MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Wednesday 30 September 2020

Time: 10.00am

Place: Teams Virtual Meeting

Members

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

Government Special Representative

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

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

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

Further Information

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

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

Howard Carter, General Counsel
Tuesday 22 September 2020

Agenda
Finance Committee
Wednesday 30 September 2020

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interests

General Counsel

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

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

3 Minutes of the Meeting of the Committee held on 24 June 2020 (Pages 1 - 8)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 24 June 2020 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 9 - 12)

General Counsel

The Committee is asked to note the updated actions list.

5 Decision Making During Covid-19 Emergency Measures and Use of Delegated Authority (Pages 13 - 18)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 19 - 34)

Chief Finance Officer

The Committee is asked to note the report.

7 Update on Funding Negotiations - To Follow

Chief Finance Officer

The Committee is asked to note the progress on funding discussions with Government and the exempt supplemental information on Part 2 of the agenda.

8 Comprehensive Spending Review - To Follow

Chief Finance Officer

The Committee is asked to note the update on the long-term capital plan, Comprehensive Spending Review and TfL's approach to Business Planning, and the exempt supplemental information on Part 2 of the agenda.

9 TfL Prudential Indicators Outturn (Pages 35 - 40)

Chief Finance Officer

The Committee is asked to note the paper.

10 Treasury Activities (Pages 41 - 50)

Chief Finance Officer

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

11 TfL Energy Update: Renewable Power Purchase Agreements (Pages 51 - 68)

Chief Safety, Health and Environment Officer

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

12 Members' Suggestions for Future Discussion Items (Pages 69 - 74)

General Counsel

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

13 Any Other Business the Chair Considers Urgent

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

14 Date of Next Meeting

Wednesday 25 November 2020, at 10.00am.

15 Exclusion of the Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraphs 3 and 5 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

16 Update on Funding Negotiations - To Follow

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

17 Comprehensive Spending Review - To Follow

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

18 Treasury Activities (Pages 75 - 80)

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

19 TfL Energy Update: Renewable Power Purchase Agreements (Pages 81 - 84)

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 24 June 2020

Members
Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Heidi Alexander
Prof Greg Clark CBE

Board Members in attendance
Cllr Julian Bell
Kay Carberry CBE
Bronwen Handyside
Dr Mee Ling Ng OBE

Executive Committee

Mike Brown MVO	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Simon Kilonback	Chief Finance Officer

Staff

Andrea Clarke	Director of Legal
Tanya Coff	Finance Director, London Underground
Patrick Doig	Finance Director, Surface Transport
Sarah Gasson	Chief of Staff to Commissioner
Jackie Gavigan	Secretariat Manager
Joanna Hawkes	Director, Corporate Finance
Shamus Kenny	Head of Secretariat
Sonia Khan	Integrated Financial Planning Analyst
Tony King	Group Finance Director and Statutory Chief Finance Officer
Pritesh Patel	Finance Manager
Rajiv Sachdeva	Head of Financial Planning and Analysis
Martin Taylor	Head of Business Strategy
Lucinda Turner	Director of Spatial Planning
Clive Walker	Director of Risk and Assurance
Ken Youngman	Divisional Finance Director, Commercial Development

26/06/20 Apologies for Absence and Chair's Announcements

An apology for absence was received from Anne McMeel. The Chair welcomed everyone to the briefing and explained that the invitation to attend had been extended to all Members of the Board.

As TfL did not benefit from the temporary changes to local authority meetings included in the Coronavirus Act 2020 (the Act), this was not a formal meeting of the Committee but was run as if the Act applied, as far as possible. The papers had been published in advance and the public discussion was recorded and released on TfL's YouTube channel. Where decisions were required, these were taken by the Chair, following consultation with Members, with a note of the discussion and decisions published on tfl.gov.uk.

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

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

It was the last meeting of the Committee with Mike Brown in attendance before he left TfL to start his new role as Chair of the Delivery Authority for the Restoration and Renewal of the Palace of Westminster. On behalf of all Members of the Committee, the Chair echoed the thanks given by the Mayor at the meeting of the Board on 2 June 2020 for Mike Brown's contribution to TfL and to London.

The work of the Committee had benefitted greatly from his willingness to rise to the challenges set to reduce costs and generate new income. Prior to the impact of Covid-19, TfL had seen operating costs reduce substantially year on year, with TfL on target to achieve an operating surplus despite the loss of Government grant. He had also driven the organisation forward through stretching scorecard measures with improvements in health, safety and the environment at its heart.

The Committee appreciated Mike Brown staying on beyond May 2020 to help see TfL though the crucial early stages of the response to Covid-19, including securing an interim funding package with Government in very trying circumstances, and wished him every success in his new role.

27/06/20 Declarations of Interests

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

28/06/20 Minutes of the Meetings of the Committee held on 11 March and 12 May 2020

The Chair, in consultation with the Committee, approved the signing of the minutes of the meetings held on 11 March and 12 May 2020 as a correct record.

29/06/20 Decision Making During Covid-19 Emergency Measures, Use of Delegated Authority and Actions List

Howard Carter introduced the paper, which set out the arrangements for how TfL was conducting its meeting cycle while social distancing and travel restrictions remained in place.

Members noted that, since the meeting of the Committee on 11 March 2020, there had been one use of authority delegated by the Board, taken under Chair’s Action, to approve the Treasury Management Strategy, Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments for 2020/21.

There had been no other use of authority delegated by the Board nor Procurement or Land Authority granted by the Commissioner or the Chief Finance Officer.

There had been two Mayoral Directions to TfL since the meeting of the Committee on 11 March 2020, relating to temporary changes to (i) free travel arrangements for older Londoners and (ii) the Congestion Charge to support the Streetspace for London plan and TfL’s response to the Covid-19 pandemic.

Updates had been provided against the actions.

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

30/06/20 Finance Update

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 TfL’s finances. Mike Brown introduced the item and expressed his condolences to the families of the 44 colleagues from across the transport network who were believed to have died as a result of coronavirus.

He thanked his Executive team and staff across the organisation for their work in response to the Covid-19 pandemic and the huge resilience they had shown. He paid tribute to the work of the Committee and the energy of the Chair, which had helped put TfL on a strong financial footing with operating costs reducing year on year and moving towards a net operating surplus for the first time in its history.

Simon Kilonback and Tony King introduced the report and related supplemental information on Part 2 of the agenda, which set out TfL’s financial results to the end of Period 2, 2020/21 – the year-to-date period ending 30 May 2020. A summary of year-to-date financial performance was shown against the Emergency Budget and last year. The presentation was consistent with how the original 2020/21 Budget had been presented.

At its meeting on 2 June 2020, the Board reviewed and approved the Emergency Budget for 2020/21, which replaced the original Budget for the year. The Emergency Budget was TfL’s interim response to the coronavirus pandemic. It included the short-term funding agreement with Government from May 2020 and savings from furloughing non-essential staff, new savings and rephasing of some capital projects.

At the peak of the pandemic, weekly Tube demand was 97 per cent down on last year, with TfL-wide revenue loss of almost £85m per week. Trends were picking up gradually, but at the end of May 2020, Tube journeys remained 92 per cent lower than the same time last year. Bus demand was similar, although journeys were more difficult to track due to middle door boarding. Use of Santander Cycles was 15 per cent higher than a year ago.

Total income including passenger income, operating income from the Congestion Charge, Ultra Low Emission Zone (ULEZ), advertising and property rental, Business Rates Retention from the Greater London Authority, furlough income from Government and other smaller revenue grants, was £364m in the year to date. This was £50m higher than the Emergency Budget, driven in the main by passenger income. The £26m of concession income was temporary and would reverse from next year. Congestion Charge and ULEZ income was performing better than planned, with charging starting earlier than expected. Media income was also significantly down, at 93 per cent lower than last year, where only a 50 per cent reduction had been planned for.

Operating costs were £20m higher than the Emergency Budget, driven by cost pressures from investment and additional coronavirus costs for maintaining safety and social distancing. Core costs were £12m better than the Emergency Budget and £16m lower than the same time last year. Some savings were made across London Underground from the recruitment freeze.

The Investment Programme was £28m higher than the Emergency Budget, with £19m in buses, streets and other operations, mainly driven by Healthy Streets investment of £14m year-to-date. Additionally, van scrappage payments had increased, with payments £3m higher than the Emergency Budget. London Underground investment was £8m higher, driven by project penalty fees and reduced investment transferred to the capital account. Some costs were costs for staff that, in normal circumstances, would work on capital projects and these costs would be transferred to capital. As a result of pausing non-safety critical projects, these could no longer be capitalised and sat within operating costs. In the year-to-date, these costs were £26m, which was £5m more than the Emergency Budget.

On the capital account, new capital investment was £17m higher than target from a combination of projects starting earlier than expected, Healthy Streets investment and a timing difference of income for Barking Riverside. Other capital grants were £18m lower than expected, mainly from lower Northern Line Extension funding, which was received approximately two periods in arrears. The Crossrail Emergency Budget was maintained at the same level as the original 2020/21 Budget and did not reflect the temporary Safe Stop of the programme.

The restart of proactive renewals of road networks had been paused and there were lower levels of renewal on the Tube network under the Emergency Budget. These were safety critical so would have to be brought back as part of the funding discussion with Government for the second half (H2) of the financial year.

The point had been made to Government that TfL was being treated differently to Network Rail, who had been given additional funding to bring forward its investment spend, whereas TfL was asked to defer spend causing suppliers' projects on the TfL network to be pushed back.

The Emergency Budget assumed that passenger numbers would continue to be severely reduced throughout the first half of the financial year (H1), so there was no risk to the £1.9bn funding package. Earlier assumptions of a 50 per cent passenger return in H2 now looked unlikely, so significantly more funding would be required for H2 than anticipated.

Patrick Doig confirmed that there had been an increase in cycling and that new cycling infrastructure was being provided to meet demand. Eight new docking stations were planned for Santander Cycles and a further 100 bikes would be added to the scheme this year. The next business planning cycle would look at the role TfL wanted to play in responding to the increase in demand.

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

31/06/20 TfL Scorecard

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 TfL's approach in response to the coronavirus pandemic and its restart and recovery work.

Simon Kilonback, Tanya Coff and Martin Taylor introduced the paper, which set out the phased approach that currently focussed on the restart of services as lockdown was lifted and the subsequent recovery. Given the high level of uncertainty, the phased approach consisted of an immediate scorecard to cover the first half of the performance year (the H1 TfL scorecard) which reflected its short-term priorities, aligned to the duration of the current Government funding deal. This would be followed by a recovery-focussed scorecard for the second half of the year (H2).

A scorecard for 2020/21 was considered by the Board on 18 March 2020 but the coronavirus outbreak required a change of priorities and activities. The Board asked for more relevant measures to aid the effective management of the business and to simplify the business as usual scorecard.

Initially, TfL focussed on providing a network for essential journeys only and supported the public health response by safe stopping construction sites and encouraging customers not to use transport services. To track progress against priorities, a Covid-19 dashboard was created.

The H1 scorecard reflected current priorities. Running the maximum service supported social distancing and London's economic recovery. The Investment Programme was focused on reallocation of street space to support walking and cycling for short journeys, to prevent a car-led recovery.

The safety and wellbeing of staff and customers continued to be a top priority and was reflected by targets relating to those killed and seriously injured on the road network and transport services. A new measure of staff wellbeing was introduced that sought to ensure there was no disparity in how TfL's diverse workforce was experiencing the crisis.

This needed to be achieved within the strict financial envelope set out in the Government funding agreement. Preserving liquidity was critical, which was best managed through controlling operating and capital costs.

The current situation made target setting challenging, so the floor target for each metric would be set appropriately to ensure that a wider range of performance was recognised and a change control process would adjust metrics and targets that were no longer appropriate. Targets had been set as an average over periods 1-7, unless tied to a specific date. Exceptions to this were the service delivery targets, which were set as an average level of service across periods 3-7 and were aligned with the timing of the Government funding agreement, when TfL began building up service levels to enable social distancing. Performance should improve each period as service delivery got closer to a normal level.

Following the approval of the H1 scorecard, work would begin on the H2 scorecard for approval in September/October 2020. The H2 scorecard would be based on the Revised Budget and TfL's aims for the remainder of the year, namely core safety and operational priorities, and an enhanced focus on active travel and a green recovery. It would also take into account any conditions tied to the second funding package being sought from Government.

The Chair, in consultation with the Committee, noted the paper and:

1. **approved the H1 TfL Scorecard; and**

2. **noted the proposed approach for the second half of the year.**

32/06/20 Update on Income from Developers Through Planning Obligations

Lucinda Turner introduced the paper, which provided an end of year (2019/20) update on the Mayor's Community Infrastructure Levy (MCIL) that supported the funding of Crossrail, as well as other developer contributions and funding mechanisms, including Section 106 and Borough CILs that contributed towards other TfL transport priorities. TfL and the Greater London Authority had a joint role in securing funding from transport developments.

There were approximately 208 referable planning applications involving significant TfL input last year, as well as hundreds of non-referable applications with transport implications and input. Securing planning obligations was inherently related to the level of development activity and the implementation of relevant planning permissions. Development activity tended to be cyclical and was strongly influenced by local, national and global factors.

The Mayoral CIL secured £130m with a £747m total, which was the highest annual return since 2017/18. This came from long planned developments so did not yet reflect the impact of the coronavirus pandemic. On Borough CILs, there were only three local authorities without charging schedules in place and significant annual receipts had been collected, for which there were numerous competing priorities.

Leveraging third party funding was vital to delivering transport infrastructure and improvements for the city and would play an increasingly important role as TfL faced major financial pressures. These funding sources were needed to deliver TfL priorities around step-free access, station pinch points, Healthy Streets and mode shift, as well as underpinning sustainable development and supporting wider objectives around housing and regeneration.

The Committee noted the paper.

33/06/20 Commercial Development Property Programme Update

Graeme Craig and Ken Youngman introduced the paper, which provided an update on TfL's commercial development activity, summarising progress to date and outlining how the team had reacted to the outbreak of the coronavirus pandemic.

A key focus had been TfL's approach to its property assets, including consolidating assets into a single subsidiary, enabling better oversight and allowing the strategic management of the estate by asset class. Alongside this, there had been three strategic property initiatives as part of the growth agenda outlined in the TfL Business Plan: using land to deliver thousands of affordable homes; growing revenue from commercial property assets; and reviewing the head office and wider operational estate to secure cost and efficiency savings and unlock new commercial opportunities.

As one of London's largest landowners, TfL was uniquely placed to generate long-term income from commercial property assets, alongside building thousands of homes with high levels of affordable housing. By investing in assets to create homes and jobs, the Commercial Development programme was materially helping the London economy and supporting the response to the impact of the coronavirus pandemic. The pandemic was currently reducing TfL's rent income from tenants and had also reinforced the critical need to both grow net revenues to reinvest in the transport network and build new homes.

Short term, the coronavirus lockdown had materially reduced both supply and demand in the property market, including on TfL's estate. Longer term, the pandemic was speeding up existing trends, including increased home-working and flexible working environments, which was potentially leading towards increasing growth in London's town centres, and more active travel and greater dependency on digital infrastructure. The Commercial Development team was looking afresh at accommodation plans and available assets across existing offices, commercial and development estates, with a view to deliver cost savings through an optimum office footprint that reflected an increase in home working.

The Committee noted the paper.

34/06/20 Members' Suggestions for Future Discussion Items

Howard Carter introduced the item. The suggestions raised at the previous meetings by Members for future discussion items had been included in the forward plan.

The Committee noted the forward plan.

35/06/20 Any Other Business the Chair Considers Urgent

There was no other urgent business.

36/06/20 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 30 September 2020 at 10.00am.

37/06/20 Exclusion of the Press and Public

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

The meeting closed at 12.05pm.

Chair: ___________________________________

Date: ____________________________________

Finance Committee

Date: **30 September 2020**

Item: **Matters Arising and Actions List**

This paper will be considered in public

1 Summary

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

2 Recommendation

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

List of appendices to this report:

Appendix 1: Actions List

List of Background Papers:

Minutes of previous meeting of the Finance Committee.

