

Transport for London

Minutes of the Finance Committee

Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
9.00am, Monday 13 March 2017

Members

Ron Kalifa (Chair)
Ben Story (Vice-Chair)
Michael Liebreich
Anne McMeel
Val Shawcross CBE
Dr Nina Skorupska CBE

Staff

Justin Brand	Commercial Asset Management Director
Mike Brown MVO	Commissioner
Howard Carter	General Counsel
Emanuela Cernoia-Russo	Assistant Treasurer (for minutes 22-23/03/17)
Tanya Coff	Director of Finance, London Underground
Graeme Craig	Director of Commercial Development
Patrick Doig	Director of Finance, Surface Transport
Lester Hampson	Property Development Director (for minute 25-27/03/17)
Simon Kilonback	Director of Group Treasury
Sir Terry Morgan CBE	Chairman, Crossrail Limited
Paul Mason	Assistant Treasurer, Finance (for minute 24/03/17)
Ian Nunn	Chief Finance Officer
Gareth Powell	Director of Strategy & Contracted Services
Robert Selwyn	Maintenance Engineering, London Underground (for minute 25/03/17)
Clive Walker	Director of Internal Audit
David Wylie	Chief Procurement Officer, Finance (for minute 25/03/17)
Shamus Kenny	Head of Secretariat

Also in attendance

Frances Salway, Chair, Commercial Development Advisory Group

17/03/17 Apologies for Absence and Chair's Announcements

There were no apologies for absence.

18/03/17 Declarations of Interests

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date. There were no further declarations of interests.

19/03/17 Minutes of the Meeting of the Committee held on 26 January 2017

The minutes of the meeting held on 26 January 2017 were approved as a correct record and signed by the Chair.

20/03/17 Matters Arising and Actions List

Howard Carter confirmed that all actions from the previous meeting were completed or in hand.

The Committee noted the Actions List.

21/03/17 Finance Report

Ian Nunn presented the Finance Report for Period 11 2016/17, the four weeks ending 4 February 2017. The Committee noted that the report trends were similar to the previous Period 9 report. While the net cost of transport operations was forecast at £10m below budget, the Chief Finance Officer considered this to be an overly cautious estimate and expected the final result to be positive to budget.

The capital programmes included an over-programming provision and given the complexity of many of the schemes, it was not uncommon for programmes to be under rather than over budget. Underspending was generally due to exploiting contracts to get better value, cost reduction and value engineering by TfL and genuine slippage in delivery. There were no significant concerns relating to the current underspend on the capital programme and some commentary was included in the Report to cover this.

The momentum on major capacity enhancement programmes remained on target and would bring significant revenue when delivered. Members requested that future reports also include details of any programmes that were being accelerated, such as the Bus Priority Programme and step free access on the Underground, to take advantage of available funds. Members also requested that future Reports include graphs with trend lines to clearly show movement against the key performance indicators during the year.

[Action: Ian Nunn]

The Committee noted the Finance Report.

22/03/17 Treasury Management Strategy 2017/18

Simon Kilonback introduced the paper, and the related supplemental information on Part 2 of the agenda, which sought a recommendation that the Board approves the proposed TfL Treasury Management Strategy (TMS) for 2017/18.

The TMS 2017/18 included TfL's proposed strategies for borrowing, investment and risk management for the financial year 2017/18. The TMS 2017/18 reflected TfL's expected liquidity position, borrowing requirements and risk exposure.

Given the tapering off of Treasury funding for TfL via the General Grant, Members commented on the need in the medium term for the Mayor to provide a letter of funding assurance to TfL and set the borrowing limit.

Ian Nunn commented on the strength of the Group Treasury team, which was echoed by Michael Liebreich. Simon Kilonback advised how the team followed best practice in the public sector and also mapped it in the private sector. Members were welcome to visit the team to see how its controls, processes and segregation of responsibilities worked in practice.

Each meeting of the Committee would include an item on specific parts of the Treasury Management Strategy to provide assurance and to seek Members' input.

