

Transport for London

Minutes of the Finance Committee

Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Thursday 26 January 2017

Members

Ron Kalifa (Chair)
Ben Story (Vice-Chair)
Michael Liebreich
Anne McMeel
Val Shawcross CBE (from Minute 5/01/17)
Dr Nina Skorupska CBE (from Minute 5/01/17)

Staff

| | |
|------------------------|-----------------------------------------------|
| Justin Brand | Commercial Asset Management Director |
| Howard Carter | General Counsel |
| Emanuela Cernoia-Russo | Assistant Treasurer |
| Graeme Craig | Director of Commercial Development |
| Patrick Doig | Director of Finance, Surface Transport |
| Lester Hampson | Property Development Director |
| Steve Jackson | Director of Commercial, Finance |
| Simon Kilonback | Director of Group Treasury |
| Ian Lindsay | Land and Property Director, Crossrail Limited |
| Nick Ljustina | Head of Operational Property |
| Sir Terry Morgan CBE | Chairman, Crossrail Limited |
| Ian Nunn | Chief Finance Officer |
| Amanda Price | Governance Manager, London Underground |
| Gareth Powell | Director of Strategy & Contracted Services |
| Rachel Shaw | Group Accounting Policy Manager |
| Martin Taylor | Principal Programmes and Strategy Analyst |
| Clive Walker | Director of Internal Audit |
| Shamus Kenny | Head of Secretariat |
| Eleanor Lloyd | Secretariat |

Also in attendance

Frances Salway, Chair, Commercial Development Advisory Group

1/01/17 Apologies for Absence and Chair's Announcements

There were no apologies for absence.

2/01/17 Declarations of Interests

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

3/01/17 Minutes of the Meeting of the Committee held on 13 October 2016

The minutes of the meeting held on 13 October 2016 were approved as a correct record and signed by the Chair.

4/01/17 Matters Arising and Actions List

Howard Carter confirmed that all actions from the previous meeting were completed or in hand, including the scheduling of a half day briefing on resilience matters.

The Committee noted the Actions List.

5/01/17 Finance Report

Ian Nunn presented the Finance Report for Period 9 2016/17, the four weeks ending 10 December 2016. The Committee noted a shortfall in operating income due to lower than budgeted fares income and reduced Congestion Charge income. Operating costs were lower than budget as a result of some slippage and cost reductions being made across the business.

The Committee discussed the impact of declining bus usage on income and potential mitigation measures including the strategy to increase bus usage that was in development. Further information would be presented to Members on bus usage and how milestones would be monitored. **[Action: Leon Daniels]**

The Committee suggested that the Finance team explore the possibility of developing a 24 month or 12 month rolling forecast to help Members and the business achieve a medium term view of TfL's finances. Detailed budget figures for 2017/18 would be presented to the next meeting of the Committee for review prior to submission to the Board. **[Action: Ian Nunn]**

The Committee noted the Finance Report.

6/01/17 2017/18 TfL Scorecard Development

Gareth Powell introduced a paper on the development of TfL's 2017/18 Scorecard, which set out suggested objectives for inclusion and sought feedback from Members. The Scorecard would be finalised alongside the 2017/18 Budget and would provide a mechanism to drive its delivery by maintaining the organisation's focus on key priorities.

Members were encouraged by the spread and focus of the chosen priorities. It was noted that the current structure comprised a mixture of objectives and measures. The Committee agreed that the priorities should consist of key aims and objectives, with appropriate measures and metrics to be developed within each. Members suggested that the safety objectives should be more cohesive and prominent and that a wider environmental objective could be included, with the proposed NO_x reduction forming one of its key measures. The potential for inclusion of an explicit reference to accessibility within the Customer objectives was also discussed.

Staff were encouraged to consider including a measure that directly addressed the business community and also to better reflect the Mayor's focus on delivering affordable homes. Members suggested that some individual business objectives, such as increasing bus usage, may merit inclusion at the top level of the Scorecard.

Once finalised, the cascade of the chosen priorities through both TfL's Committee and organisational structure would be crucial. Clear lines of sight would need to be maintained to ensure the integrity of key measures and individual accountability for implementation should be established.

Based on Members feedback, Scorecard priorities would be developed further before submission to the Board for approval on 29 March 2017 and staff would continue to seek all Board Members' input throughout the development process.

[Action: Gareth Powell]

The Committee noted the paper.

7/01/17 Group Treasury Activities

Ian Nunn introduced the paper and the supplemental information on Part 2 of the agenda, which updated the Committee on TfL Group Treasury's activities from 1 April to 30 November 2016. No breaches of TfL's Treasury Management Policy or Strategy had occurred during that period. Of particular note were the forward fixing of a highly competitive interest rate on a £100m tranche of an existing corporate loan facility, the successful negotiation of inter-year deferral of borrowing with HM Treasury and the proactive management of investor relationships during significant market uncertainty.

