

## Board



**Date:** 9 November 2017

**Item:** Report of the Meetings of the Finance Committee held on 27 September and 18 October 2017

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### **This paper will be considered in public**

#### **1 Summary**

1.1 To report to the Board on the meetings of the Finance Committee held on 27 September and 18 October 2017.

#### **2 Recommendation**

2.1 **The Board is asked to note the report.**

#### **3 Committee Agenda and Summary**

3.1 The papers for the meeting of the Committee held on 27 September and 18 October were published on 19 September and 11 October 2017 (respectively) and are available on the TfL website: <https://tfl.gov.uk/corporate/publications-and-reports/finance-committee>

3.2 The main matters considered by the Committee were:

##### **27 September 2017**

- (a) Revenue Collection Contract; and
- (b) Southwark Station Development – Special Purpose Vehicle.

##### **18 October 2017**

- (c) Finance Report – Period 5, 2017/18;
- (d) Prudential Indicators – Outturn for the Year Ended 31 March 2017;
- (e) Treasury Activities;
- (f) Access and WAN Network Agreement Award;
- (g) Connect: A Managed Transition from the PFI; and
- (h) TfL Energy Purchasing 2020-2023.

- 3.3 A summary of the discussions and decisions from the items on the agenda is provided below. The minutes of the meeting held on 27 September 2017 were approved by the Committee on 18 October 2017. The more detailed minutes of the meeting held on 18 October will be published ahead of the December 2017 meeting of the Committee.

## **4 Issues Discussed**

### **Revenue Collection**

- 4.1 On 19 September 2017 the Board delegated to the Finance Committee authority to approve those matters reserved to the Board in relation to any extension of the Revenue Collection Contract (RCC).
- 4.2 The Committee discussed the approved extension of the RCC to Cubic Transportation Systems Limited (Cubic) for a further three years as Cubic had realised savings and offered the best value for money. The Committee also approved the related additional Financial and Procurement Authorities. There was sufficient Financial Authority in the Business Plan up to March 2023 and future Business Plans would need to provide for the remaining years of operation.
- 4.3 Members encouraged officers to develop the procurement market in this area, while recognising the difficulty and complexity in doing so. TfL faced similar challenges in other areas of technical procurement. The Committee also wished staff to further scrutinise the profitability of Cubic to ensure that TfL was receiving value for money, particularly in the context of limited competition.

### **Southwark Station Development – Special Purpose Vehicle**

- 4.4 On 19 September 2017 the Board delegated to the Finance Committee authority to approve those matters reserved to the Board in relation to this development. The Committee approved the entry by TfL into a share Sale and Purchase Agreement with a wholly owned subsidiary of U+I Group Plc to acquire the entire issued share capital in Development Securities Southwark Limited. This would better facilitate the development of the entire site by the station.
- 4.5 The advantages and disadvantages of a joint venture were discussed, as well as the reasons why the previous arrangement had not succeeded. TfL's acquisition of the Company would mean it carried the burden of the cost and risk, but would form part of TfL's new accommodation strategy moving forward.
- 4.6 The Committee requested regular updates, including both scenarios of self occupation and an exit strategy.

## **Finance Report – Period 2, 2017/18**

- 4.7 Members discussed the report. Challenges in the shortfall in passenger revenue, year on year, continued and this was reflected in the decline in both bus and Tube passenger revenues. This was consistent with a wider trend in the decline in discretionary journeys across London and the South East, due to a range of macro-economic factors. Commercial income had also decreased due to the decline in consumer spending and the resulting fall in advertising.
- 4.8 Members noted that TfL cash balances were stable and Crossrail cash balances had increased due to the repayment of a loan previously advanced to Network Rail.
- 4.9 It was agreed that staff would submit supplementary detailed commercial financial information on the Finance Reports to future meetings, on Part 2 of the agenda.
- 4.10 A paper on the Finance Report appears elsewhere on the agenda for this meeting.

## **Prudential Indicators – Outturn for the Year Ended 31 March 2017**

- 4.11 Members noted that the two main elements of external debt included the standard loan arrangements and long term liabilities, which incorporated provisions. As these were difficult to forecast and subject to timing differences, headroom allowance had been included to allow for flexibility. The legal limits were set out in the Treasury Management Indicators and aligned with the Treasury Management Strategy, which was approved by the Committee.
- 4.12 The Corporate Finance and Treasury teams scrutinised system generated daily reports on TfL's borrowing authority limits and operational boundaries, so a breach was highly unlikely. It was agreed that an example of a daily report would be sent to the Vice-Chair.

