MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Monday 11 March 2019

Time: 10.00am

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

Members

Ron Kalifa OBE (Chair)	Prof Greg Clark CBE
Ben Story (Vice-Chair)	Anne McMeel
Heidi Alexander	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: Jamie Mordue, Senior Committee Officer; Telephone: 020 7983 5537; email: JamieMordue@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
Friday 1 March 2019

Agenda
Finance Committee
Monday 11 March 2019

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 Meetings of the Committee held on 3 December and 13 December 2018 (Pages 1 - 18)

General Counsel

The Committee is asked to approve the minutes of the meeting held on on 3 December and 13 December 2018 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 19 - 22)

General Counsel

The Committee is asked to note the updated actions list.

5 Use of Delegated Authority (Pages 23 - 38)

General Counsel

The Committee is asked to note the paper.

6 Finance Report - Period 11 2018/19 (Pages 39 - 48)

Chief Finance Officer

The Committee is asked to note the report.

7 Treasury Management Strategy 2019/20 (Pages 49 - 64)

Director of Corporate Finance (Interim)

The Committee is asked to note the paper and recommend that the Board approve the proposed TfL Treasury Management Strategy (TMS) for 2019/20. The TMS 2019/20 comprises the Investment Strategy 2019/20, the Borrowing Strategy 2019/20, the Risk Management Strategy 2019/20 and TfL Policy on Minimum Revenue Provision.

8 Treasury Management and Derivative Investments Policies (Pages 65 - 82)

Director of Corporate Finance (Interim)

The Committee is asked to note the paper and recommend that the Board approve the proposed TfL Treasury Management Policy Statement and Treasury Management Practices (together, the TM Policy), and the proposed TfL Group Policy relating to the use of Derivative Investments for 2019/20.

9 Treasury Activities (Pages 83 - 88)

Director of Corporate Finance (Interim)

The Committee is asked to note the paper.

10 Strategic Risk 9: Ability to Meet Changing Demand (Pages 89 - 92)

Chief Finance Officer

The Committee is asked to note the paper.

11 TfL Subsidiaries Rationalisation (Pages 93 - 96)

Chief Finance Officer

The Committee is asked to note the paper and recommend that the Board approve statutory transfer schemes relating to LUL Nominee SSL Limited, LUL Nominee BCV Limited and Tube Lines Limited.

12 Strategy for the Broadway Complex (Pages 97 - 102)

Director Commercial Development

The Committee is asked to note the paper and approve authority.

13 Transformation Programme Update (Pages 103 - 106)

Transformation Director

The Committee is asked to note the paper.

14 Member Suggestions for Future Agenda Discussions (Pages 107 - 110)

General Counsel

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

15 Any Other Business the Chair Considers Urgent

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

16 Date of Next Meeting

Monday 1 July 2019 at 10am

17 Exclusion of the Press and Public

The Committee is recommended to agree 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), in order to consider the following items of business.

18 Minutes of the Meeting of the Committee held on 3 December

General Counsel

The Committee is asked to approve the exempt minutes of the meeting of the Committee held on 3 December 2018 and authorise the Chair to sign them.

19 Treasury Management Strategy 2019/20 (Pages 111 - 116)

Exempt supplementary information relating to the item on Part 1 on the agenda.

20 Treasury Activities (Pages 117 - 124)

Exempt supplementary information relating to the item on Part 1 on the agenda.

21 TfL Subsidiaries Rationalisation (Pages 125 - 128)

Exempt supplementary information relating to the item on Part 1 on the agenda.

22 Strategy for the Broadway Complex (Pages 129 - 148)

Exempt supplementary information relating to the item on Part 1 on the agenda.

Transport for London

Minutes of the Extraordinary Finance Committee

Paddington Room, 11th Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
9.30am, Monday 3 December 2018

Members
Ron Kalifa OBE (Chair)
Heidi Alexander
Prof Greg Clark CBE (by phone)
Dr Nina Skorupska CBE

Board Members also in attendance
Kay Carberry CBE (from 10:15am)
Dr Alice Maynard CBE (by phone)
Dr Lynn Sloman (by phone)

Executive Committee

Mike Brown MVO	Commissioner
Howard Carter	General Counsel (by phone)
Simon Kilonback	Chief Finance Officer

Staff

Andy Brown	Head of Corporate Affairs
Emanuela Cernoia-Russo	Corporate Finance Director (Interim)
Andrea Clarke	Director of Legal
David Hughes	Director of Strategy & Network Development, London Underground
Julian Ware	Senior Principal, Commercial Finance
Shamus Kenny	Head of Secretariat
Jamie Mordue	Secretariat
Kate Hilsen	Senior Press Officer, Elizabeth Line & Crossrail 2

Other

James Stewart (until 10.15am)	Vice Chair, Head of Brexit and Industrial Strategy, KPMG
Tim Steer	Head of Transport, GLA

62/12/18 Apologies for Absence and Chair's Announcements

Apologies for absence had been received from Bronwen Handyside, Dr Mee Ling Ng and Val Shawcross CBE.

In accordance with Standing Order 33 and with Section 100B(4)(b) of the Local Government Act 1972, the Chair had agreed that the meeting be called as a matter of urgency in order to deal with the business on the agenda. The meeting had been called with less than five clear working days’ public notice. The reason for urgency was that decisions were required in relation to the funding of the Crossrail project.

As the meeting was considering a matter delegated by the Board at its meeting on 19 September 2018, all Members of the Board had been invited to attend.

63/12/18 Declarations of Interests

Members confirmed that their declarations of interests, as provided to the Secretariat and published on tfl.gov.uk, were up to date and there were no other interests to declare that related specifically to items on the agenda.

Howard Carter informed the Committee that the Part 2 papers had not been sent to TfL Board Members Anne McMeel and Nelson Ogunshakin as they would have a conflict of interest as TfL nominated non-executive directors of Crossrail Limited.

64/12/18 Crossrail update

Simon Kilonback introduced the paper, which presented an update on TfL's discussions with the Government, both at ministerial and official levels, to agree long term funding and financing arrangements for the Crossrail project.

The Committee noted that the independent reviews being undertaken jointly for TfL and DfT by KPMG of Crossrail's Financial and Commercial processes and forecasts and of Crossrail's governance were nearing conclusion. The outcome of the reviews would be published once completed.

The Committee noted the paper and the supplemental paper included on Part 2 of the agenda and approved matters set out in the supplemental paper.

65/12/18 Any Other Business the Chair Considers Urgent

There was no urgent business.

66/12/18 Date of Next Meeting

The next meeting would be held on Thursday 13 October 2018 at 10.00am

67/12/18 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 and 5 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the item on Crossrail update.

68/12/18 Crossrail update

Simon Kilonback introduced the paper, which contained exempt supplementary information.

The Committee noted the paper approved the matters set out in the recommendations.

69/12/18 Close of Meeting

The meeting closed at 11.10am.

Chair: ____

Date: ____

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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 10.00am, Thursday 13 December 2018

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

Executive Committee

Mike Brown MVO	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Simon Kilonback	Chief Finance Officer
Andrew Pollins	Transformation Director (for minute 82/12/18)

Staff

Mike Binnington	Senior Principal, Commercial Finance (for minute 78/12/18)
Sarah Bradley	Group Financial Controller
Emanuela Cernoia-Russo	Corporate Finance Director (Interim)
Tanya Coff	Finance Director, London Underground
Dan Curry	Energy and Carbon Strategy Manger, London Underground (for minute 79/12/18)
Patrick Doig	Finance Director, Surface Transport
Paul Doyle	Head of Projects and Accommodation Projects and Accommodation, Commercial Finance
Glyn Lenton	Lead Commercial Manager, Rail Operations (for minute 79/12/18)
Julian Thirlby	Commercial Finance Executive, Commercial Finance (for minute 78/12/18)
Jamie Mordue	Secretariat

70/12/18 Apologies for Absence and Chair's Announcements

There were no apologies for absence received.

71/12/18 Declarations of Interests

Members confirmed that their declarations of interests, as provided to the Secretariat and published on tfl.gov.uk, were up to date and there were no other interests to declare that related specifically to items on the agenda.

General Counsel advised that Anne McMeel’s declared interest as a non-executive Director of Crossrail Limited did not cause a conflict with any item on the agenda.

72/12/18 Minutes of the Meeting of the Committee held on 17 October 2018

The minutes of the meeting held on 17 October 2018 were approved as a correct record and signed by the Chair.

73/12/18 Matters Arising and Actions List

The Committee noted the Actions List.

74/12/18 Use of Delegated Authority

The Committee noted that, since the last meeting of the Committee on 17 October 2018, there had been no uses of delegated authority by staff.

On 19 October 2018, the Board delegated authority to the Committee to approve matters reserved to the Board in relation to the Crossrail project. The Committee met on December 3 2018 and there had been one use of Chair’s Action in relation to funding arrangements for the Crossrail project.

The Committee noted the paper.

75/12/18 Finance Report – Period 8, 2018/19

Simon Kilonback introduced the paper, which set out TfL’s financial results for Period 8 2018/19 – the year-to-date period ending 10 November 2018.

Passenger income was £22m above budget and £54m above last year. This was largely driven by London Underground (LU) performing slightly better than budget and offset the lower income from buses. On Friday 7 December 2018, 5.031m journeys on LU, which was LU’s busiest day ever and passenger income was two per cent above the same time in 2017. The Committee noted that it took time for the drivers of LU passenger numbers to become apparent but that possible reasons for the increase included: the pound being better value against foreign currencies, which resulted in more people visiting London; an increase in the number of discretionary journeys; and an improvement in National Rail connections, bringing passengers to LU stations.

TfL had significantly exceeded its target for reducing operating costs, which were £158m below budget. Capital expenditure was lower than budget; some works had been pushed back to a later date to determine whether the money was being appropriately spent to achieve the necessary scope. Expenditure on other projects had accelerated, specifically the Four Lines Modernisation digitalisation.

The Committee noted the Finance Report.

76/12/18 Business Plan Approval

Simon Kilonback introduced the paper and Business Plan 2018, which set out TfL's plans for the five years from 2019/20 to 2023/24. The Committee noted that this item was accepted as a late paper as the content of the Business Plan had to be reviewed in light of the funding agreement for Crossrail Limited (CRL) announced by Government and TfL on 10 December 2018.

Simon Kilonback told the Committee that the Business Plan was robust enough to deal with TfL's financial challenges and continue its cost reduction, whilst delivering the capital investment required. A fundamental re-think of TfL's business was required to adjust to the loss of the government grant. The Committee noted that, in 2004, TfL spent £4bn but had a £2bn deficit and, in 2018/19, it would spend £7bn and have a £900m deficit.

Forecasts for passenger income were broadly in line with budget and showed signs of recovery on London Underground (LU), which offset the decrease in bus passenger numbers. TfL had successfully reduced like for like operating costs for two years and were on track to beat the forecast by £246m.

Evidence showed that Londoners were making slightly fewer trips per day, on average, each year. This was consistent with trends across the UK and in other major cities worldwide. Lifestyle factors, such as flexible working and internet shopping; demographic changes; and economic factors were possible causes for an overall depression in demand for travel. In 2018, large scale infrastructure works and prolonged industrial disputes on National Rail had also affected demand at key interchanges onto TfL services.

Compared to the 2017 Business Plan, TfL modelling showed that the Elizabeth line opening delay would have a net impact of approximately £600m. This forecast would be revised pending a more detailed schedule from CRL and assumed that Stage 5a (running trains from Paddington to Reading from December 2019) would be implemented to partially mitigate the revenue loss.

The Committee noted that discussions with National Rail and government were ongoing. Mike Brown was encouraged by the spirit of collaboration in the discussions and noted that Great Western's franchise bid did not plan for operation of services along the route, so it would not lose planned revenue. People living west of London would be able to access better value for money fares and potentially stimulate further use of TfL's network. If TfL was able to take over the route, it would deliver a £150m revenue impact over a three year period. The remaining impact on the Business Plan had been mitigated through repurposing Business Rates (£100m per annum for three years) and accelerated operating account savings.

TfL and the Department for Transport (DfT) remained committed to opening the line as soon and as safely as possible. Members thanked TfL staff for their perseverance and work required to find suitable funding arrangements for the Crossrail project. A financing package had been agreed between the GLA, DfT and TfL to deliver the final stages of the project and to operate services as quickly as possible. The deal was designed to cover the estimated range of capital cost overrun, and beyond. This deal consisted of an initial £1.4bn contribution provided by the GLA as a capital grant. TfL also had an

additional, bespoke contingency loan facility between £350m and £750m from the DfT to TfL, should the higher end of the estimated cost range be realised.
Mike Brown told the Committee that the Business Plan was predicated on the delivery of the Elizabeth line on its current schedule and he was confident that it reflected the emerging outcome of the KPMG review, which took a pessimistic view on the cost implications. The Committee noted that, had the delay to the delivery of the Elizabeth line not occurred, TfL would be approximately £250m ahead of its 2017 Business Plan and potentially on course for an operating surplus a year earlier than set out. The Statutory Budget, which would be on a 2019 Committee agenda, would update the Committee on any changes necessary to the Business Plan.

A key priority for the Business Plan 2018 was air quality improvements and TfL was taking urgent action to remedy London's failure to meet the legal NO2 limit, including the introduction of the Ultra Low Emission Zone (ULEZ) from April 2019. The Committee noted that Londoners pay £500m in Vehicle Excise Duty but London received negligible government funding to maintain its roads.

The forecast for passenger journeys made on LU remained in line with the 2017 Business Plan but the forecast for bus journeys had been revised downwards. The demand on buses had been in decline for the past four years but TfL was confident that any decline due to reliability concerns had been addressed. The current trends were likely driven by underlying macroeconomic factors, including a net reduction in migration, and a reduction in discretionary spending. A cautious approach had been taken to adjust the forecast in view of what TfL knew at the time.

There was forecasted growth on rail services every year during the period of the Business Plan with an average annual growth of more than two per cent, despite some passengers switching from the Docklands Light Railway (DLR) to the Elizabeth line. This was largely due to additional investment in London Overground including:

(a) new trains, which would enable frequency increases on the north and west London routes during peak periods; and

(b) new longer and more spacious trains on routes from Liverpool Street and the Gospel Oak to Barking route.

Members noted that as TfL moved from an operating deficit to a surplus, more was planned to be spent on renewals, financing, group items and buses. This would bring TfL back to a steady and sustained level of investment on renewals.

TfL would continue to breakeven on Rail services and other operations including: Taxi and Private Hire; London River Services; Dial-a-Ride; Woolwich Ferry; and Emirates Air Line. The reduction of back office functions would continue, including a 30 per cent cost reduction on headcount. From 2021, various changes to the fares structure had been assumed, which would bring them in line with similar competing services, such as Network Rail. The combination of these changes was predicted to amount to approximately 10p extra per journey. Simon Kilonback stated that it was TfL's fundamental belief that, at this moment in time, it was correct not to raise fares, given affordability issues.

