

TRANSPORT FOR LONDON

BOARD

SUBJECT: TUBE LINES POST ACQUISITION GOVERNANCE

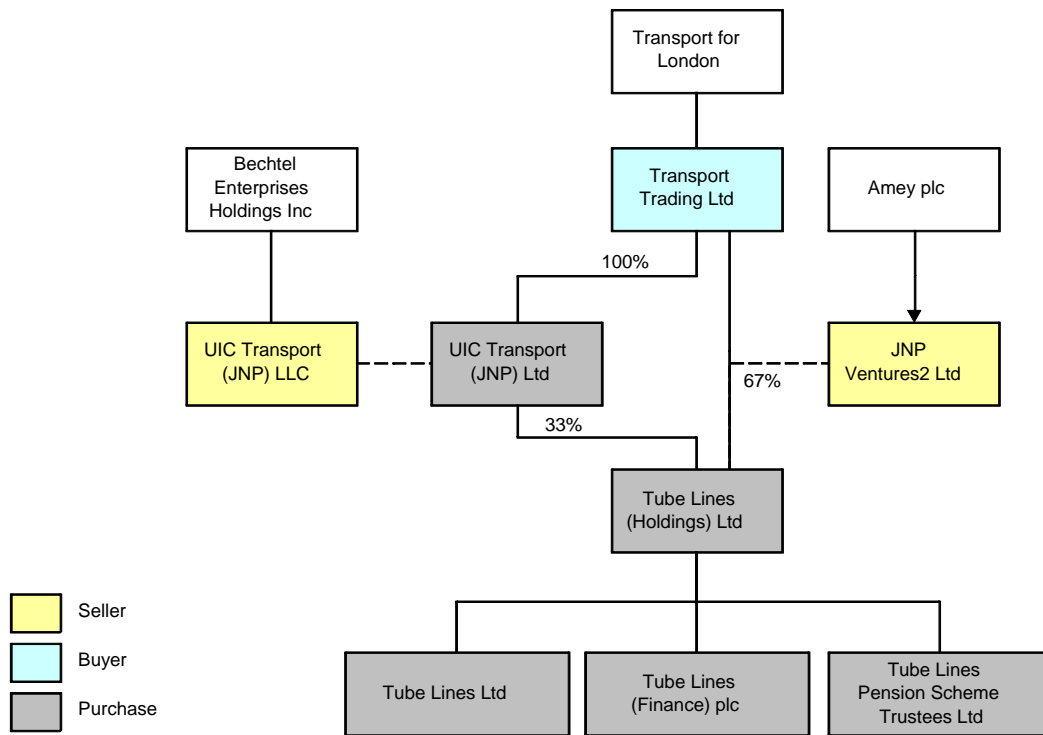
DATE: 23 JUNE 2010

1 INTRODUCTION

- 1.1 The proposed acquisition by Transport for London (“TfL”) of Tube Lines Limited (“Tube Lines”), the counterparty to the Public Private Partnership (“PPP”) contract on London Underground’s Jubilee, Northern and Piccadilly Lines has been described to the Board, most recently on 27 April 2010 and 14 May 2010.
- 1.2 This paper outlines the proposed organisation of the companies being acquired and high level governance arrangements, including proposals relating to amendments to TfL’s Standing Orders which it is proposed to make post-acquisition.
- 1.3 At its meeting on 15 June, the Audit Committee noted a similar paper and recommended that the Board approve the governance arrangements proposed.

2 POST ACQUISITION COMPANY ORGANISATION

- 2.1 The purchase of Tube Lines will result in the acquisition of a group of five companies by Transport Trading Limited (“TTL”).
- 2.2 The companies to be acquired by TTL are shown in GREY in the diagram overleaf.



2.3 Tube Lines will be a distinct business unit (i.e. separate from London Underground) with an appointed Chief Executive Officer having a formal reporting line to the Commissioner, as with the Chief Officers.

UIC Transport (JNP) Limited

2.4 UIC Transport (JNP) Limited (“UIC”) is a UK registered holding company for Bechtel’s shares in Tube Lines. TTL is to acquire UIC, rather than acquiring directly the shares that it owns in Tube Lines Holdings Limited (“TLH”).

