to the coronavirus pandemic and the loss of Government operating grant. The investment strategy over the last year had focussed on liquidity and security rather than seeking excess returns. Borrowings were at £12.8bn, average weighted term was 17 years, the interest rate was 3.3 per cent and TfL was within policy on its fixed float hedging at 94 per cent fixed.

The London Interbank Offered Rate (LIBOR) would be discontinued after 2021 and would move to Sterling Overnight Index Average (SONIA). TfL was in the process of concluding its transition programme where its long-term interest rates would move over, and several contractual arrangements had been identified where the reference rate would be changed from LIBOR to SONIA.

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

11/03/21 Investment Strategy 2021/22 – Non-Financial Assets

Simon Kilonback, Graeme Craig and Ken Youngman introduced the paper, which sought delegated authority and approval for the proposed Investment Strategy 2021/22 – Non-Financial Assets. The strategy set out how TfL planned to manage and grow its various commercial assets, including property, retail, media and telecoms.

Statutory guidance required the strategy to include reference to other non-financial assets held primarily for or partially to generate profit. The strategy sat alongside TfL's Treasury Management Strategy, which addressed financial investments. There were no substantive changes to the proposed strategy.

TfL took its responsibilities as a landlord seriously and was supporting its tenants through the coronavirus pandemic by focussing on protecting income on its existing estate in the short-term. Good progress was being made in early discussions with the Ministry of Housing, Communities and Local Government on longer-term financial sustainability and ambitious property and housing plans to deliver more affordable homes on TfL land, invest in jobs and growth in London's town centres, and rebuild recovery and communities. The Committee would monitor future progress and an in-depth update would be brought back to the Committee in summer 2021.

[Action: Graeme Craig / Ken Youngman]

In relation to the Grenfell Tower fire tragedy, Members requested that a response be brought to the Programmes and Investment Committee or another relevant forum on the implications for TfL in relation to cladding and its tenants.

[Action: Graeme Craig / Ken Youngman]

The Committee noted the paper and:

1. **recommended that the Board delegate approval of the Investment Strategy for Non-Financial Assets (IMS) for 2021/22 and future years, and any changes to the IMS during the course of any year, to the Finance Committee; and**

2. **subject to a delegation of authority from the Board, approved the Investment Strategy 2021/22 – Non-Financial Assets, as attached at Appendix 1 to the paper.**

12/03/21 Financing New Equity in TTL Properties Limited

Simon Kilonback, Tony King and Ken Youngman introduced the paper, which set out the financing requirement of Transport Trading Limited (TTL) in relation to the equity funding issue of TTL Properties Limited (TTLP), as approved by the Committee at its meeting on 25 November 2020. It sought approval for the issue of an intragroup interest-bearing loan of up to £2.1bn by London Underground Limited to TTL, to facilitate the investment by TTL in new share capital of TTLP.

At its meeting on 1 April 2019, the Committee approved the consolidation of commercial and other property assets from across the TfL Group into TTLP, which was a key component in the creation of a ring-fenced, self-financing property company within TfL. 89 per cent of these property assets by value had already been transferred or were about to be transferred, either through the grant of new long leases or the assignment of existing leases. The aggregated consideration payable by TTLP for these property assets was estimated at £1.3bn based on market valuations. Currently these transactions were reflected in TTLP's accounts as unsettled intercompany trading liabilities. A further £0.2bn of property assets were expected to be transferred in 2021/22 which were currently awaiting consent from the landlords.

At its meeting on 25 November 2020, in order to provide TTLP with a capital structure to settle these short-term trading balances, the Committee approved a strategy to support the funding arrangements of TTLP through the issue of £2.1bn of equity to fund the main tranche of commercial assets valued at around £1.5bn, plus a further £0.6bn for other 'for sale' assets yet to be progressed. The purpose of the share issue was to create a TTLP balance sheet with no debt, so the transferred assets were funded entirely in the TTLP entity via equity. As the parent company of all its trading subsidiaries, including TTLP, TTL was the best placed entity through which the share issue should transact. It did not have sufficient cash resources to invest in this initial equity issue and a funding structure was required by TTL to enable it to finance the investment.

For the funding structure to work, TTL needed enough future revenue streams to both service the interest payments on the loan and its eventual capital repayment. An early years roll up of interest would manage interest but income was planned to grow strongly thereafter. The capital repayment could be made from higher dividends but also through future equity and funding restructures as the TTLP business matured.

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

The most appropriate forum for keeping Members updated on a regular basis and for ensuring transparency of monitoring going forward in this area of work would be considered.

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

13/03/21 RideLondon Cycling Event Delivery Partner Agreement

Julie Dixon introduced the paper and related supplemental information on Part 2 of the agenda, which sought approval for Procurement Authority to enter into a Delivery Partner

Agreement (DPA) with London Marathon Events Limited (LME) to deliver the annual RideLondon cycling event from 2022 to 2031.

In July 2019, the Committee approved entering into a new DPA with LME for the RideLondon events from 2021 to 2030. Since then, Surrey County Council had confirmed that the event would no longer take place in Surrey, meaning that the route for future events needed to be re-planned and negotiated with other councils. In addition, due to the outbreak of the coronavirus pandemic, the 2020 RideLondon event was cancelled and a decision taken not to hold an event in 2021, due to the ongoing uncertainty for staging mass participation events.

As a result, the terms of the DPA had been renegotiated with LME, with the same strategic objectives and some changes to the format of the event to cover RideLondon events from 2022 to 2031. TfL needed to enter into the new DPA as soon as possible to allow enough time to design and secure a new route, including consultation and agreements with relevant stakeholders, and for LME to secure new sponsors.

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

1 granted Procurement Authority in the sum set out in the exempt supplemental paper on Part 2 of the agenda for the award of the Delivery Partner Agreement to London Marathon Events Limited in respect of the RideLondon cycling event from 2022 to 2031, which Procurement Authority supercedes Procurement Authority granted in August 2019 in respect of the RideLondon cycling event; and

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

14/03/21 GLA Collaborative Recruitment Services

Sian-Enetia Sharp and Clive Mills introduced the paper, which provided information on the proposed award of the contract for the supply of contingent labour to TfL over the next four years by a collaborative framework agreement across the Greater London Authority (GLA) Group. The contingent labour contract was required to maintain delivery of staffing for critical engineering, IT, financial and other project roles.

The existing contracts had been in place for over four years and would expire later this year. The volume of temporary workers at TfL had reduced significantly, by 60 per cent since 2015, and more recently during the coronavirus pandemic following spending reviews. A new flexible delivery model was needed to deliver critical, specialist and project workers at the volumes required.

A collaborative procurement approach was being undertaken for TfL, the GLA, other GLA functional bodies and the Metropolitan Police Service, to secure higher volume discounted rates and a single shared approach to procuring and delivering contingent labour. This facilitated the sharing of skilled resources by operating individual and shared talent pools. The new framework agreement would predominantly cover contingent labour with a permanent recruitment solution to source employees where required.

A Managed Service Provider (MSP) model was the chosen and industry standard approach. This provided a single point of contact for contingent workforce management, including payroll and day-to-day workforce management, and delivered a range of qualitative as well as financial benefits. The contract would also introduce new, robust financial disincentives for non-adherence with service delivery performance indicators. The framework and call-off contracts did not commit to a minimum spend or a minimum volume of services to be delivered under the framework arrangement and did not offer exclusivity to the MSP.

Further detail about the nature of the anticipated savings that the contract would deliver would be provided when seeking Procurement Authority. As approval of Procurement Authority to enter into the contract would be required before the next meeting of the Committee, Members agreed that authority could be sought under Chair's Action and suggested that the accompanying papers include some more information on the additional benefits and value for money provided given the costs and complexities involved, and on collaboration and rate controls.

[Action: Sian-Enetia Sharp / Clive Mills]

The Committee noted the paper.

15/03/21 Capita Access and WAN Contract: Procurement Authority Uplift

Shashi Verma introduced the paper and related supplemental information on Part 2 of the agenda, which sought approval to increase the Procurement Authority in relation to the Capita Access and Wide Area Network (WAN) Contract.

In May 2016, TfL approved its first Telecommunications and Data Network Strategy. The strategy set out the high-level approach to rationalising and consolidating TfL's data networks in order to: reduce the cost of network services; reduce the time to market for new and changed services through the use of standardised network services; and present new opportunities to generate revenues through the exploitation of TfL's data network infrastructure and rights of way across London.

The approach set out in the strategy was to consolidate TfL's multiple commodity outsourced network service contracts into a single, pan-TfL network service contract. In December 2017, the Committee approved entering into the initial five and a half year term to August 2023 of a contract with Capita Business Services Limited. The contract was the vehicle through which TfL was consolidating and rationalising its portfolio of commodity outsourced network services.

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

The Committee noted the paper and the exempt supplemental information on Part 2 of the agenda, and approved the uplift of the Procurement Authority in respect of

the Capita Access and Wide Area Network Contract, to the sum set out in the exempt supplemental paper.

16/03/21 Enterprise Risk Update – Changes in Customer Demand (ER9)

Shashi Verma introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on Enterprise Risk 9 (ER9), changes in customer demand. It explained the current understanding of the status of the risk, major issues around the risk and the control measures in place.

ER9 was a very broad risk with huge financial and strategic implications. The coronavirus pandemic had seen the risk realised in an unprecedented way and created large scale uncertainty for the medium and long-term, in particular the exceptionally high financial impact experienced over the past year. It also had a fundamental role in influencing TfL’s relationship with customers and stakeholders, and was an important influence on ambitions around safety, health and environment.

Given the current exceptional circumstances, all four risk impact categories were considered to be outside tolerance. Implementing management actions to control and mitigate the risk should mean that the risk was adequately controlled. These included: a changed approach to revenue forecasting and modelling; focus on maintaining and improving quality of service; managing demand including the increased road traffic trend; and appropriately reviewing future service levels. Retaining passenger confidence in using the transport network and the recovery of the central London economy were critical drivers.

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

17/03/21 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.

18/03/21 Any Other Business the Chair Considers Urgent

There was no other urgent business.

19/03/21 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 23 June 2021 at 10.00am.

20/03/21 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: 2021/22 Budget and Funding Discussion; Treasury Management Strategy 2021/22; Treasury Activities; RideLondon Cycling Event Delivery Partner Agreement; Capita Access and WAN Contract: Procurement Authority Uplift; and Enterprise Risk Update - Changes in Customer Demand (ER9).

The meeting closed at 1.24pm.

Chair: ____________________________________

Date: _____________________________________

Finance Committee

Date: **23 June 2021**

Item: **Matters Arising and Actions List**

This paper will be considered in public

1 Summary

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

2 Recommendation

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

List of appendices to this report:

Appendix 1: Actions List

List of Background Papers:

Minutes of previous meeting of the Finance Committee.

Contact Officer: Howard Carter, General Counsel
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Appendix 1

Finance Committee Action List (to be reported to the meeting on 23 June 2021)

Actions from the meeting of the Finance Committee held on 10 March 2021

Minute No.	Description	Action By	Target Date	Status note
11/03/21 (1)	**Investment Strategy 2021/22 – Non-Financial Assets (Property and Housing)** Good progress was being made in early discussions with the Ministry of Housing, Communities and Local Government on longer-term financial sustainability and ambitious property and housing plans to deliver more affordable homes on TfL land, invest in jobs and growth in London's town centres, and rebuild recovery and communities. The Committee would monitor future progress and an in-depth update would be brought back to the Committee in summer 2021.	Graeme Craig /Ken Youngman	June 2021	**Completed:** The Funding Update on TTL Properties Limited paper is on the agenda for this meeting. The paper includes a comprehensive update on progress of discussions with Government.
11/03/21 (2)	**Investment Strategy 2021/22 – Non-Financial Assets (Cladding)** In relation to the Grenfell Tower fire tragedy, Members requested that a response be brought to the Programmes and Investment Committee or another relevant forum on the implications for TfL in relation to cladding and its tenants.	Graeme Craig /Ken Youngman	TBC	As TfL does not manage or occupy any building with Aluminium Composite Material cladding, TfL Commercial Development does not see any implications, but would be happy to brief the Programmes and Investment Committee or another relevant forum further if required.

14/03/21	**GLA Collaborative Recruitment Services** Further detail about the nature of the anticipated savings that the contract would deliver would be provided when seeking Procurement Authority. As approval of Procurement Authority to enter into the contract would be required before the next meeting of the Committee, Members agreed that authority could be sought under Chair's Action and suggested that the accompanying papers include some more information on the additional benefits and value for money provided given the costs and complexities involved, and on collaboration and rate controls.	Sian-Enetia Sharp /Clive Mills	April 2021	**Completed**: The GLA Collaborative Recruitment Services was approved by Chair's Action on 9 April 2021, as reported in the Use of Delegated Authority paper on the agenda for this meeting.
04/03/21 (Chair's Action)	**Silvertown Tunnel Procurement Review** As a result of the Silvertown Tunnel Chair's Action, a procurement lessons-learned exercise would be undertaken and reported back to the Committee. Consideration would be given to how best to include independent validation into the exercise and would be agreed with the Deputy Mayor.	Simon Kilonback/ Jonathan Patrick	October 2021	The Independent Investment Programme Advisory Group will be undertaking the procurement lessons-learned exercise and an update will be provided to the Committee in October 2021.

Actions from previous meetings of the Finance Committee

Minute No.	Description	Action By	Target Date	Status note
66/11/20	**TfL Energy Purchasing: Crown Commercial Service and Power Purchase Agreements (PPAs)** Agreement of the PPAs and their procurement would be brought back to a future meeting of the Committee and was dependent on securing longer-term future funding, which would enable TfL to sign long-term contracts.	Lilli Matson	June 2021	An update paper on the procurement of Energy Purchasing PPAs is included 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	September 2021	The Corporate Environment Plan is progressing well and is due to be published in September 2021. The Board will be kept informed.
06/03/20	**Finance Report – Board Engagement with Major Projects** In response to the information provided on the total capital expenditure by programme including capital renewals, it was agreed that consideration be given to the process for how to organise as a Board to engage with the major projects.	Simon Kilonback/ Howard Carter	Summer 2021	Once the current restrictions have eased, and subject to Members availability, the Major Projects Directorate will facilitate a range of site visits over summer 2021. 2021 will see the delivery of Northern Line Extension into revenue service and Members will have an opportunity to see the great progress on projects such as Barking Riverside Extension and Bank Station Capacity Upgrade. In the absence of site visits, we will facilitate a series of virtual visits.

10/03/20	**Investment Strategy 2020/21 – Non-Financial Assets – DevCo Report** It was confirmed that a paper on governance and other elements of the investment programme would be submitted to the meeting of the Committee in June 2020. It was requested that the commercial and property development aspects of the paper be shared with the Acting Director of Housing and Land at the Greater London Authority, so that collaborative working was aligned with the high-profile developments. It was also requested that the paper include information on assurance of the financial independence from the core operating business and information on the capability within TfL to deliver the schemes.	Graeme Craig	October 2021	The Funding Update on TTL Properties Limited paper is on the agenda for this meeting. The paper sets out the mechanism to deliver funding that is separate from the core operating business. Any formal changes to governance are dependent on the outcome of the wider discussions on the Financial Sustainability Plan and will be brought to a future meeting of the Committee.
44/12/19	**Strategic Risk Update – Inability to Deliver Predicted Revenue Growth (SR8)** In response to a suggestion that individual Members be encouraged to adopt a project to enable deep understanding of its challenges, risks and solutions, it was agreed that a list of projects that were suitable for Board Member involvement would be circulated to Members in order to assess interest.	Graeme Craig	Summer 2021	Once the current restrictions have eased, and subject to Members availability, Member briefings will be arranged. This will be taken forward later this year.

Finance Committee

Date: **23 June 2021**

Item: **Use of Delegated Authority**

This paper will be considered in public

1 Summary

1.1 The use of delegated authority is a standing item on the agenda to inform the Committee of any use of delegated authority by the Committee, through Chair's Action or of Procurement or Land Authority (in respect of matters within the Committee's remit) granted by the Commissioner and the Chief Finance Officer (CFO) 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 10 March 2021, there have been:

(a) four uses of Chair's Action in relation to:

(i) extending the funding arrangements with Government;

(ii) statutory CFO interim arrangements;

(iii) the GLA Collaborative Recruitment Services Contract; and

(iv) the Telecommunications Commercialisation Project;

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

(c) one Mayoral Direction to TfL, in relation to the zoning stations for Northern Line Extension (MD2810, 11 May 2021).

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 10 March 2021. Two of the Chair's Action approvals were matters reserved to the Board and all Members were consulted and their use was reported to the meeting of the Board on 9 June 2021.

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 have been four uses of Chair's Action since the meeting on 10 March 2021.

Funding Arrangements

4.3 On 21 March 2021, the Chair of the Committee, following consultation with available Members of the Board, agreed to an extension of the H2 funding arrangement, which was due to expire on 31 March 2021, to 18 May 2021.

4.4 On 17 May 2021, the Chair of TfL, following consultation with available Members of the Board, agreed to a further extension of the H2 funding arrangement, which was due to expire on 18 May, to 28 May 2021.

4.5 On 31 May 2021, the Chair of TfL, following consultation with the available Members of the Board, agreed to a revised funding arrangement of £1.08bn up to 11 December 2021, with a trajectory to financial sustainability no later than April 2023.

4.6 The use of Chair's Action by the Chair of the Committee, as well as by the Chair of TfL, to approve the funding arrangements have been published on tfl.gov.uk and reported to the meeting of the Board on 9 June 2021.

GLA Collaborative Recruitment Services Contract

4.7 On 10 March 2021, the Committee noted a paper on the proposed award of the GLA Collaborative Recruitment Services contract. It was not possible to present final papers for approval to that meeting, as the evaluation of the bids was still ongoing and the output of that evaluation was required to support the request for Procurement Authority and it was, therefore, proposed that a decision would be taken by Chair's Action.

4.8 On 7 April 2021, Members of the Committee were asked to consider a paper seeking approval for Procurement Authority for TfL to enter into a framework agreement with a single supplier to deliver contingent labour and permanent recruitment services to enable TfL to fulfil statutory duties and ensure a safe, reliable and resilient service is provided to customers across London and to request additional authority for the current contract, which needs to be extended briefly. The paper addressed the three issues raised by Members on 10 March 2021, which related to the mitigation of delays with the collaborative service, savings across the collaborative service and rate benchmarking.

4.9 The use of Chair's Action was considered appropriate as a decision to enter into the contract was required in mid-April. The decision was critical to secure a required four-month mobilisation period to ensure supplier readiness to commence the service from 31 August 2021.

4.10 On 9 April 2021, the Chair of the Committee, in consultation with available Members of the Committee, noted the paper submitted and the exempt supplementary information in the appendix and:

(a) approved Procurement Authority of the amount set out in the exempt appendix to enable TfL to enter into the GLA Collaborative Recruitment Services framework agreement and the related call-off contracts for the provision of contingent labour permanent recruitment services with the winning supplier identified in the exempt appendix;

(b) approved additional Procurement Authority of the amount set out in the exempt appendix in relation to the current call-off contract with the incumbent supplier, Hays Specialist Recruitment Services Limited which needs to be extended to 31 August 2021; and

(c) noted that the proposed GLA Collaborative Recruitment Services framework agreement and the related call-off contracts include commitments that extend beyond the period of the Business Plan and Budget approved by the Board on 16 March 2021 and provision will, therefore, need to be made for those commitments in future Business Plans and Budgets.

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

Statutory Chief Finance Officer

4.12 The appointment of the statutory CFO is a matter reserved to the Board. Following the announcement that Tony King would leave his position as Group Finance Director and statutory CFO on 21 May 2021, the Board was informed of the arrangements to cover the Group Finance Director role and consulted on interim arrangements for the statutory CFO role. A decision was required under Chair's Action to ensure arrangements were put in place prior to the departure of the post holder.

4.13 On 26 April 2021, the Chair of the Committee, following consultation with available Members of the Board:

(a) agreed that Patrick Doig take on responsibility for the statutory CFO functions with effect from 22 May 2021;

(b) noted that approval will be sought in due course for a permanent appointment to the role of Group Finance Director and statutory CFO;

(c) agreed that any one of Patrick Doig, Joanna Hawkes and Rachel McLean are authorised to undertake the statutory CFO responsibilities if the postholder is unavailable; and

(d) authorised any of the Commissioner, Chief People Officer and the General Counsel to take any steps necessary or consequential to implement the matters approved above.

4.14 The use of Chair's Action for this appointment was reported to the meeting of the Board on 9 June 2021.

Telecommunications Commercialisation Project Update

4.15 On 11 March 2020, the Committee approved a number of recommendations in relation to the Telecommunications Commercialisation Project (TCP), including approval for the TCP Concessionaire (the Concessionaire) to undertake Emergency Services Network (ESN) works funded by the Home Office. While TfL had always been required to fund the delivery of ESN infrastructure on the Elizabeth line and Northern Line Extension (NLE), it previously envisaged delivering this work through its network contract with Capita.

4.16 As part of the TCP agreement finalisation activities, the scope of ESN works that the Concessionaire will undertake will increase and is proposed to include TfL funded ESN work that it previously envisaged Capita would deliver. This required changes to the Land Authority approved by the Committee in March 2020. Further, for the Concessionaire to complete the work on the Elizabeth line and NLE additional unbudgeted Financial Authority was required. Part of this additional requirement had, to date, been within the existing Technology and Data Programme approvals granted by the Programmes and Investment Committee, however newly identified scope and a higher than forecast cost for the work meant that additional, unbudgeted Financial Authority was required.

4.17 On 24 May 2021, Members considered a paper seeking approval of Financial and Land Authorities to reflect changes to the proposed responsibilities within the agreement.

4.18 The use of Chair's Action was considered appropriate as a decision to enter into the agreement was required before the date of this meeting. The decision was critical to the award of the agreement on 1 June 2021.

4.19 On 26 May 2021, the Vice-Chair of the Committee, in consultation with available Members of the Committee, noted the paper submitted and the exempt supplementary information in the appendix, and approved in respect of delivery of the Emergency Services Network on the Elizabeth line and NLE as part of the Telecommunication Commercialisation Project:

(a) unbudgeted Financial Authority at the sum set out in the exempt appendix, giving total Financial Authority as set out in the exempt appendix; and

(b) additional Land Authority at the sum set out in the exempt appendix, giving total Land Authority as set out in the exempt appendix.

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

5 Procurement and Land Authority Approvals

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

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

5.3 The Board had delegated to the Committee approval of unlimited Procurement Authority and Land Authority in relation to Transactions and Commercial Development opportunities. The approvals delegated to the Commissioner and the Chief Finance Officer are set out in the Table of Authorities in Standing Order 169.

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 10 March 2021.

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 There has been one Direction issued to TfL since the last meeting, which was reported to the meeting of the Board on 9 June 2021:

(a) **Zonings stations for Northern Line Extension (MD2810)**. On 11 May 2021, the Mayor directed TfL to implement zoning decisions in relation to Nine Elms station and Battersea Power Station station (Zone 1) and the re-designation of Kennington station (from Zone 2 to Zone 1/2), of the charging zones that apply on London Underground services, with effect from 16 May 2021.

List of appendices to this report:

None.

List of Background Papers:

Minutes from previous meetings of the Committee.
Chair's Actions papers:

- Funding arrangements (issued 21 March, approved 21 March 2021);
- Statutory Chief Finance Officer (issued 22 April, approved 26 April 2021);
- GLA Collaborative Recruitment Services Contract (issued 7 April, approved 9 April 2021);
- Telecommunications Commercialisation Project Update (issued 24 May, approved 26 May 2021).

Greater London Authority Decision Making Database.

Contact Officer: Howard Carter, General Counsel
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Finance Committee

Date: **23 June 2021**

Item: **Finance Report – Period 2, 2021/22**

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 2, 2021/22 - the year-to-date ending 29 May 2021.

2 Recommendation

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

3 Financial Reporting to the Committee

Finance Report – Period 2, 2021/22

3.1 The Finance Report presentation provides a summary of year-to-date financial performance against the Budget (approved by the Board on 16 March 2021) and last year.

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

List of Background Papers:
None

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Finance Report
Period 2, 2021/22

Management results from 1 April 2021 – 29 May 2021

Finance Committee
23 June 2021

Section 1

Period 2, 2021/22 results: divisional performance

London Underground

Tube journeys 40% of pre-pandemic levels in latest periods, increasing to 44% in week ending 5 June. Passenger income almost £70m higher than Budget, and over three times the values we saw last year during the first wave.

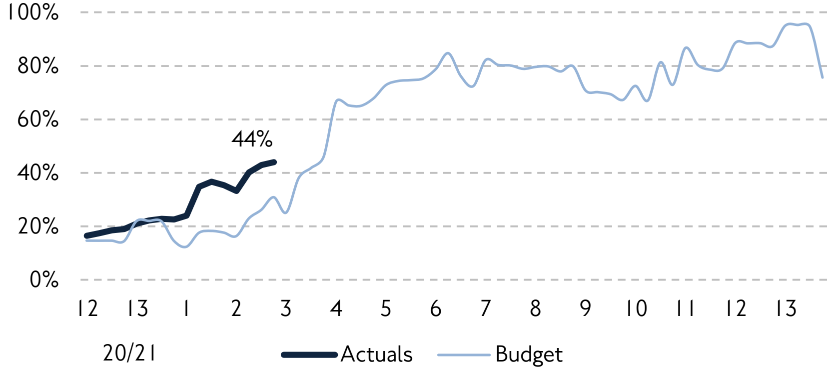
Operating costs lower than Budget, from continued costs controls. Costs slightly up on last year, when we reduced service levels.