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

[page left intentionally blank]

Appendix 1

Finance Committee Action List (to be reported to the meeting on 30 September 2020)

Actions from previous meetings of the Finance Committee

Minute No.	Description	Action By	Target Date	Status note
06/03/20	**Finance Report – Board Engagement with Major Projects** In response to the information provided on the total capital expenditure by programme including capital renewals, it was agreed that consideration be given to the process for how to organise as a Board to engage with the major projects.	Simon Kilonback/Howard Carter	September 2020	This will be taken forward following the approval of a revised Budget for 2020/21.
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	December 2020	This will be taken forward following agreement of the Business Plan and will be put on the forward agenda.
15/03/20	**TfL Energy Purchasing – Member Briefing on Procurement Strategy** It was agreed that an informal briefing for Members on the procurement strategy would also be held before the next meeting.	Lilli Matson/ Secretariat	June 2020	Completed: An informal briefing for Members on energy purchasing was held on 6 July 2020.

16/03/20 (1)	**Members' Suggestions for Future Discussion Items – Transport Innovation Update** A Transport Innovation item was suggested: an update on ideas and concepts, opportunity cost and revenue.	Michael Hurwitz	2021	Due to the impacts of Covid-19, the Transport Innovation update paper has been deferred to 2021 on the Forward Plan.
16/03/20 (2)	**Members' Suggestions for Future Discussion Items – Electric Vehicle Energy Taskforce** An Energy as a Service item was suggested: a discussion on the link between transport and electric charging and TfL becoming involved in the next round of the Electric Vehicle Energy Taskforce discussions.	Alex Williams	November 2020	A comprehensive update on Electric Vehicle charging infrastructure will be considered by the Safety, Sustainability and Human Resources Panel in November 2020. This will be an annual update on the Mayor's Electric Vehicles Infrastructure Taskforce report, released last year. A copy of the Panel report will be shared with Finance Committee members.
16/03/20 (3)	**Members' Suggestions for Future Discussion Items – Rapid Charging Points** A Rapid Charging Points item was suggested: a strategic discussion on rapid charging points, covering market confidence, supply and communications issues, and potential quick wins in changing infrastructure in the right places to improve access.	Alex Williams	November 2020	There will be addressed in the paper on Electric Vehicle charging infrastructure referenced above (see 16.03.20 (2)).
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	December 2020	Further to the circulation of the development sites information, initial contact is being made with Members during September 2020, with briefings being arranged over the remainder of this calendar year.

Finance Committee

Date: **30 September 2020**

Item: **Decision Making During Covid-19 Emergency Measures and Use of Delegated Authority**

This paper will be considered in public

1 Summary

1.1 This paper informs Members of the position of TfL meetings during the current restricted travel period, as the country controls the spread and impact of Covid-19. It also provides an update on the use of delegated authority.

1.2 At the time of the last meeting, on 24 June 2020, TfL did not benefit from the Regulations that permit some local authorities to meet by videoconference. All decisions taken at that meeting were through Chair's Action. TfL is now included in amended Regulations and so decisions can be made by the Committee, albeit meeting by videoconference.

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

1.4 Since the meeting of the Committee on 24 June 2020, there has been:

(a) no use of authority delegated by the Board;

(b) one use of Chair's Action in relation to the London Highway Maintenance and Projects Frameworks;

(c) no use of authority delegated by the Board:

(d) use of Procurement and Land Authority granted by the Commissioner or the Chief Finance Officer, set out in Appendix 1; and

(e) no Mayoral Directions have been announced.

1.5 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 Decision Making During the Covid-19 Emergency Measures

3.1 At the time of the last meeting, on 24 June 2020, TfL did not benefit from the Regulations that permit some local authorities to meet by videoconference. The decisions taken on that date were taken by the Chair through Chair's Action. The Minutes of that meeting and the exercise of Chair's Action is elsewhere on the agenda for this meeting.

3.2 Following the recent extension of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020/392 the meetings and decisions of TfL and its Committees and Panels can now be taken by meetings held using videoconference. Public access to these meetings is provided through the live streaming of meetings on TfL's YouTube channel.

4 Use of Authority Delegated by the Board

4.1 There has been no use of authority delegated by the Board since the meeting on 24 June 2020.

5 Use of Chair's Action

5.1 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.

5.2 As noted above, decisions taken by Chair's Action at the meeting on 24 June 2020 are set out in the Minutes of that meeting, elsewhere on the agenda.

London Highway Maintenance and Projects Frameworks

5.3 The Chair, following consultation with available members of the Committee, exercised Chair's Action to approve Procurement Authority to award contracts to bidders for the London Highway Maintenance and Projects Frameworks (LHMPF). Once the bidders have been informed, the paper and names of the winning bidders will be announced. These agreements fulfil statutory duties and ensure a safe, reliable and resilient service is provided to customers across London. The framework agreements include the delivery of highway maintenance activities, low complexity capital projects and related works and services on and around the Transport for London Road Network (TLRN). They have been developed with consideration towards uncertainties around long term funding at TfL, where commitment via fixed prices is limited only to deliver essential highway works and services.

5.4 The use of Chair's Action is considered appropriate as a decision to enter into the agreements is required before the date of this meeting of the

Committee to secure a required six-month mobilisation period, which will ensure supplier readiness to properly commence the works and services under the LHMPFs call-off contracts from 1 April 2021.

5.5 A copy of the public paper for that decision has been published on tfl.gov.uk.

6 Procurement and Land Authority Approvals

6.1 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.

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

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

6.4 Appendix 1 provides details of the use of delegated authority to approve Procurement or Land Authority by the Commissioner and the Chief Finance Officer.

7 Mayoral Directions to TfL

7.1 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.

7.2 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.

7.3 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.

7.4 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.

7.5 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.

7.6 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.

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

7.8 No Mayoral Directions have been announced since the last meeting of the Committee.

List of appendices to this report:

Appendix 1: Exercise of Procurement Authority and Land Authority

List of Background Papers:

Minutes from previous meetings of the Committee.

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

Appendix 1

Procurement Authority

Approval Date	Contract / Project Name	Type	Value	Approval
29.07.2020	Liverpool Street Platforms 16-18 remodelling	Contract variation	£94.78m	Commissioner
29.07.2020	Surface Transport Network Services Contract with GTT Communications	Contract variation	£11.1m	Chief Finance Officer
03.08.2020	Old Street Roundabout – Reconfiguration	Contract variation	£75.2m	Commissioner
03.08.2020	One Person Operation for Piccadilly Line Trains	Contract award	£65,130,000	Commissioner
24.08.2020	Four Lines Modernisation Signalling Equipment Room	Contract 5 variation	£6,851,052	Chief Finance Officer
28.08.2020	Campaign & High Volume Recruitment services – Capita Business Services Limited	Call-Off Contract Variation	£9,690,000	Chief Finance Officer

Land Authority

Approval Date	Contract / Project Name	Type	Value	Approval
18.08.2020	Nine Elms Over Station Development – Build to Rent	Land Authority	£88.75m	Commissioner
18.08.2020	Cockfosters Station Car Park – Build to Rent	Land Authority	£37.392m	Commissioner

[page left intentionally blank]

Finance Committee

Date: **30 September 2020**

Item: **Finance Report – Period 5, 2020/21**

This paper will be considered in public

1 Summary

1.1 The Finance Report presentation sets out TfL's financial results to the end of period 5, 2020/21 – the year-to-date ending 22 August 2020.

2 Recommendation

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

3 Revised financial targets

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

4 Financial Reporting to the Committee

Finance Report – Period 5, 2020/21

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

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

List of Background Papers:
None

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

[page left intentionally blank]

Finance Report
Period 5, 2020/21

Management results from 1 April 2020 – 22 August 2020

30 September 2020

Section 1

Background: TfL's Revised Budget

Background: TfL's Revised Budget

Background

- Our initial 2020/21 Budget was approved by Chair's Action on 29 March 2020, following consideration by the Board on 18 March at a briefing (held in lieu of a meeting, due to the coronavirus travel restrictions).
- During mid-March and April 2020, passenger demand declined steeply, with a 95 per cent reduction in journeys on the Tube, and an 85 per cent reduction in journeys on buses. This has caused an initial overall income loss of around 90 per cent including non-passenger incomes.
- On 14 May 2020, TfL reached an agreement with the Government on an funding and financing package of £1.6bn to cover the period 1 April 2020 to 17 October 2020.

2020/21 Emergency Budget

- The Emergency Budget was our interim response to the coronavirus pandemic. It includes funding based on the agreement with government, income from furloughing non-essential staff, new savings and rephasing of some capital projects. The Emergency Budget was approved by the TfL Board on 2 June 2020.

2020/21 Revised Budget

- We updated the Emergency Budget with the Revised Budget in July 2020. This budget reflected updated passenger journey and income trends for 2020/21 and 2021/22, as well as further cost savings and changes to capital programmes. The Revised Budget was approved by the TfL Board in late July 2020.

Section 2

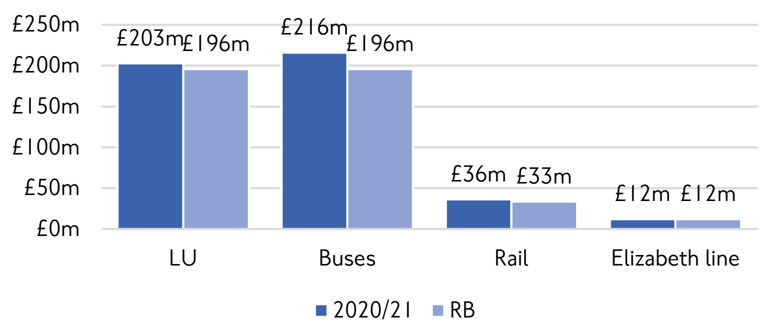
Period 5, 2020/21 results

COVID-19 summary

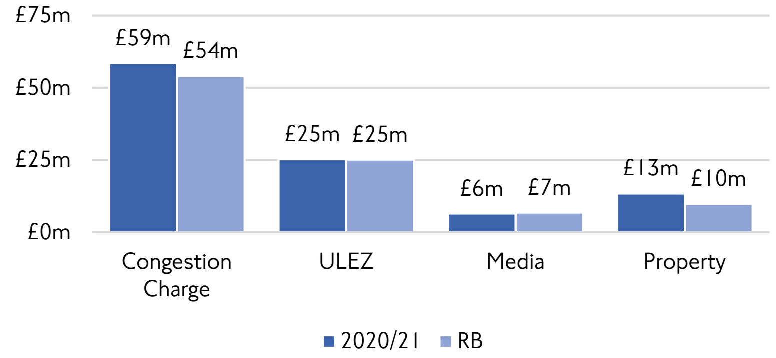
Page 25

Current impacts

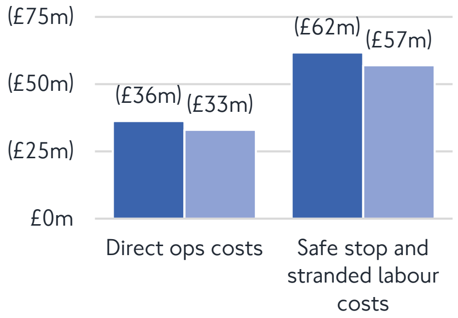
Passenger income: YTD actual and Revised Budget



Other operating income: YTD actual and Revised Budget

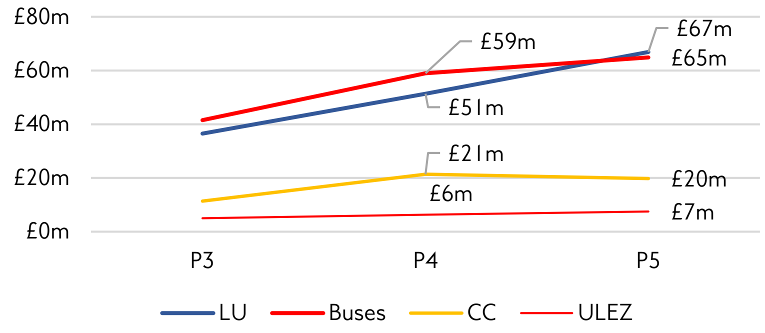


Coronavirus cost impacts: YTD actual and Revised Budget

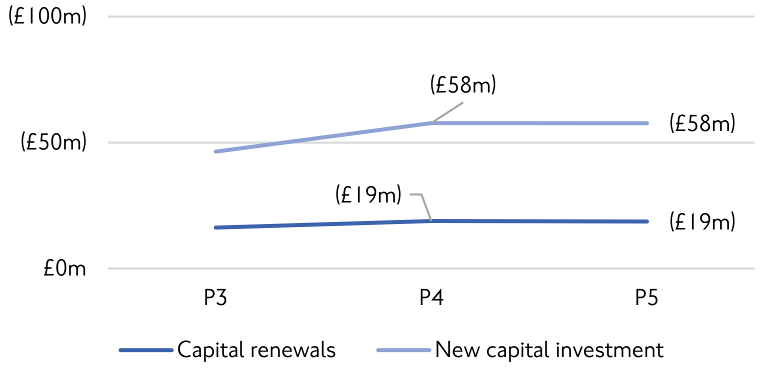


Recovery phase

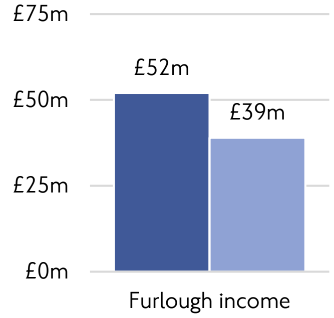
Key services – income trend

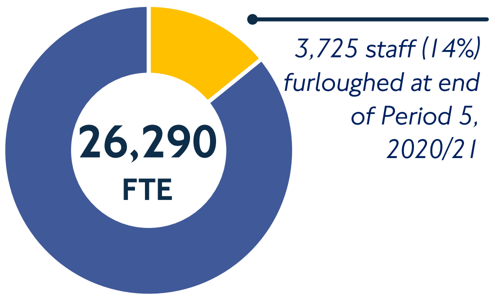


Capital expenditure trend



Furloughed workers and staff





Operating account

Net cost of operations £115m better than Revised Budget, driven by higher journey volumes, one off cost reductions and additional savings.

Operating account

Operating account (£m)	Actuals	Revised Budget	Variance to Revised Budget		Variance to last year	
					Year to date, 2020/21	
Passenger income	498	463	35	8%	(1,367)	-73%
Other operating income	242	231	11	5%	(133)	-35%
Total operating income	**740**	**694**	**46**	**7%**	**(1,500)**	**-67%**
Business Rates Retention	426	426	0	0%	82	24%
Revenue grant	3	4	(1)	-33%	(31)	-91%
Government furlough grant	52	39	13	33%	52	N/A
Total income	**1,221**	**1,163**	**58**	**5%**	**(1,397)**	**-53%**
Operating costs [1]	(2,383)	(2,434)	51	-2%	15	-1%
Coronavirus direct operating costs	(36)	(33)	(3)	10%	(36)	N/A
Coronavirus safe stop and stranded labour costs [2]	(62)	(57)	(5)	8%	(62)	N/A
Net operating surplus	**(1,162)**	**(1,270)**	**109**	**-9%**	**(1,382)**	**-628%**
Net financing costs	(176)	(177)	1	0%	(6)	3%
Net cost of operations before financing	**(1,338)**	**(1,447)**	**109**	**-8%**	**(1,387)**	**-2,809%**
Capital renewals	(84)	(90)	5	-6%	50	-37%
Net cost of operations	**(1,422)**	**(1,537)**	**115**	**-7%**	**(1,337)**	**1,565%**
Extraordinary revenue grant	730	730	0	0%	730	N/A
Net cost of operations after extraordinary revenue grant	**(692)**	**(807)**	**115**	**-14%**	**(607)**	**710%**

1 - 2020/21 operating leases presented on IFRS16 basis
2 - Stranded labour costs are staff costs for capital projects – we have paused some non-safety critical capital projects, which means these costs do not currently appear in the capital account

Passenger journeys and other operating income

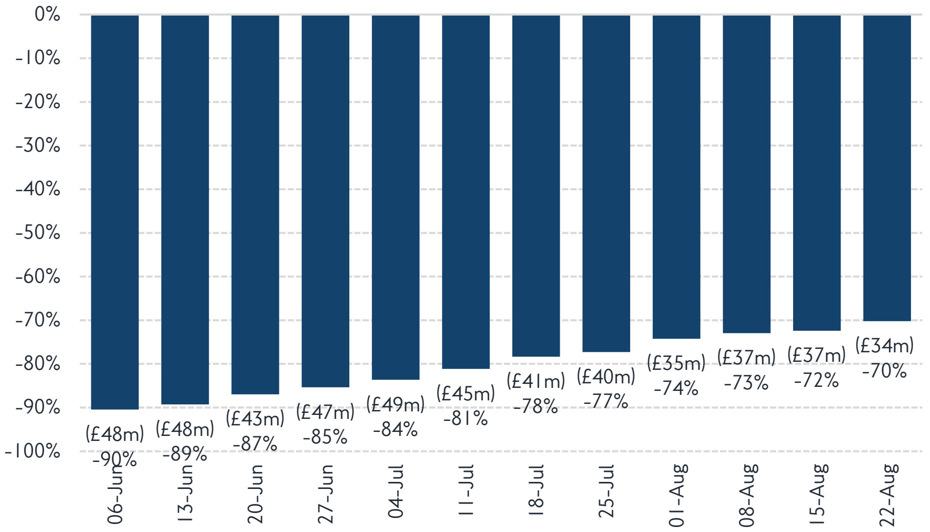
Passenger journeys and income remain significantly down on last year – weekly reduction of £45m compared to last year – but improving trends. Greatest improvement in inner London suburbs; City of London Tube use close to 20% of pre-pandemic levels.