2.5 As UIC serves no other purpose than as a holding company, in line with TfL’s strategy to reduce the number of companies within the TfL Group, TfL intends to transfer UIC’s shares in TLH to TTL and then to liquidate it, or render it dormant, as soon as possible after acquisition, subject to confirming that there would be no adverse financial consequences (e.g. tax) from doing so.

2.6 In the meantime, there will be a requirement for a minimum of one statutory director for Companies Act compliance. For simplicity and to allow some flexibility, it is proposed that there would be two directors and that these should be the Managing Director, Finance and General Counsel.

Tube Lines (Holdings) Limited

2.7 Under Bechtel and Amey ownership the existence of a holding company, TLH is a requirement of the security structure for the Tube Lines debt funding and it allowed those decisions which are restricted to shareholders under the Shareholder Agreement between Bechtel and Amey to not be made at Tube Lines level.

2.8 Following acquisition, this purpose no longer applies and TLH would simply be a holding company.

- 2.9 However, to provide TfL non executive oversight of Tube Lines while its longer term future is considered, it is proposed to retain TLH. It is proposed that the Directors of TLH be the current members of the TfL Board's Special Purpose Committee – Daniel Moylan, Keith Williams and Christopher Garnett, together with the Commissioner and Managing Director, Finance. The Special Purpose Committee will cease to exist at the completion of the acquisition.

Tube Lines Limited

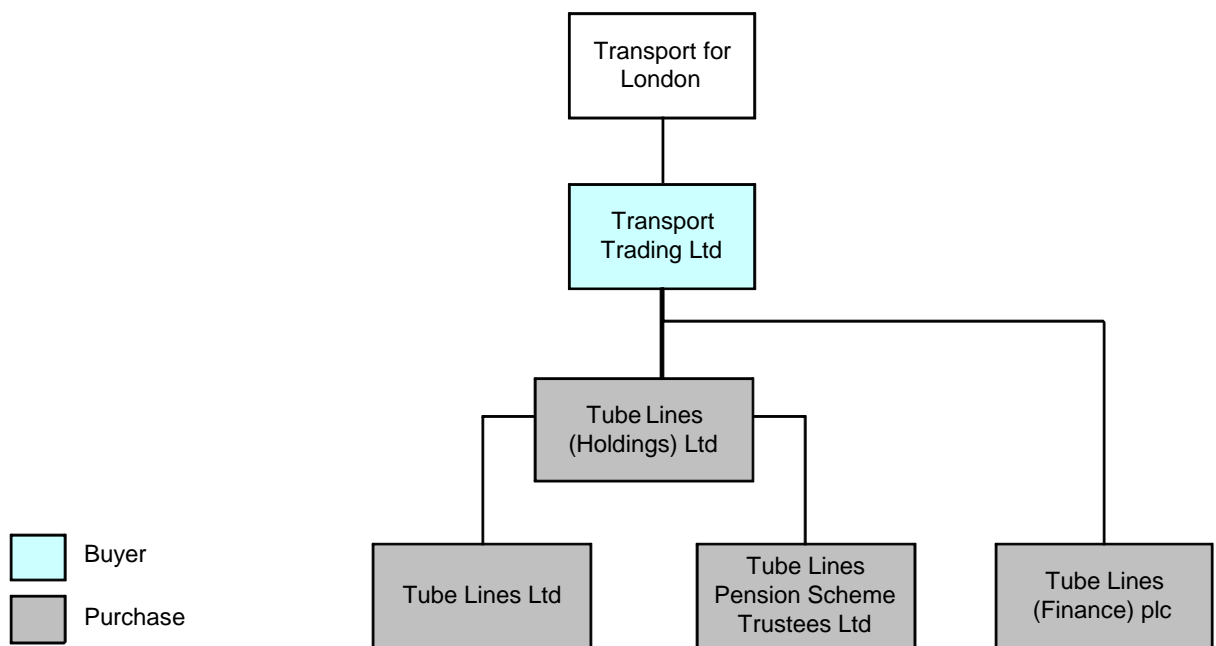
- 2.10 Tube Lines Limited is the contractual counterparty to the PPP Agreement (the "Infraco") and will continue to be responsible for delivering the agreed scope of works. It is the only one of the five companies being acquired that has any employees.
- 2.11 Post acquisition it is proposed that the existing non-executive directors are removed, and the statutory directors become the Chief Executive Officer ("CEO") of Tube Lines, the Finance Director of Tube Lines, the Tube Lines Director of Operations (who will be an Amey secondee), the Managing Director, London Underground ("LU") and possibly other Tube Lines executives (such as the Commercial Director and/or Projects Director).
- 2.12 Independent oversight and governance would come from the TfL Board and its committees as with other companies in the TfL Group as well as through matters being reserved to the board of TLH. The newly appointed Investment Programme Advisory Group's remit will also include the Tube Lines work programme and there will no longer be a Partnership Director of Tube Lines. The proposed level of authority for Tube Lines directors is described below.

