MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Monday 1 July 2019

Time: 10.00am

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

Members

Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Heidi Alexander
Prof Greg Clark CBE
Anne McMeel
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: Jackie Gavigan, Secretariat Manager; Telephone: 020 7084 2954; email: v_JackieGavigan@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 21 June 2019

Agenda
Finance Committee
Monday 1 July 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 Meeting of the Committee held on 11 March 2019 (Pages 1 - 8)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 11 March 2019 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 9 - 12)

General Counsel

The Committee is asked to note the updated actions list.

5 Use of Delegated Authority (Pages 13 - 26)

General Counsel

The Committee is asked to note the paper.

6 Finance Report (Pages 27 - 44)

Chief Finance Officer

The Committee is asked to note the report.

7 Taxi and Private Hire Licence Fees (Pages 45 - 48)

General Counsel

The Committee is asked to note the paper.

8 Taxi Fares and Tariffs Update (Pages 49 - 50)

General Counsel

The Committee is asked to note the paper.

9 Income from Developers through Planning Obligations Update (Pages 51 - 62)

Director City Planning

The Committee is asked to note the paper.

10 DLR Franchise (Pages 63 - 64)

Managing Director Surface Transport

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

11 Build to Rent (Pages 65 - 84)

Director Commercial Development

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

12 Technical Facilities Management Services (Pages 85 - 88)

Managing Director London Underground

The Committee is asked to note the paper, approve award of contract and delegate authority.

13 Member Suggestions for Future Agenda Discussions (Pages 89 - 94)

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.

14 Any Other Business the Chair Considers Urgent

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

15 Date of Next Meeting

Wednesday 9 October 2019 at 10.00am

16 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.

17 Technical Facilities Management Services

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

18 DLR Franchise

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

19 Build to Rent

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

Transport for London

Minutes of the Finance Committee

**Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Monday 11 March 2019**

Members
Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Heidi Alexander
Dr Nina Skorupska CBE

Executive Committee

Mike Brown MVO	Commissioner (from 10.45am)
Howard Carter	General Counsel
Graeme Craig	Director of Commercial Development
Simon Kilonback	Chief Finance Officer
Andrew Pollins	Transformation Director (for minute 13/03/19)
Shashi Verma	Director of Strategy & Chief Technology Officer

Staff

Sarah Bradley	Group Financial Controller
Claudina Castelli	Senior Risk Manager
Emanuela Cernoia-Russo	Corporate Finance Director (Interim)
Tanya Coff	Finance Director, London Underground
Patrick Doig	Finance Director, Surface Transport
Paul Doyle	Head of Projects & Accommodation, Commercial Development (for minute 12/03/19)
Oana Ford-McNicol	Head of Financial Planning & Analysis, Finance
Lisa-Jane Risk	Estates Management Director, Commercial Development (for minute 12/03/19)
Jamie Mordue	Secretariat

01/03/19 Apologies for Absence and Chair's Announcements

Apologies for absence were received from Prof Greg Clark CBE and Anne McMeel. Mike Brown would be in attendance after 10.30am as he was attending a speaking engagement.

To reflect TfL’s focus on safety, the Chair advised that Members should raise any safety issues in relation to items on the agenda or within the remit of the Finance Committee at the start of the item or under Matters Arising. If there were any other safety issues then these could be discussed with General Counsel or an appropriate member of the Executive Committee after the meeting.

02/03/19 Declarations of Interests

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

03/03/19 Minutes of the Meetings of the Committee held on 3 December and 13 December 2018

The minutes of the meetings held on 3 December and 13 December 2018 were approved as a correct record and signed by the Chair.

04/03/19 Matters Arising and Actions List

Heidi Alexander asked, in relation to minute 78/12/18, when the Mayor's opinion had been sought. Simon Kilonback stated that the Mayor would have been informed when discussing the Business Plan. Howard Carter told Members that a note could be provided to explain the technical process. **[Action: Howard Carter]**

The Committee noted the Actions List.

05/03/19 Use of Delegated Authority

Howard Carter introduced the paper. The Committee noted that, since the meeting of the Committee on 13 December 2018, there had been no uses of delegated authority by TfL staff.

There had been two uses of Chair's Action since the meeting of the Committee on 13 December 2018, relating to Finchley Central and High Barnet Property Development and on the Actuarial Valuation of the TfL Pension Fund.

The Committee noted the report.

06/03/19 Finance Report – Period 11, 2018/19

Simon Kilonback introduced the paper, which set out TfL's financial results for Period 11 2018/19 – the year-to-date period ending 2 February 2019.

There had been a strong year-to-date performance, despite a subdued economy and delays to the opening of the Elizabeth line. Passenger income was 1 per cent ahead of Budget and 2 per cent better than the previous year. Operating costs were lower than Budget, which had been driven down by management of like for like costs and timing differences. The full year net operating surplus was expected to be over £300m better than Budget and broadly in line with last year, despite the loss of a day-to-day operating grant.

The Committee noted the report.

07/03/19 Treasury Management Strategy 2019/20

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda, which set out the Treasury Management Strategy (TMS) 2019/20.

The Committee noted that the TMS for 2019/20 was broadly in line with the TMS for 2018/19; the primary change was an updated borrowing requirement, which was set at £691m.

There was uncertainty about how Brexit could impact TfL's Treasury Management. An adverse effect on TfL's credit rating could occur, by virtue of it being linked to the Sovereign Credit Rating. There were risks related to the interest rates and foreign exchange rates but TfL was looking at ways to mitigate these risks. Members asked for a discussion, at a later date, about best practice in procurement, specifically in relation to foreign exchange. **[Action: Simon Kilonback]**

The Committee:

1 noted the paper and the supplementary information on Part 2 of the agenda;

2 recommended that the Board approves the Treasury Management Strategy (TMS) for 2019/20, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits;

3 recommended that the Board authorises the Committee to approve any changes to the TMS 2019/20 during the course of the year;

4 noted 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

5 subject to the Board approving the TMS 2019/20 and the Derivatives Policy, approved, 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:

(a) 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;

(b) 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);

(c) 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;

(d) 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);

(e) 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

(f) mitigating risk related to any index reflecting any of the above matters referred to in paragraphs (a) to (e).

6 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.

08/03/19 Treasury Management Policies and Derivative Investments Policies

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda, which set out the Treasury Management Policies and Derivative Investment Policies.

The Committee noted that the Treasury Management Policies were the same as the Policies for 2018/19, with the addition of a paragraph that related to the compliance and disclosure procedures set out in the TfL Prudential Borrowing Process for Ensuring Compliance.

Members asked how TfL helped staff to keep their knowledge of markets up to date. The Committee was told that TfL engaged significantly with financial institutions and legal experts. Staff in the team were encouraged to take the professional qualifications offered by the Association of Corporate Treasurers and further training was provided in collaboration with financial institutions.

The Committee noted the paper and recommended that the Board approves:

1 the proposed Treasury Management Policies; and

2 the proposed TfL Group Policy Relating to the Use of Derivative Investments.

09/03/19 Treasury Activities

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update on the treasury activities for the period from 26 November 2018 to 21 February 2019.

Borrowing for the Financial Year was now complete. In December 2018, following the agreement of a long-term financing arrangement between the government, TfL and the GLA, Standard & Poor affirmed TfL's credit rating as AA- with a negative outlook. On February 2019, Fitch placed the UK government on Rating Watch Negative, owing to uncertainty around Brexit and the impact on the economy. On 25 February Fitch placed TfL on Rating Watch Negative, as a result of TfL's link to the UK government.

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

10/03/19 Strategic Risk 9: Ability to Meet Changing Demand

Shashi Verma introduced the paper, which set out the methodology used to understand how and why demand for TfL services could change.

TfL analysis established a clear link between macroeconomic factors and demand for TfL services. Whereas the biggest driver of Tube demand was central London employment, the biggest driver of bus demand was total London population; both Tube and bus demand were impacted by consumption and leisure spending.

There were risks in using the method of revenue forecasting, namely: TfL relied on external forecasts of the economy; changes to some underlying factors may mean that the econometric estimates are no longer valid; and large changes to fares policy could have unpredictable behavioural responses. TfL recognised that these risks required constant review of external economic parameters, a periodic review of its forecasting process and provision for unpredictable responses.

There was, and continued to be, intense analysis into the impact of changes in behaviour, for example shopping online rather than the high street. New technology and shifts to walking or cycling could only explain around 20 per cent in the decline in trip rates. It was not clear, however, whether this could be attributed more to lifestyle changes or economic factors.

A major contributing factor in a decline in demand for TfL services was that those who had entered the job market since 2008 generally had lower starting wages, slower wage progression and lower rates of home ownership. Lower interest rates did not help this group economically. Each year this group became a larger proportion of TfL's customer base and, although there was a reasonably sophisticated understanding of this group, there was not a lot TfL could do.

The Committee noted the paper.

11/03/19 TfL Subsidiaries Rationalisation

Simon Kilonback introduced the paper and related supplemental information on Part 2 of the agenda, which set out the proposals to transfer the property, rights and liabilities of LUL Nominee SLL Limited, LUL Nominee BCV Limited and Tube Lines Limited to London Underground Limited.

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

(a) the Board approve the making of the Transport for London (London Underground Legal Entity Rationalisation) Transfer Schemes 2019, described in the 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) the Board approve the submission of the transfer schemes to the Mayor for his approval; and

(c) the Board authorise the TfL Officers and Subsidiaries described at paragraph 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 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.

12/03/19 Strategy for the Broadway Complex

Graeme Craig introduced the paper and related supplemental information on Part 2 of the agenda, which set out 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).

Occupation of the Broadway Complex no longer fit into TfL's accommodation strategy and there was now only a short-term occupancy requirement. The intention was to:

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

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

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

The Committee asked whether the different parts of the Complex could be looked at individually. Paul Doyle told the Committee that Petty France was integral to the other two parts of the Complex, structurally and for entry. Whilst it was not impossible, it would likely add significant technical complexity and cost.

TfL would continue to develop and implement its strategy, consolidation and rationalisation of the office portfolio, and introduce initiatives such as Smart Working.

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

1 granted Land Authority for:

(a) 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;

(b) 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

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

2 noted that an update of the final terms of the Transaction will be provided to the Committee in due course.

13/03/19 Transformation Programme Update

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

The Committee noted that, in 2018/19, net cost reductions across the business had delivered £277m in operating cost reductions.

TfL had reviewed its approach to managing change and was making improvements in the light of experience. The toolkit that captures the people priorities had been updated, in order to provide more support to staff through transformation. A new TfL Leadership Foundation was being developed to ensure that positive leadership behaviours became embedded.

Smart Working pilots had been carried out in City Planning, Surface Projects and Programmes, and Commercial Development, which had delivered a reduction in desk space by 30 per cent. Open plan accommodation had encouraged the efficient use of space and people were actively encouraged to work from home or dial in to meetings from other locations. The Committee noted that this applied equally throughout the pilot teams and noted that some directors did not have a fixed desk. A ‘just enough’ strategy was being used to target areas where technology could best be deployed to encourage smart working.

Members asked whether outsourcing of some functions should be considered. The Committee heard that TfL had made a public commitment not to outsource business function operations but would continue to keep an open mind. It would seek to leverage technology and bring as much of the business services into one place as possible.

The Committee noted the paper.

14/03/19 Member Suggestions for Future Agenda Discussions

Howard Carter introduced the forward programme.

The Committee noted the forward programme.

15/03/19 Any Other Business the Chair Considers Urgent

There was no urgent business.

16/03/19 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Monday 1 July 2019 at 10.00am.

Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Minutes of the Meeting of the Committee held on 3 December 2018; Treasury Management Strategy 2019/20; Treasury Activities; TfL Subsidiaries Rationalisation; and Strategy for the Broadway Complex.

17/03/19 Minutes of the Meeting of the Committee held on 3 December 2018

The exempt minutes of the meeting held on 3 December 2018 were approved as a correct record and signed by the Chair.

18/03/19 Close of Meeting

The meeting closed at 11.35pm.

Chair: ____________________________________

Date: _____________________________________

Agenda Item 4

Finance Committee

Date: **1 July 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 1 July 2019)

Actions from the meeting of the Finance Committee held on 11 March 2019

Minute No.	Description	Action By	Target Date	Status note
04/03/19	**Matters Arising and Actions List: Elizabeth Line Rolling Stock Sale and Leaseback (78/12/18)** In relation to whether the Mayor's opinion had been sought, Howard Carter would provide Members with a note to explain the technical process.	Howard Carter	March 2019	Complete. A note in relation to obtaining the Mayor's opinion was circulated to Members on 15 March 2019.
07/03/19	**Treasury Management Strategy 2019/20: Procurement best practice** Members asked for a discussion, at a later date, about best practice in procurement, specifically in relation to foreign exchange.	Howard Carter / Simon Kilonback	October 2019	On Finance Committee forward plan.

Actions from the Actions from previous meetings

Minute No.	Description	Action By	Target Date	Status note
75/12/18	**Finance Report - Period 8, 2018/19: Tube Ridership** Analysis of like for like tube ridership over the last two years.	Tanya Coff	July 2019	Completed. The Quarterly Performance Report now includes ridership data for the last three years.

Minute No.	Description	Action By	Target Date	Status note
76/12/18	**Business Plan Approval: Build to Rent** (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 July 2019	(a) Information is provided in the paper on Build to Rent on the agenda. (b) In the process of being arranged.
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	Members will receive a briefing as part of the business planning discussions in July 2019.

Finance Committee

Date: **1 July 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 11 March 2019. The paper also provides information on Mayoral Directions to TfL within the Committee's remit.

1.2 Since the meeting of the Committee on 11 March 2019, there have been two decisions taken under Chair's Action in relation to the consolidation of commercial property assets and arrangements for the statutory Chief Finance Officer and one Mayoral Direction.

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 11 March 2019

3.1 There has been no use of authority delegated by the Board since the meeting on 11 March 2019.

4 Use of Chair's Action since 11 March 2019

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 11 March 2019.

Consolidation of Commercial Property Assets

4.3 On 1 April 2019, the Chair (in consultation with members of the Committee) granted Land Authority for the consolidation of a number of TfL's commercial property assets from across the TfL group into TTL Properties Limited by the grant of a number of long leases, lease assignments, contract novations or other appropriate legal mechanism. Delegated Officers were granted authority to finalise the list of commercial property assets to be consolidated, the terms of leases and any other documentation related to the consolidation of the commercial property assets. The paper seeking approval is attached at Appendix 1.

4.4 The consolidation of property assets will create a new balance sheet that can be used to attract new streams of funding in the future and create focus for improved management and financial returns.

4.5 The use of Chair's Action was considered appropriate as a decision on this item was required so that the consolidation of TfL's commercial property assets into TTL Properties Limited could progress and revenues from TfL's commercial property assets could be attributed to TTL Properties Limited with effect from 1 April 2019, the start of the new Financial Year.

Statutory Chief Finance Officer

4.6 On 2 April 2019, as part of the ongoing organisational change programme in the Finance directorate, the Chair (in consultation with members of the Committee) agreed that Sarah Bradley will cease to be the statutory Chief Finance Officer (CFO) from 31 July 2019 (when she leaves TfL), noted that approval will be sought in due course for the Group Finance Director to be appointed as the statutory CFO, confirmed the existing interim arrangements namely that any one of Andrew Freeman, Andrew Pollins, Patrick Doig and Tanya Coff are authorised to undertake the statutory CFO responsibilities if Sarah Bradley is unavailable and approved the addition of Antony King to the list.

4.7 The Greater London Authority Act 1999 requires the appointment by TfL of an appropriately qualified person as statutory CFO. This role is required to ensure that TfL has made arrangements for the proper administration of its financial affairs. The appointment or removal of the CFO is a matter reserved to the Board. Finance Committee Chair's Action was sought as a decision was required ahead of the next meeting of the Board on 22 May 2019 to enable arrangements to be made for the departure of Sarah Bradley. The use of Board authority will be reported to the meeting of the Board on 24 July 2019 following the announcement of the changes in the Finance Leadership Team and ahead of the changes coming into effect.

4.8 The information contained in the paper seeking Chair's Action 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.

5 Procurement and Land Authority Approvals since 11 March 2019

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 11 March 2019, 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.

6.8 Since the last meeting of the Committee, there has been one direction concerning fares for up to two time limited research trials of demand responsive bus services in outer London (MD2460 (29/04/19)).

List of appendices to this report:

Appendix 1: Chair's Action paper: Consolidation of Commercial Property Assets

List of Background Papers:

Mayoral Directions: https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC.

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Appendix 1

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Finance Committee – Chair's Action

Date issued: 28 May 2019

Title: Consolidation of Commercial Property Assets

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

1 Purpose

1.1 This paper sets out a recommendation to consolidate property assets within Transport for London (TfL), creating a new balance sheet which can be used to attract new streams of funding in the future and create focus for improved management and financial returns.

1.2 This is the first step to implementing our self financing Investment Strategy 2019/20 – Non Financial Assets, which was approved by the Board on 27 March 2019. This will deliver homes under the Mayors Transport Strategy, and a growing sustainable income stream. Implementing this strategy will create conditions to raise capital to bring forward development without diverting funds that might otherwise be available for investment in the transport infrastructure.

1.3 The use of Chair's Action is considered appropriate as a decision on this item is required before the end of the Financial Year, so that the legal consolidation of TfL's commercial property assets into TTL Properties Limited can commence and revenues from TfL's commercial property assets can be booked by TTL Properties Limited effective from 1 April 2019, the start of the new Financial Year. The contents of this paper and the exercise of the Chair's Action will be reported to the next meeting of the Committee.

2 Recommendation

2.1 **The Chair (in consultation with Members of the Finance Committee) is asked to note the paper and:**

(a) grant Land Authority for the consolidation of TfL's commercial property assets listed in Appendix 1 from across the TfL group into TTL Properties Limited by the grant of a number of long leases, lease assignments, contract novations or other appropriate legal mechanism; and

(b) authorise the Delegated Officers (as defined in the Standing Orders) and Subsidiaries to finalise the list of commercial property assets to be consolidated, the terms of leases and any other documentation related to the consolidation of the commercial property assets.

3 Background

3.1 TfL's Investment Strategy 2019/20 – Non Financial Assets for the existing commercial development portfolio is focused on utilising our core property assets to maximum economic effect.

3.2 This strategy and has four overarching objectives:

(a) Sustainability – Produce a sustainable £300m per annum (and growing) operating surplus for TfL from its commercial assets;

(b) Self-sufficiency – Self-fund the investment programme necessary to achieve growth – whilst capital expenditure is necessary, capital receipts in the form of land sales, asset disposals and development profits will be utilised to offset the costs, alongside funding options from the new asset holding structure as necessary;

(c) Liquidity – Create a potential source of future liquidity for TfL – new arrangements will be considered to consolidate holdings, clarify ownership / title and through defined strategies for each asset class to maximise value and enable future transactions; and

(d) Deliver the Mayor's Transport Strategy – Deliver in excess of 10,000 homes under the Mayor's Transport Strategy, with a target of 50 per cent affordable for residential projects brought to market; and improve accessibility of the transport system through step free access, enhancing the customer experience through in station offering and mobile connectivity.

3.3 Within this strategy, and submitted as part of the approved Business Plan, the Build to Rent portfolio is the single biggest area of investment, with capital expenditure invested to deliver long term sustainable income and asset value growth. Also considered are investments in retail enhancements and estate improvements, in development Joint Venture projects and potential office opportunities.

3.4 Rental income is expected to grow significantly over the Business Plan period, and the consolidation of assets will assist in managing this.

3.5 Our commercial property assets can be divided into a range of asset classes:

(a) land for property development;

(b) head office assets;

(c) in-station retail;

(d) out-of-station retail;

(e) arches;

(f) car parks;

(g) commercial offices;

(h) residential;

(i) operational bus garages; and

(j) other more minor assets including ATMs, phone masts and advertising sites.

3.6 These property assets are dispersed across the TfL group, held in wholly owned subsidiaries on a range of different ownership arrangements including:

(a) Transport for London;

(b) London Underground Limited;

(c) London Bus Services Limited;

(d) Docklands Light Railway Limited;

(e) London River Services Limited;

(f) Victoria Coach Station Limited; and

(g) Rail for London Limited.

