

Date: 26 March 2014

**Item 21: Report of the meeting of the Finance and Policy
Committee held on 12 March 2014**

This paper will be considered in public

1 Summary

- 1.1 To report to the Board on the meeting of the Finance and Policy Committee held on 12 March 2014.

2 Recommendation

- 2.1 **That the Board note the report.**

3 Background

- 3.1 The main matters considered by the Committee were:
- (a) Operational and Financial Performance Report – Third Quarter 2013/14;
 - (b) TfL Budget 2013/14;
 - (c) TfL Prudential Indicators 2013/14 to 2016/17;
 - (d) Group Treasury Activities;
 - (e) Treasury Management Strategy 2014/15;
 - (f) Treasury Management and Derivative Investments Policies 2014/15;
 - (g) Exchange Rate, Commodity Rate and/or Price and Interest Rate Derivative Programmes;
 - (h) Crossrail: Extension of the Interim Crossrail Limited Funding Payments Agreement with Network Rail;
 - (i) Crossrail Enhancements;
 - (j) Procurement of the Revenue Collection System and Services;
 - (k) Contact Centre Strategy;
 - (l) Extension of Total Purchased Services Contracts;
 - (m) Transforming London's Roads: Investment Programme;
 - (n) Structures and Tunnels Investment Portfolio;
 - (o) Transport for London Road Network Capital Renewals; and
 - (p) TfL Office Accommodation.

4 Issues Discussed

Operational and Financial Performance Report – Third Quarter, 2013/14

- 4.1 The Committee noted TfL's Operational and Financial Performance during the third quarter of 2013/14 (15 September – 7 December 2013), which included a number of improvements intended to increase clarity and transparency.
- 4.2 The Committee discussed the variance to target on the Transport for London Road Network (TLRN) reliability – AM peak measure. The variance was the result of a significant growth in traffic across London over the previous six months as a result of increased economic activity. Traffic volume was back to 2009-10 levels, although the comparable reliability figure was better than it was in 2009-10. The Committee discussed the work TfL was doing with the Police to reduce the disruption to the TLRN when road traffic incidents were being investigated. Significant improvements had been made but further lessons could be learned from abroad. TfL was also looking at how it could improve the availability of real time information to road users when traffic incidents occurred.
- 4.3 A paper on the Operational and Financial Performance Report – Third Quarter 2013/14 appears elsewhere on the agenda.

TfL Budget 2014/15

- 4.4 The Committee congratulated the authors on the clarity and readability of the document. Subject to the inclusion of information on proposals to review the fare structure for part time workers, the Committee recommended that the Board approve the draft TfL budget for 2014/15 and delegate to the Managing Director, Finance or the Chief Finance Officer, the authority to make any editorial or other minor changes prior to its publication.
- 4.5 A paper on the TfL Budget 2014/15 appears elsewhere on the agenda.

TfL Prudential Indicators 2013/14 to 2016/17

- 4.6 The Committee recommended that the Board approve: revised limits for long term liabilities and total external debt for 2013/14; revised Prudential Indicators for 2013/14 for Corporation capital expenditure and the Corporation capital financing requirement; the TfL Prudential Indicators for 2014/15 and the following two years; and the Treasury Indicators for 2014/15 and the following two years.
- 4.7 A paper on TfL Prudential Indicators appears elsewhere on the agenda.

Group Treasury Activities

- 4.8 The Committee noted the update on Group Treasury's activities from 1 April 2013, as required by the Treasury Management Policy Statement and Treasury Management Practices 2013/14.

- 4.9 The Committee congratulated officers on the successful issuance of a £370m bond for 50 years priced at a spread of Gilts +55bps (with a coupon of 4.000 per cent). The transaction included a one month delayed settlement period and would form part of the £650m incremental borrowing amount agreed with Government for the financial year 2014/15.

Treasury Management Strategy 2014/15

- 4.10 The Committee approved an expanded Approved Investment List and Counterparty Credit Exposure Limits and the establishment of a new Revolving Credit Facility. It noted that the additional diversification of investment counterparties helped to alleviate a potential concern about an over concentration of credit risk associated with TfL's investment portfolio. Although the list had been expanded, it was focussed on the organisations that had the best credit ratings, where TfL had an existing relationship or which were frequent issuers.
- 4.11 The Committee recommended that the Board approve the proposed TfL Treasury Management Strategy for 2014/15, comprising the Investment Strategy 2014/15, the Borrowing Strategy 2014/15, the Risk Management Strategy 2014/15 and TfL Policy on Minimum Revenue Provision.
- 4.12 A paper on Treasury Management Strategy appears elsewhere on the agenda.

Treasury Management and Derivative Investments Policies 2014/15

- 4.13 The Committee recommended that the Board approve the proposed TfL Treasury Management Policy Statement and Treasury Management Practices (together the Treasury Management Policy), and the proposed TfL Group Policy relating to the use of Derivative Investments for 2014/15.
- 4.14 A paper on the Treasury Management and Derivative Investment Policies 2014/15 appears elsewhere on the agenda.

