MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Wednesday 11 March 2020

Time: 10.00am

Place: Conference Rooms 1 and 2, Ground Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ

Members

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

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

This meeting will be open to the public, except for where exempt information is being discussed as noted on the agenda. There is access for disabled people and induction loops are available. 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: 0845 604 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Tuesday 3 March 2020

Agenda
Finance Committee
Wednesday 11 March 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 18 December 2019 (Pages 1 - 8)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 18 December 2019 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 Use of Delegated Authority (Pages 13 - 16)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 17 - 36)

Chief Finance Officer

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

7 Treasury Activities (Pages 37 - 42)

Chief Finance Officer

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

8 Treasury Management Strategy 2020/21 (Pages 43 - 60)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplemental information on Part 2 of the agenda, and recommend that the Board approve the proposed Treasury Management Strategy (TMS) for 2020/21, the Investment Strategy, the Borrowing Strategy, the Risk Management Strategy and the Counterparty Exposure Limits.

9 Treasury Management and Derivative Investments Policies (Pages 61 - 80)

Chief Finance Officer

The Committee is asked to note the paper and recommend that the Board approve the proposed Treasury Management Policies and the proposed Group Policy relating to the use of Derivative investments.

10 Investment Strategy 2020/21 - Non-Financial Assets (Pages 81 - 90)

Director Commercial Development

The Committee is asked to note the paper and approve the Commercial Development Investment Strategy 2020/21 – Non-Financial Assets.

11 2020/21 TfL Scorecard (Pages 91 - 100)

Chief Finance Officer

The Committee is asked to approve the 2020/21 TfL Scorecard.

12 General Fund Balance (Pages 101 - 110)

Chief Finance Officer

The Committee is asked to note the paper and approve the target General Fund balance.

13 Telecoms Commercialisation Project (Pages 111 - 120)

Director Strategy and Chief Technology Officer

The Committee is asked to note and the exempt supplemental information on Part 2 of the agenda, and approve Land Authority and Financial Authority.

14 Strategic Risk Update - Inability to Meet Changing Demand (SR9) (Pages 121 - 122)

Director Strategy and Chief Technology Officer

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

15 TfL Energy Purchasing (Pages 123 - 126)

Chief Safety, Health and Environment Officer

The Committee is asked to note the paper.

16 Members' Suggestions for Future Discussion Items (Pages 127 - 132)

General Counsel

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

17 Any Other Business the Chair Considers Urgent

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

18 Date of Next Meeting

Wednesday 24 June 2020 at 10.00am.

19 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.

20 Finance Report (Pages 133 - 136)

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

21 Treasury Activities (Pages 137 - 142)

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

22 Treasury Management Strategy 2020/21 (Pages 143 - 152)

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

23 Telecoms Commercialisation Project (Pages 153 - 172)

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

24 Strategic Risk Update - Inability to Meet Changing Demand (SR9) (Pages 173 - 178)

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

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Transport for London

Minutes of the Finance Committee

Conference Rooms 1 and 2, Ground Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ 9.00am, Wednesday 18 December 2019

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

Executive Committee

Mike Brown MVO	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development (for Minute 44/12/19)
Simon Kilonback	Chief Finance Officer

Staff

Tanya Coff	Finance Director, London Underground
Patrick Doig	Finance Director, Surface Transport
Oana Ford-McNicol	Head of Financial Planning and Analysis (for Minutes 41/12/19 and 42/12/19)
Jackie Gavigan	Secretariat Manager
Shamus Kenny	Head of Secretariat
Tony King	Interim Group Finance Director (and Statutory Chief Finance Officer)
Paul Mason	Assistant Treasurer (for Minute 43/12/19)
Kevan Twohy	Senior Commercial Manager (for Minute 45/12/19)
Clive Walker	Director of Risk and Assurance

35/12/19 Apologies for Absence and Chair's Announcements

An apology for absence was received from Dr Nina Skorupska CBE.

Papers in relation to the Business Plan and the Capital Strategy were published with fewer than five clear working days' public notice in accordance with Standing Order 33. The Chair had agreed, in accordance with Section 100B(4)(b) of the Local Government Act 1972, that the papers be accepted as late items as not all the information required for the content of the Business Plan and the Capital Strategy was available until after the agenda and papers for this meeting were published.

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

36/12/19 Declarations of Interests

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

37/12/19 Minutes of the Meeting of the Committee held on 9 October 2019

The minutes of the meeting held on 9 October 2019 were approved as a correct record and signed by the Chair.

38/12/19 Matters Arising and Actions List

Howard Carter introduced the paper which set out progress against actions agreed at previous meetings of the Committee.

The Committee noted the Actions List.

39/12/19 Use of Delegated Authority

Howard Carter introduced the paper. The Committee noted that, since the meeting of the Committee on 9 October 2019, there had been no use of delegated authority by the Board or to approve Procurement or Land Authority.

There had been four uses of Chair’s Action since the meeting of the Committee on 9 October 2019 relating to: the Deep Tube Rolling Stock project; the sale of Earls Court Partnership PLC, in which TfL had an interest; Taxi Fares and Tariffs; and Energy Purchasing 2022-2023. The use of Chair’s Action relating to Energy Purchasing 2022-2023 was approved on 16 December 2019, after papers for this meeting were published.

There had been one Mayoral Direction to TfL since the meeting of the Committee on 9 October 2019, relating to implementing a freeze on all TfL fares under the Mayor’s control with effect from 2 January 2020.

The Committee noted the paper.

40/12/19 Finance Report – Period 8, 2019/20

Simon Kilonback and Tony King introduced the report, which set out TfL’s financial results to the end of Period 8, 2019/20 – the year-to-date period ending 9 November 2019. Year-to-date performance was shown against the revised Budget, and against last year’s actuals. The report also incorporated trends on passenger journeys.

Passenger income was £6m lower than the revised target in the year to date. Passenger journeys were significantly lower than the revised budget, although the financial impact had been partly softened by increases in ticket yield in the period. These trends had now been evident for a few periods showing a significant softening in demand.

It was too early to say whether these trends would continue. Revised targets for 2019/20 included a level of contingency to cover any shortfall in passenger income this year. Planning assumptions remained cautious and the current trends were broadly in line with the Business Plan assumptions.

Operating costs were £6m higher than the revised budget at the end of the period. Core business costs were £3m and projects costs were slightly higher at £4m. These costs were broadly split 50/50 in terms of timing and underlying cost pressures but underlying costs were expected to be broadly in line with the revised Budget at year end, with pressures mitigated through savings made elsewhere before looking to cover through contingency.

Total capital expenditure was £36m lower than the revised Budget, which was based on increases in capital expenditure over the remaining periods of 2019/20. Costs including both capital renewals and new capital expenditure were £36m lower than expected at the end of the period.

The Committee noted the report.

41/12/19 TfL Business Plan 2019

Simon Kilonback and Oana Ford-McNicol introduced the paper which sought approval of TfL's draft Business Plan 2019, which set out its plans for the five years from 2020/21 to 2024/25. The Board had delegated authority to the Committee on 20 November 2019 to approve these matters reserved to the Board in relation to the approval of the Business Plan.

The Business Plan was a continuation of the plan presented last year. Despite the recent Crossrail announcements, the rating agencies had recently affirmed TfL's credit rating. The decision to not downgrade the rating was underpinned by the commitment to deliver a surplus by 2022/23.

TfL remained cautious in the projects it committed to until Crossrail was completed. It was moving away from a business plan traditionally being a five year budget, to a plan which set the financial envelope for the five year period, prioritised investment according to key principles and was agile in enhancement spend.

Since the announcement that had indicated that Crossrail required an additional £400m-£650m capital cost, TfL had remodelled the equivalent revenue impact, which was absorbable due to the resilience built over the last year and would not impact on the investment programme.

All of the core elements of the previous plan remained protected, such as Local Implementation Plans funding to the Boroughs, bus operated kilometres on the basis that passenger revenue returns to growth, Healthy Streets projects and cycle networks, bus electrification and Ultra Low Emission Zone expansion.

In response to a Member's question, it was agreed that the recent Guardian article on the New York Metro compared to London Underground be circulated to Members.

[Action: Simon Kilonback]

In response to Members' questions, it was agreed that it would be helpful going forward to show more granular explanation of expenditure requirements for projects, and how the right amount of quality was ensured. **[Action: Simon Kilonback]**

The Committee:

1 noted the paper; and

2 in accordance with the delegation granted by the Board on 20 November 2019, approved the TfL Business Plan 2019.

42/12/19 TfL Capital Strategy

Simon Kilonback and Oana Ford-McNicol introduced the paper which sought approval of TfL's draft Capital Strategy 2019, which set out its longer term investment requirements to deliver service objectives. The Strategy also identified future anticipated funding, and the shortfall between investment required and funding identified. The Board had delegated authority to the Committee on 20 November 2019 to approve these matters reserved to the Board in relation to the approval of the Capital Strategy.

The 2019 Capital Strategy was an evolution of the previous Strategy. The approach applied for this year's Business Plan of building up from the baseline was also applied across 20 years to understand the core requirements and the funding gaps for the enhancements to support a growing London.

The funding gap identified through this work over 20 years was £48bn outturn, or c.£28bn in today's prices. As a consequence, the 2019 Capital Strategy showed the baseline including the replacement of trains and signalling, with other enhancements layered on. As with 2018, this left an affordability gap with severe constraints in which enhancements TfL could afford.

Part of the benefit of long-term funding certainty would allow TfL to plan for necessary investments on the network in a logical way with proper consideration of whole-life cost. The latest Capital Strategy was for around £3bn a year of enhancements, on top of the baseline. This included Crossrail 2 which represented £1-£1.5bn per year. The National Infrastructure Assessment recognised that this investment was vital for London and for regional and national UK growth, housing and environment.

TfL was monitoring and managing risks across the business to ensure its operations continued undisrupted in all circumstances. Any impact to be primarily the result of lower revenue due to a weaker economy, with a smaller impact for Brexit was expected on costs driven by inflation and currency fluctuation.

The Committee commended and thanked the Financial Planning team for all the hard work that had gone into producing an articulate and excellent strategy and plan.

The Committee:

1 noted the paper;

2 in accordance with the delegation granted by the Board on 20 November 2019, approved the TfL Capital Strategy 2019; and

3 **delegated to the Chief Finance Officer the authority to make any editorial or other minor changes he considers necessary prior to its publication.**

43/12/19 Treasury Management Policies – Liquidity Policy Update

Simon Kilonback and Paul Mason introduced the paper and related supplemental information on Part 2 of the agenda. The paper set out the proposed update to the Liquidity Policy included within the Treasury Management Policies. The Board had delegated authority to the Committee on 20 November 2019 to approve these matters reserved to the Board in relation to the changes to the policy.

The existing Liquidity Policy had been reviewed in response to a number of recent developments and external factors, including potential credit rating methodology changes and the current economic and operating environment, and against the liquidity positions of international peers.

It was proposed to maintain a minimum level of cash and short-term investments of, on average, at least 60 days' worth of forecast annual operating expenditure, up from a minimum of 30 days. This policy ensured there was sufficient cash to meet payment obligations as they became due and provided sufficient headroom to deal with emergencies, such as loss of income or large unforeseen expenditure. It was also proposed to provide more information on different purposes of the cash balances and to update processes to include monitoring of the proposed policy.

An immediate impact was not expected from the increase, as 60-90 days was already used for financial planning purposes. As TfL's credit rating was based on its actual and planned cash balances, rather than the minimum stated in the policy, this was not expected to impact on TfL's credit rating.

The Committee:

1 **noted the paper and the supplementary information on Part 2 of the agenda; and**

2 **in accordance with the delegation granted by the Board on 20 November 2019, approved the changes to the Treasury Management Policies – Liquidity Policy, as set out in Appendix 1 to the paper.**

44/12/19 Strategic Risk Update – Inability to Deliver Predicted Revenue Growth (SR8)

Graeme Craig introduced the paper which provided an update on Strategic Risk 8 (SR8), the inability to deliver the predicted revenue growth. It explained the status of the risk and detailed the controls and mitigation measures being undertaken to manage the risk going forward, in relation to property and commercial media.

Causes that could potentially impact predicted growth in revenue included economic conditions, lack of capital investment and poor performance of commercial partners.

Control measures to reduce risk included use of external advisors, performance reporting and investment scrutiny and approval.

The status of the risk was considered as adequately controlled based on the control measures in place and actions taken to manage the risk. The control measures would be enhanced over the coming months, with the creation of a property focussed function to drive additional income alongside more affordable housing from TfL's land holdings.

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. **[Action: Graeme Craig]**

The Committee noted the paper.

45/12/19 Debt Management and Enforcement Services

Simon Kilonback and Kevan Twohy introduced the paper and related supplemental information on Part 2 of the agenda, which sought Procurement Authority to award three contracts for UK debt management and enforcement services.

Debt management and enforcement services played a key role in supporting the delivery of TfL's Road User Charging and Traffic Enforcement schemes. The current suppliers had performed well and their contracts expired in April 2020. Winning bidders for the new contracts would start in May 2020, for an initial five year term.

These contracts generated revenue for TfL and collection rates were anticipated to improve during the life of the new contracts. Supplier performance would be measured and monitored via performance indicators and service level agreements.

The Committee:

1. **noted the paper and the supplementary information on Part 2 of the agenda; and**

2. **granted Procurement Authority for debt management and enforcement services to be let to three suppliers in the sums and proportions set out in the paper at Part 2 of the agenda.**

46/12/19 Members' Suggestions for Future Discussion Items

Howard Carter introduced the item. There were no suggestions raised for future discussion items.

The Committee noted the forward plan.

47/12/19 Any Other Business the Chair Considers Urgent

There was no other urgent business.

48/12/19 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 11 March 2020 at 10.00am.

49/12/19 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 Policies – Liquidity Policy Update; and Debt Management and Enforcement Services.

50/12/19 Close of Meeting

The meeting closed at 11.01am.

Chair: ___________________________________

Date: ____________________________________

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Finance Committee

Date: **11 March 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

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Appendix 1

Finance Committee Action List (to be reported to the meeting on 11 March 2020)

Actions from the meeting of the Finance Committee held on 18 December 2019

Minute No.	Description	Action By	Target Date	Status note
41/12/19	**TfL Business Plan 2019 – London Underground Article** In response to a Member’s question, it was agreed that the recent Guardian article on the New York Metro compared to London Underground be circulated to Members.	Simon Kilonback	February 2020	Completed. The article was circulated to Members on 20 February 2020.
41/12/19	**TfL Business Plan 2019 – Expenditure Requirements for Projects** In response to Members questions, it was agreed that it would be helpful going forward to show more granular explanation of expenditure requirements for projects, and how the right amount of quality was ensured.	Simon Kilonback	March 2020	Update: For 2020/21 Scorecard, we are proposing to report the measures for Investment Programme budget and milestones side by side, to improve the linkage and visibility between cost and schedule. Work is also in process by TfL Assurance to review the robustness of our EFC estimates.
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	March 2020	In progress. Information on all the development sites will be sent out to Committee members, who will be invited to express an interest in specific schemes.

Actions from previous meetings of the Finance Committee

Minute No.	Description	Action By	Target Date	Status note
25/10/19	**Treasury Activities – Disclosure Training** In relation to the Disclosure Procedures Policy, the training sessions on TfL's Disclosure obligations would be extended to Board Members and the training materials circulated to Members.	Howard Carter/Secretariat	January 2020	Completed. The training materials were circulated to Members on 10 October 2019. All Members were offered training and the session was held on 20 January 2020.
25/10/19	**Treasury Activities – Liaison with Financial Regulators** In response to a suggestion from the Chair, Simon Kilonback would review how TfL liaised with its financial regulators.	Simon Kilonback	March 2020	Action closed. Liaison with our regulators will continue as appropriate, noting that the Financial Conduct Authority will only engage with market participants on a specific case/enquiry.
25/10/19	**Strategic Risk Update – Financial Sustainability (SR7)** The Committee noted that SR7 had numerous interdependencies and was impacted by, or impacted on, almost all other strategic risks. The outcome of a review of the maturity and interdependencies of TfL's strategic risks and the development of better post event controls reporting would be reported to the Audit and Assurance Committee in March 2020.	Nico Lategan/ Tony King	March 2020	Completed. Addressed in the Strategic Risk Reporting – Lessons Learned report on the AAC agenda for the 16 March 2020 meeting.

Finance Committee

Date: **11 March 2020**

Item: **Use of Delegated Authority**

This paper will be considered in public

1 Summary

1.1 This 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.

1.2 Since the meeting of the Committee on 18 December 2019, there have been:

(a) no use of authority delegated by the Board, nor decisions taken under Chair's Action;

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

(c) one Mayoral Direction, in relation to implementing a bus driver retention scheme.

1.3 A similar report is submitted to the Programmes and Investment Committee in respect of any use of Chair's Action or Procurement Authority and Programme and Project Authority granted by the Commissioner and the Chief Finance Officer in respect of matters within that Committee's remit, together with relevant Mayoral Directions.

2 Recommendation

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

3 Use of authority delegated by the Board since 18 December 2019

3.1 There has been no use of authority delegated by the Board since the meeting on 18 December 2019.

4 Use of Chair's Action since 18 December 2019

4.1 Under Standing Order 114, in situations of urgency, the Board delegates to each of the Chair and the Chairs of any Committee or Panel the exercise of any functions of TfL on its behalf, including the appointment of Members to Committees and Panels. Any use of Chair's Action is reported to the next ordinary meeting.

4.2 There has been no use of Chair's Action since the meeting of the Committee on 18 December 2019.

5 Procurement and Land Authority Approvals since 18 December 2019

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

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

5.3 The Board had delegated to the Committee approval of unlimited Procurement Authority and Land Authority in relation to Transactions and Commercial Development opportunities. The approvals delegated to the Commissioner are up to £100m and the Chief Finance Officer up to £25m.

5.4 Since the meeting of Committee on 18 December 2019, there has been no use of delegated authority to approve Procurement or Land Authority.

6 Mayoral Directions to TfL

6.1 The Greater London Authority Act 1999 (as amended), permits the Mayor to issue to TfL general directions as to the manner in which TfL is to exercise its functions or specific directions as to the exercise of its functions (or not to exercise a power specified in the direction). Directions are also often made in relation to the implementation of matters in respect of which the Mayor delegates statutory powers to TfL.

6.2 The Mayor makes Mayoral Directions through Mayoral Decisions. Papers for Mayoral Directions set out the financial and other implications. If those implications change over time, that will be reported to the GLA.

6.3 All Mayoral Decisions are issued in writing, with the information that is not exempt from publication included on the GLA's Decisions Database on its website: https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC.

6.4 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes. Mayoral Directions relating to TfL are reported to the Board's Committees for discussion as soon as possible after they are received by TfL or published. Regular reports will list the relevant Directions for as long as they are applicable.

6.5 Annually the Audit and Assurance Committee considers the list as part of its consideration of the annual audit plan to ensure that appropriate audit resource is applied to assurance on TfL's work in implementing Mayoral Directions. This will also be kept under review at each quarterly meeting of that Committee.

6.6 A summary of current Mayoral Directions to TfL is now maintained on the "How we are governed" page on our website, with links to the relevant Mayoral Decisions: https://tfl.gov.uk/corporate/about-tfl/how-we-work/how-we-are-governed. That page will be updated as and when further Directions are made.

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

6.8 Since the last meeting of the Committee on 18 December 2020, there has been one direction to TfL, on bus driver retention scheme. (MD2592 on 3 March 2020). The Direction requires TfL to prepare, finance and implement the bus driver retention payment scheme. The Mayor has also approved the GLA making a revenue grant to TfL of £34m to cover the initial costs of the retention payments.

List of appendices to this report:

None

List of Background Papers:

Mayoral Directions: https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC

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

Agenda Item 6

Finance Committee

Date: **11 March 2020**

Item: **Finance Report – Period 11, 2019/20**

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 11, 2019/20 - the year-to-date period ending 1 February 2020.

1.2 An appendix is included in 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 Finance Report and the supplementary information on Part 2 of the agenda.**

3 Revised financial targets

3.1 In November 2019, the Board reviewed and approved a revised set of financial targets for 2019/20, that reflect our improved financial performance. These replace those set in our original Budget published in March 2019 and from Quarter 3, 2019/20 we started reporting against these revised targets.

4 Financial Reporting to the Committee

Finance Report – Period 11, 2019/20

4.1 The Finance Report presentation provides a summary of year-to-date financial performance against the 2019/20 as well as last year. The presentation is consistent with how we have presented the 2019/20 Budget. The objective is to provide this information in a consistent and transparent way so that the progress and financial performance of the business become much clearer.

4.2 Year-to-date performance is shown against the revised Budget, and against last year's actuals. This report also incorporates trends on passenger journeys.

List of appendices to this report:

An appendix containing exempt supplemental information is included on Part 2 of the agenda

List of Background Papers:

None

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

TfL Finance Committee
Finance report

Period 11, 2019/20

Management results to 1 February 2020

11 March 2020

Section 1

Period 11 financial performance

Page 20

Net operating surplus better than target despite underlying revenue pressure

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Lower underlying passenger revenue offset by revenue contingency, with cost contingency supporting net operating surplus

£m Operating account	2019/20 YTD Actuals	Revised Budget	Variance	% variance	2018/19 YTD Last year actuals	Variance	% variance
Passenger income	4,127	4,134	(8)	0%	4,029	97	2%
Other operating income	851	851	(0)	0%	681	171	25%
Total operating income	**4,978**	**4,986**	**(8)**	**0%**	**4,710**	**268**	**6%**
Business Rates Retention	802	802	0	0%	796	6	1%
Revenue grant	70	71	(1)	-1%	46	24	53%
Total income	**5,849**	**5,858**	**(9)**	**0%**	**5,551**	**298**	**5%**
Operating costs	(5,290)	(5,364)	74	1%	(5,124)	(165)	-3%
Net operating surplus	**560**	**494**	**66**	**13%**	**427**	**133**	**31%**
Capital renewals	(372)	(377)	5	1%	(316)	(56)	-18%
Net cost of operations before financing	**188**	**116**	**71**	**61%**	**111**	**77**	**69%**
Net financing costs	(377)	(380)	3	1%	(379)	2	1%
Net cost of operations	**(189)**	**(263)**	**74**	**28%**	**(268)**	**79**	**29%**

Underlying income down on Budget from lower journey growth

We are seeing lower demand on the Tube and Buses as well as reduced Congestion Charge volumes, which is partly mitigated through contingency

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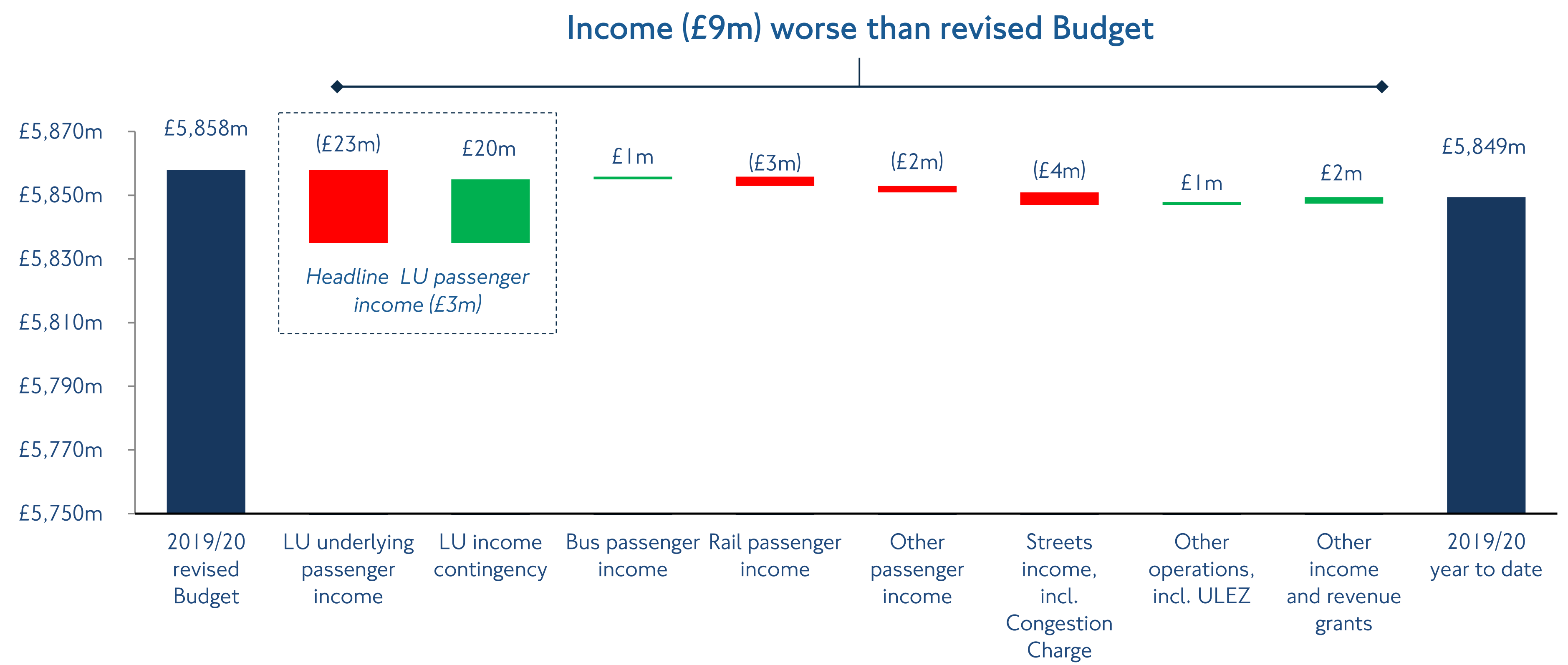
Total income



- Underlying Tube and bus journeys over past 12 weeks are down on last year
- Hopper fare on buses has helped underpin demand
- Lower traffic volumes in Central London: Congestion Charge volumes 1% lower than revised Budget
- ULEZ compliance levels in line with expectations, but volumes 2% lower than target.

