

Date: 5 November 2014

**Item 14: Report of the meeting of the Finance and Policy
Committee held on 14 October 2014**

This paper will be considered in public

1 Summary

1.1 To report to the Board on the meeting of the Finance and Policy Committee held on 14 October 2014.

2 Recommendation

2.1 **That the Board notes the report.**

3 Background

3.1 The main matters considered by the Committee were:

- (a) Crossrail Train Operating Concession;
- (b) Crossrail Track Access;
- (c) Independent Investment Programme Advisory Group – Annual Report 2013/14
- (d) Project Monitoring – Project Approvals;
- (e) Northern Line Extension to Battersea;
- (f) Sub-Surface Upgrade Programme Automatic Train Control Contract – Lessons Learnt;
- (g) Traffic Control Maintenance Services;
- (h) Revenue Collection System and Associated Services Procurement;
- (i) Recruitment Services Tender – Award of Framework Agreement for Master Vendor Engineering;
- (j) Update on Planning Obligations;
- (k) Chief Finance Officer Interim Arrangements

Prudential Indicators – Outturn for the Year Ended 31 March 2014

3.2 The Committee noted TfL's performance against the final revised prudential indicators for the Financial Year 2013/14. These demonstrated that TfL had exercised prudence in assessing the affordability of the capital expenditure and debt necessary to support the budget outputs.

- 3.3 The key prudential indicator was the Authorised Limit for External Debt, which set the total limit for direct and indirect debt for the organisation. Both the Corporation and the Group were within the total Authorised Limits for External Debt for the year ended 31 March 2014.

Group Treasury Activities

- 3.4 The Committee noted an update on Group Treasury's activities from 1 April 2014 to date, as required by the Treasury Management Policy Statement and Treasury Management Practices 2014/15, approved by the Board in March 2014.
- 3.5 There had been no breaches of the Treasury Management Strategy 2014/15 (comprising the Investment Strategy 2014/15, Borrowing Strategy 2014/15 and Risk Management Strategy 2014/15) in the year to date.
- 3.6 Members supported the approach to borrowing through the European Investment Bank, given its current rates and were advised that further proposals would be submitted for agreement later in the year.

Review of TfL's Approved Counterparties and proposed amendments to the Treasury Management Strategy 2014/15

- 3.7 The Committee considered a paper that addressed its March 2014 request to review and discuss the continuing diversification strategy and the changing risk environment for TfL's investments on a regular basis.
- 3.8 As highlighted in the Treasury Management Strategy (TMS) 2014/15, by continuing to diversify its investment counterparties, TfL would benefit from obtaining greater direct control and transparency of investments while maintaining appropriate levels of liquidity.
- 3.9 As part of the continuous development of the TMS, Group Treasury proposed a small number of amendments to the TMS 2014/15 for the purposes of good housekeeping or removing redundant clauses that had been superseded by the Committee's direct approval of counterparties on a named basis.
- 3.10 The Committee recommended that the Board approves additions and amendments to the Approved Investment List 2014/15 and the Approved Derivative Counterparties List 2014/15 and amendments to the Treasury Management Strategy 2014/15.
- 3.11 A paper on the Review of TfL's Approved Counterparties and proposed amendments to the Treasury Management Strategy 2014/15 appears elsewhere on the agenda.

European Investment Bank London Overground Capacity Improvement Programme Facility

- 3.12 The Committee approved the substantive terms of a proposed corporate loan facility agreement between TfL and the European Investment Bank for up to £95m to fund infrastructure enhancements required as a result of the

conversion of the existing fleet of 57 London Overground Class 378 four car trains to five car trains, as part of the London Overground Capacity Investment Programme.

Benchmarking and Financial Planning at TfL

- 3.13 The Committee noted an overview of how TfL was using benchmarking to inform projected operating costs and to provide assurance for both the level and pace of cost reductions. The analysis has been reviewed with the Independent Investment Programme Advisory Group (IIPAG). TfL uses benchmarking data to drive projects and costs, by looking at best practice internally and externally.
- 3.14 The conclusions from the paper were that: TfL's existing efficiency plans, once fully secured, should bring the costs of operating London Underground into line with other efficient and comparable metros; TfL's repeatable activities in Surface Transport, notably road maintenance/renewal and bus operations were the subject of benchmarking that demonstrated TfL delivered good value for money; and TfL was sharing best practice across the organisation and broadening the scope of benchmarking as the scope of its investment programme and activities (especially in Surface Transport) increased.
- 3.15 Members welcomed active investigation into means to maximise maintenance productivity by undertaking work when stations were operational or options for limited early closures.
- 3.16 A paper would be submitted to a future meeting setting out how benchmarking initiatives support the delivery of efficiency targets in the Business Plan and how those targets are set by comparison with other relevant comparators.

Independent Investment Programme Advisory Group Benchmarking Report 2013/14

- 3.17 The Committee noted the IIPAG's Annual Benchmarking Report and endorsed TfL's management response.
- 3.18 Members discussed the relevant comparators for TfL. It was agreed that there would be value in separating benchmarking within London Underground for Victorian infrastructure replacement, which was likely to be more expensive due to access constraints and more recent lines, such as the Victoria and Jubilee, which could be benchmarked against international metros.

Project Monitoring – Project Approvals

- 3.19 The Committee noted the paper, which set out the forward approval programme for projects with a value in excess of £50m, from October 2014 to April 2016 and detailed the Project Authority granted by the Commissioner and the Managing Director, Finance, in accordance with delegated authority under TfL's Standing Orders, since the last meeting.