Page 27

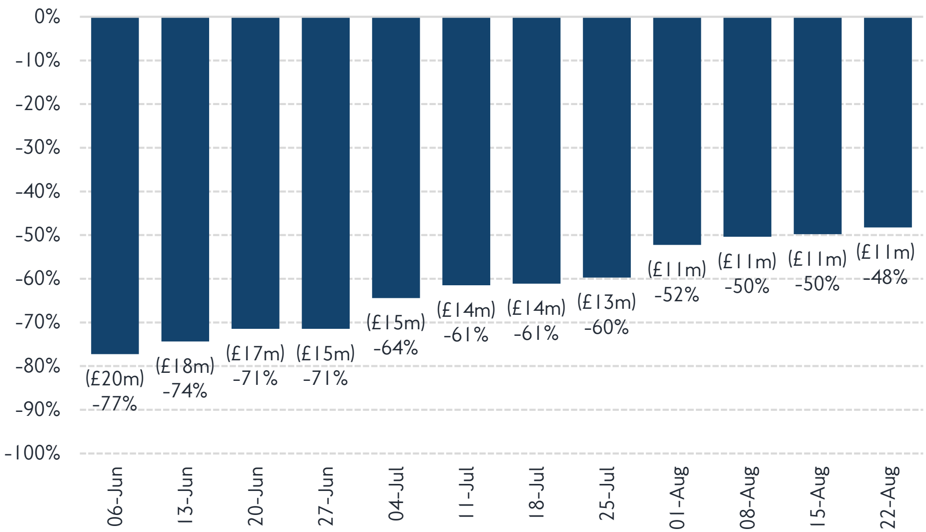
Congestion Charge volumes continues increases since the reintroduction of charging, extension of charging hours, and increase in daily charge. Congestion Charge saw volume peaks 32% higher than last year.

Passenger journeys and income

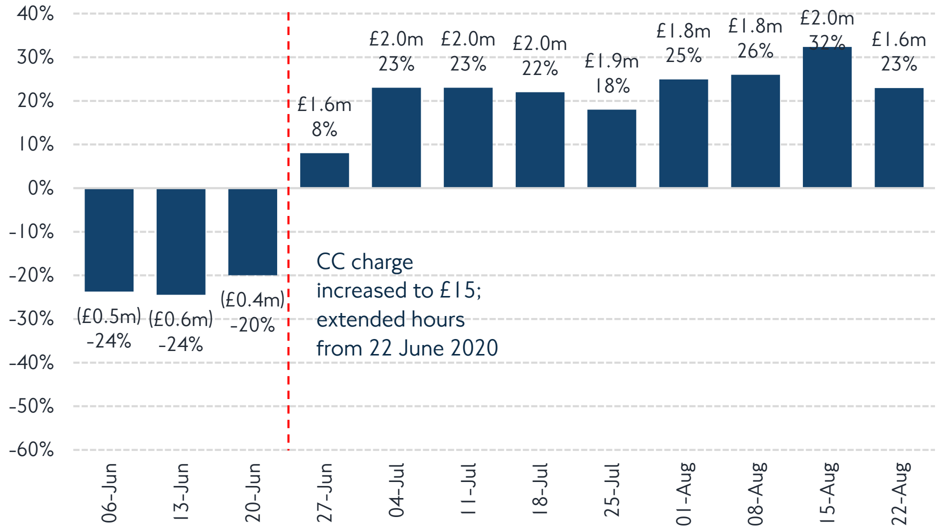
Tube journeys and income: % year-on-year change



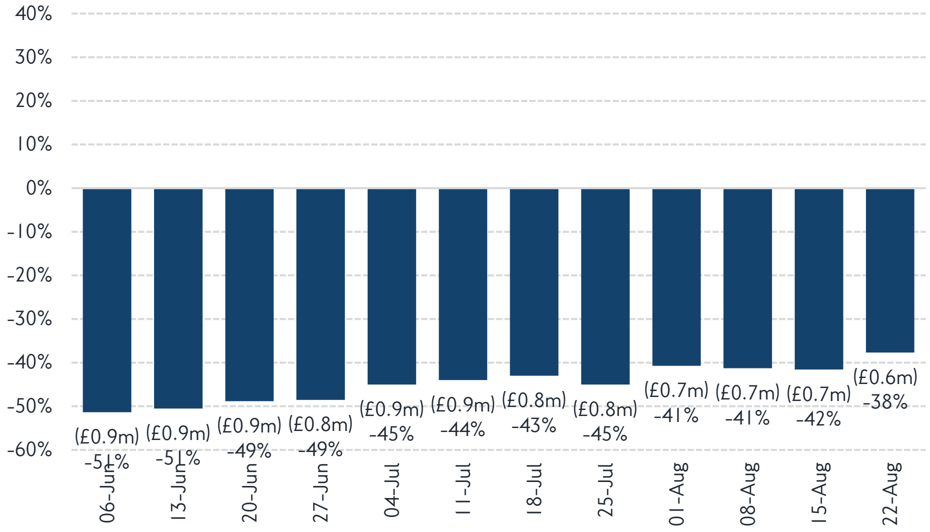
Bus journeys and income: % year-on-year change



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



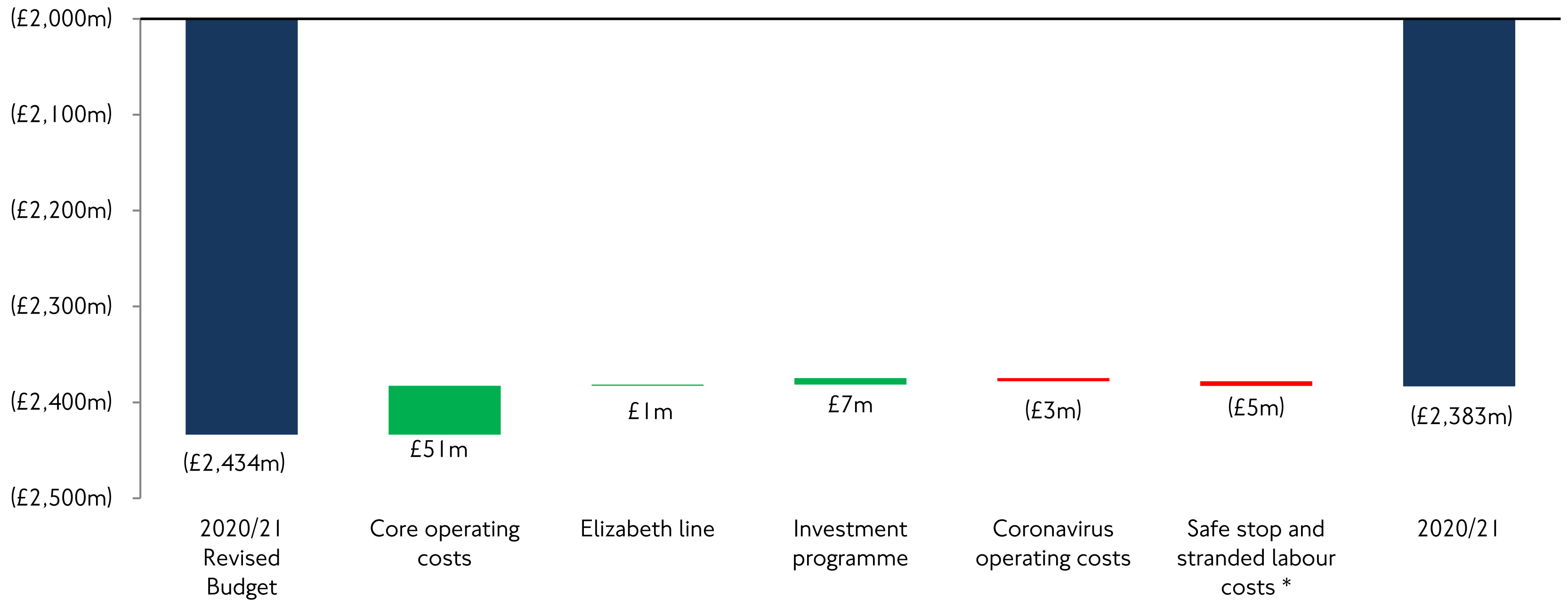
ULEZ volumes and income: % year-on-year change



Operating costs

Operating costs £51m lower than Revised Budget, driven by lower core costs – from an earlier than expected one off supplier settlement and other savings – and lower investment costs. Coronavirus costs – including cleaning, PPE, social distancing as well as stranded labour costs - are £98m in the year to date.

Operating costs: year to date, 2020/21



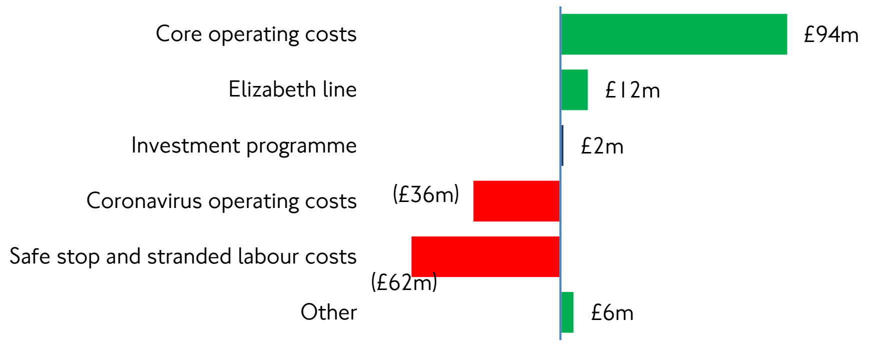
£51m

lower than Revised Budget

Lower costs from combination of one offs and additional savings from recruitment freeze

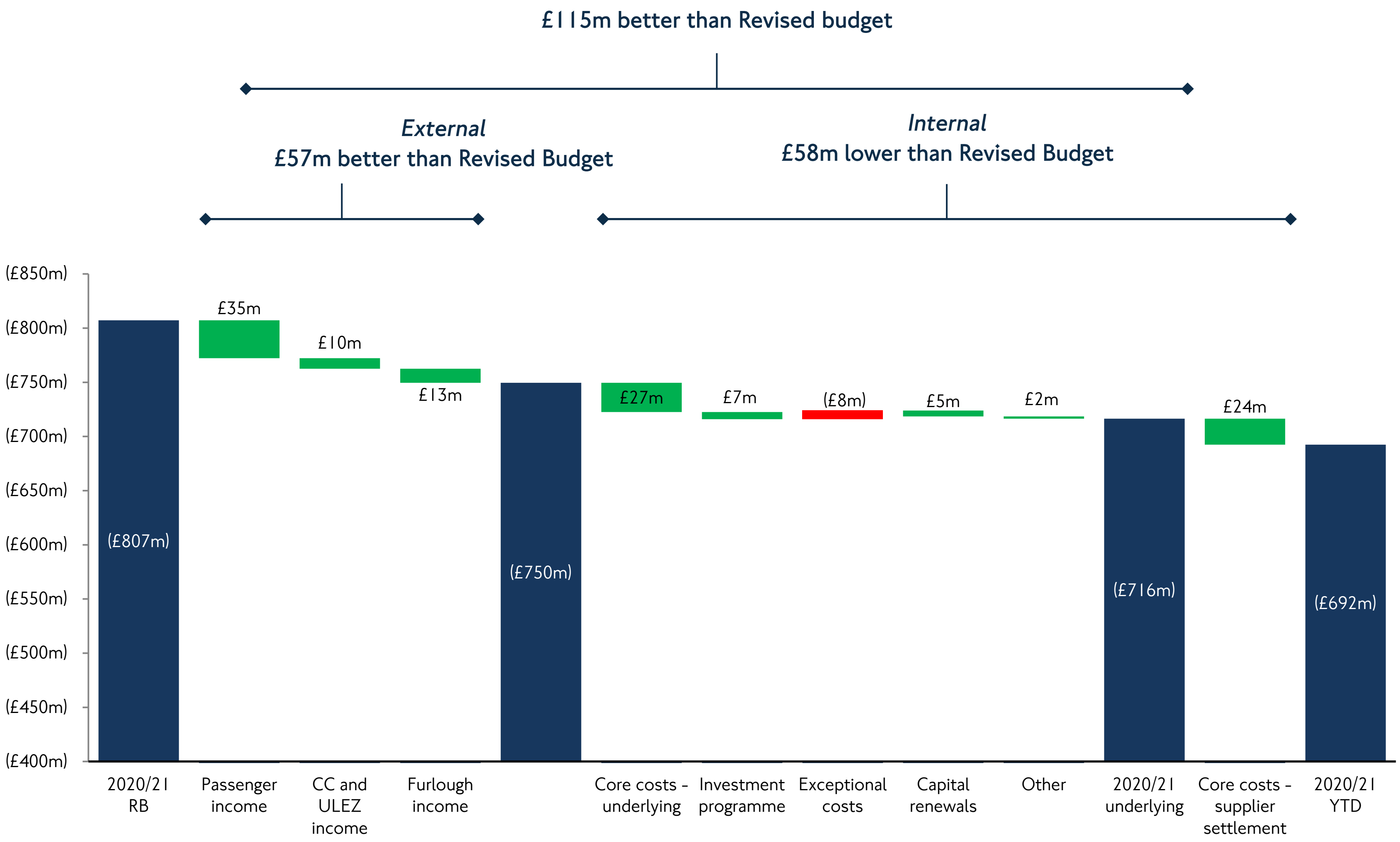
* Stranded labour costs are staff costs for capital projects – we have paused some non-safety critical capital projects, which means these costs do not currently appear in the capital account

Operating costs £15m lower than last year



Net cost of operations

Net cost of operations: year to date, 2020/21



Headcount

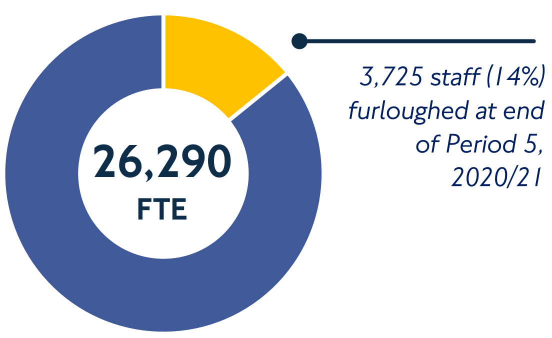
Almost 4,000 staff furloughed at the end of Period 5, down from over 7,000 at the start of the year, Income from the furlough scheme stands at £52m.

We have reduced total headcount by 608 since the end of last year, predominantly from lower agency staff and non-permanent labour.

We have implemented a recruitment freeze, as well as cancelled senior management pay awards for 2020/21.