ULEZ performance	2019/20	Variance to revised Budget	% variance
Income (£m)	130.1	(1.2)	-1%
Vehicles in zone (millions)	34.0	(0.5)	-2%
Non-compliant vehicles (millions)	8.0	(0.2)	-2%
Compliance rates (%)	76.4%	0.0	0%

LU passenger volume growth from earlier in the year has stalled

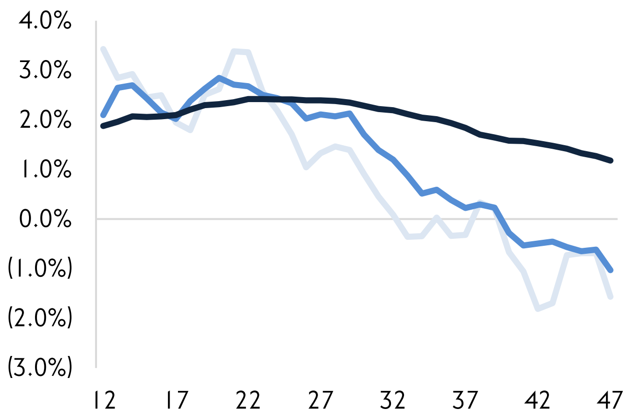
Page 23

Recent Tube journey volumes remain down year-on-year; volumes also down on buses, but recent trends showing signs of recovery

Passenger journey trends

Latest trends to end of week 47, 22 February 2020

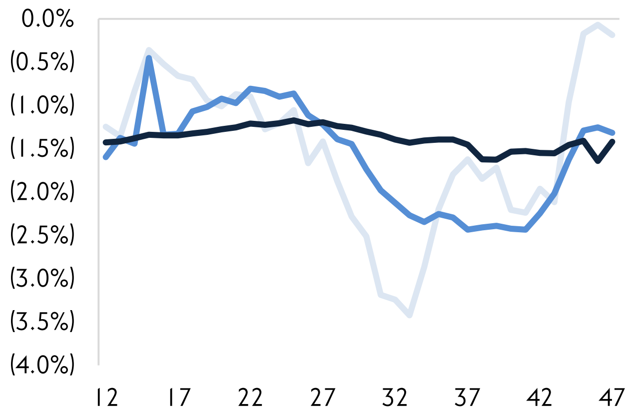
London Underground



52 week	12 week	4 week
1.2%	(1.0%)	(1.6%)

- LU year-on-year underlying journeys grew at 2.4% in the first half of 2019/20
- Since mid-October we have seen growth rates reducing
- Year-on-year demand growth down significantly to 1.2%; past 4 weeks have seen negative growth of (1.6%), a worsening from 12-week trend of (1.0%)

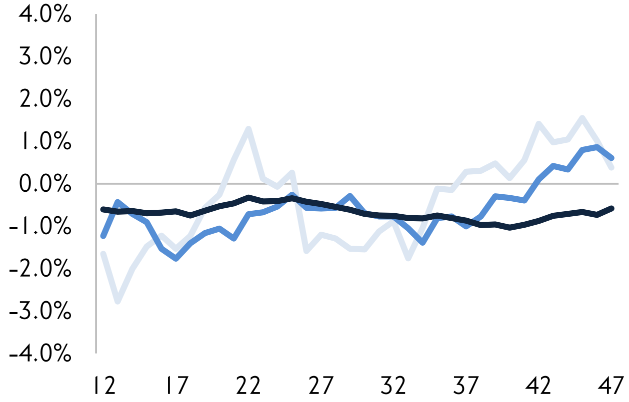
Buses



52 week	12 week	4 week
(1.4%)	(1.3%)	(0.2%)

- Bus demand had been declining this year, the rate of decline averaging (1.2%) to the end of Q2
- Underlying year-on-year now standing at (1.4%)
- Recent softness in journey demand appears to be driven from discretionary travel at weekends and evening

Rail (incl. London Overground, Trams and DLR)



52 week	12 week	4 week
(0.6%)	0.6%	0.4%

- Underlying year-on-year demand in line with first half of the year
- Recent trends showing some uplift, largely from higher demand on London Overground

Note: Journey numbers are very volatile during the holiday period therefore care should be taken when extrapolating these trends

Operating costs lower than revised Budget

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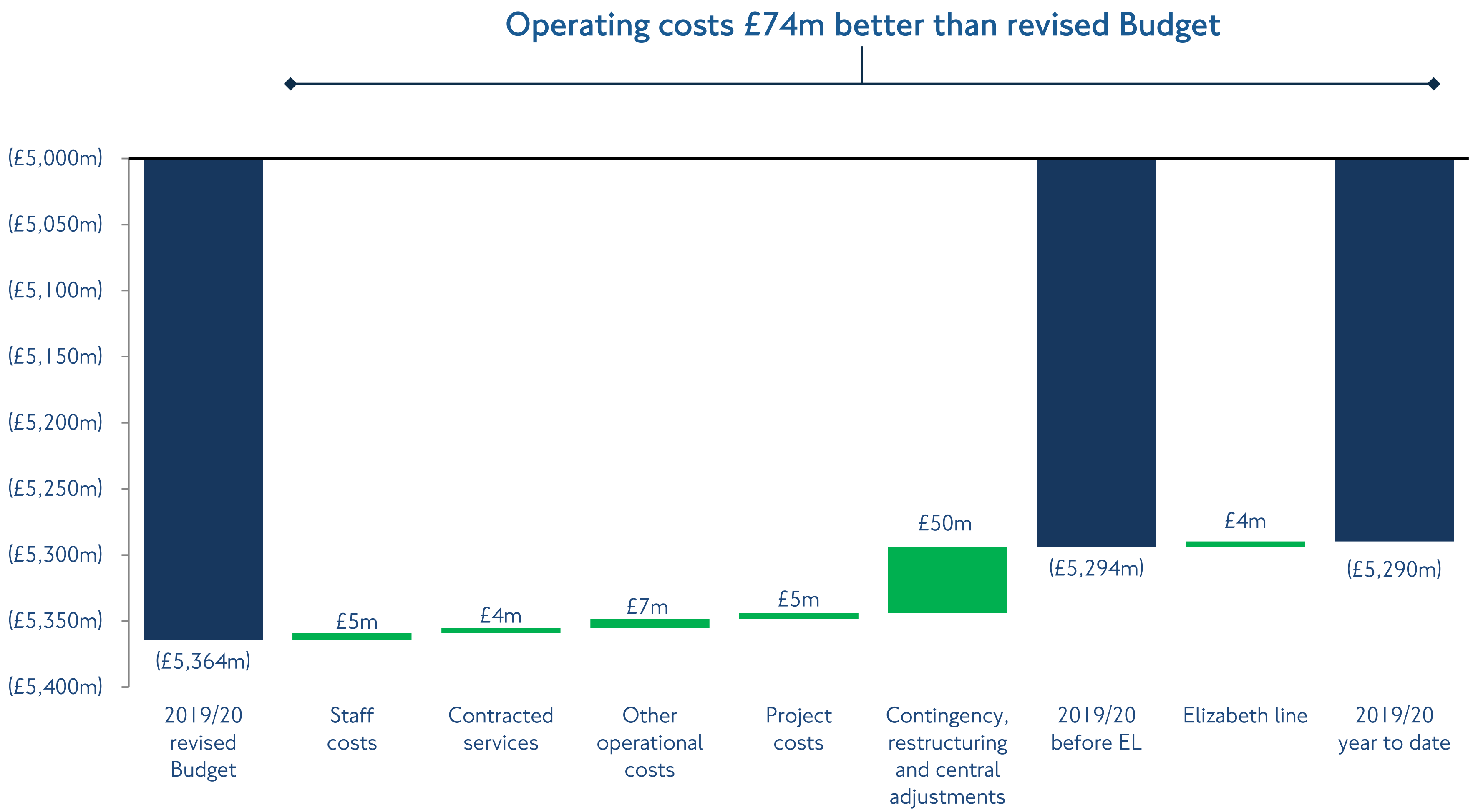
Operating costs improve following contingency release and cost reductions across most areas

Operating costs



Summary: headline performance ahead of revised Budget

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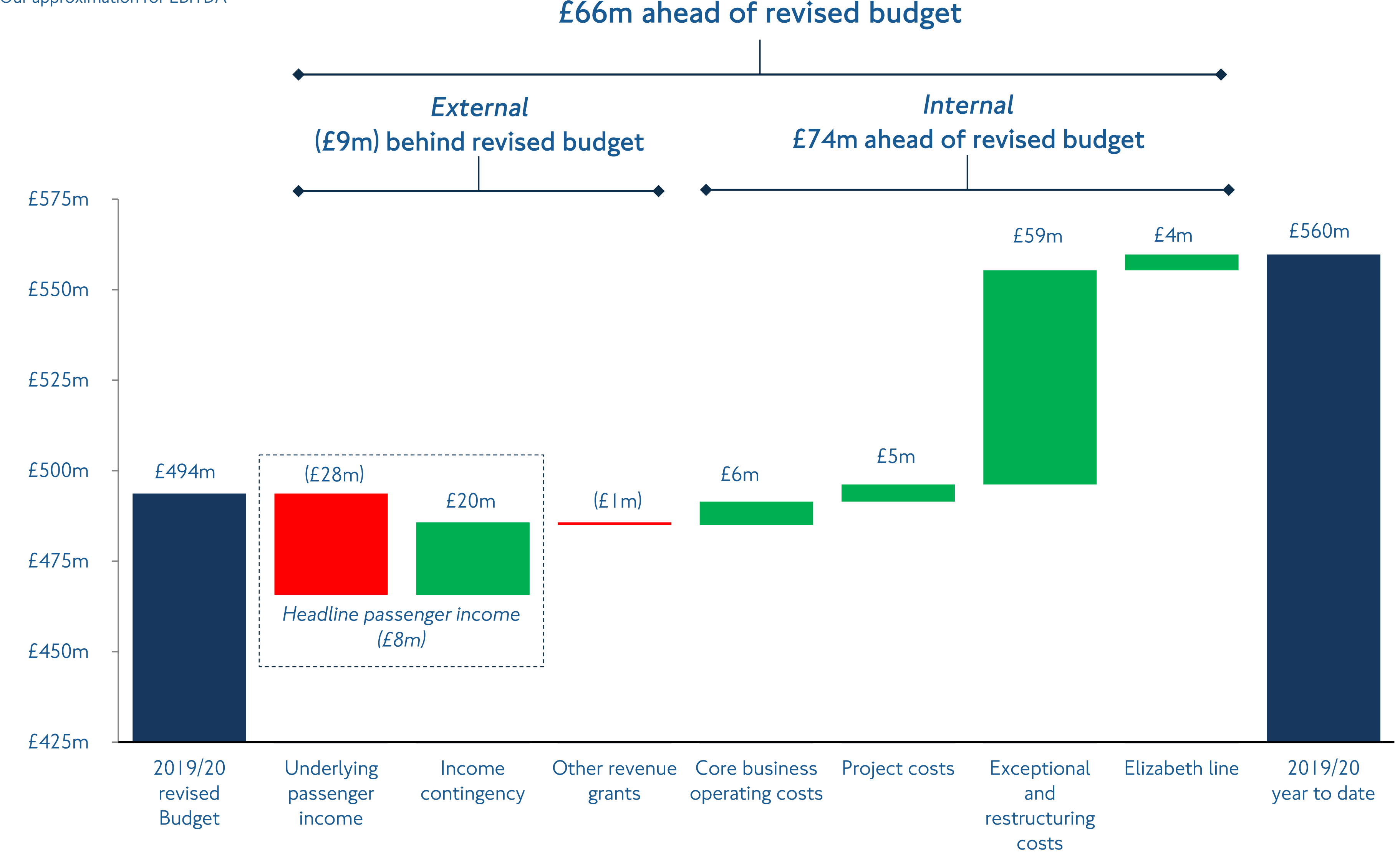
Lower underlying passenger income is offset by favourability in operating costs and revenue / cost contingencies

Net operating surplus

Our approximation for EBITDA



Capital spend continues to track below Budget

We do not expect project delivery dates to be impacted

£m	2019/20 YTD				2018/19 YTD	
Capital account	Actuals	Revised Budget	Variance	% variance	Last year actuals	Variance
New capital investment	(848)	(914)	66	7%	(1,105)	257
Crossrail	(880)	(907)	28	3%	(1,185)	305
Total capital expenditure	**(1,728)**	**(1,821)**	**94**	**5%**	**(2,290)**	**562**
Financed by:						
Investment grant	750	750	0	0%	820	(70)
Property and asset receipts	149	159	(10)	-6%	52	97
Borrowing	249	492	(243)	-49%	669	(420)
Crossrail funding sources	804	809	(5)	-1%	420	384
Other capital grants	161	161	0	0%	162	(1)
Total	**2,114**	**2,371**	**(257)**	**-11%**	**2,123**	**(9)**
Net capital account	**385**	**550**	**(164)**	**-30%**	**(168)**	**553**
TfL capital expenditure						
Capital renewals	(372)	(377)	5	1%	(316)	(56)
New capital investment	(848)	(914)	66	7%	(1,105)	257
Total capital expenditure	**(1,220)**	**(1,291)**	**71**	**5%**	**(1,421)**	**201**

Total costs of major projects are in line with our Business Plan

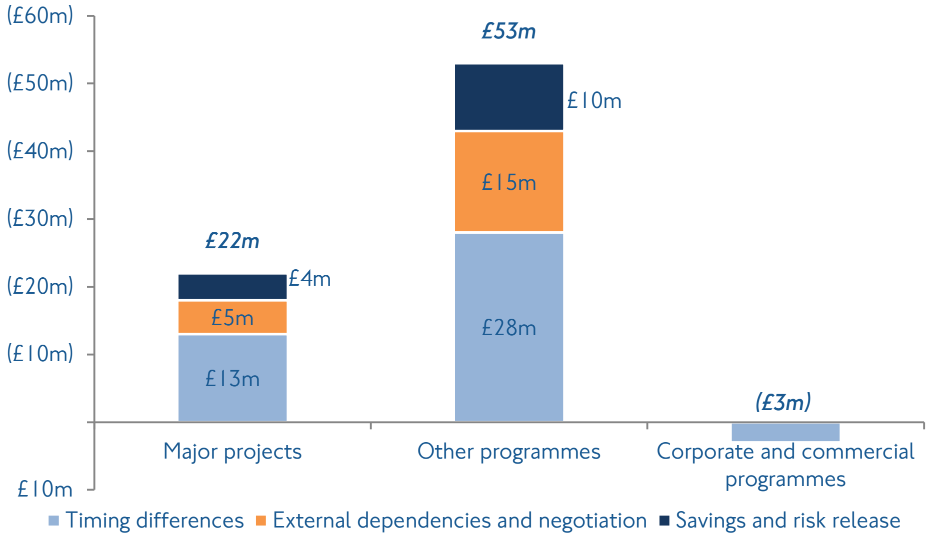
Key programme spend is below revised Budget from a combination of timing, risk release, as well as savings

£m	2019/20 YTD			Full programme costs				
Capital account variance by key programme *Capital renewals and new capital investment*	Actuals	Variance to revised Budget	% variance	Total spend to date	Costs to go	Estimated final cost (EFC, net capital)	EFC variance to 2019 Business Plan	
Major projects								
Northern Line Extension	(141)	(0)	0%	(823)	(235)	(1,057)	23	2%
Four Lines Modernisation	(210)	12	5%	(4,880)	(483)	(5,364)	(3)	0%
Major Stations *	(74)	10	12%	(487)	(181)	(668)	(5)	-1%
Railway Systems Enhancements	(12)	1	8%	(124)	(74)	(197)	(3)	-1%
Piccadilly line trains	(52)	(2)	-3%	(155)	(2,793)	(2,948)	8	0%
DLR Rolling Stock	(18)	4	16%	(33)	(565)	(598)	2	0%
Barking Riverside	(32)	(0)	-1%	(45)	(62)	(107)	(4)	-3%
Silvertown Tunnel **	37	3	9%					
Other Major projects	-	(6)	100%					
Elizabeth line – infrastructure	(16)	2	8%					
Other programmes								
Healthy Streets	(86)	16	15%					
LU capital	(299)	19	6%					
Surface - assets	(42)	0	1%					
Public Transport	(72)	1	2%					
Air quality schemes	(39)	8	17%					
Other Surface	(8)	7	48%					
Corporate programmes								
Tech & Data projects	(76)	2	3%					
Growth engines – property	(60)	2	3%					
Other Corporate projects	(18)	(7)	100%					
Total capital expenditure	**(1,220)**	**71**	**5%**					

* Bank station estimated final cost

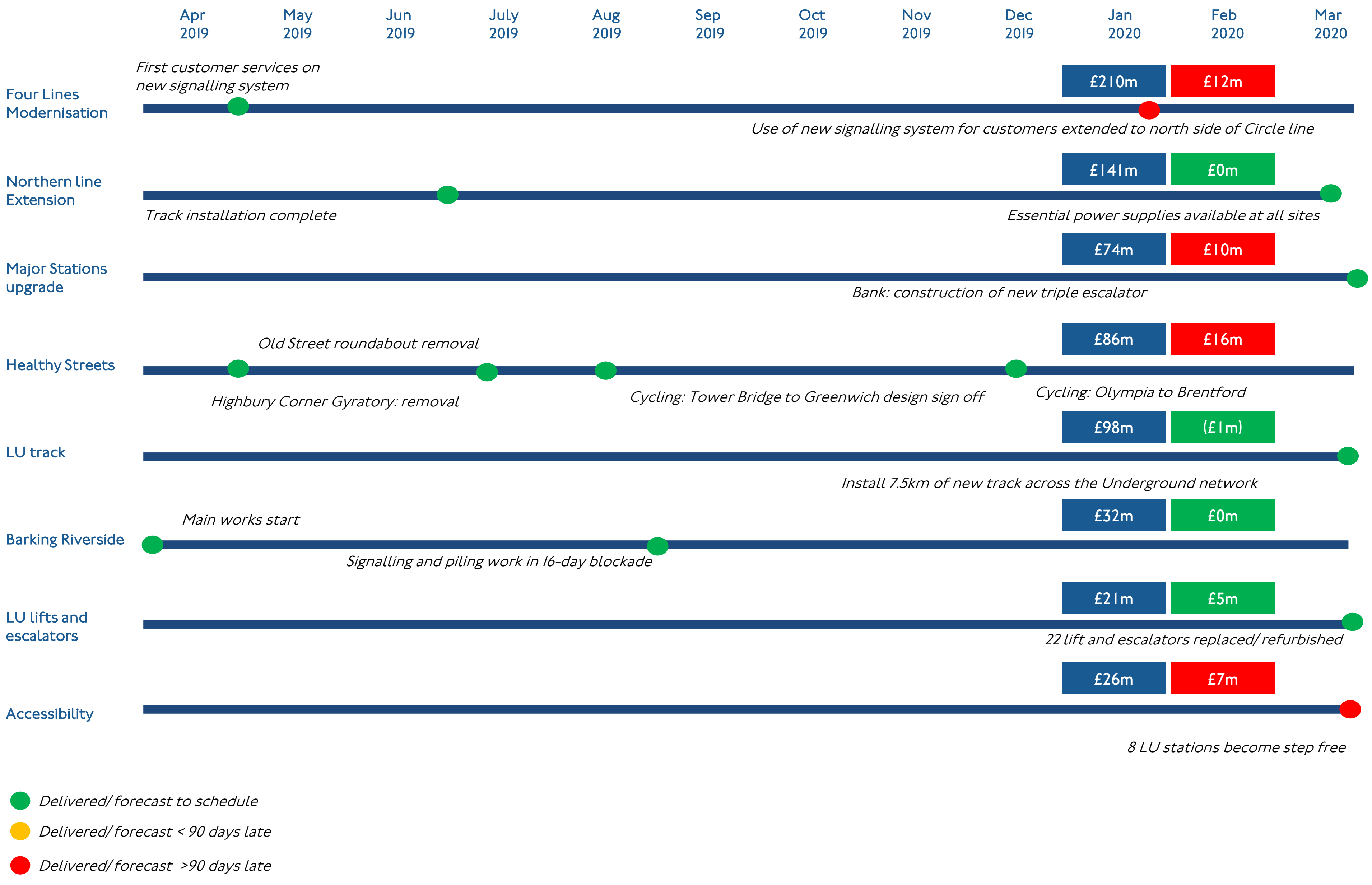
** Costs for 2019/20 include reimbursement of costs incurred in prior years EFC removed for commercial reasons

Variance to revised Budget by programme and cause



90% of the investment programme milestones are forecast to be achieved on time

Budget milestones



Section 2

Business Unit Review

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London Underground: lower passenger income and costs higher than target

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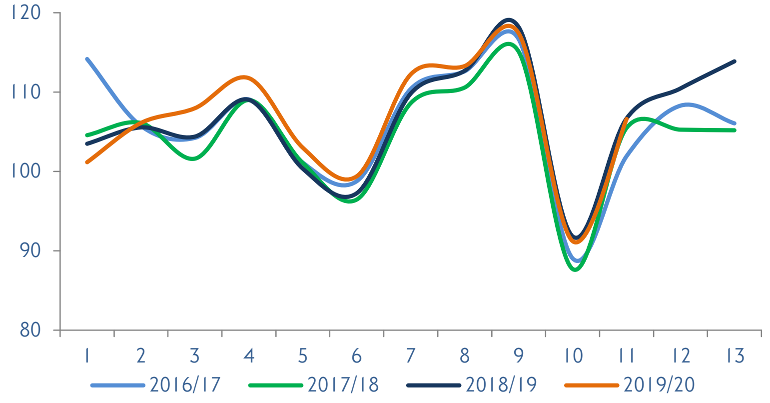
Passenger income down on revised Budget, mitigated by contingency release. Direct operating cost higher than the revised target

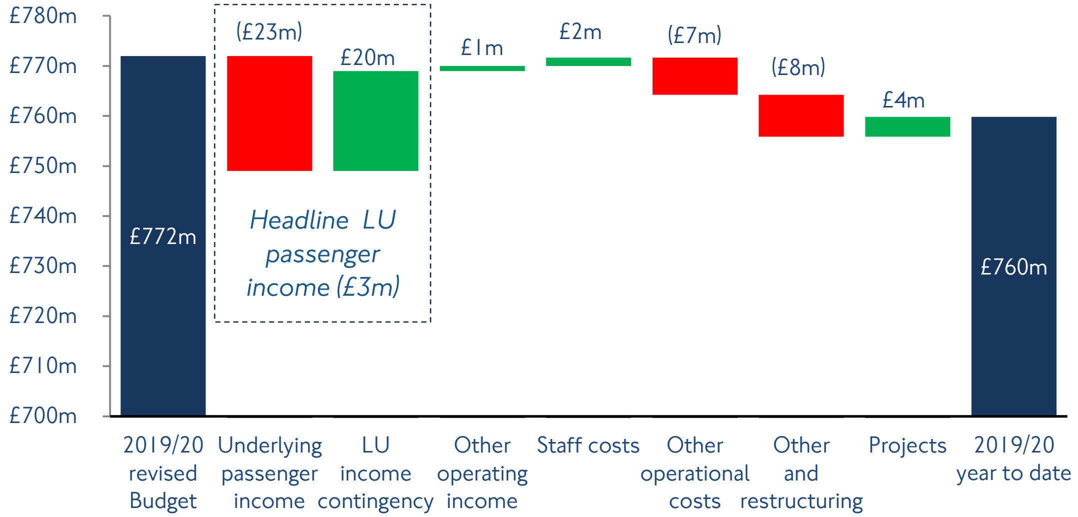
£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Revised Budget	Variance	% variance	Last year actuals	Variance	% variance
Passenger income	2,386	2,389	(3)	0%	2,298	88	4%
Other operating income	29	28	1	3%	25	4	14%
Total operating income	**2,415**	**2,418**	**(2)**	**0%**	**2,323**	**92**	**4%**
Direct operating cost	(1,655)	(1,646)	(9)	-1%	(1,674)	19	1%
Direct operating surplus	**760**	**772**	**(12)**	**-1%**	**650**	**111**	**17%**
Indirect operating cost	(284)	(344)	60	17%	(277)	(7)	-3%
Net operating surplus	**476**	**427**	**49**	**11%**	**372**	**104**	**28%**
Capital renewals	(258)	(268)	10	4%	(206)	(52)	-25%
New capital investment	(41)	(50)	9	18%	(35)	(6)	-18%
Total capital expenditure	**(299)**	**(318)**	**19**	**6%**	**(241)**	**(58)**	**-24%**

Passenger demand

LU underlying passenger journeys are 18 million lower than the revised Budget. Journeys trends are 1.2% up on last year, but the last 12 weeks has seen a year-on-year decline of (1.0%). Journeys in P11 were (0.1%) lower than P11, 2018/19.