London Underground

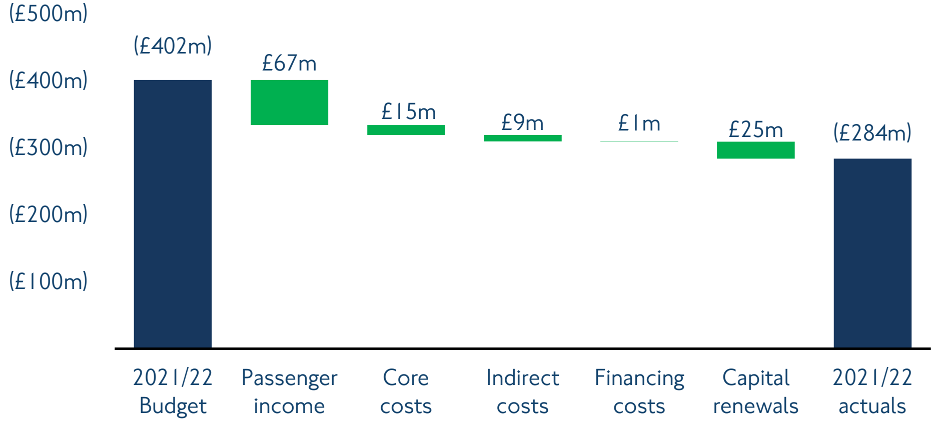
Operating account (£m)	Year to date, 2021/22 Actuals	Budget	Variance to Budget	% variance to Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Passenger income	168	101	67	67%	48	121	251%
Other operating income	3	3	0	14%	5	(2)	-36%
Total operating income	**171**	**104**	**68**	**65%**	**53**	**119**	**226%**
Government furlough grant	0	0	0	N/A	10	(10)	-100%
Total income	**171**	**104**	**68**	**65%**	**62**	**109**	**176%**
Operating costs	(325)	(340)	15	-4%	(321)	(5)	2%
Net operating surplus	**(154)**	**(237)**	**83**	**-35%**	**(258)**	**104**	**-40%**
Indirect costs	(48)	(57)	9	-16%	(55)	7	-13%
Net financing costs	(45)	(46)	1	-2%	(44)	(1)	2%
Capital renewals	(36)	(62)	25	-41%	(20)	(16)	83%
Net cost of operations	**(284)**	**(402)**	**118**	**-29%**	**(378)**	**94**	**-25%**
New capital investment	**(4)**	**(9)**	**4**	**-52%**	**(2)**	**(2)**	**84%**

Tube journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Journeys (millions)		Variance to Budget
40%	24%	Y	80	35



Net cost of operations compared to Budget



Elizabeth line

EL journeys 44% of pre-pandemic levels in latest period, up to 50% in week ending 5 June. Passenger income £3m higher than Budget, and £5m up on last year.

Other operating income (£11m) lower than Budget, driven by lower central operating section regulatory income; this is entirely offset within operating costs. *

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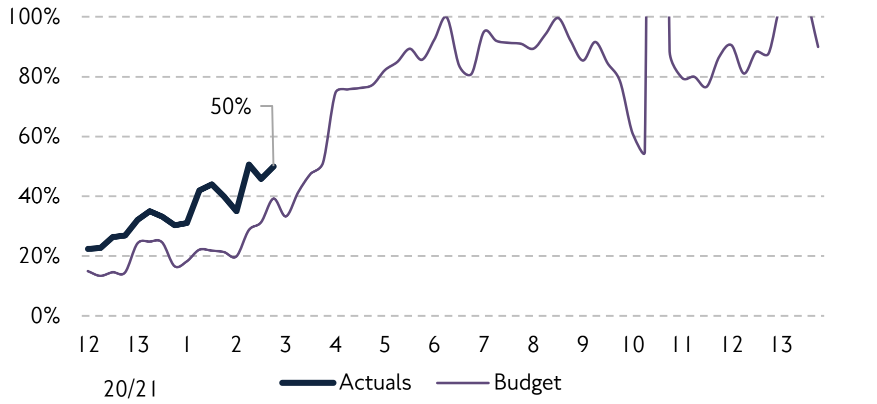
* The central section regulatory income charge and costs relate to access charges following the handover of the central section and net to nil within the operating account.

Elizabeth line

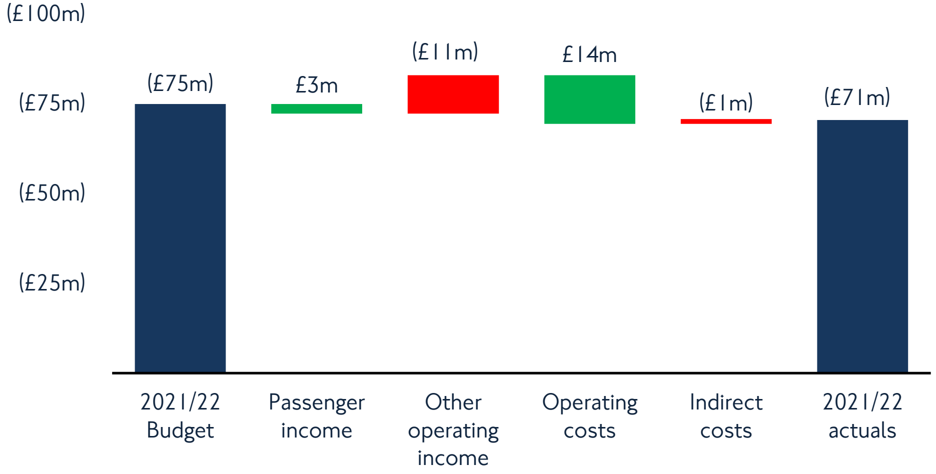
Operating account (£m)	Year to date, 2021/22				Year to date, 2020/21		
	Actuals	Budget	Variance to Budget	% variance to Budget	Last year	Variance to last year	% variance to last year
Passenger income	9	6	3	41%	4	5	150%
Other operating income	3	13	(11)	-80%	1	2	139%
Total operating income	**12**	**20**	**(8)**	**-41%**	**5**	**7**	**147%**
Operating costs	(64)	(77)	14	-18%	(58)	(6)	11%
Net operating surplus	**(52)**	**(58)**	**6**	**(0)**	**(53)**	**0**	**(0.0)**
Indirect costs	(3)	(2)	(1)	64%	(3)	0	-13%
Net financing costs	(15)	(15)	0	-2%	(15)	(0)	2%
Net cost of operations	**(71)**	**(75)**	**4**	**-6%**	**(71)**	**0**	**0%**
New capital investment	(5)	(6)	1	-19%	(2)	(3)	165%
Crossrail construction	(109)	(110)	1	-1%	(97)	(12)	12%
Total capital investment	**(113)**	**(115)**	**2**	**-2%**	**(99)**	**(15)**	**15%**

EL journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
44%	33%	Y	4	2



Net cost of operations compared to Budget



Buses, Streets & Other operations

Bus journeys 61% of pre-pandemic levels in the latest period. Year-to-date passenger income almost treble that from the same time last year. Other operating income also up on Budget, with higher Congestion Charge income.

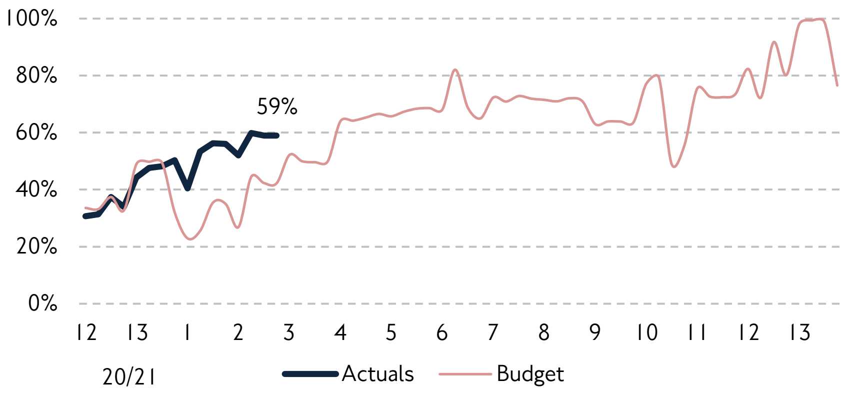
Operating costs slightly higher than Budget, and up on last year. Services were reduced last year, during the first wave of the pandemic.

Buses, Streets & Other operations

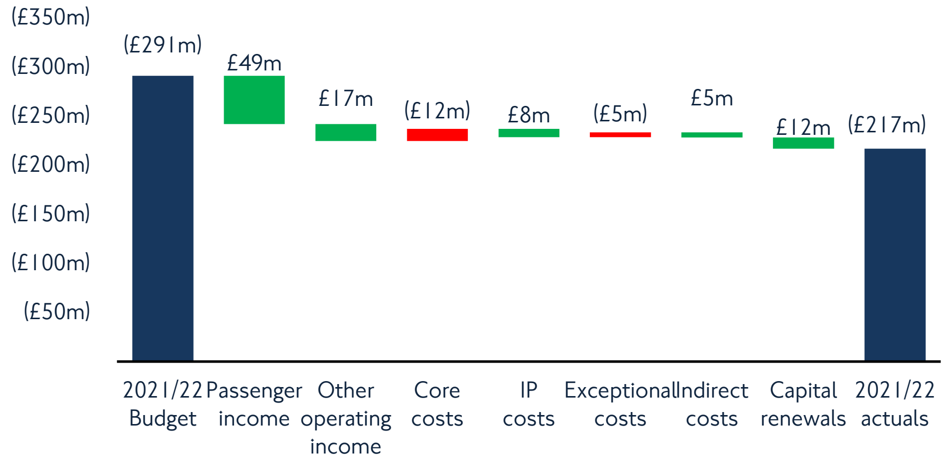
Operating account (£m)	Year to date, 2021/22 Actuals	Budget	Variance to Budget	% variance to Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Passenger income	146	97	49	50%	51	96	189%
Other operating income	100	83	17	21%	28	72	253%
Total operating income	**246**	**180**	**66**	**37%**	**79**	**167**	**212%**
Government furlough grant	0	0	0	N/A	3	(3)	-100%
Total income	**246**	**180**	**66**	**37%**	**82**	**164**	**199%**
Operating costs	(435)	(426)	(9)	2%	(394)	(41)	10%
Net operating surplus	**(188)**	**(246)**	**58**	**-23%**	**(312)**	**123**	**-40%**
Indirect costs	(13)	(18)	5	-27%	(15)	2	-13%
Net financing costs	(4)	(4)	0	-2%	(4)	(0)	2%
Capital renewals	(11)	(22)	12	-52%	(7)	(4)	61%
Net cost of operations	**(217)**	**(291)**	**74**	**-25%**	**(338)**	**121**	**-36%**
New capital investment	**(13)**	**(33)**	**21**	**-62%**	**(17)**	**4**	**-24%**

Bus journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
61%	39%	Y	199	75



Net cost of operations compared to Budget



Rail

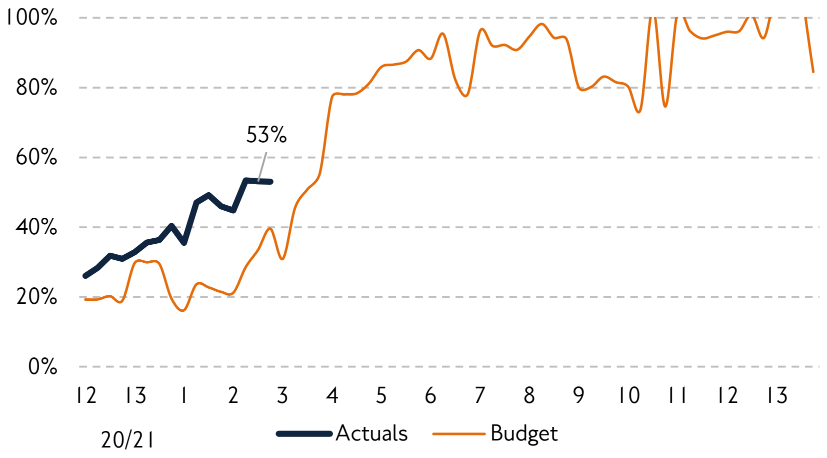
Rail journeys – including London Overground, DLR and Trams – 51% of pre-pandemic levels in Period 2, increasing to 53% in the week ending 5 June. Operating costs lower than last year and Budget.

Rail

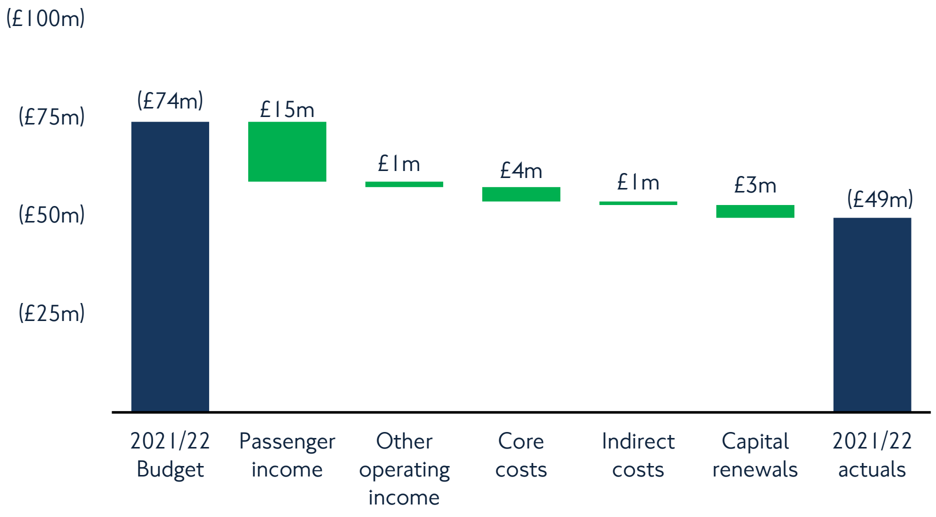
Operating account (£m)	Year to date, 2021/22 Actuals	Budget	Variance to Budget	% variance to Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Passenger income	35	20	15	77%	9	26	309%
Other operating income	2	1	1	130%	0	2	1163%
Total operating income	**37**	**21**	**17**	**80%**	**9**	**29**	**328%**
Operating costs	(73)	(77)	4	-5%	(75)	2	-3%
Net operating surplus	**(36)**	**(56)**	**20**	**-36%**	**(66)**	**30**	**-46%**
Indirect costs	(3)	(4)	1	-26%	(3)	0	-13%
Net financing costs	(7)	(7)	0	-2%	(6)	(0)	2%
Capital renewals	(4)	(7)	3	-44%	(3)	(1)	45%
Net cost of operations	**(49)**	**(74)**	**25**	**-33%**	**(79)**	**29**	**-37%**
New capital investment	**(2)**	**(3)**	**1**	**-29%**	**(3)**	**1**	**-37%**

Rail journeys compared to pre-pandemic baseline

% vs Pre Covid Period / Budget		Absolute m		Var to Bud m
51%	31%	Y	27	12



Net cost of operations compared to Budget



Major Projects Directorate

Year to date capital spend lower than target, a result of some slippage and from uncertainty on future funding. Costs higher than last year, when non-safety critical projects were halted in line with government restrictions.

Major Projects Directorate

Operating account (£m)	Year to date, 2021/22 Actuals	Budget	Variance to Budget	% variance to Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Other operating income	1	1	0	25%	1	0	48%
Total operating income	1	1	0	25%	1	0	48%
Government furlough grant	0	0	0	N/A	1	(1)	-100%
Total income	1	1	0	25%	1	(0)	-19%
Operating costs	(3)	(2)	(0)	8%	(18)	15	-86%
Net operating surplus	(1)	(1)	0	-4%	(16)	15	-92%
Indirect costs	(4)	(5)	0	-4%	(5)	1	-13%
Net financing costs	0	0	0	N/A	0	0	N/A
Capital renewals	(1)	(2)	2	-71%	(0)	(1)	402%
Net cost of operations	(6)	(8)	2	-23%	(22)	15	-71%
New capital investment	(88)	(113)	25	-22%	(54)	(34)	63%

Four Lines Modernisation

Following the success of Signalling Migration Area 3 between Monument, Euston Square and Stepney Green in March 2021, we commissioned Signalling Migration Area 4 between Sloane Square and Monument as planned on 25 April. This paves the way for frequencies to be increased and service reliability to be further improved as soon as the rest of the route has been automated.

In addition, a number of key works were successfully undertaken during closures, including system testing of future signalling for Signalling Migration Areas 5 and 8.

Piccadilly Line Rolling Stock

In April 2021, the new passenger train seat moquette design was endorsed following constructive feedback from our Independent Disability Advisory Group (IDAG). In support of our works to upgrade South Harrow Sidings, conductor rail modifications have begun and new driver walkways have now been installed.

The Invitation to Tender for the High Voltage Power Design and Build Framework has been issued. Power upgrades are required due to the increased number and frequency of trains that will run on the Piccadilly line after fleet replacement.

DLR Rolling Stock

Rolling stock manufacturing is underway with the tenth train bodyshell completed on 30 April, with our first inspections successfully completed remotely in lieu of in person visits to the manufacturer. Software development is progressing to programme and at Beckton Depot, the northern sidings contract has been awarded and works have started onsite. These are the first works to create stabling for the new trains.

A grant agreement with the Government's Housing Infrastructure Fund (HIF) for 14 more trains and stabling was signed in December 2020, enabling up to an additional 12,000 homes to come forward. A decision is required in July 2021 as to whether TfL has the necessary financial certainty to proceed unconditionally with this agreement, prior to any significant expenditure being incurred.

Section 2
Period 2, 2021/22 results: TfL Group performance

Headlines

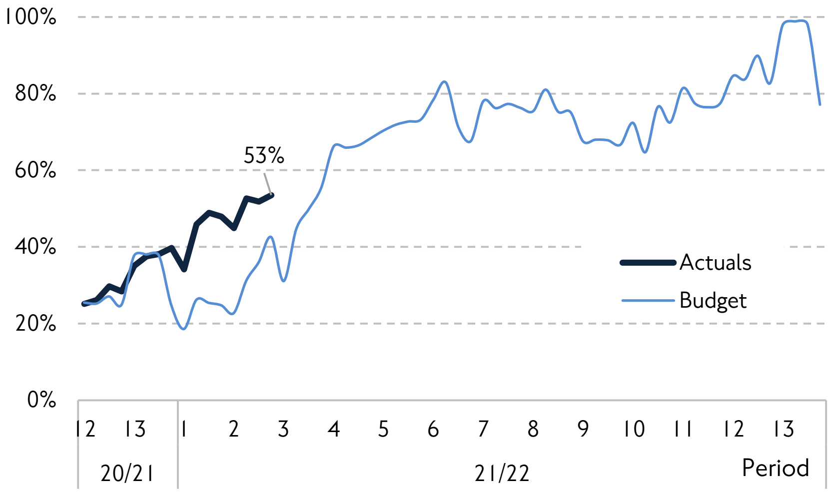
Passenger journeys and income have seen significant growth since the loosening of government restrictions. Total TfL journeys are at 53% of pre-pandemic levels, with passenger income almost treble that from last year, but remains around 50% of historical levels.

Cash balances have been broadly stable since the H2, 2020/21 funding agreement with government. The current balance includes £260m we are required to return to the DfT.

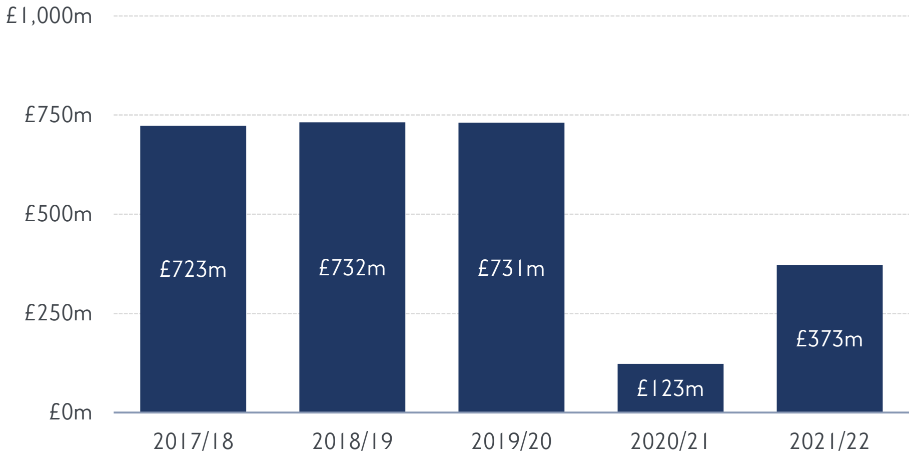
Following the new funding agreement with government (covering the end of May to December 2021), we expect to see cash balances reduce to minimum cash levels.

Headlines

Total passenger journeys 53% of pre-pandemic levels – the budgeted journey scenario assumes significant growth in Q2, 2020/21

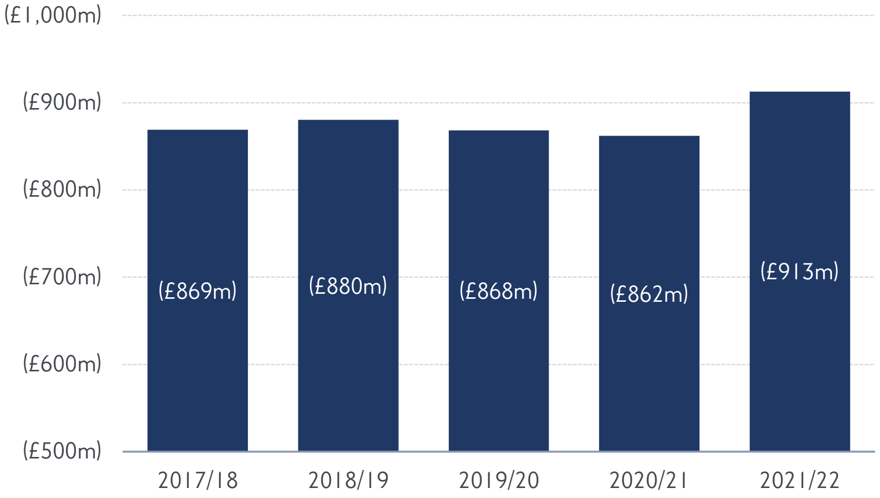


Passenger income up on last year, but remains around 50% lower than pre-pandemic levels



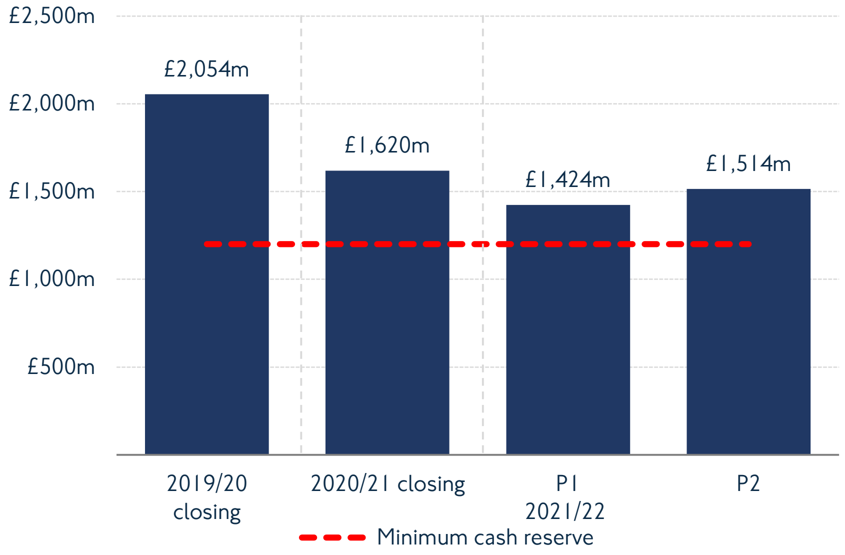
Individual years show year-to-date passenger income to end of Period 2.

Core operating costs up on last year, when service levels were reduced during first wave of the pandemic



Individual years show year-to-date passenger income to end of Period 2. 2020/21 and 2021/22 are on average 3 days (6%) longer than earlier years.

Cash balances broadly stable following last year's funding agreement – expect balances to reach minimum cash reserve by year end



Passenger journeys

Passenger journeys and income have seen significant growth since the loosening of government restrictions. Total TfL journeys are at 53% of pre-pandemic levels, with passenger income almost treble that from last year, but remain around 50% of historic levels.