In terms of cash balances, at no point during the Plan did the balance breach minimum cash levels; cash balances were planned to be maintained to cover a minimum of 60 days and the Plan would rebuild cash reserves back to historical levels.

Delivering the Mayor's Transport Strategy (MTS) remained TfL's overarching purpose and a key focus of the MTS was to deliver the 80 per cent mode share by 2041. This required encouraging passengers to switch their journeys to public transport, walking and cycling. TfL was committed to delivering efficient and sustainable transport, through its investment programme, to make it easier and more attractive to travel by sustainable methods of transport.

The initial phase of Transformation had delivered annualised savings of £542m by the end of 2017/18. This had been achieved by saving:

(a) £100m from LU programmes, such as closure of ticketing offices, maintenance reorganisation and cost control;

(b) £200m from the first stage of the Transformation in Surface Transport and back office;

(c) £100m from contract renegotiation in Technology and Data and buses; and

(d) £100m form LU cost control (including headcount).

The size of TfL's management team had significantly reduced. The number of management layers had reduced from 13 to seven and the number of senior managers had decreased by 13 per cent. Over the past two years, more than 2,700 roles had been removed from the organisation overall. The work to make the operating model leaner and more efficient had secured £111m of annual recurring savings; the reduction in the number of senior managers had delivered between 20 and 25 per cent of this figure. Severance costs would have paid for themselves within one year.

Simon Kilonback told the Committee that whilst passenger income would be broadly in line with budget, TfL had planned to beat forecast cost of operations by £246m through around £150m in operating cost savings and saving of around £100m from a combination of renewal spend and financing cost savings.

Each business area had clear targets to help ensure that TfL delivered the Business Plan 2018, namely:

(a) LU – direct operating costs would be maintained at around £2bn a year, absorbing inflation and delivering service improvements. This would be achieved as a result of the modernisation programme. The current £700m per annum surplus was broadly used to cover the cost of renewals on the Tube and as a big part of the financing cost for TfL as a Group. It was anticipated that the net direct operating surplus would grow to £1.4bn over the course of the Business Plan, which would fully fund increased capital renewals, as part of the London Underground Investment Programme over the period of the Plan.

    It was proposed that, from January 2021, TfL would implement a number of targeted fare raises to correct anomalies on the network. An example of this was Tube/rail journeys between zones 2-6, which were currently significantly less than a similar journey on Network Rail. These changes would equate to roughly 10p extra to these journeys. TfL would still provide good value for money for the passenger;

(b) Bus network – six million journeys were made every day on the bus network and it was vital in enabling all members of society to travel. By 2020, TfL would subsidise the network by £700m a year, which represented the largest investment in the bus network for over 20 years. A restructured bus network would allow TfL to provide a high-frequency service in central London, while investing in other London routes, particularly in parts of London where better public transport would have the biggest impact on reducing car use. The Business Plan would see the delivery of the world's biggest and greenest bus network outside China;

(c) Policy and funding solutions for roads – the roads for which TfL was responsible amounted to five per cent of roads in London but carried about 30 per cent of traffic. A key priority for the Business Plan was air quality improvements and, as such, road user charging (RUC) was not classified as road income. RUC was a necessary lever to discourage car use and ease congestion in London, rather than a revenue source. Further, the greater the success of RUCs, the less money TfL would receive through charges;

(d) A lean back and middle office – the Business Plan aimed to deliver an additional 30 per cent reduction of back and middle office functions, in addition to the 20 per cent already delivered. The focus would shift from vertical, divisional organisational change to end-to-end process and structural integration across the organisation. Professional functions would be aligned around TfL's priorities and allow executives to have a coordinated overview; and

(e) Commercial Development – a £300m surplus would be generated through Commercial Development opportunities. Members stated that, given the size of TfL's estate and assets, this number could be more ambitious. The Committee noted that the figure was cautious and pragmatic but did not reflect the size of TfL's ambition.

The Committee heard that the new Investment Delivery function would help TfL to refine its method of appraising investment; the investment programme had been allocated into four categories to help deliver a structured approach to capital allocation:

(a) Critical – projects that were needed to maintain current safety level or legally required to be safe and operable;

(b) Central – projects that were most aligned to Mayoral and MTS outcomes and central to TfL's strategy;

(c) Desirable – projects that were contingent on funding availability;

(d) Deprioritise – projects that could be deprioritised and were more discretionary in nature.

The Business Plan stated that TfL would only commit to capital expenditure when it was clear from its revenues that it could afford to do so. Members welcomed the categorisation of projects and commended the work undertaken to develop it.

Over the Plan period, TfL intended to invest £2bn per year. This would be used to:

(a) make air quality and environmental improvements, including the implementation of the ULEZ and making the entire bus fleet Euro VI compliant;

(b) invest in the ongoing Healthy Streets programme to promote walking, cycling, and public transport, with the aim of achieving the 80 per cent mode shift;

(c) complete the Northern Line Extension to Battersea, supporting 25,000 jobs and 20,000 new homes;

(d) upgrade the signaling on the Circle, District, Hammersmith & City and Metropolitan lines;

(e) take forward the upgrade of the remaining deep Tube lines, beginning with the introduction of new longer, more spacious and comfortable walkthrough trains on the Piccadilly line;

(f) deliver the Bank station upgrade;

(g) continue to modernise the London Overground and introduce new trains on the London Overground and the DLR networks;

(h) work with the 32 London boroughs and the City of London on the TfL Road Network and borough roads and assets; and

(i) unlock land for the development of new homes and actively make smarter use of our assets, for example through retail units and advertising, to generate long-term revenue.

Simon Kilonback told the Committee that it would require approximately £4bn per annum, on average, to deliver the MTS through to the late 2030s, including £0.7bn for renewals. TfL would continue to work with government and stakeholders to make the case for funding for important long-term schemes, including the Piccadilly line re-signalling, Crossrail 2 and the Bakerloo line extension and upgrade, which were critical to unlocking affordable housing potential.

TfL expected to find out whether it would receive funding for the schemes after the 2019 summer spending review. The pause in procurement on Piccadilly line signalling works would allow TfL to ensure that all planned work was necessary and would deliver value for money across the whole life cycle.

The Committee noted that TfL expected to tap into new, growing markets to allow it to meet changing demand. The Business Plan detailed how TfL planned to develop in four key markets:

(a) Property – TfL's ambition was to become London's leading operator and owner of build-to-rent property, providing longer term, affordable tenancies. Its unique position as one of London's largest landowners would enable TfL to provide places to live and work for Londoners; TfL would continue to develop 320 acres of land for housing and commercial space. By March 2021, it was planned to have started on property development sites that would create 10,000 new homes and 1m sq feet of offices, shops and workspace. A development partner would be announced in 2019, following a great amount of interest from large, established organisations. TfL planned to increase revenue from £1m to £30-50m per annum.

    The Committee noted that this would ultimately need to become self-financing, with initial investment from recycling receipts from the TfL estate; Graeme Craig told the Committee that around £245m in receipts was planned from disposals, particularly from non-revenue generating properties. Members asked whether the buildings would be zero-carbon. Officers stated that the legacy of the buildings was of critical importance and that further information would be provided at a future session. Members were invited to visit the development sites; **[Action: Graeme Craig]**

(b) Media – TfL's ambition was to become the best partner to promote and understand business in London. TfL's advertising audience was 1.5 billion people per year, across the road network, bus stop, escalators and Tube platforms. On average, people were expected to spend 20 minutes twice a day exposed to media on TfL's estate. TfL was the primary source for data about London's traffic, growth and footfall, and had the analytical capability to package it. Work was ongoing to maximise the value of intellectual property and the TfL brand, most recently shown in the successful collaboration with Adidas. TfL planned to increase revenue from £140m to £175-200m per annum;

Graeme Craig told the Committee that it was necessary to develop TfL's digital estate. TfL would be able to understand the profile of users at specific stations, at specific times of day but the data would be anonymised and TfL would not monetise personalised data;

(c) Retail – TfL's ambition was to become a top-five player in convenience and small retail, taking advantage of the high footfall on its estate by providing attractive units for users and operators. TfL planned to increase revenue from £25m to £50-75m per annum; and

(d) Applied solutions – TfL's ambition was to be the world's preeminent transport authority consultancy, providing consultancy to other transport authorities that faced similar problems to TfL. Simon Kilonback told the Committee that TfL was often approached for its expertise in developing solutions to major problems, such as contactless payments and the infrastructure behind the ULEZ. TfL planned to generate revenue of £20-50m per annum;

Members asked whether TfL planned to create a joint venture to allow greater reach and reduce the risks, particularly in markets with greater legislative disparity. Mike Brown told the Committee that thought had been given to partnering with established consultancies, whether on individual projects or more generally.

In development of the Business Plan, stress tests were modelled to allow TfL to plan for uncertainty: technology disruption; the impact of being downgraded or UK incurring large amounts of debt; a substantial swing in government affecting numerous policies and priorities; and a hard Brexit. Mechanisms to be able to react effectively were developed and mitigation measures had been established.

The Chair thanked executives for a comprehensive Business Plan and informative presentations.

The Committee noted the paper and, in accordance with the delegation granted by the Board on 21 November 2018, approved the TfL Business Plan 2018.

77/12/18 Treasury Activities

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on TfL's key treasury activities for the period from 29 September to 26 November 2019.

The Committee noted that the borrowing programme was largely complete; £850m had been raised and £42m remained as a borrowing requirement. In November 2018, the foreign exchange exposure risk associated with the contract for the procurement of the 94 Piccadilly line trains was mitigated.

The Committee noted the paper and supplementary information on Part 2 of the agenda.

78/12/18 Elizabeth line Rolling Stock Sale and Leaseback

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda, which updated the Committee on TfL's financing competition for the sale and leaseback of the new rolling stock fleet purchased for the Elizabeth line, as envisaged in the Business Plan 2018.

After an initial period of market engagement, a competition for the sale and leaseback of the 70 nine-car fleet for the Elizabeth line was launched in September 2018. TfL selected the three most economically advantageous bidders and invited them to submit fully formed offers, in October 2018.

The sale and leaseback competition envisaged a lease of the new fleet of trains for a minimum period of 20 years from January 2019, but bidders were encouraged to offer additional flexibility, in the form of options either to acquire the fleet at the end of the lease or otherwise continued lease of the units.

Members were told that a sale and leaseback arrangement was not unique and that most non-London Underground (LU) rolling stock was leased; LU rolling stock was not able to be sold and leased back because it was unable to be used on other parts of the network.

Mike Brown confirmed that the delivery of the rolling stock had not been delayed.

The Committee noted that delegation to Delegated Officers was sought so that further value could be achieved. The proposed arrangement fell outside government's definition of borrowing and that classifications are not changed retrospectively.

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

(a) approved entering into a sale and leaseback transaction for the Elizabeth line rolling stock as described in the paper and the related paper on Part 2 of the agenda (the Transaction);

(b) granted Procurement Authority for the Transaction at the sum set out in the paper on Part 2 of the agenda;

(c) authorised Delegated Officers, in consultation with the Chair of the Committee, to select as the counterparty for the Transaction the financier offering the best financial terms in accordance with the evaluation methodology and as described in the paper and the related paper on Part 2 of the agenda; and

(d) noted that, to the extent that the Transaction could be construed as a disposal of property under paragraph 12(1) of Schedule 11 of the Greater London Authority Act 1999, the Mayor's Opinion will be sought at officer level in accordance with the Standing Orders.

79/12/18 TfL Energy Purchasing 2021 to 2022

Glyn Lenton introduced the paper and related supplemental information on Part 2 of the agenda, which outlined the summary of the TfL Energy Strategy and sought Procurement Authority for the continuation of the procurement of energy through the Crown Commercial Service (CCS) frameworks from April 2021 to March 2022.

The Energy Strategy sought to meet the Mayor's strategic aims for TfL's energy use and CO_2 emissions, and set out TfL's approach to achieving best value for money. It included the electrification of the TfL bus fleet, supporting the provision of electric vehicle charging infrastructure for London and seeking to meet the London Environment Strategy's ambition for all TfL-controlled rail services to be wholly powered by zero carbon sources by 2030.

The Energy Strategy included 12 key initiatives, which were consolidated into four high-level work streams; energy efficiency; energy procurement; generation/storage; and road transport electrification. Feasibility studies would be carried out to identify key projects that would be prioritised on their ability to significantly reduce carbon emissions and financial benefit, with the aim of meeting the Mayor's zero carbon agenda and to improve London's air quality. The four work streams would be further developed over the next 12 months and would align as far as possible with the Mayor's Energy for Londoners programme. Members asked that TfL look at energy efficiency measures across the whole business.

Mike Brown advised that Officers would share with Members the current progress made on developing the Energy Strategy, in 2019, in a workshop environment. This would include work that had gone towards developing an electric vehicle charging strategy and an across business plan on energy efficiency approaches. **[Action: Glyn Lenton]**

It was anticipated the final cost for April 2020 to March 2021 would be £187m, within the £200m authority granted by the Committee in December 2017, after environmental levies, taxes, transmission and distribution costs are included.

The Committee noted that Procurement Authority was requested for £222m to continue with the current strategy for the delivery period April 2021 to March 2022; this included headroom of approximately five per cent to cover additional costs arising from increases in the wholesale market and higher than anticipated regulated pass-through charges. TfL was required to commit to CCS for this period by the end of 2018 to ensure continuity with TfL's risk management approach.

Members stated that the approach set out was prudent but more work was necessary to develop a broader energy strategy.

The Committee noted the paper and the supplemental paper on Part 2 of the agenda and approved Procurement Authority of £222m for the purchase of electricity and natural gas from 2021 to 2022 across TfL, under frameworks set up by the Crown Commercial Service.

80/12/18 Contract for Services between TfL and LRSL

Patrick Doig introduced the paper, which sought approval for a services agreement to be entered into between TfL and its wholly owned subsidiary, London River Services Limited (LRSL), and requested procurement authority to cover the provision of the Woolwich Ferry Service by LRSL.

Members noted that this was an internal transaction that allowed for greater transparency, governance and tax efficiencies. The model would be clarified but there would be no changes to the Woolwich Ferry Services.

The Committee noted the paper and granted Procurement Authority up to the sum of £137m in respect of the contract for services between TfL and London River Services Limited for the provision of Woolwich Ferry services between the periods October 2008 to March 2020.

81/12/18 TfL Office Accommodation Strategy Update

Graeme Craig introduced the paper, which provided an update to the Committee on TfL's Accommodation Strategy and the progress made on the key efficiency and savings initiative, known as the Major Accommodation and Property Programme (MAPP).