3.7 Currently, the primary holding company for property development is TTL Properties Limited, which currently has six subsidiary holding companies related to specific property development projects:

(a) TTL Blackhorse Road Properties Limited;

(b) TTL Earls Court Properties Limited;

(c) TTL Kidbrooke Properties Limited;

(d) TTL Landmark Court Properties Limited;

(e) TTL South Kensington Properties Limited;

(f) TTL Southwark Properties Limited.

3.8 Our recommendation is that TTL Properties Limited is used as the new group holding company for all commercial property assets.

4 Capital Investment Strategy

4.1 The updated Commercial Development Business Plan assumes significant capital investment in the property portfolio in the 10 years to 2029. The Investment Strategy 2019/20 – Non Financial Assets includes a target to be self-funding.

4.2 The investment programme will be partially funded by land sales, asset disposals and development income. Asset disposals include sales of underutilised non-operational (head office) assets. To achieve our self-funding objective and meet our capital requirement, we also need to consider funding options available beyond that generated by income and disposals.

5 Options to deliver our capital requirement

5.1 With the support of external advisors (Rothschild) we investigated the alternative funding options to deliver an efficient financial model.

5.2 Four options were considered:

(a) TfL funds the capital requirement from cash reserves – NOT RECOMMENDED

TfL has had a number of very substantial external challenges that have put pressure on budgets and liquidity. This includes the loss of more than £700m a year in operational grant funding from Government and the cash pressures arising from the delayed opening of the Elizabeth line. Investment in property assets (although generating ongoing sustainable income) would increase the complexity of managing limited cash reserves, and is not recommended.

(b) TfL funds the capital requirement from current borrowing – NOT RECOMMENDED

Debt raised by TfL is consolidated on its balance sheet and needs to be permitted by Department for Transport and Her Majesty's Treasury (HMT). In addition, TfL is reaching the limits of what we can borrow without negatively impacting our credit ratio. Utilising current borrowing for property investment would eat into funds available for rail infrastructure so is not recommended, unless both the aforementioned constraints can be overcome.

(c) TfL utilises Joint Ventures to raise funding within current TfL structures – NOT RECOMMENDED

TfL could sell down a specific property portfolio into a Joint Venture, to bring in private sector expertise and outside capital. Under this structure, TfL gains a capital receipt on selling the portfolio down, retaining a minority equity stake of up to 49 per cent. The JV can then raise debt to invest in and grow the portfolio.

This approach has the advantage that transactions can be planned in advance and, through the minority holding, debt is not consolidated onto TfL's balance sheet.

The downside is that this approach has limited ability to manage financing on an overall investment programme/portfolio wide basis. Funds are raised on a scheme by scheme basis, and this lacks flexibility or necessary agility to react to changing circumstances or market conditions. It also significantly dilutes income streams.

Within TfL the assets are not neatly packaged in one entity so, to complete each transaction, transfers would be needed, adding some complication to each individual transaction.

For these reasons doing this within current structures is not recommended (it could however be part of an overall funding strategy within a standalone entity).

(d) TfL creates a consolidated commercial property portfolio to facilitate the ability to generate both debt and equity to fund capital requirements – RECOMMENDED

Whilst the commercial property portfolio is currently administered and predominantly managed by Commercial Development, ownership of our existing assets is dispersed across TfL and its subsidiaries. This means that our commercial property assets and related income streams are not structured in a way that would be considered liquid by the property market or straight-forward in terms of securing capital investment.

Our recommendation is to create a consolidated commercial property asset portfolio that would have its own defined balance sheet and profit / loss account. This would enable a number of options for raising debt and equity to support our Investment Strategy 2019/20 – Non Financial Assets, as the commercial property assets will be clearly defined as separate from our operational transport assets and activities (subject to the constraints outlined in paragraph 5(b) above). This will allow the portfolio to be appropriately valued and assessed by third party debt / equity providers, possibly assisting debt facilities to be set up in the future, and opens up an opportunity to seek HMT approval for any property debt facilities to be considered separately from TfL's operational transport debt requirements. Portfolios can also be easily packaged up into minority Joint Ventures to bring in outside capital and expertise, as part of an overall funding strategy.

Our advisors indicate that there is the potential to raise the required funding against secure income streams, as well as our more complex assets. This could be done in a phased manner to match the capital requirement of the business, managed to achieve business plan targets. As noted in option (b), we will need to do so in a way that does not impact the ability of TfL to borrow to invest in transport infrastructure; we will develop our financing strategy and update the Committee further at a future date.

6 Financial Accountability and Governance

6.1 The consolidation of commercial property assets will strengthen our ability to manage performance and achieve sustainable growth. Operational performance measures such as margins, returns and yields will be able to be considered and presented at a portfolio / asset class level, in a manner more comparable with the wider London property market.

6.2 It will also promote more direct balance sheet responsibility. Movements in asset value will be measurable and accurately reflect management activity in a way that can be compared with industry best practice. Similarly, working capital requirement will be identifiable and lead to improved day to day financial management and accountability.

6.3 Cash Flow and funding requirement will be more readily transparent, leading to greater accuracy in financial planning and analysis

6.4 We anticipate that the increase in property development expenditure and property portfolio investment proposed by the business plan, will require greater scrutiny, oversight and guidance from property market experts, alongside focussed, robust risk management policies and procedures. Recommendations for dedicated property governance and decision-making processes will be brought to a future Committee which will consider current income generating capability, interfaces with TfL transport operations and development potential of existing portfolios and properties, as well as funding options.

6.5 All capital expenditure, disposals and investment decisions will continue to be conducted in accordance with Standing Orders, and in line with an agreed Business Plan and existing commitments.

7 Implementing a Consolidation of Assets

7.1 As noted, we recommend utilising TTL Properties Limited, an existing TfL subsidiary, for this purpose. The intention is to book the revenue from the assets with effect from 1 April 2019 and formalise the legal ownership arrangements as soon as possible thereafter (target 30 June 2019), to ensure sufficient time for proper due diligence on the assets and business preparedness for the change.

7.2 The main options for consolidation of the commercial property assets have been considered as:

(a) statutory transfer scheme under the Greater London Authority Act 1999;

(b) grant of a series of concurrent head leases; and

(c) freehold transfer with lease back of the operational assets.

7.3 A grant of a series of head leases is recommended. Existing TfL entities retain freehold ownership of the property assets under this model. This would not be the case in a freehold transfer. Statutory transfers are also unfamiliar to investors and funders and the process could take longer for no benefit.

7.4 Under the head lease option, in the majority of cases the existing TfL landowning entities would each grant a long concurrent head lease to TTL Properties Limited of its non-operational assets, bundled together by asset class. The existing TfL landowning entities will retain freehold ownership and a level of control over the property assets through the head lease, retaining a flexible ability to ensure compliance with appropriate operational protections. Where the TfL landowning entity has a leasehold interest itself, the term of the lease granted to TTL Properties Limited may need to be shorter. In total, around 40 leases will be granted covering 2000+ assets. Certain short-term leasehold retail assets owned by Rail for London will be assigned to TTL Properties Limited. For certain minor asset types where a leasehold structure is not suitable, an appropriate alternative contractual structure will be used. The property transactions will be treated as a Transfer of a Going Concern for VAT purposes.

7.5 No Stamp Duty Land Tax will be payable on the property transactions as they are intra-group. However, group relief can be clawed back if the acquiring subsidiary ceases to be a wholly owned subsidiary of TfL within the three years following completion. A market valuation for each of the assets included in the consolidation will be carried out to ensure the appropriate SDLT treatment and lawful distribution of assets.

8 Benefits and Risks

8.1 There are clear benefits that flow from the consolidation of commercial property assets. As described in the previous section, it opens up funding options. Debt and equity raising at the asset or portfolio level is made a less complex proposition, with greater ability to move at pace as opportunities arise.

8.2 The consolidation provides greater clarity regarding the assets under management, allowing for more accurate commercial planning and greater transparency, for example regarding market valuation of the portfolio.

8.3 With an agreed Business Plan and clear investment metrics the consolidated commercial property assets portfolio will produce a more measurable dividend to TfL Group.

8.4 It is critical that TfL control is not weakened through the consolidation of assets. Financial and housing targets are retained, and indeed we would expect that stronger performance and risk management will de-risk the delivery of existing commercial development targets.

8.5 The structure will retain flexibility to generate capital receipts when needed.

8.6 With the introduction of any new debt profile, there are increased risks. Whilst TfL will maintain freehold ownership of any operational sites, issues related to debt identified for property development could have a large impact on the wider TfL portfolio. Appropriate governance and risk management procedures will be used to monitor key metrics against defined tolerances. These would include loan-to-value ratios, the debt maturity profile, asset liquidity, asset concentration, investment lot size and average unexpired lease terms.

9 Project Delivery

9.1 We have set up an internal team to consolidate the assets. This includes internal resources from Finance, Treasury, Legal, Property Development, and Commercial Revenue; sponsored by the Director of Commercial Development and the Finance Director of Commercial Development.

9.2 This project is also supported by external advisors, Rothschild and Deloitte.

9.3 A more detailed strategy for our next steps will be brought back to the Committee at a later date as the options, governance and management structures for different categories of assets within the overall portfolio are developed.

List of appendices to this report:

Appendix 1 – Proposed list of assets to be consolidated (Given the high volume of commercial property assets to be consolidated, this is presented as a summary of the major items and asset classes)

List of Background Papers:

None

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Proposed list of assets to be consolidated

Appendix 1

Rental income (by category)	**Count**
Arches	493
Car Parks	54
Industrial	72
Miscellaneous	1,283
Offices	123
Residential	182
Retail In Station	673
Retail out of Station	563
NCP Contract	
Lease transfer and contract novation	
Car Parks	81
ATM Contract	
Contract novation	
ATMs	122
Vending Contract	
Contracts novation	
Vending total	172
Total	**3,818**

Head office sites

Broadway Complex
Cranbourn St
Borough High St
Oxford Circus
Old Broad St
Aldgate BTP
Western House
Buckingham Palace Road
Penton St

Other assets

Moorfields (21)
Barkingside
Stanmore Car Park
Canons Park Car Park
Rayners Lane Car Park
Woodside Park
Sudbury Town
Snaresbrook
325 Newham Way
70b Brentmead Place
60 Brentmead Place
62 Brentmead Place
66 Brentmead Place
54 Heathfield Gardens
46 Brentmead place
Aylesbury street
Albany road
286 Long lane
169 Holland road
East Finchley
Kingsbury Arcade
Colliers Wood site
Long leasehold
Great North P
12-22 Finchley Road
Bank Station
Bow Church
Hounslow West
Newbury Park
North Greenwich
2 Stratford Place Offices
100 Whitechapel
33-37 Charterhouse Square Offices
Small Sites
North side land Royal Mint /Cable Street
Residential Assets
Christchurch road & Brixton Hill
Beechwood Avenue
Portree street
Aspen Place
Colindale OSD

Future potential development land

Harrow On The Hill
Montford Place, Kennington
Morden Bus Station
Nine Elms (NLE OSD)
Poplar
Royal Oak Coach Station
Southwark Station OSD
Wembley Park
Arnos Grove
Cockfosters
Lillie Bridge Depot
Limmo
Southall
Woolwich

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Finance Committee

Date: **1 July 2019**

Item: **Finance Report – Period 2, 2019/20**

This paper will be considered in public

1 Summary

1.1 The Finance Report presentation sets out TfL's financial results to the end of Period 2, 2019/20 - the year-to-date period ending 25 May 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 2, 2019/20

3.1 The Finance Report presentation provides a summary of year-to-date financial performance against the 2019/20 as well as last year. The presentation is consistent with how we have presented the 2018 Business Plan and the 2019/20 Budget. 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 (which we plan to transform into a surplus by 2022/23), passenger journeys, the capital account and cash balances.

Quarterly Performance Report – Quarter 1, 2019/20

3.3 We will publish the next Quarterly Performance Report (QPR) at the Board on 24 July 2019. This will show performance to the end of Quarter 1, 2019/20, the quarter ending 22 June 2019. This report will also be accompanied by a financial presentation.

List of appendices to this report:

Appendix 1: Finance Report – Period 2, 2019/20

List of Background Papers:

None

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Finance Committee

Finance report
Period 2, 2019/20

1 July 2019

Section 1

Period 2 Financial performance

Strong start to 2019/20

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Strong performance compared to budget driven by operating costs

£m	2019/20 YTD				2018/19		
Operating account	Actuals	Budget	Variance to Budget	% variance to Budget	Last year actuals	Variance to last year	% variance to last year
Passenger income	731	714	17	2%	732	(1)	0%
Other operating income	138	133	5	4%	121	17	14%
Total operating income	**869**	**847**	**22**	**3%**	**853**	**16**	**2%**
Business Rates Retention	172	172	-	0%	170	2	1%
Revenue grant	17	15	2	13%	9	8	89%
Total income	**1,058**	**1,034**	**24**	**2%**	**1,032**	**26**	**3%**
Operating costs	(945)	(1,008)	63	-6%	(942)	(3)	0%
Net operating surplus	**113**	**26**	**87**	**335%**	**90**	**23**	**26%**
Capital renewals	(59)	(74)	14	-19%	(63)	4	-6%
Net cost of operations before financing	**54**	**(48)**	**101**	**-212%**	**27**	**27**	**100%**
Net financing costs	(69)	(70)	1	-1%	(69)	-	0%
Net cost of operations	**(15)**	**(118)**	**102**	**-87%**	**(42)**	**27**	**-63%**

Income growth driven by better than expected demand

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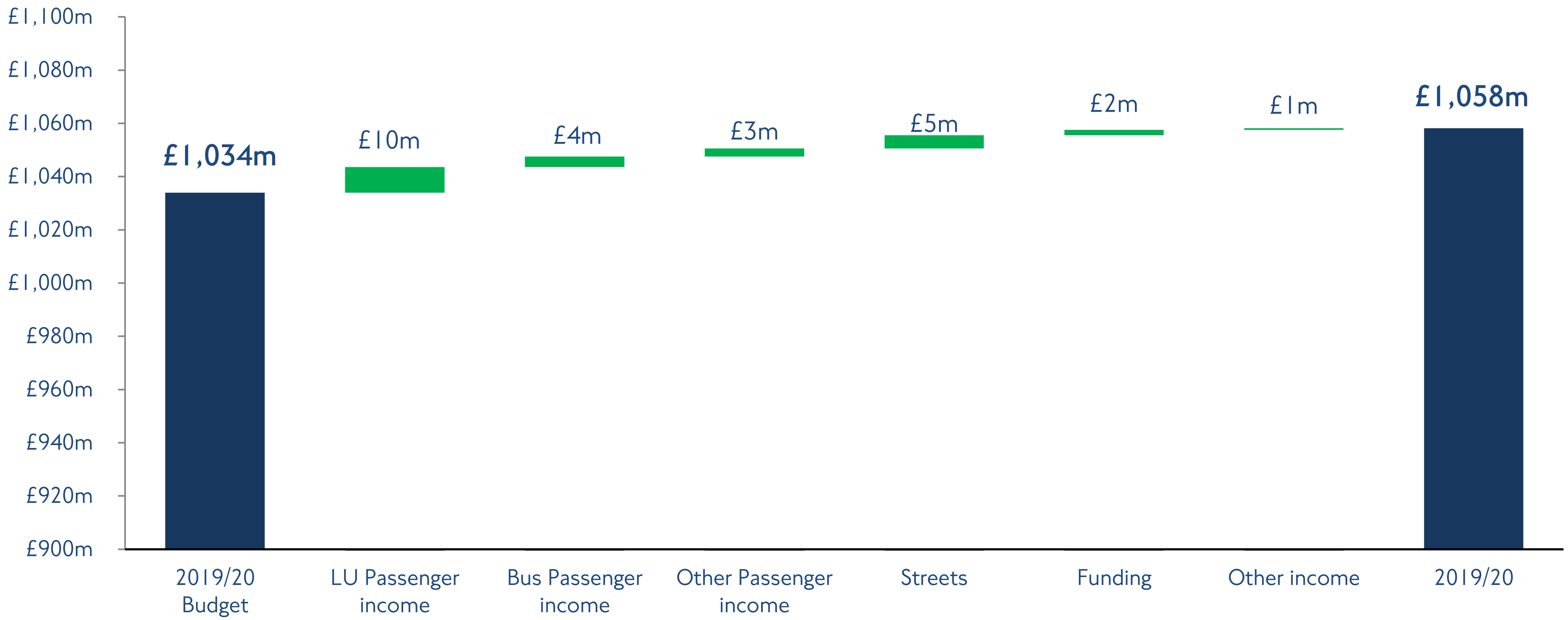
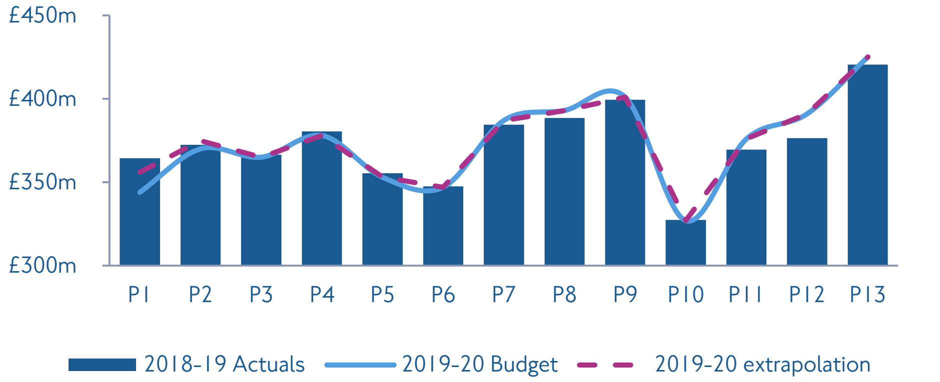
Overall passenger income is in line with last year, upside due to phasing of budget in the first two periods of this financial year

Total income



- Upside in passenger income mainly from the Underground £10m, where journeys were 3% better than Budget
- Buses passenger income £4m better, with passenger journey decline slower than budgeted
- ULEZ compliance strong – financially this is likely to translate in lower income
- Our expectation is that the current favourability in income will unwind by the end of the year.