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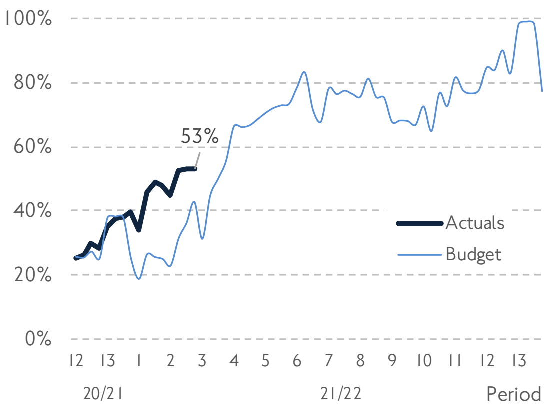
Passenger journeys

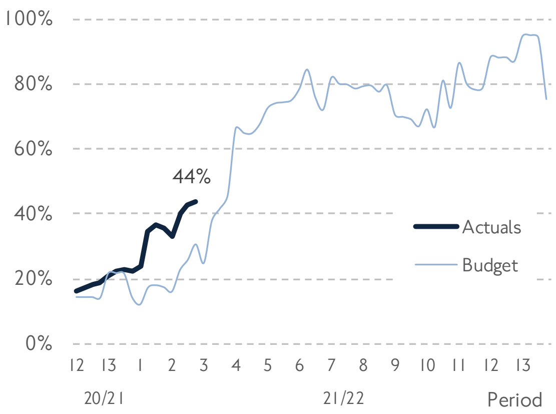
Journeys compared to pre-pandemic baseline (adjusted 2018/19 journeys)
Target is budgeted demand against this baseline; 'P' denotes latest period; 'Y' denotes year-to-date performance

Government RoadMap →
1. 29th March / P13 / Week 52
2. 12th April / P1 - Week 2
3. 17th May / P2 - Week 3
4. 21st June / P3 - Week 4 (delayed to 19 July)

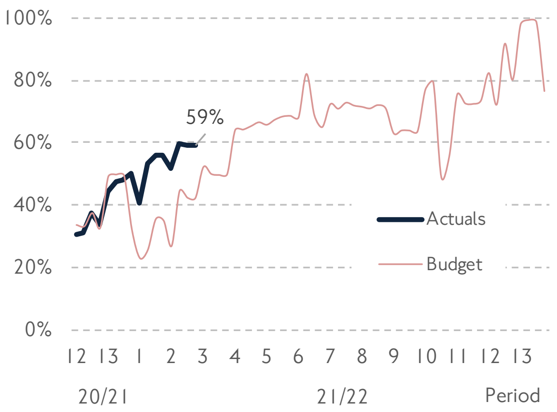
TfL	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	53%	33%	P	168	63
			Y	310	122



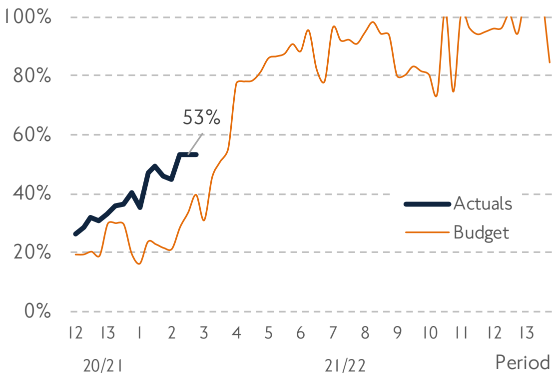
LU	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	40%	24%	P	42	17
			Y	80	35



Bus	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	61%	39%	P	110	40
			Y	199	74



Rail	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	51%	31%	P	14	5
			Y	27	12

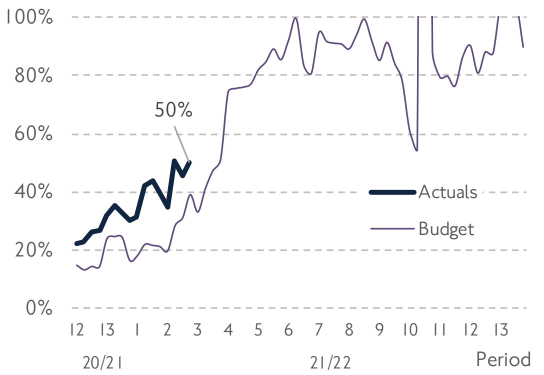


LO	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	49%	29%	P	7	3
			Y	14	6

DLR	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	51%	31%	P	5	2
			Y	10	5

Tram	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	63%	41%	P	1	1
			Y	3	1

TfLR	% vs Pre Covid Period	% vs Pre Covid Budget		Absolute m	Var to Bud m
	44%	30%	P	2	1
			Y	4	2



Operating account

Passenger income was £373m in the year to date, three times more than last year. Other operating income also up, with higher income from Congestion Charge, ULEZ and Media. Congestion Charge income in 2020/21 was low, following temporary halt to charging to aid pandemic response.

Operating costs lower than budget, a result of costs savings across the business. Costs up on last year, when service levels were reduced during the first wave of the pandemic.

Capital renewals lower than Budget, where uncertainty of future funding has meant some non-critical projects were temporarily paused.

Extraordinary revenue grant (£269m) under Budget – about 50% of the variance is driven by lower base funding.

Operating account

Operating account (£m)	Year to date, 2021/22 Actuals	Budget	Variance to Budget	% variance to Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Passenger income	373	230	142	62%	123	250	204%
Other operating income	143	136	7	5%	49	94	193%
Total operating income	**515**	**366**	**149**	**41%**	**171**	**344**	**201%**
Business Rates Retention	155	131	24	18%	174	(19)	-11%
Revenue grant	13	11	2	19%	0	13	2951%
Government furlough grant	0	0	0	N/A	17	(17)	-100%
Total income	**684**	**508**	**175**	**35%**	**363**	**320**	**88%**
Operating cost	(1,013)	(1,040)	26	-3%	(980)	(33)	3%
Net operating surplus	**(330)**	**(531)**	**202**	**-38%**	**(617)**	**287**	**-47%**
Net financing costs	(71)	(73)	1	-2%	(70)	(2)	2%
Net cost of operations after financing	**(401)**	**(604)**	**203**	**-34%**	**(687)**	**285**	**-42%**
Capital renewals	(56)	(100)	44	-44%	(31)	(25)	82%
Net cost of operations	**(457)**	**(704)**	**247**	**-35%**	**(717)**	**260**	**-36%**
Extraordinary revenue grant	473	742	(269)	-36%	366	107	29%
Net cost of operations after extraordinary revenue grant	**16**	**38**	**(22)**	**-58%**	**(351)**	**367**	**-105%**

Capital account

Total capital expenditure £120m lower than target, driven by slippage on capital projects while future funding was uncertain.

Property and asset receipts are (£18m) lower than Budget, driven by later than expected property disposal.

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Capital account

Capital account (£m)	Year to date, 2021/22 Actuals	Budget	Variance to Budget	% variance to Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
New capital investment	(124)	(200)	76	-38%	(87)	(37)	42%
Crossrail	(109)	(110)	1	-1%	(97)	(12)	12%
Total capital expenditure	**(233)**	**(309)**	**77**	**-25%**	**(184)**	**(49)**	**26%**
Financed by:							
Investment grant	167	155	12	8%	164	4	2%
Property and asset receipts	1	19	(18)	-95%	1	0	2%
Borrowing	0	0	(0)	-22%	199	(199)	-100%
Crossrail borrowing	74	75	(1)	-1%	64	10	16%
Crossrail funding sources	60	51	9	18%	46	14	30%
Other capital grants	11	10	1	8%	14	(3)	-22%
Total	**313**	**310**	**3**	**1%**	**488**	**(174)**	**-36%**
Net capital account	**80**	**1**	**80**	**11888%**	**304**	**(223)**	**-73%**
Capital renewals	(56)	(100)	44	-44%	(31)	(25)	82%
New capital investment	(124)	(200)	76	-38%	(87)	(37)	42%
Total TfL capital expenditure	**(180)**	**(299)**	**120**	**-40%**	**(118)**	**(62)**	**53%**

Capital expenditure

Total capital expenditure is £120m lower than target, driven by slippage across most programmes, while future funding remained uncertain.

Capital expenditure by programme: year to date, 2021/22

Capital renewals and new capital investment (£m)	Year to date, 2021/22 Actuals	Budget	Variance to Budget	% variance to Budget	Year to date, 2020/21 Last year	Variance to last year	% variance to last year
Major projects	**(89)**	**(115)**	**27**	**23%**	**(54)**	**(34)**	**63%**
Northern Line Extension	(17)	(19)	1	8%	(8)	(9)	116%
Four Lines Modernisation	(20)	(28)	8	29%	(9)	(11)	116%
Major Stations	(9)	(15)	6	41%	(8)	(1)	9%
Railway Systems Enhancements	(1)	(2)	1	48%	(2)	1	-49%
Piccadilly line trains	(20)	(27)	7	26%	(11)	(9)	76%
DLR Rolling Stock	(11)	(15)	5	30%	(6)	(4)	69%
Barking Riverside	(10)	(7)	(3)	-44%	(9)	(1)	7%
Silvertown Tunnel	(1)	(3)	2	62%	(0)	(1)	328%
Elizabeth line - infrastructure	(5)	(6)	1	12%	(2)	(3)	187%
LU	**(40)**	**(70)**	**30**	**42%**	**(22)**	**(18)**	**83%**
Capital renewals	(36)	(62)	25	41%	(20)	(16)	83%
New capital investment	(4)	(9)	4	52%	(2)	(2)	84%
Surface Transport	**(30)**	**(66)**	**35**	**54%**	**(29)**	**(2)**	**6%**
Healthy Streets	(3)	(13)	11	81%	(7)	5	-66%
Surface - assets	(9)	(18)	9	49%	(7)	(3)	40%
Surface Tech	(3)	(8)	4	57%	(2)	(2)	95%
Public Transport	(6)	(11)	5	43%	(6)	(0)	3%
Air Quality and environment	(8)	(17)	9	52%	(7)	(1)	15%
Surface Deliverability Overlay	(1)	1	(2)	208%	-	(1)	N/A
Corporate programmes	**(13)**	**(19)**	**7**	**34%**	**(6)**	**(7)**	**125%**
Professional Services	(14)	(22)	8	37%	(6)	(8)	139%
Media	1	3	(1)	57%	0	1	758%
Commercial Development	**(4)**	**(23)**	**19**	**84%**	**(5)**	**2**	**-29%**
Estates and facilities	(0)	(1)	0	74%	(0)	0	-57%
Property development	(4)	(23)	19	84%	(5)	1	-27%
Total TfL	(180)	(299)	120	40%	(118)	(62)	-53%

Key issues and risks

- The 2021/22 TfL Budget outlined a £2.7bn full year funding requirement in 2021/22 against an assumed passenger revenue forecast of £3.5bn
- The funding agreement requires us to find £300m of savings and/or other income; however, when taken together with the amount of funding already provided under the recent funding extensions, along with funding to be provided under the latest agreement, we will be required to find £900m of savings compared to the approved Budget.
- This will need to be met through a combination of utilising cash reserves in excess of our £1.2bn minimum cash level, additional non-passenger income and reduced and/or deferred costs. While challenging, this is considered achievable.
- We are seeing encouraging signs of passengers returning to our network, at a faster rate than expected when setting the Budget in March 2021. There remains a high degree of risk on future journeys, with Step 4 of the Government's roadmap delayed to 19 July, and uncertainty on how quickly particular trip types e.g. office workers, will recover, especially through next winter.
- These measures, along with other matters contained in the funding agreement, will be fully worked through in our revised Budget submission that we will take to the TfL Board on 28 July 2021.

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Finance Committee

Date: **23 June 2021**

Item: **TfL Roadside Advertising**

This paper will be considered in public

1 Summary

1.1 We own 234 roadside advertising panels across London, which prior to the Coronavirus pandemic generated rent receipts of around £9m per annum. These include traditional fixed hoardings as well as newly developed digital screens.

1.2 Use of the panels is sold by several companies on our behalf, typically on 10-year licences tendered on the open market. We generally receive a fixed rental (or guaranteed minimum return) and at some locations an agreed share of outperformance over the contract term.

1.3 This paper and the exempt supplemental paper on Part 2 of the agenda consider options for our roadside advertising assets and makes proposals for future strategy.

1.4 Most of our advertising revenue comes from London Underground and bus shelters. These are not in scope of this proposal.

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

2 Recommendation

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

List of appendices to this report:

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

List of Background Papers:

None

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Email: JoannaHawkes@tfl.gov.uk

Finance Committee

Date: **23 June 2021**

Item: **TfL Energy Purchasing and GLA Energy Procurement Collaboration Programme**

This paper will be considered in public

1 Summary

1.1 On 25 November 2020, the Committee endorsed the proposed procurement by TfL of renewable energy through two Power Purchase Agreements (PPAs), each representing around 10 per cent of TfL's estimated demand.

1.2 This paper provides an update on the preparation of those two PPA procurements, as well as an update on current energy market conditions and the progress that has been made on the Greater London Authority (GLA) Energy Procurement Collaboration programme, in which TfL is involved.

1.3 The recommendations of the GLA Energy Procurement Collaboration programme are expected to conclude later this year. However, as an early output, there is an appetite to test a finance instrument in conjunction with TfL's procurement of its PPA2 (as described in paragraph 3.2 below). The finance instrument is being developed by the GLA with the aim of delivering a lower PPA cost. Renewable developers would not be required to utilise the finance instrument as part of their tender for TfL's PPA2 (see section 6).

1.4 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt and is therefore not for publication to the public or press 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. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 **The Chair, following consultation with the Committee, is asked to note the paper and the supplementary information on Part 2 of the agenda and endorse the Greater London Authority (along with a small pool of investors) offering an optional finance instrument to potential bidders for Power Purchase Agreement 2 (PPA 2) (as described in this paper).**

3 Background

3.1 The paper submitted to the meeting of the Committee in September 2020 set out a Renewable Energy Purchasing Road Map to 2030. This outlined a staged approach to building up renewable energy PPAs over the next 10 years aiming to achieve the Mayor's zero-carbon railway 2030 objective.

3.2 At its meeting in November 2020, the Committee endorsed the procurement of TfL's first two PPAs:

(a) PPA 1 is a medium-term PPA that will specifically target already operational assets and, subject to a successful procurement, will deliver renewable energy to TfL at the start of the next financial year 2022/23 with a term of seven-ten years; and

(b) PPA 2 is a long-term PPA that will specifically target new build assets and, subject to successful procurement and project construction, will deliver renewable energy to TfL by the end of financial year 2023/24 with a term of 10-20 years.

Energy market

3.3 After an initial reduction in the wholesale cost of electricity experienced in early 2020 as an impact of the coronavirus pandemic, the market has since recovered to at least pre-pandemic levels. This is a result of increased demand (due to cold weather over last winter and more recently as world economies restart), rising natural gas prices and substantial increases in carbon pricing. Another significant development over the past six months has been the decoupling of the UK power market from the EU's Internal Energy Market. This has complicated trading arrangements and contributed to increased uncertainty.

3.4 Market forecasts suggest that prices will remain elevated until at least spring 2022. As PPAs are priced with reference to the wholesale cost of electricity, this upwards pressure is likely to negatively impact the cost of energy procured under PPAs, particularly PPA 1 (described below).

4 PPA 1

4.1 Since November 2020, advisors have been procured by TfL to assist with the development of the tender strategy and documentation, and to support TfL through the PPA procurement process.

4.2 The paper submitted to the Committee in November 2020 proposed the use of the Crown Commercial Service (CCS) HELGA Dynamic Purchasing System (DPS). Following further detailed consideration, the CCS HELGA DPS was deemed unsuitable for this specific TfL requirement, which will now be catered for through a standalone TfL procurement. This change of procurement approach, with a consequential delay to external appointments, has impacted the programme. TfL now anticipates beginning the competitive process in early July 2021.

4.3 Operational PPAs (contracts for the purchase of energy generated by existing renewable assets) are priced with reference to the wholesale cost of energy. Therefore, the price achieved is highly dependent on the market conditions at the time of the procurement.

4.4 Given current pricing in the wholesale energy market, as described above, TfL may need to adjust the timings of the procurement until prices are more likely to yield a favourable outcome in terms of PPA price. In addition, the availability of operational generating assets may also be a factor which could alter the timescales proposed in November 2020.

4.5 TfL will continue to monitor market fluctuations, forecasts and availability of operational generating assets as part of its ongoing management of energy procurement, working with our internal team and advisors.

4.6 A successful procurement, commencing in early July 2021, could achieve delivery of electricity at the start of the next financial year, as initially forecast. TfL can accommodate changes to the programme, as a result of the current uncertain market conditions (or otherwise), by securing any shortfall of energy via TfL's existing flexible purchasing arrangements with the CCS.

4.7 A Procurement Authority request for PPA 1 is planned for the meeting of the Committee in December 2021, where an update on the procurement process will be provided. Assuming the tender is launched in July, by December 2021 the standard Selection Questionnaire would have completed, and tenders would be preparing to submit their bids. The Procurement Authority request will set out a maximum 10-year cost profile based on up-to-date market forecasts and affordability considerations. Pricing received from the procurement will be assessed against this profile.

5 PPA 2

5.1 The energy advisors working on PPA 1 will also support TfL through the procurement of PPA 2. PPA 2 will obtain energy from the build of new renewable assets and therefore there will be a delay between signing a PPA and taking delivery of energy (to allow for construction and commissioning). The target is to take delivery of energy via PPA 2 in 2024.

5.2 TfL is currently finalising the procurement strategy for PPA 2, with procurement forecast to commence in September 2021. Subject to the endorsement of the Committee and review of the final form by TfL, the GLA will offer the finance instrument as an option to potential bidders when TfL commences it procurement process, as described in section 6. The final form of the finance instrument will be reviewed by TfL prior to launch of the tender to ensure that there are no unacceptable procurement, legal or financial risks from the perspective of the PPA 2 procurement.

6 GLA Energy Procurement Collaboration Programme and Finance Instrument

6.1.1 TfL has been engaged in the GLA Energy Procurement Collaboration programme with the GLA and the other functional bodies over the last six months. This programme is seeking to (a) identify GLA group synergies in the procurement of PPAs for renewable energy from new build assets; and (b) establish a financing facility, with the GLA as a minority investor, that can potentially contribute to the funding of the renewable assets developed to deliver those PPAs (the "GLA Fund"). The programme is proposed to encompass two phases, described further below.

Phase 1 – applicable to TfL's PPA2

6.1.2 Phase 1 would be a TfL only PPA and see the GLA and a small pool of investors collaborating to offer a stand-alone investment instrument (the GLA Instrument) without the requirement of incorporating a new fund at this stage.

Phase 2 – applicable to future GLA collaborative energy procurements (i.e. PPA3 and beyond)

6.1.3 Phase 2 would see the GLA Energy Procurement Collaboration Programme members entering into a collaboration Memorandum of Understanding (the MoU) detailing how the collaboration group members will jointly procure PPAs. A joint procurement would allow the collaboration group members with smaller energy requirements than TfL's to access a programme of renewable PPAs and may provide economies of scale.

6.1.4 The GLA Fund is anticipated to be established by phase 2, with the GLA Instrument from phase 1 folded into the fund structure in due course. It is expected that additional funding partners would join the GLA Fund, scaling up the quantum of available funding in line with the GLA collaboration group members PPA programme.

6.1.5 More detailed elements of phase 2, including a draft MoU, will be presented to the Committee for consideration once further developed.

7 Programme and target dates

7.1 The dates set out below are subject to certainty with regard to TfL's long-term funding and therefore the ability for TfL to enter into long-term financial commitments**.**

7.2 The dates set out below are subject to a dynamic market condition, and availability of suitable generation assets and prices at the time of the procurement (as set out in paragraphs 4.3 – 4.4), any subsequent contract award recommendation will be submitted to the Committee.

Date	**Event**
July 21	Launch PPA 1 procurement
Early July 21	GLA Collaboration Board endorse MoU, which would be subject to onward approval by relevant GLA body governance groups
September 21	Finance Committee update on PPA 1 and PPA 2 Collaboration MoU brought to Finance Committee for approval

PPA 1	
Launch PPA 1 procurement	July 2021
PPA 1 contract signed	January 2022
PPA 1 delivery of power	April 2022

PPA 2	
Launch PPA 2 procurement	September 2021
PPA 2 contract signed	July 2022
PPA 2 delivery of power	2023/2024

List of appendices to this report:

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

List of Background Papers:

September 2020 TfL Energy Update: Renewable Power Purchase Agreements

November 2020 TfL Energy Update: Crown Commercial Service and Power Purchase Agreements

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Finance Committee

Date: **23 June 2021**

Item: **Sale of Lillie Bridge Depot**

This paper will be considered in public

1 Summary

1.1 This paper recommends the sale of Lillie Bridge Depot and Ashfield House (referred to below as LBD) to Earls Court Partnership Limited (ECPL), the joint venture between Delancey/APG and TfL. ECPL approached TfL to acquire LBD in May 2020 and terms have been negotiated and form the basis of this proposal.

1.2 The arrangements for the proposed sale of LBD are flexibly structured so as to require no net investment by TfL as the owner of LBD nor by TfL as a shareholder in ECPL. The condition requiring ECPL to secure third-party funding for TfL's vacant possession costs means that TfL will not be required to contribute equity to ECPL for these costs. The joint venture arrangements within ECPL allow TfL to reduce its shareholding rather than contribute equity to the net land receipt payable by ECPL over and above the externally funded vacant possession costs.

1.3 TfL's land at LBD is owned by London Underground and other subsidiaries are and may be involved in the proposed sale either directly or through TfL's interest in ECPL. References in this paper to TfL incorporate all relevant subsidiaries.

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 financial and business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 **The Chair, following consultation with the Committee, is asked to:**

a) **note the paper and the supplementary information paper on Part 2 of the agenda;**

b) **approve Land Authority for the disposal of Lillie Bridge Depot and Ashfield House (LBD) as described in this paper and the supplementary paper on Part 2 of the agenda and for TfL and/or any other of its subsidiary entities to grant a long leasehold interest of LBD to Earls Court Partnership Limited (ECPL) or a group company, taking a leaseback of the same length, and to agree, subject to conditions, to grant ECPL an option to acquire additional land and to provide vacant possession of LBD and surrender TfL's leaseback, the principal conditions being:**

(i) ECPL obtaining planning permission for the development of Earls Court and LBD;

(ii) ECPL securing third-party funding for TfL's estimated costs of providing vacant possession of LBD; and

(iii) TfL developing and committing to deliver a plan to provide vacant possession of LBD.

3 Background

Land Ownership

3.1 TfL owns the freehold of LBD. TfL has previously granted ECPL long leasehold interests over the site of the former Earls Court Exhibition Centre and ECPL also owns a number of properties related to the development, principally Empress Place. Delancey/APG separately own some adjoining and nearby properties and land. A plan showing these ownerships is provided at Appendix 1.

Strategic Policy Context

3.2 All of the land falls within the Earls Court and West Kensington Opportunity Area. Opportunity Areas are identified in the London Plan "as significant locations with development capacity to accommodate new housing, commercial development and infrastructure (of all types), linked to existing or potential improvements in public transport connectivity." In explaining the approach to Opportunity Areas, the Plan emphasises "a clear focus on delivery – something that will require all stakeholders to work together to unlock sites and drive the right sort of development."

Recent History

3.3 ECPL was established in 2015 with Capital & Counties Properties PLC (Capco) holding 63 per cent and TfL 37 per cent of the shares. Prior to the joint venture being established, Capco had obtained planning permissions in its own name in 2013 across an area incorporating the site of the former Earls Court Exhibition Centre, LBD and the Gibbs Green and West Kensington Estates adjoining to the west. Capco had separately acquired the Estates from the London Borough of Hammersmith & Fulham (LBHF).

3.4 Capco did not progress the development of the Gibbs Green and West Kensington Estates and the number of affordable homes that would have been delivered on ECPL's land by the planning permissions granted in 2013 did not meet the policy adopted by the Greater London Authority (GLA) in 2017, which established the expectation that 35 per cent of new homes should be affordable.

3.5 ECPL implemented the planning permissions on its land, completing infrastructure works and demolition to deliver a cleared site. In 2019 Capco decided to sell its interests in the Earls Court area and they were acquired by Delancey/APG in December 2019. On completion, Delancey/APG handed back the Gibbs Green and West Kensington Estates to LBHF.

3.6 ECPL is working on a new development framework incorporating ECPL's land, LBD and land that ECPL intends to acquire from Delancey/APG. The development framework envisages a full mix of uses including at least 3,000 homes both for sale and for rent. ECPL anticipates submitting planning applications by the end of 2022 targeting grant of permissions by the end of 2023.

4 Recommended Approach

4.1 The recommended approach is to consolidate land ownership under ECPL to create one site with one developer. Principally this will be achieved by the sale of LBD, as proposed in this paper and the supplemental paper on Part 2 of the agenda. Separately, ECPL has agreed to acquire land from Delancey/APG that will contribute to achieving a comprehensive development. The sale of LBD is not conditional on this acquisition by ECPL.

4.2 In outline, TfL will agree to vacate LBD and ECPL will agree to obtain planning permission and funding for TfL's estimated costs of vacating LBD. TfL would vacate LBD if ECPL obtains planning permission and funding and TfL agrees a plan for vacant possession whereby the value of LBD will be sufficient to cover the costs and deliver a net capital receipt to TfL.

4.3 The objective of this proposal is to secure best consideration for TfL as the owner of LBD and to facilitate the comprehensive development of land within the Earls Court and West Kensington Opportunity Area, supporting the objectives of the London Plan and the Mayor's Transport Strategy for new homes and jobs. TfL will retain an investment through ECPL in the enhanced Earls Court site incorporating LBD.

4.4 As the owner of LBD, TfL will be responsible for providing vacant possession of LBD. The process of relocating activities and assets is an opportunity for London Underground (LU) to re-plan important aspects of its operational footprint, achieving business synergies, replacing ageing inefficient buildings with new and reducing whole life costs. The proposal provides for TfL's costs as the owner of LBD to be met out of the gross value of its land with a net receipt to TfL for land value in excess of its costs.

4.5 The proposal requires TfL to use reasonable endeavours to develop a plan for vacant possession to which it is able to commit. The requirement to issue this plan is subject to ECPL first obtaining both planning permission and third-party funding for TfL's costs of delivering vacant possession. Once TfL's vacant possession plan is approved by ECPL, TfL will be committed to deliver vacant possession and it bears the risk on the costs that it has estimated will be required. This risk is mitigated by the proviso that TfL's commitment to deliver its plan for vacant possession is subject to the price that TfL will be paid for LBD exceeding by an agreed margin the estimated costs of vacant possession set out in TfL's plan. Assuming that all conditions are met and based on ECPL's target timescale to achieve planning permission by the end of 2023, and LU's current timescales, works to vacate LBD would commence in 2024.