Direct operating surplus



Elizabeth line: focus on opening of central section

£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Revised Budget	Variance	% variance	Last year actuals	Variance	% variance
Passenger income	98	97	1	1%	85	13	15%
Other operating income	8	8	(0)	-3%	17	(9)	-54%
Total operating income	**106**	**105**	**1**	**0%**	**102**	**4**	**3%**
Direct operating cost	(294)	(299)	5	1%	(183)	(111)	-61%
Direct operating deficit	**(188)**	**(194)**	**6**	**2%**	**(81)**	**(107)**	**-135%**
Indirect operating cost	(9)	(10)	1	10%	(9)	-	0%
Net operating deficit	**(197)**	**(204)**	**7**	**3%**	**(90)**	**(107)**	**-119%**
New capital investment	(16)	(18)	2	8%	(253)	237	94%
Crossrail construction	(880)	(907)	28	3%	(1,185)	305	26%
Total capital expenditure	**(896)**	**(925)**	**30**	**3%**	**(1,438)**	**542**	**38%**

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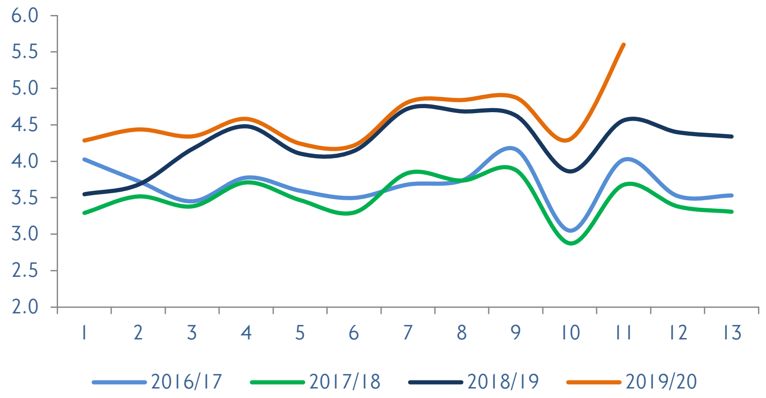
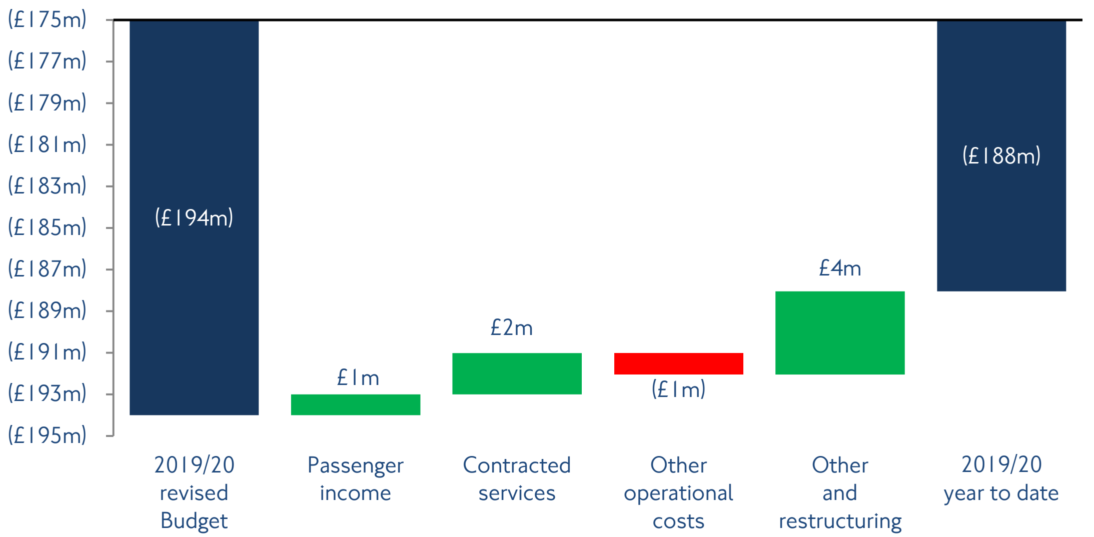
New services from Reading to Paddington began in December 2019 – journeys in line with revised Budget

Passenger demand

Underlying demand is 11.4% up on last year – from new Reading to Paddington services - and 0.5% better than the revised target. Period 11 had 1 million new journeys from new Reading to Paddington services



Direct operating deficit



Buses: better than target from cost control

Underlying passenger journeys 1.4 % behind last year; income up from increase in yield.

Direct operating costs up on last year, driven by inflation on bus contracts

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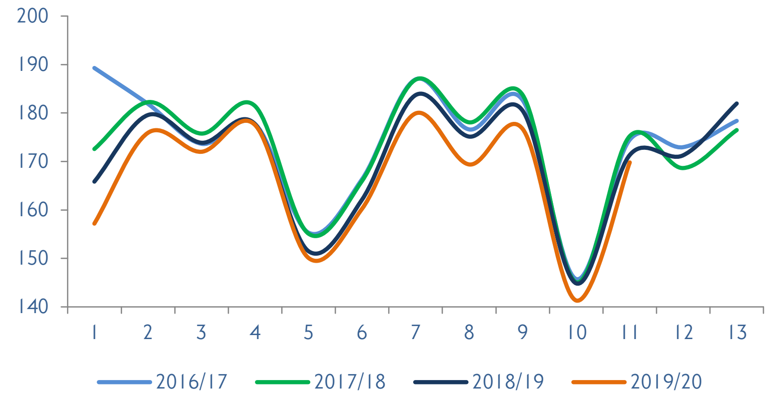
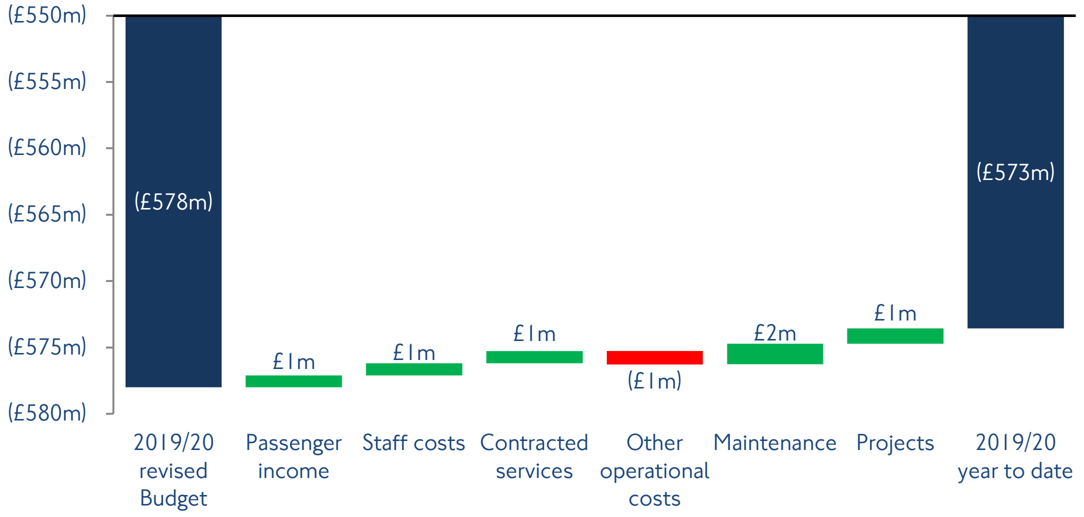
£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Revised Budget	Variance	% variance	Last year actuals	Variance	% variance
Passenger income	1,233	1,232	1	0%	1,236	(3)	0%
Other operating income	8	8	-	0%	10	(2)	-20%
Total operating income	**1,241**	**1,240**	**1**	**0%**	**1,246**	**(5)**	**0%**
Direct operating cost	(1,814)	(1,818)	4	0%	(1,782)	(32)	-2%
Direct operating deficit	**(573)**	**(578)**	**5**	**1%**	**(536)**	**(37)**	**-7%**
Indirect operating cost	(20)	(21)	1	5%	(21)	1	5%
Net operating deficit	**(593)**	**(599)**	**6**	**1%**	**(557)**	**(36)**	**-6%**
Capital renewals	(5)	(5)	-	0%	(1)	(4)	-400%
New capital investment	(11)	(14)	3	21%	(16)	5	31%
Total capital expenditure	**(16)**	**(19)**	**3**	**16%**	**(17)**	**1**	**6%**

Passenger demand

Year-to-date bus journeys are 14 million lower than revised target and 38 million lower than last year. Underlying journeys are 1.4% down on last year; Period 11 journeys (0.9%) lower than in 2018/19.



Direct operating deficit



Streets: improved year-on-year performance, but traffic volumes lower than target

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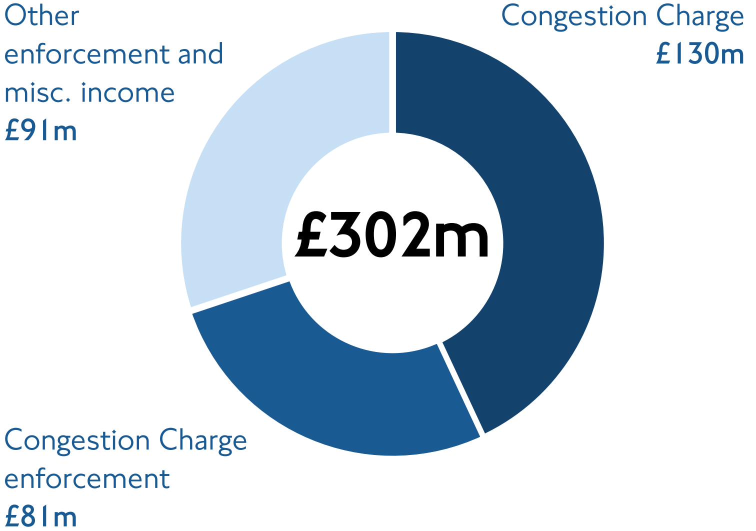
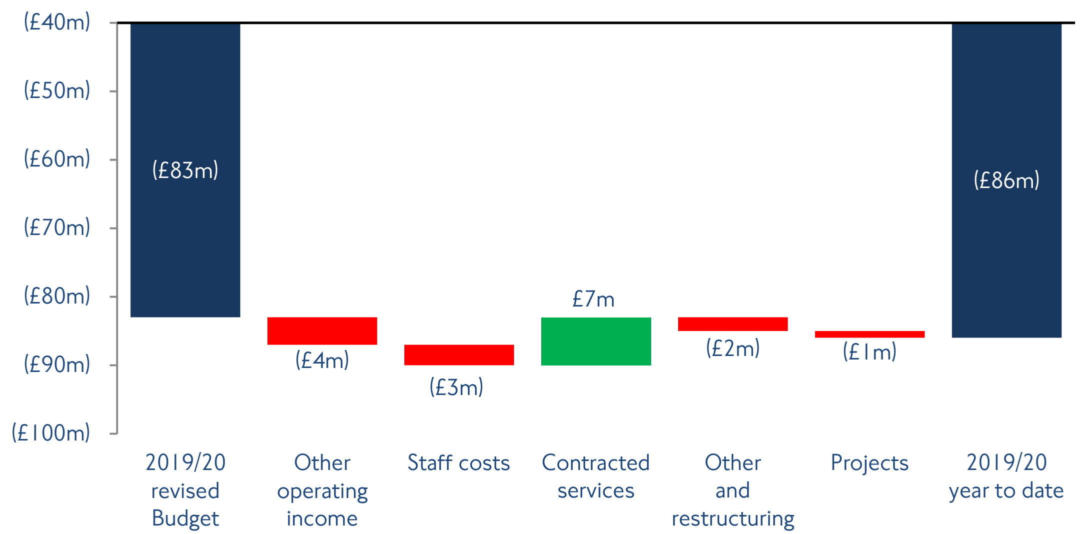
Streets income up on last year, but Congestion Charge levels and income down on revised Budget

£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Revised Budget	Variance	% variance	Last year actuals	Variance	% variance
Other operating income	302	306	(4)	-2%	272	33	12%
Total operating income	**302**	**306**	**(4)**	**-2%**	**272**	**33**	**12%**
Direct operating cost	(388)	(389)	1	0%	(397)	(0)	0%
Direct operating deficit	**(86)**	**(83)**	**(3)**	**-3%**	**(125)**	**33**	**26%**
Indirect operating cost	(62)	(68)	6	9%	(63)	1	2%
Net operating deficit	**(148)**	**(151)**	**3**	**2%**	(188)	34	18%
Capital renewals	(34)	(35)	1	3%	(28)	(6)	-21%
New capital investment	(98)	(121)	23	19%	(66)	(32)	-49%
Total capital expenditure	**(132)**	**(156)**	**24**	**15%**	**(94)**	**(38)**	**-41%**

Other operating income



Direct operating deficit



Other operations: lower than revised Budget

£m Operating account	2019/20 YTD Actuals	Revised Budget	Variance	% variance	2018/19 YTD Last year actuals	Variance	% variance
Passenger income	51	53	(2)	-2%	51	-	-
Other operating income	252	251	1	0%	122	130	1%
Total operating income	**303**	**304**	**(1)**	**0%**	**173**	**130**	**1%**
Direct operating cost	(234)	(228)	(6)	0%	(206)	(28)	0%
Direct operating surplus	**69**	**76**	**(7)**	**-1%**	**(33)**	**102**	**3%**
Indirect operating cost	(43)	(48)	5	2%	(43)	-	-
Net operating surplus	**26**	**28**	**(2)**	**-3%**	**(76)**	**102**	**1%**
Capital renewals	(23)	(25)	2	4%	(41)	18	2%
New capital investment	(87)	(91)	4	1%	(70)	(17)	-1%
Total capital expenditure	**(110)**	**(116)**	**6**	**1%**	**(111)**	**1**	**1%**

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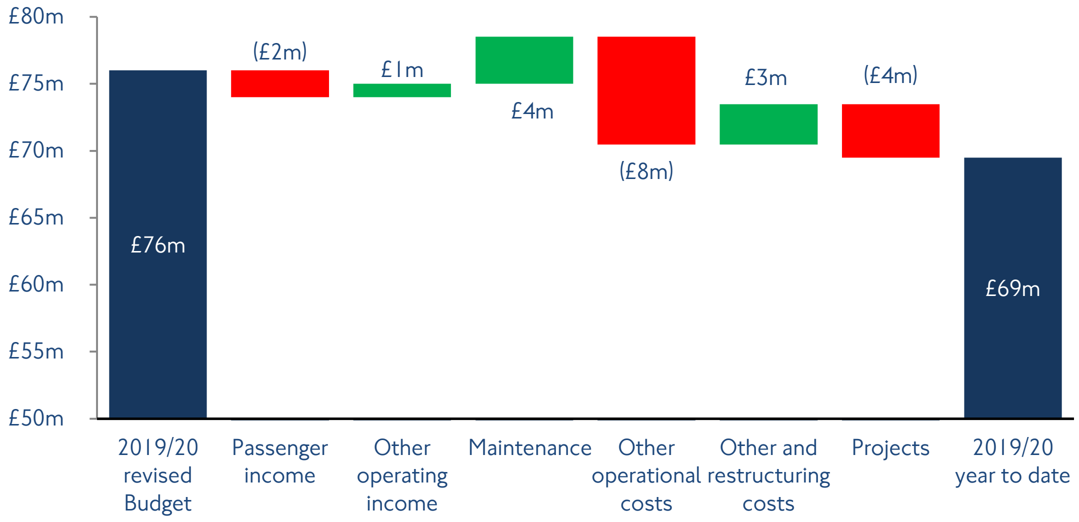
Operating cost higher than expected from increases in bad debt rates

ULEZ income and compliance

ULEZ performance	2019/20	Variance	% variance
Income (£m)	130.1	(1.2)	-1%
Vehicles in zone (millions)	34.0	(0.5)	-2%
Non-compliant vehicles (millions)	8.0	(0.2)	-2%
Compliance rates (%)	76.4%	0.0	0%

Direct operating surplus



Rail: in line with target, but journeys down

Broadly in line with revised target; lower DLR passenger income mitigated through higher other income and cost control

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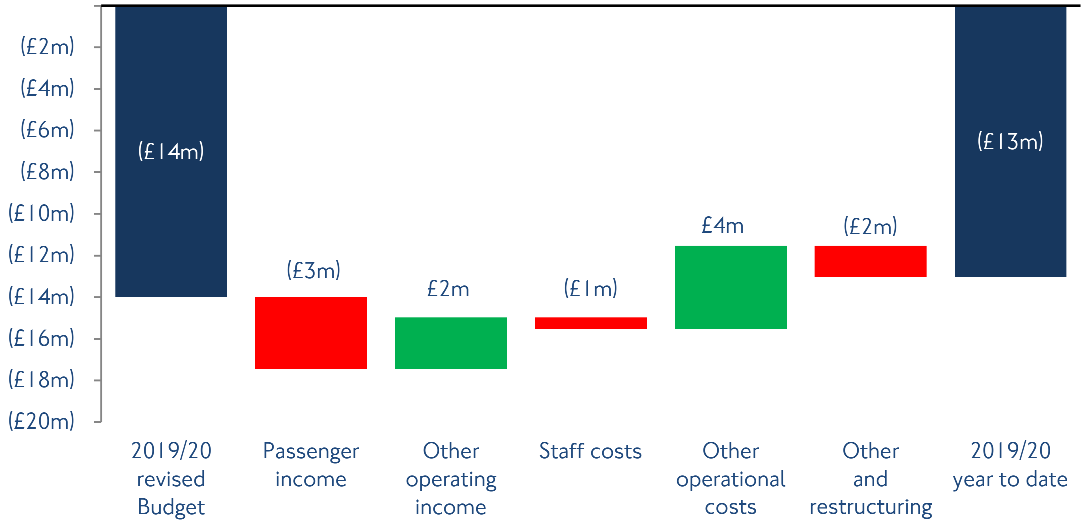
£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Revised Budget	Variance	% variance	Last year actuals	Variance	% variance
Passenger income	359	362	(3)	-1%	359	(0)	0%
Other operating income	21	19	2	13%	29	(8)	-28%
Total operating income	**380**	**381**	**(1)**	**0%**	**388**	**(8)**	**-2%**
Direct operating cost	(393)	(395)	2	1%	(375)	(18)	-5%
Direct operating deficit	**(13)**	**(14)**	**1**	**11%**	**13**	**(26)**	**-194%**
Indirect operating cost	(16)	(18)	2	11%	(17)	1	6%
Net operating deficit	**(29)**	**(32)**	**3**	**9%**	**(4)**	**(25)**	**-625%**
Capital renewals	(36)	(27)	(9)	-33%	(20)	(16)	-77%
New capital investment	(33)	(43)	10	23%	(30)	(3)	-9%
Total capital expenditure	**(69)**	**(70)**	**1**	**1%**	**(50)**	**(19)**	**-38%**

Passenger journeys

Millions	2019/20 YTD	Revised Budget	Variance
London Overground	158.1	158.6	(0.5)
DLR	101.4	102.7	(1.2)
London Trams	23.4	23.7	(0.3)

Millions	2019/20 YTD	2018/19 YTD	Year-on-year variance
London Overground	158.1	159.4	(1.3)
DLR	101.4	102.1	(0.7)
London Trams	23.4	24.3	(1.0)

Direct operating deficit



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Finance Committee

Date: **11 March 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 20 September 2019 to 21 February 2020 (the Reporting Period).

1.2 During the Reporting Period, we have complied at all times with the Treasury Management Strategy, the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments approved by the Board on 27 March 2019, 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 related paper on Part 2 of the agenda.**

3 Market Update

3.1 The Government's re-election by majority facilitated the UK's departure from the European Union on 31 January 2020. The increased political certainty was initially received positively by financial markets. However, subsequent economic data releases, including growth and inflation figures, showed a weaker economic outlook. Over the Reporting Period, Sterling was less volatile than in the previous reporting period. GBPEUR and GBPUSD have appreciated by 3.5 per cent and 4.9 per cent respectively.

3.2 The weaker than expected economic data and comments from the Monetary Policy Committee (MPC) voting members increased the expectation that the Bank of England (BoE) would cut interest rates from 0.75 per cent to 0.5 per cent, however interest rates were held at the January meeting. 10 and 20 year Gilt yields have fallen over the reporting period from 0.65 per cent to 0.55 per cent and 0.97 per cent to 0.89 per cent respectively.

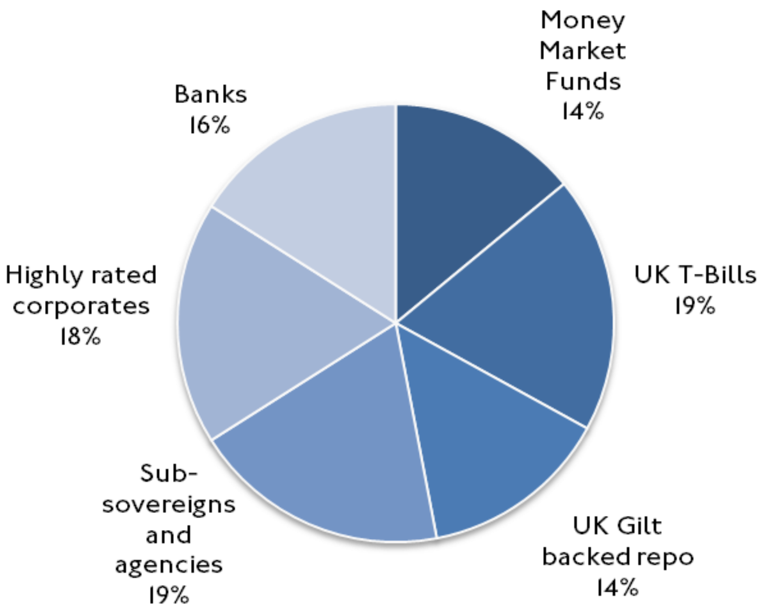
4 Investment Update

Cash under management

4.1 Cash under management was broadly unchanged over the Reporting Period. As at 21 February 2020, we held a balance of £2.1bn (including £84.1m for Crossrail). During the Reporting Period the cash balance remained above the minimum cash balance for the year ending 31 March 2020 of £1.1bn, ensuring sufficient liquidity for TfL to discharge its financial obligations in accordance with approved budgets.

4.2 The investment yield as at 21 February 2020 was 0.75 per cent and the weighted average maturity of the portfolio is 42 days. Investments are well diversified by sector, instrument and geography. The allocation of cash is shown in chart 1 below.

Chart 1: Cash investment allocation as at 21 February 2020



5 Borrowing Update

Current borrowing

5.1 As at 21 February 2020, we had £11,503m outstanding borrowing with a weighted average maturity of 19 years and an average interest rate of 3.5 per cent. We have remained within the Authorised Limit for borrowing at all times during the Reporting Period.

5.2 During the Reporting Period we received £100m from Export Development Canada (EDC) under our ATC Signalling facility that was previously fixed for drawdown on 8 April 2019. We also increased our outstanding commercial paper balance by £160m.

PWLB rate increase

5.3 On 9 October 2019 HM Treasury announced that the Public Works Loan Board (PWLB) lending margin was increasing by 1 per cent with immediate effect. This increased the rate at which we could borrow from the PWLB, from 0.8 per cent above the government gilt yield to 1.80 per cent above the government gilt yield.

Remaining borrowing for 2019/20

5.4 The full year borrowing requirement for 2019/20 is £691m. Year to date borrowing and the remaining borrowing for 2019/20 is detailed in the table below.

Table 1 – 2019/20 remaining borrowing requirement

Description	**£m**
2019/20 incremental borrowing per latest funding settlement	500
Refinancing of maturing debt	147
Borrowing up to the headroom created by amortisation of finance lease liabilities	44
Borrowing requirement for 2019/20	**691**
Borrowing drawn (year to date):	
PWLB (at Certainty rate of G+80bps before PWLB increase)	100
PWLB (at Local Infrastructure Rate of G+60bps)	70
EDC ATC Signalling facility	100
Increase in commercial paper	160
Total drawn for 2019/20	**430**
Remaining requirement for 2019/20	**261**

6 Credit ratings

6.1 Our credit ratings as at 21 February 2020 are shown in the Table 2.

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

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

6.2 On 17 December 2019, Standard &Poor's (S&P) revised the outlook on the UK's credit ratings from Negative to Stable. S&P believes the new Government's stronger mandate to progress through the next stage of Brexit negotiations reduces the potential for a disruptive no-deal departure. They assume that the UK will request (and the EU will grant) an extension to the transition period beyond December 2020. There was no change to the Negative outlook on our credit rating.