The Committee:

- 1 noted the paper and the supplementary information on Part 2 of the agenda;**
- 2 recommended that the Board approve the Treasury Management Strategy for 2017/18 (TMS), attached at Appendix 1, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits;**
- 3 recommended that the Board authorise the Committee to approve any changes to the TMS 2017/18 during the course of the year;**
- 4 noted that the proposals to the Committee for derivative investments set out in paragraph 5 below had been approved by the Chief Finance Officer, as required under the Policy Relating to the Use of Derivative Investments 2017/18; and**

subject to the TfL Board approving the TMS 2017/18 and the Policy Relating to the Use of Derivative Investments 2017/18:

- 5 approved, pursuant to Section 49 of the Transport for London Act 2008 (as amended by the Transport for London Act 2016, together the Act) and in accordance with the TfL Group Policy Relating to the Use of Derivative Investments (the Derivatives Policy) for 2016/17 (or 2017/18 as maybe applicable at such time), Transport for London Finance Limited (as a qualifying TfL subsidiary for the purposes of the Act) entering into derivative investment(s) in relation to:**
 - (a) mitigating exchange rate risk related to specific currency exposures arising from the procurement of goods or services by any member of the TfL Group or receipts of European Union (EU) subsidies or other grants or revenues payable other than in sterling to any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of exchange rate risk to any member of the TfL Group is established;**
 - (b) mitigating exchange rate risk exposures arising from any TfL Group investments in foreign currencies as permitted by the proposed TMS 2016/17 (or 2017/18 as may be applicable at such time);**

- (c) mitigating commodity rate and/or price risk related to specific commodity (including fuel and electricity) exposures arising from the procurement of goods or services by any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of commodity risk to any member of the TfL Group is established;
- (d) mitigating interest rate risk and if applicable currency risk related to any imminent TfL Group borrowing (including any leases), once the borrowing has become certain and authorised according to relevant TMS 2016/17 (or 2017/18 as may be applicable at such time) provisions;
- (e) mitigating interest rate risk and currency risk if applicable related to existing and future TfL Group borrowing (including any leases) in accordance with the TMS and the Derivatives Policy 2016/17 (or 2017/18 as may be applicable at such time); and
- (f) mitigating risk related to any index reflecting any of the above matters referred to in paragraphs (i) to (v)

6 The following Officers and Subsidiaries shall have delegated authority:

- (a) **TfL Officers: the Commissioner, Chief Finance Officer, General Counsel and Director of Group Treasury; and**
- (b) **Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

23/03/17 Treasury Management and Derivative Investments Policies 2017/18

Simon Kilonback introduced the paper, which sought a recommendation that the Board approve the Treasury Management Policies, which had been developed in compliance with the relevant Code and guidance and the Group Policy relating to the use of Derivative Investments.

The Committee noted the paper and recommended that the Board approves:

- 1 the proposed TfL Treasury Management Policies in Appendix 1; and**
- 2 the proposed TfL Group Policy relating to the use of Derivative Investments in Appendix 2.**

24/03/17 Long Term Insurance Renewal 2017

Simon Kilonback and Paul Mason introduced the item and outlined TfL's overall insurance position. As part of TfL's transformation programme, the Insurance team had moved into the Treasury Team and the opportunity was being taken to review the strategy. While there had been a long period with very few major claims, the cost of

insurance was likely to increase following the tragic tram derailment at Sandilands and increases to Insurance Premium Tax.

It was proposed to postpone the re-marketing of TfL's main insurance policies, which were in a long term agreement, for one year from July 2017 to July 2018, as well as to continue the appointment of its third party administrator, which managed all liability insurance claims on TfL's behalf. The Committee would have input into the consideration of insurance risk and self-assurance options ahead of the remarketing of the main insurance policies in 2018.

The Committee noted the paper.

24/03/17 One Facilities Management Services Procurement - Extension of Current Contracts

Ian Nunn introduced the paper and the supplemental information on Part 2 of the agenda. Under the authority delegated by the Board on 15 December 2016, the Committee was asked to approve entering into six contracts for the provision of facilities management services across TfL (the One FM Contracts) across the following TfL areas:

- (a) Underground – Stations, depots and offices; Crossrail interface stations, Tunnelling Underground Construction Academy (TUCA).
- (b) Surface – Bus stations, Victoria Coach Station, Dial a Ride, Trams, River service piers;
- (c) TfL Corporate – Offices & Premises;
- (d) London Transport Museum

The contracts were expected to be awarded in March/April 2017 to allow for a smooth transition between providers in time for service commencement on 25 June 2017.

Members were assured that provisions had been written into the contracts to ensure that TfL owned the intellectual property rights and other protections to enable a seamless transfer to another provider when the contracts were relet in the future. There were also provisions in the contract under shared gain mechanisms to seek further efficiencies and the framework agreements would enable smaller additional items of work to be procured without the need for a full and expensive procurement process to be followed. Members were also assured that the rights of staff delivering the contracts would be protected, including payment of the London Living Wage and that this would be monitored.