Key Points and Benefits of the Proposal

4.6 The key points of the proposal are:

(a) TfL will immediately upon entering the agreement, grant a long lease of LBD to ECPL and take a lease back of the same length;

(b) ECPL will therefore have an interest in LBD for comprehensive planning proposals and funding;

(c) TfL will continue to operate the depot as it does now;

(d) ECPL will be responsible for obtaining planning permission at its own cost;

(e) ECPL will be responsible for securing third party funding for TfL’s costs in obtaining vacant possession of LBD;

(f) TfL will be responsible for developing a plan to deliver vacant possession of LBD, which will include an estimate of costs obtained by tendering the proposed works;

(g) TfL’s costs of developing a plan for vacant possession will be funded via ECPL;

(h) subject to ECPL obtaining planning permission and funding, TfL will be committed to provide vacant possession once it has developed a feasible and detailed plan for doing so which is approved by ECPL and subject to the value of LBD being greater than the estimated costs of providing vacant possession;

(i) TfL’s costs of providing vacant possession will be drawn down in advance against the gross land value of LBD up to a maximum of the cost estimated by TfL in its vacant possession plan with TfL responsible for costs in excess of this level; and

(j) TfL’s lease will be surrendered after LBD has been vacated.

4.7 The proposal offers potential operational and financial benefits to TfL:

Benefits	**Operational**	**Financial**
No upfront funding from TfL to develop a plan for vacant possession		✓
Full funding of the vacant possession costs set out in TfL’s plan		✓
Net capital receipt of land value in excess of vacant possession costs		✓
Planning operational footprint in line with business needs when relocating activities from LBD	✓	

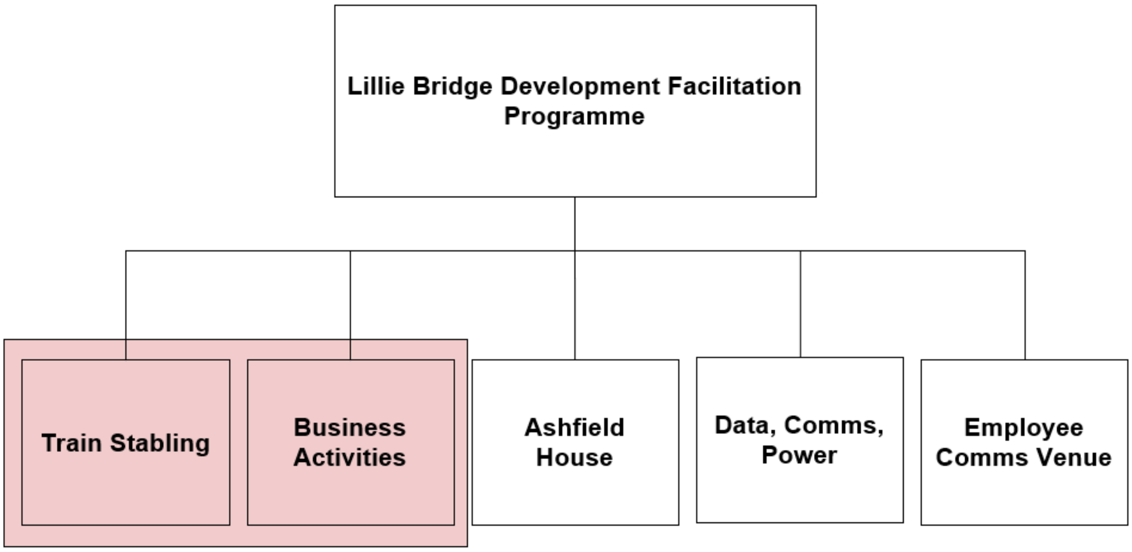
Replacement of ageing buildings and assets with new, providing better conditions for people (e.g. welfare), reduced capital cost for repair and replacement of existing buildings, reduced maintenance and operational costs, enhanced sustainability	✓	✓
Ongoing operational benefit for District line services, primarily from increased train crew utilisation and reduced empty train mileage	✓	
Participation by TfL through ECPL in the enlarged Earls Court site including LBD and new long-term income generated by its development		✓

5 Operational Implications and Opportunities

5.1 The relocation of activities and assets to release LBD for development entails significant operational interfaces and opportunities.

Lillie Bridge Development Facilitation Programme

5.2 This work is organised under a programme as shown below:



5.3 The work is being undertaken by a team drawn from departments across TfL: Asset Performance and Capital Delivery, Investment Delivery Planning and Commercial Development, working closely with other programmes, projects and users to achieve integrated, holistic solutions.

5.4 Consultation is ongoing with local Trade Union representatives and updates on the programme are being given to the Company Councils regarding the Business Activities project. These consultations will continue and will be extended to cover other aspects of the programme.

5.5 The two principal projects – Train Stabling and Business Activities – are at Pathway Stage 2.

Train Stabling

5.6 The requirement is to provide stabling off-site for 12 S7 District line trains, berthing for an engineer’s train/engineering vehicles and to retain road-to-rail vehicle access at Lillie Bridge. Three potential locations have been identified from a long list of 25: new stabling on land between Chiswick Park and Turnham Green; expansion of existing stabling at Parsons Green; land north of LBD for engineer’s train/engineering vehicles and road-to-rail vehicle access. Wider operational requirements including train crew accommodation are being considered. There is a net quantified non-cash operational benefit of circa £0.5m per annum, principally reduced non-revenue travel.

5.7 A plan of the locations is provided at Appendix 2.

Business Activities

5.8 Analysis of the business activities and their relocation has been based on the principle of grouping them in a way that works better from a business perspective and keeps teams together as far as possible. Relocations are focussed on Acton Works and Ruislip Depot. Potential relocation sites were filtered by capacity and location from all Depots in the network.

5.9 The approach is to review the sites as a whole, identifying the potential to plan the operational footprint more efficiently. The relocation of these activities offers the opportunity to replace ageing buildings and other assets that will require substantial investment with new ones. Space occupied ad hoc can be replaced with purpose-designed and built accommodation with new welfare facilities, flexibility, sustainability and lower operational costs. The base case is to relocate activities retaining or improving existing functionality. Further options are being explored involving business change.

5.10 Diagrams illustrating the principles of relocations to Acton Works and Ruislip Depot are provided at Appendix 3.

Other Workstreams

5.11 The principal other workstream is Ashfield House. This accommodates British Transport Police (occupying vacant space on short-term leases), Learning & Development, LU Skills Development and Taxi and Private Hire teams. The learning and skills activities are in the process of being re-planned, which will reduce their footprint. Occupiers will be relocated within the office estate.

5.12 Ashfield House also contains data and communications installations such as Connect, which will be in part decommissioned and in part relocated.

5.13 The Employee Communications venue (formerly the Valuing Time Centre and the Every Journey Matters Academy) was created as a temporary venue for major communications initiatives. The proposal is to close it in the event of development.

TfL Management and Governance

5.14 Work under the Programme is and will continue to be undertaken following Pathway, the integrated management framework designed to support the assured delivery of TfL's Investment Programme. Governance of the work to develop a plan for vacant possession and any commitment to provide vacant possession will be via the LU Executive. The normal governance process will therefore be followed, for example, to approve the award of any contracts for works and services in relation to the replacement facilities on another site, but on the basis that TfL will by that stage be legally committed to vacate LBD once ECPL has obtained planning permission and funding and ECPL has approved TfL's plan to deliver vacant possession with an acceptable net capital receipt in excess of the costs set out in that plan.

5.15 TfL will be responsible for obtaining planning permission and any other external consents required to build the replacement facilities on another site.

List of appendices to this report:

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

Appendix 1 – Land Ownership Plan
Appendix 2 – Train Stabling Locations
Appendix 3 – Acton Works and Ruislip Depot Diagrams

List of Background Papers:

Lillie Bridge Depot: Options Analysis, Deloitte, 11 January 2021 (exempt from publication)

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Appendix 1 - Land Ownership Plan

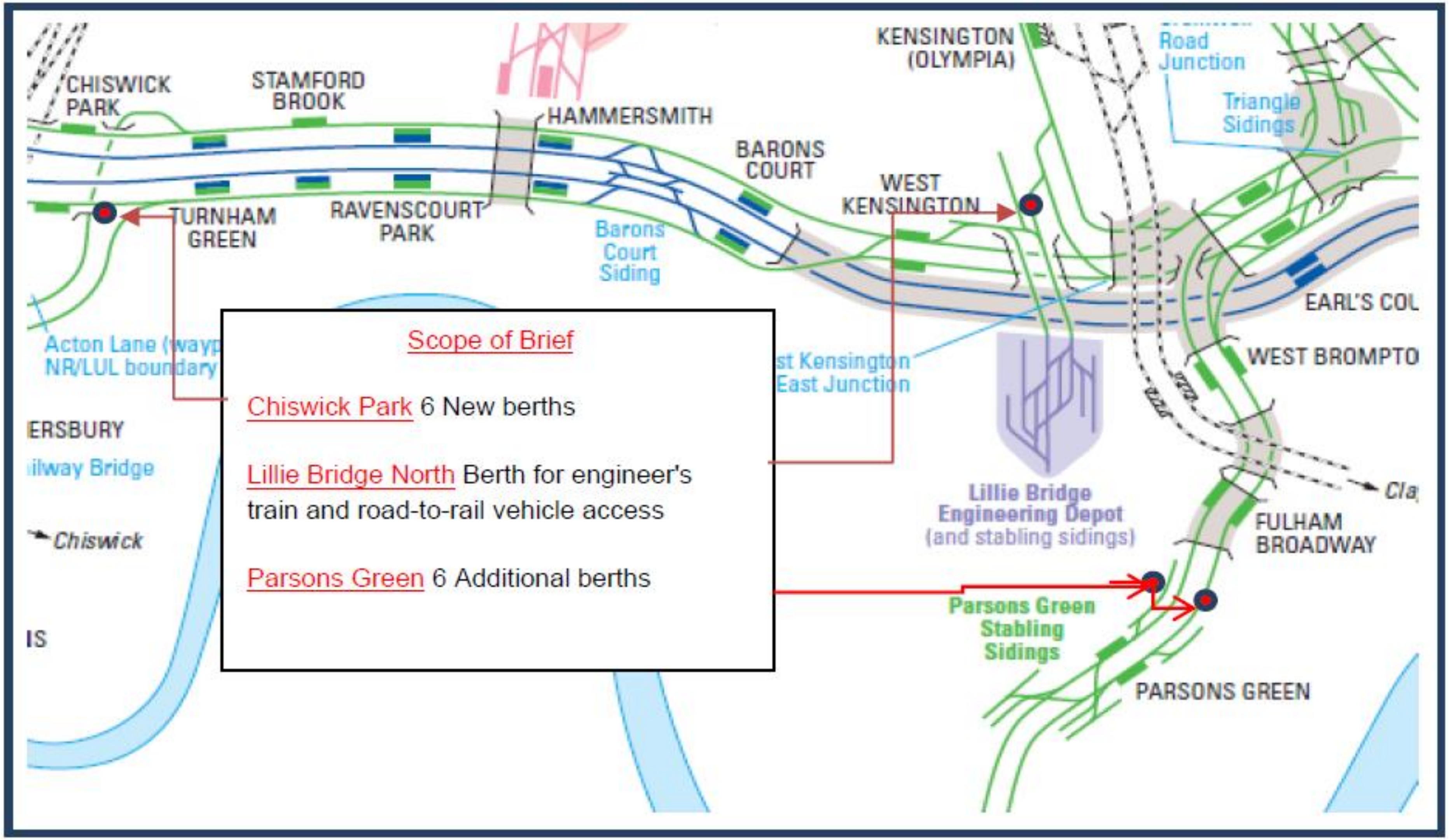
Earls Court and Empress Place, ECPL

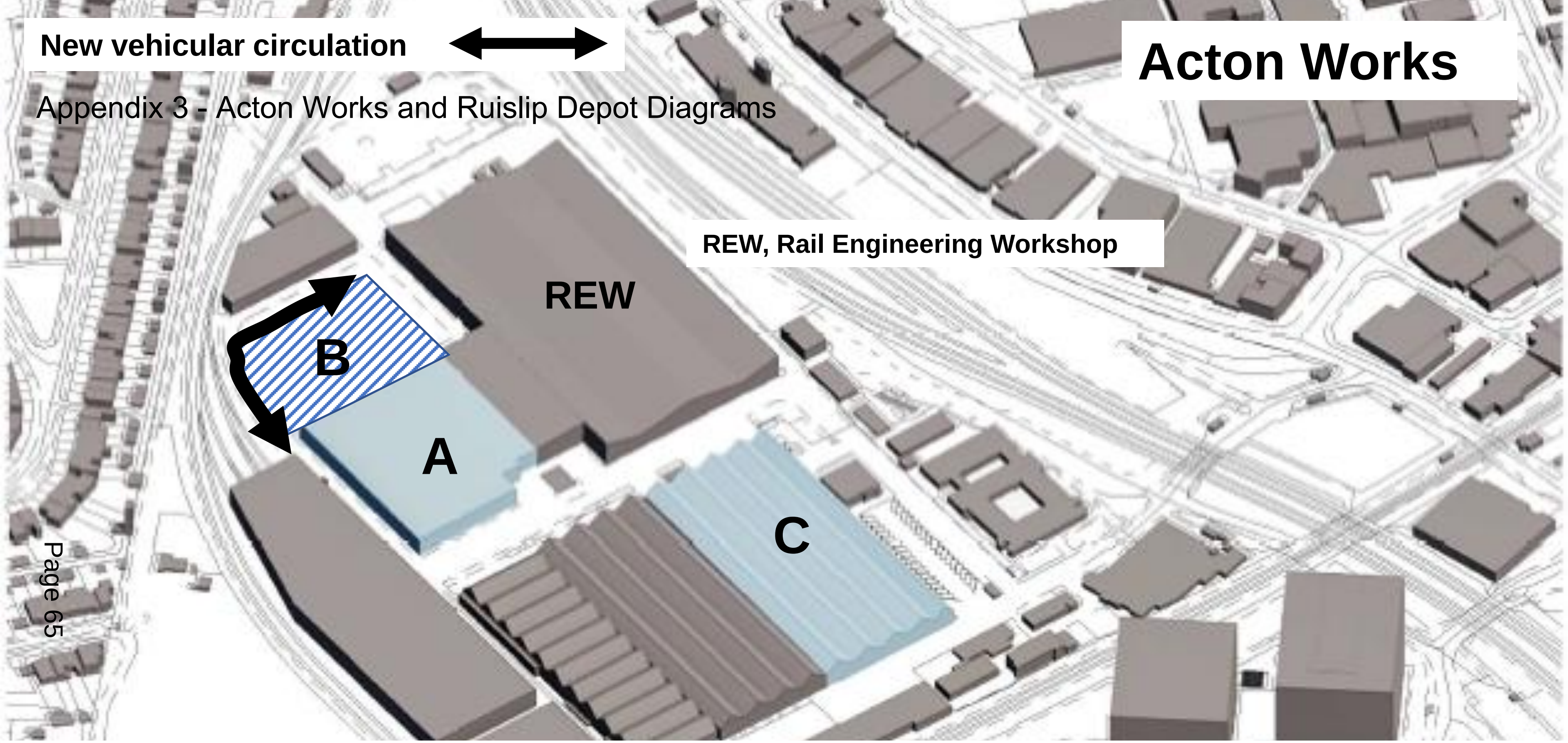
LBD, TfL

Mannequin Factory, Delancey/APG

Note: retained land around around the Empress State building owned by Delancey/APG comprises rights and options

Appendix 2 - Train Stabling Locations



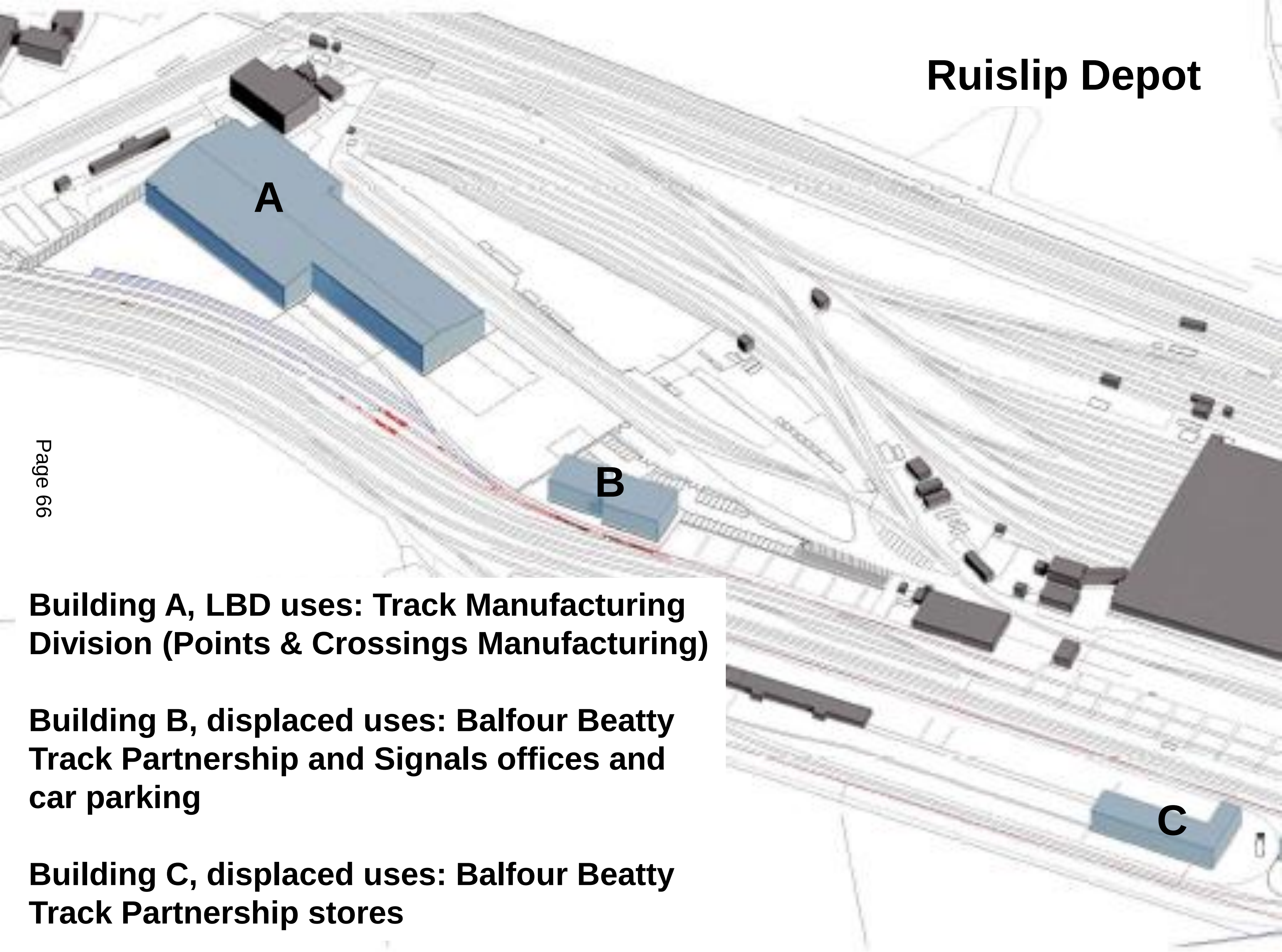


Building A, REW Extension, LBD uses: Track Manufacturing Division (Machine Shop and Calibration); Track Delivery &Services; Plant Services; Vent Cleaners

Site B – Site of demolished AC02: CLIP storage to 2025; LBD construction area; opportunity for future expansion

Building C, Warehouse Hub, LBD uses: Materials and Storage

Ruislip Depot



Building A, LBD uses: Track Manufacturing Division (Points & Crossings Manufacturing)

Building B, displaced uses: Balfour Beatty Track Partnership and Signals offices and car parking

Building C, displaced uses: Balfour Beatty Track Partnership stores

Finance Committee

Date: **23 June 2021**

Item: **Funding Update on TTL Properties Limited**

This paper will be considered in public

1 Summary

1.1 TfL's landholdings have the potential to deliver thousands of homes across the capital and create substantial sums to reinvest in the transport network.

1.2 The coronavirus pandemic has accelerated the need to bring forward homes and unlock growth in the capital. It has also crystallised the fact that, given wider financial pressures, a TfL property vehicle must be structured in such a way as to avoid diverting any investment from transport – while continuing to maximise the long-term return available to reinvest in the transport network.

1.3 Property has therefore been a specific workstream in the discussions with Government on TfL's Financial Sustainability Plan (FSP) Condition 10a. in the Transport for London (TfL) Settlement Letter on 1 June stated:

TfL to agree a plan for housing delivery through a dedicated commercial property company that meets the shared ambitions of the Mayor and HMG to deliver housing in a high demand area and to provide an increased revenue stream. The plan will be agreed between TfL and HMG by June 11th and include a clear milestone for housing to be delivered by the end of 2024.

1.4 TfL welcomes this condition, and the paper provides an update on the FSP property workstream and the wider activity to have a fully self-financing property vehicle within TfL. The paper will set out the nature of property vehicle, the business plan options that have been considered, and the work to date on funding options.

2 Recommendation

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

3 Strategic Context

Background

3.1 At its meeting on 1 April 2019, the Committee approved the consolidation of commercial and other property assets from across the TfL Group into Transport Trading Limited Properties Limited (TTLP). The consolidation was approved as a component in the creation of a dedicated, self-financing property company in TfL.

3.2 In order to provide TTLP with an appropriate capital structure, on 25 November 2020, the Committee approved TTLP issuing and allotting £2.1bn of equity. The £2.1bn funded both the main tranche of commercial assets (valued at £1.5bn) and 'for sale' assets due to be consolidated in TTLP (valued at £0.6bn). The share issue created a TTLP balance sheet with no debt, that is, the transferred assets were funded entirely by the new TTLP share capital.

3.3 At its meeting on 10 March 2021, the Committee approved Procurement Authority for a 25-year, interest-bearing loan of up to £2.1bn by London Underground Limited to Transport Trading Limited (TTL) to fund the acquisition of ordinary share capital in TTLP.

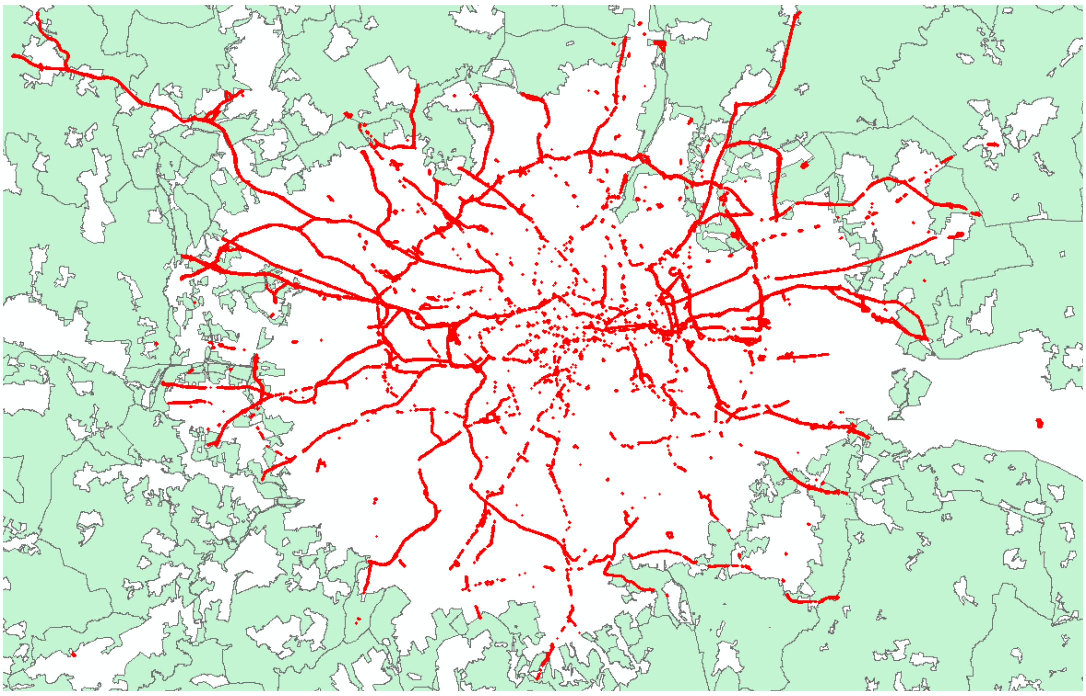
3.4 The FSP issued to the Department for Transport (DfT) on 11 January 2021 proposed utilising TTLP's income and asset base to raise commercial funding for future investment. As the FSP explained, the impact of the pandemic effectively removed TfL's ability to make the investment needed to kick start the housing programme, hence the requirement to urgently consider new funding options.

3.5 The FSP also proposed that, alongside an ability for TTLP to borrow, an injection of funding from the Ministry of Housing, Communities and Local Government (MHCLG) would allow TTLP to deliver 2,000 homes per annum, or up to 50,000 homes over a 25-year period – compared with TTLP's existing investment programme, which was expected to deliver only 10,000 homes.

3.6 The FSP stated that, subject to understanding the appetite and constraints for Government in working in partnership with TTLP, TfL proposed to develop and refine the capital structure options for TTLP, including taking legal and financial advice, producing full value for money analyses, market-testing options, and reviewing the technical feasibility and accounting impacts. This first phase of work has been completed and the results are summarised in this paper.

TfL's Landholdings

3.7 TfL currently owns 5,475 acres of freehold land and a further 404 acres leasehold. In total this equates to 1.5 per cent of London's landmass. Of the freehold and leasehold land, 885 acres is Metropolitan Green Belt and a further 118 acres is Metropolitan Open Land (MOL). Metropolitan Green Belt and MOL land therefore comprise 1,003 acres or 18.3 per cent of TfL's total landholdings, effectively taking almost a fifth of TfL's land out of scope for development (see Map 1 showing overlap of TfL land and Metropolitan Green Belt).


Map 1: Overlap of TfL land (red) and Metropolitan Green Belt (shaded green)

3.8 TTLP's existing plans will result in TTLP developing 145 acres across more than 50 sites to deliver 13,278 homes. TTLP has identified a further 280 acres across 61 sites that, with access to grant funding, could potentially deliver an additional 33,072 homes, i.e., a total of 46,350 homes.