6.3 On 23 December 2019, Fitch affirmed our credit rating at 'AA-' and removed it from Rating Watch Negative (RWN), where it had been since February 2019. The removal from RWN reflected the affirmation of the UK's 'AA' credit rating. While the UK's rating remains on Negative outlook, our outlook is now Stable. Fitch has confirmed that currently they do not expect that a single-notch downgrade of the UK sovereign would impact TfL's 'AA-' credit rating.

6.4 There have been no changes to our credit rating from Moody's during the reporting period.

7 Risk Management Update

Interest Rate Risk

7.1 As at 21 February 2020, floating rate debt comprised 3.5 per cent of total borrowing outstanding, which is in line with the Board approved Prudential Indicator for the upper limit on variable rate borrowing of 25 per cent.

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: Paul Mason, Group Treasurer
Number: 020 7535 5321
Email: paul.mason@tfl.gov.uk

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Finance Committee

Date: **11 March 2020**

Item: **Treasury Management Strategy 2020/21**

This paper will be considered in public

1 Summary

1.1 This paper sets out the proposed Treasury Management Strategy (TMS) for 2020/21. The TMS 2020/21 comprises the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits. This paper supports the TfL objective of prudence and financial sustainability.

1.2 Approval of the TMS and the related Treasury Management and Derivative Investment Policies (elsewhere on the agenda) are matters reserved to the Board. Given the ability of the Committee to review the TMS and related policies in detail, it is suggested that the Board at its next meeting delegate approval of the TMS and related policies to the Committee going forward. For approval of the TMS and related policies this year, subject to any views of the Committee and a delegation by the Board, these will be approved by the Chair under Chair's Action.

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 paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL.

2 Recommendations

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

(a) recommend that the Board delegate approval of the Treasury Management Strategy (TMS) for 2020/21 and future years, and any changes to the TMS during the course of any year to the Finance Committee;

(b) subject to a delegation of authority from the Board, that the Chair approves the TMS 2020/21, attached at Appendix 1, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits;

(c) note that the proposals to the Committee for derivative investments set out in Recommendation 2.1(d) have been approved by the Chief Finance Officer, as required under the TfL Group Policy Relating to the Use of Derivative Investments (the 'Derivatives Policy'); and

(d) subject to the approval of TMS 2020/21 and the Derivatives Policy, approve, pursuant to Section 49 of the Transport for London Act 2008 (as

amended by the Transport for London Act 2016, together the Act, and in accordance with the Derivatives Policy) for 2019/20 (or 2020/21 as may be 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:

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

(ii) mitigating exchange rate risk arising from any TfL Group investments in foreign currencies in accordance with the TMS 2019/20 (or 2020/21 as may be applicable at such time);

(iii) 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;

(iv) mitigating interest rate risk and if applicable currency risk related to any existing, imminent and future TfL Group borrowing (including any leases), once the borrowing has become certain and authorised in accordance with the TMS 2019/20 (or 2020/21 as may be applicable at such time);

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

(vi) mitigating risk related to any index reflecting any of the above matters referred to in paragraphs (i) to (v).

3 Treasury Management Strategy 2020/21

3.1 The TMS 2020/21 includes TfL’s proposed strategies for investment, borrowing, liquidity and risk management for the financial year 2020/21, as well as proposed counterparty exposure limits. It sets out TfL’s borrowing requirement for 2020/21. There are no major changes to the TMS compared to the 2019/20 TMS.

3.2 All references to ‘investments’ in the TMS 2020/21 refer to investments held for treasury management purposes only and do not cover non-treasury related investments. Non-treasury related investments are covered in a separate paper.

4 Market outlook

4.1 The economic outlook for the United Kingdom (UK) continues to be sensitive to domestic and international political developments. Negotiations between the UK and European Union on a future trade agreement will take place in 2020 and are expected to cause market volatility, which may impact our borrowing, investment and risk management programmes. Financial markets currently price a 50 per cent chance of the Bank of England (BoE) cutting interest rates from 0.75 per cent to 0.50 per cent by August 2020. A cut in interest rates could result in weaker Sterling and lower gilt yields in the short-term, however other factors would have an impact on the longer-term outlook. UK CPI inflation remains below the BoE's target of 2-3 per cent and increases the likelihood of easing monetary policy.

4.2 An interest rate cut by the BoE would reduce both our interest income and the cost of floating rating debt. A depreciation of Sterling relative to other currencies, particularly Euro and Canadian dollars would increase procurement costs denominated in foreign currency. A fall in gilts yields would reduce the interest costs of TfL's future planned borrowing from certain sources. Table 1, produced by a leading UK bank, shows a range of potential outcomes from the UK and European Union trade negotiations.

Table 1 – Potential outcomes of UK and European Union negotiations on financial markets

Trade outcome	Description	GBPEUR	BoE interest rate	10 year Gilts
No deal	World Trade Organisation tariffs apply. Significant near term disruptions and costs.	**-13%**	**- 0.65%**	**-0.50%**
Canada arrangement	Basic free trade agreement with 0 per cent tariffs and a degree of regulatory alignment for manufactured goods but no comprehensive arrangements for trades in services and labour mobility. Likely to impose significant disruption and costs in some sectors of the economy in the near term, including financial services and transportation.	**-4%**	**-0.25%**	**-0.20%**
North-Atlantic arrangement	Canada deal but including some provisions for services and/or allowing some freedom of movement.	**+3%**	**+0.25%**	**+0.30%**
Norway	'Softest' of trade outcomes. Full access to the Single Market and full regulatory alignment, acceptance of the European Court of Justice jurisdiction, paying a contribution to the E.U.	**+13%**	**+0.75%**	**+0.70%**

5 Investments

5.1 Investment returns are expected to be marginally lower in 2020/21 than 2019/20. While the investment cash balance is expected to remain broadly stable, interest rates are projected to fall. If the BoE cuts the base rate to 0.50 per cent, as expected, this would lower investment income. We will continue to prioritise security before liquidity and liquidity before yield.

5.2 Investment yields will continue to be influenced by market supply and demand of Sterling debt relative to other currencies, primarily Euro and GBP. The attractiveness of investing in Euro or US Dollar securities will vary depending on the FX forward market.

5.3 We will utilise the new 12 month cash forecast to extend investment tenor when appropriate. Investing cash beyond 3 months allows access to a greater variety of investment counterparties and therefore assists with the diversification of the investment portfolio.

Environmental, social and governance (ESG) investment funds

5.4 We expect to see a continued focus on ESG investments and policies in 2020/21. The United Nations Climate Change Conference will be held in the UK in 2020 and ESG has been selected by the Association of Corporate Treasurers as its key theme this year. In addition, the EU's non-financial reporting directive introduces new environmental and sustainability reporting requirement for large organisations which comes into force on 1 January 2021. A number of fund managers have already launched ESG specific funds and we expect an increase in product offerings across the industry. While we continue to comply with the GLA Responsible Investment Policy, we are exploring opportunities to invest in ESG products.

Investment yield benchmark

5.5 The investment portfolio will continue to be benchmarked against the market standard seven day London Interbank Bid Rate (LIBID) for FY 2020/21. LIBID is calculated from the daily published London Interbank Offer Rate (LIBOR), which will be discontinued from 2022. Money Market Funds, currently using seven day LIBID, have indicated they will change to the Sterling Overnight Index Average (SONIA) in the near future. We expect to change our benchmark for investment purposes to SONIA in 2021/22.

6 Borrowing

2020/21 Borrowing requirement and sources

6.1 All our loan facilities with the European Investment Bank (EIB) and Export Development Canada (EDC) have been fully utilised and we do not expect to agree any further facilities in the short term. We are still able to borrow from the Public Works Loan Board (PWLB), although since the increase in PWLB lending margin on 9 October 2019 to 1.8 per cent above the government gilt yield, the interest rates available have been materially higher than other borrowing sources.

6.2 We are able to issue public debt under our £5bn Medium Term Note programme and will consider issuing public bonds or private placements under this documentation. We will also continue to use our active commercial paper programme as a source of borrowing in 2020/21. This £2bn programme can be used to issue debt for periods of up to 12 months.

Borrowing limits beyond 2020/21

6.3 The latest spending review was held in 2015, and our current funding settlement expires at the end of 2020/21. Further to the £580m incremental borrowing agreed with Government, the latest Business Plan assumes we will borrow £500m in each year of 2021/22 and 2022/23, although this will be subject to agreement with the Government and the Mayor.

6.4 In addition to planned incremental borrowing, we will continue to refinance our maturing borrowing. We will also refinance the scheduled amortisation of existing finance leases up to the amount that our incremental borrowing was reduced by following the recognition of a stream of payments under the JTC Victoria Line Upgrade contract in 2018/19. The re-borrowing of finance lease amortisation is expected to end in 2022/23, once the impact of the JTC Victoria Line Upgrade contract has been fully mitigated.

Table 2: Expected refinancing requirement

£m	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Refinancing of maturing borrowing	113.5	164.1	659.1	128.9	176.6	1242.2
Re-borrowing of scheduled finance lease amortisation	22.0	19.0	6.2	-	-	47.2
Total refinancing	135.5	183.1	665.3	128.9	176.6	1289.4

7 Liquidity management

7.1 The Liquidity Policy is expected to require a minimum cash balance of £1.1bn[1] for the year ending 31 March 2021, and an average of £1.2bn over the Business Plan. For financial planning purposes, we also aim to hold a £600m risk buffer in addition to the minimum cash reserve, for ‘known unknowns’, being risks we are aware of. The latest 12 month cash forecast shows that the cash balances are expected to stay consistently above this level. In order to meet our liquidity needs we mainly rely on cash balances (including short-term liquid investments), supplemented by a bank overdraft, access to commercial paper and PWLB.

[1] Based on the operating costs of £6,618m in the December 2019 Business Plan for the year ending 31 March 2021. The actual requirement will be based on the approved 2020/21 Budget.

8 Risk Management

Foreign exchange

8.1 We work in conjunction with Commercial to identify and manage foreign exchange (FX) exposures in procurements through the tendering and contracting process. There is often a long lead time before a final bidder is selected and a contract is awarded. This is usually the earliest opportunity to agree a Sterling fixed price with the supplier. Mitigating FX risk using forward contracts, which provides maximum cost certainty, is not permitted until the exposure is highly probable. The latter option often offers a saving due to TfL's strong credit rating.

8.2 FX risk can be reduced by purchasing FX options, which effectively would work as a floor or a cap and would require an upfront cost outlay. The recommendation to purchase an FX option would only be made when both the size of the exposure and the risk of the foreign exchange rate moving adversely are significant.

8.3 Foreign exchange guidance, available to commercial managers as part of the Pathway toolkit, is being reviewed and updated. It provides information on FX risk identification and management. It is critical for commercial managers to be aware of FX risk and notify Treasury to ensure costs and risks are minimised and controlled. We are establishing if best practices can be integrated into the Business Case Development and TfL estimating processes. The update will be communicated to commercial managers, finance business partners and stakeholders through presentations.

Commodities and inflation

8.4 While we have some exposure to prices of certain commodities, including iron ore, copper and coking coal, we currently assess the aggregated quantum of this exposure as not significant for TfL. Where appropriate, derivative instruments will be considered on case by a case basis in order to provide cost certainty to a project.

8.5 A detailed evaluation of the historic natural offset of inflation exposures across TfL is required before effective risk mitigation strategies can be developed and implemented. Multiple indices are currently referenced in supplier contracts and will need to be reviewed and quantified. The review will require the support and involvement of multiple stakeholders.

9 Regulation

9.1 The Securities Financing Transactions Regulation (SFTR) is a new EU reporting regulation aimed at improving transparency in the repo and securities lending market. We are affected by this regulation, as we invest our cash balances in certain tradeable financial instruments (securities), such as commercial paper, and repo. Compliance with SFTR involves significant reporting requirements in relation to individual treasury investments and will have to be in place by 11 January 2021. Set up will require extensive resource but once implemented will require minimal maintenance.

List of appendices to this report:

Appendix 1: Treasury Management Strategy 2020/21

List of background papers:

None

Contact Officer:	Paul Mason, Corporate Finance and Strategy Director, Finance (interim)
Number:	0207 535 5328
Email:	Paul.mason@tfl.gov.uk

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TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2020/21

1 SUMMARY

1.1 This Treasury Management Strategy (TMS) 2020/21 comprises the:

(i) Investment Strategy;

(ii) Borrowing Strategy;

(iii) Liquidity Strategy;

(iv) Risk Management Strategy; and

(v) Counterparty Exposure Limits.

2 BACKGROUND

2.1 The TMS 2020/21 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017;

(ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017; and

(iii) the Statutory Guidance on Local Government Investments (the 'Investments Guidance') issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in 2018, with respect to treasury investments.

2.2 As recommended by the Treasury Management Code, this strategy will be updated at least annually and submitted for the approval of the Board.

3 POLICIES AND DELEGATIONS

3.1 The TMS 2020/21 will be implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments approved by the Board.

3.2 The arrangements for the implementation, execution, operation and administration of the TMS 2020/21, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer[1], Director of Corporate Finance and Group Treasurer, provided no decision contravenes the TMS 2020/21, the Treasury Management Policies, the TfL Group Policy Relating to the Use of Derivative Investments.

4 STRATEGIC OBJECTIVES

4.1 The objectives underpinning the TMS 2020/21 are:

(i) to ensure that sufficient cash and liquidity facilities are available to enable TfL to discharge its financial obligations when they become due, in accordance with approved budgets;

(ii) to undertake treasury management operations with primary regard for the security and liquidity of capital invested;

(iii) to maximise the yield from investments consistent with the security and liquidity objectives identified above;

(iv) to undertake treasury management activities having regard to Prudential Indicators (including Treasury Management Indicators) and to remain at all times within the Authorised Limit for external borrowings;

(v) to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money;

(vi) to support TfL's commitment to maintaining its credit rating relative to that of the UK Government as it recognises the value of its strong credit rating; and

(vii) to use TfL subsidiaries' statutory power relating to risk management to manage financial market risks across TfL, with the primary objective of reducing volatility or increasing certainty in the Business Plan and achieving greater value for money through reducing costs or protecting revenues.

5 INVESTMENT STRATEGY

5.1 The Investment Strategy will be applied in accordance with the TMS 2020/21 strategic objectives listed in 4.1.

5.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds, the overriding principle being the prioritisation of security before liquidity and liquidity before yield.

5.3 Where possible, TfL will seek to maximise active investment in counterparties, rather than passive investments held through Money Market Funds (MMFs). This allows greater control over the quality of investments, may allow higher

[1] References to managing Chief Finance Officer in this document mean the Managing Director (Chief Finance Officer).

returns, and reduces fees. Some MMF investments will still be required for liquidity purposes.

5.4 The maturity profile of investments will reflect the expected cash flow requirements of TfL and accommodate for forecast variability.

5.5 All investments will have a maximum tenor of one year and at the time of investment will be rated a minimum of A-2, P-2 or F2 by Standard & Poor's, Moody's or Fitch Ratings credit rating agencies, with no more than 20 per cent of the portfolio invested in counterparties with a credit rating of less than any of A-1, P-1 or F1.

5.6 TfL will consider the risk of its overall portfolio as well as individual investments, seeking to diversify its investments as much as possible and have regard to the exposure to any one counterparty, country, industry, investment type, and credit. TfL will target allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time.

5.7 TfL will invest in instruments including: sovereign Treasury bills and bonds, UK Debt Management Office deposits, repurchase agreements, bank deposits, certificates of deposit, bonds, commercial paper, floating rate notes, MMFs or any other instrument allowing TfL to achieve the objectives set out in 4.1. Due to the short term nature of TfL's investments and the desire not to lose any principal, TfL will not invest in equity.

5.8 TfL may invest in non-sterling denominated investments where:

(i) currency is bought in advance of a payment or payments in that currency, or where the currency is otherwise received and TfL can identify other future expenditures in that currency to offset against; or

(ii) instruments denominated in currencies other than Sterling are swapped back to GBP as a matter of course.

5.9 TfL will generally hold investments to maturity, however where the Director of Corporate Finance or the Group Treasurer deems it appropriate, TfL may seek to break or resell fixed term investments early (including where doing so will result in TfL incurring penalties or crystallising a loss), in order to protect TfL against potential losses, meet unexpected liquidity requirements, improve its investment return or for ethical or reputational reasons.

5.10 TfL will seek to achieve year to date returns greater than the year to date average benchmark of seven day London Interbank Bid Rate (LIBID), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as MMFs.

6 BORROWING STRATEGY

6.1 The Borrowing Strategy will be applied in accordance with the TMS 2020/21 strategic objectives listed in 4.1.

6.2 TfL's objective is to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money.

6.3 TfL's annual borrowing requirement, set out in Table 1 for 2020/21, is driven by the financing requirement of its capital investment programme and the refinancing of its maturing debt.

Table 1 – 2020/21 borrowing requirement

Description	£m
2020/21 incremental borrowing per latest funding settlement	580
Refinancing of debt maturing within 12 months, including rolling short-term commercial paper	235
Borrowing up to the headroom created by amortisation of finance leases	22
Borrowing requirement for 2020/21	**837**
EDC Rolling Stock and Depot loan facility – fixed for drawdown in June 2020	100
Remaining requirement for 2020/21	**737**
Crossrail borrowing under the £750m DfT loan facility	up to 750

6.4 The annual increase in total outstanding borrowing will be within the incremental borrowing limits set out in the March 2017 funding letter from Central Government. To the extent that permitted incremental borrowing is not required in 2020/21, it may be deferred to the following financial year, subject to notification to HM Treasury eight weeks prior to the end of 2020/21.

6.5 TfL will borrow under the £750m loan facility provided by the Department for Transport for Crossrail purposes. This facility has been made available to TfL as part of the additional Crossrail financing package agreed in December 2018. It can only be accessed once the £1.4bn grant provided by the GLA has been fully utilised by Crossrail Limited (CRL). The borrowing will be undertaken on a periodic basis and the exact amounts will be matched to CRL's cash requirements in 2020/21 up to the total of £750m.

6.6 The notional amount of outstanding debt is expected to be £12,321m at the end of 2020/21, excluding any amounts drawn under the £750m DfT Crossrail facility described above.

6.7 The total value of outstanding borrowing and other long-term liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board (as required by the Local Government Act 2003).

6.8 TfL seeks to achieve its borrowing objectives by maintaining access to capital markets through its Euro Commercial Paper programme, Euro Medium Term Note programme and stand-alone capital market transactions, and complementing this with loans and other facilities from financial institutions where appropriate. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (or any future body replacing it), a readily available source of liquidity. Other sources of finance will be used where they further TfL's stated objectives.

6.9 As debt service represents a relatively significant part of TfL's annual expenditure, a high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement. While fixed rates of borrowing are generally preferred, as they provide more certainty, TfL will assess the merits of having a certain amount of floating debt, where it is consistent with the borrowing and risk management objectives. TfL aims to have at least 75 per cent of all outstanding borrowing at fixed interest rates and up to 25 per cent of borrowing at variable rates.

6.10 All borrowing is expected to be drawn in Sterling, as currently permitted by HM Treasury. Should TfL receive HM Treasury approval to raise debt in foreign currencies, any foreign currency exposures arising from such borrowing will be subject to risk mitigation measures consistent with the principles of the Risk Management Strategy.

6.11 Given the long life of the majority of the assets financed by TfL, TfL's objective is to have a weighted average tenor of debt of at least 15 years. TfL will aim to structure its borrowing in a way that avoids large concentrations of debt of the same maturity in order to minimise the refinancing risk. The limits for maturity structure of borrowing are set out on annual basis, as suggested by the Treasury Management Code, and are the subject of a separate Prudential Indicators document approved by the Board.

6.12 TfL will consider opportunities to arrange loan facilities that enable drawdowns of debt in future years. Where TfL has the ability and option to do so, and where it is consistent with future borrowing limits agreed with the Government, it will consider fixing the borrowing for drawdowns beyond the 2020/21 financial year, in order to mitigate interest rate risk related to future borrowing requirements.

6.13 The source, tenor, currency (subject to 6.10) and interest rate basis of individual debt transactions will be determined on a case by case basis taking into account value for money, TfL's risk appetite, market conditions, interest rate expectations, investors' preferences, the impact on TfL's debt maturity profile and target weighted average tenor.

6.14 TfL will consider opportunities to buy back, refinance, or otherwise restructure existing liabilities (including leases) where doing so represents value for money, or will improve the structure of TfL's liabilities, or facilitate changes to TfL's corporate structure.

7 LIQUIDITY STRATEGY

7.1 The Liquidity Strategy will be applied in accordance with the TMS 2020/21 strategic objectives listed in 4.1.

7.2 The TfL Group (excluding Crossrail Ltd, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) will hold a minimum level of cash and short-term investments as defined in the Treasury Management Policies.

7.3 Where appropriate, the cash and short-term investments will be supplemented by access to external liquidity sources, such as bank overdrafts, revolving credit facilities and other standby credit facilities. The adequacy of the external liquidity sources will be reviewed on an ongoing basis and TfL will arrange and maintain these facilities as required.

7.4 Bank overdrafts and standby credit facilities will not be used in the normal course of business, however TfL would consider borrowing temporarily within the Authorised Limit to address short-term liquidity needs, where it represents prudent management of TfL's financial affairs.

7.5 Cash and short-term investments balances ring-fenced for the construction of Crossrail will be managed to ensure sufficient liquidity to meet Crossrail Limited's forecast payment obligations.

7.6 In order to limit the liquidity risk created by rolling the commercial paper programme, TfL will aim to manage its maturities so that no more than £200m of short-term borrowings fall due for repayment in any three-day period.

8 RISK MANAGEMENT STRATEGY

8.1 The Risk Management Strategy will be applied in accordance with the TMS 2020/21 strategic objectives listed in 4.1.

8.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds. It aims to mitigate financial risks to the extent possible, aiming to provide security of TfL's funds and certainty of costs and revenues.

8.3 The objectives of the Risk Management Strategy are to:

(i) reduce volatility or increase certainty relating to the impact of financial risks upon the Business Plan;

(ii) achieve greater value for money through reducing costs or protecting revenues; and

(iii) holistically manage financial risks across the whole of TfL.

8.4 TfL is materially exposed to a number of specific financial risks in the ordinary course of business, arising from the borrowing programme, the capital investment programme and certain ongoing contractual obligations. These risks include:

(a) interest rate risk related to TfL and its subsidiaries' existing or planned future borrowing requirements (including leases);

(b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by TfL or its subsidiaries; from receipts of grants or revenues payable to TfL or its subsidiaries in currencies other than Sterling; from any foreign currency borrowing (if permitted); and in the course of making foreign currency investments;

(c) commodity price and/or rate risk related to specific procurements or contracts across TfL and its subsidiaries containing a significant cost element for a commodity component and/or ongoing operational procurements such as power and fuel whether direct or indirect exposures; and

(d) inflation risk across TfL and its subsidiaries.

8.5 Financial risks will be identified, managed and controlled through a number of instruments, methods and techniques, including passing the risk to the counterparty where appropriate. Where the identified risks fall into the categories described in paragraph 8.4 and have highly probable exposures with a highly certain risk profile, TfL may use financial instruments to manage exposure to these risks.

8.6 Where TfL arranges derivative investments through its subsidiary, Transport for London Finance Limited, it may put in place intra-group arrangements to confer the benefit of those derivative investments to the TfL entity bearing the underlying risk.

9 COUNTERPARTY EXPOSURE LIMITS

9.1 The managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will approve individual counterparties and will set individual counterparty exposure limits following detailed analysis of each counterparty and its impact on the overall portfolio, including sector and country concentration risk.

9.2 The maximum exposure limit per investment counterparty will be within the counterparty exposure limits set out in Table 2. Counterparties within the same group will be classified as one counterparty for the purposes of the concentration limit. Where banks are required to have separate entities for retail (ring-fenced) and investment (non-ring-fenced) activities, TfL will apply separate counterparty exposure limits to the applicable entities. This may result in ring-fenced banks having different counterparty limits to non-ring-fenced banks

9.3 To reduce investment risk and in line with the requirement to have primary regard to security, TfL aims to keep a diversified portfolio of investments by limiting exposures to individual counterparties. As the maximum tenor of investments is one year, short-term credit ratings will be the primary ratings used to determine these limits, as defined in Table 2.

9.4 As Moody's short-term credit rating does not have a P-1+ category, when a counterparty is rated P-1, its concentration limit will be based on the average limit derived from any Standard & Poor's and Fitch ratings. In the event the counterparty only has a short-term rating from Moody's and it is P-1, its limit will be 7.5 per cent. Where it is rated P-2, its limit will be based on the average of all the rating agencies supplying a rating. If any of the rating agencies rates the counterparty A-3, P-3, or F3, no investments will be permitted.