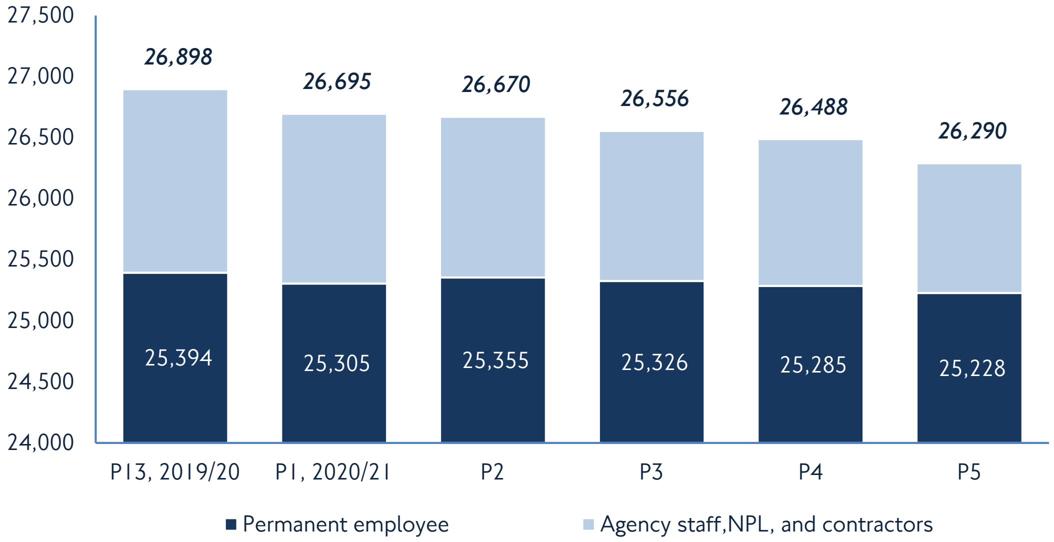
Headcount excl. Crossrail construction

Headcount and furloughed workers



Furlough grant income

Headcount trends since P13, 2019/20



Capital account

Total capital expenditure close to Revised Budget, but significantly down on last year as we have paused some projects. We will be reviewing our capital programme based on affordability as part of this year's new Business Plan.

Page 31

Capital account: year to date, 2020/21

	Year to date, 2020/21					
Capital account (£m)	**Actuals**	**Revised Budget**	**Variance to Revised Budget**		**Variance to last year**	
New capital investment	(249)	(250)	1	-1%	135	-35%
Crossrail	(284)	(265)	(19)	7%	132	-32%
Total capital expenditure	**(533)**	**(515)**	**(18)**	**3%**	**267**	**-33%**
Financed by:						
Investment grant	400	400	0	0%	79	25%
Property and asset receipts	6	1	5	491%	(11)	-65%
Borrowing	337	337	0	0%	357	-1818%
Crossrail borrowing	255	274	(19)	-7%	255	N/A
Crossrail funding sources	67	68	(1)	-2%	(302)	-82%
Other capital grants	49	42	7	16%	(23)	-32%
Total	**1,115**	**1,123**	**(9)**	**-1%**	**355**	**47%**
Net capital account	**582**	**608**	**(26)**	**-4%**	**623**	**-1527%**
Capital renewals	(84)	(90)	5	-6%	50	-37%
New capital investment	(249)	(250)	1	-1%	135	-35%
Total TfL capital expenditure	**(333)**	**(340)**	**7**	**-2%**	**186**	**-36%**

Capital expenditure

Page 32

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

Capital renewals and new capital investment (£m)	Year to date, 2020/21 Actuals	Revised Budget	Variance to Revised Budget		Variance to last year	
Major projects	***(157)***	***(158)***	***1***	***-1%***	***88***	***36%***
Northern Line Extension	(35)	(35)	(0)	0%	29	45%
Four Lines Modernisation	(28)	(33)	5	-14%	72	72%
Major Stations	(25)	(26)	2	-7%	9	27%
Railway Systems Enhancements	(4)	(4)	0	-1%	0	6%
Piccadilly line trains	(29)	(27)	(2)	8%	(11)	-67%
DLR Rolling Stock	(14)	(15)	2	-10%	(7)	-103%
Barking Riverside	(20)	(15)	(5)	34%	(5)	-35%
Silvertown Tunnel	(3)	(3)	0	-4%	1	32%
Elizabeth line - infrastructure	***(10)***	***(9)***	***(1)***	***13%***	***(3)***	***-47%***
LU	***(58)***	***(62)***	***3***	***-5%***	***56***	***49%***
Capital renewals	(48)	(51)	3	-6%	46	49%
New capital investment	(10)	(10)	0	-4%	9	48%
Surface Transport	***(77)***	***(82)***	***5***	***-6%***	***18***	***19%***
Healthy Streets	(18)	(18)	0	0%	16	48%
Surface - assets	(19)	(20)	1	-4%	(9)	-89%
Surface Tech	(4)	(4)	(0)	1%	(1)	-53%
Public Transport	(17)	(19)	2	-10%	17	50%
Air Quality and environment	(20)	(22)	2	-10%	(4)	-27%
Corporate programmes	***(18)***	***(16)***	***(2)***	***10%***	***15***	***46%***
Professional Services	(22)	(20)	(3)	13%	8	25%
Media	4	3	1	26%	8	230%
Commercial Development	***(12)***	***(12)***	***0***	***-2%***	***13***	***52%***
Estates and facilities	(0)	(0)	0	-43%	(0)	-3%
Property development	(12)	(12)	0	-1%	13	52%
Total TfL	***(333)***	***(340)***	***7***	***-2%***	***186***	***-36%***

Cash balances

Cash balances broadly in line with Revised Budget, but over £400m lower than at the end of last year.

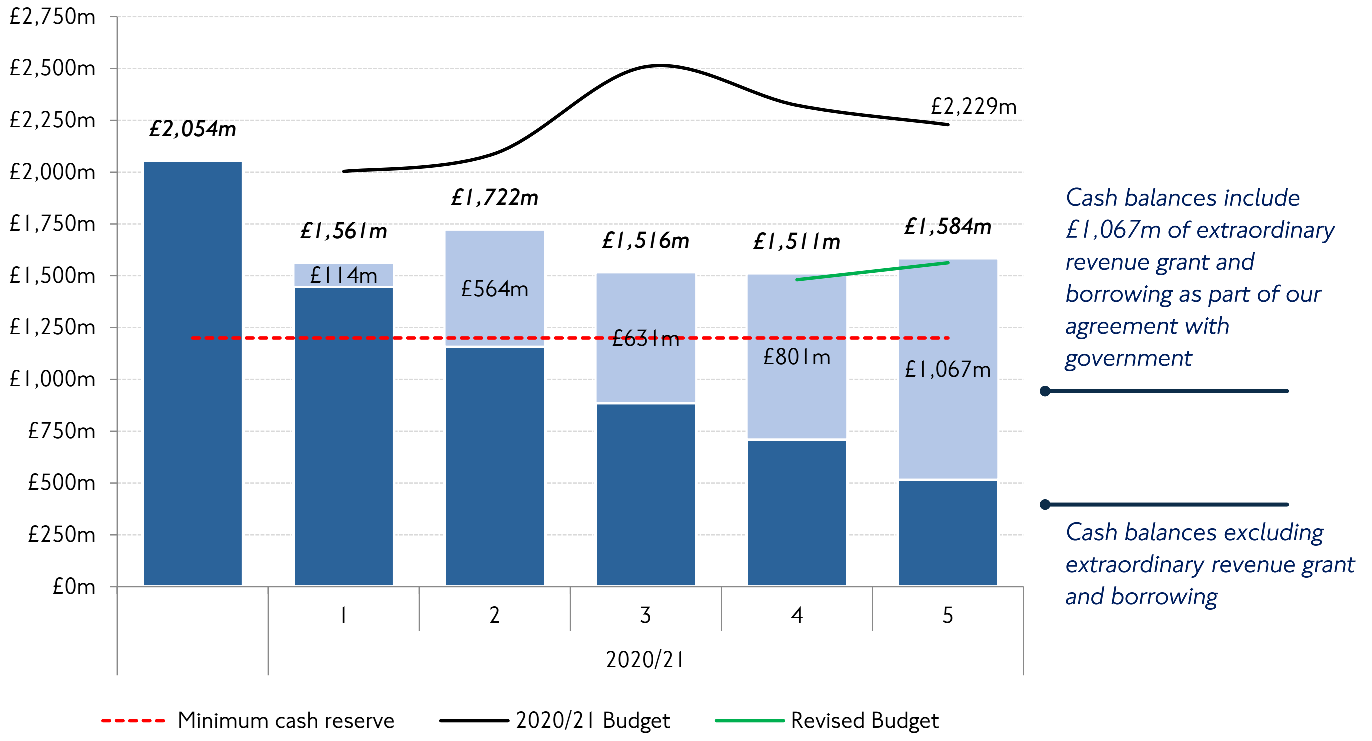
Cash balances include £1,067m of funding from government, agreed as part of the funding and financing package agreed in May 2020.

Page 33

Cash balances and latest forecast

£m	2019/20 closing	Prior periods' movement	P5 movement	P5, 2020/21 Closing cash	Revised Budget	Variance to Revised Budget
TfL closing cash balances	2,054	(543)	73	1,584	1,563	21

TfL cash balances since end 2019/20



2020/21 full year outlook

Latest trends

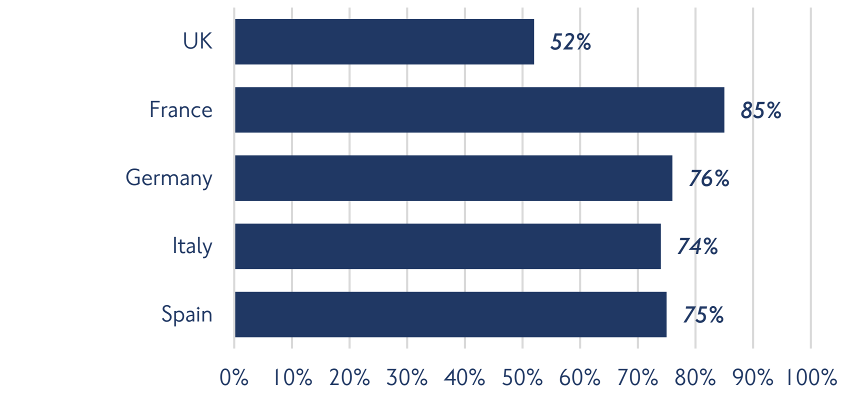
Outlook for the year remains uncertain. Significant numbers of employees in the UK and London are not returning to their usual place of work – risk that journeys may start to plateau, with growth stalling.

Significant numbers of employees have also been furloughed in London; almost 1.4 million by the end of July 2020. Many of the hardest hit sectors - retail (250 k); food and accommodation (310 k) – have seen some recovery during the Summer, but will not begin to fully recover until employees and visitors start to return to London.

Recent tightening of restrictions on food and hospitality sector, coupled with updated guidance to work from home if possible, make recovery this year increasingly unlikely.

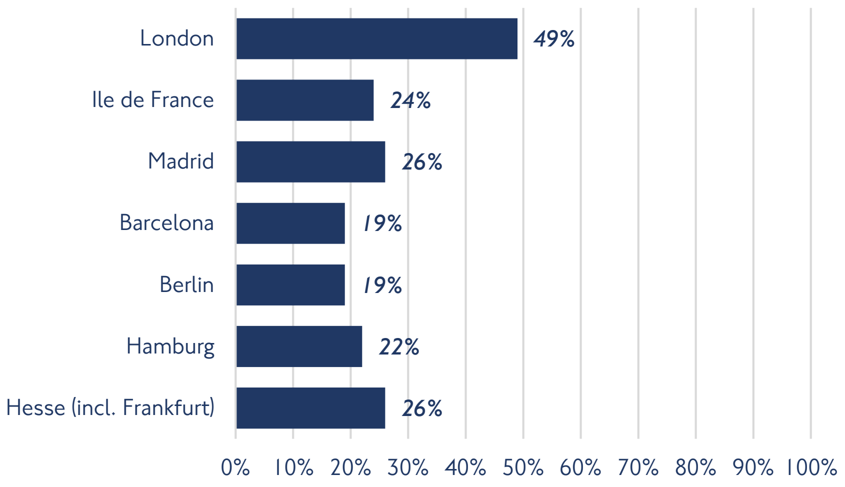
Latest trends

UK employees returning to usual workplace at slower place than European counterparts



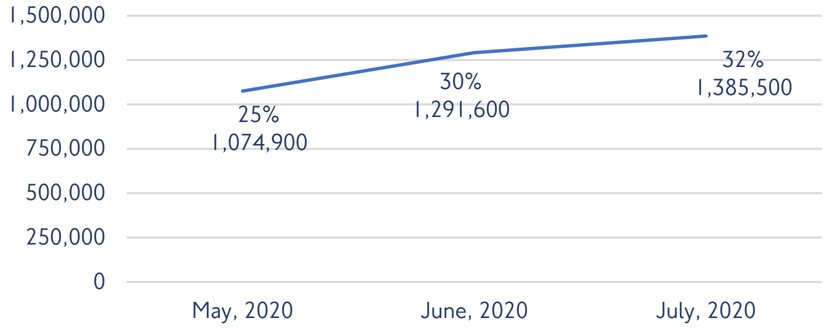
Source: Morgan Stanley, survey conducted in mid-July 2020

Pattern mirrored in London, with significant numbers of office workers continuing to work at home full time



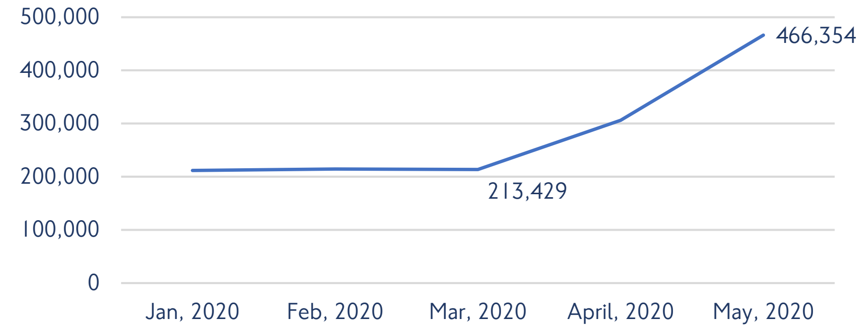
Source: Morgan Stanley, survey conducted in mid-July 2020

Significant numbers of employees in London have been furloughed since beginning of scheme (% of eligible employees)



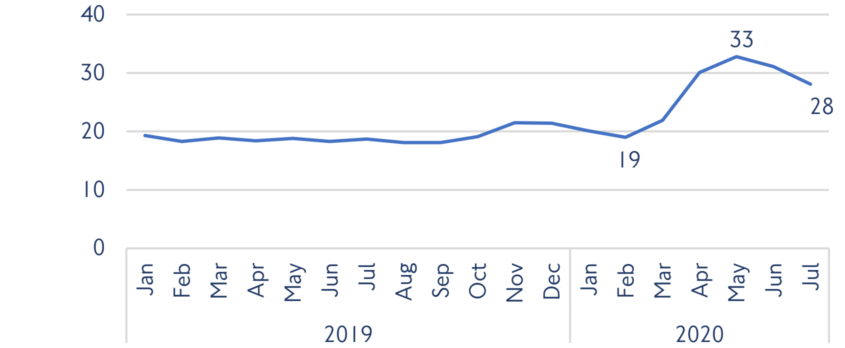
Source: HMRC Job Retention Scheme Statistics (June – August, 2020). Statistics are cumulative

Unemployment related benefit claimants in London more than doubled since March 2020



Source: DWP, Alternative Claimant Count (July 2020)

Online retail increased from average 19% in 2019 to 31% since March 2020



Source: ONS, Internet sales as a percentage of total retail sales (August, 2020)

Finance Committee

Date: 30 September 2020

Item: Prudential Indicators – Outturn for the Year Ended 31 March 2020

This paper will be considered in public

1 Summary

1.1 On 27 March 2019, the Board approved the prudential indicators and debt limits for TfL for the 2019/20 financial year as required and defined in the Chartered Institute of Public Finance and Accountancy Prudential Code (the Code). Under the Code, TfL is required to adopt prudential indicators that support decision making on planned capital expenditure, borrowing and treasury management activities. On 25 March 2019, the Mayor approved the debt limits.

1.2 The purpose of this paper is to report on TfL's performance against the indicators for the Financial Year 2019/20.

2 Recommendation

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

3 Background

3.1 The Code plays a key role in capital finance for Local Authorities. The Code was developed as a professional code of practice to support Local Authorities in their decision making processes for capital expenditure and its financing.

3.2 Local authorities are required by law to have regard to the Code when carrying out their duties under Part 1 of the Local Government Act 2003.