Passenger income – expectation in line with budget by year end if current trend continues



We continue to deliver ahead of Budget

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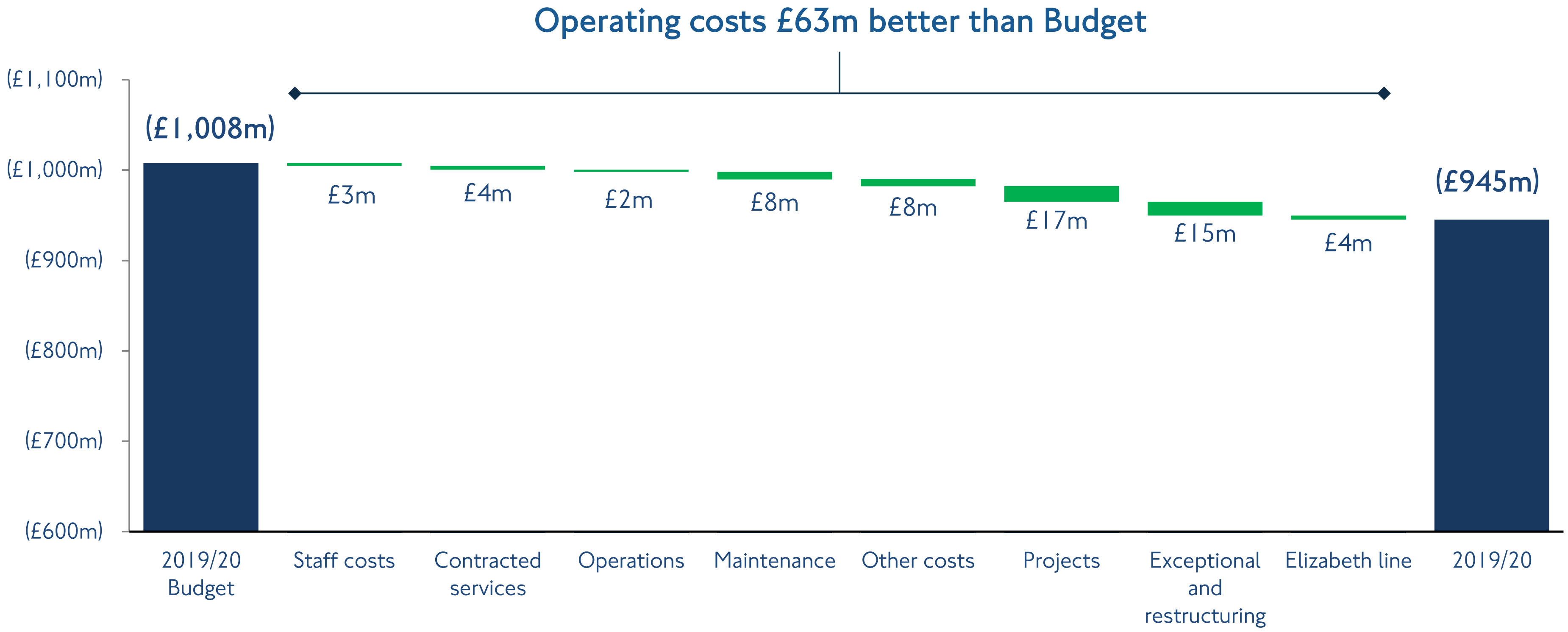
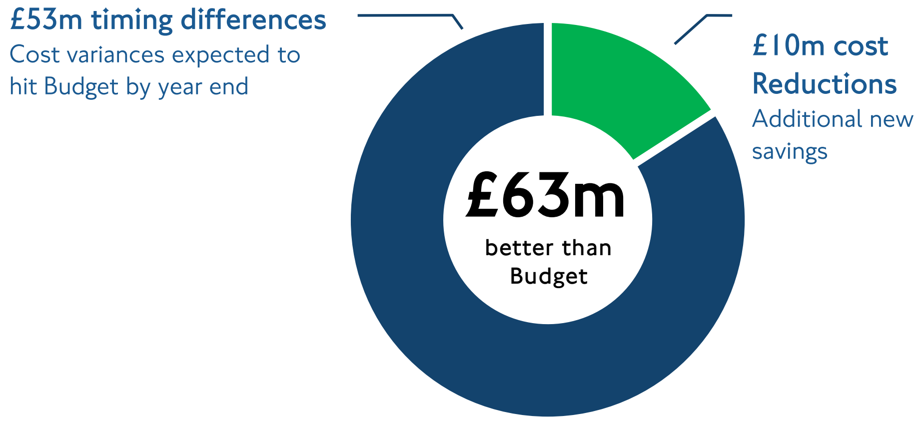
Operating costs are below Budget driven by timing of project cost and rephasing of transformation costs

Operating costs



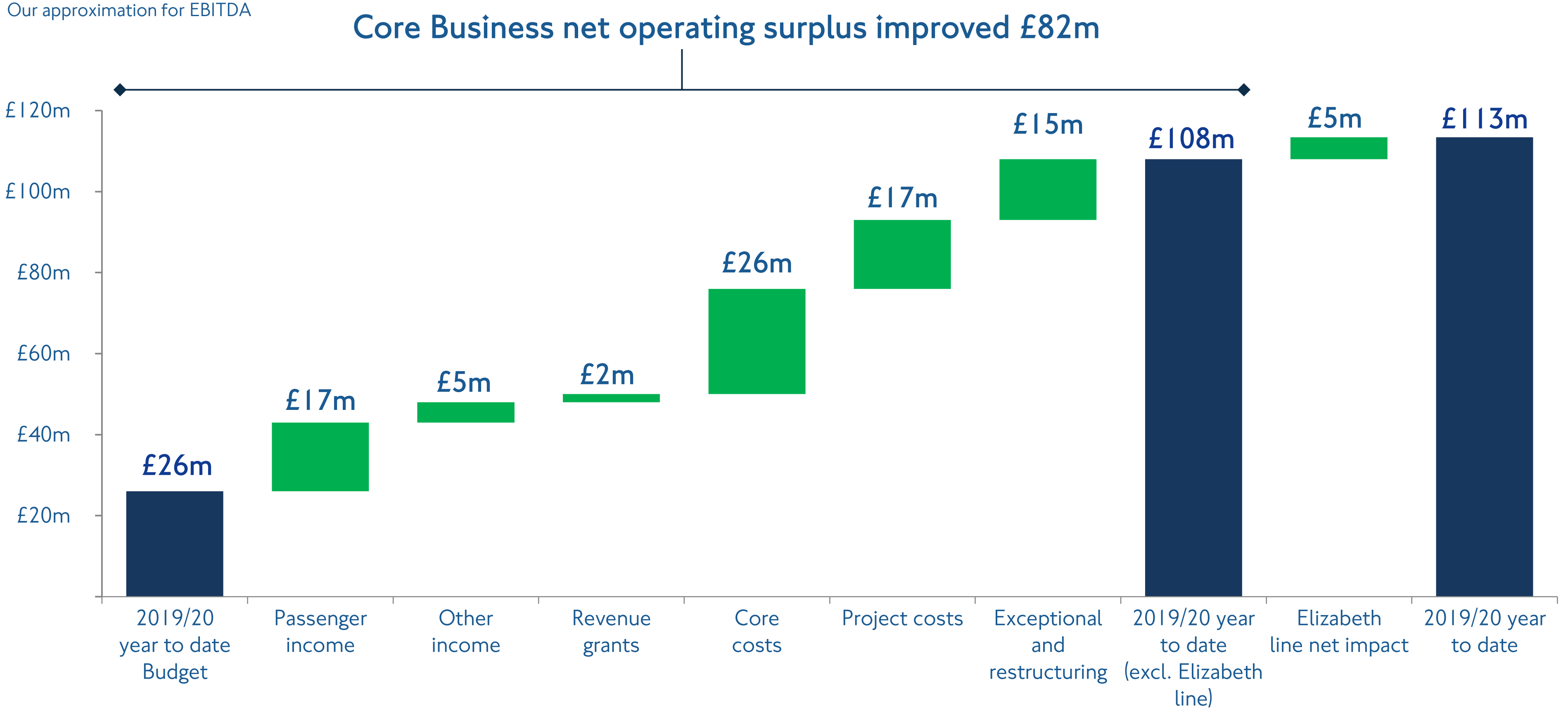


£59m Favourability in core business operations

Summary: net operating surplus significantly ahead of budget

Net operating surplus

Our approximation for EBITDA



£24m

Income upside largely expected to unwind by the end of the year as high ULEZ compliance rates likely to result in a risk to budget for the full year

£63m

Operating costs are significantly under budget driven by timing differences

97% of the investment programme milestones are forecast to be achieved on time

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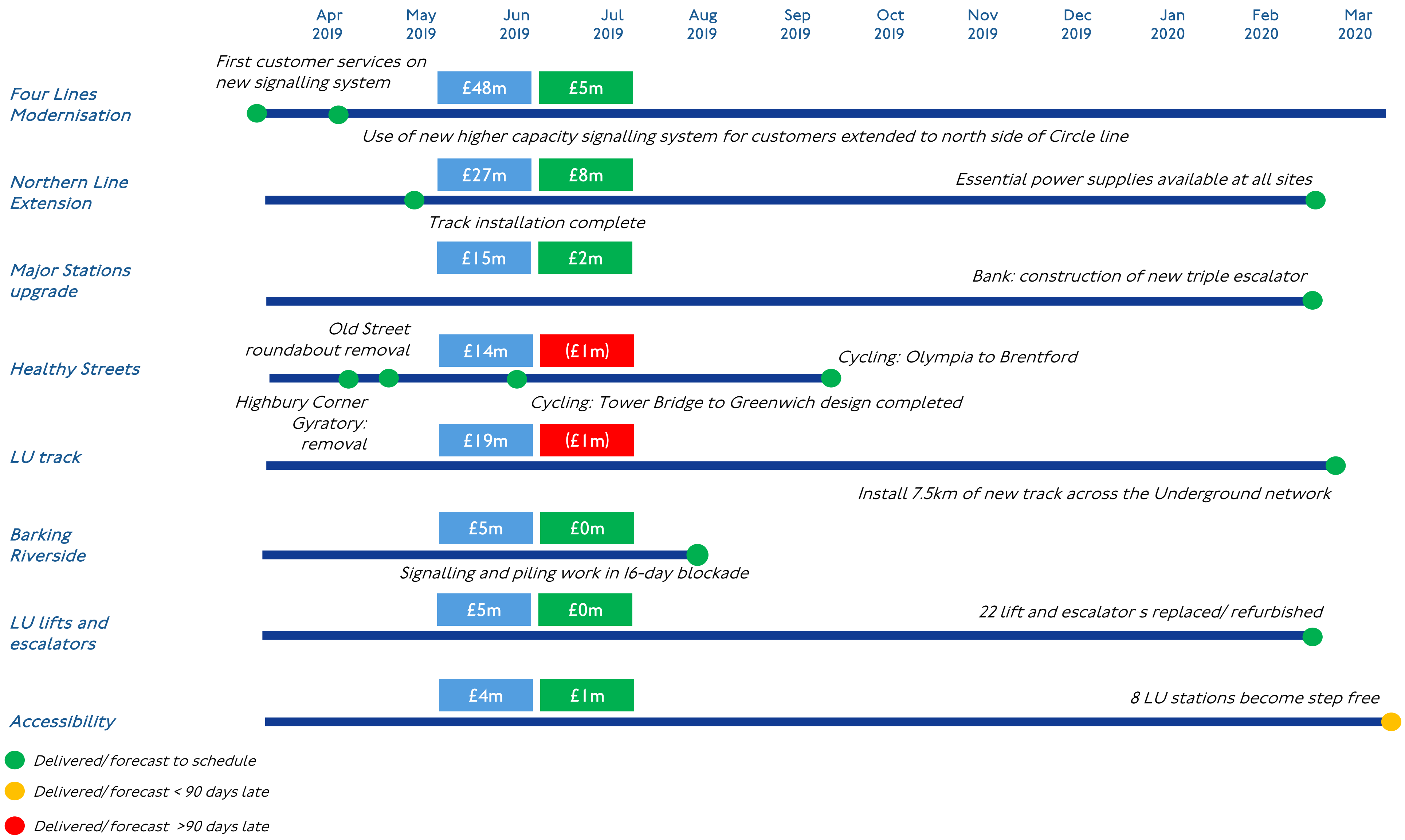
Budget milestones



Capital expenditure below budget

Capital expenditure £56m lower than Budget, driven by timing differences, but no expected impact on final delivery

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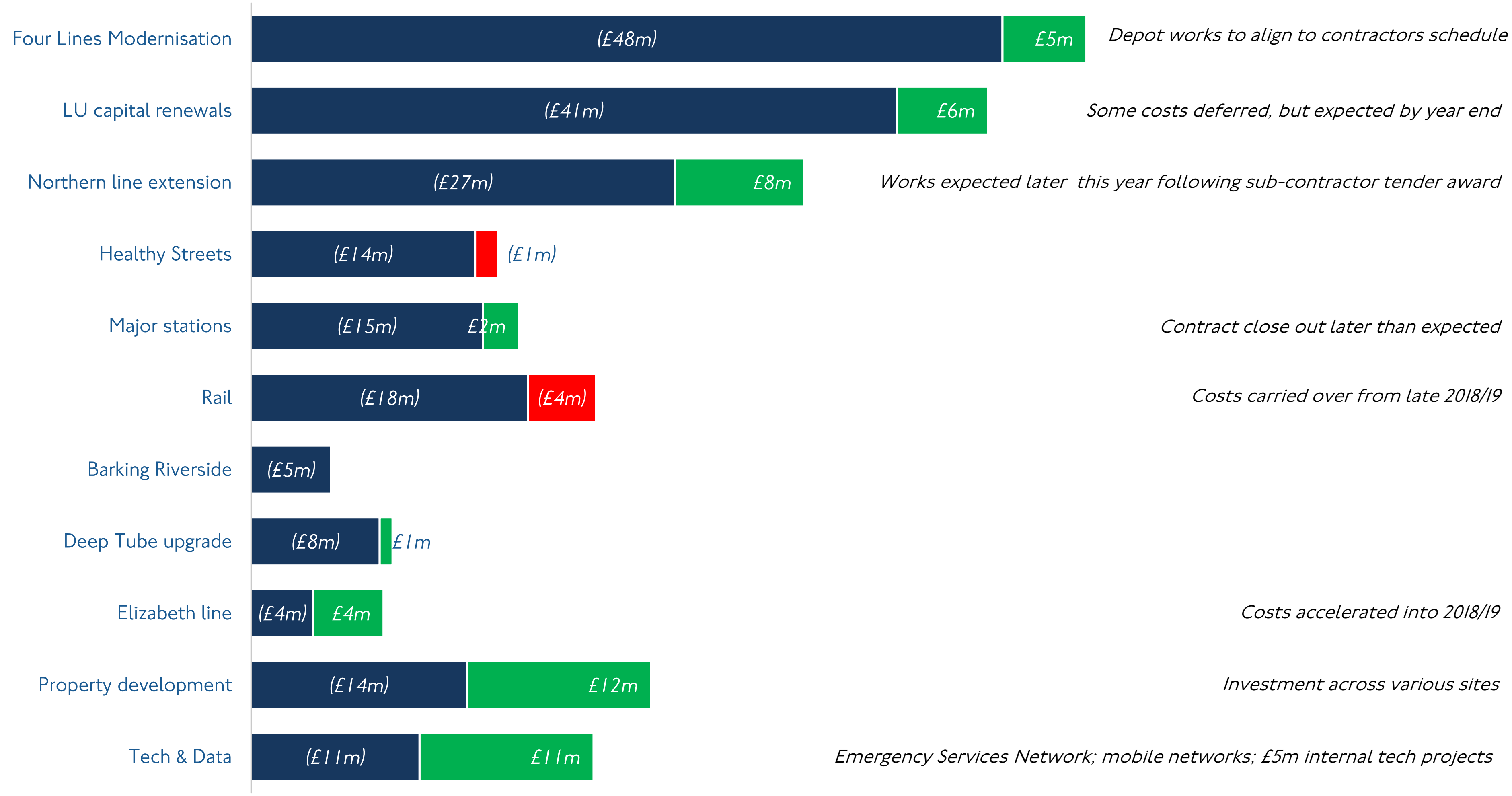
Capital expenditure: year-to-date expenditure and variance to Budget

Key programmes



Cash balances lower than budget

Driven by timing of borrowings and adverse working capital variances offset by favourable movements in the operating and capital account

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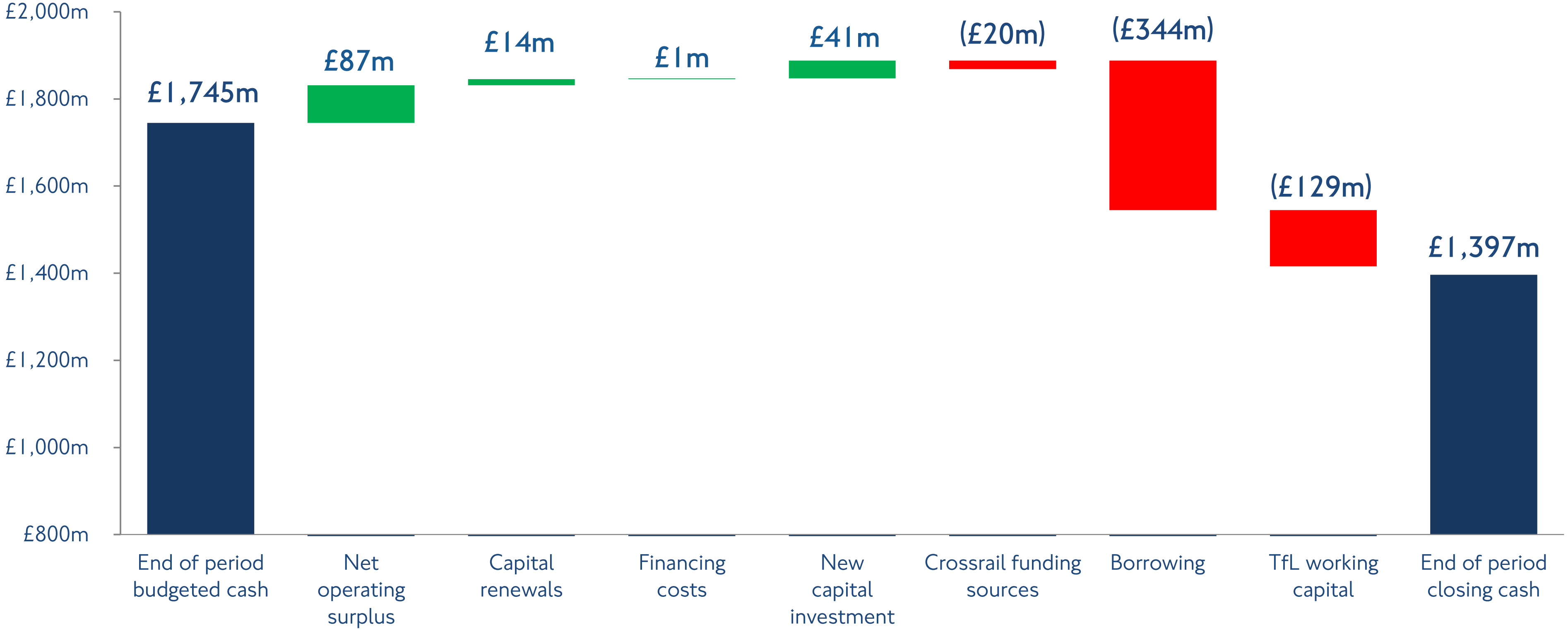
TfL cash balances (excl. Crossrail)



Section 2

Business unit review

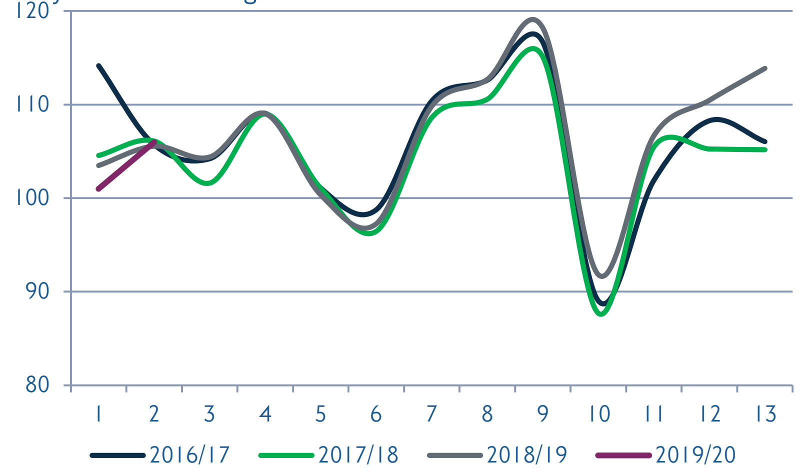
London Underground: good start to the year

Passenger income ahead of budget but in line with last year. Operating costs favourable from timing of maintenance costs and Victoria line lift works