Table 2 – Investment counterparty exposure limits

Moody's		**Standard & Poor's**		**Fitch**		**Concentration limit per counterparty (as a percentage of total portfolio)**
ST	**LT**	**ST**	**LT**	**ST**	**LT**	
P-1	Aaa Aa1 Aa2 Aa3 A1	A-1+	AAA AA+ AA AA-	F1+	AAA AA+ AA AA- A+	10%
	A2 A3	A-1	A+ A	F1	A+ A A-	7.5%
P-2	A3 Baa1 Baa2	A-2	A- BBB+	F2	A- BBB+ BBB	5%
P-3	Baa2 Baa3	A-3	BBB BBB-	F3	BBB BBB-	0%
UK Sovereign						100%

9.5 Where a counterparty does not have a short-term rating, the equivalent long-term rating as shown in the above table will be used to determine the counterparty exposure limit.

9.6 The exposure limit for TfL's clearing bank may be temporarily exceeded (for example, where cash is made available for investment after the daily deadline for deposits with other entities has passed).

9.7 Where an instrument benefits from a UK Government Guarantee, the limit will be that for the UK Sovereign rather than that of the entity.

9.8 For investments benefitting from collateral arrangements, the counterparty exposure will not be counted as the full face value of the investment, but will be calculated based on the potential shortfall caused by any expected movement in the value of the collateral.

9.9 TfL calculates its derivative counterparty exposures based on accepted market methodology. The current mark to market of each derivative is added to the potential future exposure (PFE). The PFE is calculated based on the maximum counterparty exposure assuming a 95 per cent confidence level of possible adverse future movements in interest rates or foreign exchange rates over the life of the instrument.

9.10 TfL expects to hold all derivative contracts to maturity. As such, exposures under derivative contracts are contingent exposures during the life of the contract. The contingent exposure is therefore the relevant risk factor rather than the notional value of the contract.

9.11 Derivative counterparty exposures have a limit based on long-term credit ratings, as these exposures will generally be for over one year. The limits are shown in Table 3.

Table 3 – Derivative counterparty exposure limits

Moody's	Standard & Poor's	Fitch	Derivative limit per counterparty (£m)	CSA threshold for new derivative counterparties* (£m)
Aaa	AAA	AAA	400	50
Aa1	AA+	AA+	400	40
Aa2	AA	AA	350	40
Aa3	AA-	AA-	250	40
A1	A+	A+	200	25
A2	A	A	175	25
A3	A-	A-	150	20
Baa1	BBB+	BBB+	0	0

* Will apply to new derivative counterparty ratings at the time the Credit Support Annex (CSA) is entered into.

9.12 Where a counterparty has a split rating, the limit for each rating is calculated as the average of the relevant limits for each rating available.

9.13 The proposed derivative counterparty exposure limits provide sufficient headroom for all proposed risk management activities in 2020/21. Derivative exposures are allocated over numerous approved counterparties to minimise concentration risk.

9.14 TfL will apply the investment and derivative limits as set out in this section for each counterparty unless circumstances outside its control prevent it from doing so. In this case the managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will implement appropriate replacement limits for that counterparty.

9.15 If any investment or derivative limit applicable to a counterparty changes while TfL has an outstanding investment or derivative with that counterparty it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits, or at the Director of Corporate Finance’s or the Group Treasurer’s discretion, may decide to allow an investment or derivative to run its course for economic reasons.

Finance Committee

Date: **11 March 2020**

Item: **Treasury Management and Derivative Investments Policies**

This paper will be considered in public

1 Summary

1.1 This paper sets out the proposed Treasury Management Policies and the proposed TfL Group Policy Relating to the Use of Derivative Investments. This paper supports our commitment to financial prudence through risk management.

1.2 Approval of the Treasury Management Policies and the Proposed TfL Group Policy Relating to the Use of Derivative Investments (and the related Treasury Management Strategy (TMS) elsewhere on the agenda) are matters reserved to the Board. Given the ability of the Committee review the TMS and related policies in detail, it is suggested that the Board at its next meeting delegate approval of the TMS and related policies to the Committee going forward.. For approval of the TMS and related policies in this paper this year, subject to any views of the Committee and a delegation by the Board, these will be approved by the Chair under Chair's Action.

2 Recommendations

2.1 **The Committee is asked to note the paper and recommend that the Board delegate to the Finance Committee approval of:**

(a) the proposed Treasury Management Policies in Appendix 1; and

(b) the proposed TfL Group Policy Relating to the Use of Derivative Investments in Appendix 2

for 2020/21 and future years.

3 Treasury Management Policies

3.1 The Treasury Management Policies have been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of: (i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017; (ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017; and (iii) the Statutory Guidance on Local Authority Investments (the 'Investments Guidance') issued by the Ministry of Housing, Communities and Local Government in 2018.

3.2 The 2018 Statutory Guidance on Local Authority Investments requires investment strategies to be published for treasury and non-treasury investments such as property portfolios. All references to 'investments' in the TMS 2020/21 refer to investments held for treasury management purposes only and do not cover non-treasury related investments. Non-treasury related investments are covered in a separate paper.

3.3 CIPFA recommends that all public service organisations adopt a series of clauses for effective treasury management. Such clauses include the need for public service organisations to create and maintain:

(a) a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

(b) suitable treasury management practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

3.4 Under the Treasury Management Code, we are required to adopt Prudential Indicators and Treasury Management Indicators (together the 'Prudential Indicators') that support planned capital expenditure, borrowing and treasury management activities. Our Prudential Indicators will be the subject of an item on the agenda for the meeting of the Board in March 2020.

3.5 The Treasury Management Policies require us to have a Treasury Management Strategy (TMS) approved by the Board on at least an annual basis. The TMS for 2020/21 is included as a separate item on the agenda for this meeting. A copy of the proposed policies is included in Appendix 1.

3.6 In addition to the managing Chief Finance Officer and the Director of Corporate Finance, the responsibilities for the implementation, operation and administration of the Treasury Management Policies have been delegated to the Group Treasurer. There are no other significant changes from the 2018/19 Treasury Management Policies.

4 TfL Group Policy Relating to the Use of Derivative Investments

4.1 The TfL Group Policy Relating to the Use of Derivative Investments must be reviewed annually. There are no material changes to the proposed policy. A copy is included in Appendix 2.

List of appendices to this report:

Appendix 1: Treasury Management Policies

Appendix 2: TfL Group Policy Relating to the Use of Derivative Investments

List of background papers:

None

Contact Officer:	Paul Mason, Corporate Finance and Strategy Director, Finance (interim)
Number:	0207 535 5328
Email:	Paul.mason@tfl.gov.uk

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TRANSPORT FOR LONDON

TREASURY MANAGEMENT POLICIES

TREASURY MANAGEMENT POLICIES

1 BACKGROUND

1.1 The establishment and review of a policy for TfL in relation to treasury management is a matter reserved to the Board. This document (including the Treasury Management Policy Statement, Treasury Management Policies, Treasury Authorities and Delegations and Treasury Management Practices) is therefore subject to Board approval.

1.2 This document has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of

(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the ‘Treasury Management Code’) issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017;

(ii) the Prudential Code for Capital Finance in Local Authorities (the ‘Prudential Code’) issued by CIPFA and last updated in 2017; and

(iii) the Statutory Guidance on Local Government Investments (the ‘Investments Guidance’) issued by the Ministry of Housing, Communities and Local Government (MHCLG) and last updated in 2018, with respect to treasury investments.

1.3 This document sets out TfL’s policies and practices, including approach to risk management of its treasury management activities. It also sets out authorities and delegations for treasury management activities.

2 TREASURY MANAGEMENT POLICY STATEMENT

2.1 TfL defines its treasury management activities as:

(i) the management of the organisation’s investments and cash flows;

(ii) its financing, banking, money market, capital market and derivative transactions;

(iii) the effective control of the risks associated with those activities; and

(iv) the pursuit of optimum performance consistent with those risks.

2.2 TfL regards the successful identification, monitoring and control of treasury risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 TfL acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, always in the context of effective risk management.

2.4 The following sections detail TfL's overarching policies for treasury management, including high level policies for borrowing and investments, as recommended by the Treasury Management Code.

Borrowing Policy

2.5 As required by the Local Government Act 2003, at all times, the aggregate of all TfL's borrowings will be within the Authorised Limit set by the Mayor and adopted by the Board.

2.6 TfL's borrowing to fund capital expenditure is to be contained within the profile agreed with HM Treasury. TfL is permitted to defer borrowing from one year to the next until needed, provided TfL informs the relevant HM Treasury officials at least eight weeks ahead of the end of the financial year.

2.7 Under section 2(3) of the Local Government Act 2003, TfL may not, without the approval of HM Treasury, borrow other than in Sterling. All borrowings will be in Sterling unless HM Treasury grants approval to borrow in alternative currencies, in which case TfL may borrow in any currency approved by HM Treasury.

2.8 Under section 13(1) of the Local Government Act 2003, TfL (the local authority) may not charge any of its property as security for money which it has borrowed or which it otherwise owes. All money borrowed by TfL (the local authority) shall be charged indifferently on all revenues of the authority. TfL subsidiaries however may charge their property as security for money which they borrow or otherwise owe, pursuant to Section 4 of the Transport for London Act 2016[1].

2.9 Where TfL is issuing new debt, or refinancing existing debt, it may be necessary or commercially desirable to draw the new debt prior to the repayment of the debt being refinanced, which may result in a temporary increase in liabilities above the planned incremental borrowing for the year. Borrowing in excess of the incremental amounts agreed with Central Government is permitted, provided the position is temporary and TfL remains within the Authorised Limit at all times (i.e. it reflects the temporary utilisation of headroom between the planned incremental borrowing and the legal limit on TfL's liabilities).

[1] Section 4 of the Transport for London Act 2016 has not yet entered into force. It will enter into force on a day appointed by TfL.

Investment Policy

2.10 All cash balances will be invested having regard to the relevant Investments Guidance, as applicable to treasury investments, and the GLA Responsible Investment Policy.

2.11 If any investment or derivative limit applicable to a counterparty under the Treasury Management Policies or Treasury Management Strategy changes while TfL has an outstanding investment or derivative with that counterparty, it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits or, at the Director of Corporate Finance's or the Group Treasurer's discretion, may decide to allow an investment or derivative to run its course for economic reasons.

Liquidity Policy

2.12 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, on average, with respect to TfL Group (excluding ring fenced subsidiaries; Crossrail Limited, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited). Cash reserves include cash and short-term investments.

2.13 The total minimum cash reserve will consist of an operating cash reserve that allows TfL to meet its ongoing payment obligations and a strategic cash reserve that aims to provide contingency in case of unexpected events.

2.14 Actual cash balances fluctuate on a daily basis and could temporarily fall below the minimum requirement, but they are expected to stay within the operating cash reserve in the normal course of business. An assessment will be made as to whether any action is required by the Director of Corporate Finance and/or the Group Treasurer to address such temporary fluctuations, taking into account any undrawn credit facilities and access to commercial paper programme. If required, TfL may use short-term borrowing for working capital purposes, provided the position is temporary and TfL remains within the Authorised Limit at all times.

2.15 The strategic cash reserve will be held at a target level and, if the cash balance falls below the operating cash reserve and into the strategic cash reserve, it must be replenished as soon as possible.

2.16 The statutory and managing Chief Finance Officers[2] will be notified of any material changes in the usage of short-term sources of liquidity.

[2] References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999. References to managing Chief Finance Officer mean the Managing Director (Chief Finance Officer).

TREASURY MANAGEMENT AUTHORITIES AND DELEGATIONS

3 RESPONSIBLE OFFICERS

3.1 The Treasury Management Policies will be implemented, operated and administered through the Treasury team within the Corporate Finance Directorate and will be applied to TfL and all its subsidiaries whose monies are under the control of Treasury.

3.2 The managing Chief Finance Officer is responsible for advising the Board on investments, borrowing, derivatives, financial risk management, capital financing and also for the establishment and operation of banking arrangements necessary for the TfL Group business. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.

3.3 The statutory Chief Finance Officer is responsible for ensuring the execution of the Treasury Management Policies, as the designated Section 127 officer under the Greater London Authority Act 1999. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.

3.4 The Director of Corporate Finance, the Group Treasurer and Treasury officers will implement, execute, operate and administer a Treasury Management Strategy (TMS).

3.5 The arrangements for the implementation, execution, operation and administration of the TMS, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer, Director of Corporate Finance and Group Treasurer, provided no decision contravenes the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments. Subject as otherwise provided for in the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments, the Treasury officers will enter into any appropriate documentation.

3.6 The statutory or managing Chief Finance Officers or the Director of Corporate Finance or the Group Treasurer will appoint relevant Treasury officers to be authorised signatories for the purposes of paragraph 3.5.

3.7 Subject as otherwise provided for within these policies, no investments, borrowings or entry into credit arrangements (including, but not limited to any lease[3] or other such arrangement that might count towards TfL debt or liabilities under relevant accounting standards) shall be permitted without the consent of the statutory or managing Chief Finance Officer or Director of Corporate Finance or the Group Treasurer.

3.8 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will provide guidance for accepting financial guarantees, performance bonds, letters of credit and other credit enhancing products, and this must be followed by TfL and/or its subsidiaries at all times.

[3] Consent not required if the impact of the debt or liability is driven by the reclassification of existing leases as a result of the adoption of IFRS 16

3.9 For the purposes of this document, TfL Officers means the Commissioner, managing Chief Finance Officer, statutory Chief Finance Officer, General Counsel Director of Corporate Finance and Group Treasurer.

4 BORROWING

4.1 The managing Chief Finance Officer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL's Authorised Limit). The Director of Corporate Finance or the Group Treasurer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL's Authorised Limit) for a tenor of not more than 12 months.

4.2 Without further reference to the statutory or managing Chief Finance Officer, Treasury officers will use the Euro Commercial Paper programme and any other short-term facilities (e.g. overdraft, commercial paper, back-stop facilities or revolving credit facilities) to manage its liquidity requirements.

4.3 Approval of, and entry into any required agreements or other documentation in relation to the implementation of permitted borrowing is delegated from the Board to TfL Officers.

4.4 The managing Chief Finance Officer may approve the pre-payment or refinancing of loans or re-purchase or redeeming of existing debt instruments.

4.5 TfL officers will follow ongoing compliance and disclosure procedures set out in the TfL Prudential Borrowing Process for Ensuring Compliance in relation to the Medium Term Note Programme.

5 INVESTMENTS

5.1 The Director of Corporate Finance, Group Treasurer and Treasury officers may enter into investment related agreements and/or documentation required to execute the TMS.

5.2 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will set individual investment counterparty exposure limits, which will be within any limits approved by the Board in the Treasury Management Strategy.

5.3 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will approve investment and derivative counterparties.

6 BANKING

6.1 The Director of Corporate Finance or the Group Treasurer shall as and when necessary be authorised to:

(a) supply to TfL's financial institutions, lists of officials authorised to sign in respect of each and any account(s) of TfL and/or any TfL subsidiary together with specimen signatures;

(b) open further accounts for and on behalf of TfL and/or any TfL subsidiary and supply to the financial institutions, details of the signatories together with specimen signatures in respect of such account(s);

(c) notify the financial institutions of any restrictions on the operation of any such accounts; and

(d) agree on behalf of TfL and/or any TfL subsidiary the terms of any facility or service provided by the financial institutions including but not limited to general banking services, bonds, guarantees and credit limits.

6.2 The financial institutions shall be entitled to rely on any such details or notifications supplied by the Director of Corporate Finance, Group Treasurer or any Treasury officer confirmed in writing as having the same authority as the Director of Corporate Finance or the Group Treasurer.

TREASURY MANAGEMENT PRACTICES (TMPs)

7 TREASURY RISK MANAGEMENT – TMP1

7.1 The Director of Corporate Finance and/or the Group Treasurer will:

(a) design, implement and monitor all arrangements for the identification, management and control of treasury management risk;

(b) report annually to the Finance Committee on the adequacy/suitability thereof, and on any specific issues as directed by the Finance Committee; and

(c) report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation’s objectives in this respect to the statutory and managing Chief Finance Officers.

8 PERFORMANCE MEASUREMENT – TMP2

8.1 TfL is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim within the framework set out in its Treasury Management Policy Statement.

8.2 The actual performance of the treasury management function will be measured using criteria to be agreed by the managing Chief Finance Officer.

9 DECISION-MAKING AND ANALYSIS – TMP3

9.1 TfL will maintain records of its key treasury management decisions and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time.

10 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES – TMP4

10.1 TfL will undertake its treasury management activities by employing recognised and approved instruments, methods and techniques and within the limits and parameters defined in its policies and practices.

10.2 Where TfL uses derivative instruments for the management of risks, these will be approved in accordance with the TfL Group Policy Relating to the use of Derivative Investments.

10.3 TfL and relevant subsidiaries intend to maintain their classification as professional clients with financial institutions under MiFID II in respect of all products and services that they receive.

10.4 All decisions on capital/project financing, borrowing, investment and derivatives will be made in accordance with TfL Standing Orders and relevant policies and strategies.

11 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITES, AND DEALING ARRANGEMENTS – TMP5

11.1 TfL considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the pursuit of optimum performance, and for the reduction of the risk of fraud or error, that activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.

11.2 The principle on which this will be based is a clear distinction between those charged with setting Treasury Management Policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

11.3 If for any reason there is intended to be or has been any departure from these principles, the Director of Corporate Finance and/or the Group Treasurer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements (below), and the implications properly considered and evaluated.

11.4 The Director of Corporate Finance and/or the Group Treasurer will ensure that there are clear lines of responsibilities, objectives and guidance for each post engaged in treasury management, and arrangements are in place for absence cover. The Director of Corporate Finance and/or the Group Treasurer will also ensure at all times those engaged in treasury management will follow the policies and procedures set out.

11.5 The Director of Corporate Finance and/or the Group Treasurer will ensure all transactions are recorded, and that procedures exist for the effective transmission of funds. The Director of Corporate Finance and/or the Group Treasurer will fulfil all such responsibilities in accordance with TfL's Treasury Management Policy Statement and Treasury Management Practices.

12 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6

12.1 TfL will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

12.2 As a minimum, the following reports will be produced:

(a) an annual report to the Board on the strategy to be pursued in the coming year;

(b) a mid-year report to the Finance Committee on the performance of the treasury management function; and,

(c) an annual report to the Finance Committee on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any non-compliance with the organisation’s Treasury Management Policy Statement and Practices.

12.3 The statutory and managing Chief Finance Officers will receive regular monitoring reports on treasury management performance, activities and risks.

12.4 In addition to the regular reporting requirements set out above, any non-compliance with the Treasury Management Policies or the Treasury Management Strategy must be immediately reported to the statutory and managing Chief Finance Officers. If the breach is material in the view of either the statutory or managing Chief Finance Officer, it must be reported to the Finance Committee as soon as practicable.

13 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS – TMP7

13.1 The Director of Corporate Finance and/or the Group Treasurer will prepare and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income.

13.2 TfL will account for its treasury management activities, for decisions made and transactions executed, in accordance with accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

13.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the treasury management function for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and practices.

13.4 The Audit and Assurance Committee will have responsibility for the scrutiny of Treasury Management Policies and this responsibility will be discharged through its regular scrutiny of the reports received from internal audit.

14 CASH AND CASH FLOW MANAGEMENT – TMP8

14.1 Unless statutory or regulatory requirements demand otherwise, all monies (with the exception of London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) in the hands of the TfL Group will be under the control of the Director of Corporate Finance and the Group Treasurer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Corporate Finance and the Group Treasurer will ensure that these are adequate for the purposes of monitoring compliance with the policy statement.

15 MONEY LAUNDERING – TMP9

15.1 TfL is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, if required by law or regulation, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this, are properly trained.

16 TRAINING AND QUALIFICATIONS – TMP10

16.1 TfL recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Corporate Finance and the Group Treasurer will recommend and implement the necessary arrangements.

17 USE OF EXTERNAL SERVICE PROVIDERS – TMP11

17.1 TfL recognises that it retains responsibility for treasury management decisions at all times. TfL recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods, by which their value will be assessed, are properly agreed and documented, and subjected to regular review. The monitoring of such arrangements rests with the Director of Corporate Finance and the Group Treasurer.

18 CORPORATE GOVERNANCE – TMP12

18.1 TfL is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

18.2 TfL has adopted and implemented the key principles and recommendations of the Treasury Management Code. This document is considered vital to the achievement of proper corporate governance in treasury management. The Director of Corporate Finance and the Group Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TRANSPORT FOR LONDON GROUP

TFL GROUP POLICY RELATING TO THE USE OF DERIVATIVE INVESTMENTS

1 INTRODUCTION

1.1 TfL promoted a Bill in Parliament which included a range of provisions clarifying existing legislation and introducing new powers. The Bill completed its passage through Parliament in April 2008 and was granted Royal Assent on 22 May 2008 to become the Transport for London Act 2008 (as amended by the Transport for London Act 2016, the TfL Act). Section 49 of the TfL Act relates to powers to make arrangements for risk mitigation in respect of the prudent management of the financial affairs of TfL and its subsidiaries. The provision came into force on 22 July 2008.

1.2 TfL agreed with the House of Commons Committee, considering the original Bill promoted by TfL that a TfL Board approved annual policy on the use and governance of derivative investments to be entered into pursuant to section 49 of the TfL Act would be put in place.

1.3 Any amendments to this policy are subject to prior approval from the TfL Board. Compliance with this policy is mandatory. It is primarily for the internal use and guidance of TfL and its subsidiaries only.

2 USE OF POWERS OF DERIVATIVE INVESTMENTS

2.1 The TfL Act confers powers to prudently manage certain financial risks. Any derivative investment entered into must be entered into solely for the purpose of managing such a risk and speculative investment in derivative investments is not permitted. The powers are subject to various restrictions and safeguards as set out in this policy.

3 RESTRICTIONS ON THE POWERS TO ENTER INTO DERIVATIVE INVESTMENTS

3.1 The powers to enter into derivative investments are subject to the following restrictions:

(a) the powers are only exercisable for the purposes of the prudent management of the financial affairs of TfL and its subsidiaries and of limiting the extent to which any TfL body[1] would be affected by changes in the following:

(i) interest rates;

(ii) exchange rates;

(iii) inflation of the United Kingdom or elsewhere;

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[1] TfL body means TfL, any subsidiary of TfL, a joint venture of TfL or an associated undertaking of TfL.

(iv) rates or prices applicable to oil, electricity or any commodity which is used by any TfL body or by which a TfL body is affected or to which it is otherwise exposed under a relevant agreement;

(v) rates or prices applicable to any securities creating or acknowledging indebtedness issued by or on behalf of:

- the government of the United Kingdom;
- any state outside the United Kingdom;
- any body the members of which comprise states which include the United Kingdom or another EEA State; or
- any body the members of which comprise bodies whose members comprise states which include the United Kingdom or another EEA State; or

(vi) any index reflecting any of the matters referred to in paragraphs (i) to (v);

(b) only qualifying TfL subsidiaries (as defined in section 49) can enter into derivative investments and TfL itself cannot; and

(c) a qualifying TfL subsidiary can only enter into a derivative investment with TfL's consent and in accordance with any guidance or special or general directions given by TfL.

3.2 TfL is accountable for its subsidiaries' exercise of the powers and the usual TfL statutory requirements and safeguards apply. In particular, the exercise of the powers will fall within the statutory remit of TfL's Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999.

4 CORPORATE GOVERNANCE

4.1 The following governance controls and oversight of the use of the powers apply:

(a) any derivative investment must be in accordance with this policy;

(b) the Finance Committee is authorised to give consent on behalf of TfL to any derivative investment or a programme of derivative investments;

(c) the prior consent of the Finance Committee is required before a qualifying TfL subsidiary can enter into any derivative investment or a programme of derivative investments;

(d) the Finance Committee can issue any guidance or specific or general directions to any qualifying TfL subsidiary as to the manner in which it is to exercise its functions in relation to derivative investments;

(e) the TfL Board and Finance Committee will be provided with professional financial and legal advice, as required, in respect of their functions relating to the examination and approval of the exercise of the powers;

(f) the approval of the statutory Chief Finance Officer [2] is required before any derivative investment or programme of derivative investments is entered into, in recognition of the statutory role under local authority finance legislation;

(g) the approval of the managing Chief Finance Officer [3] is required before any derivative investment or programme of derivative investments is entered into;

(h) in respect of the derivative investments, the statutory and managing Chief Finance Officers will approve the types of instruments used;

(i) any one of the managing Chief Finance Officer, Director of Corporate Finance or Group Treasurer are authorised by the TfL Board to give consent on behalf of TfL to approve derivative counterparties;

(j) any use of derivative investments will be monitored on a regular basis by the statutory Chief Finance Officer;

(k) any use of derivative investments will be reported in the TfL Group accounts in accordance with International Financial Reporting Standards (IFRS);

(l) the reporting of all derivative investments in the TfL Group accounts will be subject to audit by the TfL Group's auditors; and

(m) the recognised market standard legal documentation processes for derivative investments produced by the International Swaps and Derivatives Association will be used where appropriate with suitable TfL bespoke amendments.

5 RESPONSIBLE OFFICERS

5.1 The Director of Corporate Finance and the Group Treasurer will be responsible for:

(a) the proposal of all matters relating to the exercise of powers under section 49 of the TfL Act;

(b) reporting on a regular basis to the Finance Committee on the adequacy / suitability of the exercise of these powers, and on any specific issues as directed by the Finance Committee;

(c) reporting, as a matter of urgency, to the statutory and managing Chief Finance Officers, the circumstances of any actual or likely difficulty in achieving TfL's objectives in this respect; and

(d) responding to any queries of the statutory or managing Chief Finance Officers following the statutory or managing Chief Finance Officers' review of the regular reports.