3.3 The framework of prudential indicators established by the Code aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the Statement of Accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management. The 2019/20 Statement of Accounts has been used to calculate the outturn against the Board approved indicators (see Appendix 1).

3.4 As required by the Code, TfL prepares Prudential Indicators at both the TfL Corporation (Corporation) and TfL Group (Group) level. The Corporation is made up of London Streets, Taxi and Private Hire and the corporate centre which, for accounting purposes, constitutes TfL – a local authority. The Group comprises the Corporation and its subsidiaries.

3.5 The Prudential Indicators were prepared in March 2019 based on accounting standards that applied at that time. During the 2019/20 financial year, TfL was required to early adopt the new lease accounting standard, IFRS 16 Leases (IFRS 16), superseding IAS 17 Leases (IAS 17). The impact of the application of this standard on the 2019/20 Statement of Accounts, for the Group, was the recognition of an additional £2.2bn of lease liabilities and related right-of-use assets on the Balance Sheet as at 31 March 2020. The Statement of Comprehensive Income, for the Group, incurred an additional interest charge of £48.9m and a depreciation charge of £334.8m relating to these incremental lease liabilities and their related right-of-use assets.

3.6 TfL's performance against the approved indicators in Appendix 1 is presented on an IAS 17 and IFRS 16 basis to show the outturn against the indicators previously set and to illustrate the impact of the implementation of IFRS 16 on the Prudential Indicators.

4 Outturn

4.1 The key prudential indicator is the Authorised Limit for External Debt (Authorised Limit), which sets the total limit for direct and indirect (e.g. long term creditors, provisions) debt for the organisation. There are no penalties applied to a local authority for breaching individual indicators, with the exception of the Authorised Limit for External Debt (the Authorised Limit). On an IAS 17 basis, both the Corporation and the Group were within their total Authorised Limits for the year ended 31 March 2020. Notably, the Corporation was also within the total Authorised Limit for the year ended 31 March 2020 on an IFRS 16 basis.

4.2 As shown in Appendix 1, the Authorised Limit has been exceeded by the Group, on an IFRS 16 basis. This is a direct consequence of the change in accounting standard rather than a reflection of any increase in future debt commitments resulting in additional economic outflows. Similarly, the Operational Boundary has been exceeded by the Group and the Corporation on an IFRS 16 basis – again purely as a result of the change in accounting policy. The Code acknowledges the ratio of financing costs to net revenue stream indicator is an estimate and variations can occur in the ordinary course of business. The driver of the breach is understood and non-consequential.

4.3 The Authorised Limit for the Group was set at £13,903.4m. Total debt at 31 March 2020 was substantially below this limit at £11,719.5m. Under IFRS 16, long term liabilities as at 31 March 2020 were £2,760.1m, resulting in an outturn for the total Authorised Limit of £14,479.6m, exceeding the limit approved by £576.2m.

4.4 The Operational Boundary for the Group was set at £12,753.4m (Corporation: £12,323.2m) and total debt at 31 March 2020 was substantially below this limit at £11,719.5m (Corporation: £11,719.5m). Long term liabilities as at 31 March 2020 under IFRS 16 were £2,760.1m (Corporation: £636.4m), resulting in an outturn for the total Operational Boundary of £14,479.6m (Corporation: £12,355.9m), exceeding the limit approved by £1,726.2m (Corporation £32.7m).

4.5 As shown in Appendix 1, on an IAS 17 basis, for the Group, total external debt at £12,233.6m was within the Authorised Limit of £13,903.4m. However, within this overall position, and in line with previous years, the Group outturn for long term liabilities of £514.1m was significantly over the indicator of £409.4m. The borrowing element of the Authorised Limit is calculated and set to allow TfL to refinance certain Private Finance Initiative (PFI) transactions (namely Lewisham DLR extension and Northern line trains), as and when it is commercially advantageous to do so, without the need to revise the indicator. The long-term liabilities element of the Authorised Limit is adjusted down by the same amount to ensure that there is no overall increase in the total authorised limit. The higher outturn long term liabilities are offset by lower direct borrowing, reflecting the fact that no such refinancing took place during the year.

4.6 The Code acknowledges the ratio of financing cost to net revenue stream indicator set is an estimate. As shown in Appendix 1, on an IAS 17 basis, the outturn ratio of financing cost to net revenue stream for the Corporation exceeded the indicator set of 16.9 per cent by 4.2 per cent. This is primarily due to a higher proportion than had been budgeted of grant income received being allocated to fund capital expenditure as opposed to being available as a source of revenue to fund operational or financing costs. This result does not reflect an increase in the underlying interest charge. The outturn ratio of financing cost to net revenue stream for the Group is 8.0 per cent, 1.4 per cent higher than the estimate set. Notably, this variance represents the non cash impact of a depreciation and amortisation charge, deemed funded by revenue sources, rather than an increase in the underlying interest charge.

4.7 As illustrated in Appendix 1, on an IFRS 16 basis, the outturn ratio of financing cost to net revenue stream for both the Corporation and the Group has further exceeded the indicators set, primarily driven by the additional interest charge of £48.9m (Group) and £12.1m (Corporation) on the incremental lease liabilities previously mentioned.

4.8 Other Corporation and Group indicators were within target.

5 Conclusions

5.1 There are no penalties applied to a local authority for breaching individual indicators, with the exception of the Authorised Limit. Under the Code, the audited Statement of Accounts is the source for comparison of performance against indicators approved. Due to a change in the Leases accounting standard (IAS 17 to IFRS 16), from the time the Prudential Indicators were approved, the Group has exceeded its total Authorised Limits when outturn is illustrated against the 2019/20 Statement of Accounts. On an IAS 17 basis of preparation, however, both the Corporation and the Group were within their total Authorised Limits for the year ended 31 March 2020. As this is the accounting basis under which the Authorised Limits were set, no technical breach is assessed as having occurred. No penalties therefore apply.

5.2 The Code acknowledges the ratio of financing costs to net revenue stream indicator is an estimate and variations can occur in the ordinary course of business. The driver of the breach is understood and non-consequential.

5.3 Prudential indicators for the current year 2020/21 were approved by the Board in March 2020, and were based on the original 2020/21 Budget. We will assess whether these Indicators should be revised, given the significant changes to our expected 2020/21 financials resulting from the coronavirus pandemic as part of our preparations for the 2020 Mayoral Budget submission. If, following consultation with the GLA, a decision to restate the Prudential Indicators is reached, a paper will be brought back to the Committee.

List of appendices to this report:

Appendix 1 – Outturn Prudential Indicators

List of Background Papers:

None

Contact:	Tony King, Group Finance Director Statutory Chief Finance Officer
Number:	020 7126 2880
Email:	AntonyKing@tfl.gov.uk

Appendix 1

Prudential Indicators for Capital Expenditure and External Debt 2019/20 (£'m)

Operational Boundary for External Debt	Outturn (IAS 17)	*Approved*	Outturn (IFRS 16)
TfL Corporation			
Borrowing	11,719.5	*12,113.0*	11,719.5
Long term liabilities	197.4	*210.2*	636.4
Total Operational Boundary for External Debt	**11,916.9**	***12,323.2***	**12,355.9**
TfL Group			
Borrowing	11,719.5	*12,113.0*	11,719.5
Long term liabilities	514.1	*640.4*	2,760.1
Total Operational Boundary for External Debt	**12,233.6**	***12,753.4***	**14,479.6**

Authorised Limit for External Debt*	Outturn (IAS 17)	*Approved*	Outturn (IFRS 16)
TfL Corporation			
Borrowing	11,719.5	*13,490.0*	11,719.5
Long term liabilities	197.4	*210.2*	636.4
Total Authorised Limit for External Debt	**11,916.9**	***13,700.2***	**12,355.9**
TfL Group			
Borrowing	11,719.5	*13,494.0*	11,719.5
Long term liabilities	514.1	*409.4*	2760.1
Total Authorised Limit for External Debt	**12,233.6**	***13,903.4***	**14,479.6**

Capital Expenditure (Annual)	Outturn (IAS 17)	*Approved*	Outturn (IFRS 16)
TfL Corporation	2,690.3	*2,945.8*	2,707.0
TfL Group	2,703.8	*3,893.3*	3,365.0

Prudential Indicators for Prudence and Affordability 2019/20

The ratio of financing costs to net revenue stream	**Outturn (IAS 17)**	***Approved***	**Outturn (IFRS 16)**
TfL Corporation	21.1%	*16.9%*	23.7%
TfL Group	8.0%	*6.6%*	13.7%

Gross Debt and the Capital Financing Requirement*	**Outturn (IAS 17)**	***Approved***	**Outturn (IFRS 16)**
Gross Debt including long term liabilities at 31 March 2020			
- Corporation**	11,916.9	*13,700.2*	12,355.9
- Group**	12,233.6	*13,903.4*	14,479.6
Capital Financing Requirement at 31 March 2022			
Approved Indicator - Corporation	N/A	*14,460.8*	N/A
Approved Indicator - Group	N/A	*17,607.0*	N/A

** The Code requires that Gross Debt at 31 March 2020 does not exceed the expected Capital Financing Requirement at 31 March 2022.*

***Gross Debt at 31 March 2020 includes all lease obligations and long-term liabilities.*

Finance Committee

Date: 30 September 2020

Item: Treasury Activities

This paper will be considered in public

1 Summary

1.1 This paper provides a brief update on our key treasury activities for the period from 22 February to 11 September 2020 (the Reporting Period).

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

1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL or of a sensitive nature to our listed counterparties and legally privileged information. 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 Impact of coronavirus pandemic

3.1 The coronavirus pandemic has had a significant impact on TfL's financial position and treasury activities. Following the implementation of the lockdown measures in late March 2020, there was a temporary disruption in the financial markets. While a repeat of the financial crisis of 2008 was avoided thanks to the strong and targeted actions taken by central banks, there remains a great uncertainty about the level and pace of the economic recovery both in the UK and around the world. This has led to an increase in financial and treasury risks, such as liquidity, security of invested cash balances, refinancing and others.

3.2 In the early weeks of the pandemic, the primary focus of treasury activities was on maintaining liquidity and managing relations with rating agencies and lenders. Following the Extraordinary Funding and Financing Agreement reached with the Government in May 2020, which provided liquidity relief for the first half of the financial year, the focus shifted towards raising the agreed long-term borrowing, managing the impact of credit rating downgrades and adapting our investment and risk management activities to changes in both internal and external factors.

3.3 We have demonstrated the resilience of our treasury operations by almost seamlessly moving to working from home without impacting any of the critical daily activities, such as daily cash reconciliations, investing our cash balances and making large payments in a secure way and in compliance with Treasury Management Policies. We have continued to adapt and improve our processes throughout this period to ensure controls remain robust while we are working remotely.

4 Liquidity

4.1 The financial consequences of coronavirus, particularly in the early weeks of March and April, placed significant pressure on both internal and external liquidity. A sharp decline in revenue combined with a highly uncertain business outlook necessitated holding a greater percentage of cash overnight and reducing the average maturity of investments to ensure sufficient liquidity was available to meet liabilities as they fell due.

4.2 Internal liquidity pressure was compounded by external market disruption. Over late March and April 2020, illiquid money markets at times prohibited TfL from raising short term debt through the issuance of commercial paper. In addition, it was not possible to redeem cash by selling existing investments ahead of maturity. New investments were therefore restricted to highly liquid UK gilts and treasury bills. Government fiscal easing measures, including the Covid Corporate Financing Facility (CCFF) for non-public sector entities, provided liquidity to money markets which led to markets returning to normal conditions by late May 2020.

4.3 The Treasury Management Policies state that, for prudent financial management purposes, TfL will aim to maintain a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equating to £1.2bn. TfL's cash balance fell from £2.0bn on 31 March 2020 to £1.265bn on 18 May 2020. The overall funding requirement under the Extraordinary Funding and Financing Agreement is determined based on the assumption that the cash balance will be maintained at or above the minimum level. Since the receipt of the first grant instalment under this agreement on 21 May 2020, TfL cash balances have consistently stayed above the minimum level. The funding discussions on the second half of the year and beyond are ongoing.

5 Investment Update

5.1 To preserve the security and liquidity of cash under management, our approach to investments was adjusted to reflect the internal and external challenges faced from coronavirus. The sharp decline in passenger revenue and concern over credit risk have led to increased liquidity and security risk. To mitigate these risks several actions were taken immediately, including: a credit review of all approved investment counterparties; a reduction of the maximum tenor of investments from six months to one month; withdrawal of all investments held in Money Market Funds (MMFs) and daily discussion on the cash forecast and market environment. We have also redirected cash into highly secure and highly liquid instruments and counterparties such as overnight deposits with the UK Debt Management Office (DMO), UK Treasury Bills and short dated repurchase agreements (repos) collateralised by UK gilts.

5.2 As financial markets stabilised by the end of May and we received short-term funding certainty from central government, the maximum tenor of investments was extended from one month to three months. This was primarily to gain access to a greater variety of investment counterparties and to diversify the portfolio as well as to reduce the operational risk of executing large daily transactions. We also reinvested cash back in MMFs after it become clear systemic risk in the financial sector was not significant. Table 1 shows the investment position at the start of the Reporting Period, 1 week into the coronavirus lockdown period and end of the Reporting Period.

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

	22 Feb 20	**30 Mar 20**	**11 Sep 20**
Cash under management*	£2,066m	£2,089m	£1,701m
Weighted average maturity	42 days	35 days	22 days
Percentage of cash held overnight	14%	26%	21%
Percentage of cash maturing within 7 days	30%	32%	38%
Maximum tenor	6 months	1 month	3 months
MMF	14%	0%	12%
UK government	19%	33%	25%
SSAs/agencies	19%	23%	12%
Repo	15%	14%	37%
Banks	16%	14%	14%
Corporates	17%	16%	0%

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

5.3 Throughout the Reporting Period the investment strategy has strongly focused on maximising security and liquidity. The investment return of cash under management has declined from 0.75 per cent at the start of the Reporting Period to 0.054 per cent on 11 September 2020. This is primarily due to the Bank of England cutting interest rates from 0.75 per cent to 0.1 per cent on 10 March 2020, but also due to holding a greater share of the portfolio in short dated, highly rated counterparties.

5.4 The recent comments from the Governor of the Bank of England, Andrew Bailey, suggest that negative interest rates remain a possibility. If this risk materialises, we will continue to prioritise security and liquidity before yield when making investment decisions. While we will aim to avoid investing cash under management at negative interest rates where possible, there is a risk that overall return on investments will turn negative. The reduction in interest income is expected to be partially offset by lower interest rate costs on short term variable rate borrowing.

6 Borrowing Update

2020/21 borrowing requirement

6.1 The original pre-coronavirus 2020/21 Budget assumed an incremental borrowing requirement of £602m (consisting of £580m incremental borrowing plus £22m borrowing up to the headroom created by the amortisation of finance leases), and up to £750m of new borrowing for Crossrail. In addition to this incremental borrowing, the TMS assumed there was a refinancing requirement of £235m, which included refinancing a portion of the short-term commercial paper with long-term debt.

6.2 At the time of submitting the TMS for Committee's approval, we assumed that the remainder of our 2019/20 borrowing requirement could be sourced via a public bond issuance with a maturity of around 20 years. However due to fears around the pandemic, the Sterling capital markets closed for a few weeks in February and March and we took a decision to raise interim funding from the Public Works Loan Board (PWLB) instead, boosting our liquidity position in the wake of uncertainty. A total of £346m was raised from the PWLB in March 2020, with £150m of this maturing in 2020/21.

6.3 The £150m interim PWLB borrowing that matures in 2020/21 increased our refinancing requirement for the year compared to our expectation at the time of submitting the TMS 2020/21 for approval. However this increase was partially offset since we refinanced more of our outstanding commercial paper to long term debt in March 2020 than expected.

6.4 The incremental borrowing for 2020/21 is now assumed to be up to £600m (excluding borrowing for the Crossrail project), which is the maximum potential borrowing TfL can currently absorb and equates to the amount agreed as part of the Extraordinary Funding and Financing Agreement with government. It remains within the originally approved incremental borrowing requirement for the year.