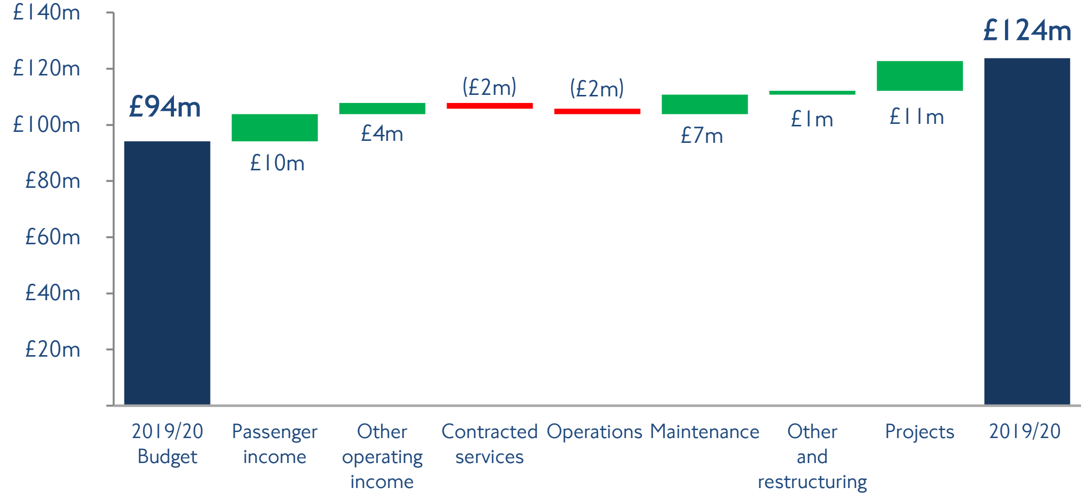
£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Budget	Variance to Budget	% variance to Budget	Last year actuals	Variance to last year	% variance to last year
Passenger income	419	410	10	2%	418	1	0%
Other operating income	9	5	4	80%	3	6	200%
Total operating income	**428**	**415**	**14**	**3%**	**421**	**7**	**2%**
Direct operating cost	(305)	(321)	16	-5%	(320)	19	-6%
Direct operating surplus	**124**	**94**	**30**	**32%**	**101**	**23**	**26%**
Indirect operating cost	(57)	(55)	(2)	4%	(54)	(3)	5%
Net operating surplus	**67**	**39**	**28**	**72%**	**47**	**20**	**49%**
Capital renewals	(41)	(47)	6	-12%	(41)	0	-1%
New capital investment	(8)	(8)	-	0%	(4)	(4)	100%
Total capital expenditure	**(49)**	**(55)**	**6**	**-11%**	**(45)**	**(4)**	**9%**

Passenger demand

LU passenger journeys 5 million (2.7%) up on Budget. 1% lower than last year due to timing of Easter



Direct operating surplus



Rail: ahead of budget driven by operating costs

Operating cost below budget as roll out of new trains on the Overground is slower than expected

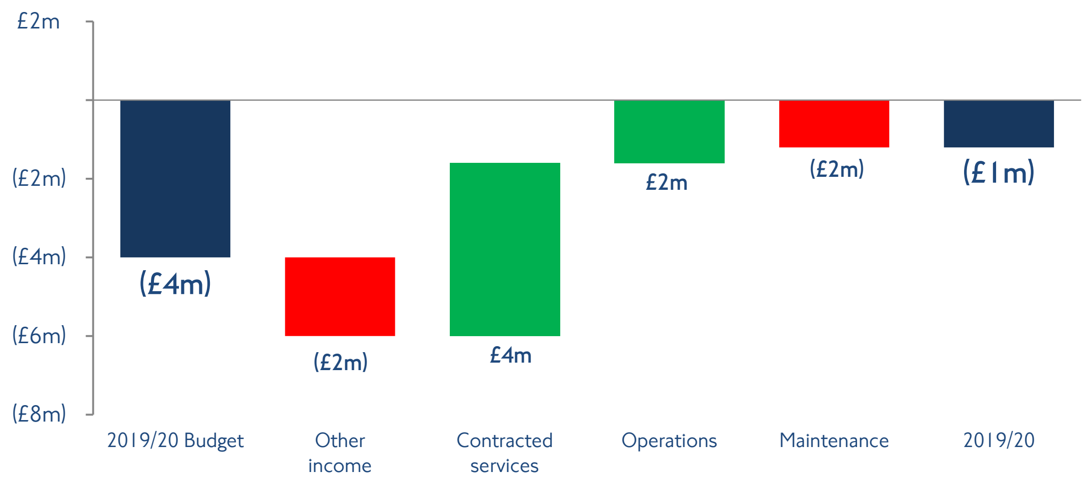
£m Operating account	2019/20 YTD Actuals	2019/20 YTD Budget	2019/20 YTD Variance to Budget	2019/20 YTD % variance to Budget	2018/19 YTD Last year actuals	2018/19 YTD Variance to last year	2018/19 YTD % variance to last year
Passenger income	64	64	-	0%	66	(2)	-3%
Other operating income	5	7	(2)	-29%	3	2	67%
Total operating income	**69**	**71**	**(2)**	**-3%**	**69**	**-**	**0%**
Direct operating cost	(70)	(75)	5	-7%	(66)	(4)	6%
Direct operating deficit	**(1)**	**(4)**	**3**	**-75%**	**3**	**(4)**	**-133%**
Indirect operating cost	(3)	(3)	-	0%	(3)	-	0%
Net operating deficit	**(4)**	**(7)**	**3**	**-43%**	**-**	**(4))**	**N/A**
Capital renewals	(8)	(7)	(1)	14%	(3)	(5)	167%
New capital investment	(8)	(7)	(1)	14%	(4)	(4)	100%
Total capital expenditure	**(16)**	**(14)**	**(2)**	**18%**	**(7)**	**(9)**	**128%**

Passenger demand

Millions	2019/20	2019/20 Budget	Variance
London Overground	28.0	27.9	0.1
DLR	18.6	18.4	0.2
London Trams	4.1	4.2	0.0

Millions	2019/20	2018/19	Year-on-year variance
London Overground	28.0	29.1	(1.1)
DLR	18.6	19.1	(0.5)
London Trams	4.1	4.3	(0.1)

Direct operating deficit



Buses: ahead of budget driven by demand

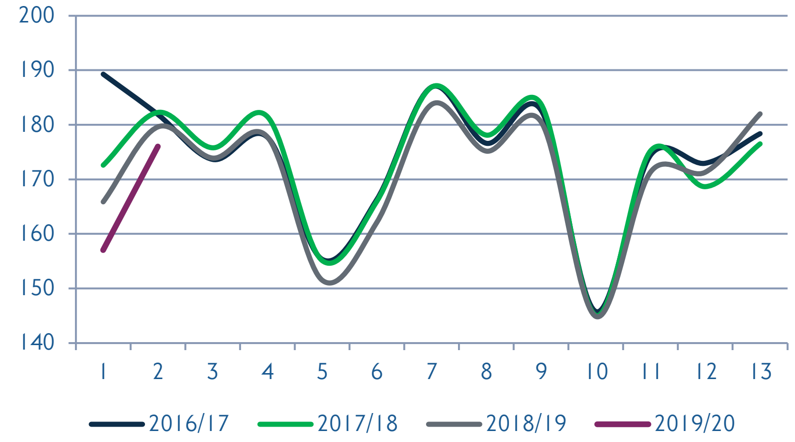
£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Budget	Variance to Budget	% variance to Budget	Last year actuals	Variance to last year	% variance to last year
Passenger income	221	217	4	2%	226	(5)	-2%
Other operating income	1	2	(1)	-50%	3	(2)	-67%
Total operating income	**222**	**219**	**3**	**1%**	**229**	**(7)**	**-3%**
Direct operating cost	(327)	(328)	1	0%	(325)	(2)	1%
Direct operating deficit	**(105)**	**(109)**	**4**	**-4%**	**(96)**	**(9)**	**9%**
Indirect operating cost	(4)	(4)	-	0%	(4)	-	0%
Net operating deficit	**(109)**	**(113)**	**4**	**-4%**	**(100)**	**(9)**	**9%**
Capital renewals	-	(1)	1	-100%	-	-	
New capital investment	-	(4)	4	-100%	-	-	
Total capital expenditure	**-**	**(5)**	**5**	**-100%**	**-**	**-**	

Underlying passenger income 2% behind last year with decline lower than budgeted.

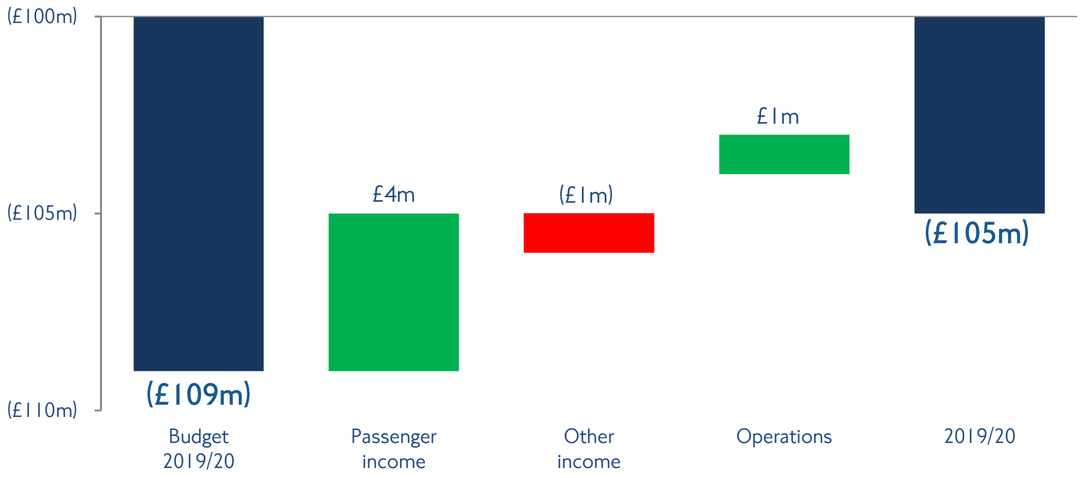
We continue to control operating costs

Passenger demand

Bus journeys 1.1% up on Budget, but 3.6% lower than last year. Underlying journeys 2% lower than last year



Direct operating deficit



Streets: improved performance but challenging fundamentals

Income better than budget and last year.

Costs broadly in line with Budget

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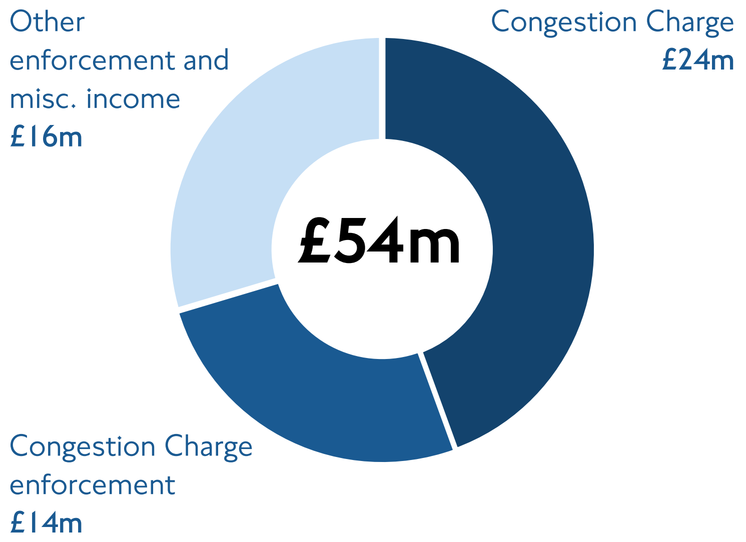
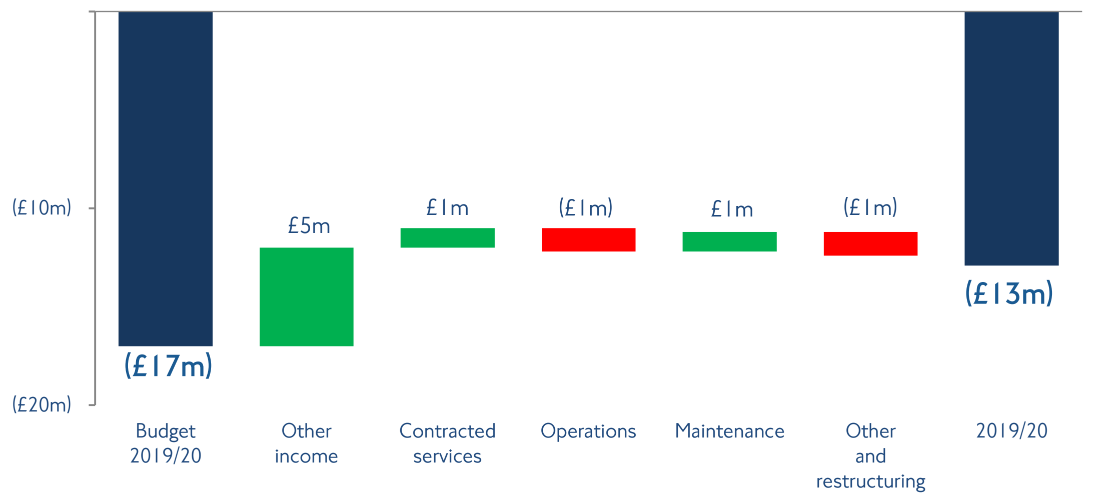
£m	2019/20 YTD				2018/19 YTD		
Operating account	Actuals	Budget	Variance to Budget	% variance to Budget	Last year actuals	Variance to last year	% variance to last year
Passenger income	-	-	-	-	-	-	-
Other operating income	54	49	5	10%	50	4	8%
Total operating income	**54**	**49**	**5**	10%	**50**	**4**	8%
Direct operating cost	(67)	(66)	(1)	2%	(73)	6	-8%
Direct operating deficit	**(13)**	**(17)**	**4**	**-24%**	**(23)**	**10**	-43%
Indirect operating cost	(11)	(12)	1	**-8%**	(11)	-	0%
Net operating deficit	**(24)**	**(29)**	**5**	**-17%**	**(34)**	**10**	**-41%**
Capital renewals	(3)	(7)	4	-57%	(7)	4	-57%
New capital investment	(16)	(15)	(1)	7%	(11)	(5)	45%
Total capital expenditure	**(19)**	**(22)**	**3**	13%	(18)	(1)	-5%

Operating income



Direct operating deficit



Growth engines: progress in line with plans

£m	2019/20 YTD				2018/19 YTD		
Media	Actuals	Budget	Variance to Budget	% variance to Budget	Last year actuals	Variance to last year	% variance to last year
Other operating income	22	21	1	5%	23	(1)	-4%
Total operating income	**22**	**21**	**1**	**5%**	**23**	**(1)**	**-4%**
Direct operating cost	(1)	(1)	-	N/A	-	(1)	N/A
Direct operating surplus	**21**	**20**	**1**	**5%**	**23**	**(2)**	**-9%**
Indirect operating cost	-	-	-	N/A	-	(1)	N/A
Net operating surplus	**21**	**20**	**1**	**5%**	**23**	**(2)**	**-9%**

£m	2019/20 YTD				2018/19 YTD		
Property	Actuals	Budget	Variance to Budget	% variance to Budget	Last year actuals	Variance to last year	% variance to last year
Other operating income	15	15	-	0%	15	-	0%
Total operating income	**15**	**15**	**-**	**0%**	**15**	**-**	**0%**
Direct operating cost	(4)	(6)	2	33%	(5)	1	20%
Direct operating surplus	**11**	**9**	**2**	**22%**	**10**	**1**	**10%**
Indirect operating cost	(1)	(1)	-	0%	(1)	-	0%
Net operating surplus	**10**	**8**	**2**	**25%**	**9**	**1**	**11%**

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Finance Committee

Date: **1 July 2019**

Item: **Taxi and Private Hire Licence Fees**

This paper will be considered in public

1 Summary

1.1 This paper is to update the Committee on TfL's Taxi and Private Hire Licence fees.

2 Recommendation

2.1 The Committee is asked to note the paper.

3 Background

3.1 Licence fees cover the costs of the licensing administration process and compliance and enforcement activities associated with regulation of the taxi and private hire trades.

3.2 At its meeting on 15 September 2017, the Committee approved changes to the taxi and private hire vehicle (PHV) driver and vehicle licence fees as well as the licence fee structure for private hire operators. The changes were introduced on 3 October 2017.

3.3 The paper to the Committee acknowledged that the fees themselves would not fully recover the licensing, compliance and enforcement costs we incur and that we would keep the changes under review.

Current taxi and private hire licence fees

3.4 Taxi and private hire driver, vehicle and operator fees include: (i) an application fee which covers the cost of processing the application and (ii) a grant of licence fee which covers the grant of the licence combined with enforcement and compliance activities undertaken by TfL.

Table 1: Current taxi and private hire driver and vehicle fees

Licence type	Fee type	Current fee (£)
Taxi vehicle	Application Fee	**66**
	Grant of licence Fee	**44**
	Total	**110**
Taxi Driver	Application Fee	**120**
	Grant of licence Fee	**180**
	Total	**300**
Private Hire Drivers	Application Fee	**124**
	Grant of licence Fee	**186**
	Total	**310**
Private Hire Vehicles	Application Fee	**84**
	Grant of licence Fee	**56**
	Total	**140**

3.5 Prior to the changes in 2017, private hire operator licence grant fees were the same for all operators (£2,826 for a five year licence) except for those with two vehicles of less who paid £1,488 for a five year licence. The application fees were the same for all operators.

3.6 The changes in 2017 included the introduction of a new licence fee structure for private hire operators which was intended to be more proportionate to the regulatory, licensing and enforcement costs generated by licensees with different vehicles fleet sizes.

3.7 Private hire operators with more than 20 available vehicles were given the option to pay the licence grant fee in annual instalments to help spread the overall cost.

Table 2: Current private hire operator licence fees

Tier	Number of PHVs	Number of operators falling within this category	Application Fee	Grant of licence fee	Total (five year fee)	Annual instalment
1	0-10	686	£400	£1,600	£2,000	N/A
2	11-20	103	£1,200	£4,800	£6,000	N/A
3	21-50	76	£3,800	£15,200	£19,000	£3,040
4	51-100	23	£6,000	£24,000	£30,000	£4,800
5	101-500	5	£30,000	£120,000	£150,000	£24,000
6	501-1,000	1	£70,000	£280,000	£350,000	£56,000
7	1,001-10,000	6	£140,000	£560,000	£700,000	£112,000
8	10,001 or more	1	£580,000	£2,320,000	£2,900,000	£464,000

N.B. There are an additional 1,315 operators who are operating with licences issued under the former licence fee structure. At the end of their current licence term, private hire operators will transition to the new licence fee structure should they wish to renew their licence.

Current position

3.8 At present, the costs of licensing and enforcement are not being met in full by licence fees. At the end of the financial year 2018/2019, TfL 's current licence fee deficit is c. £27m, which will continue to increase until we recover all costs.

3.9 This is not a long-term, sustainable position as it means that funding is required from other sources to maintain licensing and enforcement activities for London's taxi and private hire services.

3.10 It should be noted that London's taxi and private hire market is ever changing and there are now greater numbers of applicants applying for a private hire operator licence with more than 1,000 vehicles, than previously. This will inevitably impact private hire services and TfL will need to understand and review the market to assess the costs of regulating the industry going forward.

4 Next steps

Licence fee setting

4.1 To reduce the deficit, a number of efficiencies have been identified to reduce the cost of licensing, enforcement and compliance as much as possible, and TfL will be focussing on delivering these efficiencies, where practical, over the next twelve months, whilst ensuring public safety.

4.2 Following recommendations from the Chairman of the Department for Transport (DfT) commissioned Task and Finish Group on taxi and private hire licensing, the DfT is expected to bring forward legislation covering a number of regulatory obligations. These will add to TfL's responsibilities and impact on the sums which may be recovered through the licence fee, where appropriate. These obligations include national minimum standards and a national database, as well as greater enforcement powers.

4.3 The DfT also recently held a consultation on statutory guidance which included a number of recommendations which could add to TfL's responsibilities as a licensing body and regulator as well as the costs to be met by licensees.

4.4 TfL also continues to urge Government to introduce the ability for licensing authorities to cap taxi and PHV numbers, create statutory definitions for ‘plying for hire’ and ‘pre-booked’ services, and find a solution to the issue of cross border hiring.

4.5 Combined with TfL’s existing proposals to enhance safety in PHVs, such as potentially introducing an advanced driving assessment following a consultation held in 2018, any proposed changes could create additional costs for which licensees could also potentially be liable.

4.6 Owing to the range of changes that are anticipated during the next 12 months, we propose to maintain the licence fees at the current levels with a view to introducing new fees in the autumn of 2020.

4.7 This will allow time for TfL to consider any such changes and additional costs resulting, and the extent to which such costs should be recovered for the particular licence category.

Private hire operator licence fee structure

4.8 Following feedback from the private hire trade, we are also exploring whether a further change to the structure of private hire operator licence fees is appropriate and what a future structure could look like. For example, a per-vehicle charge under which the sums paid by licensees could more precisely reflect the number of vehicles available to them.