3.9 A more recent exercise with external advisors CBRE ('Project Pattern') reviewed 17,000 sites. Of the 17,000 sites, 15,000 could be immediately dismissed, and 2,000 were reviewed in more detail. From the 2,000, 143 opportunities covering 212 acres were identified as prospects requiring further feasibility. As would be expected, the most commonly identified potential use was residential (184 acres out of 212 acres) with an equal split across the remainder of potential for office and industrial & logistics (14 acres each).

3.10 In total, TTLP has identified potential development land totalling 637 acres. The remaining land has been filtered out on two separate occasions by two different external reviews, generally on clear planning, operational or commercial grounds (though better data would allow future reviews to be both more frequent and more efficient).

3.11 TTLP was set up to unlock the value of TfL land, for example through obtaining planning consents, and then leveraging that 'value creation' to generate funding to invest in TfL land to create more value. This virtuous cycle ultimately delivers new housing and growing income at no cost to farepayers or taxpayers. Even in the first phase of consolidating assets into TTLP, the additional value identified in transferring the initial wave of commercial assets from cost to investment properties was £875m.

Progress on Housing

3.12 TTLP continues to progress its programme to deliver thousands of homes on TfL land. The two most recent planning consents at Nine Elms (479 homes) and Old Brompton Road (51 homes) bring the total number of TTLP homes with planning approval to more than 6,300. In addition, some 1,500 homes are submitted in the planning system waiting to be heard, and a further 1,200 homes are due to be submitted for planning in the next 12 months. This is in addition to the 1,301 homes currently under construction on TTLP sites and 266 homes that have now been completed. TTLP remains committed to delivering all of these projects that are integral to London's recovery.

3.13 This month, two major milestones have been achieved, with the first people moving into their homes at 'Blackhorse View,' a site being developed in partnership with Barratt London, and sales starting at 'The London Mews' in Finchley, a small site developed by Kuropatwa through the Mayor's 'Small Sites Small Builders' programme.

3.14 Whilst two schemes, at Arnos Grove and Canons Park, were recently rejected by the respective planning committees (and both are now subject to planning appeal) it is noteworthy that every TfL scheme has had borough officers' recommendation for approval and 96 per cent of TfL's housing applications considered to date have been approved by planning committees.

TTLP Asset Base

3.15 CBRE recently carried out its second annual valuation of TfL's commercial assets. The asset valuation is central to TTLP's ability to borrow, with the intention that lenders can take security over TTLP assets. The most recent valuation showed an overall commercial asset value as at March 2021 of £1,322.6m a decrease of only £7m (0.5 per cent) on the valuation as at March 2020.

3.16 By asset type, the year-on-year changes in value generally followed wider market trends. Falls in retail value were offset by increases in residential and commercial office, with sites such as Bollo Lane and Southwark benefiting from TfL obtaining planning consents that enhanced the value of these assets. The strong industrial market in London also supported arches and delivered yield improvements on long leaseholds. The breakdown by asset type is as follows:

	Market Value March 2021 (£m)	Change from March 2020 (%)
Retail – Out of Station	358.3	(7.8%)
Retail – In Station	249.4	(7.9%)
Arches	182.2	(0.1%)
Commercial Office	138.4	13.5%
Residential	87.4	20.8%
Car Parks	37.5	0.9%
Other	269.4	5.1%
Total	1,322.6	(0.5%)

4 Approach to Funding

4.1 TTLP has engaged with external support in the initial stages of the development of the property vehicle. The work undertaken and advice received is summarised below.

4.2 Working with Deloitte, a review was undertaken of the potential funding options to meet TTLP's capital requirements. TfL selling equity in TTLP in the market at this time was discounted as any equity sale now would inevitably be at a discount to the expected growth in asset value, and so would not meet TfL's best value obligations. TfL corporate debt was also rejected as it would not provide the necessary independence from wider TfL borrowing and would have constrained TfL's future ability to borrow to fund transport projects.

4.3 The two options examined in more detailed were non-recourse debt secured on TTLP's asset base (so that, in the event of default, lenders can take the assets the debt is secured against but cannot seek any further compensation from TfL) and TTLP unsecured debt with a guarantee (the guarantee would cover the principal and interest payments on debt issued by TTLP to lenders and it could, in theory, be provided by TfL, the GLA or Government).

4.4 Either of these would see property assets consolidated into TTLP, with TTLP having a separate profit & loss statement (P&L) and balance sheet, and its own financial and management accounts focused on commercial development activity with borrowing independent from wider TfL.

4.5 The options were evaluated against cost of finance; potential level of borrowing that could be achieved; the speed at which the option could realistically be implemented; the extent of TfL's level of risk exposure in the event that TTLP is unable to repay the borrowing; the ease of implementation; and the extent to which the option promotes a clear separation between borrowing for transport and borrowing for property.

4.6 The clear conclusion of this evaluation was that the preferred option to fund TTLP is non-recourse debt secured on TTLP's asset base.

4.7 The option of unsecured debt with a Government guarantee was considered as it could simplify the debt-raising process, for example to accelerate activity whilst commercial debt is accessed.

4.8 The ability to access commercial debt remains the immediate risk to TTLP's programme timescales. With first drawdown of commercial debt currently planned for spring 2022, any hold-up will see delay to the delivery of the 13,278 homes identified in the Baseline Plan. The biggest risk to this timetable is the co-ordination of the asset security arrangements by which the debt would be secured. A Government guarantee would potentially circumvent the need to secure on the TTLP asset base. This could bring forward the timescales for the commercial debt by up to six months, and potentially reduce the scale and hence cost of initial commercial debt, meaning TTLP would enjoy higher returns.

4.9 In any event, early access to commercial debt funding would be advantageous. Identifying the assets that could be offered as security for debt is likely to be an iterative process, though there will be an initial exercise in which certain assets are discarded at the outset based on criteria such as:

(a) plans to dispose of the asset in the short term (e.g. the next five years);

(b) assets that have not yet been transferred to TTLP;

(c) assets with outstanding disputes;

(d) assets which cannot be fully separated from TfL's operational business;

(e) land assets (undeveloped land as a lending proposition tends to have a narrower market appeal and, in any event, values will be discounted);

(f) assets that are expected to grow significantly in value; and

(g) assets below a given value (e.g. £1m).

4.10 Whilst there is further due diligence work to be carried out, both TfL and Deloitte believe there is sufficient capacity in the current commercial property portfolio to secure the required level of debt.

4.11 The funding structure proposed will need to be tested to confirm it is within TfL's powers, but we are satisfied that, in principle, the options under consideration are within TfL's powers. This is subject, where security is to be granted, to the activation of certain statutory provisions.

4.12 To ensure that any lending to TTLP is "non-recourse" to TfL, further changes will also be required. TfL will have to remove the Parent Company Guarantee that it currently offers to TTLP alongside other subsidiary companies (this will also require that the TTLP accounts are audited, which is not presently the case). In addition, TfL will remove the letter of support that it currently provides to TTLP directors which states that, so long as the company is a subsidiary of TfL, TfL will continue to make sufficient monies available to the company to enable it to meet all its debts as they fall due.

4.13 Deloitte and TTLP's other strategic property advisors have confirmed they are confident there is market appetite for TTLP's preferred approach. This has been endorsed by TTLP's own informal market engagement.

5 Economic Analysis

5.1 Work has been undertaken on three potential Business Plan scenarios within TTLP, with increasing levels of capital investment: a) Plan X; b) Baseline Plan; and c) Housing Growth Plan. These scenarios are summarised as follows:

(a) **Plan X** – is a "capital neutral" budget adjusted to TfL's current financial restrictions – the impact of c. £900m savings required across TfL this year essentially means that investment in property is categorised as "Desirable" and therefore the only property-related projects liable to access TfL capital funding are those that are contractually committed, health & safety related, or generating a very short-term return; this results in significantly reduced capital investment in existing assets and development programmes deferred so that funding from disposals is received before development expenditure is committed;

(b) **Baseline Plan** – TTLP's default plan assumes access to commercial debt funding and includes well-progressed commercially viable projects with a focus on developing and holding assets in the long term – but includes no allowance for grant funding to bring forward currently unviable projects; and

(c) **Housing Growth Plan** – adds 61 known, commercially unviable projects (i.e. requiring support in the form of grant) that add significantly to the delivery of homes with a corresponding increase in the requirement for funding in the later years of the plan.

5.2 The key outputs of these three different scenarios were assessed by TfL Corporate Finance and Deloitte, and the results are set out in the table below:

	Total Houses Delivered	Asset Value (£bn) by 2045	Net Capital Funding (£bn) by 2045
Plan X	10,750	£3.9bn	-
Baseline	13,278	£5.3bn	£0.4bn
Housing Growth	46,350	£9.9bn	£2.0bn

5.3 As can be seen, the net capital funding requirement varies considerably across the three scenarios, from no external funding under Plan X to £2.0bn in the Housing Growth Plan.

Baseline Plan

5.4 TTLP has adopted the Baseline Plan as the default deliverable model. Options from within the Housing Growth Plan can be introduced in the future as deemed appropriate.

5.5 The funding and debt requirement are impacted by the amount of dividend distribution TTLP pays to the TfL Group each year. At inception, the dividend policy will cover the cost of repaying the intercompany loan used to provide TTL with the funds to capitalise the property company but retain the profit from disposals within the property vehicle to reinvest to deliver more housing and growing capital value. This achieves the best mix of delivering our aims for more housing and a growing revenue stream and capital value to TfL to reinvest in better transport to support the city's growth.

5.6 Debt funding remains at a manageable level with a Loan to Value (LTV) below 35 per cent of the commercial property asset base (assuming the asset values increase over time). Debt is therefore considered affordable under the Baseline Plan.

5.7 A review of the TTLP Business Plan by Deloitte concluded that the debt funding requirement projections are generally sound. Deloitte did make some recommendations regarding income projection assumptions – and taking those into account provides TTLP with a cautious projection for the operating account, though it is acknowledged that more specific work is required on downside scenario modelling.

5.8 As stated above, the Baseline Plan is TfL's current default, and this is the plan on which most due diligence has been carried out. The work summarised in this paper has confirmed that the Baseline Plan is deliverable. Moreover, the Baseline Plan demonstrates that TTLP can be a viable commercial entity with no dependency on TfL and will be able to bring forward thousands of homes that are currently paused by lack of funding.

5.9 The current programme would see TTLP complete the necessary work to allow it to approach the market before the end of 2021, with the aim of the first drawdown of debt being in spring 2022.

5.10 The Baseline Plan delivers 13,278 homes. With access to commercial debt to fund the investment, 8,000 homes will be started on site by March 2024, and almost 11,000 by March 2025.

5.11 The table below shows that the debt requirement remains below £300m and TfL receives almost £90m per annum by Year 10 (and £130m by Year 15 – see Appendix).

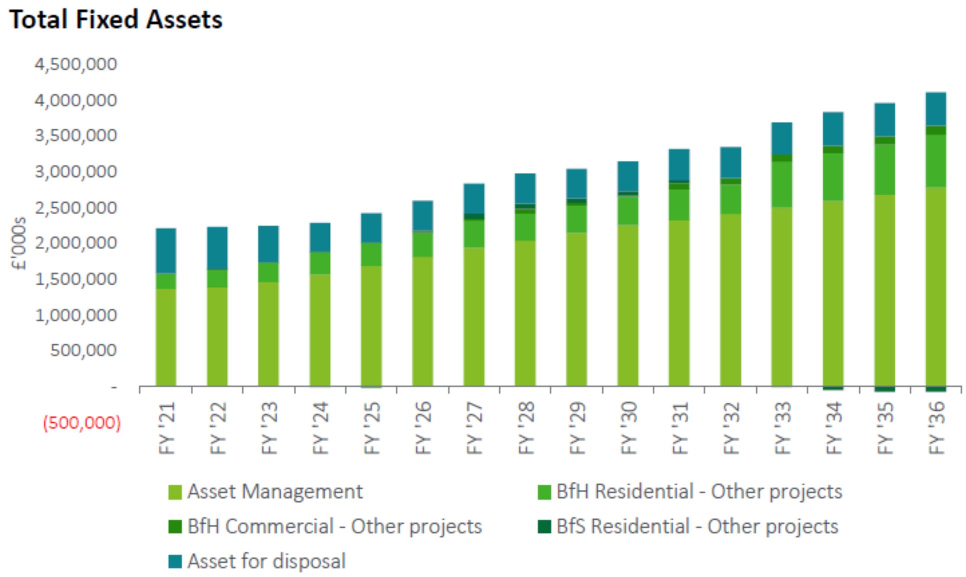
Table 1 - Baseline Plan

£'000	FY '22	FY '23	FY '24	FY '25	FY '26	FY '27	FY '28	FY '29	FY '30	FY '31	Total (15 years)
Debt	16,751	26,447	(5,819)	32,621	132,811	223,659	273,073	265,568	296,844	230,043	296,844
Dividends	-	29,205	32,920	36,091	43,174	50,232	59,743	71,985	83,851	89,555	1,055,045
Cash	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Homes (Cumulative)	3,062	6,697	8,021	10,978	11,778	11,778	11,778	11,778	11,778	11,778	13,278

5.12 The Baseline Plan is forecast to generate an indicative ungeared Internal Rate of Return (IRR) of six per cent at the portfolio level. This IRR is aligned with the conservative nature of the portfolio which is weighted heavily towards income-producing investment properties in London. Individual property development projects demonstrate geared IRRs of 12-16 per cent for Build for Sale and 7-9 per cent for Investment projects.

5.13 The chart below sets out that under the Baseline Plan the value of the portfolio will almost double to £4.11bn over the next 15 years. By 2035/36, the commercial property portfolio is expected to be valued at £2.77bn (67.5 per cent of the total) and the property development portfolio valued at £1.34bn (32.5 per cent).

Chart – Growth in Value of TTLP Assets



Housing Growth Plan

5.14 As was set out in 3.5 above, the FSP proposed that funding from MHCLG would allow TTLP to deliver tens of thousands of homes under TTLP's 'Housing Growth Plan,' which comprises 61 projects across London. Such an investment would create a substantial future endowment for TfL while delivering vital social, environmental and economic benefits. It would also produce a diversified asset base with property and land across a range of sectors including residential for rent, residential for sale, retail and commercial (including office, light industrial and logistics).

5.15 Any Housing Growth Plan would be flexible with the ability to adapt to changing market conditions by adjusting the proposed use of sites and / or changing the delivery mechanism (from outright land disposal to joint venture or direct development) or by adjusting the shareholding within individual joint ventures.

5.16 Property development is capital intensive, but it can provide long-term, stable income to improve TfL's financial sustainability. Not only that, there would be significant opportunity to deliver operational improvements alongside housing and financial return. In the context of TfL's capital investment being increasingly under pressure, TTLP would take every opportunity to support TfL's wider objectives, including step-free access and cycling facilities. Looking ahead, major town centre schemes, such as at Earls Court, Edgware or Morden provide the chance to embed world-class sustainable travel into development from the outset.

5.17 The Housing Growth Plan also provides wider benefits. Deloitte has assessed the economic benefit delivered by the Housing Growth Plan and concluded that it would be associated with £4.1bn net present value in Gross Value Added (GVA) for the period 2021-2036, and a total of 250,000 jobs over the same period (compared with £1.1bn GVA and 65,000 jobs under TTLP's existing property plans).

5.18 The quantum of activity envisaged in the Housing Growth Plan would have a far-reaching impact on the property industry, including addressing a number of acknowledged market failures, such as construction skills. Working with the Department for Education (DfE), the Construction Industry Training Board (CITB), the Greater London Authority (GLA), boroughs, developers, training providers and charities, TTLP has already provided over 2,000 people with training in construction skills, with hundreds of those trainees now in new long-term employment.

5.19 A multi-decade pipeline of developments sites on TTLP land would underpin an investment in construction skills with a focus on Modern Methods of Construction, helping accelerate the pace and sustainability of future delivery.

5.20 The FSP sets out the clear benefits of the Housing Growth Plan in both housing delivery and long-term income to TfL. The Housing Growth Plan is however entirely dependent on Government grant funding.

Baseline Plus

5.21 To address challenges over the costs and feasibility of the Housing Growth Plan, TTLP produced a hybrid plan, the Baseline Plus, adding to the Baseline Plan only the first eight sites from the Housing Growth Plan (see below for a summary of the key outputs).

	Total Houses Delivered	Asset Value by 2045	Net Capital Funding by 2045
Baseline Plus	22,290	£6.2bn	£0.7bn

5.22 The first eight projects from the list of 61 in the Housing Growth Plan have a viability gap of £277m but could deliver an additional 8,500 homes. TTLP has worked closely with Homes England on these schemes but understands that any funding for housing on TTLP land would be subject to normal Homes England and MHCLG value for money criteria and would have to meet target benchmarks in order to be considered.

5.23 Table 2 below shows the peak debt requirement is just over £660m. TfL would be receiving over £83m per annum by Year 10. It is worth noting that the ten-year dividend to TfL is lower under the Baseline Plus plan because the capital investment is required in advance of the income being received. As the capital investment will be made through higher levels of debt, the cost of that debt impacts on the dividend distribution in the medium term. By Year 15, the dividend to TfL increases to £144.5m, a £17.5m increase on the Baseline Plan.

Table 2 - Baseline Plus

£'000	FY '22	FY '23	FY '24	FY '25	FY '26	FY '27	FY '28	FY '29	FY '30	FY '31	Total (15 years)
Debt	34,660	57,559	34,200	120,810	282,212	454,192	561,526	578,794	663,947	611,008	633,947
Dividends	-	26,906	30,384	32,187	37,608	42,503	50,146	62,975	76,304	83,109	1,052,101
Cash	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Homes (Cumulative)	3,062	6,697	13,033	19,990	20,790	20,790	20,790	20,790	20,790	20,790	22,290

5.24 A detailed financial table for the Baseline Plus plan is included in the Appendix.

5.25 Neither the Housing Growth Plan nor Baseline Plus is deliverable without additional funding. An outline of these plans was issued to Government, as agreed, on 11 June 2021. An update on any response from Government will be shared at the meeting.

5.26 In the interim, TTLP's focus is to access commercial debt as soon as possible to unlock additional investment in housing and income generation. Until commercial debt is available, TTLP can only operate under Plan X, which effectively means that only critical health & safety work and contractually committed projects are prioritised. This will delay delivery of a significant tranche of housing.

6 Management Approach

Programme Management

6.1 Whilst access to debt funding will address the single greatest obstacle to TTLP bringing forward new housing, the long-term opportunity for both housing and income generation will only be optimised if TTLP uses the new funding as a catalyst to create an organisation that can increase the scale and pace of delivery.

6.2 As a result, an outline programme has been developed to undertake the wider work. The six workstreams within that programme are:

(a) **Purpose and Engagement** – defining and communicating the organisational purpose of TTLP, building on the work being undertaken within TfL but with a focus on commercial property – and ensuring all future activity, communications and engagement are aligned with this purpose;

(b) **Corporate Structure** – defining TTLP's corporate structure, governance arrangements and reporting, including Key Performance Indicators;

(c) **Housing and Investment Growth Plan** – producing an aligned suite of new documents for TTLP, namely: Investment Strategy, Capital Allocation Plan, Business Plan, Dividend Policy, Property Development Plan, Asset Management Plan, Balance Sheet and P&L;

(d) **Funding and Debt Planning** – developing the funding structure to secure commercial debt funding for TTLP, ensuring that any debt is non-recourse to TfL; reviewing options for interim grant funding; and completing the transfer of assets into TTLP;

(e) **TfL Interface** – defining the future relationship between TfL and TTLP, including the creation of an "Intelligent Client" function within TfL; and producing and confirming any operating agreement(s) to cover the scope of activities carried out for or by TTLP; and

(f) **People and Operating Model** – working with the wider TfL Change Team to define: the high-level organisation structure for TTLP; the operating model, including for TTLP's support functions; and the People Plan for TTLP.

6.3 TTLP has a clear commercial focus to ensure that it can service its debt and provide a growing return to TfL. TTLP will however carry on the commitment to deliver an average of 50 per cent affordable housing across sites brought to the market since May 2016. TTLP will also continue to prioritise customer service and social value, particularly with its Small and Medium Enterprise (SME) tenants across London.

6.4 As was shared with the Safety, Sustainability and Human Resources Panel (SSHRP) at its meeting on 10 February 2021, Commercial Development was this year awarded the highest 5-Star rating by GRESB (originally, Global Real Estate Sustainability Benchmark), the leading international sustainability benchmark for real estate and infrastructure. GRESB ranked TfL first in the UK and fourth in Europe amongst diversified developers. TTLP will look to build upon this work.

6.5 TfL sees no conflict between sustainability, social value, customer focus and commercial return. Instead, it is increasingly clear from data across industries that TTLP's future access to funding and its commercial success are dependent on TTLP setting a bold and sustainable vision – including investing in its people and its estate.

6.6 As well as delivering housing and investing in its current commercial asset base, there is a specific opportunity for TTLP to bring forward a commercial office portfolio. The team already has a successful track record of delivering complex commercial Development Agreements over and around Crossrail stations, working with leading developers to generate a return of over £440m to TfL.

6.7 TfL has secured planning consents for major commercial office schemes at sites including Bank, Paddington and Southwark. The value of these assets is holding up or growing, in line with the so-called "flight to quality" where the best-located, highest-quality office buildings are valued at a premium by prospective tenants. In addition, this portfolio can provide the most cost-effective locations for TfL to occupy, in well-designed, sustainable offices built immediately above the transport network.

7 Conclusion and Next Steps

7.1 The pandemic has been a catalyst for major change in the real estate sector, where its impact has generally been to accelerate existing trends. In TfL, the impact of the pandemic has hastened a move towards commercial debt to fund investment in property, which was always a likely conclusion of the decision to consolidate property assets in TTLP in 2019.

7.2 Advice from Deloitte has assured the approach set out in the FSP that, given our objectives, the most viable route to commercial debt funding is non-recourse debt secured against TfL's commercial property portfolio. Deloitte has also confirmed that the assumptions made in the model underpinning TTLP's business plan are generally robust, though there is more work to do before the plan is ready to take to market.

7.3 Next steps will include completing the review of the asset base to create a consolidated list of assets available to use as security now or in the future – and to identify what, if any, further work needs to be done to the asset data so that it can be offered as security. It will also include determining how much borrowing will be required and when it will be drawn down.

7.4 The workstreams on organisational purpose, governance, interface and operating model will progress to provide lenders with a clear understanding of TTLP and its relationship with TfL.

7.5 This Housing Growth Plan in particular has the ability to accelerate housing delivery and generate a long-term return to TfL, alongside substantial wider economic benefits. Discussions with Government on the potential to bring forward the first phases of the Housing Growth Plan are ongoing, and an update will be provided at the meeting.

7.6 Even without Government grant, the debt funding approach set out in this paper would allow TTLP to bring forward thousands of homes that already have planning consent but cannot proceed because of TfL's current inability to enter into new financial commitments.

7.7 We intend to submit a paper to the Committee at its meeting on 6 October 2021, seeking all necessary approvals to allow TTLP to be funded by secured commercial debt that is non-recourse to TfL.

List of appendices to this report:

Financial Tables: The 15-year cashflow summaries of the Baseline and Baseline Plus plans.