The Committee discussed the implications of TfL's current and potential future credit ratings as set by the major ratings agencies. TfL's rating was closely linked to UK Sovereign debt and both had been downgraded by one level as a consequence of the decision to leave the European Union in June 2016. TfL had also been placed on 'negative outlook' by the three key agencies. A negative status was typically retained for 12-18 months and TfL would be judged against its ability to maintain strong financial discipline and deliver the planned Transformation Programme and its associated reductions in operating costs.

Future reports from the ratings agencies would be circulated to Members as they became available, alongside being published on tfl.gov.uk. The Committee would also be kept abreast of key issues such as developments in the UK's relationship with the European Investment Bank.

[Action: Simon Kilonback]

Staff were asked to provide further detail of TfL's investment strategy. The 2017/18 Treasury Management Strategy would be presented to the Committee at its next meeting. This would seek endorsement of TfL's approach to investments, borrowing, currency hedging strategy and other key financial activities. It would also seek the Committee's approval of the 2017/18 list of counterparties. TfL was permitted only to invest in highly rated counterparties, all of which would be rigorously evaluated before being presented for approval.

In relation to regulation of procurement activity following the UK's exit from the EU, staff confirmed that Government's current intention was to retain a similar regime to the OJEU

system currently in place. Members hoped that, remaining within these principles, it might be possible to work with Government to look at areas of procurement that would assist TfL.

The Committee noted the paper.

8/01/17 Crossrail - Revised Interim Crossrail Limited Funding Payments Agreement with Network Rail

Ian Nunn presented the paper and the supplemental information on Part 2 of the agenda, which set out a proposed re-phasing of repayments by Network Rail to Crossrail Limited under the Interim Funding Agreement (IFA). This would save Crossrail Limited £16-£20m through the avoidance of finance charges.

Members were supportive of the proposed approach and the Committee discussed the potential for a further amendment to the IFA that would generate additional savings. It was agreed that the Board would be recommended to delegate authority to the Committee to approve this additional change.

- 1 The Committee noted the paper and the related paper on Part 2 of the agenda and recommended that the Board:**
 - (a) approve a change to the Interim Crossrail Limited Funding Payments Agreement (the Agreement) under the terms set out in the Part 2 paper;**
 - (b) delegate authority to the Finance Committee to approve additional changes to restructure the loan repayment profile and/or incentives to achieve cost savings;**
 - (c) authorise TfL Officers and Subsidiaries (as described in paragraph 2 below) to finalise the terms of the altered Agreement referred to at 1(a) above;**
 - (d) authorise the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate)) of any documentation to be entered into in connection with the completion and implementation of the Agreement and any of the matters referred to in it (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents); and**
 - (e) authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Agreement and the matters referred to in it and any further change to the Agreement.**

- 2 The following Officers and Subsidiaries shall be authorised:**
 - (a) TfL Officers: the Commissioner, Chief Finance Officer, Chief Executive of Crossrail and General Counsel; and**
 - (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited, Crossrail Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of**

the relevant company shall be authorised to act for and on behalf of that company.

9/01/17 One Facilities Management Services Procurement - Extension of Current Contracts

Ian Nunn introduced the paper and the supplemental information on Part 2 of the agenda. The Committee was asked to approve budgeted Procurement Authority for the extension of two key Facilities Management (FM) contracts until 24 June 2017. As part of its Transformation Programme, TfL was consolidating numerous FM contracts into six, pan-TfL 'One FM' contracts. An invitation to tender had been issued and bids were being evaluated, but additional time was needed to ensure contract negotiations with successful bidders were thorough and secured best value for money.

The Committee was supportive of the proposed extension. Award of the One FM contracts would be made in March or April 2017, allowing providers two to three months to mobilise prior to the new contracts coming into force on 25 June 2017.

The Committee noted the paper and, under authority delegated by the Board at its meeting on 15 December 2016, granted Procurement Authority for the sum set out in the paper on part 2 of the agenda for the extension of the two existing facilities management contracts: (TPS1A (technical services) and TPS 2A (cleaning and security)) for the period 7 February 2017 to 24 June 2017.

10/01/17 Commercial Development Quarterly Report

Graeme Craig presented a report updating the Committee on Commercial Development activity, which the Chair noted was becoming increasingly important to TfL. The team was on track to meet a target of £130m operating income, while capital investment was currently significantly below budget. Disposal of TfL's offices at 55 Broadway, delays to which had left capital receipts below expectations, was presented for consideration elsewhere on the agenda (see minute 12/01/17).