4.9 We have now improved the process for private hire operators to report the details of private hire drivers and vehicles available to fulfil bookings each week, which gives a more complete data set from which to model a change in structure.

4.10 We will continue to explore a range of potential structures and, should a change in structure be required, bring further proposals to the Committee for consideration following a public consultation, if appropriate.

List of appendices to this report

None

List of background papers

None

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Finance Committee

Date: **1 July 2019**

Item: **Taxi Fares and Tariffs Update**

This paper will be considered in public

1 Summary

1.1 This paper is to update the Committee on TfL's annual taxi fares and tariffs review.

1.2 TfL's proposals, subject to public consultation, are set out in section 4 below.

2 Recommendation

2.1 The Committee is asked to note the paper.

3 Update

3.1 Taxi fares and tariffs are typically reviewed annually with changes coming into force in April. However, last year the review was delayed and the changes were made in October 2018. It is anticipated that any changes proposed for 2019 will be implemented after October this year.

3.2 TfL will hold a consultation to obtain views of the public, taxi trade and other stakeholders on its proposals. The consultation will be launched during the summer and open for six weeks, with a further three to four weeks expected to be needed for the analysis of responses.

3.3 TfL is aiming to present its recommendations for consideration at the Committee's meeting on 9 October 2019.

3.4 Any changes to taxi fares and tariffs would come into effect in around six weeks from being approved to give the relevant licensees and companies sufficient time to physically update taximeters.

4 2019 consultation proposals

4.1 We are seeking views on the following proposals:

Area	Days and times applicable	Proposal
Minimum fare	At all times	Increase by 20 pence (6.7 per cent) taking this from £3.00 to £3.20
Tariff 1	Monday to Friday, 05:00-20:00	Increase by 1.9 per cent
Tariff 2	Monday to Friday, 20:00-22:00 and Saturday and Sunday, 05:00-22:00	Increase by 1.9 per cent
Tariff 3	Every night 22:00-05:00 and public holidays	Freeze
Tariff 4	For journeys over six miles	Freeze tariff rates

4.2 We are also proposing to:

(a) extend the arrangements in place to cover significant increases or decreases in the price of diesel;

(b) increase the fixed fares for shared taxis from Euston Station to Lord's Cricket Ground by 50 pence when Tariffs 1 and 2 apply; and

(c) make a small change to when the tariff rate for journeys over six miles (Tariff 4) starts.

4.3 We are also seeking views on:

(a) the Cost Index and if changes should be made to this; and

(b) taxi fares late at night and Tariff 3.

List of appendices:

None

List of background papers:

None

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Finance Committee

Date: 1 July 2019

Item: Update on income from developers through planning obligations

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This paper will be considered in public

1 Summary

1.1 This paper provides the Finance Committee with an end of year (2018/19) update on the Mayor's Community Infrastructure Levy (MCIL), Borough CILs, Section 106 (s106) funding and other developer contributions/funding mechanisms that will support either the funding of Crossrail or other (TfL) transport priorities.

2 Recommendation

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

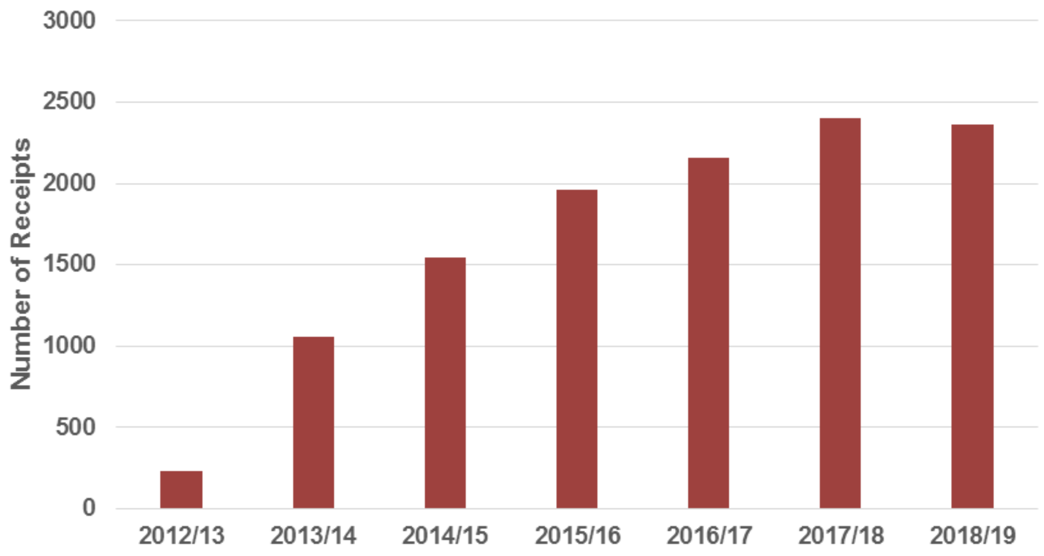
3 Background

3.1 TfL is responsible for advising the Mayor on the transport issues associated with planning applications referred to him under the Greater London Authority Act 1999 (GLA). TfL City Planning is responsible for appraising the transport impact of proposed developments and negotiating appropriate transport mitigations with developers and boroughs to enable developments to function effectively and ensure good growth. We attend the weekly Mayoral and Deputy Mayoral Planning meetings and ensure that TfL's requirements and priorities are understood. There were approximately 300 referable planning applications involving significant TfL input last year, as well as hundreds of non-referable applications with transport implications and input.

3.2 Securing planning obligations is inherently related to the level of development activity and the implementation of relevant planning permissions. Development activity tends to be cyclical and is strongly influenced by local, national and global factors. Development figures for 2018/19 will be available in the forthcoming London Plan Annual Monitoring Report published by the GLA this summer.

3.3 MCIL becomes payable on commencement of development and the number of individual payments therefore acts as a good indicator of the level of development activity across the capital. Figure 1 details the annual MCIL receipts since MCIL was introduced in 2012 and it shows a levelling off in receipts in 2018/19. Commentators are currently divided on potential future movement in the property market, primarily due to continued Brexit uncertainties.

Figure 1: Mayoral CIL receipts as a proxy for development activity



3.4 This annual report provides information for the 2018/19 financial year on:

(a) Contributions for Crossrail through the Mayoral CIL and the Crossrail Supplementary Planning Guidance;

(b) Borough CILs;

(c) Section 106 and other developer contributions for other transport projects; and

(d) A number of other funding mechanisms contributing to transport, including the Royal Docks and Croydon Growth Zone.

4 Developer contributions towards Crossrail

4.1 Under the Crossrail funding agreement with the Government, TfL had to raise £600m by 31 March 2019 from developer contributions via a combination of Crossrail s106 planning obligations and Mayoral CIL payments. By that time, the figure had been exceeded by a substantial £126m.

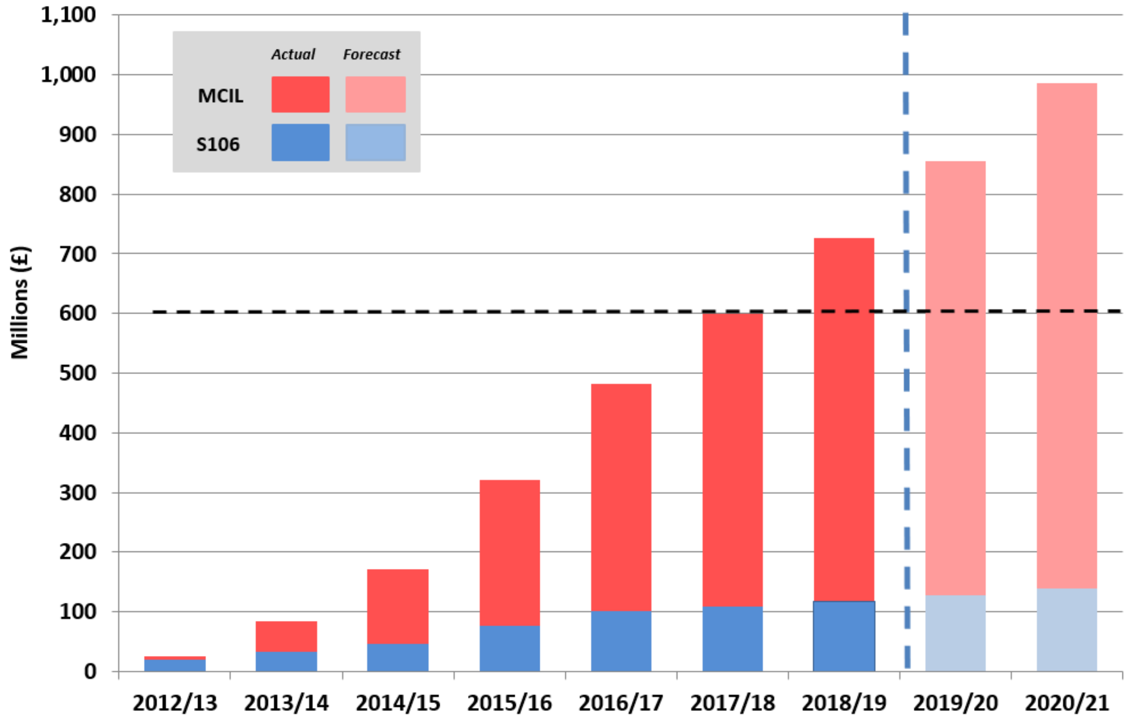
4.2 New arrangements are now in place, with the Mayoral CIL Charging Schedule (2012) and the Mayoral Crossrail Funding Planning Obligations SPG (2016) now superseded by new charges in the revised MCIL Charging Schedule (MCIL2). These new higher charges came into effect in April 2019.

4.3 The income from MCIL2 was originally intended to help fund Crossrail 2. However, the delay and increased costs of the Crossrail 1 project have meant that the income from MCIL will now be used to complete Crossrail 1.

4.4 It is important to note that receipts will continue to be collected for MCIL1 from chargeable developments first permitted prior to the 1 April 2019. Crossrail s106 planning obligation SPG payments will also continue to be made for permissions granted before this date.

4.5 Figure 2 shows the developer contributions made towards Crossrail (with actual receipts to the end of 2018/19) together with forecasts for the two years until March 2022. At the end of the financial year 2018/19, a combined total of £726m in receipts had effectively resulted in the original target £600m developer contribution to Crossrail being significantly exceeded prior to the transition to MCIL2.

Figure 2: Cumulative total of Crossrail funding – actual and forecast



Mayoral Community Infrastructure Levy

4.6 Boroughs and Mayoral Development Corporations (MDCs) act as collecting authorities and are responsible for gathering the appropriate MCIL payments and transferring them to TfL, which administers MCIL on the Mayor's behalf. This is managed via a system of quarterly reporting and transfer of funds to a defined programme. This structure is firmly established and works well.

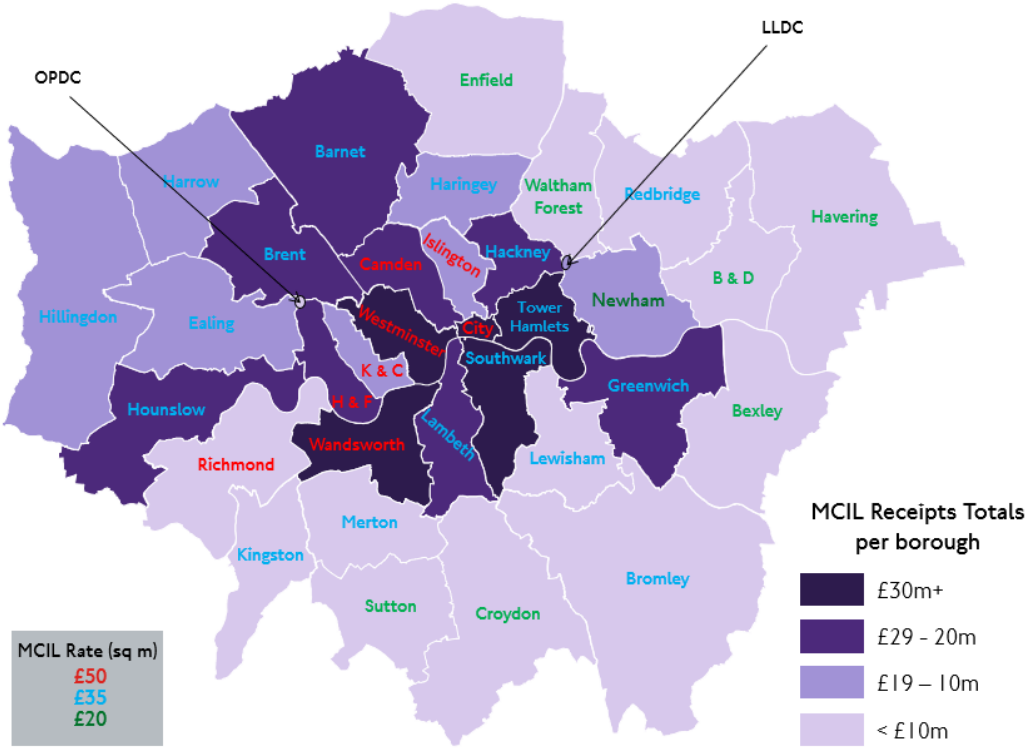
4.7 MCIL receipts have now reached £608m on a cash basis. The 2018/19 receipts totalled £117m and are higher than the previous year's total annual return of £109m (although lower than the highs of 2016/17).

4.8 As anticipated, the last six months of 2018/19 saw an increase in the number of MCIL demand notices issued as developers sought to secure planning permission and commence development prior to the introduction of the higher rates in MCIL2. Future annual MCIL receipts are expected to exceed £100m in 2019/20 and are anticipated to increase as developments subject to the new MCIL2 rates commence (Figure 2). However, returns will continue to be dependent on a stable property market and related to wider economic activity and confidence.

4.9 During the last year the number of single large payments of more than £1m has increased from seven to 10, but has not reached the levels experienced in 2016/17 either in terms of value or number of such developments. Notably, there was also a shift in the location of development activity last year, with approximately half of all single large developments paying more than £1m taking place in outer London, where there were no such payments in 2017/18.

4.10 Figure 3 shows MCIL receipts secured by value across London since it was introduced in 2012. Generally, and unsurprisingly, there is a correlation between the overall value of receipts generated and the applicable CIL rate (£50/£35/£20 per square metre). Collecting authorities with the highest value receipts of more than £20m are generally concentrated in central/inner London either side of the river. Outer London boroughs to the northwest and west; namely Barnet, Brent and Hounslow have also generated significant receipts of more than £20m. Meanwhile, fourteen authorities have generated less than £10m in Mayoral CIL receipts since 2012, with seven of these in the lowest charging band.

Figure 3: Comparison of total MCIL received by collecting authorities to date



4.11 Eleven authorities have generated more than 60 per cent of the £608m of MCIL raised by the end of 2018/19, with Westminster and Tower Hamlets having receipts of more than £60m and £55m respectively. Last year the five authorities generating the highest receipts were Westminster (£12m), Brent (£9.4m), Hounslow (£8.8m), Wandsworth (£7m) and Camden (£6.5m). Notably, the shift in development activity towards outer London over the last twelve months is further confirmed by the presence of Brent and Hounslow in the top five.

Crossrail Supplementary Planning Guidance (SPG)

4.12 The interaction between the MCIL and Crossrail s106 contributions is such that a significant part of what would have been s106 in years past is now collected as MCIL. Crossrail s106 contributions will continue to decline and this decline will accelerate following the introduction of MCIL2, with no further Crossrail SPG applying to developments granted planning permission after 1 April 2019.

4.13 The Crossrail SPG required s106 funding to be secured for Crossrail from certain commercial developments. The SPG is land use (office, retail and hotel) and spatially specific (central London, the Isle of Dogs and the areas immediately around Crossrail stations). Section 106 funds collected in accordance with the

Crossrail SPG during 2018/19 totalled £9m from 26 developments, bringing the total collected since its inception to £118m. Last year the two largest s106 Crossrail payments were from developments in the City and Westminster (£1.7m and £1m respectively). A major contribution for Crossrail was expected from the Wood Wharf development in 2018/19 but receipts are now anticipated in 2019/20. While Westminster and Tower Hamlets have dominated in terms of MCIL receipts, the City has generated the most Crossrail s106 receipts.

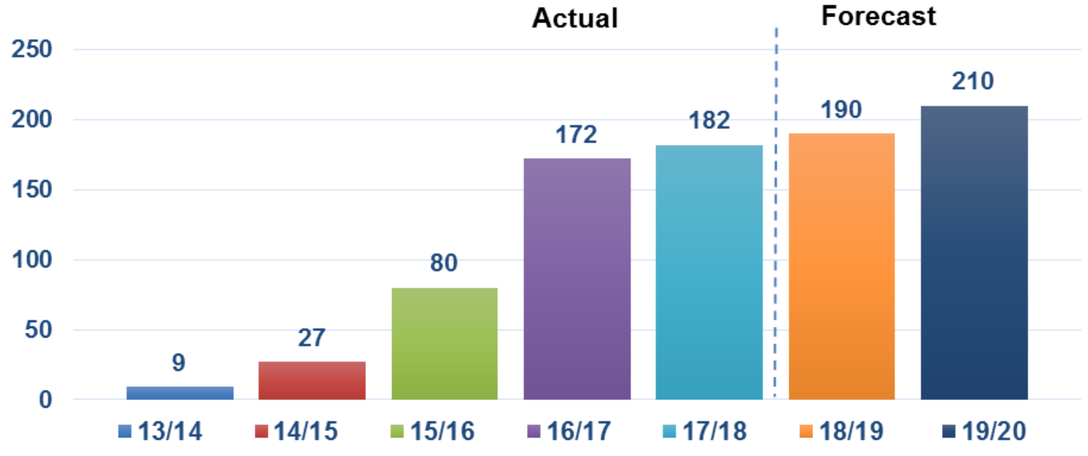
5 Borough and Mayoral Development Corporation CILs (BCIL)

5.1 By the end of 2018/19, there were thirty-one borough and Mayoral Development Corporation (MDC) CILs in place and charging in London; with only four London authorities now without an adopted charging schedule in place. CIL reporting is retrospective with figures published annually in December for the previous financial year (as specified by the CIL Regulations); so the BCIL figures in this report are therefore only able to report up to the end of 2017/18.

5.2 Figure 4 shows BCIL receipts collected across London from the 31 charging authorities currently levying a charge. This shows that BCIL receipts have increased significantly year on year up to 2016/17 as borough CILs took effect and CIL liable developments commenced. As expected, they have grown at a more modest rate in 2017/18, with CIL income ramping up after introduction (as the proportion of permissions subject to the levy grows), before levelling off to reflect the general level of development activity.

5.3 There is substantial variation across London in the level of annual BCIL receipts generated. For example, Brent (£28.9m), Wandsworth (£24.7m), Westminster (£14.3m) and Tower Hamlets (£13.3m) are producing annual BCIL receipts of more than tenfold of those generated in boroughs such as Bexley (£429k), Redbridge (£466k) and Enfield (£478k), reflecting different viabilities, rate levels, commencement of large scale developments and other factors such as when the relevant BCIL was introduced.