The Committee noted that recent benefits derived from MAPP included: the sub-letting of the two largest leasehold liabilities at Windsor House and Albany House to Central Government tenants; commercially letting of three surplus freehold assets; disposal of three leasehold and managed space assets; mothballing offices such as Pelham Street and Templar House; and relocation of TfL's Occupational Health team, allowing the disposal of our leasehold interest at Townsend House.

MAPP was targeted with a minimum of £120m gross benefits over the Plan Years 2018-2022 and had secured £94.88m to date; a further £31.18m of planned future activities was expected.

In October 2018, a full review of the freehold office estate began, including the Broadway Complex. There were 13 freehold assets identified for potential sale, with an indicative net capital receipt of at least £200m. Further feasibility activities were underway to test the viability, estimate the net receipts and prepare individual sales strategies. The current working assumption was that the Broadway Complex would be disposed of in 2020, likely through a sale with vacant possession. The estimated capital receipt was realistic and prudent.

By 2022, TfL desk capacity would have potentially reduced to 8,400 desks, with the completion of the freehold sales. A wider review of TfL's accommodation requirements over the next 10 years was being prepared.

Paul Doyle said that there were 2,800 work stations for 3,300 people at 5 Endeavour Square, which encouraged open and modern working practices. Further to this, 500 Crossrail Limited staff had recently been accommodated. Officers had visited offices of other organisations to see how the space was used, in terms of layout and how people interacted with the space.

The Committee was told that the Broadway Complex did not fit with TfL’s investment strategy and it had been advised that greater value could be generated if the receipt was reinvested. Members stated that it was crucial that the sale of assets occurred at the right time in the economic cycle and that it was appropriate to be flexible about when receipts would occur.

The Committee noted the paper.

82/12/18 Transformation Programme Update

Andrew Pollins introduced the paper, which provided an update on the Transformation Programme.

The Committee noted that the immediate priority was to conduct end-to-end reviews of eight core business processes. This would be done while maintaining focus on business as usual activity and ensuring staff were fully engaged throughout. Internal Audit would provide assurance during the development of the new processes.

Good communication with staff about any changes was essential and staff would be informed as soon as possible.

Mike Brown told the Committee that he was encouraged by the open discussions he had been involved with, concerning mental health.

The Committee noted the paper.

83/12/18 Member Suggestions for Future Agenda Discussions

Howard Carter apologised that the paper for this item had not being included in the agenda pack. Members would be emailed an updated forward programme following the meeting. **[Action: Secretariat]**

The Committee noted the forward programme.

84/12/18 Any Other Business the Chair Considers Urgent

There was no urgent business.

85/12/18 Date of Next Meeting

The next meeting would be held on Tuesday 12 March 2019 at 10.00am.

The meeting closed at 1.10pm.

Chair: ______________________________________

Date: _______________________________________

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Finance Committee

Date: **11 March 2019**

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.

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Finance Committee Action List (to be reported to the meeting on 11 March 2019)

Actions from the meeting of the Finance Committee held on 13 December 2018

Minute No.	Description	Action By	Target Date	Status note
75/12/18	**Finance Report - Period 8, 2018/19** Analysis of like for like tube ridership over the last two years.	Tanya Coff	July 2019	An update will be provided to a future meeting.
76/12/18	**Business Plan Approval** (a) Commercial Development to provide information on the carbon neutrality, affordability and accessibility of the proposed build-to-rent homes; (b) Members will be offered a tour of the proposed locations of build-to-rent homes.	Graeme Craig	July 2019 March 2019	(a) Information will be provided when the build to rent paper is submitted to the Committee. (b) In the process of being arranged.
79/12/18	**Energy Purchasing 2021 to 2022** An update would be made at a future meeting on the progress in developing a TfL Energy Strategy, including an Electric Vehicle Charging Strategy. Members will be offered the opportunity to take part in a workshop with TfL staff.	Lilli Matson	July 2019	An update was provided to the February 2019 Safety, Sustainability and Human Resources (SSHR) Panel meeting. SSHR Panel Members were invited to take part in discussions with TfL staff.

Actions from the Actions from previous meetings

Minute No.	Description	Action By	Target Date	Status note
49/10/18	**Use of Delegated Authority – App-based culture** The Chair suggested that it would be useful to understand TfL's work to embrace the developing app-based culture. TfL would determine the most appropriate Panel or Committee for this.	Shashi Verma	July 2019	An update was provided to the February 2019 Customer Service and Operational Performance Panel.
50/10/18	**Finance Report - Period 6, 2018/19 – bus ridership** Patrick Doig told the Committee that the decrease in bus ridership was predominantly in central London and there was a mixed picture in outer London. TfL had experienced a two per cent decrease in ridership and long standing models were able to explain a one percent decrease in ridership; TfL was looking to update the models and would share the results with the Committee.	Patrick Doig	July 2019	TfL is continuing with the work and the Committee will receive an update in 2019.

Finance Committee

Date: **11 March 2019**

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 meeting of the Committee on 13 December 2018. The paper also provides information on Mayoral Directions to TfL within the Committee's remit.

1.2 Since the meeting of the Committee on 13 December 2018, the only use of delegated authority relates to two decisions taken under Chair's Action in relation to the proposed redevelopment of property at Finchley Central and High Barnet stations and the triennial actuarial valuation of the TfL Pension 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.

2 Recommendation

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

3 Use of authority delegated by the Board since 13 December 2018

3.1 There has been no use of authority delegated by the Board since the meeting on 12 December 2018.

4 Use of Chair's Action since 13 December 2018

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 have been two uses of Chair's Action since the meeting of the Committee on 13 December 2018.

Finchley Central and High Barnet Property Development

4.3 On 18 January 2019, the Chair (in consultation with members of the Committee) noted a paper in relation to the proposed redevelopment of property at Finchley

Central and High Barnet stations (the Sites) by way of a joint venture with a developer procured through the TfL Property Partnerships Framework. The Chair approved the disposal of leasehold land interests in the Sites and TfL entering into a joint venture for their redevelopment. A paper is attached at Appendix 1. Supplemental information was also provided to Members that remains exempt from publication under paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL.

4.4 The use of Chair's Action was considered appropriate as a decision was needed before the next scheduled meeting of the Committee to limit the delay and risk to TfL realising the objectives of the project.

Update on the Actuarial Valuation of the TfL Pension Fund

4.5 In July 2018, the Committee considered and approved matters relating to the triennial actuarial valuation of the TfL Pension Scheme as at 31 March 2018. On 19 February 2019, the Chair (in consultation with members of the Finance Committee) noted an update on those matters and approved certain provisions in response to that valuation. A paper is attached at Appendix 2. Supplemental information was also provided to Members that remains exempt from publication under paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL.

4.6 The use of Chair's Action was considered appropriate as a decision was needed on the proposed arrangements before the next planned meeting of the Committee.

5 Procurement and Land Authority Approvals since 13 December 2018

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 13 December 2018, 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. Proposed Mayoral Decisions (including Mayoral Directions) are considered within the GLA by its Corporate Investment Board before being considered by the Mayor. 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.

Mayoral Directions to TfL

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. 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. There are no additional Directions to those considered at the last meeting.

6.8 The most recent directions to TfL are:

(a) **Affordable Housing Programme** MD2335 (07/08/18)
The Mayor directed TfL in relation to the disposal or development of its land in 2017/18 and 2018/19 as part of his commitment to increasing the proportion of new homes that are affordable, to the benefit of local communities and the economy. He is prioritising affordable homes delivery on surplus or under-utilised land owned by the GLA Group. TfL shares the Mayor's commitment to delivering affordable housing - targeting 50 per cent affordable in both its business plan and within the Mayor's Transport Strategy. TfL has a programme for housing delivery on its surplus sites and TfL's Business Plan includes a target of 50 per cent affordable homes by habitable room across its programme. This work is ongoing.

(b) **Legally challenging a third runway at Heathrow** MD2348 (30/10/18)
The Mayor and TfL are an interested party in a legal challenge against the designation by the Secretary of State for Transport of the Airports National Policy Statement by way of judicial review. As TfL Legal provides legal services to the GLA under a shared services arrangement, the Mayor has

directed TfL to pay the Mayor’s legal costs of bringing the legal challenge as well as delegating to TfL any additional powers that are needed to comply with the direction. This work is ongoing.

(c) **London Food Strategy** MD 2387 (26/11/18)
The Mayor approved the publication of the London Food Strategy and directed TfL in relation to restrictions on advertising of less healthy food on TfL’s estate. These restrictions have now come into effect.

(d) **January 2019 Fare Changes** MD2377 (27/11/18)
The Mayor directed TfL in relation to implementing a freeze on all TfL fares that were under his control. These were implemented.

List of appendices to this report:

Appendix 1: Chair’s Action paper: Finchley Central and High Barnet property development

Appendix 2: Chair’s Action paper: Update on the Actuarial Valuation of the TfL Pension Fund

List of Background Papers:

None

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Appendix 1

Finance Committee – Chair's Action

Date Issued: 15 January 2019

Item: Finchley Central and High Barnet Property Development

This paper will be published with the papers for the next meeting of the Finance Committee

1 Summary

1.1 The purpose of this paper is to set out the proposed redevelopment of property at Finchley Central and High Barnet stations (the Sites) by way of a joint venture with a developer procured through the TfL Property Partnerships Framework.

1.2 This paper seeks approval from the Committee to dispose of leasehold land interests in the Sites and enter into a joint venture for their redevelopment as described in this paper and the supplemental paper.

1.3 The supplemental paper contains information that is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL.

1.4 The use of Chair's Action is considered appropriate to procure a decision before the next meeting of the Committee in March 2019. This will limit the delay and risk to TfL realising the objectives of the project described in this paper.

1.5 The contents of this paper and the exercise of the Chair's Action will be reported to the next meeting of the Committee.

2 Recommendations

2.1 **The Committee is asked to note the paper and the supplemental paper and:**

(a) approve entry by TfL or any subsidiary company or Limited Liability Partnership within the TfL Group, whether existing or to be formed ("Subsidiary Entity") into a set of joint venture contractual arrangements with the supplier from the TfL Property Partnerships Framework selected as the preferred bidder for the disposal and development of the Sites on the basis set out in this paper and the supplemental paper. These will include a conditional agreement which will regulate a conditional period during which certain conditions in respect of the Sites need to satisfied before the formation of a joint venture company between TfL (or a Subsidiary Entity) and the preferred bidder and the subsequent disposal of the Sites;

(b) approve the formation of a Subsidiary Entity as a wholly owned subsidiary of TTL Properties Limited for the purposes of entering into the contracts with the preferred bidder as the joint venture partner to

satisfy the pre-conditions and then setting up and investing into a joint venture entity, be it a company or Limited Liability Partnership (JVCO) that will undertake the development of the Sites. The Subsidiary Entity may then subsequently own part of the developed Sites as a long term investment, by way of the grant by London Underground of long leases in the Sites.

(c) approve the disposal of the Sites to JVCO following the satisfaction of planning and other conditions for each site and determination of each of the Sites' value for a consideration set out in the supplemental paper;

(d) approve the overage due to LU from the joint venture as a result of an amended planning consent increasing the scale of development;

(e) approve TfL or any Subsidiary Entity's share of investment in the joint venture up to that set out in the supplemental paper that includes:

i. costs incurred during the conditional period in obtaining planning permission, satisfying the site value condition and other activity as agreed by the joint venture Board prior to disposal of the Sites to the JVCO;

ii. the equity investment by TfL or the Subsidiary Entity in the JVCO which will support an equity stake in the joint venture as set out in the supplemental paper;

iii. TfL or any Subsidiary Entity's share of project-related professional fees and costs of development as shareholder or partner in the JVCO following disposal of the Sites to the JVCO;

(f) approve a guarantee of TfL or the Subsidiary Entity's financial commitments during the conditional period and within the JVCO, as set out in the supplemental paper;

(g) approve unbudgeted Financial Authority as set out in supplemental paper;

(h) approve Land Authority as set out in the supplemental paper (constituting disposal of the Sites, overage, equity investment, guarantees, the possible liabilities in the works agreement and risk);

(i) authorise Delegated Officers to include as part of the land to be developed by the joint venture, in addition to the Sites, the land within the areas shaded yellow on the plans contained in Appendix 1, which is either owned by LU or acquired from a third party should TfL and its joint venture partner agree; and

(j) provided that the commitments are within a 5 per cent tolerance above or below of the levels set out above and the final amount of consideration represents best value supported by a report confirming

the same produced by TfL's property advisors authorise Delegated Officers to:

i. **finalise contractual terms and to enter into the conditional joint venture;**

ii. **enter such documents to establish the joint venture (following satisfaction of the relevant conditions);**

iii. **effect the disposal of the Sites; and**

iv. **release the general risk allowance contained within the Land Authority above.**

3 Background

Extent of the Sites

3.1 The Sites are located within the London Borough of Barnet. The current extent of the development is limited to the areas edged red in the plans contained in Appendix 1, which is owned freehold by London Underground. These comprise the station car parks, land around the stations, commercial units and at Finchley Central the railway cutting. Total land areas are 3.6 hectares at Finchley Central and 1.6 hectares at High Barnet.

Objectives of the project

3.2 TfL's principal objectives for the Sites are:

(a) to deliver an exemplary development that delivers the principles of Good Growth by Design and the Healthy Streets approach, adheres to the Mayor's Transport Strategy and draft London Plan and generally enhances TfL's reputation;

(b) to achieve benefits in public realm around the stations, enhance the customer experience when accessing or interchanging from the stations and interact successfully with surrounding areas;

(c) to provide an excellent quality development delivered in a responsible way that receives support from our customers, the local community and other stakeholders;

(d) to manage commercial assets until the long leases are granted to the joint venture, engaging with our tenants to help them plan and, if required, consider alternative location options;

(e) to provide new homes with at least 40 per cent affordable housing; and

(f) to obtain significant returns from property development, sharing the risks and rewards associated with acting in a joint venture.