List of Background Papers:

None

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Cashflow – Baseline

Appendix

Summary financial statements

Fiscal year:	FY '21	FY '22	FY '23	FY '24	FY '25	FY '26	FY '27	FY '28	FY '29	FY '30	FY '31	FY '32	FY '33	FY '34	FY '35	FY '36	
year ends:	*31/03/2021*	*31/03/2022*	*31/03/2023*	*31/03/2024*	*31/03/2025*	*31/03/2026*	*31/03/2027*	*31/03/2028*	*31/03/2029*	*31/03/2030*	*31/03/2031*	*31/03/2032*	*31/03/2033*	*31/03/2034*	*31/03/2035*	*31/03/2036*	
Balance Sheet																	
Fixed assets	2,212,116	2,224,553	2,236,953	2,271,469	2,398,906	2,592,790	2,828,911	2,970,921	3,036,047	3,142,346	3,315,619	3,343,380	3,676,205	3,774,194	3,879,499	4,030,819	
Current assets (excl. cash)	14,843	26,137	28,176	30,237	31,547	33,296	35,077	37,129	39,435	41,689	42,820	44,288	45,423	46,549	47,589	49,482	
Cash	-	10,000	10,000	15,984	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Total Assets	**2,226,959**	**2,260,690**	**2,275,129**	**2,317,690**	**2,440,453**	**2,636,085**	**2,873,988**	**3,018,050**	**3,085,481**	**3,194,034**	**3,368,439**	**3,397,668**	**3,731,628**	**3,830,743**	**3,937,087**	**4,090,300**	
Current Liabilities	-	(4,076)	(8,867)	(6,685)	(6,032)	(5,914)	(5,999)	(6,087)	(6,178)	(6,271)	(6,826)	(5,177)	(5,268)	(5,363)	(5,460)	(5,559)	
Long Term Liabilities	-	(16,751)	(26,399)	(104)	(32,263)	(131,974)	(222,160)	(270,710)	(262,234)	(292,257)	(224,103)	(210,567)	(234,838)	(178,005)	(89,754)	(35,497)	
Total Liabilities	**-**	**(20,826)**	**(35,265)**	**(6,789)**	**(38,295)**	**(137,888)**	**(228,159)**	**(276,797)**	**(268,412)**	**(298,528)**	**(230,929)**	**(215,743)**	**(240,107)**	**(183,367)**	**(95,213)**	**(41,056)**	
Total Equity	**2,226,959**	**2,239,864**	**2,239,864**	**2,310,901**	**2,402,157**	**2,498,197**	**2,645,829**	**2,741,253**	**2,817,069**	**2,895,507**	**3,137,510**	**3,181,924**	**3,491,521**	**3,647,376**	**3,841,874**	**4,049,245**	
Retained Earnings		***12,905***	***12,905***	***24,708***	***25,216***	***37,567***	***54,561***	***68,012***	***68,012***	***68,012***	***91,012***	***115,319***	***117,354***	***117,355***	***201,701***	***266,922***	
		FY '22	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**	**FY '28**	**FY '29**	**FY '30**	**FY '31**	**FY '32**	**FY '33**	**FY '34**	**FY '35**	**FY '36**	**Σ**
Income Statement																	
BfH Commercial		-	-	-	-	-	*457*	*4,059*	*11,252*	*12,640*	*13,193*	*13,457*	*13,726*	*14,000*	*14,280*	*14,566*	111,629
BfH Residential		-	-	-	*528*	*3,457*	*6,151*	*8,935*	*9,189*	*14,801*	*17,028*	*20,414*	*21,687*	*22,780*	*23,235*	*28,685*	176,890
Asset Management		*24,617*	*33,926*	*37,361*	*39,694*	*45,899*	*52,041*	*56,534*	*61,448*	*66,460*	*68,909*	*72,469*	*76,097*	*79,795*	*83,563*	*87,403*	886,217
Net Operating Income		**24,617**	**33,926**	**37,361**	**40,221**	**49,357**	**58,649**	**69,528**	**81,888**	**93,900**	**99,130**	**106,340**	**111,510**	**116,575**	**121,079**	**130,654**	1,174,735
Profit share from JV's (Build for Sale)		-	-	11,907	536	12,351	16,994	13,451	-	-	23,000	24,306	2,035	-	84,346	65,221	254,148
Management Charges I/C		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus		**24,617**	**33,926**	**49,268**	**40,757**	**61,708**	**75,643**	**82,979**	**81,888**	**93,900**	**122,130**	**130,646**	**113,545**	**116,575**	**205,425**	**195,875**	**1,428,884**
Interest and other financial expenses		(11,712)	(4,768)	(4,661)	(4,500)	(6,694)	(9,098)	(10,645)	(10,857)	(11,236)	(10,842)	(8,961)	(9,057)	(8,735)	(6,491)	(3,728)	(121,985)
Taxes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit		**12,905**	**29,158**	**44,608**	**36,258**	**55,014**	**66,545**	**72,335**	**71,031**	**82,664**	**111,288**	**121,685**	**104,488**	**107,840**	**198,933**	**192,147**	**1,306,899**
Dividends		-	(29,158)	(32,804)	(35,750)	(42,663)	(49,551)	(58,884)	(71,031)	(82,664)	(88,288)	(97,378)	(102,453)	(107,839)	(114,587)	(126,925)	(1,039,976)
Net Profit less Dividends		12,905	0	11,803	508	12,351	16,994	13,451	0	0	23,000	24,306	2,035	0	84,346	65,222	266,922
		FY '22	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**	**FY '28**	**FY '29**	**FY '30**	**FY '31**	**FY '32**	**FY '33**	**FY '34**	**FY '35**	**FY '36**	**Σ**
Cash flow																	
Net Operating Surplus		24,617	33,926	49,268	40,757	61,708	75,643	82,979	81,888	93,900	122,130	130,646	113,545	116,575	205,425	195,875	1,428,884
Change in WC and taxes		(7,218)	2,751	(4,241)	(1,963)	(1,867)	(1,696)	(1,964)	(2,215)	(2,161)	(576)	(3,117)	(1,044)	(1,031)	(943)	(1,793)	(29,080)
Total Operating Cash Flow		**17,399**	**36,678**	**45,027**	**38,794**	**59,841**	**73,947**	**81,015**	**79,673**	**91,739**	**121,554**	**127,529**	**112,501**	**115,544**	**204,482**	**194,081**	**1,399,804**
Capital expenditures		(72,777)	(178,059)	(195,894)	(222,679)	(171,117)	(145,131)	(100,365)	(41,853)	(46,372)	(91,415)	(70,272)	(57,356)	(26,810)	(35,567)	(26,671)	(1,482,337)
Capital income		60,340	165,659	220,612	185,990	60,921	39,647	40,328	52,544	18,511	137,145	62,619	32,093	84,674	40,415	17,500	1,218,998
Total Investing Cash Flow		**(12,437)**	**(12,399)**	**24,717**	**(36,688)**	**(110,196)**	**(105,484)**	**(60,037)**	**10,691**	**(27,862)**	**45,730**	**(7,653)**	**(25,263)**	**57,865**	**4,848**	**(9,171)**	**(263,340)**
By asset class																	
Asset for disposal		*54,217*	*72,615*	*106,150*	*(4,242)*	*(6,473)*	*(2,259)*	*(6,674)*	*40,556*	*(6,732)*	*6,524*	*6,404*	*6,044*	*6,252*	*6,160*	*6,066*	**284,609**
BfH Commercial		*(2,285)*	*(3,398)*	*17,056*	*9,836*	*(46,275)*	*(10,079)*	*27,746*	*(187)*	*1,033*	-	-	-	-	-	-	**(6,553)**
BfH Residential		*(33,437)*	*(21,892)*	*(50,167)*	*(8,405)*	*(12,722)*	*(7,847)*	*(57,048)*	*840*	*3,619*	*56,115*	*(43,875)*	*(23,183)*	*18,571*	*(9,015)*	*(93)*	**(188,540)**
BfS Residential		*(10,933)*	*15,805*	*(4,949)*	*(1,692)*	*(14,871)*	*(55,352)*	*5,982*	*(377)*	*4,461*	*18,953*	*44,818*	*6,876*	*48,042*	*22,704*	*(144)*	**79,323**
Asset Management		*(20,000)*	*(75,530)*	*(43,373)*	*(32,186)*	*(29,855)*	*(29,947)*	*(30,043)*	*(30,141)*	*(30,242)*	*(35,863)*	*(15,000)*	*(15,000)*	*(15,000)*	*(15,000)*	*(15,000)*	**(432,179)**
Free cash flow from operation		**4,962**	**24,278**	**69,744**	**2,106**	**(50,355)**	**(31,536)**	**20,978**	**90,364**	**63,877**	**167,284**	**119,876**	**87,238**	**173,408**	**209,330**	**184,910**	**1,136,464**
Grant receipt		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of debt		16,944	9,648	-	32,159	99,712	90,185	48,550	-	30,023	-	-	24,272	-	-	-	351,493
(Repayment) of debt		(194)	-	(26,295)	-	-	-	-	(8,476)	-	(68,154)	(13,536)	-	(56,834)	(88,251)	(54,257)	(315,996)
Interest and other financial expenses		(11,712)	(4,768)	(4,661)	(4,500)	(6,694)	(9,098)	(10,645)	(10,857)	(11,236)	(10,842)	(8,961)	(9,057)	(8,735)	(6,491)	(3,728)	(121,985)
Issuance (repayment) of equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid		-	(29,158)	(32,804)	(35,750)	(42,663)	(49,551)	(58,884)	(71,031)	(82,664)	(88,288)	(97,378)	(102,453)	(107,839)	(114,587)	(126,925)	(1,039,976)
Total Financing Cash Flow		**5,038**	**(24,278)**	**(63,760)**	**(8,090)**	**50,355**	**31,536**	**(20,978)**	**(90,364)**	**(63,877)**	**(167,284)**	**(119,876)**	**(87,238)**	**(173,408)**	**(209,330)**	**(184,910)**	**(1,126,465)**
Net cash movement		**10,000**	**0**	**5,984**	**(5,984)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**10,000**
Cash balance		10,000	10,000	15,984	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	

Cashflow - Baseline Plus

Summary financial statements

Fiscal year:	**FY '21**	**FY '22**	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**	**FY '28**	**FY '29**	**FY '30**	**FY '31**	**FY '32**	**FY '33**	**FY '34**	**FY '35**	**FY '36**
year ends:	*31/03/2021*	*31/03/2022*	*31/03/2023*	*31/03/2024*	*31/03/2025*	*31/03/2026*	*31/03/2027*	*31/03/2028*	*31/03/2029*	*31/03/2030*	*31/03/2031*	*31/03/2032*	*31/03/2033*	*31/03/2034*	*31/03/2035*	*31/03/2036*
Balance Sheet																
Fixed assets	2,212,116	2,237,948	2,263,597	2,307,138	2,483,070	2,800,444	3,079,176	3,313,180	3,434,903	3,611,430	3,809,452	3,813,155	4,217,467	4,349,761	4,359,978	4,648,712
Current assets (excl. cash)	14,843	26,137	28,176	30,237	31,547	33,296	35,077	37,129	39,676	42,449	43,859	45,353	49,198	50,721	52,393	53,706
Cash	-	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total Assets	**2,226,959**	**2,274,084**	**2,301,774**	**2,347,375**	**2,524,617**	**2,843,739**	**3,124,253**	**3,360,309**	**3,484,579**	**3,663,879**	**3,863,311**	**3,868,507**	**4,276,665**	**4,410,482**	**4,422,372**	**4,712,418**
Current Liabilities	-	(4,076)	(8,867)	(6,685)	(6,032)	(5,914)	(5,999)	(6,087)	(6,178)	(6,271)	(6,826)	(5,177)	(5,268)	(5,363)	(5,460)	(5,559)
Long Term Liabilities	-	(34,660)	(57,559)	(34,200)	(120,810)	(282,212)	(454,192)	(561,526)	(578,794)	(663,947)	(611,008)	(555,179)	(555,246)	(481,337)	(357,780)	(295,902)
Total Liabilities	**-**	**(38,736)**	**(66,425)**	**(40,886)**	**(126,842)**	**(288,126)**	**(460,192)**	**(567,614)**	**(584,971)**	**(670,218)**	**(617,835)**	**(560,356)**	**(560,514)**	**(486,700)**	**(363,240)**	**(301,462)**
Total Equity	**2,226,959**	**2,235,348**	**2,235,348**	**2,306,489**	**2,397,774**	**2,555,614**	**2,664,062**	**2,792,696**	**2,899,608**	**2,993,661**	**3,245,476**	**3,308,152**	**3,716,151**	**3,923,782**	**4,059,132**	**4,410,956**
Retained Earnings		***8,389***	***8,389***	***20,296***	***20,833***	***33,184***	***50,178***	***74,012***	***78,236***	***78,236***	***101,236***	***136,612***	***151,290***	***151,291***	***235,637***	***300,858***

Income Statement	**FY '22**	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**	**FY '28**	**FY '29**	**FY '30**	**FY '31**	**FY '32**	**FY '33**	**FY '34**	**FY '35**	**FY '36**	**Σ**
BfH Commercial	-	-	-	-	-	*457*	*4,059*	*11,252*	*12,640*	*13,193*	*13,457*	*13,726*	*14,000*	*14,280*	*14,566*	111,629
BfH Residential	-	-	-	*528*	*3,457*	*6,151*	*8,935*	*10,636*	*19,363*	*23,262*	*26,803*	*44,335*	*47,811*	*52,063*	*54,030*	297,374
Asset Management	*24,617*	*33,926*	*37,361*	*39,694*	*45,899*	*52,041*	*56,534*	*61,448*	*66,460*	*68,909*	*72,469*	*76,097*	*79,795*	*83,563*	*87,403*	886,217
Net Operating Income	**24,617**	**33,926**	**37,361**	**40,221**	**49,357**	**58,649**	**69,528**	**83,336**	**98,462**	**105,364**	**112,728**	**134,158**	**141,607**	**149,906**	**155,999**	1,295,220
Profit share from JV's (Build for Sale)	-	-	11,907	536	12,351	16,994	23,834	4,224	-	23,000	35,376	14,678	-	84,346	65,221	292,468
Management Charges I/C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus	**24,617**	**33,926**	**49,268**	**40,757**	**61,708**	**75,643**	**93,362**	**87,560**	**98,462**	**128,364**	**148,104**	**148,836**	**141,607**	**234,252**	**221,220**	**1,587,688**
Interest and other financial expenses	(16,228)	(7,021)	(6,977)	(8,034)	(11,749)	(16,146)	(19,382)	(20,361)	(22,158)	(22,255)	(20,420)	(18,914)	(18,301)	(15,307)	(11,568)	(234,820)
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit	**8,389**	**26,906**	**42,291**	**32,723**	**49,959**	**59,497**	**73,981**	**67,199**	**76,304**	**106,109**	**127,684**	**129,923**	**123,306**	**218,945**	**209,651**	**1,352,868**
Dividends	-	(26,906)	(30,384)	(32,187)	(37,608)	(42,503)	(50,146)	(62,975)	(76,304)	(83,109)	(92,308)	(115,245)	(123,306)	(134,599)	(144,430)	(1,052,010)
Net Profit less Dividends	8,389	0	11,907	536	12,351	16,994	23,834	4,224	0	23,000	35,376	14,678	0	84,346	65,221	300,858

Cash flow	**FY '22**	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**	**FY '28**	**FY '29**	**FY '30**	**FY '31**	**FY '32**	**FY '33**	**FY '34**	**FY '35**	**FY '36**	**Σ**
Net Operating Surplus	24,617	33,926	49,268	40,757	61,708	75,643	93,362	87,560	98,462	128,364	148,104	148,836	141,607	234,252	221,220	1,587,688
Change in WC and taxes	(7,218)	2,751	(4,241)	(1,963)	(1,867)	(1,696)	(1,964)	(2,456)	(2,680)	(854)	(3,143)	(3,754)	(1,429)	(1,576)	(1,213)	(33,304)
Total Operating Cash Flow	**17,399**	**36,678**	**45,027**	**38,794**	**59,841**	**73,947**	**91,398**	**85,104**	**95,782**	**127,509**	**144,961**	**145,083**	**140,178**	**232,676**	**220,007**	**1,554,384**
Capital expenditures	(86,171)	(191,309)	(235,803)	(290,313)	(239,807)	(235,250)	(175,767)	(77,461)	(114,924)	(114,438)	(44,436)	(46,962)	(27,822)	(26,551)	(26,671)	(1,933,686)
Capital income	60,340	165,659	251,496	205,130	67,921	47,972	46,563	58,426	32,451	145,230	68,033	35,970	103,159	67,337	24,541	1,380,230
Total Investing Cash Flow	**(25,832)**	**(25,650)**	**15,693**	**(85,183)**	**(171,886)**	**(187,278)**	**(129,204)**	**(19,035)**	**(82,473)**	**30,793**	**23,597**	**(10,991)**	**75,337**	**40,786**	**(2,130)**	**(553,456)**
By asset class																
Asset for disposal	*54,217*	*72,615*	*106,150*	*(4,242)*	*(6,473)*	*(2,259)*	*(6,674)*	*40,556*	*(6,732)*	*6,524*	*6,404*	*6,044*	*6,252*	*6,160*	*6,066*	**284,609**
BfH Commercial	*(2,285)*	*(3,398)*	*17,056*	*9,836*	*(46,275)*	*(10,079)*	*27,746*	*(187)*	*1,033*	-	-	-	-	-	-	**(6,553)**
BfH Residential	*(46,831)*	*(35,142)*	*(56,777)*	*(54,921)*	*(74,314)*	*(97,868)*	*(132,364)*	*(28,886)*	*(50,993)*	*41,178*	*(12,625)*	*(8,911)*	*36,043*	*26,923*	*6,948*	**(488,541)**
BfS Residential	*(10,933)*	*15,805*	*(7,363)*	*(3,671)*	*(14,969)*	*(47,125)*	*12,131*	*(377)*	*4,461*	*18,953*	*44,818*	*6,876*	*48,042*	*22,704*	*(144)*	**89,207**
Asset Management	*(20,000)*	*(75,530)*	*(43,373)*	*(32,186)*	*(29,855)*	*(29,947)*	*(30,043)*	*(30,141)*	*(30,242)*	*(35,863)*	*(15,000)*	*(15,000)*	*(15,000)*	*(15,000)*	*(15,000)*	**(432,179)**
Free cash flow from operation	**(8,433)**	**11,028**	**60,720**	**(46,389)**	**(112,045)**	**(113,331)**	**(37,806)**	**66,069**	**13,309**	**158,302**	**168,558**	**134,091**	**215,515**	**273,463**	**217,876**	**1,000,927**
Grant receipt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of debt	34,660	22,899	-	86,610	161,402	171,980	107,334	17,267	85,153	-	-	67	-	-	-	687,372
(Repayment) of debt	-	-	(23,358)	-	-	-	-	-	-	(52,938)	(55,829)	-	(73,909)	(123,557)	(61,878)	(391,470)
Interest and other financial expenses	(16,228)	(7,021)	(6,977)	(8,034)	(11,749)	(16,146)	(19,382)	(20,361)	(22,158)	(22,255)	(20,420)	(18,914)	(18,301)	(15,307)	(11,568)	(234,820)
Issuance (repayment) of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	(26,906)	(30,384)	(32,187)	(37,608)	(42,503)	(50,146)	(62,975)	(76,304)	(83,109)	(92,308)	(115,245)	(123,306)	(134,599)	(144,430)	(1,052,010)
Total Financing Cash Flow	**18,433**	**(11,028)**	**(60,720)**	**46,389**	**112,045**	**113,331**	**37,806**	**(66,069)**	**(13,309)**	**(158,302)**	**(168,558)**	**(134,091)**	**(215,515)**	**(273,463)**	**(217,876)**	**(990,927)**
Net cash movement	**10,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**10,000**
Cash balance	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	

Tables

Baseline

£'000	FY '22	FY '23	FY '24	FY '25	FY '26	FY '27	FY '28	FY '29	FY '30	FY '31	FY '32	FY '33	FY '34	FY '35	FY '36	Total
Debt	16,751	26,399	104	32,263	131,974	222,160	270,710	262,234	292,257	224,103	210,567	234,838	178,005	89,754	35,497	292,257
Dividends	-	29,158	32,804	35,750	42,663	49,551	58,884	71,031	82,664	88,288	97,378	102,453	107,839	114,587	126,925	1,039,976
Cash	10,000	10,000	15,984	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	15,984
Homes)	3,062	6,697	8,021	10,978	11,778	11,778	11,778	11,778	11,778	11,778	13,278	13,278	13,278	13,278	13,278	13,278

Baseline Plus

£'000	FY '22	FY '23	FY '24	FY '25	FY '26	FY '27	FY '28	FY '29	FY '30	FY '31	FY '32	FY '33	FY '34	FY '35	FY '36	Total
Debt	34,660	57,559	34,200	120,810	282,212	454,192	561,526	578,794	663,947	611,008	555,179	555,246	481,337	357,780	295,902	663,947
Dividends	-	26,906	30,384	32,187	37,608	42,503	50,146	62,975	76,304	83,109	92,308	115,245	123,306	134,599	144,430	1,052,010
Cash	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Homes	3,062	6,697	13,033	19,990	20,790	20,790	20,790	20,790	20,790	20,790	22,290	22,290	22,290	22,290	22,290	22,290

Finance Committee

Date: **23 June 2021**

Item: **Update on Income from Developers Through Planning Obligations and Other Related Funding Mechanisms to Deliver TfL Transport Priorities**

This paper will be considered in public

1 Summary

1.1 This paper provides the Committee with an end of year (2020/21) update on the Mayoral Community Infrastructure Levy (MCIL), that supports the funding of the Crossrail project. It also gives a brief overview of a range of other developer contributions and funding mechanisms such as those under section 106 of the Town and Country Planning Act 1990 (s106) and local planning authority CIL (BCIL) that contribute towards other TfL transport priorities.

2 Recommendation

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

3 Background

3.1 TfL City Planning is responsible for appraising the transport impacts of proposed developments and negotiating appropriate transport mitigations with developers and boroughs to enable developments to function effectively and ensure good growth. TfL City Planning is responsible for:

(a) advising the Mayor on the transport issues associated with planning applications of potential strategic importance referred to him under The Town and Country Planning (Mayor of London) Order 2008 ('PSI applications'). TfL City Planning attends the weekly Mayoral and Deputy Mayoral Planning meetings to ensure that TfL's requirements and priorities are understood.

(b) responding to consultations carried out by local planning authorities within London on the transport implications of planning applications which are not referable to the Mayor.

3.2 There were approximately 240 PSI applications involving significant TfL input last year, as well as just under 2,000 non-referable applications with transport implications.

3.3 Securing developer income is inherently related to the level of development activity and the implementation of relevant planning permissions. Development activity tends to be cyclical and is strongly influenced by local, national and global factors, including unprecedented events such as the coronavirus pandemic and the UK departure from the European Union.

3.4 This annual report provides information for the 2020/21 financial year on:

(a) contributions for Crossrail through MCIL and the Crossrail Supplementary Planning Guidance (SPG);

(b) income from local CILs introduced by the boroughs, City of London and Mayoral Development Corporations (MDCs);

(c) s106 and other developer contributions for transport projects; and

(d) several other funding mechanisms contributing to transport.

4 Developer contributions towards Crossrail

4.1 Under the original Crossrail funding agreement with Government, TfL needed to raise £600m by 31 March 2019 from developer contributions towards Crossrail via a combination of Crossrail s106 planning obligations and MCIL payments. By that date, the receipts had exceeded that figure by £126m.

4.2 However, Crossrail project delays and the need for additional funding emerged in 2018 and new funding arrangements between Government, the GLA and TfL were agreed in December 2018. As part of the package, the GLA borrowed £1.3bn from the Department for Transport (DfT), with the loan being repaid from a combination of Business Rate Supplement (BRS) and MCIL income. A contingency arrangement was also agreed in the form of a loan facility to TfL from the DfT of up to £750m. This therefore required the continued use of MCIL to support Crossrail beyond the original anticipated amount.

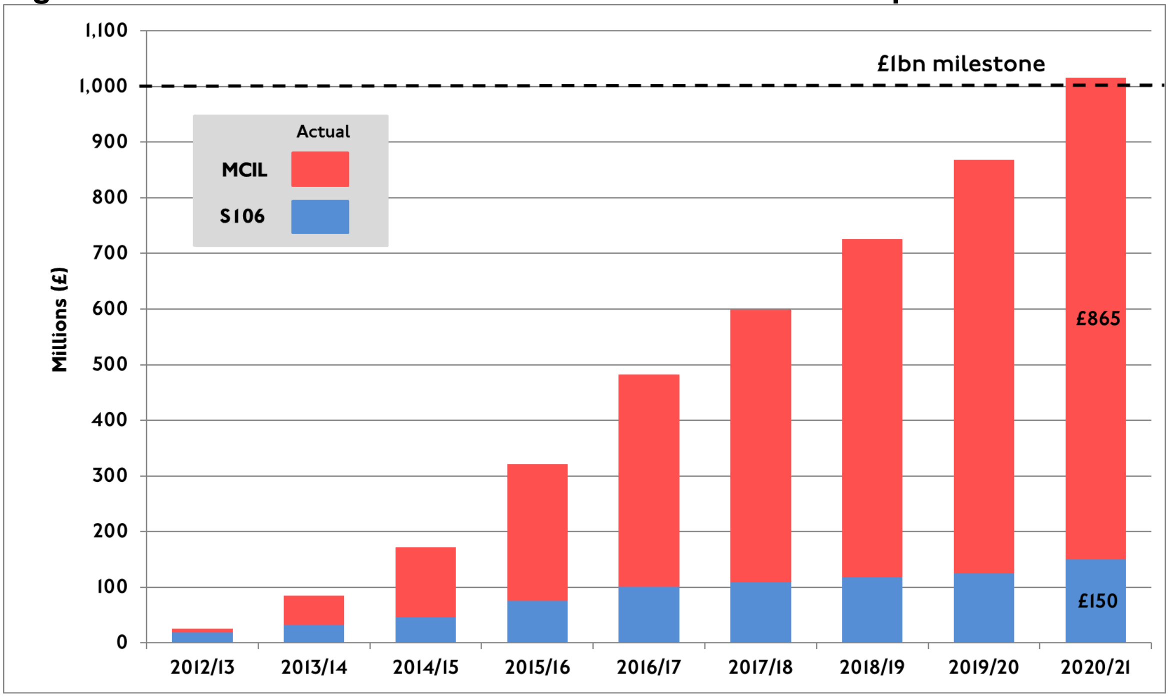
4.3 By August 2020, it was apparent that further funds were required to complete the project. The Government, the GLA and TfL subsequently agreed a revised funding package, with the GLA borrowing a further £825m and for this to be repaid from MCIL and BRS receipts. The Community Infrastructure Levy Regulations 2010 were amended in March 2021, to take account of the additional borrowing, allowing GLA to continue to use MCIL revenues to service debt until 31 March 2043. The Crossrail funding package, as of August 2020, stood at £18.7 billion.

4.4 Meanwhile, the Mayoral CIL Charging Schedule (2012) (MCIL1) and the Mayoral Crossrail Funding Planning Obligations SPG (2016) have been superseded by ‘MCIL2’. These charges were set out in the revised MCIL Charging Schedule (2019) (MCIL2) and apply to developments granted planning permission from 1 April 2019. Note that MCIL1 receipts and Crossrail s106 SPG payments will continue to be collected for CIL liable developments granted planning permission prior to this date.

4.5 Monies raised from developer contributions (MCIL1, MCIL2 and Crossrail s106 receipts) toward Crossrail are clearly vital to deliver the project. By the end of 2020/21 financial year more than £1 billion has been received on a cash basis from these sources. The cumulative value of combined MCIL and s106 receipts since 2012 is shown in Figure 1. While the majority of receipts are in the form of MCIL payments (over £865m), Crossrail s106 payments now stand at over £150m.