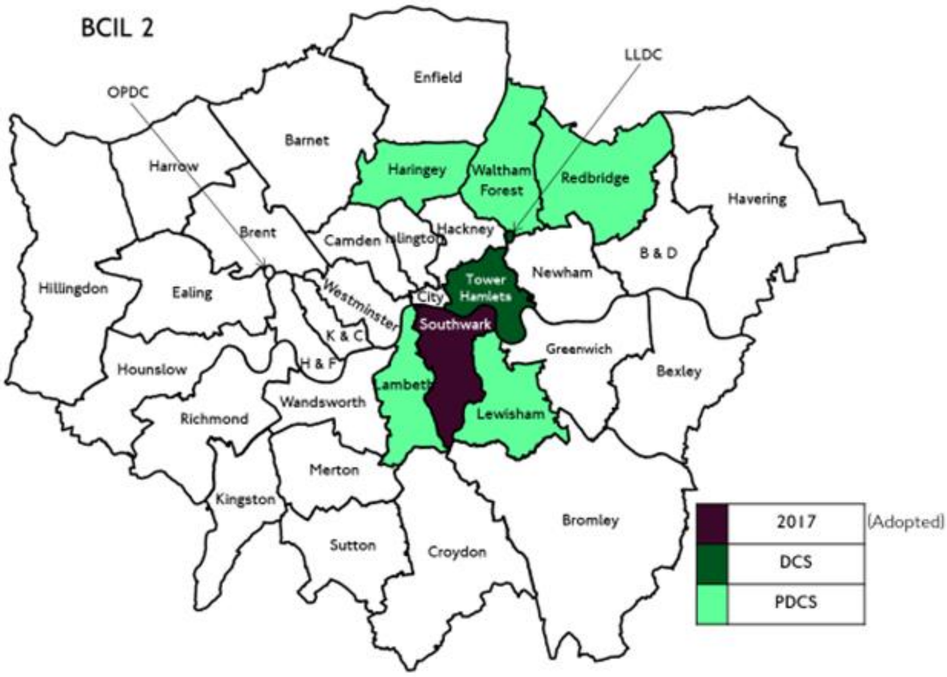
Figure 4: Annual borough and Mayoral Development Corporation CIL receipts actual and forecast



5.4 It is anticipated (Figure 5) that overall receipts from BCIL will continue to increase over time, modestly at first (2018/19), but more significantly as authorities review and adopt updated charging schedules with higher rates. (It takes on average 18 months to two years for a CIL to take effect, although recent changes to consultation requirements proposed by the Ministry of Housing, Communities and Local Government (MHCLG) may make CIL adoption quicker).

5.5 Notably, Southwark is the first London authority to adopt a revised charging schedule in 2017/18. Figure 5 shows a further seven authorities that are currently reviewing their charging schedules, with five at preliminary and two at draft charging schedule stages.

Figure 5: Borough CIL review progress



5.6 Unlike the Mayor, boroughs and MDCs are not confined to spending CIL receipts on transport and there are many competing demands for the funding. The main purpose of BCIL is to secure funding for key infrastructure (including health, education, transport, and community) which is necessary to deliver the local plan. Infrastructure requirements are usually set out within the Infrastructure Delivery Plan as part of the local plan evidence base, and those items or types of infrastructure to be funded from BCIL are identified on a CIL Regulation 123 List.

5.7 In 2017/18, BCIL spend increased significantly to an all-time high of £87.7m (from £30.1m the previous year). This represented just under half of all monies received in 2017/18. It is anticipated that BCIL spend will continue to increase in future years as infrastructure priorities are identified and agreed, significant sums accumulate to deliver specific items of infrastructure, BCIL governance arrangements are ratified and borough CILs reviewed (although the balance between transport and other priorities cannot be pre-supposed).

5.8 TfL works closely with boroughs and MDCs to identify opportunities to deliver shared transport priorities, and we are in discussion with a range of boroughs in relation to the allocation BCIL funds. Efforts are being made to increase transport's share of the BCIL collected across London, and London Plan policy is explicit that transport has equal top priority with affordable housing in relation to planning obligations. This reflects the fundamental importance of transport provision in enabling sustainable growth and unlocking sites for development.

5.9 In 2017/18, significant sums were spent on community and leisure facilities (£15.8m), parks and open spaces (£7.6m) and education (£7m). However, BCIL funds have also been secured and spent on a range of transport projects across London. For example, £8.4m for Hackney Wick station (Hackney/LLDC), £4.75m for the Northern line extension (Wandsworth) and £1.4m for Lee Bridge Road station (Waltham Forest).

5.10 During this past year, we have also secured commitment to a number of further schemes, including £2.2m (BCIL/s106) from the London Legacy Development Corporation and £1m from Newham towards a new entrance at Stratford station.

6 Ensuring appropriate transport mitigations

6.1 Planning applications that are referred to the Mayor are often approved subject to a package of mitigation measures, including transport, which reflect negotiations by TfL City Planning with developers and boroughs. Our aim is to ensure that developments promote active travel; support public transport; minimise traffic impacts, and overall deliver good growth. We seek to ensure that transport requirements are prioritised as far as possible. The measures that are negotiated vary enormously in type and scale but must all be within the established legal tests (directly related to the development, necessary to make the development acceptable in planning terms and fairly and reasonably related in scale and kind—as set out in the CIL regulations).'

6.2 They can include major, multi-million pound projects such as the new Bank station entrance at the Bloomberg building in the City, through to schemes involving minor works (for example bus stop improvements or way finding) which may cost as little as £5k. As well as transport infrastructure obligations defined in the s106 agreement, TfL often benefits from a range of schemes which are delivered directly and do not involve funds being transferred to TfL. This includes the recently opened Southbank entrance to Waterloo at the Shell centre, and the bus stations at Stratford and London Bridge.

6.3 In 2018/19, TfL negotiated a total of £25.88m in non-Crossrail s106 contributions. The majority of this was in respect of improvements to be delivered on the TLRN (£10.85m) and bus service enhancements (£10.48m). Individual negotiated obligations of note include Northfield Industrial Estate, Brent (£6.7m toward buses and rail improvements); Ruby Triangle, Peckham (£3.11m toward improvements to the local bus network) and Land at Imperial Street, Bromley by Bow (£2.51m toward A12 junction works and Legible London signage).

6.4 Currently, there are about 690 s106 agreements (Crossrail and non-Crossrail) being actively monitored on a quarterly basis as they (potentially) come forward for implementation by TfL. It is important to note, however, that s106 delivery is complicated by a number of issues. For example, TfL is a signatory to only a handful of these agreements and is therefore rarely involved in the final detailed provisions agreed between the local planning authority and developers. Furthermore, monitoring the agreements is complicated by any subsequent revisions to a planning application (and associated planning agreement), or by significant time lags between the date the s106 is signed and the trigger for the mitigation measures. Also, receipt/delivery is, of course subject, to the development actually proceeding.

6.5 In 2018/19, £6.19m was actually received by TfL in non-Crossrail s106 planning obligations, more than half of which (£3.27m) was to mitigate the impact of development on the bus network.

6.6 There are also other bespoke arrangements to secure significant contributions towards strategic transport infrastructure. For example, the development of the Northern line extension is subject to distinct arrangements managed through separate funding agreements by the GLA. TfL received £161.5m from the GLA in 2018/19 (net of MCIL and s106) to deliver the project. Meanwhile, funding for Woolwich Crossrail station is secured via an arrangement with Greenwich Council, the GLA and developers, with £15.2m received net of MCIL toward the project in 2018/19. We have also secured £182m from the GLA and L&Q for the Barking Riverside extension, complemented by £11m to pump prime bus services, over £5m for Renwick Road and developer funded roads, some of which are bus only. Bus priority measures and provision of stops, stands and bus driver facilities are all part of this package.

6.7 TfL City Planning also negotiates Section 278 agreements for highway improvements on the TLRN, ranging from small scale improvements such as footway renewal to larger scale works. The total value of these works amounts to millions of pounds each year, often delivering critical infrastructure, and is funded by developers at no expense to TfL. An example of large scale works in 2018/19 includes Kidbrooke Village regeneration where TfL worked with the developer to deliver £4.4m of highway works.

7 Securing wider funding packages to deliver MTS objectives

7.1 In the context of challenging financial constraints, it is ever more important for TfL to be proactive in seeking additional sources of funding to deliver infrastructure priorities and the Mayor’s Transport Strategy (MTS). During 2018/19, City Planning has increased its efforts to identify funding for transport, working with the GLA, boroughs and other partners to secure several further notable funding streams in 2018/19 for transport priorities. These are summarised below. These funds may be used solely or in combination with MCIL and s106 developer contributions, and other funding sources to deliver projects over several years.

Croydon Growth Zone

7.2 The Croydon Growth Zone is an area designated by the Secretary of State which allows Croydon to retain 50 per cent of the growth in business rate income locally for a period of up to 16 years, with an option for a three year extension if required. This will finance and repay the £309m of borrowing Croydon will be undertaking to finance its proposed contribution to the design and construction costs of the infrastructure investment required for redevelopment in the Croydon Opportunity Area. Transport projects include:

(a) £58m for Tram network enhancements (including Wandle Flyover double tracking to help achieve 18 trams per hour);

(b) £10m for bus capacity and network upgrades;

(c) £20m towards the Fiveways TLRN transformational scheme; and

(d) £11.2m for Healthy Streets improvements.

Royal Docks

7.3 The Royal Docks Enterprise Zone (EZ) Delivery Plan was approved by the Mayor of London and is a five year regeneration programme that seeks to transform the Royal Docks and accelerate the delivery of commercial space within the area. The GLA are expected to forward fund the EZ delivery plan through prudential borrowing, to be repaid from business rates generated over the life of the EZ. Developer contributions will also contribute to infrastructure required in the area. Investment by the EZ will contribute approximately £35.7m to the Docklands Light Railway (DLR) upgrade over the five year period (commencing 2019), with further monies earmarked post plan.

7.4 DLR upgrades are critical to the successful regeneration of the Royal Docks and TfL will be delivering the improvements funded by the EZ. Several stations have been identified as part of the DLR station upgrades, including Beckton Park; Pontoon Dock; Royal Albert; Royal Victoria; Gallions Reach and Canning Town.

Housing Infrastructure Fund (HIF)

7.5 The HIF is a government capital grant programme of up to £5.5bn which the MHCLG hopes will deliver up to 200,000 new homes across England. Grant funding is awarded to local authorities on a competitive basis for new infrastructure that will unlock homes in the areas of greatest demand. TfL have been working closely with the GLA to develop bids to secure up to £1bn of this funding for London to upgrade transport infrastructure and unlock new homes.

7.6 The bid to upgrade the DLR was announced as successful by the Chancellor at the Autumn Statement 2018. TfL will receive £291m of funding for a package of infrastructure to increase the capacity of the DLR and support up to 18,000 new housing units. This includes funding to purchase fourteen additional DLR trains, the expansion of Beckton depot to accommodate them, a contribution to a new station at Thameside West, and a contribution to a TfL Commercial Development-led housing scheme at Poplar.

7.7 The HIF bid to deliver enabling works for the development sites in Old Oak Common was announced as successful by the Chancellor at the Spring Statement 2019. The £250m of funding is focused on land assembly, utilities and internal streets and bridges rather than strategic transport infrastructure, although this should enable TfL to deliver the hybrid bridge (c£20m) across the canal, providing access from Old Oak Common station to Old Oak North.

7.8 Two further HIF bids were submitted to Government by TfL and the GLA in December 2018, on which we anticipate a decision before the summer recess of Parliament. A bid for £85m to upgrade the East London line (ELL) consists of funding to increase the capacity of the core section of the line from 16 to 20 trains per hour, as well as an expansion of Surrey Quays station and a new station at Surrey Canal Road to support major housing development sites. In addition, we have also supported a bid for £200m to underpin the development of Meridian Water, including the potential to operate higher frequencies of the West Anglia

Mainline. If successful, both bids will provide significant transport benefits as well as unlock land for housing.

7.9 There are also two further HIF bids which were submitted to Government in March 2019. The Transforming London Riverside bid includes funding for a new station at Castle Green on the new Barking Riverside extension line, which would be operated by TfL. This new station is required to support the development of 5,000 new housing units on land owned by Barking and Dagenham around the station. The bid also includes a contribution to the cost of a new junction at Renwick Road on the A13, where a planning condition exists that states the junction must be built before 6,800 housing units at Barking Riverside can proceed. This bid additionally covers a new station at Beam Park (which would be delivered by Network Rail) to support the delivery of 3,000 new homes. The total bid amounts to c£204m with approximately £40m in project funds for TfL, if successful. The second bid is for the Royal Docks which includes funding for land assembly, flood infrastructure as well as an upgrade to Pontoon Dock station, which TfL would deliver.

7.10 Finally, TfL has also helped to secure a further £320m of funding from Homes England to support the Brent Cross development, although this is not formally from the HIF pot. TfL has recently been working with developer Argent to develop a scheme at Brent Cross that is in line with the MTS (following the decision by Hammerson to put on hold the redevelopment of Brent Cross shopping centre). This decision had threatened to stall wider plans for growth and had jeopardised funding for a new Thameslink station, which is critical to support up to 7,500 new housing units. Government have now announced that they will provide £320m of funding to Barnet so that the station works and housing developments can progress. This is also expected to fund the creation of a new town centre and employment space south of the North Circular Road.

Using the TfL Growth Fund to secure third party contributions to schemes

7.11 The TfL Growth Fund is focused on leveraging significant amounts of third party funding (from developers, from boroughs and increasingly from Government) to maximise the benefits of TfL’s contribution. Importantly, the Growth Fund does not just enable new homes/regeneration but also contributes to delivering wider TfL Business Plan and MTS priorities; including step-free access, Healthy Streets and station upgrade programmes. There are a number of examples of how the Growth Fund is being used to secure third party contributions below. This includes:

(a) Colindale Station - a Funding Agreement was agreed with LB Barnet in January 2019 to deliver a new station with step-free access and also deliver over 500 housing units and significant Healthy Streets benefits. This committed £5m of the Growth Fund, with Barnet committing £14m via s106 and other sources.

(b) Surrey Quays station - British Land has agreed to commit £10m to upgrade the station subject to TfL Growth Fund or HIF providing the remaining contribution. This scheme supports substantial growth in Canada Water, delivering c3000 homes and around 25,000 jobs, and will deliver significant improvements to the station (including step-free access).

List of Appendices:

None

List of Background Papers:

MCIL2 Charging Schedule: Mayor of London Community Infrastructure Levy 2 Charging Schedule (January 2019)

Supplementary Planning Guidance: Use of planning obligations in the funding of Crossrail and the Mayoral Community Infrastructure Levy (March 2016)

Community Infrastructure Levy Charging Schedule – Mayor Of London (February 2012)

CIL Regulations 2010, as amended 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019

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Finance Committee

Date: **1 July 2019**

Item: **DLR Franchise**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to describe negotiations with the service operator Keolis Amey Docklands Limited (KAD) and seek approval for an extension to the existing franchise for the provision of passenger operations and maintenance of the Docklands Light Railway (DLR).

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplementary information. 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 advice. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 **The Committee is asked to:**

(a) note the paper; and

(b) approve additional Procurement Authority, as set out in the paper on Part 2 of the agenda, for an extension to the current franchise agreement for the Docklands Light Railway and the maintenance of the Lewisham extension, as described in this paper and the related paper on Part 1 of the agenda.

3 Background

3.1 DLR currently franchises all aspects of train and passenger service operations and maintenance of rolling stock and maintenance of the majority of the infrastructure under a franchise agreement with KAD which is due to expire on 31 March 2021.

3.2 The authority for this franchise was granted by the Board on 3 July 2014, and includes a pre priced option to extend the franchise term for up to a further two years and seven reporting periods up to October 2023. This option is exercisable at DLR's discretion.

3.3 The infrastructure on the extension to Lewisham continues to be owned by the private sector contractor under a Private Finance Initiative concession where the private sector is responsible for the design and construction of the infrastructure and its subsequent maintenance and renewal. This concession expires in 2021, coterminous with the current DLR franchise.

3.4 We currently retain the majority of revenue risk on the DLR network as well as the right to specify services and the current franchisee is remunerated with a fixed fee, adjusted for performance against defined service performance metrics, with a package of incentives for increased performance and abatements for below target performance. These metrics relate primarily to achieving departures on time, journey times and customer service.

3.5 The current franchise has been highly successful in performance terms with consistent high levels of operating performance (with KAD regularly achieving 99 per cent of trains on time).

3.6 There are numerous development activities happening on and around DLR infrastructure over the course of the business plan. New rolling stock is being procured, and alongside this the depot at Beckton is being redeveloped and expanded. The Isle of Dogs and South Poplar sit at the centre of an opportunity area for unlocking housing development within the London Plan. TfL has secured Housing Infrastructure Fund funding of £291m to deliver infrastructure to support the development of 18,000 new homes in the Docklands areas. This will include reviewing the development of a station at Thamesmead, and examining options for oversite development at the Poplar depot.

3.7 All of these projects have the potential to impact on the day to day running of the DLR. and it is proposed that going back to the market at such a time of change, and one that wasn't anticipated when the current franchise was set up, is likely to attract a premium above affordable levels. Experience of contracting both in London and in the wider UK market also suggests that changing the contractor at a point of introducing wholesale change, and particularly major depot and train introduction, invites a significantly higher degree of delivery risk, irrespective of price.

List of appendices to this report:

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

List of Background Papers:

None

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Finance Committee

Date: **1 July 2019**

Title: **Build to Rent**

This paper will be considered in public.

1 Purpose

1.1 The purpose of this paper is to seek approval for our proposed investment partnership with Grainger Plc. to fund the development of a major Build to Rent (BtR) portfolio across London. This proposed investment partnership is consistent with TfL's current Business Plan and Commercial Development's Growth and Investment Strategy. The aim of the programme is to help deliver long term recurring income for reinvestment in the transport network, whilst also helping to deliver long term quality rental homes for individuals and families, managed fairly and to the highest standards.

1.2 This paper seeks the authority to invest in a joint venture vehicle (JVCo), to set up a new TfL subsidiary company (Hold Co) to hold the shares in JVCo and for Hold Co to enter into the corresponding joint venture agreement (JVA) with a Grainger entity following successful completion of the partner selection process in March 2019.

1.3 This paper also seeks delegated authority to the Chief Finance Officer to authorise the disposal of sites, and investment into JVCo as required, subject to the site-specific business plans satisfying agreed investment metrics and the best value and state aid obligations set out in this paper. The initial sites include Arnos Grove, Canning Town (Limmo), Cockfosters, Montford Place, Nine Elms, Southall and Woolwich.

1.4 The supplemental paper on Part 2 of the agenda contains information that is exempt and is therefore not for 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 financial and business affairs of TfL.

2 Recommendations

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

(a) approve the investment sum and Land Authority up to the maximum set out in the paper on Part 2;

(b) approve the formation of a subsidiary entity (Hold Co) as a wholly owned subsidiary of TTL Properties Limited for the purposes of entering into the joint venture agreement (JVA) with a Grainger entity;

(c) delegate authority to the Chief Finance Officer to authorise the disposal of sites, and investment into the joint venture vehicle (JVCo)

as required up to the maximum value of the investment sum, where the corresponding site-specific business plans satisfy;

(i) the agreed investment metrics set out in the paper on Part 2; and

(ii) best value and State aid obligations;

(d) delegate authority to the Chief Finance Officer to authorise any other matters relating to the disposal and development of the sites including the provision of associated guarantees and warranties provided such authority shall not exceed the maximum investment sum;

(e) note the proposal for the formation of wholly owned subsidiaries of JVCo for the purposes of developing, operating and/or owning sites on the basis set out in this paper; and

(f) note the proposal for a formation of a "For Profit" Registered Provider (FPRP) as a wholly owned subsidiary of the JVCo for the purposes of operating and owning affordable homes on the basis set out in this paper.

3 Background – Build to Rent Market

3.1 Build to Rent (BtR) is an emerging market sector that focuses on developing purpose-built residential buildings specifically for rent. BtR is distinct from the existing Private Rented Sector (PRS) as it provides high quality, purpose-built homes with professional management.

3.2 The investment case for BtR and the supporting market information has been prepared by our property advisors, Savills, and is set out in in Appendix 1.

3.3 The PRS is currently dominated by Buy to Let (BtL) investors who typically own fewer than five properties. Just 0.5 per cent of the PRS is institutionally owned and this is expected to grow considerably as it provides long-term, inflation-linked recurring income for institutions that can acquire well connected sites.

3.4 The BtR sector is rapidly evolving in the UK. There are several different business models already present in the market, ranging from an US-imported service model with a focus on amenities to a more modest mid-market offering. More business models are likely to appear as the sector matures.

3.5 The growth of the BtR sector is underpinned by the demand for quality rental product and its current undersupply. In 1990, just fewer than 60 per cent of all households in London were owner occupied. By 2011, owner-occupation had fallen to below 50 per cent. Home ownership is expected to continue to decline, due to a combination of worsening affordability, increasing supply of quality rental product and changing attitudes towards long-term renting.