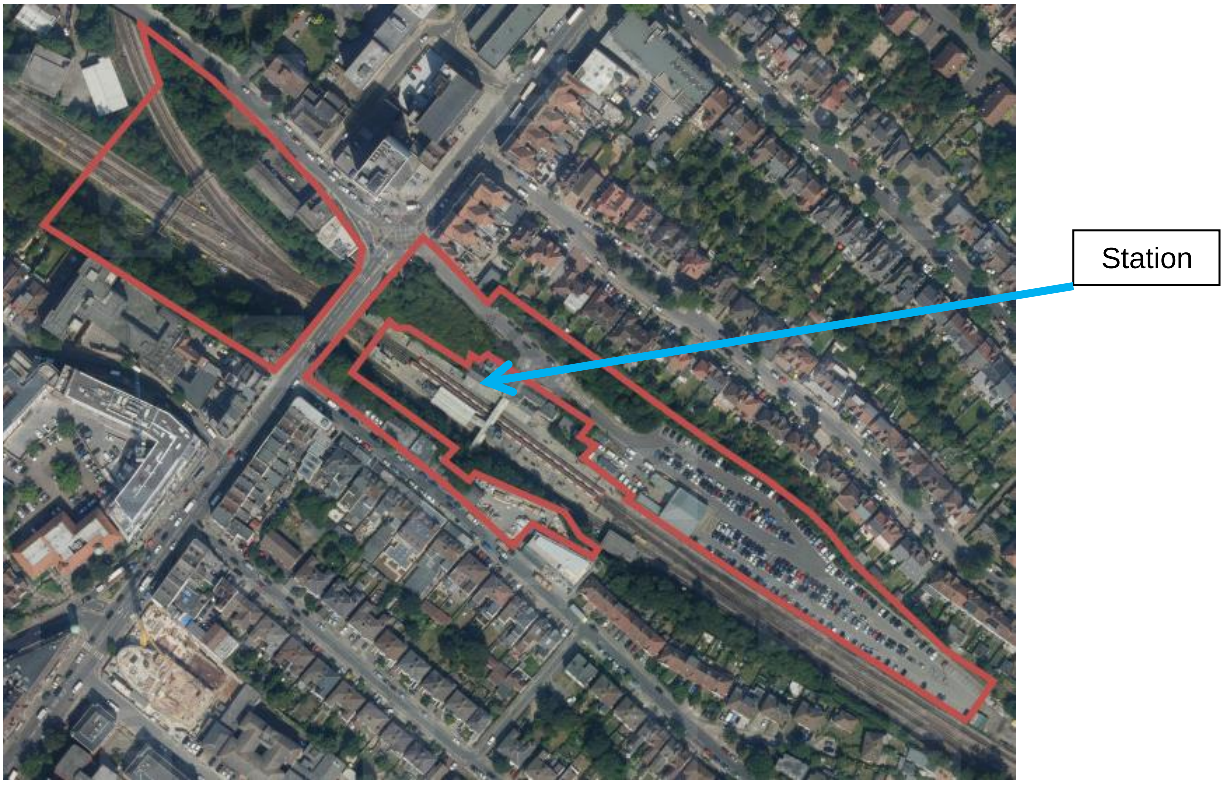
Appendix 1

Development Potential

3.3 Development at transport nodes is encouraged through the Mayor’s Transport Strategy and draft London Plan, which also encourages modal shift through car-free schemes and replacing car park uses through development while improving conditions for walking, cycling and using public transport.

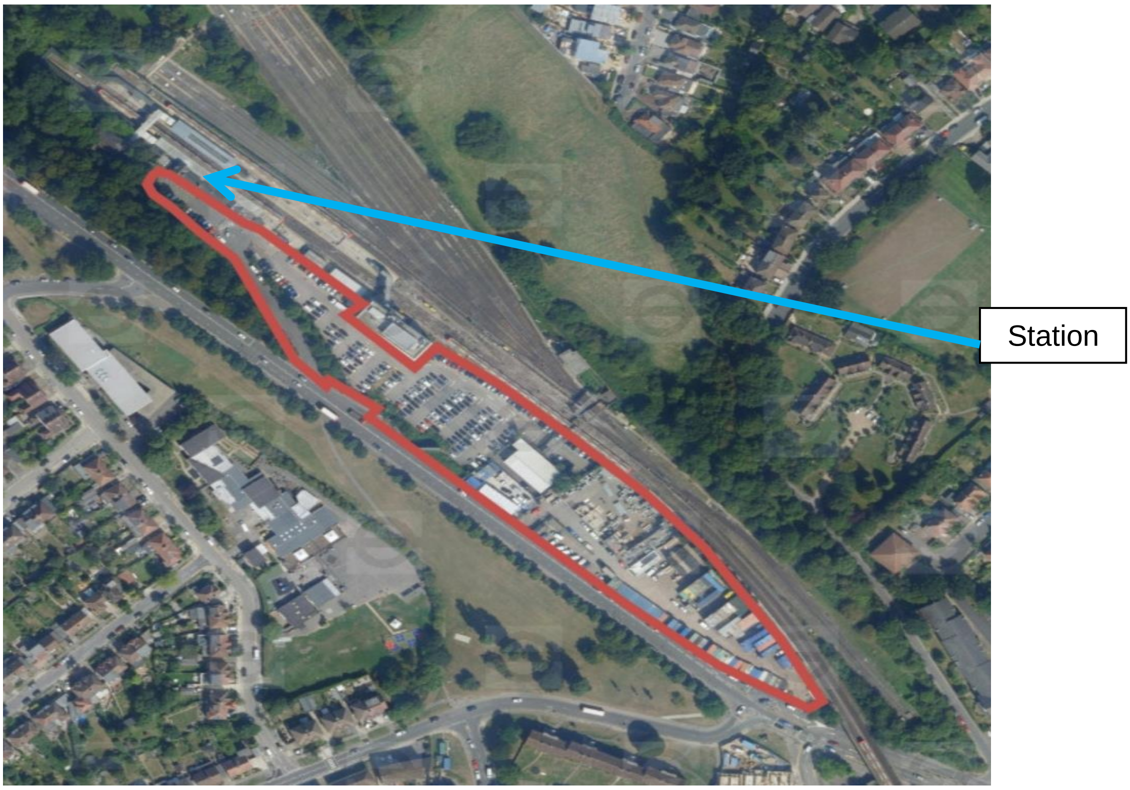
3.4 There are opportunities at each site to deliver significant improvements for our customers and wider communities through enhanced public realm and community uses.

At Finchley Central there is potential to connect the station to the high street to deliver a commercial hub and improved transport interchange in the town centre



At High Barnet a new scheme will intensify use of the land and deliver an enhanced public realm around the station and improved connectivity through the site to surrounding areas.

Appendix 1



Commercial

3.5 Once the long leases are granted to the joint venture, the joint venture company will then receive the income from those tenancies in place at the time and will be responsible for obtaining vacant possession as required. We will maintain active involvement to work with our tenants throughout this process.

3.6 The car parks will be extracted from our portfolio-wide management agreement and will be managed on a bespoke basis until the land is required for development.

3.7 The schemes can provide commercial and community uses that would provide an ongoing income stream and we will work with the partner in scheme design to maximise this potential.

Operational

3.8 At both Sites we will incorporate current functions such as low-loader track access, rail replacement bus, staff parking and, at High Barnet, the substation within scheme design.

3.9 Development activity will occur adjacent to and, at Finchley Central over operational assets. We have worked with London Underground Infrastructure Protection throughout the process. Once the joint venture is formed, protections for railway operations will be contained in the leases and joint venture works agreement.

3.10 Development at Finchley Central is enhanced by relocating the London Underground Track and Signals Depot. This is currently within the car park area and we have in-principle agreement from London Underground to re-provide this facility through refurbishing the disused London Underground substation. This is located close to Finchley Central station but is outside the area proposed for development. This will bring a redundant building back into use to provide bespoke and secure access for staff and associated vehicles.

3.11 Any disposal of operational assets will be subject to the agreement of London Underground and, if applicable, the consent of the Secretary of State for Transport.

Project Milestones

3.12 We propose to enter in to joint venture in early 2019 and work to submit a planning application in early 2020. We will look to commence enabling works on operational land under licence in mid-2020 and commence the main part of the scheme upon planning in spring 2021. Construction is currently scheduled to complete at High Barnet at the end of 2024 and at Finchley Central in mid-2028.

4 Options Analysis

4.1 We consulted on the range of delivery mechanisms which could be utilised to deliver development at the Sites with advisors Deloitte Real Estate, assessing the relative benefits of these options.

4.2 The potential options are set out below in order of both typical development risk exposure and the likely return to TfL, from low to high:

(a) **Retain and do nothing** – We retain annual income but would not generate commercial returns through property development nor increase housing supply. **NOT RECOMMENDED**

(b) **Traditional Property Disposal –** Selling sites would deliver relative certainty but the consideration would be limited to an initial receipt and possibly overage, without fully enjoying the benefits of market growth. We believe that the site value would be heavily discounted due to the perceived risk of building around London Underground infrastructure. **NOT RECOMMENDED**

(c) **Deliver through Development Agreement** – This would require a bespoke procurement process which is not considered the most effective use of resource given the existence of the Property Partnerships Framework that has parties pre-qualified having shown sufficient financial standing and expertise to work with TfL in a joint venture. **NOT RECOMMENDED**

(d) **Delivery via the Property Partnerships Framework** – This establishes a conditional joint venture that moves to a corporate structure where both parties are shareholders/partners and are involved in joint decision making. London Underground (as landowner) receives an initial capital receipt plus planning overage and TfL receives a share commensurate to its equity stake in the joint venture in all development revenue, allowing it to benefit from increases in value. TfL has greater control over the form of development and will work with its partner. As the framework has pre-qualified parties, there is a streamlined mini-competition that retains competitive tension in the project. **RECOMMENDED**

(e) **Direct Development via a Development Management Agreement** – TfL engages the services of a development manager to deliver a development in return for a fee. While TfL would take a larger share of proceeds and would retain absolute control over the form of development, we would be exposed to all of the development risk and funding obligations. **NOT RECOMMENDED**

(f) **Direct Development** – TfL undertakes the development of the asset using its in-house resources. While TfL would take all of the profit and all of the funding obligations and development risk. TfL currently does not have the resource or expertise to undertake this route. **NOT RECOMMENDED**

4.3 By participating in a joint venture, TfL has the potential to share in development profit in addition to receiving a land payment, and both parties are incentivised to establish a feasible and deliverable scheme.

5 Outline of Joint Venture Principles

5.1 TfL and the winning bidder will enter into a conditional joint venture agreement, which will set out the conditions to be satisfied prior to establishing the joint venture company and granting the leases. During the conditional period a project board is established. All activities are to be conducted in accordance with the joint venture business plan. Once the conditions have been satisfied and the joint venture established the business plan will be adopted by the joint venture.

5.2 Any changes that the parties may agree and any subsequent material variations to the business plan will require the agreement of both shareholders.

5.3 The joint venture will be granted the leasehold interest in the Sites and carry out the development. The partner and TfL will agree to finance their equity contributions in accordance with the agreed business plan and the joint venture will deliver returns to its shareholders in line with the respective equity stakes of TfL and the partner.

Commercial Terms Following Establishment of the Joint Venture

5.4 The joint venture is governed by the Shareholders Agreement (or if a Limited Liability Partnership is established a Members Agreement) to be entered into once the pre-conditions have been satisfied, which contains provisions for the protection of TfL as a significant minority shareholder, with a list of material decisions, which will require the consent of TfL such as material changes to the business plan, planning application submission or the appointment of contractors.

5.5 The Shareholders Agreement includes the usual restrictions on the transfer of TfL’s and the winning bidder’s interests in the joint venture (and appropriate change of control provisions) and the distribution of profits.

Development Management Services

5.6 The winning bidder will provide the business and development management services required. Once the joint venture is established the joint venture shall become the development manager’s employer and be responsible for the fees.

Head Leases Key Commercial Terms

5.7 London Underground as landowner will retain the freehold of the Sites and will grant the joint venture long leases (head leases) of the Sites, which will be completed upon satisfaction of the pre-conditions. The demise of the Sites will encompass airspace above operational assets and as such will not include the station or other operational assets. However the Finchley Central head lease will grant rights to pile through embankments and take support from the ground below.

5.8 These head leases will be for a term of 299 years and will be inside the security of tenure provisions of the Landlord and Tenant Act 1954. Underleases granted out of the head leases will be excluded from the security of tenure provisions of the Landlord and Tenant Act 1954.

5.9 London Underground reserves its standard operational and infrastructure protection rights in relation to development including ongoing maintenance or alterations. The head leases contain an acknowledgement that matters relating to the operation of the railway (including safety and security) are paramount.

5.10 Any structures over the railway that form part of the development will be demised in the head lease and will be owned and maintained by the joint venture. The head lease will include a ground rent to be paid to London Underground, to be retained to fund any essential works to make safe or to carry out works where the joint venture has failed to comply with its repair or maintenance obligations.

Works Agreement Key Commercial Terms

5.11 The works agreement regulates development works and contains London Underground’s standard infrastructure protection provisions, acknowledging that matters relating to the operation of the railway (including safety and security) are paramount. The joint venture is required to undertake the works in accordance with these standards.

Other Terms

5.12 TfL requires performance and financial guarantees in respect of certain preferred bidder and joint venture obligations and liabilities.

6 Best Value and State Aid

6.1 Our independent property advisors, Deloitte Real Estate, confirmed that proceeding with a joint venture and procuring a partner through the Property Partnerships Framework was capable of achieving Best Consideration through receiving an initial land receipt and further profits from the development.

6.2 Entry in to the joint venture will only occur once Deloitte Real Estate confirms that the pricing being offered by the preferred bidder at the time of transaction achieves best value and is state aid compliant, including an assessment against prevailing existing use value and other delivery options.

7 Public Sector General Equality Duty

7.1 The general equality duty applies to TfL and its subsidiaries, and requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities.

7.2 Equality Impact Assessments have been produced for each site that have assessed the effects of development in principle, so that we can consider how to satisfy the issues raised in the assessments.

7.3 The initial assessments identify that development could potentially provide significant positive impact through improved urban realm, lighting, wayfinding, safety and security. However a development might cause negative impacts that will need to be addressed such as the effects of construction activity and loss of station parking.

7.4 It is imperative for TfL to consider these issues carefully and we will continue to assess the impacts. The assessment is a live document that will next be revisited in the conditional joint venture period with our partner, so that impacts can be assessed further and mitigation measures incorporated into stakeholder engagement and ongoing design.

List of appendices to this report:

Appendix 1: Site Plans

A paper containing exempt supplemental information

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Appendix 2

Finance Committee Chair's Action

Date issued: **15 February 2019**

Item: **Update on the Actuarial Valuation of the TfL Pension Fund**

This paper will be published with the next agenda of the Finance Committee

1 Summary

1.1 In July 2018, the Committee considered and approved matters relating to the triennial actuarial valuation of the TfL Pension Scheme (the Scheme) as at 31 March 2018. This paper provides a further update on those matters and seeks approval of certain proposed provisions in response to that valuation.

1.2 The use of Chair's Action by the Chair of the Finance Committee is considered appropriate as a decision is needed on the proposed arrangements before the next planned meeting of the Committee.

1.3 Members of the Committee are asked to consider the proposal and provide Ron Kalifa OBE, as Chair, with their views on or before 10am on 21 February 2019. The contents of this paper and the exercise of Chair's Action will be reported to the next meeting of the Committee.

1.4 A related paper contains supplemental confidential information that is exempt from publication to the public or press by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL.

2 Recommendation

2.1 The Chair (in consultation with members of the Finance Committee) is asked to note this paper and the related confidential paper and to authorise the commitments to the TfL Pension Scheme as described in the confidential paper.