5.2 The approval of the statutory and managing Chief Finance Officers is required before:

[2] References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999.

[3] References to managing Chief Finance Officer in this document mean the Managing Director (Chief Finance Officer).

(a) any derivative investment or programme of derivative investments is proposed to the Finance Committee; or

(b) any changes to the Risk Management Strategy is proposed to the TfL Board.

5.3 The Director of Corporate Finance and/or the Group Treasurer will propose exposure limits to counterparties with whom TfL may enter into derivative investments. These limits will be approved by the TfL Board as part of the Treasury Management Strategy, prior to the start of the relevant financial year.

5.4 In order to ensure compliance with the legal controls set out in section 49, the Chief Finance Officer is required to state that all legal controls in section 49 will be met before a transaction can be executed. In giving this approval, the Chief Finance Officer must seek the advice of General Counsel and other professional advisers as may be required.

5.5 Once all the necessary approvals required under this policy have been obtained, the Director of Corporate Finance, Group Treasurer and Treasury officers will be authorised to agree and execute any related documentation required in relation to the approved derivative investments or programme of derivative investments.

6 REPORTING REQUIREMENTS, MONITORING AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 TfL will ensure that regular reports are prepared and considered on the implementation of this policy; on the effects of decisions taken and the transactions executed in pursuit of this policy; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its derivative investment activities; and on the performance of the use of derivative investments.

6.2 As a minimum, the following reports will be produced:

(a) an annual report to the TfL Board on the strategy to be pursued in the coming year;

(b) bi-annual reports to the Finance Committee on the performance of the treasury management function, including the status of the hedges in place; on the strategy to be pursued in the coming months; on the effects of decisions taken and the transactions executed over the review period, and on any non-compliance with this policy; and

(c) periodic reports to the statutory and managing Chief Finance Officers.

6.3 The statutory Chief Finance Officer will monitor the use of derivative investments on a regular basis and part of this process will include the review of the periodic reports.

7 ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 TfL will account for derivative investments, for decisions made and transactions executed, in accordance with best practice and commercial and accounting practices and standards, and with statutory and regulatory requirements in force at the time.

7.2 TfL will consult with external auditors as required regarding correct accounting treatment.

7.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the use of derivative investments for the proper fulfilment of their roles.

Policy Custodian and Owner

7.4 The owner of this policy is the Director of Corporate Finance and the Group Treasurer but its content and any amendments to it must be approved by the TfL Board.

7.5 This policy will be reviewed annually.

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Finance Committee

Date: **11 March 2020**

Title: **Investment Strategy 2020/21– Non-Financial Assets**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to ask the Committee to approve the proposed Commercial Development Investment Strategy 2020/21 – Non-Financial Assets set out in Appendix 1 (the Strategy).

1.2 The Strategy sets out how we plan to manage and grow our various commercial assets.

2 Recommendation

2.1 The Committee is asked to note the paper and approve the Commercial Development Investment Strategy 2020/21 – Non-Financial Assets attached at Appendix 1.

3 Investment Strategy

3.1 Updated statutory guidance on Local Government Investments requires that TfL's Investment Strategy should include reference to "other non-financial assets that the organisation holds primarily for or partially to generate a profit".

3.2 The Strategy sits alongside TfL's Treasury Management Strategy, which addresses financial investments, the latest version of which is elsewhere on the agenda .

3.3 The Secretary of State recommends that the strategy should be presented for approval before the start of the financial year.

List of appendices to this report:

Appendix 1:Commercial Development Growth and Investment Strategy

List of Background Papers:
None

Contact Officer: Ken Youngman, Divisional Finance Director Commercial Development
Number: 020 3054 1585
Email: KenYoungman@tfl.gov.uk

TRANSPORT FOR LONDON

INVESTMENT MANAGEMENT STRATEGY 2020/21 FOR NON-FINANCIAL ASSETS

1 SUMMARY

1.1 This Investment Management Strategy (IMS) 2020/21 describes the objectives of TfL's programme of investment in commercial assets, the associated sources of funding, approach to managing the risks arising from it and relevant key performance indicators.

2 BACKGROUND

2.1 The IMS 2020/21 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017;

(ii) the Statutory Guidance on Local Authority Investments (the '2018 Investments Guidance') issued by the Department for Communities and Local Government (DCLG) in 2018;and

(iii) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017.

2.2 As recommended by the 2018 Investments Guidance, this strategy will be updated at least annually and submitted for the approval of the Board.

2.3 The IMS 2020/21 will be implemented, operated and administered under delegations of authority established in TfL Standing Orders.

3 STRATEGIC OBJECTIVES

3.1 The objectives underpinning the IMS 2020/21 are to:

(i) produce a growing, sustainable operating surplus for TfL from its commercial assets;

(ii) fund the commercial investment programme to achieve growth from capital receipts in the form of land sales, asset disposals and development profits, with a funding option being developed for a potential new office facility as necessary;

(iii) create a potential source of future liquidity for TfL through improving structural, legal and strategic aspects of all commercial asset classes in

Commercial Development to maximise value and enable future transactions; and

(iv) deliver 10,000 homes under the Mayor's Transport Strategy, with a target of 50 per cent affordable housing for residential projects brought to market in this mayoral term. The strategy will aim to improve accessibility of the transport system through step free access, enhancing customer experience in stations and offering mobile connectivity.

4 INVESTMENT PROGRAMME

4.1 The Investment Strategy is forward looking with substantial capital expenditure anticipated over a 10-year period. The main programmes of capital expenditure within the plan are listed in Table 1. While some of these investments aim to deliver capital income returns, the majority is set to deliver an ongoing rental stream and associated asset value.

Table 1 – Main programmes of capital expenditure 2019/20 - 2028/29

	Capital Plan **Ranking by Expenditure** (largest to smallest)
Build to Rent residential (BtR)	1
Retail expansion and estate improvements	2
Development Joint Ventures	3
Office rental development	4
Digital Media	5
Telecoms	6

Build to Rent

4.2 The majority of the capital investment proposed in the IMS relates to real estate with the largest sums directed to Build to Rent (BtR) residential stock. TfL's development land is primarily in areas considered well located for residential development, and this investment follows a natural path from our requirement to deliver 10,000 homes on our land under the Mayor's Transport Strategy. BtR has a track record of delivering real growth in rental income (i.e. matching or exceeding inflation).

4.3 Property market Analysis data from 2003 to 2018 shows a 1.0 per cent real growth rate per annum compared to the Consumer Price Index (CPI) for residential rental values in outer London and flat zero per cent growth per annum for inner London. This data includes a period of economic downturn during the 2007 financial crisis. We propose to target outside of central London for BtR. In addition to resilience during downturns, BtR has low exposure to obsolescence, although purpose-built BtR is still a relatively immature market compared to other property sectors.

4.4 In order to deliver the BtR programme, TfL will invest in new site developments with selected partners. Building stock through new development delivers property at a discount to purchasing completed units, which enhances income yields and capital returns. The tender process for bidders completed in 2019 with Grainger Plc selected as the delivery partner.

Retail expansion and estate improvements

4.5 TfL will invest in new retail expansion on our current estate, and in line with a revised customer experience strategy, target investment in improving the existing retail portfolio. Our assets are in prime locations with consistent footfall, making them more resilient to economic downturns. Historical investment has been limited and there is a significant opportunity to bring retail assets up to the required standard. This will drive higher average asset values and yields throughout the portfolio. TfL will utilise assets in new ways through more effective data analysis and targeting of suitable brands to enhance retail offerings. In 2020/21, TfL will commence delivery of this programme, following a phase of targeted reviews.

Earls Court development

4.6 TfL will continue to progress our investment in Earls Court, during 2020/21, with the aim of unlocking the site and commencing future delivery of homes. TfL has a new majority partner at Earls Court following the acquisition by Delancey, on behalf of its client fund and APG on behalf of its pension fund clients, of Capital & Counties Properties' interests in the Earls Court development site. We will be working closely with our new partner during 2020/21 to submit new plans, commence delivery of homes, and agree TfL's future involvement.

Development for sale Joint Ventures

4.7 TfL plans to invest in development for sale on land sites that are suited to this purpose. Such development will deliver future profits, providing cash flow to reinvest, whilst contributing to new home delivery in London. In 2020/21, TfL will progress delivery on site of existing schemes, take others through planning and conclude marketing of others.

Office rental developments

4.8 Ownership of land around transport modes creates ancillary delivery options, such as office use. TfL will consider long-term investment and retention in such developments. The most developed option is a significant development at Southwark. In 2020/21, TfL will confirm land swap arrangements with London Borough of Southwark and submit a planning application.

Digital media

4.9 Over the last two years, TfL has invested significantly in digital assets in line with market developments. This compliments traditional poster advertising, which will continue. Over the plan period there will be further digital investment in line with a need to refresh assets every six to seven years. Without investment there is a risk that revenue streams could decline.

Telecoms

4.10 In 2020/21 TfL will conclude proposals to deliver public cellular services and a fibre optic data network across its tunnels and land. Our intention is to partner with established market players to deliver and manage these services. Levels of investment will be determined based on anticipated returns and risk level.

5 SOURCES OF FUNDING

5.1 Capital investment to generate operating income growth will mainly be funded out of capital receipts over the life of the Business Plan. There will be capital investment year on year across a programme allowing individual projects to develop and then achieve future projected returns.

5.2 Capital receipts from disposal and sales will be used to fund property developments. Income generating assets with weak long-term income prospects, properties currently producing no income and sites with development potential will be identified and assessed. The first stages of this process have commenced and in 2020/21 will continue.

5.3 Due to the relatively illiquid nature of the portfolio of property assets, the timing of receipts is not certain. Due diligence via forecasting will be undertaken to ensure future timings of investment commitments on development sites can be met.

5.4 TfL will use joint ventures as a primary delivery route for real estate projects where land interests will be sold into the joint venture, followed by investment in an equity interest in the joint venture. This method enables us to be flexible on capital investment levels and brings in skill sets and market specialisms to limit risk and increase successful deliveries.

5.5 TfL will also investigate and develop alternative ways of funding real estate that could be achieved by consolidating our commercial property assets into a portfolio. We will work with external advisors to deliver corporate structures to provide this. Consideration will be given to the impact on TfL group activities, including borrowing limits and credit ratings in establishing the structures and any funding will be conducted under standing orders delegation and working with TfL's Corporate Finance team.

6 RISK MANAGEMENT

6.1 The level of risk associated with non-financial investments described above will vary. This section seeks to address how this risk will be minimised to ensure good stewardship of public funds.

6.2 TfL will not enter into long-term project commitments until funding arrangements are clear, whether through disposals or other funding options.

6.3 TfL will seek to minimise risk to assets and loss of capital value. Control will be retained over assets through ownership retention, step in rights and other legal protections up to completion / payment. Credit and reputational risks will be assessed and monitored. Long-term contractual commitments will be fully assessed and reviewed.

6.4 TfL will manage real estate scheme risks through assessments of sustainability of income stream, planning risks, construction risks, stakeholder risks and political risks. In addition, two risks are considered in further detail:

(i) market / sales risk – Development value across all joint ventures primarily focuses on the residential sector - TfL will manage risk levels through prudent assessment of sales values and likelihoods and also through forward sales of affordable housing to Registered Providers who have a strong appetite to purchase stock; and

(ii) credit risk – There is a risk on availability of credit on a site by site basis and impact of long-term interest payments if sales demand is weak. TfL will not progress schemes unless funding sources are confirmed.

6.5 TfL will monitor and set appropriate levels of gearing across the real estate development portfolio to manage risk exposure. Prudent assumptions of 50 per cent gearing within development phases (loan to cost) and 40 per cent within the income generating investment phase (loan to value) have been set as a benchmark. Alternative funding options will be carefully assessed as needed. TfL will ensure interest cover ratio (rental values relative to interest to service debt), are agreed and can be met prior to finalising any debt packages.

6.6 Measuring and managing forward commitments will be a key part of overall programme management, along with forecasting scheme outcomes regularly and testing for market conditions. TfL will manage exposures by reducing equity share in JVs and thus lowering investment requirements, and will cancel or defer projects as needed, should there be indications of a property downturn.

6.7 When assessing projects TfL will take a prudent approach to cost growth and value growth.

6.8 The investment programme focuses on markets where we have a natural advantage, namely our land holdings. This puts us in a strong position to invest capital compared to other operators in the market and minimises risk.

6.9 Investing into our property estate will provide liquidity options in the form of underlying asset value which can be traded as per TfL requirements to manage overall risk. This is particularly relevant within the BtR portfolio where market research has proven there to be significant investor demand, so TfL will manage exit options as part of its risk approach.

6.10 Valuations will be important factors in ensuring real estate investment decisions are justified. TfL will regularly assess fair value of assets relative to capital investment and loans to ensure informed decisions are made and compliance with loan terms is assured.

6.11 TfL will use independent experts as required to inform investment decisions. These will be procured on a case by case basis around the specific activity, i.e. transport node retail projects will require different market advisors compared to other assets in the portfolio. Procurement will occur through TfL frameworks, where a competitive process ensures the most technically competent and most economical advisors are available as required.

6.12 Similar due diligence and competitive procurement processes are in place for our investment decision making. Suppliers will undergo a rigorous process which demonstrates TfL are achieving best value. Protection measures will be included within commercial contracts giving us ability to monitor and assess suppliers throughout the life of any project.

6.13 TfL will also use experts in property in its real estate governance process. An advisory group consisting of property industry experts from a range of backgrounds, ensures all our property investment projects can be challenged and scrutinised.

7 KEY PERFORMANCE INDICATORS

7.1 Subject to meeting security and liquidity requirements, yields and returns on capital investment will drive all decisions. Specific key performance indicators (KPIs) will be used by TfL to assess and monitor investments:

(i) all projects will be expected to produce a positive ***net present value*** discounted at TfL’s standard rates;

(ii) all projects delivering rental income will be expected to achieve ***yields*** in excess of our cost of borrowing;

(iii) target geared ***Internal Rate of Return (IRR)*** will be measured. This will be based on market testing of development schemes as well as internal experience on schemes to date. This will vary according to the project and will take into account the following considerations:

- delivery requirements within the Mayor’s Transport Strategy (e.g. step free access as part of a development scheme, delivery of affordable housing) which could reduce the IRR; and.

- different market segments have different risk profiles and the IRR expectation will reflect this; and

(iv) TfL will measure ***Return on Equity (ROE)***, showing levels of profit compared to TfL capital invested.

7.2 Third-party debt and capital investment will be utilised by TfL as required to promote growth. If the interest rate available is greater than the net yield on the property investment TfL will review dilution of returns in assessing viability. Consideration will be given to the impact of debt on the group, specifically around financial ratios, as well as the impact on other investments in transport and infrastructure.

7.3 There is recognition that introduction of third-party capital does not in itself boost income returns – indeed, it may dilute income returns after allowance for any management fees introduced with the third-party capital. The introduction of investment partners will be driven more by the skills they bring, with the expectation of improvements in delivery and increases in income returns. Proposals for introduction of third-party capital will be tested against the requirement for liquidity. TfL will make an assessment as to whether a stake in an investment vehicle is likely to be more or less liquid than direct ownership of the properties.

7.4 The boosts to long-term income may potentially come from identifying new sources of income consequent upon being located at major transport nodes. TfL will have regular reviews of global innovation in terms of new sources of income around transport nodes.

7.5 A summary of key investment areas and rationale is set out below.

Investment Area	Overview	Rationale
Build to Rent	TfL will procure a BtR investment partner to deliver residential units and long-term rental on TfL land. Major investment required identified BtR sites, delivering over 3,000 units. We expect to become one of London's leading operators and owner of BtR. Sites include Limmo, Nine Elms and Woolwich.	Delivers long term recurring rental stream and asset value growth. Demand and supply dynamic favours rented product in London.
Retail enhancement and estate improvement	TfL will create new commercial assets across transport nodes and invest in existing assets through asset management initiatives, including exploiting opportunities of long leasehold interests. Investment plans include capital for maintenance and health & safety of our portfolio.	Delivers rapid increase in net income, makes best use of existing assets, and delivers enhanced customer experience.
Earls Court	The largest single development contributing to TfL 10,000 homes target working with our joint venture partner. Creating a new district and supporting thousands of jobs.	Largest single contributor to 10,000 homes target.
Development Joint Ventures	TfL will establish joint ventures with private sector companies to deliver capital receipts from land plus profits and deliver in excess of 2,700 units. Sites include Kidbrooke, Blackhorse Road, Landmark Court and Northwood Town.	Supports 10,000 homes target. Sites typically have best sales potential with residential values typically <£900 per sq ft. Strong market interest.
Office rental development	Offices in central London can produce good returns but can be volatile. TfL has a major opportunity for delivery of an over station development at Southwark, creating Grade A commercial office space.	Station environment enhancement and delivering Grade A office space in a proven location
Consolidation of TfL's office facilities	Utilising existing development opportunities to deliver an owned and managed office facility.	Cost savings for TfL

Investment Area	Overview	Rationale
Media	TfL will be replacing life-expired assets and deliver new digital formats.	Investment in digital required to maintain and grow revenues with consumer expectation of digital product. In conjunction with traditional media.

Finance Committee

Date: **11 March 2020**

Item: **2020/21 TfL Scorecard**

This paper will be considered in public

1 Summary

1.1 The TfL scorecard provides information to track business performance against the in-year objectives derived from the Mayor's Transport Strategy (MTS), the Business Plan and the Budget.

1.2 The scorecard exists to provide the right measures for the Commissioner and Executive to manage the business and ensure clear corporate responsibility, whilst also providing the ability to clearly articulate business priorities to a broader audience.

1.3 This is an evolution of the 2019/20 scorecard to reflect our ongoing priorities and to provide continuity. The changes made take account of the work undertaken over the last year to further develop and improve the scorecard.

1.4 We have taken the approach of setting challenging targets, recognising that they may not all be achieved noting the current financial climate, the challenges around delivering our capital programme whilst mitigating the effects on day to day performance; and external factors not fully within our control.

1.5 There is a separate paper which will be considered by the Remuneration Committee on overall floor and target thresholds for scorecard remuneration.

2 Recommendation

2.1 **The Committee is asked to note the paper and approve the 2020/21 TfL Scorecard.**

3 Background

3.1 The scorecard continues to show how the measures align to the themes and outcomes of the MTS and it retains the four balanced scorecard categories of safety and operations, customer, people and financial. Each of these categories receives a 25 per cent weighting, reflecting their equal importance to our business.

3.2 The scorecard focusses on the shorter term, in–year objectives and the measures identified against these. An annual update will be provided to the Board outlining progress towards meeting the longer-term objectives of the MTS.

3.3 As outlined in previous years there is framework in place which ensures the scorecard aligns with the MTS, Business Plan and the Budget and key objectives are cascaded through the business.

4 Development work undertaken

4.1 This section describes the scorecard development work undertaken during 2019/20.

Environment

4.2 We are proposing to introduce a carbon measure, given the increasing focus on climate change and the fact the Mayor has declared we are in a climate emergency. Carbon is a common presence on corporate scorecards, and as a public authority we aim to be leading the way.

4.3 This measure will replace our current environmentally-focused measure “Number of Euro VI buses”, which is due to complete mid-way through 20/21. Our new measure acts as an incentive to employees across the business, not just those working on buses.

4.4 The recommended measure is “Reduction in CO_2e Emissions from TfL Operations & Buildings” (equivalent CO_2). We want this measure to be all-encompassing while still being measurable and actionable. As our data capturing and monitoring matures, we will consider widening the definition as appropriate. Currently this measure:

(a) **includes**: both direct emissions we generate from burning fuel (scope 1), and our direct electricity use (scope 2) from Buses, London Underground, Rail, buildings, Surface direct ops. Being energy efficient is embedded into all aspects our ways of working, culture and behaviours.

(b) **does not include:** scope 3 emissions e.g. water use and our supply chain, emissions associated with project delivery

4.5 Our longer-term ambition is to widen this definition to include those elements identified above. As part of ongoing scorecard development, we will seek to capture these as robust data becomes available. We are looking at ways in which we can capture emissions from our projects - whilst these elements are not currently measured on the scorecard, the environmental impact of our projects are considered at each stage of the project lifecycle. Any negative impacts are reduced as far as reasonably practicable.

4.6 We are currently modelling the forecast for TfL emissions - this is based on inputs from our electricity usage, the services we’ll run, and the composition of the bus fleet and our estate. It will take into account the Elizabeth line opening, bus electrification and service increases from investment in our assets such as Four Lines Modernisation and the new Piccadilly line fleet.

4.7 We propose targeting a percentage reduction in CO_2e compared to 2019/20 outturn and we estimate this to be around a 3 per cent reduction.

Housing

4.8 Last year our measure was, “The cumulative percentage of affordable homes on TfL land with planning applications submitted (post May 2016)”.

4.9 To reflect the progress made on our housing development projects in the past year, with many now ready to start on site we have replaced the existing measure with

"Start on sites of new homes", with an ambitious target of 10,000. Any site where we have already started before the financial year has begun will be included in our actual as 10,000 is the total target, not just referring to those in-year. The target aligns with the commitment of providing 50 per cent affordable housing as set out in the MTS.

Net Operating Surplus (NOS)

4.10 Net Operating Surplus is defined as the sum of operating income, business rates retention, revenue grants and operating costs. Passenger income is subject to wider economic factors and there is a limit to what we can control. Operating costs are much more within our control and should be managed closely.

4.11 For the NOS weighting to be achieved the following conditions must be met:

(a) passenger income should be within +/-2 per cent of Budget;

(b) operating costs must be in line with Budget or better; ***and***

(c) NOS must be higher than Budget (£430m) ***or*** no more than £100m below it. This £100m floor allows some leeway if passenger income were to be lower than Budget and we have not been able to fully mitigate the income downside through reductions in our cost base.

Investment Programme

4.12 The Investment Programme must run on time and to budget. These two elements are already on the scorecard, but they are not presented alongside each other. "Deliver key investment milestones" measures whether our in-year milestones are being met and this was previously presented in the section "A good Public Transport experience". We recommend that this measure is moved to the finance section alongside the Investment Programme measure.

4.13 These measures only consider in-year performance. We must ensure overall Estimated Final Cost (EFC) is controlled and managed to Business Plan, and that the end date of a project is not delayed. We are exploring ways in which we can capture the long-term performance of the Investment Programme as part of the scorecard.

Elizabeth line milestone

4.14 Last year's measure was the start of TfL Rail services between Paddington and Reading, which was achieved (on target) in December 2019. The new target will be the start of trial running by Autumn 2020. If this milestone is achieved, 100 per cent of the weighting will be awarded. If the target is missed but delivered by the end of the calendar year, 50 per cent of the weighting will be awarded. Any date beyond December will receive no award.

Killed and seriously injured measures

4.15 "Reduction in people killed and seriously injured on roads, from 2005-2009 baseline (incidents involving buses)" has been removed from the scorecard. This is a subset of the measure "Reduction in people killed and seriously injured on roads" and it is confusing to have both. We will continue to monitor and report incidents involving buses.

4.16 “Reduction in customers and workforce killed and seriously injured” appearing in “A good public transport experience” was misaligned. This has now been moved under “Healthy Streets and Healthy People” alongside the other safety measure.

4.17 Table 1 shows the proposed TfL scorecard for 2020/21.

Group	Theme	Outcome	Measure	Target	Weighting
Mayor's Transport Strategy	Healthy streets and healthy people	London's public transport will accelerate the trajectory to be zero carbon by 2030 [1] ***NEW***	Reduction in CO_2e emissions from TfL Operations (including fleet) & Buildings (from 19/20). *Being energy efficient is embedded into all aspects of our work*	**-3** %	Safety & Operations 25%
		London's streets will be used more efficiently and have less traffic on them	Additional time saved for pedestrians, cyclists and buses at Traffic Lights	**16,500** Additional (50,985 hours cumulative)	
		London's streets will be healthy, and more Londoners will travel actively	Healthy Streets Check for Designers *(average improvement delivered by schemes against the 10 Healthy Streets indicators)*	**10** %	
		London's streets will be safe and secure	Reduction in people killed and seriously injured on roads including by buses, from 05-09 baseline	**286 fewer people** this year	
			Reduction in customers and workforce killed and seriously injured (across all our services)	**81 fewer people** this year	
	A good public transport experience	Public transport will be safe, affordable and accessible to all	Additional time to make step-free journeys *(average additional time to make a step free journey between any two points)*	**1.2 min** reduction on 19/20 **7.6** mins	
		Journeys by public transport will be pleasant, fast and reliable	Tube excess journey time	**4.90** mins	
			Bus journey time	**33.2** mins	
		Journeys by public transport will be pleasant, fast and reliable	Percentage of Londoners who agree we care about our customers	**54** %	Customer 25%
		The public transport network will meet the needs of a growing London	Elizabeth line – start trial running	**Autumn 2020**	
	New homes and jobs	Transport investment will unlock the delivery of new homes and jobs ***NEW***	Start on sites of new homes by March 2021	**10,000**	
	Mode Share	80% of trips will be made by active, efficient and sustainable modes by 2041	Public transport trips	**4,024** m	
			Average kilometres cycled per day	**560** k *	
Corporate	People	A capable and engaged workforce representative of London	Representativeness – all staff	**71.9** % ^	People 25%
			Representativeness – director / band 5	**39.3** % ^	
			Inclusion index	**50** % *	
			Total engagement	**58** % ^	
	Financial	We cover our costs and we are prudent	Net operating surplus	**£430m**	Finance 25%
			Investment programme Deliver key milestones on time Deliver programmes to budget	**90** % **£1,865m**	

Table 1: Proposed 2020/21 TfL Scorecard

[1] Our plans to reduce our emissions include bus electrification, energy efficiency measures (such as LED lighting), and generating our own renewable energy (such as introducing solar panels). Further expansion of ULEZ to the North and South circular by October 2021 will help reduce London-wide emissions, as will further investment in intensifying and extending public transport capacity and connectivity

NB: ^ target is +1% on 2019/20 outturn, * target is +3% on 19/20 outturn. Figures in table based on 19/20 forecast.