3.6 As home ownership has declined, the private rented sector has grown. In 2016, 28 per cent of all households in London lived in the private rented sector. By 2025, this figure is projected to rise to almost 40 per cent, with rental overtaking owner occupation as the most common form of housing in London.

3.7 Due to the significant demand for rental accommodation, BtR is seen as a significantly lower risk product than private for sale residential which is more vulnerable to cyclical market conditions and market saturation. According to property consultants, Jones Lang Lasalle, of the 42,600 units currently under construction in central London, 15 per cent are BtR (up from six per cent in 2014) demonstrating increasing demand and investor confidence in BtR assets.

3.8 The highlighted lack of supply and depth in demand for quality rental product has resulted in the private rented sector providing long-term, inflation-linked recurring income, whilst exposure to adverse markets conditions is less relative to other property assets where returns are cyclical and more volatile.

3.9 London residential rental income has been a strong hedge against inflation, as the market has experienced rental growth of 2.90 per cent per annum over the past 20 years, and up to 4.92 per cent per annum over the past seven years, over 100 bps premium above the Consumer Price Index (CPI).

3.10 The financial characteristics of the sector appeals to long-term investors. In recent years there has been considerable investor interest in the sector with a material amount of capital seeking to either purchase developed BtR assets or forward fund the purchase of assets to be developed. Currently national investor demand to purchase and develop BtR buildings is substantial.

3.11 Significant institutional investment has also been committed to the Affordable Housing sector in recent years through the introduction of for-profit Registered Providers (FPRPs). FPRPs are increasingly attractive to BtR investors as they facilitate consistent high quality integrated management of both affordable and private tenants. For example, Legal and General have formed a FPRP with the intention of increasing housing supply and improving service delivery. The JVCo will deliver 40 per cent Affordable Housing by habitable room on each scheme that delivers a new planning application. Retaining ownership of these homes provides an opportunity for TfL to secure an additional long-term income stream.

3.12 There has also been increasing policy support for BtR in recent years in part due to the recognition of the role it can play in solving the housing crisis, in particular, its ability to accelerate delivery over alternative development models. This support is being reflected in planning policy, for example, the draft new London Plan and the National Planning Policy Framework (NPPF), as well as in financial incentives such as the BtR Fund, Homebuilding Fund and PRS Debt Guarantee scheme.

3.13 Focusing our future housing development programme on BtR will allow us to:

(a) enhance the speed of housing delivery as there is less risk of market saturation in the BtR market and bigger schemes are therefore capable of being built;

(b) retain income producing property assets that can be included on our balance sheet underpin our role as long term stewards of our estate;

(c) diversify our development programme, managing our exposure to the residential for sale market;

(d) establish exemplar safety and tenant management practices and showcase the best customer experience in the rented sector; and

(e) Retain ownership of high-quality, tenure-blind, income producing Affordable Housing for the long-term.

3.14 The BtR initiative is already planned for in the Commercial Development Growth and Investment Strategy which has four overarching objectives:

(a) sustainability – Produce growing and sustainable operating surplus for TfL from its commercial assets;

(b) self-sufficiency – Self-fund the investment programme necessary to achieve growth;

(c) liquidity – Create a potential source of future liquidity for TfL through defined strategies for each asset class to maximise value and enable future transactions; and

(d) deliver the Mayor's Transport Strategy – Deliver more than 10,000 homes under the Mayor's Transport Strategy, with a target of 50 per cent Affordable Housing by habitable room for residential projects brought to market by mid-2020; and improve accessibility of the transport system through step free access, enhancing the customer experience through in station offering and mobile connectivity.

3.15 Within this strategy, and submitted as part of the approved TfL Business Plan FY18/19, the BtR portfolio was the single biggest area of investment. In line with the approved Business Plan, the Commercial Development Growth and Investment Strategy includes target financial metrics which the investment will need to be projected to meet including:

(a) ensuring we meet best value obligations and our own financial requirements;

(b) net income yield on capital investment at practical completion, which represents the net operating income p.a. divided by total capital investment; and

(c) project IRR (internal rate of return) which reflects the annualised return over the long term (30-year hold), assuming no debt is utilised, i.e. it is all equity funded.

4 Delivering on Mayoral Priorities

4.1 Our long term investment in the BtR programme aligns our financial interests with the continued success of the places and communities we want to create in London. Combined with our mandate to deliver transport, this puts us in a position to be delivering the "Good Growth" set out in the draft new London Plan.

4.2 Given the scale and nature of this opportunity, TfL has the opportunity to drive transformative change across London in line with Mayoral priorities. The BtR programme will allow TfL to:

(a) place quality and sustainability at the heart of development, with the aspiration of delivering best-in-class projects and creating a valuable new legacy for TfL;

(b) implement the Healthy Streets approach in strategic locations across London as part of fully integrated transport-oriented developments, and create a new benchmark for sustainable development best practice in the process;

(c) implement emerging building technologies, such as precision manufactured homes, to deliver optimised building performance with respect to energy, carbon, water, waste, and circular economy across the entirety of the building lifecycle;

(a) achieve improvements in local air quality through low-emission building specifications and active measures; and

(b) promote green cover and biodiversity through the inclusion of green / blue infrastructure (i.e. natural systems that provide the ecological and amenity value associated with urban greening and water management) in developments, particularly on sites with poor levels of urban greening (such as car parks).

4.3 Where feasible and appropriate, the BtR portfolio also provides an opportunity to implement other work streams within TfL, such as:

(a) the delivery of active travel infrastructure (such as dedicated pedestrian routes, public cycle parking, and cycle lanes) as part of the Healthy Streets approach;

(b) the deployment of renewable energy technologies (such as solar panels and ground source heating) as part of TfL's emerging energy strategy; and

(c) the creation of employment and learning opportunities (through TfL's hub of the Mayor's Construction Academy and onsite learning facilities).

4.4 By delivering on these aspirations, we will be able to create higher quality projects, reducing risk and driving improved financial returns and long-term value across the BtR portfolio.

4.5 Whilst delivering on our financial objectives it is important that we also consider non-financial elements. As an example, all our developments will comply with the terms of the draft new London Plan. Within our tender documents we stipulated a minimum four star Home Quality Mark (HQM) or equivalent accreditation and an aspiration for four Star HQM status. The HQM is a national standard for new homes, which uses a simple 5-star rating to provide impartial information from independent experts on a new home's design, construction quality and running costs.

4.6 The draft London Plan also contains the requirements for housing in terms of accessibility (Policy D5 Accessible Housing) which all of our schemes will need to adhere to as a minimum. The Policy requires us to provide suitable housing and genuine choice for London's diverse population, including disabled people, older people and families with young children, residential development must ensure that:

(a) at least 10 per cent of new build dwellings meet Building Regulation requirement M4(3) ‘wheelchair user dwellings’, i.e. designed to be wheelchair accessible, or easily adaptable for residents who are wheelchair users; and

(b) all other new build dwellings meet Building Regulation requirement M4 (2) ‘accessible and adaptable dwellings’.

5 Programme Objectives

5.1 TfL Commercial Development has committed to deliver a sustainable operating surplus for TfL from its property assets for reinvestment into the transport system, and this is the key objective of the BtR programme.

5.2 The BtR programme offers an opportunity to enter into an emerging growth market and support our investment strategy to deliver sustainable long-term revenue.

5.3 The BtR programme has five further objectives which align with our Business Plan and targets for housing delivery:

(a) starting on sites that will deliver 3,000 homes by March 2021;

(b) deliver Affordable Housing in all new BtR planning consents;

(c) ensure the delivery of high-quality BtR-led developments across London, with support that includes the Mayoral Design Advocates (the Mayoral Design Advocates are a panel of 50 built environment professionals selected based on their skills and experience to help the Mayor support London’s growth. They are independent and impartial, and provide support, advice, critique and expertise on London’s built environment);

(d) drive the case for modern methods of constructions; and

(e) establish exemplar health and safety and tenant management practices.

6 Investment Partnership Proposal

6.1 Since spring 2018 we have worked with external property and legal advisors to develop a BtR proposition that would seek to meet our objectives and be aligned to the aspirations of the emerging BtR market. Further information is set out in Part 2 of the paper.

Structuring considerations

6.2 The key requirements for the structure included the ability to appoint a sole investment partner and establish a single joint venture structure in order that a commercial property vehicle could be created, with an ability to grow a brand and consolidate future build to rent projects within one structure. It was agreed that the joint venture partner should be a long-term partner, but the structure should provide flexibility to introduce third-party investors or permit different percentage interests between the joint venture partners on a property-by-property basis.

6.3 Our assumed model sees a JVCo and subsidiary companies (wholly-owned by JVCo): a property company for each site (“PropCo”); an operating company (“OpCo”) to hold operating leases over the residential elements of all the sites; and a For Profit Registered Provider (FPRP) to hold operating leases over the grant-funded residential elements all of the sites.

6.4 As illustrated in the structure chart below, the proposed structure meets the requirements described in 6.1. allowing a single joint venture partner to be introduced at the top of the structure, with each partner holding indirect interests in the underlying property holding vehicles. If required, third-party investors could invest into the structure at PropCo level to ensure that the overall percentage holdings between the joint venture partners would not be changed at the global, strategic level.

6.5 Utilising a PropCo / OpCo structure such as this has several key benefits:

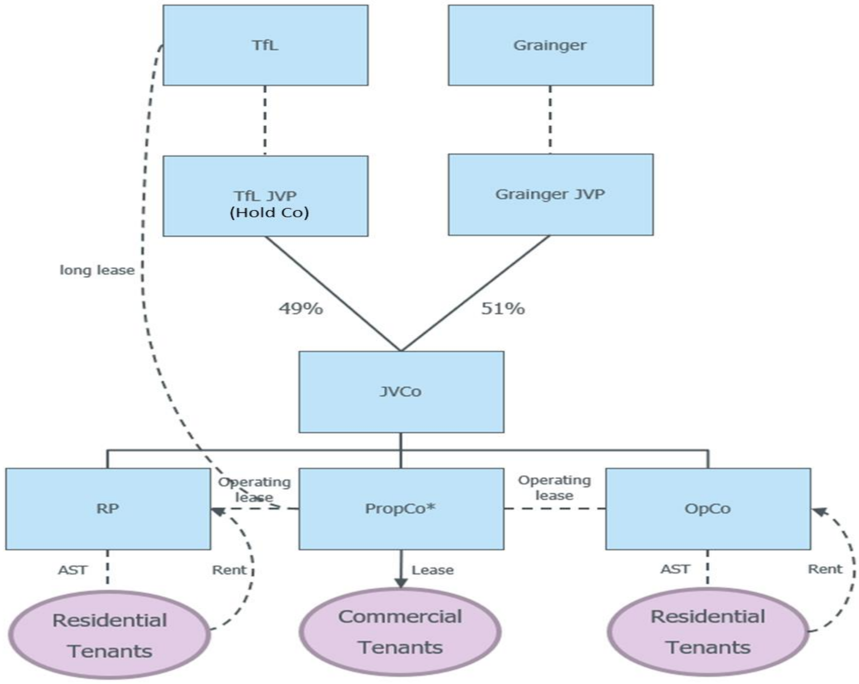
(a) it ring-fences the risks of each development within a single PropCo ;

(b) it facilitates third-party lending as security to be granted over individual properties meaning that finance can be obtained on either a portfolio or individual property basis;

(c) it preserves the ability to make a corporate disposal of the PropCo and / or change the ownership of the PropCo without altering the ownership of the rest of the structure; and

(d) it provides a VAT efficient structure, which is the key tax consideration in relation to a build to rent portfolio such as this where various chargeable supplies may be made.

Proposed Investment Partnership Structure Overview



6.6 The proposed structure assumes that a global JVCo, governed by an overall strategic Business Plan, is established on the basis of a commitment from TfL and Grainger Plc. to fund equity in a 49:51 split based on the capital requirements for the first sites.

6.7 These arrangements are documented by way of a shareholders' agreement. All JVCo Group entities will be UK limited companies subject to UK corporation tax.

6.8 The JVCo will have the ability to achieve considerable scale through access to our wider landholdings with the potential to deliver tens of thousands of homes, where such scale would deliver on our key objective of long term recurring income and meet our investment metrics.

6.9 In addition to direct delivery, it is envisaged that the investment partnership may seek to acquire additional units on other existing TfL sites via direct negotiations. We fully intend to retain our interest in the JVCo, the related properties and the underlying income streams for the long term, so long as this is in TfL best financial interests.

PropCo

6.10 Each PropCo will be responsible for implementing a site-specific business plan and reporting to the JVCo Board on progress, objectives and deliverables.

6.11 Each PropCo will be funded by a combination of equity and debt.

Registered Provider

6.12 As grant funding for affordable housing can only be received by a Registered Provider (RP), the JVCo will also set up a single, wholly-owned subsidiary to own affordable housing. This will be in the form of a FPRP which will be regulated by the Regulator for Social Housing (RSH).

6.13 Registration of the FPRP with the RSH, and granting of partner status with the GLA, will enable it to seek grant funding from the GLA. This will increase the viability of the affordable housing on each scheme and de-risk delivery.

6.14 This will preserve the optionality for the JVCo to manage affordable housing. It is common for BtR developers to retain affordable housing and this is key to realising our vision of providing integrated high quality, affordable housing onsite, as well as enabling the opportunity to benefit from a long-term stable income stream.

6.15 We have taken legal advice in relation to the operation of a FPRP and the associated regularity regime (see paragraphs 7.7 – 7.11). The process of setting up the FPRP will commence at an early stage to give sufficient time to obtain the necessary regulatory approvals.

OpCo

6.16 Once the first site is nearing completion, JVCo will set up a single, wholly-owned subsidiary to act as operator of the properties (OpCo).

6.17 On completion of the developments, the properties are to be held as long-term investments by the JVCo and managed by the OpCo.

6.18 The Opco will be responsible for appointing and monitoring the performance of the property manager, collection of rents and reporting to the JVCo Board on progress on the objectives and deliverables in relation to the operational metrics within the site-specific business plan.

6.19 It is envisaged that the properties will be refinanced at appropriate junctures with any Net Operating Income (NOI) generated being distributed back to the JVCo participants based on their established equity position levels.

7 Governance

JVCo Governance

7.1 The JVCo will be governed at distinct levels. The JVCo Board, the individual PropCo Boards, the OpCo Board and the RP Board.

7.2 The JVCo Board will represent the two partners and is responsible for the decision making and strategic direction of the partnership.

7.3 The JVCo Board is responsible to the shareholders for implementing the strategic business plan.

PropCo and OpCo Governance

7.4 The PropCo boards and OpCo board will report in to the JVCo board.

7.5 The PropCo boards will meet at least monthly with responsibility for implementing the site-specific business plans and reporting to the JVCo board on progress on the objectives and deliverables in relation to the site-specific business plans.

7.6 Following completion of the developments the OpCo board will meet monthly with responsibility for implementing the operational phase of the site-specific business plans and reporting to the JVCo board on progress on the objectives and deliverables in relation to the operational metrics within the site-specific business plans.

Registered Provider Governance

7.7 The regulation of registered social housing providers is governed by the Housing and Regeneration Act 2008 (2008 Act). The 2008 Act empowers the RSH to set standards which must be met by RPs.

7.8 Seven such standards have been issued, which can be separated broadly into two categories of economic and consumer standards. The RSH monitors compliance with these standards and has a broad range of enforcement powers should a RP be non-compliant.

7.9 The FPRP will need to have an independent board capable of demonstrating compliance with the requirements of the regulator. Whilst JVCo Board members will be on the board of the FPRP it will need to have an independent Chair and include other independent non-executive directors.

7.10 The FPRP will receive a rating from the RSH based on the quality of both governance and financial viability. The FPRP will quickly become large enough to attract in depth assessments of its governance and financial viability (similar to an OFSTED inspection).

7.11 In line with regulatory expectations the FPRP will pay out dividends only to the extent that they are demonstrably not required for the maintenance and management of the social housing owned by the FPRP (including the maintenance of appropriate reserves) and ongoing compliance with its regulatory standards.

8 Partner Selection Process

8.1 In September 2018, in consultation with the GLA, we launched an open competition to procure an investment partner to co-invest in a new corporate joint venture vehicle (JVCo).

8.2 Following 15 Expressions of Interest, we shortlisted three bidders with significant experience of Build to Rent: Argent Related, Grainger and Greystar. Final tenders from the three shortlisted bidders were received on 20 February 2019. The evaluation process incorporated input from both the GLA and our independent advisors, Savills. On 29 March 2019 Grainger plc. was named as the preferred joint venture partner and advanced to the final contract negotiation stage.

9 Grainger Plc Investment Strategy Overview

9.1 The JVCo vision proposed by Grainger Plc. in its bid is to “create high quality rental homes for London in sustainable communities where people from all backgrounds are living, connecting and thriving”. The proposed investment strategy is set out in the paper on Part 2 of the agenda.

10 Best Value

10.1 As part of the competitive process we tested the suitability of the initial seed sites and established a combination of land values and marketed tested KPIs which the JVCo will be required to deliver against to ensure Best Value is achieved. These KPIs will be monitored over the life time of the JVCo to ensure we continue to satisfy our Best Value requirements. We have set out below our robust process for injecting future sites into the JVCo where we feel it is appropriate to do so.

10.2 Where an initial site options analysis (undertaken by TfL Property Development) for a site determines BtR as the likely “best use” in terms of aligning with our best value obligations, we will present the JVCo the opportunity to submit an offer for the site. This analysis will include both land value and TfL’s future share of receipts / profit from a JVCo structure. As such the comparison looks at the total returns to TfL from the various options (on a Net Present Value (“NPV”) basis) over a fixed period.

10.3 Following receipt of the JVCo’s offer, we (as landowner), with input from our third-party valuers, will determine if we wish to accept it.

10.4 Assuming the offer is accepted by us (as landowner) an agreement for lease will be entered into. At this stage a Best Value report will be provided by a third party valuer stating the transaction meets with TfL statutory best value and state aid obligations.

10.5 Following this approach will help ensure our financial responsibility and State aid obligations are met. This process has been ratified by Savills acting as our external valuation advisors.

11 Contractual Arrangements

11.1 It is anticipated that following the obtaining of their respective internal approvals, the relevant TfL and Grainger subsidiaries will as soon as reasonably possible enter into the JVA. That agreement will regulate the decision making of the overall investment partnership, and in particular will periodically review and update the strategic business plan.

11.2 Where TfL as landowner and the JV agree a price for a site (following the process outlined in section 8) an individual PropCo will be set up and will enter into an agreement for lease (AfL), which will be conditional on discharging relevant critical conditions related to the delivery of the development.

11.3 Assuming any conditions governing the AfLs are satisfied, TfL will grant a lease to PropCo under the relevant AfL for an agreed consideration.

11.4 The land payment (paid to TfL as Landowner), unless otherwise agreed, is determined by way of market valuation having regard to RICS Valuation Professional Standards subject to town planning consent and vacant possession and also any special assumptions as defined in the site-specific business plan.

11.5 The sites will then be developed directly by the PropCo, to be funded with equity provided by the JVCo and third-party debt.

11.6 A summary of the key terms and principles of the joint venture agreement is included in the paper on Part 2 of the agenda.

12 Guarantees

12.1 Details of guarantees to be provided are set out in the paper on Part 2 of the agenda.

13 Financial Implications for TfL

13.1 The BtR portfolio gives us the opportunity to secure a sustainable revenue stream and long-term asset growth as part of our proposed 49 per cent share in the JV.

TfL Business Plan 18/19

13.2 The BtR portfolio has been included within the 2018/19 Business Plan and subsequently included in the 2019/20 Budget. Details are set out in the paper on Part 2 of the agenda.

13.3 The initial sites include Arnos Grove, Canning Town (Limmo), Cockfosters, Montford Place, Nine Elms, Southall and Woolwich.