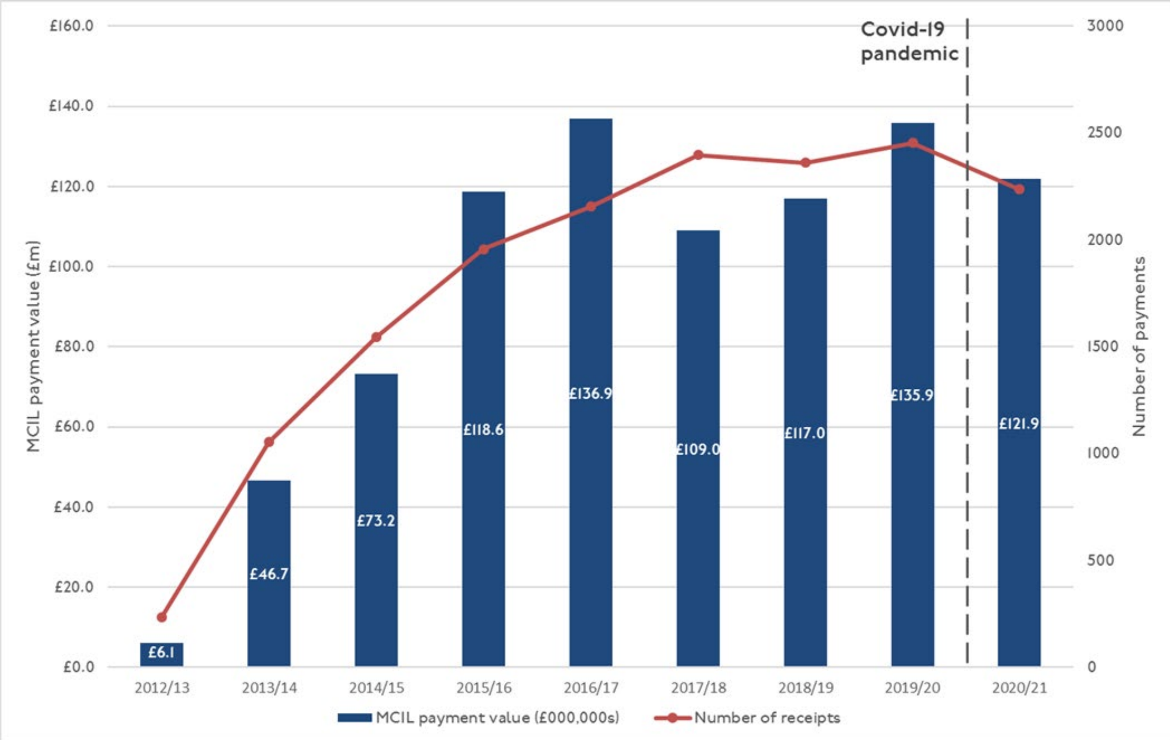
4.6 MCIL becomes payable on commencement of development and the number of individual payments therefore acts as a good indicator of the level of current development activity. Figure 2 details trends in total annual MCIL receipts and the number of payments since MCIL was introduced in 2012. This shows that the number of individual payments continued to rise to 2017/18 before levelling off to around 2,400 payments received in each of the three years prior to the coronavirus outbreak. While the pandemic has had some impact on the number of payments in 2020/21, these still remain healthy at over 2,200 payments.

Figure 1: Cumulative MCIL and Section 106 Crossrail receipts reach £1 billion



4.7 Similarly, Figure 2 shows that annual receipts increased substantially year on year to the high of £136.9m in 2016/17 before falling in 2017/18. However, over the last three years annual returns have steadily increased each year from £109m (2017/18) to £135.9m (2019/20), and it is likely that receipts would have continued to increase in 2020/21 if it was not for the coronavirus pandemic. Nonetheless, despite the pandemic, the 2020/21 annual return of £121.9m is the third highest return since charging commenced.

Figure 2: Annual MCIL receipts and number of payments since April 2012.

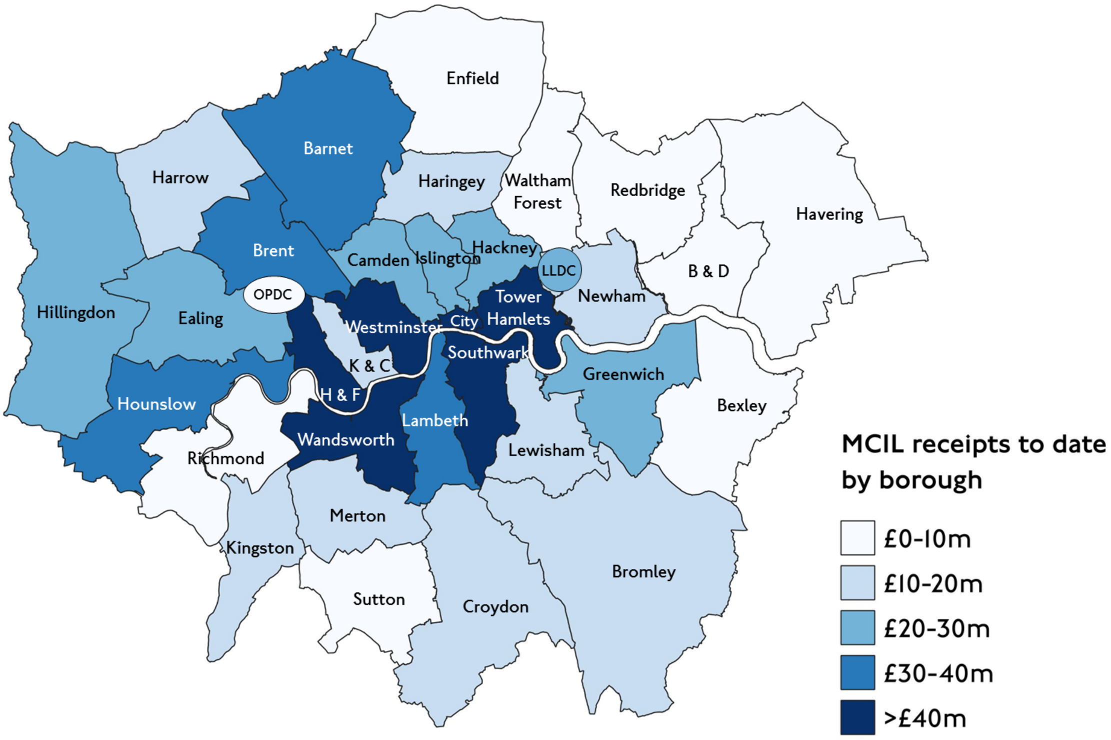


4.9 The boroughs, City of London and Mayoral Development Corporations act as 'collecting authorities', and they are responsible for collecting MCIL and s106 Crossrail planning obligation payments, and for transferring them to TfL on a quarterly basis. TfL administers the process on the Mayor's behalf, culminating in the transfer of MCIL funds to the GLA each quarter. All funds received, bar a small MCIL administration fee, help to deliver Crossrail.

4.10 Of the £865m secured in MCIL to date, two authorities (Tower Hamlets and Westminster) dominate the return, with total receipts of £90.5m and £86.2m respectively. The spatial distribution of MCIL receipts secured across London, since MCIL was introduced is detailed in Figure 3. Generally, this shows that there is a correlation with the total receipt and the MCIL rate charged. There are six collecting authorities with returns of more than £40m, with these authorities concentrated in central and inner London either side of the river Thames. Of these, four authorities: City, Hammersmith and Fulham, Wandsworth and Westminster are in the highest MCIL charging band. In comparison, nine authorities have generated MCIL receipts of less than £10m since 2012, with four of these: Barking and Dagenham, Bexley, Havering and Sutton in the lowest charging band.

4.11 Figure 3 also shows that, in outer London, there is a band of authorities to the north and east (extending from Enfield to Bexley) with receipts under £10m. In contrast, outer London authorities to the north-west and west have receipts that are at least double this in excess of £20m (except for Harrow and Old Oak and Park Royal Development Corporation (OPDC)).

Figure 3: Comparison of total MCIL received by Collecting Authorities to date



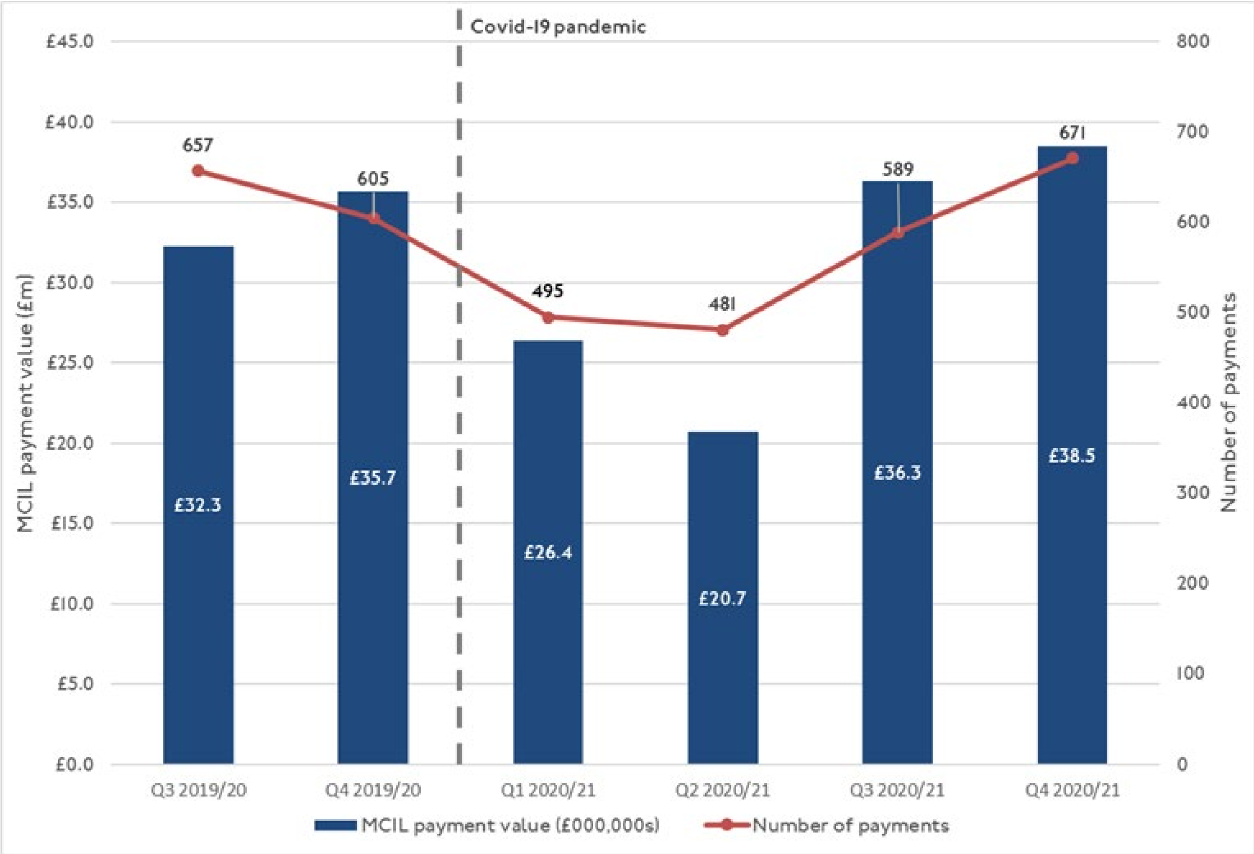
Summary of MCIL Receipts for 2020/21

4.12 Uncertainties associated with the coronavirus pandemic had less of an impact than envisaged on the MCIL receipt in 2020/21, with this holding up at £121.9m. Receipts from two authorities helped bolster the annual return - Tower Hamlets (£25.1m) and Hammersmith and Fulham (£16.6m) - with combined receipts comprising over 34 per cent of total monies received.

4.13 In a bid to help developers during the outbreak, the Government introduced the CIL Coronavirus Regulations in July 2020 to enable small/medium sized firms in certain circumstances to defer CIL payment following approval by the collecting authority. However, the take up of MCIL deferrals has been relatively low, with only six authorities deferring a total of eight payments amounting to over £3.3m. This could be attributed to the varied reporting by authorities and/or potentially a lack of developer awareness. So, this has not impacted significantly on the 2020/21 annual return, with most CIL payments made as usual following the commencement of development.

4.14 Trends in the value and number of payments during the last six quarters are detailed in Figure 4. This shows that while the pandemic impacted 2020/21 receipts in Q1 (£26.4m) and Q2 (£20.7m), these quickly rebalanced to pre-outbreak levels from Q3 (£36.3m) onwards. Figure 4 shows a similar pattern for the number of quarterly payments, with these also improving from Q3. It is assumed these adjustments are due in part to a backlog of developments that would have otherwise commenced during the first national lockdown.

Figure 4: Number and value of MCIL payments for each quarter since Q3 2019/20



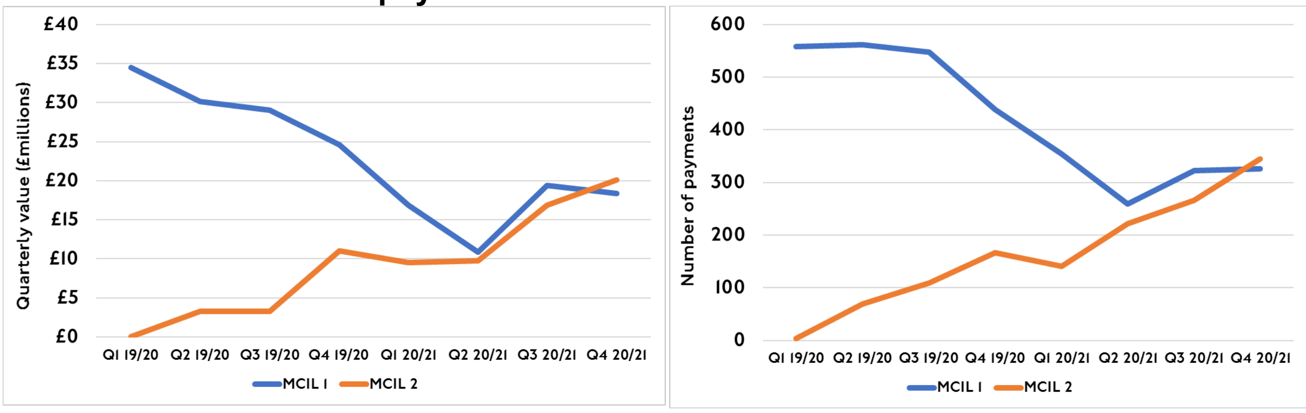
4.15 Notably, the construction sector has fared better than some sectors such as hospitality and retail during the pandemic, with construction allowed to continue uninterrupted since May 2020 (despite subsequent national lockdowns). This has helped maintain overall MCIL payment and value totals. Also, government initiatives such as ‘Help to Buy’ and the temporary relaxation of Stamp Duty in certain circumstances have supported the residential construction market during the outbreak. Ultimately, it appears that the high annual return reflects developer confidence in investing in London and the hope that the outbreak will be under control in the coming months as the vaccine rollout continues. While it is currently anticipated that this confidence will continue into 2021/22, ongoing uncertainties associated with the coronavirus pandemic make future forecasting inherently difficult and it is for this reason that no forecast is given for MCIL receipts in 2021/22. We will, however, closely monitor emerging and future trends.

MCIL2 Uplift

4.16 Figure 5 shows the value and number of payments received for MCIL1 and MCIL2 each quarter since MCIL2 was introduced in April 2019. As expected, the value and number of payments arising from developments subject to MCIL2 increased steadily quarter on quarter from the outset. By the end of 2020/21 MCIL2 receipts accounted for £56.4m (46 per cent) of the total return (£121.9m) and for 974 payments (44 per cent of all payments received). This is a significant increase when compared to £17.6m (13 per cent) and 348 payments (17 per cent) respectively the previous year.

4.17 Meanwhile, MCIL2 payments overtook MCIL1 for the first time in Q4 2020/21. This trend will continue, with MCIL2 forming an ever-greater proportion of future returns. Notably, also, the higher MCIL2 charge rates should uplift future returns.

Figure 5: Value and number of payments MCIL 1 and MCIL 2



Crossrail SPG

4.18 Since being superseded by MCIL2 charging on 1 April 2019, the interrelationship between MCIL and Crossrail s106 contributions is such that a significant part of what would have been collected via s106 in the past is now collected as MCIL. Therefore, in 2020/21 no *new* s106 SPG contributions were secured towards Crossrail.

4.19 Previous forecasts anticipated that s106 Crossrail receipts would decline over time as they are replaced by developments subject to the MCIL2 charge. However, in 2020/21 s106 funds collected in accordance with the Crossrail SPG were relatively high and totalled £25.4m, arising from 24 payments (linked to previously secured s106 agreements) associated with four authorities (City, Camden, Islington and Westminster) bringing the overall total to over £150m. The high return is unexpected when compared to receipts for the previous two years of: £6.8m (2019/20) and £9m (2018/19) and is due to payment triggers being met within an associated s106 agreement. While s106 receipts are inherently difficult to predict, as payment triggers contained within individual agreements vary, it is assumed that this year's high receipt is an outlier and that such payments will continue a downward trajectory as payments arising from the Crossrail SPG continue to be superseded by MCIL2.

5 Borough, City of London and Mayoral Development Corporation CILs (BCIL)

5.1 Under the CIL Amendment Regulations 2019 charging authorities must produce an Infrastructure Funding Statement (IFS) by 31 December for the previous financial year. The IFS must include details of CIL (and s106) income, expenditure and future committed spend; 2019/20 is the first financial year that authorities have reported on BCIL using the new format.

5.2 BCIL receipts make a significant contribution to delivering a range of infrastructure projects across London. At the time of writing, there were 33 charging authorities with locally adopted CILs in London, with only two[1] authorities without an adopted charging schedule in place (Ealing and OPDC). CIL reporting is retrospective therefore the BCIL figures in this report refer specifically to 2019/20.

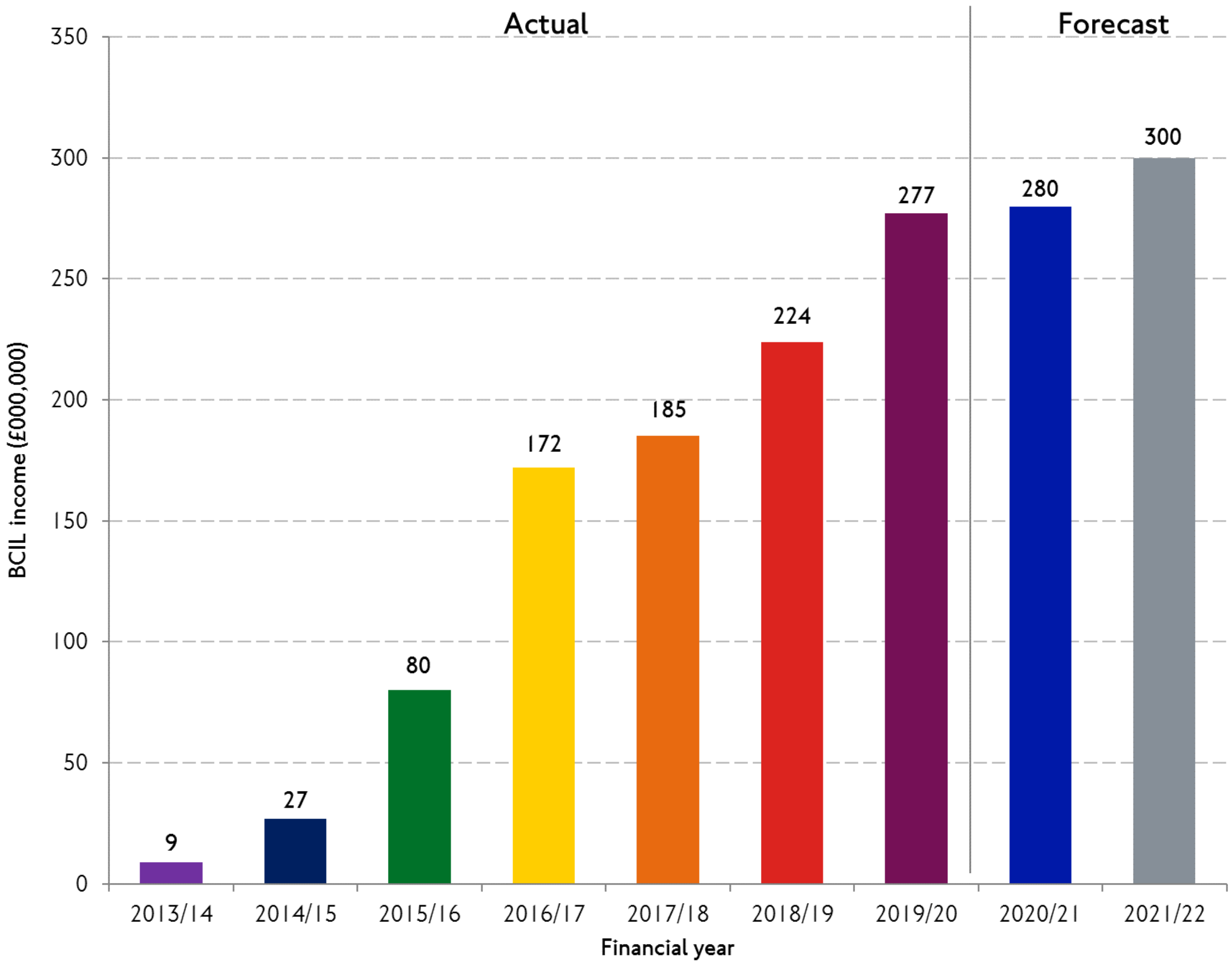
5.3 By the end of 2019/20, BCIL receipts in London totalled a substantial £974m. Figure 6 details annual BCIL receipts collected across London from the 32 charging authorities[2] levying a charge in 2019/20. This shows that BCIL receipts have increased significantly year on year since 2013/14, initially as local BCILs took effect and CIL liable developments commenced, but more so in recent years as authorities have extended and/or increased levy charges as part of a BCIL review. Notably, the BCIL receipt for 2019/20 of £277m is the highest recorded[3].

5.4 There is substantial variation across London in the level of annual BCIL receipts generated. For example, Westminster (£36.9m), Wandsworth (£32m), Brent (£26.5m) and Tower Hamlets (£23.3m) are producing significant annual BCIL receipts while in other boroughs such as Greenwich (£1.3m) and Richmond (£2m) the amounts are much lower; reflecting different factors such as BCIL rates and development activity.

5.5 Looking ahead, it is anticipated that BCIL receipts will remain on a par with receipts in 2019/20 at around £280m. Notably, the forecast is tempered somewhat by the potential impact of the coronavirus pandemic on development activity and BCIL review progress.

[1] The LB Bromley recently became the thirty-third CIL charging authority in London, adopting a local CIL on 19 April 2021.
[2] The LB Bromley CIL is due to commence charging on the 15 June 2021.
[3] Two authorities (LB Lewisham and LB Newham) are yet to report - the figure for 2019/20 is therefore likely to increase.

Figure 6: Annual Borough, City of London and MDC CIL receipts



5.6 Figure 7 shows the progress to date of authorities that have reviewed or are in the process of reviewing their charging schedules based on viability. Four authorities have successfully adopted revised charging schedules, with Camden, LLDC and Tower Hamlets introducing new charges in 2020. The fourth authority, Southwark, adopted a revised charging schedule in 2017.

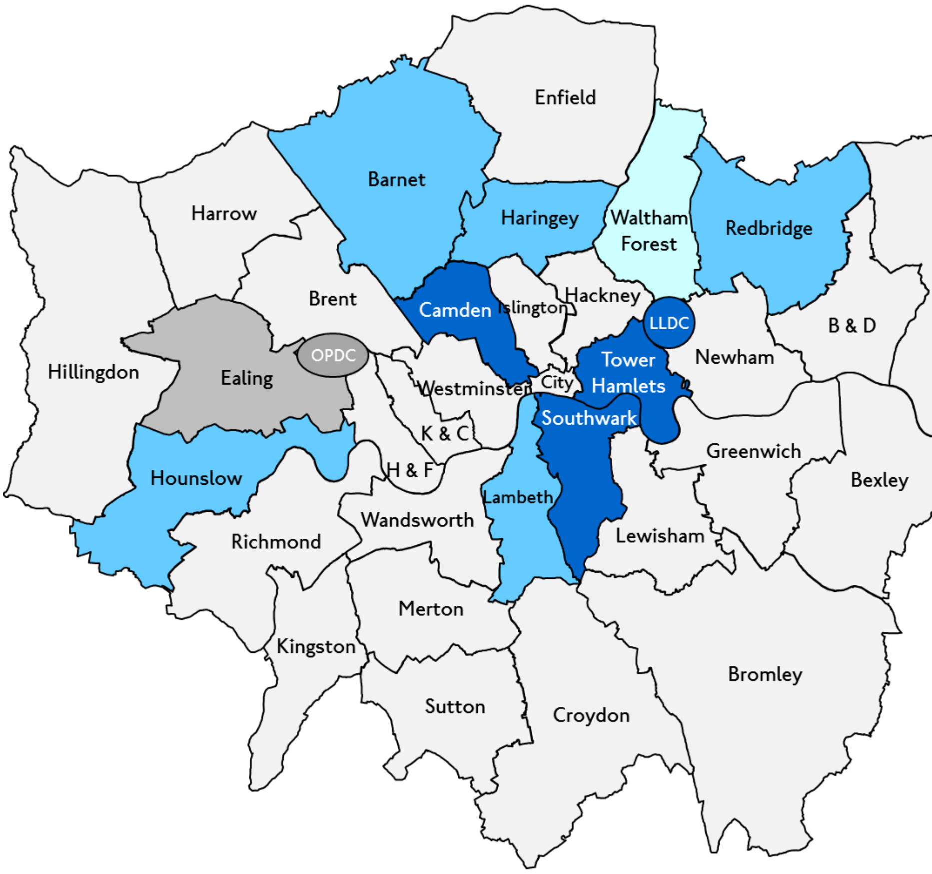
5.7 A further six authorities: Barnet, Haringey, Hounslow, Lambeth, Redbridge and Waltham Forest are in the process of reviewing their schedules. Of these, some propose to increase existing charges for all or part of the charge area, while others propose to introduce new rates for uses such as student accommodation, or a combination of the two.