5 Specific measures and targets on 2020/21 scorecard

5.1 As in 2019/20, the following principles have been adhered to for the 2020/21 scorecard:

(a) measures are reflective of where we need to make progress in-year, either because performance is of high importance or because it allows a future outcome to be achieved, particularly keeping us on trajectory to achieve the MTS objectives;

(b) there are clear deliverables for TfL to achieve in-year aligned to the Business Plan, or actions within our control to influence the achievement of the target; and

(c) there is data available allowing us to measure progress regularly over the year, ideally at least quarterly, ensuring the measure can be tactically managed in-year.

5.2 Following the changes outlined in section 4, we have revised the weightings so that the scorecard remains balanced across the four quadrants: Safety & Operations, Customer, People and Finance.

6 Using the scorecard to drive performance

6.1 Scorecards are a tool to drive performance, enabling us to set out to our people the required level of improvement and where our focus lies for the year ahead.

6.2 Performance awards for senior managers are also based, in part, on achieving the scorecard targets. Each scorecard measure is weighted to determine its contribution to the overall score.

6.3 For some targets it is appropriate that no reward is given unless the target is met. In other cases, a proportion of the weighting is given if the target is narrowly missed but is above a minimum performance level.

6.4 Appendix 1 gives the rationale for how each target and floor was set as well as a comparison of weightings.

List of appendices to this paper

Appendix 1: Proposed targets, floor targets and weightings

List of Background Papers

2020/21 Budget (elsewhere on the agenda for this meeting)
27 March 2019 Board paper on 2019/20 Scorecard

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

Appendix 1: Proposed targets, floor targets and weightings

	MTS Outcome	Measure	2019/20 forecast	2020/21 Target	Rationale for target	Floor Target	Rationale for floor target	2019/20 Weighting	2020/21 Weighting	Rationale for weighting
Safety & Operations 25%	London's public transport will accelerate the trajectory to be zero carbon by 2030 *(2.5%)*	Reduction in CO_2e emissions from TfL Operations (including fleet) & Buildings	c950 ktonnes	**-3%**	We are currently modelling the forecast for TfL emissions - this is based on inputs from our electricity usage, the services we'll run, and the composition of the bus fleet and our estate. It will take into account the Elizabeth line opening, bus electrification and service increases from investment in our assets such as Four Lines Modernisation and the new Piccadilly line fleet. This will be updated after year end when we have the full year actuals for 19/20 emissions.	2019/20 end of year result	Performance no worse than 2019/20.	**1.5%**	**2.5%**	Reflects the increasing urgency for action on emissions and climate change.
	London's streets will be used more efficiently & have less traffic on them *(1%)*	Time saved for pedestrians, cyclists and buses at Traffic Lights (cumulative saving since 2018/19)	17,500 hours (34,485 cum.)	**16,500** Additional hours (50,985 cum.)	It will be more challenging to realise time savings going forward, as locations with high bus users, pedestrians and cyclists have already been improved – this still represents a 10% increase from the 15,000 target for 2019/20. Since the measure was introduced in 18/19, a total of 34,485 hours will have been saved for pedestrians, cyclists and buses at traffic lights by the end of 2019/20. If the annual target of 16,500 is met in 20/21 this will rise to 50,985 hours.	15,000	Floor set at 2019/20 target, reflecting that it's more challenging to realise time savings, as highest impact locations with high bus users, pedestrians and cyclists have already been improved	**2%**	**1%**	These measures have a lower weighting, reflecting the fact that fewer people in the organisation can influence them.
	London's streets will be healthy and more Londoners will travel actively *(1.5%)*	Healthy Streets Check for Designers *(average percentage point improvement delivered by schemes against the 10 Healthy Streets indicators)*	10%	**10%**	Widening the baseline programme in 2019/20 means that we now include smaller value schemes which are likely to produce a smaller uplift (the value related to scope of improvement on the street environment). This impacts the overall average uplift. In 2019/20 the target of an average 10 percentage point uplift has been challenging to achieve, and this is deemed a similarly challenging target for 2020/21.	9%	Target and floor maintained as 2019/20. If the 10% target is met this will equate to 100% achievement, if the floor target of 9% is met this will be a 50% achievement. Any score of 8% or less will attract 0 weighting.	**1.5%**	**1.5%**	
	London's streets will be safe & secure *(12.5%)*	Reduction in people killed and seriously injured on roads including by buses, from 05-09 baseline	38.2%	**286 fewer people this year** 42.7 % cum.	The 2020/21 target is a 7.2% improvement on the forecast 2019/20 end of year position. The target accounts for past and existing Vision Zero activity but does not include assumed reductions due to additional road danger reduction schemes, new technology or behavioural and demographic changes in future years.	38.2%	Performance no worse than 2019/20.	**5%**	**6.25%**	Safety is a primary organisational priority; therefore, the safety measures have an overall weighting of 12.5 per cent. The bus KSI measure has been removed recognising that there is an element of duplication with the overall measure for people killed and seriously injured on the roads. The remaining two safety measures have been given equal weighting.
		Reduction in customers and workforce killed and seriously injured	1% reduction	**81 fewer people this year** 3.5% cum.	The target reflects the programme of interventions planned for 2020/21 which are aimed at reducing the number of incidents where our customers or our workforce are killed or seriously injured. It aligns with the targeted reduction for the roads-based safety measures.	2019/20 end of year result	Performance no worse than 2019/20.	**5%**	**6.25%**	
	Public transport will be safe, affordable and accessible to all *(1.5%)*	Additional time to make step-free journeys	8.8 minutes	**7.6 mins** 1.2 min reduction vs 19/20	The target reflects the programme of delivering 10 additional step free LU stations and 12 additional TfL rail stations by the end of 2020/21.	2019/20 end of year result	Performance no worse than 2019/20.	**1.5%**	**1.5%**	This measure has a lower weighting, because it is mainly influenced by delivery teams on step-free projects.
	Journeys by public transport will be pleasant, fast and reliable	Tube excess journey time	4.94 minutes	**4.90 mins**	2019/20 performance has been hit by a number of issues such as the continued increase in customer demand, cracking and hence unavailability of Jubilee Line fleet, 4LM reliability issues and operator unavailability. The target for 2020/21 is a robust position based on the forecast impact of known events, such as continued 4LM implementation & assumed improvement in operator availability, the biggest single reason for EJT	4.96	Risk that the budgeted increase in demand, will drive crowding levels up prior to the delivery of 4LM. The forecast for the remainder of the Business Plan period is to maintain EJT under 5 mins	**3%**	**3%**	Improving reliability has an overall 6 per cent weighting across LU and buses, reflecting the focus of the business on driving performance improvements and the need to ensure revenue income.

	MTS Outcome	Measure	2019/20 forecast	2020/21 Target	Rationale for target	Floor Target	Rationale for floor target	2019/20 Weighting	2020/21 Weighting	Rationale for weighting
	(16%)				performance continues to be the increased passenger demand. The tube is getting busier and no long-term certainty over funding means we can not invest in our network to fully mitigate this. Until funding is secured our network will continue to get busier.					
		Bus journey time	32.6 minutes	**33.2 mins**	Includes full year impact of central London service changes increasing crowding and wait times. Targeting performance as per 2019/20 outturn, with minor downside reflecting performance affected from deferred road schemes and a number of Healthy Streets road improvement schemes in the 2020/21 investment programme e.g. Waterloo. Planned road schemes will impact 60% more routes in 2020/21 compared to 2019/20 thus impacting bus performance. It should be noted that the 2019/20 target was 33.5 minutes – we have outperformed this because some of the schemes that were planned for 2019/20 have been deferred into 2020/21.	33.5	Allows for full year impact of central London service changes plus projection of current trends in performance and speed	**3%**	**3%**	
Customer 25%		Percentage of Londoners who agree we care about our customers	53%	**54%**	We are on track to meet our 2019/20 target of 53%. A one percentage point increase in the TfL Care score across the year represents a challenging but achievable target. Note: any further delays to the Elizabeth line, or a change in priorities post-election could pose a risk to achieving this.	53%	Performance no worse than 2019/20. If the 54% target is met this will equate to 100% achievement, if the current score is maintained and the floor target of 53% is met this will be a 50% achievement. Any score of 52% or less will attract 0 weighting.	**10%**	**10%**	A high weighting has been assigned to this measure, because it can be influenced by staff across the business.
	The public transport network will meet the needs of a growing London *(5%)*	Elizabeth line – start trial running	n/a	**Autumn 2020**	The target for 2020/21 is to begin trial running on the Elizabeth line by Autumn 2020. This is a key milestone which would keep the project on track for delivery of the central section 'as soon as practically possible in 2021'.	December 2020	Full weighting will be given if target is met. If the target is met by December 2020 a 50% award will be given. Beyond December, no award.	**1.5%**	**5%**	This has increased to reflect the importance of the Elizabeth line being delivered as soon as is safely possible.
	Transport investment will unlock the delivery of new homes and jobs *(5%)*	*Start on sites of new homes by March 2021	n/a	**10,000**	The target aligns with that set in May 2016 to build 10,000 new homes on TfL land by March 2021.	9,000	50% of weighting awarded for 9,000 homes delivered, any score less will attract 0%.	**2.5%**	**5%**	This weighting has been increased to reflect the importance of this Mayoral priority.
	80% of trips will be made by active, efficient and sustainable modes by 2041 *(5%)*	Public transport trips	4,035m	**4,024m**	The 2020/21 target for the number of public transport trips aligns with the Budget forecast. It reflects a modest reduction in passenger demand amidst challenging macroeconomic conditions.	3,823	Allows for a 5% slippage against the 2020/21 target.	**5%**	**4%**	As the weightings for Elizabeth line and new homes have increased, we have reduced the weighting of public transport trips and the impact from demand is captured in our financial measures.
		Average kilometres cycled per day	544k	**560k**	The target for cycling is based on past trends which show continued increases in cycling – the target represents a 3 per cent increase in cycling on the previous year.	544	Performance no worse than 2019/20.	**1%**	**1%**	
People 25%	A capable and engaged workforce representative of London	Representativeness – all staff	70.9%	**71.9%** +1% on 19/20	The targets represent a 1%pt improvement verses 2019/20 outturn. It is difficult to predict how the index will be affected by people leaving the business through transformation. This may give rise to a greater challenge in meeting the 2020/21 targets as people leave during the year.	70.9%	Performance no worse than 2019/20.	**5%**	**5%**	The measures relating to having a representative workforce and an inclusive culture have an overall weighting of 15 per cent, reflecting the importance of these measures,
		Representativeness – director / band 5	38.3%	**39.3%** +1% on		38.3%	Performance no worse than 2019/20.	**5%**	**5%**	

	MTS Outcome	Measure	2019/20 forecast	2020/21 Target	Rationale for target	Floor Target	Rationale for floor target	2019/20 Weighting	2020/21 Weighting	Rationale for weighting
	(25%)			19/20						with equal weighting applied across the three measures.
		Inclusion index	47%	**50%**	The Inclusion score in 2019/20 was 47%, which exceeded our target of 46%. The target for 19/20 is to achieve a 3%pt increase in the score we achieved last year.	47%	Performance no worse than 2019/20. If the 50% target is met this will equate to 100% achievement, if the current score is maintained and the floor target of 47% is met this will be a 50% achievement. Any score of 46% or less will attract 0 weighting.	**5%**	**5%**	
		Total engagement	57%	**58%**	For the first time since 2015 we have seen an increase in our Total Engagement score, with a score of 57% in 2019/20. As we measure the whole employee experience, it takes a lot to move the dial by just 1%pt. For example, to increase Total Engagement by 1%pt we would need to see approximately 5,000 more positive responses to any one question.	57%	Performance no worse than 2019/20. If the target of 58% is met this will equate to 100% achievement, if the current score is maintained and the floor target of 57% is met this will be a 50% achievement. Any score of 56% or less will attract 0 weighting.	**10%**	**10%**	Total engagement has a weighting of 10 per cent reflecting that as we continue to transform and develop the business it is important to continue to engage and lead our staff to high performance.
Finance (25%)	We cover our costs and we are prudent *(25%)*	Net operating surplus	£730m	**£430m**	The targets will align with the Budget, subject to Board approval.	£330m	Ensures that costs are controlled in response to any downside in income beyond 2% planned range of variation in passenger income	**17.5%**	**15%**	Around two thirds of our spending relates to operating expenditure, with one third to capital expenditure. To reflect this, the measure for total operating deficit has a weighting of 15 per cent and the investment programme measure has a total weighting of 10 per cent. Delivering to time and budget are deemed equally important, thus are weighted equally.
		Investment programme Deliver key milestones on time	90%	90%	A target of 90% reflects the importance of achieving the milestones, with a sliding scale employed with a range between 0-90%. Any result 90% or above results in the full weighting being awarded. The targets will align with the Budget, subject to Board approval.	0%	As in previous years, a sliding scale methodology will be applied to milestone delivery to accurately reflect where delivery is slightly later than planned, with 0% being failure to achieve all budget milestones.	**7.5%**	**5%**	
		Deliver programmes to budget	£1,562m	£1,865m		+/- 3%	Ensures a focus on meeting the budget within a narrow variance	**5%**	**5%**	

*Following publication of the paper on 3 March 2020, omissions to the original report were corrected. These are “9,000” for floor target and “0%” at the end of the narrative.

Finance Committee

Date: **11 March 2020**

Item: **General Fund Balance**

This paper will be considered in public

1 Summary

1.1 Within the existing statutory and regulatory framework, it is the responsibility of the statutory Chief Finance Officer to advise the Board about the level of reserves that should be held and to ensure there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

1.2 This paper sets out the purpose of the General Fund reserve and seeks approval for the increase in its target balance to £500m in light of the current and future risks (both operational and financial) faced by the TfL Group.

2 Recommendation

2.1 **The Committee is asked to note the paper and approve the increase in the target General Fund balance to £500m.**

3 Context

3.1 Local Authorities have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium and longer term.

3.2 Under statute, TfL holds a number of different reserves. As set out in Appendix 1 (attached for noting by the Finance Committee), these fall into two broad categories; usable and unusable. Unusable reserves, such as the Pension Reserve and the Capital Adjustment Account, are established under statute to hold costs that TfL has accrued but not yet financed. These reserves are not available to spend on service provision. Usable reserves represent the funds available to finance future activities.

3.3 Usable reserves in TfL comprise four distinct accounts. Two of these, namely the Capital Grants Unapplied Account and the Street Works Reserve, are reserves that are required to be applied only to fund certain types of expenditure. In TfL's case, these are capital funds to fund the Crossrail project, and monies ringfenced to fund schemes intended to minimise the disruption caused by street works. The remaining usable reserves are the General Fund and Earmarked Reserves. Earmarked Reserves are revenue reserves, identified at the discretion of the Board, to finance future infrastructure projects.

3.4 General Fund balances, meanwhile, represent monies held for the following purposes:

(a) a working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing; and

(b) a contingency to cushion the impact of unexpected events or emergencies.

3.5 In accordance with best practice as set out in the Local Authority Accounting Panel (LAAP) Bulletin 99 “Local Authority Reserves and Balances” published by the Chartered Institute of Public Finance Accountants in July 2014, in considering the appropriate target balance for the General Fund, the statutory Chief Finance Officer has regard to the:

(a) strategic financial context within which TfL will be operating through the medium-term;

(b) the overall effectiveness of governance arrangements and the system of internal control;

(c) the robustness of the financial planning and budget-setting process;

(d) the effectiveness of the risk management process and the potential impact of risks identified; and

(e) the effectiveness of the budget monitoring and management process.

3.6 Historically, the level of TfL’s General Fund has been maintained at around £150m, reflecting the effectiveness of TfL’s governance controls and risk management framework, combined with its thorough budget and business plan monitoring and management processes. However, as TfL now faces unprecedented financial challenges against a background of political and economic uncertainty, it is an appropriate time to review the adequacy of this target level.

3.7 The Audit Commission’s “Striking a balance” report, published in December 2012, revealed that most Chief Finance Officers of local government organisations set their target minimum General Fund balance at a level between three and five per cent of annual revenue expenditure. Figures for all English authorities per the Local Government Financial Statistics England No.29 2019 report, published by the Ministry of Housing, Communities & Local Government indicate that, on average, General Fund Reserve balances continue to sit within this range as indicated below.

Local Government general fund balance as a percentage of revenue expenditure – historic trends

Year ended 31 March	annual revenue expenditure	general fund balance	general fund balance as a percentage of revenue expenditure
	£m	£m	%
2012	99,278	4,086	4.10%
2013	94,148	4,537	4.80%
2014	96,419	4,299	4.50%
2015	95,943	4,483	4.70%
2016	94,529	4,458	4.70%
2017	93,567	4,194	4.50%
2018	93,104	4,286	4.60%

3.8 For TfL, given the unique size and long-term nature of its capital investment programme, it is considered appropriate to include not only revenue expenditure in this calculation, but also to incorporate annual capital expenditure. A significant proportion of TfL annual capital expenditure relates, in any case, to renewals of existing infrastructure – required to maintain current levels of service provision.

3.9 It is also deemed prudent, given TfL's risk profile, particularly in terms of the difficulty in accurately estimating the total project costs and timing of major infrastructure projects, such as Crossrail Limited, to set the target level at the higher end of the range of local government experience.

3.10 Taking the above into consideration, the table below sets out five per cent of TfL's total gross expenditure (comprising operating expenditure, debt servicing costs, and capital expenditure) for each year of the Business Plan (as published in December 2019). The calculation gives a result fluctuating between £478m and £513m over the term of the Business Plan.

	Dec 19 Forecast	Dec 19 Plan	Dec 19 Plan	Dec 19 Plan	Dec 19 Plan	Dec 19 Plan
	19/20	20/21	21/22	22/23	23/24	24/25
	£m	£m	£m	£m	£m	£m
Operating expenditure	6,419	6,618	7,064	7,249	7,492	7,698
Debt servicing costs	452	487	551	572	568	564
capital expenditure	2,733	2,707	1,953	1,906	1,906	2,005
Total gross expenditure	9,604	9,812	9,568	9,727	9,966	10,267
5%	480	491	478	486	498	513

3.11 It is therefore recommended that the target level for the General Fund be set at a figure of £500m from 2020/21 to 2024/25.

List of appendices to this report:

Appendix 1: Reserves Policy

List of Background Papers:

LAAP Bulletin 99 Local Authority Reserves and Balances

Contact:	Antony King, Interim Group Finance Director and Statutory Chief Finance Office
Number:	020 7126 2880
Email:	AntonyKing@tfl.gov.uk

PR00XX XX Reserves Policy

Contents

1 Purpose

Purpose
The purpose of this Accounting Policy is to ensure that TfL is correctly and consistently implementing TfL's approach to Reserves and Balances.

This Accounting Policy sets out TfL's approach to Reserves and Balances and helps TfL cope with unpredictable financial pressures and to plan for its future spending commitments. The level, purpose and planned use of reserves are important considerations for the Statutory Chief Finance Officer (Statutory CFO) and Board to consider when developing the medium-term financial strategy and setting annual budgets.

This Accounting Policy is based on the Local Authority Accounting Panel (LAAP) Bulletin 99 "Local Authority Reserves and Balances" published by the Chartered Institute of Public Finance Accountants (CIPFA) in July 2014.

This Accounting Policy is effective immediately and formally documents existing practices.

2 Scope

This Accounting Policy applies to TfL and all its subsidiaries. References in this document to "TfL" include the Corporation and all subsidiary entities.

3 Background

Reserves help TfL cope with unpredictable financial pressures and to plan for its future spending commitments. The level, purpose and planned use of reserves are important considerations for the Statutory Chief Finance Officer (statutory CFO) and Board to consider when developing the medium-term financial strategy and setting annual budgets. There are a range of safeguards in place that help to prevent TfL over- committing itself financially. These include: the balanced budget requirement on TfL as a functional body of the Greater London Authority (GLA)(section 85 of the GLA Act 1999);

The statutory CFO's duty to report on the robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement;

- The legislative requirement for each functional body of the GLA to make arrangements for the proper administration of their financial affairs and the responsibility of statutory chief finance officer has for the administration of those affairs section 127 of the Greater London Authority Act 1999; and

- The requirements of the Prudential Code; in considering the affordability of its capital plans, the authority is required to consider all of the resources available to it/estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years

- These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the statutory CFO to report to the Mayor and the Chair of the Assembly if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. Indeed, the Mayor has 21 days to consider the s114 notice and during that period TfL, as the functional body in question, would be prohibited from entering into new agreements involving the incurring of expenditure.

4 Reserves Policy

Taking the above into account, in accordance with best practice as set out in LAAP Bulletin 99 of the CIPFA guidance, the statutory CFO considers the establishment and maintenance of reserves in reviewing medium-term financial plans and preparing annual budgets. The nature and target level of the General Fund balance and Earmarked Reserves are approved formally by the Board, as part of the annual budgeting process, informed by the judgement and advice of the statutory CFO. If the General Fund balance falls below the threshold value set, a plan will be agreed by the Board to restore the balance to the appropriate level.

Reserves are analysed into two categories: usable and unusable.

4.1 Usable Reserves

TfL maintains the following usable reserves:

a. Capital Grants Unapplied Reserve: these reserves represent capital grants received by TfL but not applied to capital expenditure in the year of receipt. They are ring-fenced according to the terms of the grant for expenditure of a capital nature, and may be further ring-fenced to be spent in relation to particular projects (e.g. Crossrail).

b. Capital Receipts Reserve: where capital receipts, such as proceeds from the disposal of fixed assets or repayments of capital funding to subsidiaries, have not been applied to fund expenditure in the year of receipt, these monies are ring-fenced to be applied to future capital spend.

c. Street Works Reserve: amounts in the Street Works Reserve represent the net income/expenditure generated from lane rental revenues. Under statute these net revenues may only be employed in funding the reduction of disruption and other adverse effects caused by street works.

d. Earmarked Reserve: monies in this reserve form part of the General Reserves of TfL under statute, but represent the portion of retained surplus on provision of services, after required transfers to other reserves, that have been ring-fenced at the discretion of the CFO to fund future infrastructure projects. In practice, the balance in this account represents the balance of any retained surpluses of the Group after all required transfers to other reserves have been made.

e. General Fund: balances in this reserve represent monies held to ensure that TfL has sufficient funds to manage its day to day finances and to enable its financial position to remain secure in the event of unforeseen circumstances. The target level of General Fund balances is set by the Board, as advised by the statutory CFO. In considering the appropriate target balance, the statutory CFO will have had regard to the:
   - Strategic financial context within which TfL will be operating through the medium-term;
   - Overall effectiveness of governance arrangements and the system of internal control;
   - Robustness of the financial planning and budget-setting process;
   - Effectiveness of the risk management process and the potential impact of risks identified; and
   - Effectiveness of the budget monitoring and management process

4.2 Unusable Reserves

Unusable reserves are not resource-backed in the Corporation and therefore cannot be used. These comprise:

f. Revaluation Reserve: This reserve contains the accumulated unrealised net gains arising from increases in the value of property, plant and equipment.

g. Hedging Reserve: This reserve holds the unrealised gain or loss on a hedging instrument that is determined to be an effective hedge. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement. The gain or loss deferred in reserves

h. Financial Instruments Revaluation Reserve: This reserve records unrealised revaluation gains, plus any unrealised losses that have not arisen from impairment of the assets, arising on financial assets held at fair value through other Comprehensive Income and Expenditure.

i. Retained Earnings Reserve in Subsidiaries: This reserve represents the retained earnings of the Group’s subsidiary companies. These are disclosed as unusable as until such time as they are paid up in dividends to the Corporation, they are not available to fund the expenditure of the Corporation.

j. Merger Reserve: The merger reserve of £466.1m arose as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited (LU), to TfL in 2003. It represents the share capital of LU and was taken as a credit to the merger reserve.