- 3.20 Members requested further information on: the proposals for the Silvertown Tunnel; the progress with procuring the Automatic Train Control contract for the sub-surface railway; the costs relating to producing and distributing Police Oyster cards; the Woolwich Ferry life extension phase 1 costs; and the factors impacting on the cost of providing step free access to different stations.

Licence Fee for Taxis Fitted with Digital Taxi Top Advertising

- 3.21 The Committee recommended that the Board notes the proposed change to the taxi vehicle licence fee for those taxis fitted with a digital taxi top advertising unit.
- 3.22 Digital Taxi top advertising had been tested for safety or distraction risks for other road users. The policy and number of licences would be reviewed in the light of experience.
- 3.23 A paper on Licence Fees for Taxis Fitted with Digital Taxi Top Advertising appears elsewhere on the agenda. At the request of the Committee, it also includes information on the different means for taxi owners or operators to generate supplementary income.

iBus Contract Extension

- 3.24 The Committee considered a request relating to approval of Procurement Authority and the extension of London Buses' "iBus" Contract. Members requested that further information on the proposals be submitted to its next meeting.
- 3.25 Given its criticality to TfL's business, the Committee also requested that a pan-TfL review of the approach to software development and procurement be undertaken, in particular considerations around intellectual property ownership, to ensure that lessons from other contracts had been learned.

Cycle Hire Implementation – Phase 2 and CHEI Project Close

- 3.26 The Committee noted the information on the end of the implementation phases of Cycle Hire and the proposed closure of the Cycle Hire Phase 2 and Cycle Hire Expansion and Intensification (CHEI) projects.
- 3.27 Members were advised that the process was underway to secure a new sponsor for the Cycle Hire scheme, for when the current sponsorship contract expires in 2015.

New Routemasters

- 3.28 The Committee recommended that the Board approves additional Project Authority for the purchase of 200 additional New Routemaster (NRM) buses for passenger service by the end of April 2016, taking the NRM fleet size to 800. This was an increase to the current project scope and increased total Project Authority. Additional Financial and Procurement Authority was also sought for the additional 200 NRMs and the associated iBus equipment, mid-life refurbishment costs and other related matters.

- 3.29 The 200 additional NRMs would be fitted with the latest ultra-low-emission Euro VI engine. NRMs with Euro V compliant engines had improved fuel efficiency by almost 50 per cent compared to the diesel vehicles that they had replaced and produced significantly lower levels of nitrogen oxide (NOx) and particulate matter (PM10) compared to other Euro V hybrid buses. The difference between the NRM Euro VI and Euro V engines was marginal, so it was not proposed to retrofit the entire fleet with Euro VI engines at this stage.
- 3.30 TfL remained on target to purchase 2,000 vehicles by 2020. TfL was able to purchase up to 1,000 buses from Wrightbus on the current contract terms. No decision was proposed on the order of the next 1,000 vehicles as other bus manufacturers were looking to develop their own double-decker buses with NRM features, which would give TfL options when considering the purchase of additional vehicles.
- 3.31 A paper on New Routmasters appears elsewhere on the agenda.

Supply of Data Communication Services and Support Contract Extension

- 3.32 The Committee considered a paper seeking authority to extend the Agreement for the Supply of Data Communications Services and Support with Fujitsu Services Limited, which was due to expire on 8 November 2014. It was proposed that the agreement be extended to facilitate TfL's wider IM delivery strategy.
- 3.33 On 24 September 2014, the Board delegated to the Committee authority to grant additional Procurement Authority in respect of the agreement and its proposed extension.
- 3.34 The Committee discussed the controls relating to Procurement Authority in relation to this contract. TfL Internal Audit would be asked to determine if there are appropriate controls in place. A paper would then be submitted to the Audit and Assurance Committee, setting out the results and the proposed additional controls.
- 3.35 The Committee requested further information and assurance before agreeing to the length and scope of any contract extension. As the contract expired on 8 November 2014, authority to take the decision was delegated to the Chairman, in consultation with available members of the Committee. The exercise of that authority would be reported to the Board.
- 3.36 Actions were already in hand to provide Members with further information on the proposed wider strategy to reduce the number of networks and their cost across TfL.

TfL Energy Purchasing 2017 to 2020

- 3.37 The Committee noted the current purchasing strategy for the supply of electricity and gas to all applicable TfL supply points through the Crown Commercial Service (CCS) agreed frameworks. It recommended that the

Board approves the continuation of the procurement of this requirement through future CCS frameworks from 2017 to 2020.

- 3.38 Members were advised that the value of the existing Bulk Supply Electricity contract with CCS was expected to outturn at a value of £336m over three years (2014 to 2017), which was higher than the £300m estimated when the Board granted procurement authority in February 2012. However, the contract with CCS was considered to represent good value for money and provided sufficient flexibility to adjust supply to cater for projects currently at an early stage of development.
- 3.39 A paper on TfL Energy Purchasing 2017 to 2020 appears elsewhere on the agenda.

Jubilee Line World Class Capacity

- 3.40 The Committee recommended that the Board grants additional budgeted project authority to commence the design stage of the Jubilee Line World Class Capacity programme. The programme would increase the number of trains per hour (tph) on the Jubilee line from 30tph (current peak service) to 36tph peak service by 2019. 36tph was the maximum possible on the Jubilee line with the existing signalling and allowing for necessary dwell times at stations.
- 3.41 A paper on the Jubilee Line World Class Capacity programme appears elsewhere on the agenda.

List of appendices to this report:

None.

List of Background Papers:

Papers for the meeting of the Finance and Policy Committee held on 14 October 2014.

Contact Officer: Steve Allen, Managing Director, Finance
Number: 020 3054 8907
Email: StephenAllen@tfl.gov.uk