3 Background

3.1 As set out in the paper to the meeting of the Committee on 4 July 2018, the Scheme is a final salary funded occupational pension scheme set up under trust. The Scheme is separate and distinct from TfL and its subsidiaries. TfL is the principal employer of the Scheme and TfL Trustee Company Limited is the Trustee of the Scheme (the Trustee). The Scheme has other participating employers from within the TfL group and they are represented by TfL in the triennial valuation process.

3.2 The Scheme is a defined benefit scheme with 2 sections – a Public Sector Section and a Composite Section. The Public Sector Section holds 99 per cent of the liabilities. This paper relates to the Public Sector Section.

3.3 Every three years the Trustee of the Scheme is required to carry out an actuarial valuation of the Fund. As the last valuation was carried out as at 31 March 2015, the Trustee is currently carrying out its latest valuation, in discussion with TfL, with a calculation date of 31 March 2018.

4 The valuation process

4.1 The purpose of the valuation is to assess the value of the Fund's assets and liabilities and to review and revise (if necessary) the level of contributions paid by TfL. The Trustee and TfL have been working through the valuation process since March 2018. The Technical Provisions and deficit recovery plan have been agreed in principle between the Trustee and TfL following receipt of advice from respective actuarial advisors, subject to approvals. Some updates to this agreement have been made since the meeting of the Finance Committee on 4 July 2018 to reflect final valuation numbers and other relevant matters. Revisions to the rate of contributions payable to reflect the final 2018 valuation position will apply from 1 April 2019, as has been practice in the past.

4.2 TfL and the Trustee are now finalising the details of the valuation and are now looking to execute formal documentation setting out the Recovery Plan, Schedule of Contributions and the final valuation results. These must then be sent to the Pensions Regulator (the Regulator) who will then review the appropriateness of the agreed funding plan. The proposed Recovery Plan, Schedule of Contributions and final valuation results are deliverable within the provision made in the current Business Plan.

4.3 The Schedule of Contributions and other related documents (as appropriate) will be published once this documentation has been executed.

List of appendices to this report:

Exempt supplementary material is included in a related paper.

List of Background Papers:

Finance Committee 4 July 2018 paper on triennial actuarial valuation of the TfL Pension Scheme

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Finance Committee

Date: **11 March 2019**

Item: **Finance Report – Period 11, 2018/19**

This paper will be considered in public

1 Summary

1.1 The Finance Report sets out TfL's financial results for Period 11, 2018/19 – the year-to-date period ending 2 February 2019.

2 Recommendation

2.1 **The Committee is asked to note the Finance Report.**

3 Financial Reporting to the Board and Committees

Finance Report – Period 11, 2018/19

3.1 In response to feedback from a number of stakeholders the Finance Report has been changed. 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.

3.2 Year-to-date performance is shown against budget, as well as year-on-year and focusses on four key areas of our financial performance: the operating account, passenger journeys, the capital account and cash balances.

Quarterly Performance Report – Quarter 3, 2018/19

3.3 Since the last Committee meeting, the Quarterly Performance Report for Quarter 3 has been published online. This report shows TfL's results for year-to-date period ending 08 December 2018. The report can be viewed at:

https://tfl.gov.uk/corporate/publications-and-reports/quarterly-progress-reports

List of appendices to this report:

Appendix 1: Finance Report – Period 11, 2018/19

List of Background Papers:

None

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Transport for London finance report

Period 11 2018/19

MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

About Transport for London (TfL)

Part of the Greater London Authority family led by Mayor of London Sadiq Khan, we are the integrated transport authority responsible for delivering the Mayor's aims for transport.

We have a key role in shaping what life is like in London, helping to realise the Mayor's vision for a 'City for All Londoners'. We are committed to creating a fairer, greener, healthier and more prosperous city. The Mayor's Transport Strategy sets a target for 80 per cent of all journeys to be made on foot, by cycle or using public transport by 2041. To make this a reality, we prioritise health and the quality of people's experience in everything we do.

We manage the city's red route strategic roads and, through collaboration with the London boroughs, can help shape the character of all London's streets. These are the places where Londoners travel, work, shop and socialise. Making them places for people to walk, cycle and spend time will reduce car dependency and improve air quality, revitalise town centres, boost businesses and connect communities.

We run most of London's public transport services, including the London Underground, London Buses, the DLR, London Overground, TfL Rail, London Trams, London River Services, London Dial-a-Ride, Victoria Coach Station, Santander Cycles and the Emirates Air Line. The quality and accessibility of these services is fundamental to Londoners' quality of life. By improving and expanding public transport, we can make people's lives easier and increase the appeal of sustainable travel over private car use.

We are moving ahead with many of London's most significant infrastructure projects, using transport to unlock growth. We are working with partners on major projects like Crossrail 2 and the Bakerloo Line Extension that will deliver the new homes and jobs London and the UK need. We are in the final phases of completing the Elizabeth line which, when open, will add 10 per cent to central London's rail capacity.

Supporting the delivery of high-density, mixed-use developments that are planned around active and sustainable travel will ensure that London's growth is good growth. We also use our own land to provide thousands of new affordable homes and our own supply chain creates tens of thousands of jobs and apprenticeships across the country.

We are committed to being an employer that is fully representative of the community we serve, where everyone can realise their potential. Our aim is to be a fully inclusive employer, valuing and celebrating the diversity of our workforce to improve services for all Londoners.

We are constantly working to improve the city for everyone. This means freezing TfL fares so everyone can afford to use public transport, using data and technology to make services intuitive and easy to use, and doing all we can to make streets and transport services accessible to all. We reinvest every penny of our income to continually improve transport networks for the people who use them every day.

None of this would be possible without the support of boroughs, communities and other partners who we work with to improve our services. We all need to pull together to deliver the Mayor's Transport Strategy; by doing so we can create a better city as London grows.

Contents

The financial information included in the report is unaudited and does not constitute TfL's statutory accounts. TfL's last audited **Statement of Accounts** for the year ended 31 March 2018 was published in July 2018.

All figures within the financial tables have been rounded to the nearest million.

Management results

Operating account

Period 11 year to date – 01 April to 02 February 2019

	Year to date				Year on year		
(£m)	Actuals	Budget	Variance to budget	% variance to budget	2017/18 actuals	Variance	% variance
Passenger income	4,029	3,996	33	1%	3,956	73	2%
Other operating income	681	713	(32)	-4%	623	58	9%
Total operating income	**4,710**	**4,709**	**1**	**0%**	**4,579**	**131**	**3%**
General grant	-	-	-	-	193	(193)	-100%
Business Rates Retention	796	796	-	-	718	78	11%
Other revenue grants	46	55	(9)	-16%	65	(19)	-29%
Total income	**5,552**	**5,560**	**(8)**	**0%**	**5,555**	**(3)**	**0%**
Operating cost	(5,153)	(5,464)	311	-6%	(5,144)	(9)	0%
Net operating surplus	**399**	**96**	**303**	**316%**	**411**	**(12)**	**-3%**
Capital renewals	(321)	(411)	90	-22%	(437)	116	-27%
Net cost of operations before financing	**78**	**(315)**	**393**	**-125%**	**(26)**	**104**	**-404%**
Net financing costs	(379)	(402)	23	-6%	(355)	(24)	7%
Net cost of operations	**(301)**	**(717)**	**416**	**-58%**	**(381)**	**80**	**-21%**

Year-to-date net operating surplus £303m better than budget, and the net cost of operations is £416m better

- Total operating income is in line with budget and £131m above last year. The increase in passenger income (£33m) has been offset by the reduction in other income (£32m) which is mainly owing to Crossrail central operating section regulatory access income being delayed
- Operating costs are £311m below budget - £277m of this is from net cost reductions across the business and £34m from projects, the majority of which has been reprofiled to future years

Passenger journeys

Year to date

3,359m total journeys

3,358m budget

3,373m prior year

London Underground

1,159m

1.9%▲ budget

1.1%▲ prior year

Buses

1,868m

0.7%▼ budget

1.8%▼ prior year

DLR

102m

0.7%▼ budget

0.5%▼ prior year

London Overground

159m

0.5%▼ budget

0.0%▼ prior year

London Trams

24m

2.8%▼ budget

1.6%▼ prior year

TfL Rail

47m

14.4%▲ budget

20.5%▲ prior year

Capital account

	Year to date				Year on year		
(£m)	Actuals	Budget	Variance to budget	% variance to budget	2017/18 actuals	Variance	% variance
New capital investment	(1,135)	(1,440)	305	-21%	(1,122)	(13)	1%
Crossrail	(1,186)	(516)	(670)	130%	(1,261)	75	-6%
Total capital expenditure	**(2,321)**	**(1,956)**	**(365)**	**19%**	**(2,383)**	**62**	**-3%**
Financed by:							
Investment grant	820	820	-	-	806	14	2%
Third-party contributions	35	77	(42)	-55%	69	(34)	-49%
Property and asset receipts	51	674	(623)	-92%	60	(9)	-15%
Borrowing	669	831	(162)	-20%	300	369	123%
Crossrail funding sources	420	220	200	91%	99	321	324%
Other capital grants	162	227	(65)	-29%	157	5	3%
Total	**2,157**	**2,849**	**(692)**	**-24%**	**1,491**	**666**	**45%**
Net capital account	**(164)**	**893**	**(1,057)**	**-118%**	**(892)**	**728**	**-82%**

Cash

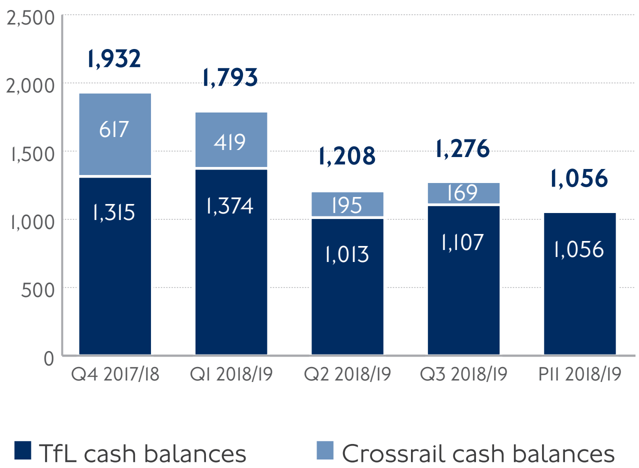
Cash flow summary

	Year to date			
(£m)	Actuals	Budget	Variance	% variance
Net cost of operations	(301)	(717)	416	-58%
Net capital account	(164)	893	(1,057)	-118%
Working capital movements	(411)	(374)	(37)	10%
Decrease in cash balances	**(876)**	**(198)**	**(678)**	**343%**

Cash balances

(£m)	2018/19 opening cash	YTD movement	Period 11 closing cash	Budget closing cash	Variance to budget
TfL cash balances	1,315	(259)	1,056	1,534	(478)
Crossrail cash balances	617	(617)	-	200	(200)
Total	**1,932**	**(876)**	**1,056**	**1,734**	**(678)**

Cash balances (£m)



- Cash balances are £1,056m - £876m lower than at the start of the year
- The sale and leaseback of the Elizabeth line rolling stock (£600m) is now planned to happen in March, contributing to the variance in cash balances

March 2019

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TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Finance Committee

Date: **11 March 2019**

Item: **Treasury Management Strategy 2019/20**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to ask the Committee to recommend that the Board approves the proposed Treasury Management Strategy (TMS) for 2019/20. The TMS 2019/20 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 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:**

(a) note the paper and the supplementary information on Part 2 of the agenda;

(b) recommend that the Board approves the Treasury Management Strategy (TMS) for 2019/20, attached at Appendix 1, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits;

(c) recommend that the Board authorises the Committee to approve any changes to the TMS 2019/20 during the course of the year;

(d) note that the proposals to the Committee for derivative investments set out in Recommendation 2.1(e) 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

(e) subject to the Board approving the TMS 2019/20 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 2018/19 (or 2019/20 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 2018/19 (or 2019/20 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 2018/19 (or 2019/20 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).**

2.2 **The following Officers and Subsidiaries shall have delegated authority:**

- **(a) TfL Officers: the Commissioner, 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, the Managing Director (Chief Finance Officer), General Counsel and Corporate Finance and Strategy Director; and**

- **(b) Subsidiaries: Subsidiaries of TfL including Transport Trading 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.**

3 Treasury Management Strategy 2019/20

3.1 The TMS 2019/20 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 Authority Investments (the 'Investments Guidance') issued by the Ministry of Housing, Communities and Local Government 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 2019/20 refer to investments held for treasury management purposes only and do not cover non-treasury related investments.

3.3 The TMS 2019/20 includes TfL's proposed strategies for investment, borrowing, liquidity and risk management for the financial year 2019/20, as well as proposed counterparty exposure limits. It sets out TfL's borrowing requirement for 2019/20. There are no major changes to the TMS compared to the 2018/19 TMS.

4 Brexit related risks

4.1 The uncertainty created by Brexit negotiations and particularly the absence of an agreed position on the withdrawal mechanism only weeks away from 29 March 2019 may have a number of impacts on treasury activities. While an orderly exit continues to be the base case for many forecasts, the risk of "no deal" is high, as it remains the default position. Also the possibility of "no Brexit" cannot be ruled out at this stage.

4.2 The impact on financial markets is dependent upon the outcome of Brexit negotiations. Under a no deal outcome, Sterling is forecast to depreciate, the Bank of England may reduce interest rates, inflation may increase and UK Gilts may fall. Conversely, under a "soft deal" or no Brexit scenario, Sterling is forecast to appreciate, interest rates may rise, inflation may fall and UK Gilts may increase.

4.3 The current sovereign rating for the UK (Aa2/Stable, AA/Negative and AA/Negative by Moody's, S&P and Fitch) reflects the risk of sustained economic weakness and deterioration in government finances if access to key European markets is lost. There is a risk that an adverse outcome of the negotiations (e.g. no deal Brexit) might result in the downgrade of the sovereign rating. On 6 February 2019, S&P published a report on the rating implications of a no deal Brexit. The report specifically references that TfL's rating may come under pressure in the case of a no deal Brexit due to the link with the sovereign rating and dependence on central government funding. On

21 February 2019, Fitch placed the UK's "AA" rating on Rating Watch Negative (RWN), owing to the ongoing uncertainty over Brexit and the likely impact on the UK economy. On 25 February 2019, Fitch placed TfL (and certain other bodies with links to the UK government) on RWN as a result.

4.4 Treasury specific risks are being monitored and reported to the Executive Committee by the pan-TfL Brexit working group. Risk mitigation strategies are described in detail in Part 2 of the supplementary information to this paper.

5 Investments

5.1 A reduction in cash balances combined with TfL's priority for security and liquidity will continue to put downward pressure on investment yields.