Tube Lines (Finance) plc

- 2.13 Tube Lines (Finance) plc ("TLF") is a single purpose financing vehicle. It holds the existing Tube Lines debt, and has on-lent the debt proceeds to Tube Lines through an intercompany loan. TLL then makes debt service payments through TLF, funded by the contract payments from LU. TLF's lenders creditors have a security package that includes the shares of TLL and certain cash balances.
- 2.14 The sole purpose of TLF post acquisition will be to ensure debt service payments are made and to comply with listing rules for the debt instruments (rules which for example require TLF to be constituted as a "plc" and require certain market disclosures).
- 2.15 TfL already owns a special purpose finance company, Transport for London Finance Ltd ("TfLFL"), which was established to undertake specific financing transactions for the TfL Group. TLF's functions will closely resemble those of TfLFL (i.e. a special purpose TfL financing vehicle) and it is proposed that TLF's Directors are the same as those of TfL, that is the Managing Director, Finance, Director of Corporate Finance, the Chief Finance Officer and General Counsel.
- 2.16 It is proposed, therefore, that subject to confirmation of no adverse financial or other consequences, as soon as practicable after completion of the acquisition, the ownership of TLF will be transferred from TLH to TTL with a single share being retained by another member of the TfL group to meet the requirements for a plc.

Tube Lines Pension Scheme Trustees Limited

- 2.17 “TLPST” is the corporate trustee of the Tube Lines defined contribution pension scheme.
- 2.18 TLPST currently has five directors, some of which are member nominated and some of which employer nominated.
- 2.19 It is not yet known which directors are member nominated and which are employer nominated. It is expected to have a number of directors representing, or appointed by, various interest groups (the employer, unions, pensioners, etc).
- 2.20 Therefore it is likely that, upon transfer, the directors of TLPST would continue in post in accordance with the rules of the Tube Lines defined contribution pension scheme.
- 2.21 Following the rationalisation described above, the structure would be as below:



3 CURRENT SCHEME OF AUTHORITIES

- 3.1 Information regarding the current scheme of delegated authorities inside the Tube Lines companies is being provided through the due diligence process currently underway. It is now known that some of the key principles of delegated authority operated by Tube Lines are similar to those operated by TfL:
- There is a schedule of matters reserved to the board of TLH – analogous to the TfL Board reserved matters in Standing Orders;
 - A committee structure exists to support and advise authority holders, including an Executive Committee, an Investment Committee, a Health, Safety and Environment Committee, and a Risk and Audit Committee.

4 PROPOSED SCHEME OF AUTHORITIES

- 4.1 As previously described at the Board meeting on 27 April 2010, Tube Lines will be subject to TfL’s Standing Orders post-acquisition and it is not anticipated that this will give rise to any specific issues.