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

Table 2 – 2020/21 borrowing requirement

Description	TMS 2020/21 (£m)	Revised 2020/21 (£m)
2020/21 incremental borrowing	602	Up to 600
Refinancing of debt maturing in 2020/21, including some rolling short-term commercial paper	235	337
Borrowing requirement for 2020/21 (excluding borrowing for the Crossrail project)	**837**	**Up to 937**
Borrowing drawn year to date:		

EDC Rolling Stock and Depot loan facility		100
PWLB borrowing under Extraordinary Funding and Financing Agreement		421
Total borrowed year to date		**521**
Remaining borrowing requirement for 2020/21 (excluding borrowing for the Crossrail project)		**Up to 416**
Borrowing for the Crossrail project under the Department for Transport (DfT) £750m Facility Agreement – to date		255
Borrowing for the Crossrail project under the DfT £750m Facility Agreement – remaining		495
Borrowing for the Crossrail project under the DfT £750m Facility Agreement – total facility	**750**	**750**

Borrowing under the Extraordinary Funding and Financing Agreement

6.6 On 14 May 2020, the Extraordinary Funding and Financing Agreement with Government was finalised. This was a support package for up to £1.9bn to help cover our funding gap between April and October 2020. The £1.9bn consists of £1.3bn grant from the DfT and £0.6bn borrowing from the PWLB. If less than £1.9bn is required, both the grant and borrowing will be reduced in equal proportions. For example, a total support amount of £1.6bn would consist of £1.095bn grant and £0.505bn borrowing.

6.7 Both the grant and borrowing elements are received periodically. During the Reporting Period we received a total of £912.5m in grant and raised £421m from the PWLB under the agreement.

6.8 Of the £421m drawn from the PWLB, £169m has been raised across two tranches of fixed rate long-term borrowing, with an average tenor of 30 years and an interest rate of 180bps above Gilts. The remaining £252m has been raised across three tranches of variable rate debt with monthly interest resets. The variable rate loans have an interest rate of 170bps above the Government's short-term cost of funding and have a tenor of 10 years, although they can be repaid or refinanced early without penalty.

6.9 Around 95 per cent of TfL's debt is subject to fixed interest rates and having these variable rate PWLB loans allows us to refinance them early, potentially at a lower interest rate, should the PWLB reduce the margin payable on new loans following the outcome of the consultation discussed later in this paper. We will also consider refinancing this debt with other sources of borrowing, or repaying the debt earlier than its 2030 maturity, if appropriate.

Crossrail DfT £750m Facility Agreement

6.10 We started drawing down on the £750m Facility Agreement with the Secretary of State for Transport in April 2020. During the Reporting Period we drew a total of £255m under the agreement, with a further £44m drawn on 16 September 2020.

We expect to draw the remainder of this £750m loan by the end of 2020/21. Crossrail Limited recently indicated that up to an additional £1.1bn will be required to complete the project, after the £750m loan has been fully utilised. TfL are in discussion with Government on how funding of the additional costs will be resolved.

Other borrowing sources

6.11 On 18 June 2020 we received the final drawdown of £100m under our Rolling Stock and Depot loan facility with Export Development Canada (EDC). This drawdown was originally fixed in June 2019 and the proceeds have been offset by a reduction in our outstanding commercial paper. All EDC facilities have now been fully drawn.

6.12 Our Medium Term Note (MTN) Programme documentation, which allows us to issue public bonds in the capital markets, expired in July 2020. The Extraordinary Funding and Financing Agreement confirms that we may borrow up to £600m during the first part of this financial year, and that this borrowing will be from the PWLB. We are not expecting to raise large amounts in addition to this and in order to save time and costs we have therefore chosen not to update our MTN documentation at this time. Should we wish to issue public debt, we believe it would be possible to update the documentation in the required time to access the capital markets later in the financial year.

6.13 We have continued to use our commercial paper programme as a source of borrowing and liquidity throughout the year. We have been able to issue short term debt under this programme at extremely competitive interest rates and use the programme flexibly to manage the level of our outstanding borrowing throughout the year.

PWLB consultation on change of lending terms

6.14 Over the past few years, a number of local authorities have started using low-cost loans from the PWLB to buy investment property primarily for rental income, raising concerns about the prudency of these activities. The issue was amplified when the gilt yields dropped to historic lows and the number of loan applications increased materially in summer 2019. As a result, the PWLB lending margins were increased by 1 per cent in October 2019.

6.15 Earlier this year, the government announced a consultation to develop a targeted intervention to stop local authorities buying investment assets primarily for yield, whilst enabling the local government to continue to invest in service delivery, housing, and regeneration. Once the targeted intervention is in place the government intends to cut the interest on all new loans from the PWLB, subject to market conditions.

6.16 We have responded to the consultation. The government is now reviewing the responses to the consultation and will publish the outcome in due course.

7 Credit ratings

7.1 Our credit ratings as at 11 September 2020 are shown in the table below.

Table 2: TfL's credit ratings as at September 2020

	Standard & Poor's (S&P)	Moody's	Fitch
Long-term rating	A+	Aa3	A+
Outlook	Negative	Review for downgrade	Stable
Short-term rating	A-1	P-1	F1+

7.2 During the Reporting Period, all three of our credit rating agencies have taken action on our ratings, partly owing to the impact of coronavirus. Fitch Ratings placed our long-term credit rating on Rating Watch Negative on 1 April and subsequently downgraded it to A+ from AA- on 22 May 2020. Standard & Poor's also downgraded our long-term credit rating to A+ from AA- and our short-term credit rating to A-1 from A-1+ on 22 May 2020. Moody's placed our long-term rating on review for downgrade on 2 June 2020, where it currently remains.

7.3 All rating actions were in part due to the impact of the coronavirus pandemic. The agencies cited the significant drop in passenger journeys, reduced operating revenues and possible structural changes to the way they expect people to travel in future (such as increased home working and fewer physical visits to shops) as reasons for the rating actions. All agencies expect that we will receive additional grant from Government to cover part of our funding shortfall, although they also assume our debt will increase materially, weakening our debt burden ratios. The agencies expect any recovery of our revenues to be slow, partly as a result of subdued activity in the leisure, hospitality and tourism sectors, as well as increased working from home. In addition, the credit rating agencies considered delays and cost overruns to the Crossrail project when taking action on our ratings.

7.4 Moody's continue to keep our rating under review for downgrade due to ongoing negative pressures from the coronavirus pandemic, as well as pre-existing budgetary pressures and high debt levels. A downgrade to the rating could materialise if funding support from the government and/or any internal cost savings only partially offset the persistent revenue shortfall in the near and medium term, as Moody's believe this would likely lead to weaker debt metrics and eroded cash buffers.

S&P proposed methodology changes

7.5 In October 2019 we informed the Committee that S&P were proposing to rate us under a new Global Not-For-Profit Transportation Infrastructure Enterprises (TIE) methodology. Despite us raising concerns with S&P that there were some material differences between our existing mass transit methodology and the proposed TIE methodology, which did not appear justified, we now expect S&P to proceed with the methodology substantially in the previously proposed form. They have not confirmed when they expect the proposed methodology to be applied to us, but it could include changes to the scoring thresholds for a number of credit metrics. This would likely impact some of our individual metric scores.

8 Risk Management Update

Interest rates

8.1 As at 11 September 2020, floating rate debt comprised 5.3 per cent of total borrowing outstanding, within the maximum target of 25 per cent set out in our TMS for 2020/21.

LIBOR Transition Programme update

8.2 The market continued to make progress on the replacement of the London Interbank Offer Rate (LIBOR). Although some milestones were impacted by the coronavirus pandemic, the key transition date of 31 December 2021 remains.

8.3 Key market developments during this period include:

(a) The International Swaps and Derivatives Association (ISDA) has completed its consultations on the LIBOR fallback language and is due to publish the IBOR Fallback Protocol in late September.

(b) The Financial Conduct Authority is to be given powers to direct the administrator of LIBOR to change the benchmark methodology to produce a "synthetic LIBOR" post 31 December 2021 to address "tough legacy" contracts which are unable to transition before then.

(c) The Bank of England released a statement of recommendation on standard market conventions for sterling loans based on compounded in arrears SONIA using the lag approach, similar to the expected ISDA IBOR protocols.

8.4 We have also made progress on our LIBOR Transition Programme, however this has been impacted by the coronavirus related priorities during this period. Stage 1 is the identification of our LIBOR exposure which we aimed to complete by the beginning of Quarter 3 2020 but is still in progress.

9 Banking

9.1 As reported in the Treasury Activities private paper on 11 March 2020, HSBC Bank Plc were appointed preferred bidder for the three banking lots that were tendered. The standstill period was completed successfully and contracts executed with HSBC for five years commencing 1 April 2020 to supply banking, securities custodian, and physical cash collection and delivery services.

9.2 As part of the new contract for physical cash in transit services a working group was set up in April 2020 to implement the necessary changes on a phased basis across all LU stations. Several stations were selected for a pilot scheme which has been successful and is now being rolled out across the network with 30 November 2020 as the deadline for completion.

List of appendices to this report:

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

List of background papers:

None

Contact Officer:	Joanna Hawkes, Director of Corporate Finance
Number:	020 3054 8106
Email:	JoannaHawkes@tfl.gov.uk

[page left intentionally blank]

Finance Committee

Date: **30 September 2020**

Item: **TfL Energy Update: Renewable Power Purchase Agreements**

This paper will be considered in public

1. Executive Summary

1.1 This paper sets out the proposed Energy Purchasing Strategy and renewable energy procurement roadmap out to 2030.

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

1.3 The key components and considerations of the Energy Purchasing Strategy are to:

(a) diversify TfL's power purchase volumes between the three renewable options (long-term PPA, medium-term PPAs and green tariff) described in paragraph 7, with a core focus on long-term PPAs, which offer the strongest renewable credentials

(b) subject to the necessary approvals, initially procure up to 20% of the current power requirements through two tenders in FY2021, comprising a long-term and medium-term PPA

(c) longer term, approach the market for renewable energy volumes approximately every 2 years over the next decade which will reduce risk. The exact timing and volumes under each of the three options will be adapted according to unfolding market conditions at the time.

1.4 Implementation of the strategy will be subject to certainty of TfL's long-term funding and therefore the ability for TfL to enter into long term financial commitments.

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.

3. Background

3.1 TfL is London's single largest consumer of electricity and among the top users in the UK, with an aggregate electricity consumption of ~1.6 TWhs (terawatt hours) across traction and non-traction power and bus demand per annum. This is equivalent to approximately ~457,000 domestic consumers. Demand projections see this increase to ~2.4 TWhs per year by 2030, largely due to planned electrification of the bus fleet.

3.2 The Mayor's Transport Strategy (MTS) sets out the overarching policy roadmap for road, rail and shipping emissions in London to be zero carbon by 2050, with a specific objective of running a zero-carbon railway by 2030[1]. Leading up to the postponed Mayoral election last year, the Mayor stated that his aim was for London to be net-zero by 2030. The Mayor still holds this ambition and is committed to accelerating climate action and ensuring that London responds to the climate emergency.

3.3 The London Environment Strategy (LES) sets interim carbon "budgets" for London over the next 15 years, providing shorter term targets by sector. TfL has a major role and is committed to delivering reductions in emissions over this timeframe.

3.4 The MTS and LES make a number of commitments for TfL, as a major energy user and buyer of electricity, in support of the wider CO_2 emissions reduction in London. These include improving energy efficiency, reducing emissions from TfL's infrastructure and increasing the level of renewable energy supplying TfL.

3.5 Specifically, MTS Proposal 40 states that "The Mayor, through TfL, will seek to deliver a package of measures both to increase the level of low-carbon energy generation on TfL's land and for supply to its assets". In addition, the LES sets an ambition for TfL controlled rail services to be wholly supplied by zero-carbon sources by 2030.

3.6 Since 2013, TfL's electricity and gas supply has been purchased through the Crown Commercial Service (CCS) energy framework which is procured competitively. While this established purchasing framework has enabled TfL to manage wholesale price risk (up to three years ahead) and provided a competitive price for its energy, there are currently limited options to support renewable energy generation through this mechanism or manage wholesale price risk beyond three years. However, the framework does provide flexibility for the customer to source renewable energy directly from a generator via a Power Purchase Agreement (PPA) and deliver this energy via the appointed framework supplier in an industry recognised process called 'sleeving'. The existing purchasing arrangements through CCS and its advisory services are described in Section 8 of a paper 'December 19 – TfL Energy Purchasing'.

---

[1] Source: https://tfl.gov.uk/corporate/about-tfl/the-mayors-transport-strategy

4. Development of Energy Purchasing Strategy and Renewable Energy Roadmap

4.1 Over the last six months TfL has been working with both the CCS energy category team and strategic energy consultant, Baringa, to develop an Energy Purchasing Strategy in line with the MTS and LES carbon objectives, sections 3.1 – 3.5.

4.2 This work has focused on developing a clearly defined strategy for the phased procurement of renewable energy direct from generators and has considered how TfL's potential usage is due to develop to 2030. In parallel with the development of TfL's revised Energy Purchasing Strategy, TfL is working closely with the Greater London Authority to establish any synergies with PPA procurement across the GLA group's electricity purchasing portfolio. This work is anticipated to shape PPA procurements beyond the immediate strategy for TfL.

4.3 Detailed work has been undertaken to identify potential sources of renewable energy, including market analysis covering availability, forecast costs of renewable generation and how the wholesale price is likely to develop to 2030. This work has indicated potential savings compared to the current purchasing strategy and scope to reduce exposure to wholesale price increases via the existing CCS approach in the medium to long term (three plus years).

4.4 Potential types of supply arrangements have been commercially explored, as have key risks associated with each type to assess suitability to TfL. These potential supply arrangements will be considered as part of the development of the procurement strategy.

4.5 To support the Energy Purchasing Strategy, an initial market engagement exercise was undertaken to consider certain contract and pricing structures, and provide further clarity on potential market capacity and availability. This process is ongoing, and all information gathered will be used to formulate and finalise the PPA procurement strategy.

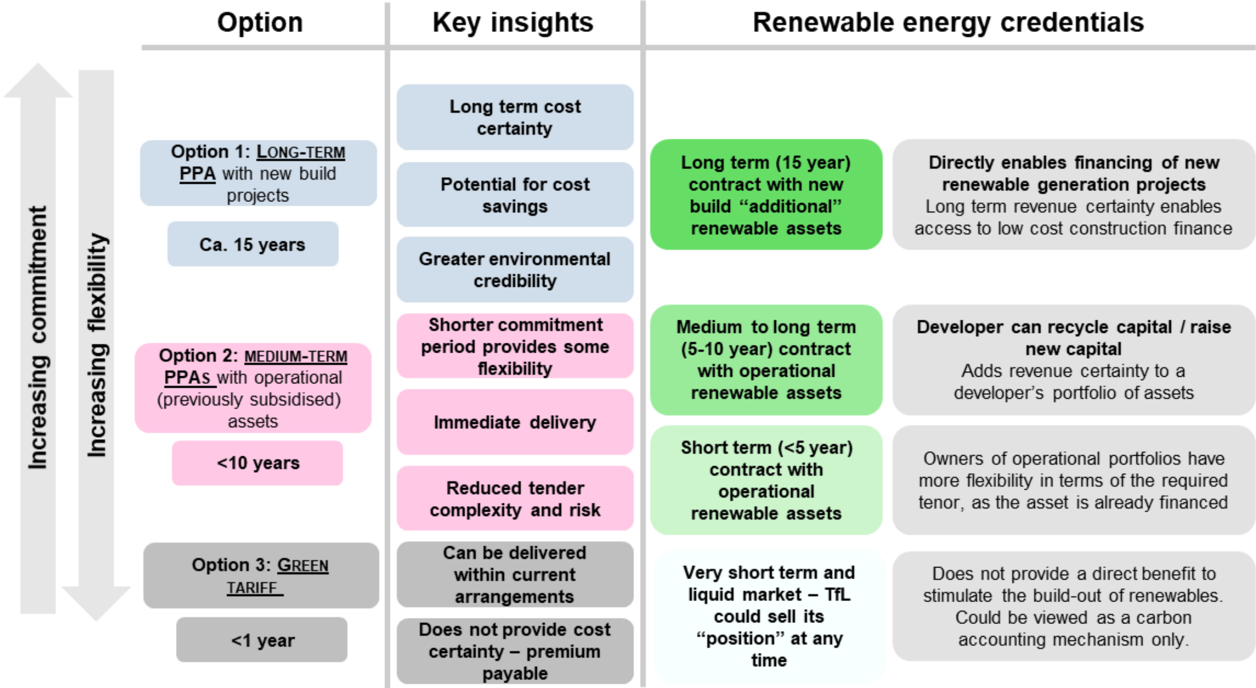
5 Renewable Energy purchasing options

5.1 A key consideration for TfL in shaping its renewable energy sourcing strategy is the enabling of additional renewable energy generation capacity to support decarbonisation of the UK grid. There are broadly three options that TfL can target in procuring renewable grid-based energy detailed below in Diagram 1.