5.2 Lower cash balances require shorter investment tenors in order to maintain liquidity. Due to borrowers' preference for longer dated debt, the majority of investment opportunities are between three and six months. It is therefore more difficult to source shorter dated investments with attractive yields.

5.3 Investment yield may be further suppressed as a result of the amount of investment opportunities in the Sterling market being limited compared to Euro and US Dollar, and the attractiveness of investing in Euro or US Dollar securities varying depending on the FX forward market.

5.4 In addition, the outcome of Brexit negotiations, particularly a no deal outcome, may result in reduced liquidity and a reduction in the Bank of England base rate. New Money Market Fund (MMF) regulation introduced in March 2019 will require MMFs to invest more cash in short dated investments, negatively impacting yields.

6 Borrowing

Funding settlement with government and planned borrowing

6.1 The maximum amount of incremental debt that we could raise is set by the Mayor and, in practice, HM Treasury through various funding agreements. The current incremental borrowing limits were originally agreed with government as part of the 2015 Spending Review and covered a period to 2020/21. These limits have been adjusted over the last couple of years to reflect a number of developments, including the removal of borrowing headroom associated with Metropolitan line extension, borrowing deferred at TfL's request from one year to the next and, most recently, the additional funding required by Crossrail Limited (Table 1).

Table 1 – TfL Incremental Borrowing*

£m	2019/20	2020/21
TfL incremental borrowing limit per July 2018 funding settlement	500	580

* The 2018 Business Plan assumes £500m of incremental borrowing in 2021/22 and 2022/23. These amounts are yet to be agreed with HM Treasury.

6.2 In addition to the above limits, a £750m contingency loan facility from the Department for Transport (DfT) will be available to TfL in the event that the £1.4bn GLA grant is fully utilised by Crossrail Limited and the project has further funding needs that cannot be met from other sources. This facility is only available for Crossrail funding and the timing of the drawdowns is not linked to a specific year. The 2018 Business Plan assumed that up to £300m may be required to cover Crossrail Limited costs in 2019/20. In practice, the funds cannot be raised in advance of need and will only be drawn as and when required by the project.

7 Liquidity management

7.1 The general approach to liquidity management remains the same as last year. In order to meet its liquidity needs TfL mainly relies on cash balances (including short-term liquid investments), supplemented by a bank overdraft, access to commercial paper and PWLB.

8 Risk Management

Foreign exchange

8.1 We work in conjunction with Commercial Procurement to identify foreign currency exposures in procurements through the tendering and contracting process. There is often a long lead time before a final bidder is selected and contract award, especially on the large procurements such as rolling stock. During these periods the exposure cannot be mitigated effectively. Once the exposure becomes highly probable our strategy is to mitigate those exposures by either passing the risk to suppliers and contracting in Sterling or by entering into a hedging programme. The latter option often offers savings due to TfL’s strong credit rating.

Commodities

8.2 Aggregate exposure to commodities (iron ore, copper, coking coal, etc.) is not significant to the organisation, but risk management strategies may reduce cost volatility for the projects. We are also supporting the Surface directorate with exposures to diesel.

List of appendices to this report:

Appendix 1: Treasury Management Strategy 2019/20

A paper on Part 2 of the agenda contains exempt supplemental information.

List of background papers:

None

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TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2019/20

1 SUMMARY

1.1 This Treasury Management Strategy (TMS) 2019/20 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 2019/20 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 2018 Statutory Guidance on Local Authority Investments (the ‘2018 Investments Guidance’) issued by the Department for Communities and Local Government (DCLG), 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 2019/20 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 2019/20, 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] and the Corporate Finance and Strategy Director, provided no decision contravenes the TMS 2019/20, 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 2019/20 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 2019/20 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 consider investing 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 permitted under the TMS 2019/20 and 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 Corporate Finance and Strategy Director 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.

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 2019/20 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 2019/20, is driven by the financing requirement of its capital investment programme and the refinancing of its maturing debt.

Table 1 – 2019/20 borrowing requirement

Description	**£m**
2019/20 incremental borrowing per latest funding settlement	500
Refinancing of debt maturing within 12 months, including rolling short-term commercial paper	147
Borrowing up to the headroom created by amortisation of finance leases	44
Borrowing requirement for 2019/20	**691**

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 2019/20, it may be deferred to the following financial year, subject to notification to HM Treasury eight weeks prior to the end of 2019/20.

6.5 In addition to the borrowing requirement in Table 1, TfL may 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 GLA grant has been fully utilised by Crossrail Limited and the project has further funding needs that cannot be met from other sources.

6.6 The notional amount of outstanding debt is expected to be £11,719m at the end of 2019/20, excluding any amounts drawn under the DfT Crossrail facility described above in the event this becomes necessary.

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 TfL's 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 seek to arrange loan facilities that enable drawdown of debt in future years. Where TfL has the ability and option to do so, it will consider fixing the borrowing for drawdowns beyond the 2019/20 financial year, in order to mitigate interest rate risk related to future borrowing requirements. Any fixed borrowing will be within the incremental borrowing limits and Authorised Limit for borrowing, where applicable.

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 2019/20 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 issues, 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 2019/20 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 and/or the Corporate Finance and Strategy Director 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

<table>
<tr><th colspan="2">Moody’s</th><th colspan="2">Standard & Poor’s</th><th colspan="2">Fitch</th><th rowspan="2">Concentration limit per counterparty (as a percentage of total portfolio)</th></tr>
<tr><th>ST</th><th>LT</th><th>ST</th><th>LT</th><th>ST</th><th>LT</th></tr>
<tr><td rowspan="2">P-1</td><td>Aaa
Aa1
Aa2
Aa3
A1</td><td>A-1+</td><td>AAA
AA+
AA
AA-</td><td>F1+</td><td>AAA
AA+
AA
AA-
A+</td><td>10%</td></tr>
<tr><td>A2
A3</td><td>A-1</td><td>A+
A</td><td>F1</td><td>A+
A
A-</td><td>7.5%</td></tr>
<tr><td>P-2</td><td>A3
Baa1
Baa2</td><td>A-2</td><td>A-
BBB+</td><td>F2</td><td>A-
BBB+
BBB</td><td>5%</td></tr>
<tr><td>P-3</td><td>Baa2
Baa3</td><td>A-3</td><td>BBB
BBB-</td><td>F3</td><td>BBB
BBB-</td><td>0%</td></tr>
<tr><td colspan="6">UK Sovereign</td><td>100%</td></tr>
</table>

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 fair market value (FMV) 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 2019/20. 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 and/or Corporate Finance and Strategy Director 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 Corporate Finance and Strategy

Director’s discretion, may decide to allow an investment or derivative to run its course for economic reasons.

Finance Committee

Date: **11 March 2019**

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

This paper will be considered in public

1 Summary

1.1 This paper asks the Committee to recommend to the Board that it approves 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.

2 Recommendations

2.1 **The Committee is asked to note the paper and recommend that the Board approves:**

(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.

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 2019/20 refer to investments held for treasury management purposes only and do not cover non-treasury related investments.

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 2019.

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 2019/20 is included as a separate item on the agenda for this meeting. A copy of the proposed policies is included in Appendix 1.

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. A copy of the proposed policy 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

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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 Authority Investments (the ‘Investments Guidance’) issued by the Ministry of Housing, Communities and Local Government (MHCLG) 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 also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore 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. As confirmed by HM Treasury in a letter dated 2 March 2016, from the financial year 2016/17 onwards TfL is able 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 that 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).

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

[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.

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 Corporate Finance and Strategy Director's discretion, may decide to allow an investment or derivative to run its course for economic reasons.

Liquidity Policy

2.12 The TfL Group's (excluding ring fenced subsidiaries; Crossrail Limited, London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) minimum level of cash and short-term investments will be, on average, at least 30 days' worth of forecast annual operating expenditure. TfL may also have undrawn credit facilities in place to supplement the cash balances, as required.

2.13 TfL may borrow short-term for working capital purposes, provided the position is temporary and that TfL remains within the Authorised Limit at all times.

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

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 Corporate Finance and Strategy Director.

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 Corporate Finance and Strategy Director.

3.4 The Corporate Finance and Strategy Director 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 and the Corporate Finance and Strategy Director, provided no decision contravenes the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the

[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).

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 Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director.

3.8 The managing Chief Finance Officer or Corporate Finance and Strategy Director 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.

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

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 the TfL's Authorised Limit). The Corporate Finance and Strategy Director is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within the 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.

[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

5 INVESTMENTS

5.1 The Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director will approve investment and derivative counterparties.

6 BANKING

6.1 The Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director or any Corporate Finance officer confirmed in writing as having the same authority as the Corporate Finance and Strategy Director.

TREASURY MANAGEMENT PRACTICES (TMPs)

7 TREASURY RISK MANAGEMENT – TMP1

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

11.5 The Corporate Finance and Strategy Director will ensure all transactions are recorded, and that procedures exist for the effective transmission of funds. The Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director, 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 Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director.

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 Corporate Finance and Strategy Director will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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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;

[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 and Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director 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 Corporate Finance and Strategy Director and Corporate Finance 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 Corporate Finance and Strategy Director 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 2019**

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 26 November 2018 to 21 February 2019 (the Reporting Period).

1.2 During the Reporting Period, we have complied at all times with the Treasury Management Strategy and the Treasury Management Policies approved by the Board on 20 March 2018, 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 paragraph 3 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. 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 supplementary information on Part 2 of the agenda.**

3 Borrowing Update

Current Borrowing

3.1 As at 21 February 2019, we had £11,270m outstanding borrowing with a weighted average maturity of 19 years and an average interest rate of 3.6 per cent. We have remained within the Authorised Limit for borrowing at all times during the Reporting Period.

3.2 During the year there have been a number of changes to the expected borrowing for 2018/19. In July 2018, we brought forward £20m of incremental borrowing from 2020/21 (in agreement with government) to support the funding of the Crossrail project.

3.3 We have also recognised a new finance lease related to a stream of payments under the JTC Victoria Line Upgrade contract due to a change in accounting treatment. As finance leases generally count towards our incremental borrowing limits, this new lease reduced the amount of incremental borrowing in 2018/19 by £132m.

3.4 We have borrowed £41m to refinance the scheduled amortisation of the existing finance leases. While we had not refinanced finance lease amortisations in the past, this is consistent with the terms of the TfL funding settlement with government, which allows TfL to manage its financial liabilities flexibly within the borrowing limit, including replacing finance leases with direct borrowing. This approach means that the net reduction in incremental borrowing for 2018/19, as a result of the recognition of the lease, is £91m. The remaining finance lease amortisation amounts will be borrowed over the years to 2022/23.

Table 1 – Evolution of the 2018/19 borrowing requirement

Description	£m
2018/19 Treasury Management Strategy:	
2018/19 incremental borrowing per latest funding settlement	500
Incremental borrowing deferred from 2017/18 to 2018/19	300
Refinancing of debt maturing within 12 months	72
Refinancing of unhedged short-term commercial paper	400
Total	**1,272**
Borrowing brought forward from 2020/21 to fund Crossrail's cost overrun (agreed with government in July 2018)	20
Recognition of the JTC Victoria Line Upgrade finance lease	(132)
Borrowing the headroom created by amortisation of other finance leases	41
Final borrowing requirement for 2018/19	**1,200**

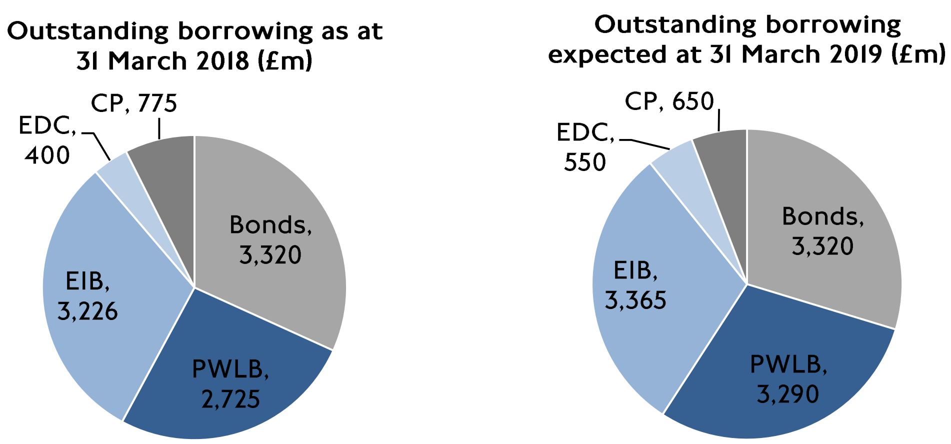
3.5 The borrowing was raised from a number of sources, including pre-agreed drawdowns from European Investment Bank (EIB) and Export Development Canada (EDC) facilities, Public Works Loan Board (PWLB) loans and commercial paper (Table 2). The final tranche of the EIB Urban Mobility for London facility of £100m was disbursed on 15 February 2019. This was the final drawdown from the facilities that we have with the EIB. In February we also refinanced £75m of the unhedged commercial paper through the PWLB.

Table 2 – 2018/19 borrowing sources

Date	Description	£m
April 2018	EDC ATC facility	150
April 2018	EIB UML facility	100
August 2018 – February 2019	PWLB	575
February 2019	EIB UML facility	100
By 31 March 2019	Rolling unhedged commercial paper	275
Total borrowing raised		**1,200**

3.6 As a result of the borrowing raised in 2018/19, the split between the different borrowing sources has changed. The changes in the borrowing sources from 31 March 2018 to the expected borrowing sources at 31 March 2019 are shown in the chart below:

Chart 1: TfL Borrowing Outstanding at 31 March 2018 and expected TfL Borrowing Outstanding at 31 March 2019



4 Credit ratings

4.1 TfL's credit ratings as at February 2019 are shown in the table below.

Table 3: TfL's credit ratings as at February 2019

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

4.2 Following the announcement of the Crossrail delay, S&P put our credit rating on CreditWatch negative, while waiting for additional information on the financial implications of the delay for TfL. In December 2018, following the announcement of a long-term financing arrangement between the government, the GLA and TfL and the publication of TfL's 2018 Business Plan, S&P affirmed TfL's credit rating at AA- and assigned a negative outlook. This action removed TfL's credit rating from CreditWatch. The report indicated that the immediate pressures arising from the Elizabeth line delay had been sufficiently addressed, but that medium-term pressures still remained as reflected by the negative outlook.