5.8 Similarly, Bromley will commence charging CIL for the first time from 15 June 2021, following adoption of the charging schedule by full Council in April 2021.

5.9 Unlike the Mayor, boroughs, City of London and MDCs are not confined to spending CIL receipts on transport and there are many competing and increasing demands for the funding. The main purpose of BCIL is to secure funding for infrastructure (including health, education, transport, community facilities) which is necessary to deliver critical infrastructure in the local plan.

5.10 BCIL expenditure on infrastructure increased significantly in 2019/20 to a high of £167.7m, compared with only £79.4m in 2018/19. Notably, total spend amounted to approximately 60 per cent of all funds received in 2019/20. In comparison, over two-thirds of authorities (24) spent BCIL receipts in 2019/20 compared with only half (16) in 2018/19.

Figure 7: Borough CIL Review Progress



Charging Schedule	BCIL Status
2nd	BCIL2 Adopted
2nd	BCIL2 DCS
2nd	BCIL2 PDCS*
1st	BCIL Adopted
1st	BCIL DCS
1st	BCIL PDCS*

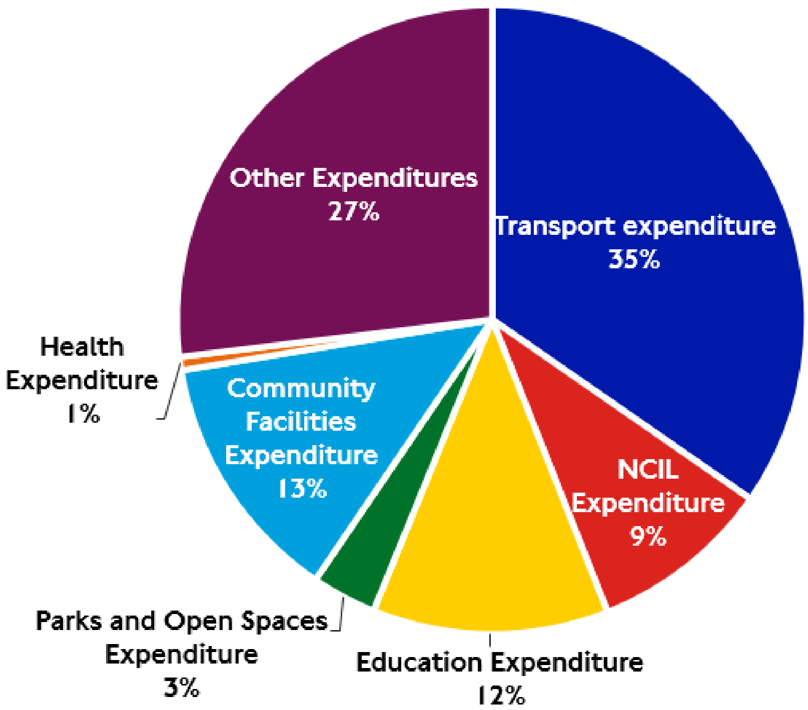
5.11 Of the £167.7m spent, more than half (£86.5m) was by just three authorities: Wandsworth (£40.1m), Westminster (£29.5m) and Barnet (£16.9m). It is anticipated that BCIL spend will continue to increase in future years as infrastructure priorities are identified and agreed, significant sums accumulate to deliver specific items of infrastructure, and BCIL governance arrangements are ratified and BCILs reviewed - although the balance between transport and other priorities cannot be pre-supposed.

5.12 A breakdown of BCIL spend in 2019/20 by infrastructure type is detailed in Figure 8. This shows that one third of all BCIL expenditure in 2019/20 was on transport and public realm infrastructure (£57.1m), with the lion's share of this allocated to highway improvements 45 per cent (£25.8m) and public realm works 41 per cent (£23.4m). Significant sums were also spent on other types of infrastructure to support growth including community and leisure facilities at 13 per cent (£21.1m) and education at 12 per cent (£19.7m).

5.13 BCIL funds have been spent on a range of transport projects across London, of which there are too many to mention. Notably, Westminster allocated the majority of BCIL expenditure in 2019/20 (£18.9m) on a range of transport and public realm projects including £2m to deliver school travel plans. Southwark have also spent

£5m of BCIL on works at Elephant and Castle alongside TfL funds. Similarly, Brent spent a further £2.6m to deliver public realm works at Olympic Way, Wembley.

Figure 8: BCIL expenditure by infrastructure type 2019/20



5.14 The London Plan reflects the fundamental importance of transport provision in enabling sustainable growth and unlocking sites for development. TfL will continue to work with the BCIL charging authorities to identify opportunities to deliver shared transport priorities for the potential allocation of BCIL funds.

6 Ensuring Appropriate Transport Mitigations

6.1 Planning applications, whether PSI applications or non-referable applications are often approved subject to a package of mitigation measures, including transport, which reflect negotiations by TfL City Planning and the GLA with developers and the local planning authority. TfL seeks to ensure that transport requirements are prioritised as far as possible and aim to ensure that developments promote active travel; contribute appropriately to public transport and minimise traffic impacts.

6.2 The measures that are negotiated vary in type and scale, but must all be within the established legal tests for s106 planning obligations (directly related to the development, necessary to make the development acceptable in planning terms and fairly and reasonably related in scale and kind to the development) as defined by the Community Infrastructure Levy Regulations 2010. These can include major multi-million-pound projects such as the Brent Cross Cricklewood s106 consolidated transport package of works which include the delivery of a new railway station at Brent Cross West (on site) through to small schemes involving minor works (for example bus stop improvements or way finding) which may cost as little as £10k.

6.3 TfL negotiated a total of £50.2m in non-Crossrail s106 contributions in 2020/21. While a large proportion of this (£20.6m) is for bus network improvements, significant sums were also negotiated for surface improvements including cycle improvements, pedestrian crossings and legible London (£18.6m), London Underground (£4.3m), bus infrastructure (£3.8m), and London Rail (£1.3m).

6.4 As well as planning obligations requiring financial contributions, TfL often secures benefits from works carried out by developers, such as the new and well used station entrances at Bank station, which is part of the Bloomberg development, and the Southbank entrance at Waterloo Underground Station, which is part of the Shell centre development.

6.5 In 2020/21, 64 new agreements were added to the total number of non-Crossrail s106 agreements being actively monitored for implementation each quarter, bringing the total number to 844. Of these, TfL is a signatory to 101 agreements (12 per cent). Notably, there is a time lag between the negotiation/signing of the s106 agreement and receipt of funds, with receipts generally linked to actual delivery of the development and triggers within the agreement being met.

6.6 Non-Crossrail s106 receipts received by TfL in 2020/21 totalled £19.3m, with most relating to bus enhancements and cycle lane improvements. Funds secured of note include improvements to Seven Sisters Road as part of Woodberry Down (Phase 3) (£8.3m), re-routing and bus capacity enhancements at Meridian Water (Phase 2) (£7m), the provision of a foot and cycle bridge over the A40 at Portal Way, Ealing (£1m), and congestion relief interventions at Stratford Rail Station (£500k).

6.7 TfL City Planning also negotiates s278 agreements for highway improvements on the TLRN, ranging from small scale improvements such as footway renewal to larger scale works. The total value of these works amounts to millions of pounds each year, often delivering critical infrastructure that contributes to the delivery of both Healthy Streets and Vision Zero, and they are funded (and often maintained) by developers at no expense to TfL. Examples, of large-scale works completed in 2020/21 include two new road bridges at Southall Gas Works amounting to £25m, and a package of highway works including public realm enhancements and new traffic signals connected to London Bridge Station in excess of £10m

7 Securing wider funding packages to deliver MTS objectives

7.1 The challenging financial situation that TfL finds itself in as a result of reduced ridership associated with the coronavirus pandemic and the need for additional Crossrail financing, make it ever more important for TfL to be proactive in seeking additional sources of funding. During 2020/21 City Planning has continued in its efforts to maintain and identify further third-party funding for transport in order to deliver the Mayor's Transport Strategy and contribute to infrastructure priorities. We have provided some brief information on a number of key projects below.

Royal Docks

7.2 The Royal Docks Enterprise Zone Delivery Plan (EZ) was approved by the Mayor of London and is a programme that seeks to transform the Royal Docks and accelerate the delivery of commercial space within the area. The GLA are to forward fund the EZ delivery plan through prudential borrowing, to be repaid from business rates generated over the life of the EZ. Developer contributions will also contribute to infrastructure required in the area.

7.3 Investment by the EZ is expected to contribute around £35.7m to the DLR upgrade with potential further monies earmarked post plan. TfL has received £3.75m to support feasibility and design work on several stations. A GLA led review in early 2020, with input from TfL, has (following some potential increase in costs and risk) led to a reprioritisation of that feasibility work which is currently subject to endorsement by the EZ Programme Board. If the reprioritisation is endorsed, feasibility work will be taken forward at stations including: Pontoon Dock, Royal Victoria, Thames Wharf and Canning Town. Subject to feasibility, prioritisation and appropriate governance, the remainder EZ funding would then be used by TfL to deliver the improvements.

Housing Infrastructure Fund (HIF)

7.4 The HIF is a government capital grant programme of up to £5.5bn which the Ministry of Housing, Communities and Local Government (MHCLG) expects to deliver hundreds of thousands of new homes across England. Grant funding has been awarded to local authorities on a competitive basis for new infrastructure that will unlock homes in the areas of greatest demand for example, at Meridian Water (LB Enfield). TfL worked with the GLA to develop bids to secure funding for London. Two of those bids were successful, including a proposal for additional capacity on the Docklands Light Railway (DLR) and works to upgrade the East London line (ELL). LB Lewisham also secured £10m allocation to the Catford transformational healthy streets project. Over the past year, TfL has continued working with Government to agree the terms and conditions attached to the funding – in particular to find a way forward to enable us to draw down the HIF funding in the context of the huge challenges to TfL’s financial situation.

7.5 On the Docklands Light Railway (DLR) bid, TfL has now entered a grant determination agreement (GDA) with the GLA and MHCLG, to receive £281m from MHCLG to: purchase up to 14 additional DLR trains; expand Beckton DLR depot; and contribute to the cost of enabling works at Poplar DLR depot. An original contribution to a new station at Thameside West has now been removed from the HIF scope. The DLR HIF Scope is one of the largest single contributions that TfL can make to delivering the New Homes and Jobs objectives of the MTS by supporting or enabling the delivery of up to 12,000 homes in total - including up to 1,740 homes by TfL at Poplar. MHCLG and TfL/GLA have agreed to enter into the GDA on the condition that confirmation must be provided of TfL’s ‘financial certainty’ prior to any significant expenditure on the programme.

7.6 Meanwhile, the ELL HIF scheme consists of £80.84m of funding to increase the capacity of the core section of the line from 16 trains per hour, as well as an expansion of Surrey Quays station and a new station at Surrey Canal Road to support major housing development sites. In total the bid will unlock around 14,000 homes. TfL entered into the GDA for the ELL upgrade works in July 2020. The current stage of design work and planning approvals will complete by the end of 2021. Again, in light of the impacts of the coronavirus pandemic, we have sought to minimise the risks to TfL while still aiming to progress the important investment.

Using the TfL Growth Fund to secure third party contributions to schemes

7.7 The TfL Growth Fund is focused on leveraging significant amounts of third-party funding (from developers, boroughs and Government) to maximise the benefits of TfL's contribution. Importantly, the Growth Fund does not just enable new homes and regeneration but also contributes to delivering wider TfL Business Plan and MTS priorities, including Step Free Access, Healthy Streets and station upgrade programmes. More information on the Growth Fund was provided in a paper submitted to the Programmes and Investment Committee at its meeting in July 2019.

7.8 Our revised budget classifies all Growth Fund schemes as fully meeting the Mayoral objectives but 'contingent on additional funding'. This means that, although Growth Fund projects already have a strong commitment and a significant degree of third-party funding has been secured for their delivery, a further commitment by Government or other sources – and/or a more certain position on TfL funding and finances is needed to progress them.

7.9 Over the last year, we have continued to review the programme, considering the recent funding agreement with Government and, where necessary, identifying other funding streams to progress the projects. We are working closely with the GLA, central government, boroughs and other partners to discuss further third-party funding for Growth Fund schemes.

Levelling up fund

7.10 The Government recently announced a 'Levelling up Fund'. This £4.8bn fund would support capital investment in local infrastructure up to 2024-25 across culture, regeneration and crucially transport themes. £600m is available to bid for this financial year for which the deadline is 18 June. All areas in the UK, including London boroughs, are invited to submit bids of up to £20m. GLA/TfL is eligible to submit one transport bid of £20m or up to £50m by exception - at the time of writing discussions are ongoing and an update will be provided at the meeting.

7.11 All transport bids require the approval of the relevant local authority responsible for delivering them which mean that TfL has a role in endorsing bids. We are working closely with local authorities on their relevant bidding intentions ahead of the June deadline.

Work with Homes England and MHCLG

7.12 Transport investment remains essential for unlocking the delivery of new homes across London and the wider South East. TfL continues to work with Government to secure funding for transport infrastructure that can support good growth. The National Home Building Fund (NHBF) separate to the Government's existing Home Building Fund, 2017, is a (as yet unconfirmed) successor to the Housing Infrastructure Fund which could support infrastructure spend to unlock housing delivery. NHBF funding does not have a confirmed date for announcement but could be expected sometime next year. This year, Homes England and MHCLG are developing a pipeline of schemes that could attract funding. We are currently developing a project pipeline in conjunction with GLA and working closely with

Homes England on some of the transport schemes with the greatest potential for funding.

8 Next steps

8.1 Continuing to leverage third party funding is vital to delivering transport infrastructure and improvements in London. It will also play an increasingly important role as TfL faces major financial pressures going forward. While it is noted that there are some risks when entering funding and/or other agreements with third parties, these funding sources are important to deliver TfL priorities around Step-Free Access, Healthy Streets and mode shift as well as underpinning sustainable development and supporting wider objectives around housing and regeneration.

8.2 The value for money derived from projects that secure significant third-party funding enables limited TfL funding to deliver more on the ground. TfL must continue to work with Government, the GLA, local authorities, developers and others in London to creatively fund shared priorities. There are risks that if we are unable to progress key schemes (while doing all we can to minimise short term requirements on TfL and defer programmes as far as possible) that this will undermine confidence more widely and significantly constrain our future ability to leverage third party funding.

8.3 TfL City Planning will also continue to focus on building and maintaining relationships and engaging effectively in all aspects of the planning system to ensure that we maximise opportunities to shape good growth and deliver essential transport improvements. This will remain essential to mitigating the impacts of development on the transport network as housing delivery continues to address the acute shortage of homes in London, and the commercial sector adjusts to the "new normal" post pandemic.

8.4 Finally, the Queen's speech on 11 May 2021 confirmed the Government intentions to replace CIL and s106 developer contributions with an Infrastructure Levy[4], and for the details of this to be set out in the forthcoming Planning Bill. TfL City Planning will continue to monitor this closely - including the impact of the new levy on the MCIL funding stream and its ability to repay Crossrail financing, and the capacity to secure developer contributions generally.

List of appendices to this report:

None

List of Background Papers:

MCIL2 Charging Schedule: Mayor of London Community Infrastructure Levy 2 Charging Schedule (January 2019)

[4] Proposals for an Infrastructure Levy were consulted upon in August 2020 as part of the 'Planning for the Future – White Paper 2020', MHCLG

Supplementary Planning Guidance: Use of planning obligations in the funding of Crossrail and the Mayoral Community Infrastructure Levy (March 2016).

Community Infrastructure Levy Charging Schedule – Mayor of London (February 2012)

Community Infrastructure Levy Regulations 2010, as amended 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021.

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Finance Committee

Date: **23 June 2021**

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

This paper will be considered in public

1 Summary

1.1 Following on from the Enterprise Risk 5: Supply Chain Disruption (ER5) paper submitted to meeting of the Committee on 25 November 2020, this paper outlines TfL's current position on supply chain disruption following the Brexit agreement on 24 December 2020 and a second coronavirus wave.

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

1.3 The impact on the supply chain from the coronavirus pandemic and Brexit uncertainty has led to some areas of disruption, which have been controlled by actively managing TfL's supply chain risks.

1.4 However, the forecast impact on the financial health of TfL's tier 1 Suppliers has been delayed due to significant government support. Once support is reduced, TfL may see disruption in the form of Supplier financial difficulties in not only TfL's tier 1 Suppliers, but also in the wider supply chain (tier 2s and 3s).

1.5 Failure to identify poor Supplier financial health could result in a further increase in the TfL cost base, potential delays to project delivery and interruption to operational services.

1.6 The impact of TfL's short term funding arrangements on Suppliers, where TfL is a major or sole customer, has the potential to influence these Supplier's ability to invest, innovate and secure funding and financing.

1.7 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. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

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

3 Background

3.1 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 and absenteeism;

(f) Delays to scheduled maintenance;

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

(h) border delays.

3.2 The completion of a Brexit agreement on 24 December 2020 provided greater assurance on the cost impact and availability of goods and materials; however, some supply chain disruption has been seen, including:

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

(b) post Brexit import arrangements, customs charges and terms;

(c) quotas and tariff charges on materials imported to the UK;

(d) shortage of non-UK labour sourced from the EU; and

(e) unavailability of materials.

3.3 Outside of Brexit and Coronavirus, further supply chain risks have been identified that are affecting TfL, including:

(a) increases in insurance premiums across many areas leading to higher pricing, changes to policies and coverage restrictions;

(b) global logistics pressures including the lack of empty containers globally and capacity limits in Chinese ports; and

(c) the potential impact on Suppliers of TfL’s short term funding arrangements

3.4 TfL currently monitors the financial health of Suppliers who are critical to the running of TfL.

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

3.6 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, customs and tariff costs and increased insurance premiums;

(b) project delivery delays: Project delays due to the unavailability of materials, finished products and contracted services, shortages of skilled labour and border delays on imported goods and materials; and

(c) operational services disruption: Disruption to operational services due to the unavailability of materials, finished products and contracted services, increased lead times on parts and EU staff/labour shortages.

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 which includes a ratio to determine a Supplier’s financial dependency on TfL(exposure rating);

(c) regular reporting and executive review;

(d) centralised management of supply chain risks within the Procurement and Supply Chain team;

(e) regular reporting and executive review;

(f) commercial guidance;

(g) Department for Transport engagement and collaboration; and

(h) Supplier communication and engagement.

5.2 Supply chain risks and issues: A risk and issues register has been implemented to capture supply chain risks, issues and mitigation plans.

5.3 A central view of supply chain risks and issues across the whole organisation allows TfL to gain an understanding of the relative actions required, and the appropriate prioritisation needed to manage these action plans.

5.4 The risks and issues register is used to provide an accurate understanding of supply chain risks and issues in each business area. It is a fundamentally important tool for liaising with business stakeholders to help with the planning and control of mitigating actions being undertaken.

5.5 Supplier financial health: A financial monitoring process has been created and implemented to proactively highlight high risk Suppliers. Contingency plans are being developed where appropriate.

5.6 Centralised management of supply chain risks: Our approach to monitoring and managing risks is being actively managed by the central Strategy and Performance team, allowing for a consistent approach to risk management and providing guidance and support across the Procurement and Supply Chain teams.

5.7 Reporting: Regular reporting cycles have been established for supply chain risks and issues, Supplier financial health, and Brexit supply chain risks. Reports are provided to TfL's Executive Committee, the Chief Procurement Officer and Heads of Procurement.

5.8 Microsoft PowerBI reporting has been developed to enable live monitoring and management of risks and issues across Procurement & Supply Chain allowing for increased engagement with business stakeholders around identification and management of their key risks and issues and appropriate mitigation plans.

5.9 Commercial guidance: Commercial guidance has been developed to advise the Procurement and Supply Chain team on TfL's approach to supply chain issues when engaging with Suppliers to ensure organisational consistency.

5.10 Department for Transport engagement: The Procurement and Supply Chain team regularly engages with the Department for Transport, attending their Strategic Supplier Working Group and working collaboratively to share non-confidential information on Suppliers' financial standing and best practice.

5.11 Supplier engagement: Procurement and Supply Chain staff are in regular communication with their Suppliers to identify and understand the scale of risks and issues.

5.12 The Chief Procurement Officer has held four Supplier forums and regularly written to TfL's key and critical Suppliers to ensure regular engagement.

5.13 Engagement has also taken place with a number of related trade associations, of which a number of TfL Suppliers are members, to provide updates and ensure regular engagement.

5.14 Bus Operator engagement: Specific and regular dialogue has been maintained between TfL and each of our Bus Operators due to their responsibility for immediate day to day delivery of bus services.

6 Corrective Controls

6.1 Supplier insolvency: TfL have yet to see the scale of disruption expected from the supply chain due to government financial support propping up otherwise struggling businesses; however as government support is reduced TfL may see disruption in the form of Supplier financial difficulties in both TfL's tier 1 Suppliers and in the wider supply chain (tier 2s and 3s).

6.2 TfL continues to monitor our supply chain and where a risk of insolvency is identified, this is communicated to the relevant Procurement and Supply Chain teams as well as the business owner. Contingency plans are developed and implemented where necessary.

6.3 Supply chain risks and issues register: Implementation to all Procurement and Supply Chain staff has been successfully executed resulting in full visibility of TfL's supply chain risks and issues. These are regularly reviewed along with the mitigation plans.

6.4 Financial risk management in bus operations: TfL have worked collaboratively with Bus Operators to manage financial risks, achieving cost savings and providing support where appropriate, to ensure we have a viable supply chain to run bus operations during and beyond the pandemic.

6.5 Contractual agreement and negotiations: Unavailability of staff on the bus network (especially through shielding) has been managed through contractual variations with Suppliers leading to overall cost savings for TfL.

6.6 Heavy maintenance delays for Emirates Airline: Where annual maintenance requirements have been halted for our contracted services due to the pandemic and the lack of availability to skilled specialists, mitigations were put in place including: undertaking inspections, increasing the volume of spares kept locally and arranging for remote access to overseas specialists, ensuring continued operation of services.

6.7 Issues arising from "safe stop" on Crossrail sites: Following on from the "safe stop" implemented across Crossrail project sites, a number of risks were identified including: the potential inability of the projects to re-start when the restrictions lifted due to lost resource, plant and staff and the fact the previous delivery strategy and schedule was no longer valid due to the depth and breadth of the impact of the pandemic.

6.8 To mitigate these initial impacts Crossrail worked with the supply chain to identify the essential resources and plant needed to ensure an efficient re-start could be achieved and created 'Bench Agreements' to ensure the retention of these assets during the 'safe stop'; this resulted in an expedient and productive re-start on each of the projects at a cost of less than £10m.

6.9 In response to the requirement for new delivery plans Crossrail again worked with the supply chain and industry experts to develop new delivery strategies and corresponding plans, including creation of a full Programme Recovery Plan, completion programmes and a new blockade strategy.

7 Actions

7.1 Ongoing collaboration will be needed across TfL 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

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Finance Committee

Date: **23 June 2021**

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

This paper will be considered in public

1 Summary

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

2 Recommendation

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

3 Forward Plan Development

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

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

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

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

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

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

4 Current Plan

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

List of appendices to this report:

Appendix 1: Finance Committee Forward Plan

List of Background Papers:

None

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Appendix 1

Finance Committee Forward Plan 2021/22

Membership: 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)

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

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

Finance Committee Forward Plan 2021/22

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

Regular items:

- Use of Delegated Authority (covers Chair's Action, Procurement Authority etc.) (General Counsel)
- Finance Report (progress against budget including revenue generation targets like fares and Commercial Development activities) (CFO)
- Business Plan (annual – November) (CFO)
- Capital Strategy (annual – November) (CFO)
- Budget (annual informal – March) (CFO)
- Prudential Indicators Outturn (outcome from previous year - September) (CFO)
- Prudential Indicators (setting for current year - annual informal - March) (CFO)
- Treasury Activities (semi-annual – September and March) (CFO)
    - Additional updates to be provided where necessary.

As at 15 June 2021

Finance Committee Forward Plan 2021/22

- Treasury Management Strategy (annual – March) (CFO)
- Treasury Management and Derivative Investments Policies (annual – March) (CFO)
- Developer Income (MCIL/CIL/s.106) (annual – June) (D City Planning)
- Enterprise Risk Update – Supply Chain Disruption (ER5) (annual – June) (CFO)
- Enterprise Risk Update – Financial Sustainability (ER7) (annual – March) (MD - CFO) (to be confirmed)
- Enterprise Risk Update – Changes in Customer Demand (ER9) (annual – November) (D Strategy & CTO)

Additional items to be scheduled:

- Spending Review Issues (e.g. Business Rates Devolution) (CFO)
- Income Generation Proposals (CFO & CCT)
- Securing New Income Streams (CFO & CCT)
- TfL Strategy on Working Capital
- Commercial Development: Royal Oak
- Southwark Station Development Update
- Broadway Sale
- Victoria Coach Station
- App Based Culture – paper to cover TfL perspective on the strategy, plans and issues for TfL e.g. TPH regulation
- Applied Solutions – pending the outcome of review on Consulting (D Comm Dev)
- Cubic and NY RUC Bid (D Strategy & CTO)
- Future Affordable Homes Sites Plan - action from Board meeting on 22 January 2020 (CFO)
- Transport Innovation – Member suggestion for future discussion item from 11 March 2020 meeting (MD - Surface)
- Board Engagement with Major Projects - action from meeting on 6 March 2020, to be taken forward following the approval of a revised Budget for 2020/21 (CFO & GC)