

Board

Date: 25 September 2013

**Item 8: Report of the meeting of the Finance and Policy
Committee held on 18 July 2013**

This paper will be considered in public

1 Summary

- 1.1 To report to the Board on the meeting of the Finance and Policy Committee held on 18 July 2013.

2 Recommendation

- 2.1 **That the Board note the report.**

3 Background

- 3.1 The main matters considered by the Committee were:
- (a) Savings and Efficiencies Programme Review;
 - (b) TfL Headcount;
 - (c) Renewal of TfL's Medium Term Note Programme;
 - (d) Exchange Rate and Interest Rate Derivative Programmes;
 - (e) Earls Court Development – Heads of Terms;
 - (f) Road Space Management: SCOOT;
 - (g) Barclays Cycle Hire Usage;
 - (h) Garden Bridge; and
 - (i) Put Options Litigation Update.

4 Issues Discussed

Savings and Efficiencies Programme Review

- 4.1 The Committee noted the findings of a review by PricewaterhouseCoopers (PwC) of the Savings and Efficiencies Programme, which was commissioned in May 2013. The review was focussed on governance, controls and processes. It confirmed the overall effective management and robust

reporting of the Programme. It cited a number of examples of positive governance, controls and processes, indicated significant advances made in the period between the Deloitte review in 2011 and the PwC review and made a number of recommendations for further improvements. A detailed action plan would be developed to address the key recommendations.

TfL Headcount

- 4.2 The Committee noted the paper, which set out the key headcount variances from the 2012/13 Budget to the end of the financial year. Plans were in place to better integrate financial and headcount planning. Improvements would be evident in 2014/15 and the full effects of improved processes would be in place for 2015/16.
- 4.3 Member were assured that there were clear procedures in place across the organisation to manage the level and use of non-permanent labour (NPL). The current levels of NPL were considered appropriate and provided the organisation with sufficient flexibility to enable it to manage service delivery efficiently.

Renewal of TfL's Medium Term Note Programme

- 4.4 The Committee approved TfL's updated Euro Medium Term Note (MTN) Programme documentation and the substantive terms of the Prospectus.
- 4.5 Under TfL's MTN programme, the Managing Director Finance could issue Notes subject to consulting with as many Members of the Committee that were available on: the proposed term and amount of such Note issuance in advance of such Note issuance; and the need for any Supplemental Prospectus prior to the proposed Note issuance. Following discussions with investors and banks, Members of the Committee were consulted on 2 September 2013 on a proposed transaction.
- 4.6 On 4 September, TfL successfully issued a 20 year £300m bond at a fixed rate of four per cent. The bond was issued at a spread of 0.58 per cent over the 20 year (June 2032) benchmark UK Government Gilt, building upon the success of the previous issues to achieve the tightest spread of all five deals. The yield on the bond of 3.974 per cent on a semi annual basis compared favourably to the equivalent fixed rate for 20 years borrowing from the Public Works Loan Board of 4.3 per cent, equating to a saving of 32.6 basis points, or £19.6m (undiscounted) over the term of the bond. In line with market convention the bond was issued at a small discount to par (99.817 per cent).

Exchange Rate and Interest Rate Derivative Programmes

- 4.7 The Committee approved derivative programmes proposed to mitigate TfL's exposure to exchange rate risk when that risk was encountered in the ordinary course of business and to interest rate risk on future borrowings. The Committee had previously agreed the governance around the level of TfL's exposure, which included within the MTN a cap per counterparty and a total cap.

- 4.8 Angela Knight and Michael Liebrich were invited to visit the Treasury team to see how its governance processes worked in practice. This visit has been arranged for 17 October 2013.

Earls Court Development – Heads of Terms

- 4.9 The Committee was provided with an update on the proposed development that involved London Underground's interest in the Earls Court and West Kensington Opportunity Area.
- 4.10 The Committee considered the proposed approach and commercial terms as set out in the papers. Officers considered there was greater value for TfL and greater protection for its operational needs in entering into a commercial joint venture rather than selling its freehold interests. The Committee considered an email from a local resident and freeholder on the proposed development, which had been received after the dispatch of papers.
- 4.11 Members supported the thrust of the paper but advised officers that further information would be required before the final joint venture arrangements were submitted for approval.
- 4.12 Under authority delegated by the Board, the Committee approved TfL entering into non binding heads of terms for a joint venture with Capital and Counties Properties PLC with regard to the development of the current exhibition centres known as Earls Court 1 and 2 and to enter into a Section 106 Agreement, both as described in the paper and the supplemental paper on Part 2 of the agenda.
- 4.13 A further paper would be submitted to the Board in due course.

Road Space Management: SCOOT

- 4.14 The Committee approved project authority of £57.088m for the first two years of the Road Space Management Split Cycle Offset Optimisation Technique (SCOOT) delivery portfolio. The authority was granted provided that no more than £21.1m was spent on installation at an initial 600 sites, from the planned total of 1,500.
- 4.15 SCOOT was an urban traffic control system that automatically optimised traffic signal timings based upon traffic demand. It was a key technology used to manage the road network in real time and had a significant impact on improving journey time reliability. There was an ongoing development programme for SCOOT, which specifically considered pedestrians and cyclists to ensure a better balance for all road users.
- 4.16 The Committee's approval would be sought for further expenditure, in due course, following review of the installation at the initial 600 sites.

Barclays Cycle Hire Usage

- 4.17 The Committee noted the early impact of the tariff changes applied to Barclays Cycle Hire (BCH). The data provided was necessarily in outline only, given the limited time that had elapsed since tariffs were changed, the alterations to the scheme size and unusual weather during the period. Rates of use had increased in recent weeks with the change to the weather. Usage rates were traditionally at their highest in the summer months, which generated half of the scheme's income.
- 4.18 Members were informed that the contractor was working hard to deliver efficiencies. The use of elastic pricing to encourage customers to redistribute bikes was being considered as manual distribution was a major cost to the scheme.
- 4.19 The Committee requested a further paper on BCH, which would draw out any pertinent lessons from cycle hire schemes in other cities and provide unit cost data.

Garden Bridge

- 4.20 The Committee noted details of the Garden Bridge project, a new footbridge and public open space proposed to be built across the River Thames in central London. TfL had been asked to help in the feasibility and planning stages of the bridge and to assist with the establishment of an independent charitable entity which, under the proposed delivery structure, would act as the scheme promoter. The charitable object would be to build and maintain the bridge with gardens for public benefit. TfL would also provide project management expertise.
- 4.21 As there was no funding allocated to this project in the Business Plan, TfL was proceeding on the basis that the cost of construction and future operations would be covered by third party funding. Potential funders had shown considerable interest in the project.
- 4.22 The Committee granted financial and project authority of up to £4m for project development costs for the feasibility and planning stage, provided that further approvals would be sought at the appropriate level if the substance of the proposed delivery structure for the Garden Bridge changed. However, it noted that while TfL would seek to recover all expenditure on the project, there remained a risk that it would not be possible to recover all costs incurred at this stage.

Put Options Litigation Update

- 4.23 The Committee was updated on the progress of the claims against advisers in relation to recovery of part of the Put Option Price paid to the former lenders to Metronet Rail BCV Limited and Metronet Rail SSL Limited ("the Metronet Companies") in relation to the Bonds' early redemption premium ("Spens"). The Put Option Price became payable following the administration of the Metronet Companies in July 2007.

List of appendices to this report:

None

List of Background Papers:

Papers for the meeting of the Finance and Policy Committee held on 18 July 2013.

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