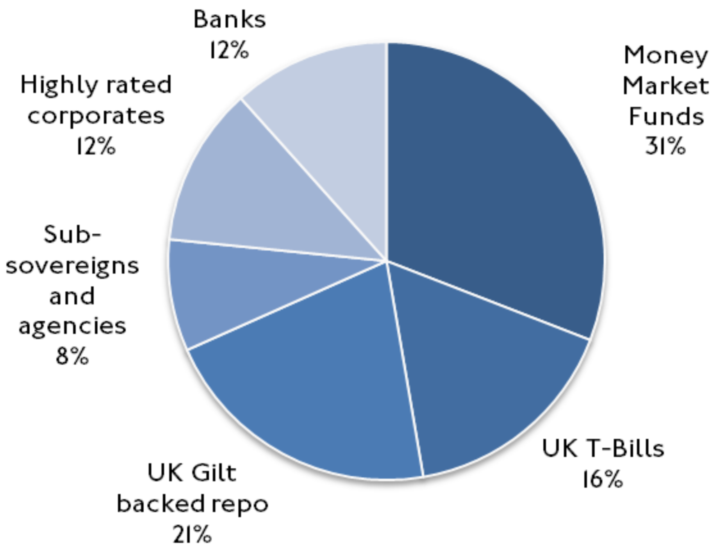
4.3 There have been no changes to our credit ratings by Moody's since September 2017. Moody's published two research pieces addressing the Crossrail delay, one in July 2018 and the other in November 2018.

4.4 On 20 February 2019, Fitch placed the UK government on Rating Watch Negative (RWN) owing to the ongoing uncertainty over Brexit and the likely impact on the UK economy. On 25 February 2019, Fitch placed TfL (and certain other bodies with links to UK government) on RWN as a result.

5 Investment Update

5.1 As at 21 February 2019, we held £1.2bn of cash under management (which includes £18.4m of cash under management for Crossrail), which is a total decrease of £0.25bn over the Reporting Period. The investment yield is 0.790 percent and the weighted average maturity of the portfolio is 16 days. Our investments are well diversified by sector, instrument and geography. The allocation of our cash is shown in chart 2 below.

Chart 2: Cash investment allocation as at 21 February 2019



6 Other

MMF Reform

6.1 The date that the new Money Market Fund (MMF) regulations come into effect, has moved back from January 2019 to March 2019. Some of our MMFs have completed the transfer to the Low Volatility Net Asset Value (LVNAV) structure under the forthcoming reforms with no impact to operations.

LIBOR Reform

6.2 The industry standard for benchmarking interest rates, LIBOR (London InterBank Offer Rate), will cease to be published from 2021. All contracts and systems referencing LIBOR will therefore need to be replaced with an appropriate new benchmark. We sit on the Bank of England Working Group on Sterling Risk-free Reference Rates for Non-financial Corporates. An internal working group will be set up to manage the changes.

IFRS 9

6.3 New accounting standard IFRS 9 replaced IAS 39 and applies to financial instruments effective for annual reporting periods beginning on or after 1 January 2018. It specifies how an entity should classify and measure financial assets and liabilities, either as amortised cost, fair value through other comprehensive income or fair value through profit or loss. It introduces a new impairment model reflecting expected credit losses as opposed to incurred credit losses under IAS 39; and aligns hedge accounting requirements and effectiveness testing with risk management strategies and practices. The introduction of IFRS 9 has had an immaterial impact on the Group.

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.

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Finance Committee

Date: **11 March 2019**

Item: **Strategic Risk Update – SR9: Ability to Meet Changing Demand**

This paper will be considered in public

1 Summary

1.1 Three quarters of our operating costs are paid for by fares revenue earned on our public transport system. Understanding the factors that affect this revenue in both the short term and long term is therefore important. Substantial effort goes into this activity and is also a significant risk area (represented on the Strategic Risk Register as 'Strategic Risk 9: Ability to Meet Changing Demand'). This paper provides an update to the Committee on our processes to manage this risk and our current views on it.

2 Recommendation

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

3 Demand forecasting methodology

3.1 Understanding the risks from changing demand requires a thorough understanding of the factors that drive our demand. TfL and its predecessor organisations have conducted substantial research work over several decades, including sometimes with independent academics to establish the drivers of demand.

3.2 We are in a unique position as London's public transport provider. We promote a combination of public transport, walking and cycling in pursuance of the broader objectives set out in the Mayor's Transport Strategy.

3.3 Our analysis establishes clear links between macroeconomic factors and demand for our services. The same factors influence demand on all modes of transport the response functions are very different for each. Central London employment is the biggest driver of Tube demand whereas total London population has the greatest impact on bus demand. Both Tube and bus demand are impacted by consumption and leisure spending.

4 Risk areas

4.1 Several risks arise from our method of revenue forecasting. These are each discussed in turn here along with the management actions.

4.2 The first group of risks arises from limitations of the forecasting method itself:

(a) we rely on external forecasts of the economy and are therefore exposed to these forecasts being incorrect. We do not do our own forecasts but in light of persistently lower forecasts for performance of economic performance, we have switched our revenue projections from using a mid-range to a worst case scenario for economic growth;

(b) changes to some underlying factors may mean that the econometric estimates are no longer valid. For example, around 2015, bus times dropped to levels where walking was often a faster alternative. Bus times have not been a statistical input into our revenue modelling because they did not impact on demand but it is possible that when they drop materially they reach a level where they are now significant; and

(c) large changes to fares policy can result in unpredictable behavioural responses. For example, a fares cut should normally increase demand in line with established elasticities but making travel free shows a much bigger impact than predicted.

4.3 Each of the above factors requires constant review of external economic parameters, a periodic review of our forecasting process and provision for unpredictable responses when making large fares changes.

4.4 The second group of risks comes from changes to travel patterns:

(a) over the last decade we have seen a decline in trip rates. There is evidence of a change of behaviour in shopping with online shopping increasingly replacing the high street; in entertainment with the rise of subscription based audio and video services; in hospitality with home delivery services competing with in-restaurant services; and in home working. We study the impact of these intensely. It is clear that there has been a change to behaviour but it is not clear whether these are related to different lifestyles or economic factors described below; and

(b) our analysis shows that there is a fundamental change in the economic conditions faced by younger people, particularly those who entered the workforce after 2008. These people have seen a lower starting wages, slower wage progression and lower rates of home ownership. The principal means of economic stimulus through low interest rates does not help this group. It is not surprising therefore that we are seeing different behaviour from this group. With each passing year this group becomes a larger proportion of our customer base. Although we have a reasonably sophisticated understanding of this group there is not much we can do about it.

4.5 Finally, the last group of risks arises from new technologies or business models:

(a) the growth of new technologies such as autonomous vehicles or new business models such as ride sharing or demand responsive transport provide a different sort of risk. We study both the impact of newly established models and the prospect for future models to assess whether they may influence our business. Even the largest changes in recent years have had only a marginal impact on public transport and external analysis is still unclear on whether the impacts are helping or hurting the public transport system. This area will be kept under further review; and

(b) much larger disruptive changes that alter the core function of public transport need their own attention and analysis. Although there is no near term prospect of these vehicles being available commercially it may also take longer to respond or influence long term investments. In our view the only technology of this sort is autonomous vehicles and so we study this more carefully.

Appendices to this report:

None

List of Background Papers:

Revenue Forecasting Process, 1 October 2017

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Finance Committee

Date: **11 March 2019**

Item: **TfL Subsidiaries Rationalisation**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to set out proposals for the making of three transfer schemes under the Greater London Authority Act 1999 (GLA Act) to transfer, subject to the Mayor’s approval, certain property, rights and liabilities of LUL Nominee SSL Limited (SSL), LUL Nominee BCV Limited (BCV) and Tube Lines Limited (TLL) (save in relation to rights and obligations under the public-private partnership contracts with London Underground Limited (LUL) and under the Northern Line Train Services Contract) to LUL.

1.2 The purpose of these transfer schemes is to allow SSL and BCV to become dormant companies. TLL will not become dormant but its accounting will be simplified. Investigations will continue into making TLL dormant in the future. These changes will result in cost savings through the reduction of the company secretarial and accounting burden of maintaining three subsidiary entities that perform no operational function in the TfL Group. Importantly these changes will support London Underground in the delivery of future year savings of £1.2bn embedded in the 2018/19 TfL Business plan.

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 business affairs of TfL and legally privileged information.

1.4 This project is an enabler for the wider finance transformation programme.

2 Recommendation

2.1 **The Committee is asked to note the contents of this paper and the related supplemental information on Part 2 of the agenda and recommend:**

(a) that the Board approves the making of the Transport for London (London Underground Legal Entity Rationalisation) Transfer Schemes 2019 described in this paper to transfer all property, rights and liabilities from LUL Nominee SSL Limited, LUL Nominee BCV Limited and Tube Lines Limited to London Underground Limited (save in relation to rights and obligations under (i) the public-private partnership contracts with London Underground Limited; and (ii) in respect of Tube Lines Limited only, the Northern Line Train Services Contract with Alstom NL Service Provision Limited);

(b) that the Board approve the submission of the transfer schemes to the Mayor for his approval; and

(c) recommend that the Board authorises the TfL Officers and Subsidiaries described at paragraph 2.2 below:

(i) to agree the form of the transfer schemes;

(ii) to seek the Mayor's approval of the transfer schemes; and

(iii) to do all such other things as they consider necessary or desirable to facilitate the making and implementation of the transfer schemes.

2.2 The following Officers and Subsidiaries shall have delegated authority:

(a) TfL Officers: the Commissioner, Chief Finance Officer, the Managing Director London Underground and General Counsel; and

(b) Subsidiaries: Subsidiaries of TfL including Transport Trading 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.

3 Background

3.1 Metronet Rail BCV Limited, Metronet Rail SSL Limited (the Metronet companies) and TLL were infrastructure companies in public-private partnership with LUL. They entered into public-private partnership service contracts (PPP Contracts) with LUL and were responsible for the maintenance, renewal and upgrade of certain London Underground lines from 2003.

3.2 In July 2007, the Metronet companies were put into PPP administration. To enable TfL to take over the businesses of the Metronet companies and deliver their PPP obligations the property, rights and liabilities of the Metronet companies were transferred to SSL and BCV, two dedicated subsidiaries of Transport Trading Limited (TTL). These transfer schemes came into effect in May 2008.

3.3 In June 2010, the entire issued share capital of TLL was acquired by TTL and it became a wholly-owned subsidiary of TTL, sitting within the TfL Group.

3.4 The PPP Contracts were kept in place between LUL and each of BCV, SSL and TLL. BCV, SSL and TLL have subcontracts with third party service providers which cover the scope of services envisaged in the PPP Contracts (the Subcontracts). The Subcontracts contain various links and references to the PPP Contracts that are relevant to the operation of those subcontracts.

3.5 In practice, LU is now making payments directly to the subcontractors from the LU bank accounts with correspondence directly made by LU. Some of the Subcontracts have subsequently been entered into directly by LU. TfL now wishes to make SSL and BCV dormant and simplify the structure within TLL, to reflect current operations and realise associated benefits, which is explained further in section 5. This project is a key enabler for a more unified and integrated finance function within TfL and supports our Enterprise Resource Planning (ERP) strategy to upgrade SAP.

3.6 Once all property, rights and liabilities of SSL and BCV (except the PPP Contracts) have been transferred to LUL they will be left as dormant companies, eliminating unnecessary complexity and administrative costs. The PPP Contracts between LU and each of SSL, BCV and TTL will remain in place with those entities, given the interdependency with the various Subcontracts mentioned in paragraph 3.4. Whilst SSL and BCV remain the counterparties to the PPP Contracts, they will remain on the Companies House register. The closure of existing bank accounts has been identified as the key requirement to realising dormant status. New bank accounts have been requested in the name of LU.

3.7 Our auditors (Ernst & Young) have confirmed that, so long as no accounting entries fall to be recorded in the books of SSL and BCV, which TfL Finance have confirmed to be the expectation following the execution of the statutory transfer schemes, SSL and BCV will qualify as dormant.

3.8 Due to certain complexities it is not proposed to make TTL dormant and the Northern Line Train Services Contract (NLTSC) will remain in TTL. This is described in more detail in the paper on Part 2 of the agenda. The PPP Contracts between LUL and each of SSL, BCV and TLL will remain in place as various Subcontracts have interdependency with them.

4 Proposed Internal Transfer Schemes

4.1 The GLA Act provides TfL with the power to make schemes for the transfer of property, rights and liabilities between TfL and a subsidiary, or between subsidiaries, subject to the approval of the Mayor. Approval of transfer schemes prior to their submission to the Mayor is a matter reserved to the Board under TfL’s Standing Orders.

4.2 The proposed Transport for London (London Underground Subsidiary Entity Rationalisation) Transfer Schemes 2019 are threefold:

(a) SSL to LUL

All property, rights and liabilities of SSL will be transferred to LUL, with no exceptions, save in relation to the PPP Contract between SSL and LUL which will remain in place between these two parties.

(b) BCV to LUL

All property, rights and liabilities of BCV will be transferred to LUL, with no exceptions, save in relation to the PPP Contract between BCV and LUL which will remain in place between these two parties.

(c) TLL to LUL

All property, rights and liabilities of TLL will be transferred to LUL, save in relation to the PPP Contract between TLL and LUL which will remain in place between these two parties and also with the exception of the NLTSC.

4.3 None of these companies has employees so no employees will transfer under these transfer schemes.

5 Financial Implications

5.1 LU has a significant savings challenge to deliver, as outlined within the 2018/19 TfL business plan. The future year savings of £1.2bn require transparent and simple management information which is aligned to the business operating model. Currently the structure and reporting do not reflect the LU business operating model. Instead they reflect the PPP arrangements of 10 years ago. Not addressing the recommendation of this paper has the consequence of continuing this disconnect and makes it harder to deliver the savings targets.

5.2 Specifically this recommendation supports our commitment to improve our planning and forecasting, make efficiencies to contractual management, and introduce lean culture to ways of working, all of which are included within our path to delivering the savings target.

5.3 Implementation will allow LU to operate a single balance sheet, reducing the complexity of transactions, eliminating non value-adding intercompany postings, and limiting the risk of financial misstatement. Recording costs in one company will facilitate the provision of clearer and more robust financial analysis to management in a shorter time frame, and also provide greater clarity to our lenders and the public.

5.4 This will also be a significant enabler to support the proposed Finance Transformation Programme and the rationalisation of our processes and governance, which is a key deliverable through our implementation of the Finance "Hub".

5.5 This recommendation is in line with our overall Enterprise Resource Planning (ERP) strategy. Reducing the complexity in this area has a significant impact on the design and control of future ERP requirements.

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

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Finance Committee

Date: **11 March 2019**

Title: **Strategy for the Broadway Complex**

This paper will be considered in public

1 Summary

1.1 This paper describes the proposal for TfL to dispose of its interest in 55 Broadway, 100 Petty France and Wing Over Station (the Complex) by the granting of a long leasehold for a capital receipt (the Transaction). TfL will provide either vacant possession on completion or, if required, take a short leaseback of the Complex for a maximum of 12 months. The long leasehold interest will include the ground floor retail units but exclude the ticket hall and other operational property. It is proposed that TfL offers the opportunity to the open market.