The One FM Contracts programme was driven by TfL's transformation agenda to reduce the number and complexity of contracts across TfL and to encourage innovation and cost reduction. The transformation message would be reinforced as part of the communications and training programmes for the new contracts with both new and incumbent providers.

It was agreed that future papers to the Committee should provide some context on how any proposals for approval related to the Transformation Programme. For the One FM contracts, the next meeting of the Committee would receive a paper confirming the award of contract against each TfL area and the impact on the budget.

[Action: Ian Nunn]

Members supported a clarification amendment to the recommendations set out in the paper.

The Committee:

- 1 noted the paper and the supplementary information on Part 2 of the agenda**
- 2 under the authority delegated by the Board on 15 December 2016, approved the award of the six One FM Contracts as described in the paper, each for a period of five years, with the preferred bidders identified in the paper on Part 2 of the agenda, and for the maximum sums for the initial five years as set out in paragraphs 4.1 and 4.6 of the paper on Part 1 of the agenda; and**
- 3 noted that the Contracts had an option to extend by up to a further three years and further authority would be requested prior to the extension option being exercised.**

25/03/17 Commercial Development Quarterly Report

Graeme Craig presented the item, which updated the Committee on Commercial Development activity.

Members requested that a discussion on telecoms opportunities be programmed for a future meeting. **[Action: Graeme Craig]**

The Committee noted the paper.

26/03/17 Disposal of Land at Kidbrooke

Graeme Craig presented the paper and the related supplementary information on Part 2 of the agenda. The papers described the proposed disposal and redevelopment of surplus land at Kidbrooke, in the Royal Borough of Greenwich, following a competitive tender process through the Property Partnerships Framework.

Members were pleased at the level of affordable housing included in the scheme.

The Committee note the paper and the related paper on Part 2 of the agenda and:

- 1 approved the preferred bidder as set out in the paper on part 2 of the agenda;**
- 2 granted Land Authority for:**
 - (a) the acquisition by TfL or a Subsidiary of a 299 year lease of land from Network Rail for the purposes of the Kidbrooke development for the maximum sum set out in the paper on Part 2 of the agenda;**
 - (b) the grant by TfL or a Subsidiary of a 299 year leasehold interest in the land at Kidbrooke and Network Rail land described above to the joint venture vehicle to be established for the sum set out in the paper on Part 2 of the agenda;**

- (c) the grant by TfL or a Subsidiary of a 999 year concurrent lease to National Grid for the minimum sum set out in the paper on Part 2 of the agenda; and
 - (d) the commitments to the joint venture partner and any guarantees to third parties relating to the transaction as described in the paper on Part 2 of the agenda;
- 3 noted that TfL Officers and any Subsidiary (as described in paragraph 5 below) have authority to approve TfL or a Subsidiary holding a 49 per cent interest in the joint venture vehicle to be established for the subsequent development of the land at Kidbrooke and that such joint venture vehicle may be a company limited by shares or a limited liability partnership; and
- 4 approved investment in the joint venture vehicle of the sum set out in the paper on Part 2 of the agenda.
- 5 The following Officers and Subsidiaries shall have delegated authority:
 - (a) TfL Officers: the Commissioner, Chief Finance Officer, General Counsel, and the Director of Commercial Development; and
 - (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.

27/03/17 Affordable Housing

Graeme Craig presented the item, which set out TfL's approach to facilitate delivery of the Mayor's objective for the provision of much needed affordable housing and the Business Plan assumptions in terms of income from the disposal or development of surplus TfL sites.

Members requested further details on how affordable housing was defined and that future papers set out how the different elements of the definition applied to each individual scheme that came forward for approval and that the quarterly or annual updates showed the blend across the entire programme. **[Action: Graeme Craig]**

The Committee noted the paper.

28/03/17 Member Suggestions for Future Agenda Discussions

The Committee received a forward plan of agenda items.

The Committee noted the paper.

29/03/17 Any Other Business the Chair Considers Urgent

There was no urgent business.

30/03/17 Date of Next Meeting

Wednesday 5 July 2017 at 10.00am.

31/03/17 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Treasury Management Strategy 2017/18; One Facilities Management Services Procurement - Extension of Current Contracts; and Disposal of Land at Kidbrooke.

The meeting closed at 10.15am.

Chair: _____

Date: _____