5.2 Options 1 and 2 see the introduction of a PPA arrangement, which include direct agreements between the customer (TfL) and renewable generator for the purchase of energy for a fixed term and typically at a fixed price.

5.3 Option 3 sees TfL entering a "Green Tariff" supply arrangement (an agreement where a supplier provides energy that is certified as being from renewable sources). This route is available at a premium via our existing supply arrangements and may increase or decrease in cost over time. However, a "Green Tariff" does not provide direct support to renewable generators.

5.4 Diagram 1: Purchasing options



5.5 In 2019 approximately 37 per cent of the energy supplied by the UK grid came from renewable sources and this proportion is projected to increase into the future. TfL does not count this inherent zero-carbon energy as contributing towards its targets.

5.6 For TfL to achieve its aspiration to operate a zero-carbon railway it must source energy through contracts that support the development of additional renewables on the UK grid. Therefore, it must purchase as much zero-carbon energy through the contract mechanisms outlined in Diagram 1 as it has consumed from the grid overall.

6 PPA – Market context

6.1 An overview of the energy and PPA market is included in Appendix 1and Appendix 2 sets a typical PPA contract structure. However, two key considerations are:

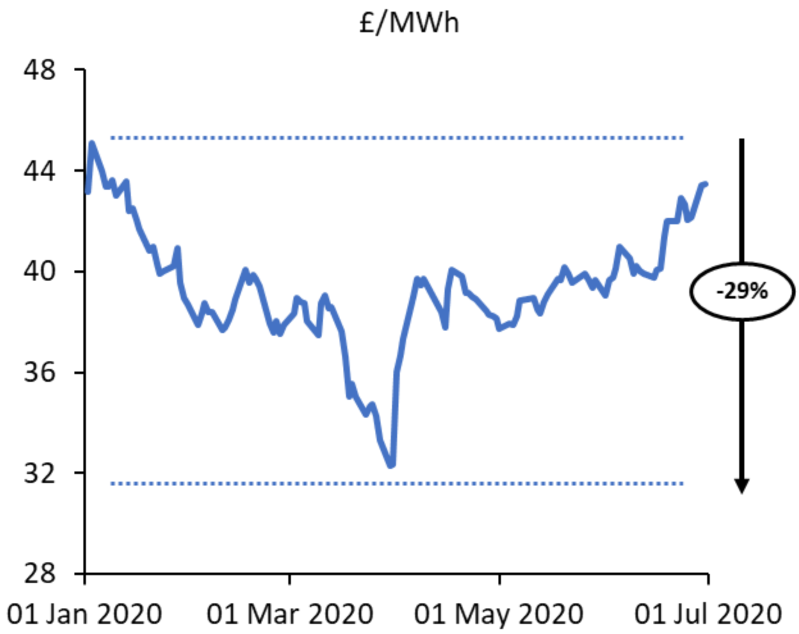
(a) the UK wholesale energy market (the benchmark) is closely correlated to the price of natural gas and this is set to continue even with growth in renewable power capacity, and prices are expected to rise through the decade; and

(b) long term PPAs are priced with reference to the delivery cost (e.g. design and build, cost of finance, risk premium) and shorter or medium term PPAs are generally priced with reference to the wholesale curve, which trades up to five years ahead, but trades very limited volumes beyond three years ahead.

6.2 Part 2 of this paper sets out indicative costs of entering a 150GWh 15-year PPA (Option 1), with reference to pricing received through an early market engagement exercise against the benchmark forecasts, being the "wholesale power price".

6.3 As demonstrated in chart 1, development of the Energy Purchasing Strategy has coincided with unprecedented falls in wholesale price of ~29 per cent (due to Covid-19) and created uncertainty of when and how the market may recover.

Chart 1: Impact of Covid-19 on UK wholesale prices



6.4 The initial recommendation from Baringa in April 2020 was to target ~150 GWhs (gigawatt hours) of operational assets only under a seven to 10-year contract length PPA, with a further larger volume tender targeting additional assets under a longer term PPA (i.e. up to 15 years) from 2022. This recommendation was based on a longer-term recovery of prices from Covid-19 and sought to avoid competition with the UK government-backed auction, designed to financially support additional renewables planned for Quarter 2 2021.

6.5 In the intervening period, there have been several changes that have prompted remodelling and re-evaluation of the original recommendation by Baringa:

(a) the energy market has largely recovered to pre-Covid-19 conditions, with wholesale power prices returning to pre-Covid-19 levels;

(b) the UK government renewables auctions look set to be delayed owing to the impact of Covid-19 on government capacity;

(c) further analysis indicates a greater supply than demand of potential new build (long term) PPAs being available; and

(d) market engagement indicates pricing of long term PPAs may be achievable close to the wholesale power price and be operational from as early as mid-2022.

6.6 While there remains a degree of uncertainty around pricing, revised modelling together with information gained from the initial market engagement exercise indicates that TfL should be flexible in pursuing operational and additional assets in parallel. This is further set out in section 7.

7 Renewable Energy Purchasing Road Map

7.1 The primary objectives of the Energy Purchasing Strategy are to:

(a) deliver the LES ambition to procure energy from renewable sources and operate a zero-carbon railway by 2030;

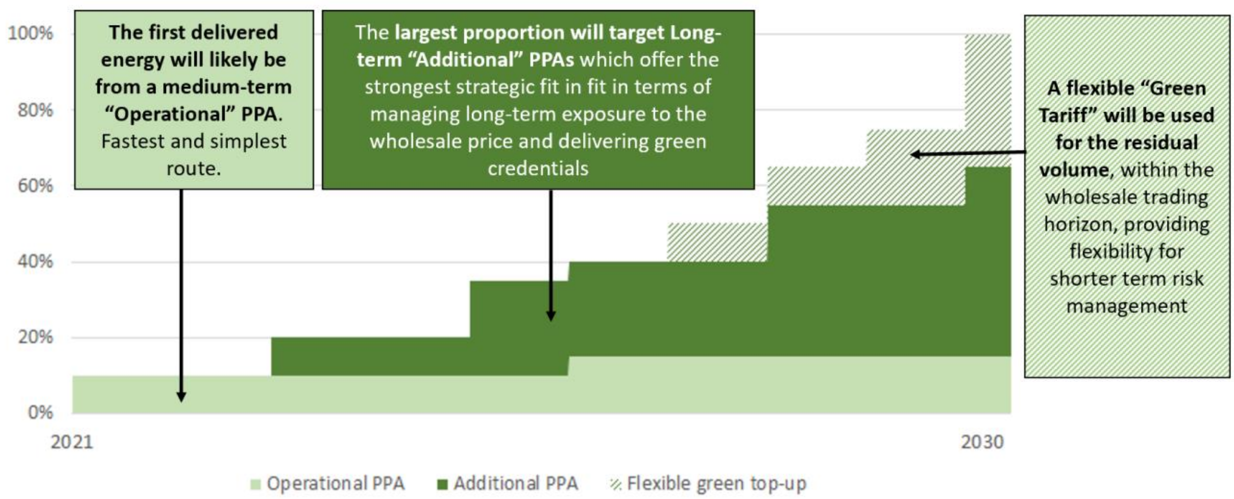
(b) ensure enough flexibility is maintained to enable TfL to manage changes in energy consumption in the immediate and long term (through retaining access to the shorter-term wholesale market);

(c) maximise savings and manage the energy cost in a manner that is affordable; and

(d) manage financial exposure to the wholesale power price, with the primary objective of reducing volatility and increasing certainty in the Business Plan horizon.

7.2 An indicative procurement strategy to 2030 is set out below, which sees TfL adopting a “hybrid portfolio” between the three purchasing options in Diagram 1. These options would be incorporated into TfL’s existing arrangements with CCS gradually over a ten-year period to 2030. This incremental approach will offer TfL the benefit of being able to learn and adapt as the renewable market evolves. In addition, this provides flexibility for TfL to react to any changes in our demand requirements and to increase/decrease our reliance on fixed term PPAs earlier/later if it is beneficial to do so. This approach also supports securing our residual power requirements via a ‘Green Tariff’. In practice, our future purchasing will need to flex in line with both the market and actual demand for TfL services. Additional information on the indicative portfolio strategy is available in Appendix 3.

7.3 Diagram 2: Indicative portfolio build-up



7.4 The specific milestones are to:

(a) approach the market for a medium-term PPA (Option 2 – Diagram 1) for ~150GWh per annum (equivalent to approximately 43,000 domestic consumers) under a ~10-year agreement. This contract length would likely favour operational assets and enable the fastest delivery of PPAs. It would provide a substantial benefit to a generator, as price certainty minimises risk to their revenues, allowing them to also finance and construct new renewable energy assets.

(b) at a similar time, approach the market for a long-term PPA (Option 1 – Diagram 1) for ~150 GWhs per annum under a 15-year agreement. This contract length would likely favour additional assets, as a long-term, fixed price contract from a counterparty with an investment grade credit rating such as TfL, would directly enable new generating infrastructure to be financed and constructed; and

(c) beyond this, approximately every two years TfL will go to market to secure further volumes of PPAs (subject to understanding long-term market conditions). This stepped approach will enable TfL to take advantage of any reduction in technology costs that may make additional asset PPAs the most attractive option. This will also allow TfL to evaluate the best option during each procurement programme, adapt to changes in demand and forecasted demand, and maximise volumes of renewable energy procured via PPAs, limiting wholesale market exposure and reliance on 'green tariff'.

7.5 The key indicative parameters for these initial procurements are set out in section 8. However, the specifics of both initial procurements will be finalised and presented to the Committee at its November 2020 meeting with a request for Procurement Authority.

8 PPA Procurement Parameters

8.1 Whilst the PPA procurement strategy is in development, a number of key parameters currently anticipated for the initial PPA tenders are summarised below in Tables 2 and 3. All information given below is indicative and subject to further development.

Table 2 - Key indicative parameters for a medium-term PPA 'Option 2' for 2021 tender

Parameter	**Recommendation**	**Summary of rationale**
Start date	First power in 2021	• Aligns with internal commitments for Financial Year 20/21 volumes
Volumes to procure	Target ~150 GWh per annum	• Enough volume to attract competition
Technology	Target all established technologies with low operating and	• Wind is likely to have the best fit to TfL's demand profile, but economically a solar PPA may

	technology risk	provide the best price point.
Additionality	Target operational PPAs with existing assets	• Potentially enables TfL to take delivery of renewable energy without lead times for building new assets for long term additional PPAs
Tenor	Request bids at ~10 years	• Attractive to operational generators and contract length sufficient to attract additional assets in development
PPA structure – volume	Pay as Produced (PaP) or Fixed Volume (FV)	• Under review; subject to further analysis, market feedback and engagement
PPA structure – price	Fixed nominal price or Index linked i.e. CPI	• Under review; subject to further analysis and engagement

Table 3 - Key indicative parameters for a long-term PPA ‘Option 1’ for 2021 tender

Parameter	**Recommendation**	**Summary of rationale**
Start date	First power by 2023/24	• Long term PPAs are likely to attract new additional assets which will have a delay from contract sign to delivery of power whilst the assets are constructed and commissioned
Volumes to procure	~150 GWh per annum	• Enough volume to attract competition
Technology	Target all established technologies with low operating and technology risk	• Wind is likely to have the best fit to TfL’s demand profile, but economically a solar PPA may provide the best price point.
Additionality	Target long term PPAs for additional assets	• This contract length provides price certainty to a generator and enables them to build new renewable assets, decarbonising the UK grid
Tenor	Request bids at ~15 years	• Likely to attract new renewable assets •
PPA structure – volume	PaP or FV	• Under review; subject to further analysis and engagement
PPA structure – price	Fixed nominal price or Index linked i.e. CPI	• Under review; subject to further analysis and engagement

9 Financial Risks / Benefits

9.1 The existing energy purchasing strategy sees TfL buying energy up to three years ahead, reflecting the time horizon of the tradeable wholesale market. This provides a “rolling hedge”, managing short term volatility in the business plan. This approach has been effective in mitigating against inflationary increases and has meant that TfL can be flexible to respond to changes in our electricity consumption, such as the reductions encountered during the Covid-19 lockdown. However, this current strategy doesn’t manage exposure to longer term price fluctuations beyond three years (analysis indicates that this will rise as a result of tight supply and demand and increases in gas and carbon prices) or secure benefits resulting from the recent substantial price reductions in renewable power generation.

9.2 The introduction of PPAs would shift from a hedging strategy over a rolling three-year period to a longer-term fixed profile, with some contracts potentially going as far out as 15 years. This changes TfL’s exposure to movements in the market price of power. Whilst the increased price certainty provides a budgeting benefit, there is a risk that the fixed PPA price could exceed the actual wholesale market price over the long term. The core risk of PPAs and the proposed strategy to manage these are considered in more detail in Appendix 3. Additional risks of purchasing energy via a PPA, are costs incurred for ‘imbalance’ and ‘shape’ or ‘shaping’. Both imbalance and shape costs are inherent when purchasing energy from intermittent sources of renewable generation via a PaP PPA.

9.3 An imbalance results when a difference between forecasted generation and actual output occurs. As both hour-to-hour output from the new renewable generator and TfL’s demand is variable, shaping costs are also incurred. Shape cost and magnitude vary by technology type, with shape cost exposure on solar being more prevalent due to the potential of reduced energy production in peak price periods.

9.4 Under a PaP PPA, imbalance and shape costs can be alleviated and managed for a fee via a specific agreement for imbalance and shaping (a “firming agreement”) or included for an additional fee within the sleeving agreement with the consumer’s existing supplier. Modelling indicates firming costs are currently between three and five percent of the total PPA cost. Generally, firming or sleeving agreements only exist within the time horizon of the tradeable wholesale market (three to five years). Therefore, a PaP PPA could potentially expose TfL to increasing imbalance and shape cost over the duration of the PPA. Potential mitigation strategies for Imbalance and shape costs are detailed in Appendix 3.

9.5 Under a FV structure, a specific volume would be agreed between the parties, with the generator holding responsibility for managing imbalance and shape adjustments. Fixed Volume structures therefore incur a higher unit price to account for the risks being held by the generator.

9.6 The cost of PPAs together with any firming or sleeving fees will be evaluated against the TfL energy budget, based on the Business Plan in the immediate term followed by an estimate of future power prices based on Baringa’s forecast. A net present value saving against the budget envelope will be sought, as well as no increase to the business plan estimate during the current three-year trading window to Financial Year 2022/23 see section 3.6.

9.7 TfL’s borrowing portfolio covers similar issues when addressing how much debt to fix in the long term, and how much to hold at floating rates. The latest treasury management strategy sets a target of 75 per cent fixed rate debt, with 25 per cent floating[2]. TfL is currently purchasing 100 per cent of its power at a variable strategy basis, up to three years ahead of delivery.

10 Accounting Considerations

10.1 A key objective is that PPAs secure "off-balance-sheet" status so that the total future payments under the PPA do not count as a long-term liability. This is governed by two separate frameworks:

(a) ESA2010 - the basis on which the UK's national accounts are prepared and TfL's borrowing limits are assessed; and

(b) IFRS - The basis upon which TfL produces its own accounts and is under scrutiny from the credit rating agencies, the supply chain and TfL's lenders.

10.2 An "off-balance-sheet" assessment under ES2010 is critical if the project is to be affordable. Any liabilities recognised under ESA2010 would directly divert capital resource from the Business Plan. An off-balance sheet assessment under IFRS is desirable.

10.3 The structuring hypothesis is that the operational and additional PPAs will both be off-balance sheet under the two frameworks. However, if following more detailed engagement with the market it becomes apparent that an off-balance sheet assessment under IFRS is either undeliverable or attracts a significant premium (see paragraph 10.5) an on-balance sheet structure under IFRS may be targeted for individual contracts, subject to approval from the Group Treasurer and Director of Corporate Finance.