1.2 A previous decision to grant a long leasehold interest in the Complex was approved by Committee in January 2017. The approval proposed a maximum leaseback term of 20-years and excluded the retail. Due to alternative sources of capital being available to TfL at the time and the desire not to commit the business to a 20year lease, at an indexed rent, the sale was deferred.

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. Any discussion of that exempt information must take place after the press and public have been excluded from the meeting.

2 Recommendation

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

(a) grant Land Authority for:

(i) the sale of a long leasehold interest in 55 Broadway, 100 Petty France and Wing Over Station (the Complex) for the minimum consideration as set out in the paper on part 2 of the agenda;

(ii) the option to take a short-term leaseback of the Complex by TfL or any Subsidiary Company for a maximum term of 12 months as set out in the paper on part 2 of the agenda; and

(iii) the decommissioning works and other costs relating to the Transaction as set out in the paper on part 2 of the agenda; and

(b) note that an update of the final terms of the transaction will be provided to the Committee in due course.

3 Background

3.1 The Complex is situated directly above St James's Park underground station. That part of the Complex known as 55 Broadway was built in 1929 as the headquarters of London Transport and has a Grade 1 listing. Those parts of the Complex known as Wing Over Station and 100 Petty France were built in 1930 and 1970 respectively and are not listed. All the buildings comprising the Complex are in the freehold ownership of TfL. An aerial photograph and site plan of the Complex are included in Appendix 1.

3.2 Due to operational railway interfaces within the Complex, any disposal will need to be on a leasehold basis, meaning that TfL retain control through freehold ownership. There will be no material impact upon London Underground (LU) operations and the future day to day function of St James's Park Station, including the existing entrances and exits, will remain unaffected.

3.3 TfL initially decided to dispose of the Complex as part of its strategy to move to large, modern, fit for purpose accommodation hubs in periphery locations in order to deliver cost and spatial efficiencies, whilst supporting a cultural change in modernising the TfL organisation.

3.4 In 2017, it was proposed that TfL would grant a long leasehold interest to a third party for a capital receipt and then take a leaseback for a 20 year term. This would have met the accommodation capacity and capital receipt requirements of the business at the time along with delivering operational expenditure savings elsewhere on the TfL estate, through the release of other more expensive leasehold interests.

3.5 A programme of works separating the operational elements of the Complex from the demised office areas started at the end of last year and are due to complete by December this year. These works also allow TfL to retain the extant residential planning consent, maintaining optimum value or flexibility when we go to market and gives the purchaser flexibility in the future, which would otherwise expire in April 2019.

3.6 Since the 2017 decision TfL has exited leaseholds like Windsor House and continuously review the portfolio capacity and demand for accommodation as part of the TfL Accommodation Strategy. With the introduction of smart working and a significant decrease in forecast demand for space, TfL no longer require the 1,600 desk capacity within the Complex in the medium to long term meaning TfL can vacate earlier than previously anticipated.

4 Disposal of the Complex

Disposal Approach

4.1 With the now short-term occupancy requirement, the revised disposal approach for the Complex is to:

(a) to retain the freehold interest of the Complex, maintaining control of the operational railway interfaces;

(b) to grant for capital receipt a long leasehold interest in the Complex; and

(c) provide vacant possession at the point of sale or to take a short-term lease back of a maximum 12 months from the new owner.

4.2 This paper therefore maintains the agreed sale and leaseback disposal approach to the Complex but reduces the maximum leaseback period thus requiring early decommissioning activities to provide vacant possession by March 2021 latest, in accordance with the accommodation strategy.

4.3 TfL will continue to develop and implement its strategy, consolidating and rationalising the office portfolio, along with the introduction of new initiatives such as Smart Working, the output of which will determine the length of the leaseback and when vacant possession can be achieved.

5 Commercial Terms

5.1 Details of the proposed commercial terms and financial implications of the transaction is set out in the paper on Part 2 of the agenda.

6 Due Diligence of Potential Purchasers

6.1 Full due diligence will be undertaken by TfL and its advisors on any successful bidder (who for the length of the underlease will be TfL's landlord) prior to completion of the Transaction.

List of appendices to this report:

Appendix 1 – Aerial photograph and site plan of the Complex

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers:

Finance Committee paper entitled 'Strategy for the Broadway Complex', dated 26 January 2017

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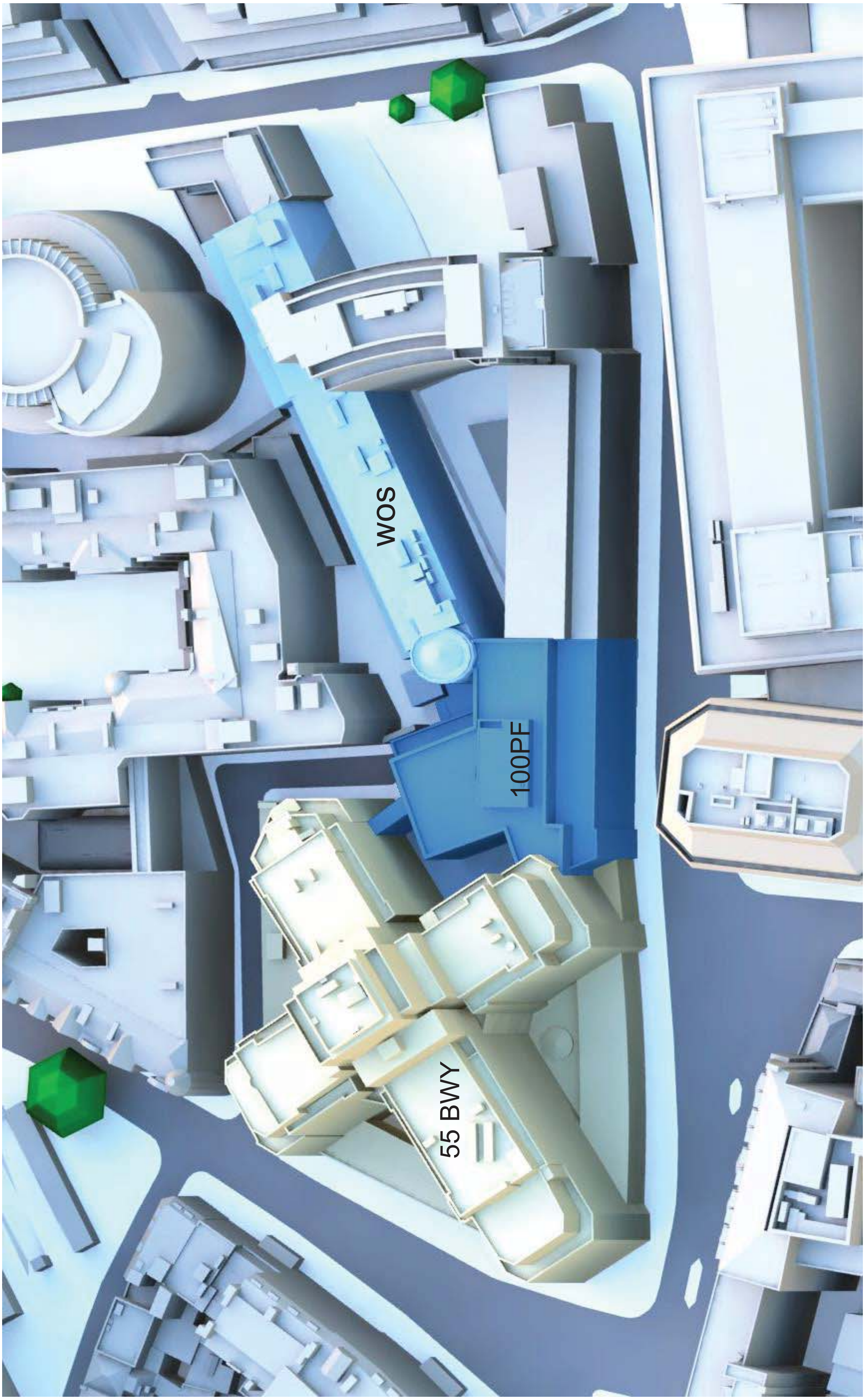
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Finance Committee

Date: **11 March 2019**

Item: **Transformation Programme Update**

This paper will be considered in public

1 Summary

1.1 This paper provides an update on the Transformation Programme.

2 Recommendation

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

3 Transformation Programme Background

3.1 The changes we are making are reducing operating costs and increasing sources of revenue to enable delivery of the Business Plan. Transformation has already delivered very substantial, recurring savings. In the past two years we have reduced year-on-year, like-for-like operating costs, and are on track to come in ahead of our target for this year too.

3.2 To date, in 2018/19, operating costs are £311m below budget - £277m of this is from net cost reductions across the business.

3.3 We are continuing with this programme which includes further reducing back and middle office costs over the next three years by 30 per cent and building our capability to raise revenue. This is critical in helping manage the financial headwinds described in the Business Plan as we target a net operating surplus by 2022/23.

4 Current Organisational Change Activity

4.1 As part of the latest phase, organisational change was launched on 30 January with staff and trade unions in respect of the Finance and Commercial Senior Management Teams.

4.2 Subject to consultation, this proposed change would further integrate finance and commercial areas as they have critical and complementary roles in controlling costs. It would also align these areas with our new Business Services function which is accountable for delivering efficient, core transactional services across the organisation.

4.3 This change programme involves 34 senior manager roles. The estimated reduction in management posts is 20 per cent, subject to consultation, with an estimated recurring annual saving of £1.2m. This would enable further work to be undertaken later in the year that would aim to deliver a function that reduces its overall costs by 30 per cent.

5 Adapting our Approach to Change

5.1 We have reviewed our approach to managing change and are adapting it to learn from the past and mitigate future risks. This includes acting on feedback from staff, including results from the latest Viewpoint staff survey presented to the Board in January 2019.

5.2 To ensure we reduce the period of uncertainty and take our people with us, we are focussing on three priorities: how we improve the effectiveness of communication and engagement with staff; how we measure and manage the effect of change on diversity, inclusion, talent, health and wellbeing and management capability; and how we make better use of data to deliver and understand financial benefits.

5.3 We have updated our toolkit that captures our people priorities and ensures we take a more focussed, holistic approach that will support our people through transformation. This includes a new people impact assessment which will be used throughout the change process to ensure that decisions and conversations are fully informed by considerations of diversity, inclusion, staff wellbeing, talent retention, graduate and apprenticeship demand, and our priority to improve staff engagement.

5.4 We are developing a new TfL Leadership Foundation. This will include a new curriculum that will embed positive leadership behaviours that grow a values-based culture, make leadership more inclusive and create an environment that encourages both commerciality and innovation. It will also equip our leaders to deliver best practice in managing change. This will be run alongside more technical support over the next twelve months to effectively manage the process of change including leading meaningful consultation and effectively driving engagement with our people.

5.5 We are taking a more rigorous and structured approach to the control, management and reporting of people data and have revised our Equality Impact Assessment process to make it leaner, clarify accountabilities and responsibilities and improve the quality of decision making in line with our public sector equality duties.

6 Smart Working

6.1 There are significant benefits to moving towards Smart Working, primarily around providing staff with a flexible working environment. It is also vital in supporting the consolidation of our office accommodation enabling a 30 per cent reduction in demand for desks by December 2019. Smart Working will also make us a more attractive employer and create improved work-life balance.

6.2 Smart Working pilots have been carried out in three areas, City Planning, Surface Projects and Programmes and Commercial Development, and a reduction in desk use of 30 per cent has been achieved. Staff have reported a change in working styles, the ability to work more flexibly and satisfaction with working patterns has improved.

6.3 We are also starting to see change across the wider organisation with increased home working and staff using flexible break out areas. Feedback from staff in the pilot areas is being incorporated into a wider implementation plan from April 2019.

7 Developing our Business Services Function

7.1 Subject to consultation, this new function will achieve further cost reduction and revenue opportunities through simplification and structural integration 'across' end-to-end processes.

7.2 We are conducting reviews of eight core business processes[1] that sit across multiple functions including HR, Commercial and Finance. Current processes have been assessed against industry benchmarks and we are now considering the impact of potential changes and considering implementation plans for improvement.

7.3 Internal Audit is providing assurance as we develop new processes to ensure effective controls remain in place.

List of appendices to this report:

None

List of Background Papers:

None

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1 The core processes being reviewed include: Hire to Retire / Employee Payments, Master Data Management, Order to Cash, Source to Pay, Record to Account, Projects, Reporting, Service Management and Helpdesk

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Finance Committee

Date: **11 March 2019**

Item: **Members' Suggestions for Future Discussion Items**

This paper will be considered in public

1 Summary

1.1 This paper presents the current forward programme 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 the Committee's induction session and for future informal briefings.

2 Recommendation

2.1 **The Committee is asked to note the forward programme and is invited to raise any suggestions for future discussion items for the forward programme 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 reports. For this Committee these are the quarterly Investment Programme Report, the regular Project Monitoring Report and the regular report on the Crossrail project.

(b) Programmes and Projects at a level requiring Committee approval. These include the annual review of the 20 sub-programmes in the Investment Programme and other approvals sought following advice from the operating businesses.

(c) Items requested by Members: The Deputy Chair of TfL and the Chairs of all of the Committees and Panels 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: Programmes and Investment Committee Forward Plan.

List of Background Papers:

None

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Finance Committee Forward Planner 2019

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

01 July 2019		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Management Update	CFO	To note.
Developer income (MCIL/CIL/s.106)	D. City Planning	
Transformation Update	D. Transformation	Standing Item.
09 October 2019		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Management Update	CFO	To note.
Prudential Indicators Outturn	CFO	To note.
Transformation Update	D. Transformation	Standing Item.
11 December 2019		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Management Update	CFO	To note.
Business Plan	CFO	To approve under authority delegated by the Board.
Transformation Update	D. Transformation	Standing Item.

As at 1 March 2019

Finance Committee Forward Planner 2019

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 – December) (CFO)
- Budget (annual informal – March) (CFO)
- Prudential Indicators Outturn (outcome from previous year - October) (CFO)
- Prudential Indicators (setting for current year - March) (CFO)
- Group Treasury Update (half yearly) (CFO)
- Southwark Station Development (update)
- Treasury Activities (each meeting to include a particular issue for discussion)
- Treasury Management Strategy (annual – March) (CFO)
- Treasury Management Policies (annual – March) (CFO)
- Developer income (MCIL/CIL/s.106) (annual – June/July) (D. City Planning)
- Transformation Update (agenda item and informal briefing)

Additional items to be scheduled:

- Spending Review Issues (e.g. Business Rates Devolution) (CFO)
- Income Generation Proposals (CFO & D. Commercial Development)
- Securing new income streams (CFO & D. Commercial Development)
- TfL Strategy on Working Capital
- Commercial Development: Royal Oak
- Taxi and Private Hire Regulation Fees (General Counsel)
- Taxi Fares (General Counsel)

As at 1 March 2019