- 4.2 While the governance of Tube Lines in the longer term continues to be developed, it is, however, proposed that a revised Scheme of Authorities be set for Tube Lines and its related companies. It is also proposed that that Scheme should seek to achieve a balance between allowing Tube Line's tried and tested committee structure to continue, thereby creating minimal disruption, and TfL's own Scheme of Authorities.
- 4.3 It is proposed that authority properly given in accordance with the Tube Lines scheme of delegation prior to acquisition is maintained. The exception to this will be any work packages which are cancelled or deferred due to affordability or other constraints where authority will be withdrawn. After completion of the acquisition, TfL will need to review any such approvals and make adjustments as necessary to reflect TfL's approach to business cases, risk and contingency but it is proposed that this will not affect the validity of such approvals in the mean time.
- 4.4 It is proposed that the existing Tube Lines committee and employee authority structure is maintained subject to the following adjustments that will need to be made to TfL's Standing Orders:
- (a) No delegation will exist below the level of the Tube Lines CEO for unbudgeted expenditure or land transactions and the level of authority which the Tube Lines CEO will have in respect of unbudgeted projects or land transactions and land authority will be the same as for Chief Officers as set out in TfL's Standing Orders i.e. he will have authority in respect of unbudgeted projects and unbudgeted land transactions with a value not exceeding £2m and land authority in respect of budgeted land transactions with a value not exceeding £5m. For procurement authority delegation will be no more than £1m to officers of Tube Lines reporting to the Tube Lines CEO. This proposal is summarised in the table below:

AUTHORISING BODY / POSTHOLDER	FINANCIAL AUTHORITY FOR UNBUDGETED VALUE OF PROJECTS	FINANCIAL AUTHORITY FOR UNBUDGETED VALUE OF LAND TRANSACTIONS	PROJECT AUTHORITY	LAND AUTHORITY	COMMITMENT AUTHORITY	PROCUREMENT AUTHORITY / DISPOSAL AUTHORITY
TLL Director	£0	£0	£0	£0	£0	£1,000,000
CEO	£2,000,000	£2,000,000	£5,000,000	£5,000,000	£25,000,000	£25,000,000
TLH	£25,000,000	£25,000,000	£50,000,000	£100,000,000	£100,000,000	£100,000,000

- (b) The Tube Lines CEO will, in the normal course of business, liaise with the Chief Officers of TfL and in particular, with the Managing Director, LU in relation to all appropriate matters, particularly safety and operational matters.
- (c) In accordance with TfL's Standing Orders, commitment authority will be deemed to have been given when project authority is granted unless it was specifically excluded.
- (d) It is proposed that authority be delegated to TLH at the financial levels which the Commissioner has authority according to TfL's current Standing Orders. Matters above these amounts would need to be approved by the

- (e) It is proposed that Tube Lines should transition as soon as practicable to apply the TfL Corporate Gateway Approval Process to all new projects (and to subsequent stages / gates for existing projects) and in the interim its existing project approval process should apply.
- (f) It is anticipated that a number of authority requests will affect LU, or require LU endorsement through the PPP contract mechanisms. There is, therefore, the possibility of matters requiring approval from both LU and Tube Lines simultaneously. It is proposed that the current liaison arrangements which have been established to progress matters in the period between signature of the Sale and Purchase Agreement and completion be continued for a limited period to enable co-ordination. This group currently comprises two Tube Lines Directors, the Finance Director of LU and the TfL Director of Corporate Finance, and it is proposed that the Managing Director, LU and CEO, Tube Lines review the composition of this group following completion of the acquisition.

5 RECOMMENDATIONS

5.1 The Board is asked to NOTE the paper; and:

- (a) APPROVE the transfer of shares in Tube Lines (Holdings) Limited from UIC Transport (JNP) Limited to Transport Trading Limited and the dissolution of UIC Transport (JNP) Limited in due course;
- (b) APPROVE the transfer of the shares in Tube Lines (Finance) plc from Tube Lines (Holdings) Limited to Transport Trading Limited;
- (c) APPROVE the proposals for amendment of TfL's Standing Orders as described in this paper;
- (d) AUTHORISE General Counsel to make the necessary changes to TfL Standing Orders to give effect to the amendments described in this paper; and
- (e) APPROVE the dissolution of the Special Purpose Committee upon completion of the acquisition of Tube Lines.

6 CONTACT

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