10.4 KPMG have produced a detailed accounting paper based on high-level structures including the structure set out in Appendix 2, which concludes that PPAs could meet the desired accounting treatment if the six specific structuring constraints outlined in Appendix 4 are applied; note that some constraints are only applied conditionally.

10.5 The most restrictive constraint for achieving the IFRS assessment, that may impact commercial terms and pricing, is that TfL cannot obtain more than 80 per cent of the power from specific assets. This is seen to be achievable for operational and offshore wind assets. However, for smaller additional asset projects, such as onshore wind and solar, where the TfL PPA may be driving a financial investment decision this may not achieve good value for money, as the generator would be required to manage price risk on the remaining 20 per cent of the output. They could do this by either selling directly to the wholesale market or entering a second PPA with a third party.

---

[2] Source: http://content.tfl.gov.uk/tfl-treasury-management-strategy-2020-21.pdf

10.6 The ultimate accounting assessment is determined by; TfL's auditors under IFRS and; the Office for National Statistics ("ONS") under ESA2010. Their opinion will be based on the resulting contractual arrangement, they will not make an assessment at the time of contract award. Therefore, the accounting treatment will be revisited at key points during the procurement by Group Financial Account and TfL's advisors . However, there is a ongoing risk that TfL's auditors or the ONS reach a different decision.

11 Next steps updates and key milestones

11.1 The procurement strategies for both mid-term and long term PPAs are in development, incorporating information gathered directly from the market engagement exercise. These documents will be finalised by November.

11.2 In November, refined PPA procurement parameters will be presented to the Committee.

11.3 Subject to appropriate approvals, the first PPA tender is anticipated to be launched In Spring 2021.

11.4 Further collaboration with the GLA to explore how a combined approach which builds on the strategy set out in this paper which may deliver further benefits is ongoing and is expected to be completed by December 2020. This work is anticipated to shape PPA procurements beyond the immediate strategy for TfL.

List of appendices to this report:

Appendix 1 – Background to PPA Market
Appendix 2 – Diagram of Typical PPA Counterparty Structure
Appendix 3 – Portfolio Strategy
Appendix 4 – Accounting Treatment

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

List of Background Papers:

July 2019 - SSHR Panel – Energy Strategy Update
December 19 – TfL Energy Purchasing
March 2020 – TfL Energy Purchasing Update

Contact Officer: Lilli Matson – Chief Health, Safety & Environment Officer
Number: 020 3054 4707
Email: lillimatson@tfl.gov.uk

Appendix 1 - BACKGROUND TO THE PPA MARKET

Traditionally in the UK, renewable generators have received government subsidy to help meet the cost of providing renewables. However, as the cost of renewables has fallen, these subsidies are not necessarily required for all forms of renewable technology. Moreover, the falling costs of renewable technologies is fundamentally disrupting power markets across the globe. In the UK, renewables now account for around 35 per cent of all power generation, and some are cost competitive with traditional new entrant thermal plant.

It is this market evolution that provides the strategic opportunity for large energy users like TfL to move away from traditional power sourcing arrangements, by purchasing electricity directly from renewable generators under medium to long term PPAs. If structured correctly, these products can stabilise revenues for the generator, enabling it to access lower cost capital, whilst also enabling TfL to access low cost, low carbon electricity and meet its environmental objective of running a zero-carbon railway by 2030.

The UK has achieved significant decarbonisation of the electricity sector over the last 20 years. Renewables as a percentage of total generation (excluding hydro) reached 35 per cent in 2019 (an increase from <2% in 2000[3]), and estimates based on energy production and consumption in 2018 indicate that carbon dioxide emissions were 39 per cent lower than in 1990[4]. Growth in renewables capacity has been driven by the UK Government, with subsidy and support schemes for renewable technologies such as onshore and offshore wind, solar and biomass.

However, technology costs for renewables have dropped significantly over the last 20 years, to the point where today, onshore wind and solar represent the cheapest sources of new entrant generation in the UK and Offshore wind costs have more than halved over the last 5 years, with the latest government tenders clearing at c.£40/MWh, down from over £120/MWh in in 2015 (2012 prices).

As these technologies have matured, the UK Government has looked to progressively remove subsidy or support mechanisms, which has either resulted in a total withdrawal of support (e.g. in 2016 for onshore wind and solar), or rationing of the support available (e.g. in the offshore sector, to maximise competition in tenders). Furthermore, existing operational assets financed in in the early 2000s are coming to the end of their support period. These two factors taken together is significantly increasing the level of market risk to which the renewables generation sector is exposed, which is in turn driving a need for alternative contracting arrangements to manage that exposure of wholesale prices which TfL is also exposed to.

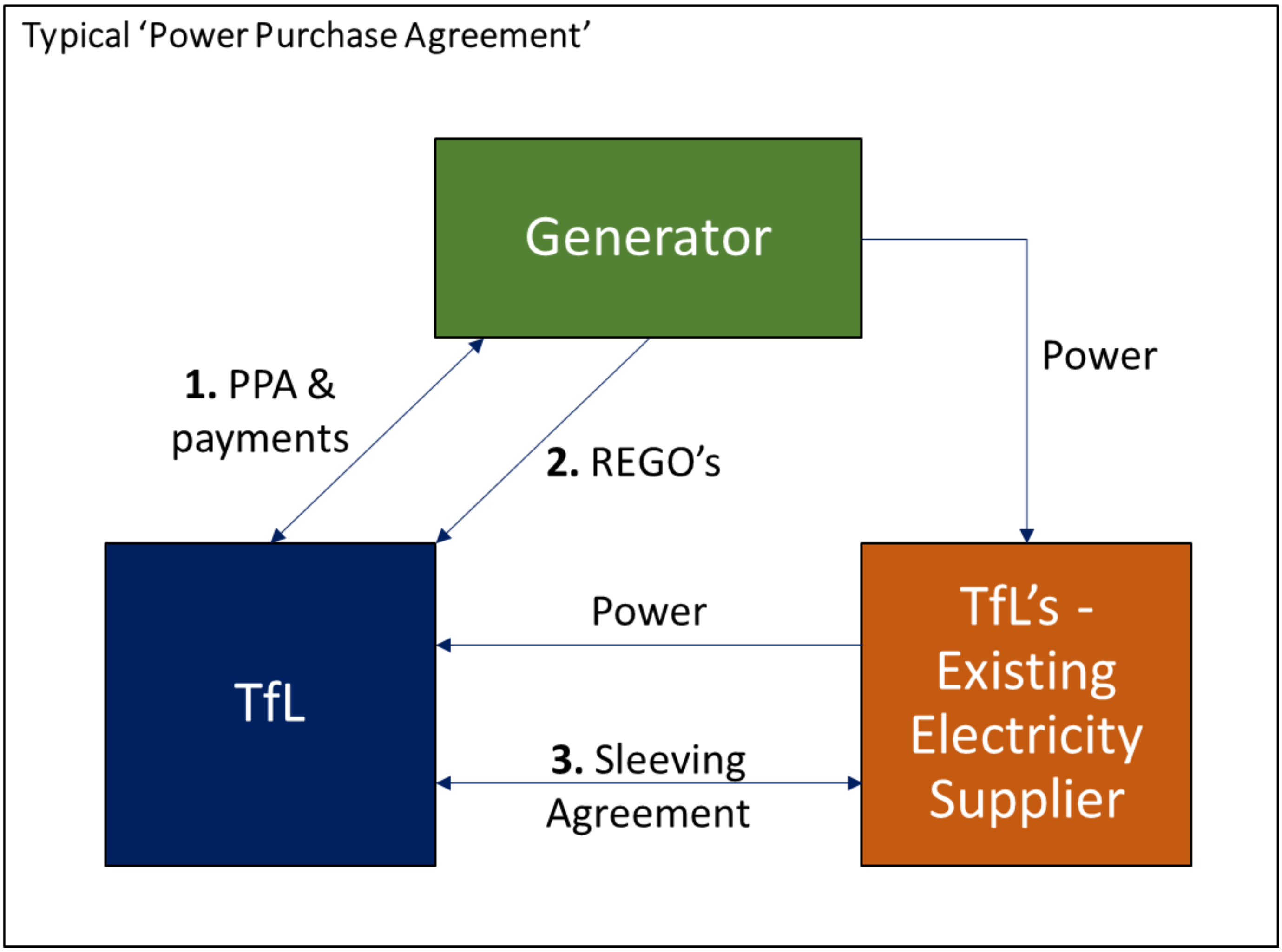
It is this evolution to wholesale price exposure business models that provides the strategic opportunity for large energy users like TfL to move away from traditional power

[3] Source: GlobalData Power, GB Generation Database
[4] Source: UK Energy in Brief 2019, BEIS

sourcing arrangements, and offer to purchase electricity directly from renewable generators under medium to long term Power Purchase Agreements. If structured correctly, these products can stabilise revenues for the generator, enabling it to access lower cost capital, whilst also enabling TfL with its substantial and growing electricity demand to access low cost zero carbon electricity.

Under a PPA arrangement, a conventional supply contract with a licensed energy supplier is still necessary to account for the power generated and delivered to the consumer, and primarily to ensure any under or over supply is managed. These agreements are termed ‘sleeving’ agreements and would need to be separately procured or agreed with TfL’s existing supplier at the same as the PPA. The key benefits and risks are summarised in section 9, and set out structurally in Appendix 2.

Appendix 2 - Example PPA Contract Structure



Key

1. Power Purchase Agreement (PPA) between TfL and the Generator
2. Renewable Energy Guarantee of Origin certificates (REGOs[5]) transfer to TfL to authenticate renewable energy origin and purchase.
3. Separate contract (sleeving agreement) between TfL and its existing supplier to physically deliver PPA power.

[5] https://www.ofgem.gov.uk/environmental-programmes/rego/about-rego-scheme

Appendix 3 – Portfolio strategy (all railway procured power)

Factor	Context	Strategy
Renewable credentials	Long-term PPAs offer the generator the greatest certainty of revenue and allow them to finance new renewable assets	Greatest volume to be procured from PPAs (options 1 & 2) with the goal of achieving zero carbon railway by 2030. A smaller proportion expected from green tariffs as a way of providing flexibility for unexpected shocks to demand. Green Tariff volumes can be procured via our current contract with CCS and are targeted to be procured last as these are charged at a premium and do not directly stimulate growth in the UK renewables sector. Volumes subject to revision every 2 years, depending on forecasted demand and wholesale market outlook, with the intention of maximising PPA volume procurement.
Speed	Long term PPAs typically require a construction period (one to two years) before TfL takes delivery of the power	Target medium-term PPAs (option 2) as part of the initial tender to achieve early delivery and longer term PPAs (option 1) to target new build renewable assets.
Price	Certainty – TfL has limited ability to absorb volatility over the business plan period and is exposed to wholesale price increases over the longer term	Target a contract term across the portfolio of 10 years in 2030, in line with TfL's medium-term planning horizon.
	PPAs could perform poorly against the benchmark wholesale market price	Design tender process to maximise price discovery and get the best outcome from developers. New PPAs to be evaluated against industry forecasts for wholesale energy and where applicable against the Business Plan. Take a stepwise approach to going to market for PPAs that segments the total TfL power demand into several tranches. Market conditions are reviewed ahead of each tender process to ensure PPA volumes are maximised alongside existing portfolio and risk management position.
	Inflation – TfL's revenue base is not linked to	Indexed linked PPAs only to be considered where significant value/discount can be

	inflation	demonstrated against the TfL energy budget.
	Imbalance – with 'PaP' PPA contract structure TfL potentially exposed to Imbalance cost uncertainty beyond a three-year period.	Evaluate PaP PPA versus Fixed Volume PPAs to assess price premium and/or forecasted price premium for Imbalance charges. Benchmark Firming fees through existing supply arrangements (CCS) against the market Identify Firming arrangements and fees beyond three-year period
	Shape - with 'PaP' PPA contract structure, TfL is potentially exposed to Shape cost uncertainty beyond the three-year period that can be reasonably contracted to the market.	Evaluate PaP PPA versus Fixed Volume PPAs to assess price premium and/or forecasted price premium for Shaping charges. Benchmark Firming fees from existing electricity supplier (via CCS) against the market. Identify potential Firming arrangements and fees beyond three-year period.
Flexibility	Volume – forecasting long term requirements and responding to short term[6] changes in requirements	Volumes subject to revision every two years, depending on forecasted demand and wholesale market outlook, with the intention of maximising PPA volume procurement.
	Opportunity cost – market is evolving and there may be future opportunities	TfL could evaluate new opportunities and allocate volumes from the non-PPA proportion if advantageous.

[6] at the height of Covid-19 lockdown energy usage reduced to 50-60 per cent of business as usual demand. Under current arrangements TfL were not financially disadvantaged, under a PPA structure this risk would fall to TfL.

Appendix 4 – Accounting Constraints

Framework	Constraint		Context	Structuring consideration
ESA2010 *Not applicable to operational assets where no new assets are created*	1	The length of the PPA should not be materially similar to the economic useful life of the underlying assets *OR:*	Typical life of renewable asset is 30yrs where-as the PPA would be 10-15yrs.	Strict requirement for additional assets
	2	The PPA should avoid clearly defining any assets which underpin the services provided	This is more difficult to achieve where TfL is seeking the generator to make a financial investment decision	Soft requirement (see 4 & 5 below)
IFRS	3	TfL has no residual interest in the assets post contract *AND*	The PPA must be structured so that TfL does not provide financial support to the generator and the length of the PPA is sufficiently less than the useful economic life of the power generating assets	Strict requirement
	4	no identifiable assets *OR*	This can be achieved where TfL is benefiting from less than substantially all the asset base and no contractually identified subset of the asset base is dedicated to TfL's needs	Soft requirement
	5	TfL does not obtain substantially all the economic benefits of the identified assets *OR*	Where assets are identified and dedicated to TfL's needs, TfL cannot take more than 80% of the economic output (power) from these identified assets	Strict requirement TfL cannot obtain more than 80% of the power from specific assets
	6	No right to direct the use of the assets **and** design the assets nor specify how they should be operated	The PPA must not include operational or design instructions.	Strict requirement*

**Constraints 6 is nuanced, and an auditor may take a different view to TfL. Therefore, for prudency we recommend that both constraints 5 & 6 are applied to provide some contingency should an auditor reach a different conclusion on either area.*

Finance Committee

Date: **30 September 2020**

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

This paper will be considered in public

1 Summary

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

2 Recommendation

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

3 Forward Plan Development

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

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

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

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

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

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

4 Current Plan

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

List of appendices to this report:

Appendix 1: Finance Committee Forward Plan

List of Background Papers:

None

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

Finance Committee Forward Plan 2020/21

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

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

25 November 2020		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
TfL Business Plan 2020/21	CFO	To recommend Board approval.
TfL Capital Strategy 2020/21	CFO	To recommend Board approval.
Connect Radio Base Station (MTS) Upgrade	D Strategy & CTO	To approve authority.
DevCo Capitalisation	D Comm Dev	To approve.
DevCo Governance Structure	D Comm Dev	To approve.
Enterprise Risk Update – Supply Chain Disruption (ER5)	CFO	To note.
Enterprise Risk Update – Financial Sustainability (ER7) (to be confirmed)	MD - CFO	To note.

10 March 2021		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Activities	CFO	To note.
Treasury Management Strategy 2021/22	CFO	To approve (delegated by the Board)

As at 22 September 2020

Finance Committee Forward Plan 2020/21

Treasury Management and Derivative Investments Policies 2021/22	CFO	To approve (delegated by the Board).
TfL Investment Strategy 2021/22 – Non-Financial Assets	CFO	To note and recommend Board approval.
TfL Scorecard 2021/22	CFO	To note and recommend Board approval.
General Fund Balance	CFO	To approve.
TfL Budget 2021/22– informal	CFO	To note and recommend Board approval.
TfL Prudential Indicators 2022/23 to 2023/24 – informal	CFO	To note and recommend Board approval.
Enterprise Risk Update – Modal mix misaligned to strategic policy objectives (ER 9) (to be reviewed)	MD – CCT	To note.

Regular items:

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

Finance Committee Forward Plan 2020/21

- Enterprise Risk Update – Modal mix misaligned to strategic policy objectives (ER9) (annual – March) (MD – CCT) (to be reviewed)

Additional items to be scheduled:

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

[page left intentionally blank]