## **Treasury Activities**

- 4.13 Members noted the activities undertaken by the Treasury function since 1 April 2017 including:
  - (a) the continued active investment management of TfL's cash portfolio, £2.6bn including Crossrail as of 29 September 2017, resulted in a year-to-date weighted average return of 0.27 per cent versus the average benchmark seven-day London Interbank Bid Rate (LIBID) of 0.11 per cent;
  - (b) on 18 May 2017 £150m was drawn down under the £500m EDC Crossrail Rolling Stock and Depot loan;
  - (c) a £250m 10-year loan with Export Development Canada (EDC) was signed on 17 May 2017;

- (d) on 15 September 2017, £300m was drawn down under the £1bn Urban Mobility for London loan with the European Investment Bank (EIB) and further two drawdowns under the Crossrail Rolling Stock and Depot loan with the EIB;
  - (e) Treasury has actively managed relations with external financial investors, lenders and credit rating agencies; and
  - (f) the migration of 89 of TfL's bank accounts, as part of the banks' ring-fencing project, successfully completed on 4 September 2017.
- 4.14 The Committee sought further information on how the downgrade by Moody's of the UK Sovereign's long term rating had impacted on TfL's credit rating. TfL's revenue growth and ability to realise savings was critical to its credit rating. Relationships with the credit agencies continued to be good, with regular dialogue. TfL's long term sustainable financial position was also key.
- 4.15 It was agreed that TfL's Hedging Strategy be submitted to a future meeting.
- 4.16 Members were advised that under the current Markets in Financial Instruments Directive, TfL was defined as a professional client due to its size, experience and financial expertise, and this enabled TfL to utilise a wide range of investment products. Under the new arrangements, due to come into force with changes in the regulations, there was little risk in TfL's status changing but it was important that TfL made the necessary administrative arrangements.
- 4.17 TfL and the GLA had taken part in CIPFA's consultation on the proposed changes to the Prudential Code, which could potentially impact on TfL's future Treasury Management Strategy. It was suggested that staff should contact the Chief Executive of CIPFA directly if TfL's position is not being fully taken into account.

#### **Access and WAN Network Agreement Award**

- 4.18 Members discussed the approach and process undertaken to identify a new supplier for the provision and on-going management of TfL's outsourced commodity data network services (known as WAN).
- 4.19 The Committee was keen for TfL to commercially exploit its digital networks and pursue any revenue stream opportunities as well as pursue any private sector OPEX funding, as part of a wider overarching strategy.
- 4.20 The Committee noted the paper and the supplementary information on Part 2 of the agenda, and supported the approach taken.
- 4.21 Following the meeting further work has been undertaken. Subject to the Board approving changes to the Standing Orders (elsewhere on the agenda for this meeting), the Committee is expected to consider the award of the WAN contract at its meeting in December 2017.

### **Connect: A Managed Transition from the PFI**

- 4.22 Members discussed the work currently being undertaken to provide for continuity of telecommunication services following the expiry of the Connect Private Finance Initiative Contract (Connect PFI), between London Underground and Citylink Telecommunications Limited.
- 4.23 This service is safety critical to the operation of London Underground and therefore transition to a new provider needed to be seamless. It was important that any future contract was of high quality and fit for the future in terms of technological advances, up to the next 10 years.
- 4.24 The Committee is expected to consider the award of the contract at its meeting in December 2017.

### **TfL Energy Purchasing 2020 to 2023**

- 4.25 Members discussed the review of the current purchasing strategy for the supply of electricity and gas to all applicable TfL supply points through the Crown Commercial Services (CCS) agreed framework.
- 4.26 The extension of the CCS contract was recommended as it had delivered savings in a market where margins were small and prices volatile, while meeting TfL's carbon objectives. The nature of the contract also allowed for flexibility if TfL decided to purchase energy directly.
- 4.27 TfL was represented on the CCS Extended Risk and Governance Board and was able to influence strategy.
- 4.28 It was agreed that a meeting would be arranged for interested Members to discuss alternative energy purchasing options and that TfL's energy purchasing be an item for discussion at a future meeting of the Safety, Sustainability and Human Resources Panel.

### **List of appendices to this report:**

None

### **List of Background Papers:**

Papers submitted to the Finance Committee on 27 September and 18 October 2017.

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