TfL also maintains a number of other unusable reserves that arise out of the interaction between legislation and proper accounting practices:

k. Pension Reserve: This reserve represents pension and other post-retirement defined benefit obligations shown on the balance sheet of the Corporation. The reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits under the CIPFA Code for Local Authority Accounting and for funding those benefits in accordance with statutory provisions.

l. Capital Adjustment Account: This reserve absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The reserve is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statements. The reserve is credited with the amounts set aside by TfL as finance for the costs of acquisition, construction and enhancement. The reserve also contains accumulated gains and losses on investment properties within the Corporation.

m. Accumulated Absences Reserve: This reserve absorbs the differences that would otherwise arise in the General Fund from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from this reserve.

n. Financial Instruments Adjustment Account: This account provides a balancing mechanism between the different rates at which gains and losses (such as premia on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.

o. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation.

5 Contact infomration

For any questions on this Accounting Policy please contact the Senior Manager Technical Accounting in the first instance or the Head of Tax and Financial Accounting.

6 Person accountable for this document

Name	Job title
Antony King	Statutory Chief Finance Officer

7 Definitions

Term	Definition	Source
Accounting Policies	Accounting policies are the specific principles, rules and procedures implemented by a company's management team and are used to	glossary

	prepare its financial statements. These include any methods, measurement systems and procedures for presenting disclosures.	

8 Abbreviations

Abbreviation	Meaning
CFO	Chief Finance Officer
LAAP	Local Authority Accounting Panel
CIPFA	Chartered Institute of Public Finance Accounts
GLA	Greater London Authority
LU	London Underground Limited

9 References

Title or URL
Local Authority Accounting Panel Bulletin 99
Section 85 of the Greater London Authority Act 1999
Section 25 of the Local Government Act 2003
Section 127 of the Greater London Authority Act 1999
The Prudential Code for Capital Finance in Local Authorities
Section 114 of Local Government Finance Act 1988

10 Document history

Issue no.	Date	Changes	Author
1	3/10/2019	None	Rachel Shaw (Head of Tax and Financial Accounting)

Finance Committee

Date: **11 March 2020**

Item: **Telecoms Commercialisation Project**

This paper will be considered in public

1 Summary

1.1 This paper describes the approach and process undertaken to identify a new commercial partner (the Concessionaire) to; i) fund, build, operate and monetise telecommunications infrastructure using TfL assets, and ii) generate a long-term revenue stream for Transport Trading Limited (TTL) through the delivery of telecommunications services.

1.2 The Concessionaire will deliver a range of telecommunications services which directly support the Mayor's Transport Strategy (MTS) to improve digital connectivity in London. These services will include:

(a) commercial mobile coverage on the London Underground;

(b) an enhanced public Wi-Fi service on the London Underground;

(c) a new fibre network throughout the London Underground providing high speed connectivity for both business and residential purposes;

(d) the use of streetscape assets to support 5G small cell deployment; and

(e) the delivery of connectivity to public buildings using public grants.

1.3 The Concessionaire will also be responsible for the delivery of the infrastructure and service management capabilities required to support the Home Office's Emergency Services Network (ESN) service within TfL's estate. The Home Office's demanding delivery schedule for the nationwide ESN programme requires that we enter into a concession agreement with the Concessionaire in June 2020.

1.4 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. 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 or business affairs of TfL and tenderers and which is legally privileged. Any discussion of that information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 The Committee is requested to note the paper and the supplemental paper on Part 2 of the agenda and to:

(a) approve Land Authority at the sum set out in the paper on Part 2 of the agenda for the award of the telecommunications concession agreement to the successful tenderer following evaluation of the Invitation to Submit Final Tender responses as described in this paper (the Concessionaire);

(b) approve unbudgeted Financial Authority of the sum set out in the paper on Part 2 of the agenda for the receipt of income from the Concessionaire from year 6 to year 20 of the concession agreement;

(c) approve unbudgeted Financial Authority of the sums set out in the paper on Part 2 of the agenda to receive income from the Concessionaire for the disposal of telecommunication infrastructure, previously funded by TfL and the Home Office, and to pay to the Home Office for the infrastructure they funded and agreed in earlier grant agreements, leaving a net income of the sum set out in the paper on Part 2 of the agenda;

(d) approve unbudgeted Financial Authority of the sum set out in the paper on Part 2 of the agenda, in relation to the delivery of infrastructure to support the Home Office's Emergency Services Network, subject to full grant funding from the Home Office being agreed;

(e) approve unbudgeted Financial Authority of the sum set out in the paper on Part 2 of the agenda in relation to the delivery of telecommunication infrastructure to support the rollout of fibre services to selected public locations across various London Boroughs, subject to full grant funding being agreed by the Department for Digital, Culture, Media & Sport (DCMS); London Boroughs and the Greater London Authority;

(f) note that the option to call off the procurement of service management services to support the Emergency Services Network will not be exercised without further authority from the Committee; and

(g) note that the proposed agreement with the Concessionaire will extend beyond the life of the current Business Plan and provision will need to be made for it in future Business Plans.

3 Background

3.1 We are seeking to award a concession agreement whereby a commercial partner (the Concessionaire) will fund, build, operate and monetise telecommunications infrastructure using TfL assets and generate a long-term revenue stream for TTL. This is to be achieved off-balance sheet.

3.2 The Concessionaire will deliver a number of service lines, and these will initially include:

(a) cellular coverage on the London Underground to all four UK mobile network operators (EE, O2, Vodafone and 3), covering all technologies they require and are prepared to pay for (2G, 3G, 4G and 5G) subject to the mobile operators signing contracts with the Concessioniare;

(b) an enhanced public Wi-Fi service on the London Underground to replace the expiring Virgin Media concession agreement;

(c) a new fibre network throughout the London Underground, which will provide high-speed connectivity options for business and residential customers;

(d) use of streetscape assets such as lighting columns for small cells and other radio technology to improve current 4G mobile services and support new 5G technology;

(e) the delivery of connectivity to public buildings using public grants; and

(f) the delivery of the Home Office's ESN on the London Underground (and certain other specified locations on the Docklands Light Railway and the London Overground), paid for by the Home Office.

3.3 In its provision of these services, the Concessionaire will deliver on the MTS commitment (MTS Proposal 52) to improve digital connectivity in London, specifically by tackling London's biggest 'not spot' (the London Underground) and by ensuring better access to public sector property for digital infrastructure.

3.4 The Concessionaire will also be responsible for delivering connectivity to under-served areas of London, this work being funded via a grant won in a DCMS competition as well as funding from Business Rates Retention Pool including the Strategic Investment Pot, administered by London Councils, and the Strategic Investment Fund administered by the Greater London Authority.

3.5 The timing of future Committee meetings and the need to deliver ESN to an aggressive plan means that this approval paper is submitted to the Committee before the conclusion of the procurement exercise. However, the details of the concession agreement are already fixed (as set out in this paper and the corresponding paper on Part 2 of the agenda).

4 Tender Process and Timetable

4.1 In order to gauge the market and generate interest in the opportunity, intensive early market engagement was undertaken between May 2017 and May 2018 with leading telecoms infrastructure providers, hardware suppliers and the UK's four mobile network operators.

4.2 A Prior Information Notice and a market sounding questionnaire were issued on 6 October 2017. Twenty two responses were received from telecoms infrastructure providers, telecoms equipment suppliers and mobile network operators. The captured information was used to shape the proposed concession agreement.

4.3 The procurement followed the competitive dialogue process under the Concession Contracts Regulations 2016, with a notice published on the Official Journal of European Union on 9 June 2018.

4.4 Invitations to Participate in Dialogue were issued to tenderers at the end of July 2019. Three responses were received in September 2019. One tenderer declined to respond.

4.5 All three initial tenders were evaluated and comprehensive feedback was provided to each tenderer prior to commencement of the competitive dialogue phase. During competitive dialogue, each proposal was discussed in detail in order to ensure tenderers fully understood TfL's requirements and both parties could secure maximum value from this opportunity.

4.6 The Invitation to Submit Final Tenders was issued to tenderers on 7 February 2020 and responses are due back on 6 March 2020. These responses will then be evaluated over a six week period against the published evaluation criteria to select a preferred tenderer. It is anticipated that the concession agreement will be signed in late May 2020.

5 The Proposed Concession Agreement

5.1 Our approach has been to define up-front as many of our requirements as possible and then lock them down within a TfL authored contract developed with input from the shortlisted tenderers through the dialogue process. This approach has provided a high degree of certainty regarding the key terms and conditions of the contract.

5.2 The agreement is based on a concession model as this has been assessed as the optimal route to deliver the desired benefits. Development of the concession will be very capital intensive and front loaded. A concession model facilitates taking advantage of private sector investment within budgetary constraints, whilst continuing to benefit from a revenue stream.

5.3 The concession agreement has been reviewed by KPMG and is assessed as off-balance sheet.

5.4 The key aspects of the concession agreement are summarised below and in more detail in Part 2.

Concession Commercial Model

5.5 The concession agreement grants the Concessionaire the exclusive right to work with TfL to commercialise our assets in relation to the provision of telecommunications services across the TfL estate.

5.6 The initial duration will be for 20 years with an option for TfL to extend for a further five years. The business case recommended 20 years as the minimum period of time a concessionaire would need to recoup the considerable investment required (anticipated to be in the region of £350m to £450m over 20 years) and make a reasonable rate of return.

5.7 A five-year extension option is included to allow for a possible substantial investment in new technology towards the end of the contract period. Further authority will be requested prior to entering into an extension.

Revenues

5.8 Revenues are made up of fixed and variable payments. The variable part is subject to final tenders and is based on a percentage of the Concessionaire's gross revenue from the Concession.

5.9 The fixed fee is for the use of TfL assets, starting at £1.5 million in the first contract year and rising to £5 million for the fifth year and is then indexed, using the Retail Price Index, for the remainder of the term.

5.10 The receipt of income from year 1 to year 5 of £25m is included in the TfL Business Plan. The income receivable from the Concessionaire is variable based on the Concessionaire's performance as we receive a percentage of the gross revenues.

5.11 As soon as the Concessionaire receives income from the mobile network operators, the Concessionaire is mandated to purchase infrastructure installed by TfL in public areas of the London Underground as part of the ESN and Public Cellular Pilot projects. Under this arrangement, the Home Office will be reimbursed the funding used to install any infrastructure that the Concessionaire employs to provide the commercial mobile service. The exact amounts will be based on the actual cost of work delivered by TfL at that point in time. In return the Concessionaire takes ownership of the infrastructure. The values of these transactions are included in Part 2 of this paper and make up the request for Financial Authority in Recommendation (c).

5.12 The Home Office will pay for the installation and service management of all infrastructure installed in the non-public areas of the London Underground, as there is no commercial opportunity in these areas. The values of these transactions are included in Part 2 of this paper and make up the request for Financial Authority in Recommendation (d).

Payments to the Concessionaire

5.13 As part of the concession, TTL will pay the Concessionaire for the following:

(a) the fixed price cost for delivering the non-public areas of the London Underground (paid for by the Home Office by way of a grant agreement with TfL); The values of these transactions are included in Part 2 of this paper and make up the request for Financial Authority in Recommendation (d);

(b) delivery of connectivity to specific public buildings (paid for by way of grant agreements with DCMS and other agencies); The values of these transactions are included in Part 2 of this paper and make up the request for Financial Authority in Recommendation (e);

(c) optional delivery of the ESN service management service (paid for by the Home Office through a multi-year grant agreement if the option is exercised). Should this option be exercised, the relevant approvals will be sought from the Committee at the appropriate time; and

(d) a final payment on termination for the market value of the installed infrastructure on our assets. This is structured such that it should be paid by the replacement concessionaire, should there be one.

Property Matters and Rights to Use

5.14 Although the concession agreement will be in the name of TTL, the assets are owned by various TfL Group entities. The relevant TfL Group entity may need to grant wayleaves to the Concessionaire to give it the right to access the assets to install and maintain concessionaire infrastructure.

5.15 It will be necessary to grant wayleaves to the Concessionaire to install the telecommunications infrastructure. The Land Authority requested includes the revenues TfL expect to generate from the concession. The Land Authority request also includes fees for the sale of assets already installed by TfL and paid for by the Home Office and TfL and the receipt of grant funding from the Home Office, DCMS, London Boroughs and the Greater London Authority. This detailed in Part 2.

Fees and Charges

5.16 Fees payable by the Concessionaire and charges payable by TTL are as follows:

(a) the concession agreement sets out payments that will flow between the Concessionaire and TfL. These are split into fees and charges, with fees being payments made by the Concessionaire to TfL, and charges being payments made by TfL to the Concessionaire;

(b) fees consist of:

(i) a Fixed Concession Fee which is a fixed amount per year as set out in the concession agreement;

(ii) the Revenue Share Fee which is a monthly payment, calculated as a percentage of Gross Revenue generated by the Concessionaire. The Revenue Share Percentage for each Service Line is a biddable item by Tenderers and is split by each service line;

(iii) the TfL Resource Fee is a fee for the provision of certain services by TfL to the Concessionaire. There are three types of services these are:

- TfL Engineering Services;
- TfL Construction Management Services; and
- TfL HSE Services;

(iv) the TfL Infrastructure Re-charge Fees which are the fees that the Concessionaire will pay TfL for the transfer of the telecommunication infrastructure already installed by us. These are split into:

- Recharge A – Cost incurred by TfL such as the Public Cellular Pilot; and
- Recharge B – Cost incurred by TfL but funded by Home Office grant agreements. These monies will be reimbursed to the Home Office;

(v) the Electricity Re-charge Fee is the Fee that the Concessionaire will pay for the electricity it consumes that is provided by TfL. This fee will allow us to recover the costs we incur providing the Concessionaire with electricity; and

(vi) the Asset Upgrade Fee which is a Fee that applies if the Concessionaire requires a modification to one of our assets. The Concessionaire will notify us of the same, specifying sufficient information to allow us to assess the extent of the Fee and approve the upgrade; and

(c) the charges consist of:

(i) the ESN Implementation Charges which are a set of milestone-based charges (to be supported by back-to-back grant agreements with the Home Office) which cover all work to deliver the non-public areas of stations and other non-public areas such as depots, as requested in Recommendation (d);

(ii) the Works Funded by Grants Group Charges which cover the option (subject to the receipt of grant funding) to install connectivity to nominated public buildings, as requested in Recommendation (e);

(iii) the Project Charges which are charges (calculated in accordance with a rate card) for any additional services requested by TfL relating to our assets. We are under no obligation to request such services from the Concessionaire and reserve the right to use alternative suppliers; and

(iv) the ESN Service Management Charge which covers the option for the Concessionaire to provide ESN Service Management Services.

Capital Investment and Guarantee

5.17 The Concessionaire will commit to a capital investment commitment to invest in the service lines. Failure to invest may lead to concessionaire default and termination. This is measured annually and on a five-year rolling basis to ensure both short-term and long-term investment.

Approach to Risk

5.18 The concession agreement is structured in such a way that key financial, commercial and delivery risks reside with the Concessionaire. TfL provides no revenue guarantees, the Concessionaire is required to fund the required capital investment and is responsible for infrastructure rollout and delivery, as well as delivering revenue streams and managing demand. TfL will always retain a level of reputational risk, but the rigorous, multi-stage tendering process will ensure that TfL award the concession agreement to a highly competent and incentivised partner with strong capabilities and reputation to maintain, together with financial incentives which are aligned with hose of TfL.

Summary of the Risk Position

5.19 We cannot enter into the concession agreement until the Home Office has agreed with us a multi-year grant agreement covering the total costs of the infrastructure required for the back office areas.

5.20 The Concessionaire is responsible for all access, there are no penalties or payments for any frustrated access and the Concessionaire is expected to manage their work bank so that they can meet the milestones set in the concession agreement.

5.21 The Concessionaire is responsible for identifying and paying for all power and other infrastructure changes required to meet their requirements.

5.22 The Concessionaire is responsible for all maintenance of their infrastructure and our infrastructure as it relates to ESN.

5.23 The Concessionaire is responsible for the design and identification of the space required for the telecommunications infrastructure needed to provide the services specified in their tender. This will be done through TfL’s standard space application process. The Concessionaire’s detailed design has limited assurance by us and wayleaves are issued on the basis of these designs, including any space allocations.

5.24 Roles under the Construction, Design and Management Regulations 2015 (CDM) are clearly defined in the tender documentation. The Concessionaire acts as the Client and Principal Designer. The Concessionaire will appoint a Principal Contractor to an appropriate organisation within their supply chain (subject to our agreement).

5.25 Tenderers have been made aware of the rigorous standards regime in place and have budgeted for appropriate time from TfL’s engineering team to support the implementation project. The Concessionaire will have experience of working on the London Underground.

5.26 We have included an aggregate liability cap of the higher of the outstanding capital investment amount or £100m. During dialogue the tenderers expressed the strong need to understand the total liabilities to allow them to fund the project and put in place the appropriate guarantees.

6 Integrated Assurance

6.1 A final Independent Assurance Review will take place on the final concession agreement. Interim independent assurance has been undertaken prior to the issue of the tender documentation.

6.2 Project Assurance have completed a targeted review of the procurement and commercial aspects of the Telecommunications Commercialisation Programme (TCP) and conclude that there is just one concern relating to funding. The Financial Authority for the TCP is £5.2m whereas the EFC is £5.9m. The greater use of external advisers appears to be the main cause of the increasing EFC and should be kept under review to ensure value for money is obtained.

List of appendices to this report:

Exempt supplementary exempt information is included in a paper on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Shashi Verma, Chief Technology Officer
Number: 020 3054 0709
Email: ShashiVerma@tfl.gov.uk

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Finance Committee

Date: **11 March 2020**

Item: **Strategic Risk Update – Inability to Meet Changing Demand (SR9)**

This paper will be considered in public

1 Summary

1.1 This paper sets out our current understanding and control measures on Strategic Risk 9: Inability to meet changing demand.

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

2 Recommendation

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

3 Background

3.1 Our demand can change sharply even in the short term in a way that impacts on hundreds of millions of pounds in revenue. In the longer term, deviations in demand are possible in both directions depending on the attractiveness of London as a place to live and do business.

3.2 The risk and its control measures are kept under continuous review and form a core part of the business planning process.

4 Description of risk

4.1 In the short term our ability to respond to sharp changes in demand is limited. With the Tube and rail services, increases in services are near impossible in the short term, whereas bus services are relatively more flexible to manage with the ability to increase or decrease services quickly. The high fixed costs of rail services make service reductions unlikely to be financially beneficial. Demand for buses has been falling in London and across the entire country, influenced by speeds and other factors.

4.2 Our mitigation to date, which also appears pragmatic for the future, is to model different scenarios and undertake stress tests of revenue growth and to use our annual planning processes (Business Plan and Budget) to flex our plans based on demand. Even in the 2008 recession during a 7 per cent reduction of GDP, the

Tube only saw a 2.3 per cent drop in demand. If this were applied to all TfL income next year this would equate to a £120m reduction in revenue. Our processes have shown themselves capable of dealing with much larger pressures, such as with Crossrail, the immediate costs of the Four Lines Modernisation programme and even the collapse of Metronet in 2007. The need to cope with near-term pressures while making structural changes is one of the reasons that we have increased our minimum cash holdings to around £1.2bn plus a £0.6bn operational buffer.

4.3 Longer term, our investment cases for new transport are stress tested against plausible changes in demand.

5 Overall assessment of risk

5.1 This risk scores highly because of the size of the financial impact it can create, but we have effective planning processes in place to contain impacts.

List of appendices to this report:

Appendix 1: SR9 risk assessment sheet containing exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Shashi Verma, Director of Strategy and Chief Technology Officer
Number: 020 3054 0709
Email: shashiverma@tfl.gov.uk

Finance Committee

Date: 11 March 2020

Item: TfL Energy Purchasing

This paper will be considered in public

1 Summary

1.1 This paper updates on the progress of activities to procure renewable, grid-supplied energy to the TfL network, in support of the ambition for TfL's rail services to be zero carbon by 2030.

1.2 A full procurement strategy and authority request for renewable energy purchasing will be submitted to the Committee in due course.

2 Recommendation

2.1 The Committee is asked to note the paper.

3 Background

3.1 The London Environment Strategy and Mayor's Transport Strategy set the ambition for TfL's rail services to be zero carbon by 2030. As detailed in the paper to the Committee on 9 December 2019, this will require TfL to purchase all of its grid-supplied electricity from renewable sources. It is anticipated that a large proportion of this will come from renewable energy Power Purchase Agreements (PPAs), with the emphasis primarily on agreements which involve new generation and/or infrastructure assets. In the short term, TfL may pursue PPAs based on existing low carbon generation assets.

3.2 Through incentivising the development of new renewable generation into the UK energy system, 'additional' PPAs would provide verifiable emissions reductions that would support TfL's 2030 target and facilitate wider benefits through further decarbonisation of the UK electricity grid.

3.3 The update to the Committee in December 2019 described the work being undertaken by Crown Commercial Services (CCS), our existing framework provider for energy procurement, to provide market engagement and analytical work in support of TfL's development of a procurement strategy for PPAs.

3.4 The first phase of CCS's programme entails development of a number of options covering both the source and procurement routes for a pilot PPA. Should the Committee subsequently approve one of these options when they are brought to the Committee at a future date, CCS can provide procurement resources and support for the second stage of the programme.

4 Current activities

4.1 In parallel to the programme being undertaken by CCS, TfL has commissioned independent advice on our wider renewable purchasing strategy. This advice will inform the strategy for the phased purchasing of renewable energy to meet our zero carbon ambition and will consider the overall roadmap to achieving this, the realistic sources of renewable energy, analysis of the current PPA market and risks, market testing, and planning for future changes to TfL's energy demand. It will also deliver the financial analysis and business case to underpin the PPA strategy.

4.2 The independent advisor, appointed in late February, will also explore the optimal routes to market for PPAs and explore alternatives to the CCS procurement route.

4.3 In addition, we are exploring financing models for the direct supply of renewable energy to the TfL network via private wire connection. We have appointed a further independent advisor to support this work, which will inform our overarching strategy for renewable energy purchasing.

4.4 Together, we will consider the phase 1 work produced by CCS, alongside the work delivered by our independent strategic advisor, to prepare a procurement strategy for the purchase of an increasing proportion of renewable energy to enable us to meet our 2030 ambition. TfL will recommend a preferred procurement route to the Committee in due course. We are reviewing our current resourcing needs to support the procurement and putting appropriate plans in place.

4.5 Dependent on the outcome of this work, and TfL approval of the procurement strategy in June, we anticipate being in position to tender for PPAs independently or through CCS during this calendar year, with potential contract delivery by the end of the 2020/21 financial year.

5 Timescale to market

5.1 The workstreams described above will be complete by the end of May 2020. Based on the results of market analysis undertaken to date, TfL is committed to launching a tender for renewable Power Purchase Agreements during the 2020/21 financial year.

5.2 We anticipate that as a result of this activity we will be in a position to secure up to 10 per cent of TfL's annual electricity consumption via PPAs, either involving new generation or existing generation assets.

5.3 TfL remains committed to meeting the 2030 ambition, based on procuring as much energy via new-to-earth renewable generation as practicable.

6 Next steps

6.1 The full procurement strategy will be tabled at the next Finance Committee meeting on 24 June 2020.

List of appendices to this report:

None

List of Background Papers:

None

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

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Finance Committee

Date: **11 March 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), Comm Dev (Commercial Development), CPOS (Compliance, Policing and On-Street Services)

24 June 2020		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Developer Income (MCIL/CIL/s.106)	D City Planning	To approve.
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.

30 September 2020		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
TfL Prudential Indicators Outturn	CFO	To note.
Treasury Activities	CFO	To note.
Strategic Risk Update – Financial Sustainability (SR7)	MD - CFO	To note.

As at 3 March 2020

Finance Committee Forward Plan 2020/21

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.
Strategic Risk Update – Inability to Deliver Predicted Revenue Growth (SR8)	D Comm Dev	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 note and recommend Board approval.
Treasury Management and Derivative Investments Policies 2021/22	CFO	To note and recommend Board approval.
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.
Strategic Risk Update – Inability to Meet Changing Demand (SR9)	D Strategy & CTO	To note.
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.

Finance Committee Forward Plan 2020/21

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)
- Strategic Risk Update – Financial Sustainability (SR7) (annual – September) (MD – CFO)
- Strategic Risk Update – Inability to Deliver Predicted Revenue Growth (SR8) (annual – November) (D Comm Dev)
- Strategic Risk Update – Inability to Meet Changing Demand (SR9) (annual – March) (D Strategy & CTO)

Additional items to be scheduled:

- Spending Review Issues (e.g. Business Rates Devolution) (CFO)
- Income Generation Proposals (CFO & CCT)
- Securing new income streams (CFO & CCT)
- TfL Strategy on Working Capital
- Commercial Development: Royal Oak
- Southwark Station Development (update)
- Broadway Sale
- Victoria Coach Station
- App Based Culture – paper to cover TfL perspective on the strategy, plans and issues for TfL e.g. TPH regulation
- Applied Solutions – pending the outcome of review on Consulting (D Comm Dev)
- Cubic and NY RUC Bid (D Strategy & CTO)
- Future Affordable Homes Sites Plan (CFO) - action from Board meeting on 22 January 2020

As at 3 March 2020