Exchange Rate, Commodity Rate and/or Price and Interest Rate Derivative Programmes

- 4.15 The Committee approved the derivative programmes proposed to mitigate TfL's exposure to exchange rates and commodity rate and/or price risks when these risks were encountered in the ordinary course of business and to interest rate risk on imminent and future borrowings.
- 4.16 TfL was seeking suppliers on new contracts that involved foreign currency to be more transparent about the costs, to see if TfL could manage the risks itself to reduce the cost.
- 4.17 Further information would be provided to the Committee on the risks inherent in the supply chain as they were uncovered. Papers seeking authority for contracts that involved foreign currency would set out the financial risks. Aggregate lists of the financial risks taken with contracts that were agreed

within the limits of delegated authority would also be provided to the Committee.

Crossrail: Extension of the Interim Crossrail Limited Funding Payments Agreement with Network Rail

- 4.18 Subject to officers engaging in further discussions with Crossrail Limited and additional information being provided to the Board, the Committee endorsed the recommendation that the Board approve the extension of the interim Crossrail Limited Funding Payments Agreement with Network Rail.
- 4.19 A paper on the Extension of the Interim Crossrail Limited Funding Payments Agreement with Network Rail appears elsewhere on the agenda.

Crossrail Enhancements

- 4.20 Subject to officers engaging in further discussions with Crossrail Limited and additional information being provided to the Board, the Committee endorsed the recommendations that the Board approve the proposed Crossrail Enhancements.
- 4.21 A paper on Crossrail Enhancements appears elsewhere on the agenda.

Procurement of the Revenue Collection System and Services

- 4.22 The Committee noted the work in progress to procure the fares collection systems to replace those currently provided under a contract with Cubic until August 2015, which provided the front office, back office and other services to support Oyster and magnetic ticket usage. The paper had also been considered by the Projects and Planning Panel at its meeting on 26 February 2014.
- 4.23 A paper for approval of the contract would be submitted to the Committee later in 2014, for its recommendation to the Board.

Contact Centre Strategy

- 4.24 The Committee agreed the proposals to deliver Customer Contact Centre functions in the future. The Contact Centres provide customer service for all fares enquiries and a number of modal areas.
- 4.25 A paper on the Contact Centre Strategy appears elsewhere on the agenda.

Extension of Total Purchased Services Contracts

- 4.26 The Committee endorsed the recommendations that the Board approve TfL exercising its option to extend the term for the group of five Total Purchased Services Contracts and supporting Framework Agreements by up to two years. The Contracts delivered maintenance on two thirds of London Underground's operational network.

- 4.27 A paper on Extension of Total Purchased Services Contracts appears elsewhere on the agenda.

Transforming London's Roads: Road Investment Programme

- 4.28 The Committee welcomed the presentation on Transforming London's Roads and the Road Investment Programme, and the future strategy as a response to the Mayor's Roads Task Force report, published in June 2013. This included £100m for minor capital improvements; major schemes; cycling investment; road safety investment; and active traffic management.
- 4.29 The Committee discussed the scale of the Road Investment Programme and its desire for Surface Transport to have the appropriate resource and project governance structures to deliver it. Members were informed that the restructuring of Surface Transport was intended to enable it to better deliver projects and that people with the required knowledge and skills were being recruited. Advice and input on structure and project governance had been sought and received from the Independent Investment Programme Advisory Group.
- 4.30 The Committee discussed network reliability and the work to reduce the level of disruption caused by planned and emergency utilities work and by road traffic incidents. The Road Investment Programme would also lead to disruption of the network and officers were asked to consider what further information could be provided in advance to help road users plan their journeys.
- 4.31 As individual projects were submitted to the Committee for approval, the supporting paper would include modelling analysis setting out the expected impact on different groups of road users and any mitigating measures proposed. The Committee would visit the London Streets Traffic Control Centre in June 2014 to see how the traffic modelling systems worked.

Transport for London Road Network Capital Renewals

- 4.32 The Committee approved the Project Authority to deliver the TLRN Capital Renewals Programme in 2014/15 and an increase in the budget. The proposals had been endorsed by the Projects and Planning Panel at its meeting of 26 February 2014.

Structures and Tunnels Investment Portfolio

- 4.33 The Committee recommended that the Board increase Financial and Project Authority for the Structures and Tunnels Investment Portfolio (STIP). The proposals comprised strengthening, refurbishing or replacing eight structures on the Transport for London Road Network. The Committee recognised that the STIP sought to address the previous underinvestment in structures and tunnels and to ensure that assets were kept in a good state of repair going forward.

- 4.34 A paper on Structures and Tunnels Investment Portfolio appears elsewhere on the agenda.

TfL Office Accommodation

- 4.35 The Committee endorsed the recommendations that the Board approve the acquisition of a third new accommodation hub, as part of the ongoing TfL Head Office Accommodation Strategy, with funding provided for within the 2013 Business Plan.
- 4.36 Members were informed that the accommodation strategy and the principles of Hub buildings had worked well. The identification of staff to occupy the buildings was based on their working patterns including their need to access other hub buildings or other parts of London.
- 4.37 The terms of the lease for the proposed Hub property had been secured under competition, thereby benchmarking current rates of comparable buildings across London, and were considered to represent good value for money.
- 4.38 The Committee noted planning permission was being sought for 55 Broadway but that the need for the new Hub property was not contingent on the proposal to vacate 55 Broadway by Autumn 2015.
- 4.39 A paper on TfL Office Accommodation appears elsewhere on the agenda

List of appendices to this report:

None.

List of Background Papers:

Papers for the meeting of the Finance and Policy Committee held on 12 March 2014

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