Francis Salway, Chair of TfL's Independent Commercial Development Advisory Group, updated the Committee on current property market conditions. Central London residential property values had fallen approximately 14 per cent from their peak in 2014, although there were signs that this trend was beginning to reverse. The commercial property market had continued to slow since the June 2016 EU Referendum, but demand for good quality, long lease office accommodation remained stable.

The Committee noted the proposed amendments to the Property Partnership Framework delegations given to TfL Officers and Subsidiaries in February 2016 to enable TfL to:

- (a) acquire, sell, issue and subscribe for shares in any joint venture company established for the purpose of the joint venture; and
- (b) form or become a member of any LLP established for the purpose of the joint venture.

The Committee agreed to recommend the above amendments to the 29 March 2017 meeting of the Board via the summary report of the Committee meeting.

The Committee noted the paper.

11/01/17 Tottenham Court Road West Over Site Development Update

Graeme Craig introduced the paper and the supplemental information on Part 2 of the agenda, which set out disposal options for the Tottenham Court Road West oversite development (OSD). TfL had intended that the shell and core element of the development be completed using its existing contractor. Following an independent exit appraisal, the preferred course of action had been to then proceed with an open market sale of the shell and core.

Since the paper had been written, Crossrail Limited had continued to negotiate with the existing contractor regarding a contract variation for which the Committee had approved additional Project Authority at its meeting on 13 October 2016. Despite best efforts, the estimate of costs significantly exceeded that of an independent valuation and the two parties had been unable to reach agreement.

It was therefore recommended that TfL pursue an alternative option, which would be to sell the OSD deck, without shell and core, following its handover in Quarter 3 2017. Given the projected returns and the risks of continuing with the build, Members agreed that, on balance, this would be the best course of action.

1 The Committee noted:

- (a) the paper and the supplementary information in Part 2 of the paper;**
- (b) TfL's proposal that Crossrail Limited (CRL) should proceed with preparation and sale of the completed development deck of the over site development (OSD) at Tottenham Court Road West (TCRW); and**
- (c) that, should an acceptable agreement be reached for a disposal of the OSD at TCRW:**
 - (i) all necessary authorities would be obtained in accordance with TfL's Standing Orders, including Land Authority; and**
 - (ii) the Mayor's Opinion would be sought in accordance with paragraph 12 (1) to Schedule 11 to the Greater London Authority Act 1999.**

12/01/17 Strategy for the Broadway Complex

Graeme Craig presented the paper and the supplemental information on Part 2 of the agenda, which sought the Committee's approval for the disposal of TfL's offices and associated buildings at 55 Broadway via a long leasehold interest.

It was recommended that as part of this transaction, TfL would lease back the building for a shorter period, with the underlease allowing operational assets housed within the building to remain in situ until toward the end of their viable lifespan. This would avoid the significant costs of decoupling and/or early replacement of equipment and had therefore been identified as the most cost effective option.

Members discussed the options presented and were satisfied with the case for the sale and leaseback. It was confirmed that office accommodation at the Broadway complex

was satisfactory and that expenditure on improvements was unlikely to greatly exceed that which would be expected for routine maintenance and upgrades.

1 The Committee noted the paper and the supplemental information on Part 2 of the agenda and:

(a) granted Land Authority for:

- (i) a long leasehold interest in 55 Broadway, 100 Petty France and Wing Over Station (the Complex) for the minimum value set out in the paper on part 2 of the agenda;**
- (ii) the leaseback of the Complex to be taken by TfL or any Subsidiary Company for a maximum term as set out in the paper on part 2 of the agenda; and**
- (iii) the separation works and any other costs relating to the future transaction as set out in the paper on part 2 of the agenda; and**

(b) noted:

- (i) that in accordance with TfL Standing Orders the Delegated Officers and any relevant Subsidiary Company would have authority to approve the terms of all documentation required to facilitate and implement the matters set out in paragraph 1 (a) above, including selecting the purchaser of the long leasehold interest of the Complex; and**
- (ii) that an update on the final terms of the transaction would be provided to the Committee in due course.**

13/01/17 Member Suggestions for Future Agenda Discussions

The Committee received a forward plan of agenda items.

The Committee noted the paper.

14/01/17 Any Other Business the Chair Considers Urgent

There was no urgent business.

15/01/17 Date of Next Meeting

Monday 13 March 2017 at 9:00am.

16/01/17 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Group Treasury Activities; Crossrail - Revised Interim Crossrail Limited Funding Payments Agreement

with Network Rail; One Facilities Management Services Procurement - Extension of Current Contracts; Tottenham Court Road West Over Site Development Update and Strategy for the Broadway Complex.

The meeting closed at 12.09pm.

Chair: _____

Date: _____