14 Risks and Opportunities

14.1 We have set out below a series of key risks to the investment partnership and the mitigation measures that we have or will put in place:

(a) Delay / Planning Risk – In order to prepare ourselves for the next stage of the process, we have thoroughly resourced the preparation for the delivery of all the initial portfolio of sites. Planning work will be progressed on each site as we move through contract negotiation. This work will mitigate any delay and help to ensure that we will be able to deliver starts on site by March 2021. There is planning risk around emerging design principals for BtR being put forward by the market (including unit mix, amenity space and balconies) compared to some existing local planning and design policy. The ongoing planning work proposed will seek to address this, along with ongoing market engagement through the process;

(b) Viability – Initial analysis on the proposed initial seed sites indicates their suitability for BtR use. Site-specific business plans have been developed on two of the sites (with detailed responses being provided on the remaining sites) as part of the partner selection process. There is the opportunity to exclude or substitute sites to manage viability risk on a site by site basis;

(c) Reputational Risk – Poor management service levels could cause a reputational risk. To mitigate this, we set out management standards and formulated the evaluation criteria of the customer strategy with input from third-party experts as part of the bidding process to ensure we selected a preferred partner that will deliver the highest standard of tenant management as tested though the selection process;

(d) Rents – In line with the Mayor's Affordable Housing Supplementary Planning Guidance, we informed bidders of our expectation that any rent increases within the tenancies will be formula-linked and made clear to the tenant before a tenancy agreement is signed. We have met with the GLA to discuss emerging thinking on rent controls and will continue to work with the GLA to ensure an approach consistent with the emerging draft London Plan; and

(e) Build costs and growth assumptions – The bids are assessed to ensure appropriate market-facing assumptions and contingencies have been included for both build costs and growth assumptions. Sensitivity analysis will also be undertaken to assess the likely impact a change in these variables would have on returns. These variables will continue to be monitored by the JVCo to ensure the key valuation metrics for the BtR portfolio going forward can be met. Any site injected into the JVCo will need to meet these financial KPIs, unless otherwise agreed by shareholders.

List of appendices to this report:
Appendix 1- Investment Case

List of Background Papers:
None

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TRANSPORT
FOR LONDON

MAYOR OF LONDON

TRANSPORT FOR LONDON BUILD TO RENT PARTNERSHIP

A rare opportunity to partner with Transport for London
to develop a large scale residential rental portfolio

BTR MARKET OVERVIEW

This section summarises the nuances of the Build to Rent market, including some 'technical' terminology, the drivers of tenant demand, macro level support for the sector and what this means for investors.

The proportion of those living in rented accommodation has rapidly increased in the last 10 years, so much so, that by 2028 it is estimated that approximately 40% of London's households will rent their property[1].

In 1991, the Private Rented Sector (PRS) accounted for 9% of UK households (London: 14%), versus 21% today (London: 33%) and the total number of private rented households in London more than doubled in the years[2] between 2003 and 2016 to c.955,000[3].

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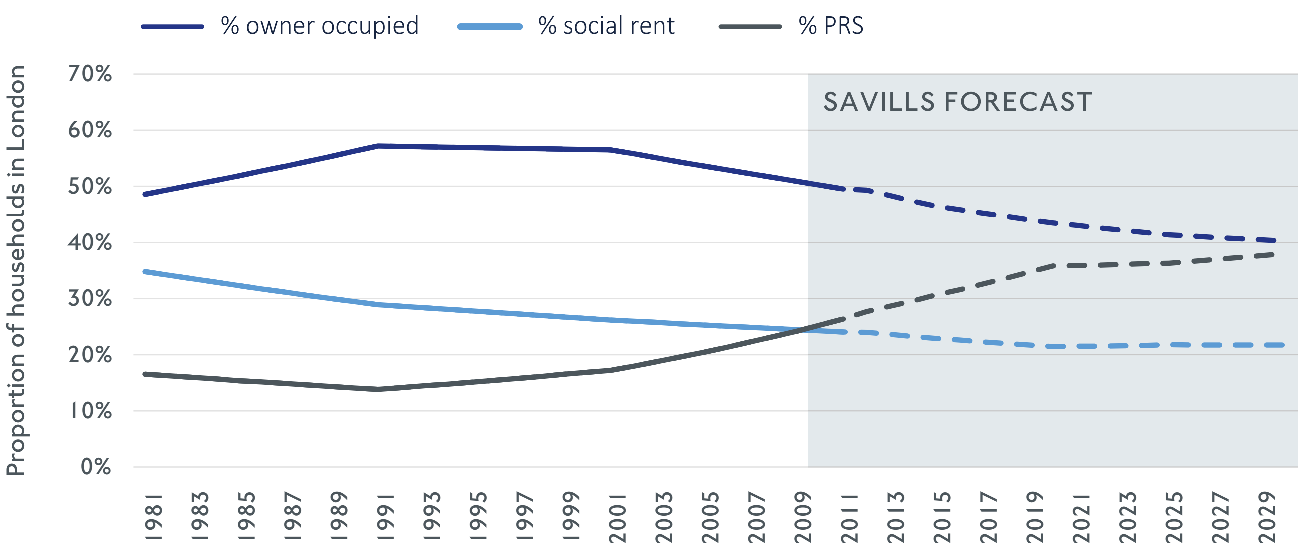


Source: Savills Research, Census, DCLG

1 English Housing Survey
2 DCLG
3 ONS

THE STRUCTURE OF THE UK RESIDENTIAL MARKET
Residential tenure terminology is diverse, below we break down the subsectors of the market.

DRIVERS OF RENTAL DEMAND

There are both non-discretionary and discretionary drivers of rental demand.

SUPPLY AND DEMAND IMBALANCE

The UK housing market is facing a crisis. Years of under supply and increasing demand generated by rising life expectancy, immigration and a growing number of one-person households have created a chronic shortage of affordable and convenient homes in those places that need them most.

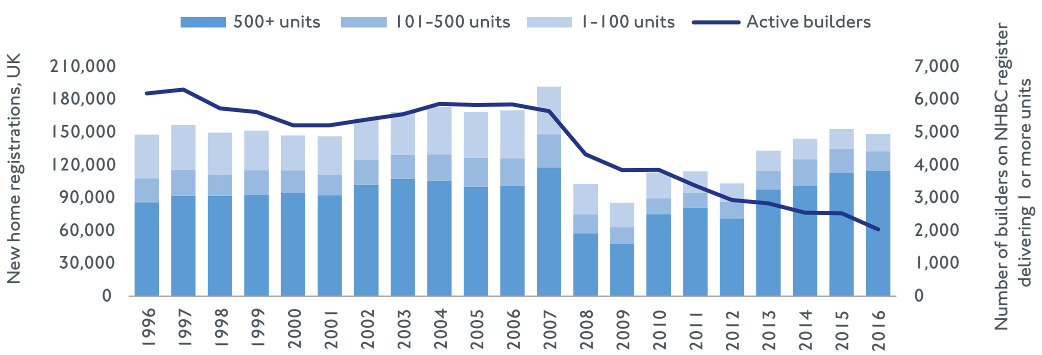
Undersupply

In the UK, it is estimated that 300,000[4] homes p.a. are required. Last year there was a shortfall of 83,000. The issue is even more acute in London – 66,000 homes p.a.[5] are needed to meet demand, with this number estimated to be c.90,000[6] if we are to ease the pressure this places on affordability.

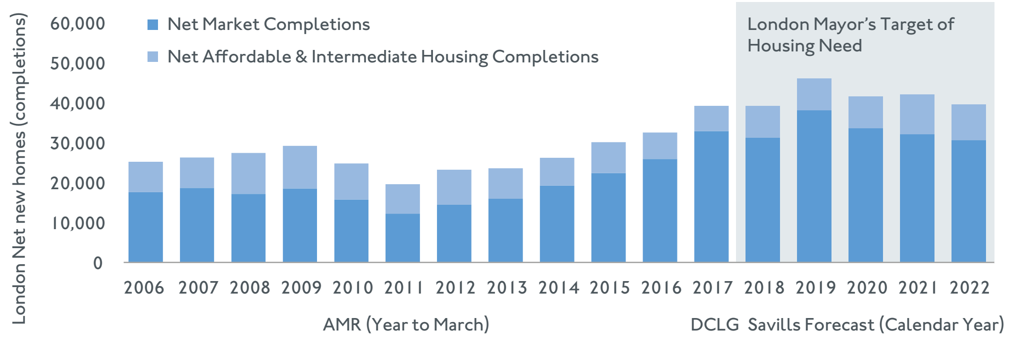
Delivery

More units are being produced by fewer large industry players as a result of market consolidation. This has in turn served to increase barriers to entry within the UK residential development sector – the ramifications of which are felt in BtR development with few options for procuring large-scale BtR portfolios.

Furthermore, residential planning applications across London fell in 2017 by 3.4%[7] . This has now led to lower 'starts on site' (down 7.3% to 21,000[8] units in 2017) and is largely the result of developers becoming increasingly cautious over stalling house price growth.



4 Autumn Budget 2017, HM Treasury
5 Strateguc Housing Market Assessment
6 Savills Research
7 Government Planning Statistics
8 Molior



Demography and Socio-economics

London's population makes up 13.6%[9] of the UK and is predicted to reach 10.8m households by 2037[10]. Additionally, household growth is being driven by an increase in single person households – in part due to an ageing population and changing family formation and break up trends. This population increase will further strain existing housing infrastructure, creating additional demand for rental accommodation.

London has both a high proportion of prime working age inhabitants (25-54 year olds) and prime age renters (20-34 year olds) at 48%[11] and 26%[12] of the total London population respectively. These persisting demographic trends partly underpin the growth of the PRS in London.

Despite an ageing population, London will retain favourable working age demographics compared to the rest of the UK and the city's ageing population will have higher levels of disposable income and greater net worth than preceding generations.

London's renters are primarily in 'Professional' or 'Science and Technology' roles[13], sectors that are expected to witness the second fastest growth in London in the next 10 years[14]. With Oxford Economics forecasting total employment to grow 9.5% by 2025, representing an additional 540,000 jobs[15].

AFFORDABILITY CONSTRAINTS

Driven by this supply and demand imbalance, affordability constraints have underpinned the persistent growth of the PRS.

House prices in London are seven times higher[16] than they were in 1993 (four times higher nationally) and have significantly outstripped wage growth.

This has severely constrained home ownership across the country which is exacerbated in London, where the median house price is 13.9[17] times the median wage. This is further demonstrated by deposits for first time buyers in London having reached £106k[18] in 2018 – three times the gross median London wage. Affordability has also been further constrained by the Mortgage Market Review restricting borrowings to around four times earnings.

CHANGING ATTITUDES TOWARDS LONG-TERM RENTING

In addition to the above, there are changing attitudes towards long-term renting that are generating growth in the sector with fewer people aspiring homeowners.

Renters are placing greater emphasis on the flexibility and convenience of renting and their ability to rent in higher quality, better served accommodation than they could otherwise afford to purchase is fuelling demand. This 'Generation Rent' has grown up with the benefit of high quality Purpose Built Student Accommodation, and the associated enhanced service offering, and as such is more likely to expect quality accommodation and value the services provided at typical BtR developments.

9 ONS
10 Oxford Economics, ASHE, Land Registry
11 ONS
12 ONS
13 Oxford Economics
14 Oxford Economics
15 Oxford Economics
16 Nationwide, Halifax
17 Nationwide, ASHE, Savills
18 Halifax

THE RISE OF BTR

Whilst the PRS in the UK is mooted to be worth some £1.5tn (or 5.17m households), much of this, (approximately 95%), is in the hands of single, Buy to Let (BtL) property landlords, with a significant lack of investment grade stock available for trading.

To meet this growing demand for high quality, well managed, purpose built rental accommodation, 'Build to Rent' has emerged in the UK over the last six years as the sector has attracted growing institutional interest and tenants' attitudes have changed.

In total, there are now c.118,000 new BtR units completed, under construction or with planning permission across the country, with over half of these units in London. Despite growth in the sector, demand for new BtR homes in London exceeds the potential supply pipeline by 231,000 units and 822,000 across the UK.[19]

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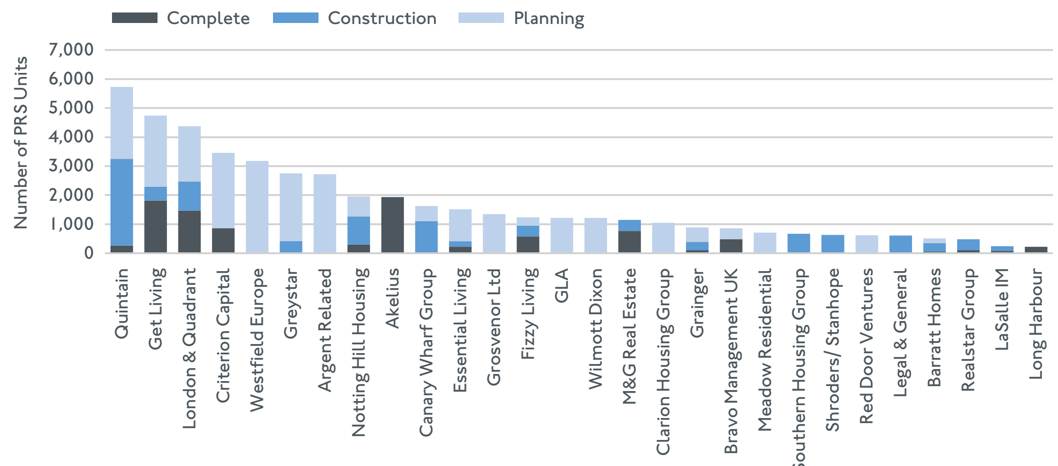
Status	London	Regions	Total
Complete	12,062	8,801	20,863
Under Construction	12,611	20,464	33,075
In Planning	35,857	28,098	63,955
Total	**60,530**	**57,363**	**117,893**

Source: BPF

LONDON BTR PIPELINE



Source: BPF/Savills

19 BPF BTR Database

THE INVESTMENT CASE

The residential investment sector has outperformed all real estate asset classes on a total returns basis since 2000.

Investment into UK residential assets reached £2.7 billion in 2017, up 23% on 2016. The residential rental sector showed resilience during the Global Financial Crisis with rental growth declining significantly less than other sectors. The gap between supply and demand is continuing to underpin rental increases in the short term, especially in high-demand, well-connected areas like that of mainstream London. The UK's low levels of institutional ownership in the residential sector is in contrast to the US (37%) and parts of Europe such as Germany (20%)[20]. Given the strong, entrenched demographic and socio-economic factors underpinning the BtR sector, its continued growth and maturity into an established asset class is imminent.

RENTAL GROWTH

Savills 2018-22 rental forecast of 17% - 20% (published Nov 2017) is in line with forecast earnings growth over the period. Subsequent (2022-28) rental growth is also expected to be in line with earnings growth and is forecast to average 3.50% p.a. over the next 10 years[21].

There is evidence of London-based PRS portfolios having delivered annual rental growth of 3.70% since 2013. This rental growth is supported by Rightmove whereby an aggregate of their London rental listings witnessed annual rental growth of 4.92% in London over the past seven years and 3.96% over the past 10 years. Published indices are largely made up of BtL investors (typically with older, inefficiently configured properties, that own single units or pepper potted stock). BtR developments are more efficient to run and evidence is starting to demonstrate the rental premiums that tenants are prepared to pay for amenities and services; they can consequently expect to outperform average rental growth.

RETURNS

Prior to 2010, net residential income returns were lower than gilts, as capital value made up such a large proportion of total return. But as gilt rates have fallen and capital growth eased, it has been possible for income-producing residential property to deliver a premium over gilts which further supports the residential investment case.

In addition to this, the residential investment sector has outperformed all real estate assets classes on a total returns basis since 2000[22], fully supporting increased investment into the sector, either from those wishing to diversify away from traditional real estate investments or new dedicated residential investors.

20 Savills, Green Street Advisors
21 Savills, Oxford Economics
22 MSCI, IPD, Green Street Advisors

GOVERNMENT SUPPORT

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THERE IS CONTINUING GOVERNMENT CROSS-PARTY SUPPORT FOR BTR

Various policy measures have been introduced by Government to encourage expansion of the sector. The policies incentivise developers to add to overall housing supply typically by building out sites faster than more traditional 'for sale' developments.

BtR was given a boost in the Housing White Paper, which suggested that local planning authorities will have to plan proactively for BtR development where there is an identifiable need and has subsequently been supported by recognition in the National Planning Policy Framework (NPPF) and through the National Planning Practice Guidance (NPPG) which states:

> *"Build to Rent is a distinct asset class within the private rented sector and has been defined in the National Planning Policy Framework glossary, in order to simplify its treatment within the planning system."*
>
> **NPPG**

Mayor Sadiq Khan's Draft New London Plan was issued in November 2017 (and modified in August 2018), promising a strategy that is 'ambitious' with a 'step change' in approach and a 'blueprint' for future development and growth in London. It recognises the benefits of the sector:

> *"The planning system should take a positive approach to the Build to Rent sector to enable it to better contribute to the delivery of new homes."*
>
> **Draft New London Plan**

There have also been a range of financial measures targeting housing and increasingly BtR. £53bn is available across all housing support programmes including Homes England's £44bn funding mandate likely to include the delivery of BtR.

The BtR Fund was an early indicator of support for the sector, providing £1bn of equity or debt finance for developers to kick-start delivery. This has subsequently become part of the 'Home Building Fund', which comprises £2bn of infrastructure funding and £1bn of development finance for housing.

The PRS Debt Guarantee provides c.£3.5bn in guarantees for BtR with the goal of reducing cost of investment finance for borrowers. In total, £700m of loans have been approved and there is a further £1.2bn of loans in the application process.

Illustrative CGI of Woolwich proposed scheme

MARKET HIGHLIGHTS – A SUMMARY

CONSIDERABLE DEMAND

The number of private rented households in London has more than doubled over the period 2003-16 to over 30% of the population (c.955,000 two households) and is forecast to be nearly 40% of all tenures by 2028. With the worsening affordability of home ownership, a growing population, favourable demographics and improving rental products and services, the growth of the PRS in London is set to continue.

CONSTRAINED DELIVERY

Although BtR supply has started to rise, demand for new BtR homes in London still exceeds the potential supply pipeline by 231,000 units. These demand metrics, coupled with the supply shortfall has driven significant institutional interest in the sector; however, securing a scaled pipeline has been a major barrier to entry.

EMERGING SECTOR

The PRS is currently dominated by Buy to Let (BtL) investors who typically own fewer than five properties. Less than 67% of the PRS is institutionally owned and an even smaller proportion of this stock is purpose built, providing an opportunity for institutions who can access a pipeline of high quality purpose built accommodation.

POLITICAL SUPPORT

There has been increasing political support for BtR in recent years in part due to the recognition of the role it can play in solving the housing crisis, in particular its ability to accelerate delivery over alternative development models. This support is being reflected in planning policy, for example, the Draft New London Plan and the National Planning Policy Framework (NPPF), as well as in financial incentives such as the BtR Fund, Homebuilding Fund and PRS Debt Guarantee scheme.

Conversely political opinion has swung against BtL investors leading to a worsening tax environment, including but not limited to: mortgage lending constraints, reduction of mortgage interest rate relief, the revision of the 10% wear and tear allowance, and the supplementary Stamp Duty Land Tax (SDLT) charge of 3%.

POTENTIAL FOR GROWTH

The BtR market provides access to stable, inflation linked, long term revenue streams. London residential rental income has been a strong hedge against inflation, as the market has experienced rental growth of 2.90% p.a. over the past 20 years, and up to 4.92%p.a. over the past seven years, over 100 bps premium above the Consumer Price Index (CPI). Residential rents across London are forecast to grow 3.50%p.a. over the next ten years.

Finance Committee

Date: 1 July 2019

Item: Technical Facilities Management Services

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to brief the Committee on the status of a competitive tender process for award of a contract to supply maintenance and upgrade services to CCTV, access control and security systems across the TfL estate including London Underground stations, depots, lineside buildings and offices; Surface bus stations and shelters and TfL corporate office premises. The paper seeks approval to award the contract and grant Procurement Authority.

1.2 The paper on the Part 2 agenda contains supplementary information that is exempt from publication 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 in respect of which a claim to legal professional privilege could be made.

2 Recommendation

2.1 **The Committee is asked to note the paper and the supplementary paper on Part 2 of the agenda and approve the award of a contract for the supply of maintenance and upgrade services for CCTV, access control and security systems to the winning bidder and grant Procurement Authority as set out in the paper on Part 2 of the agenda.**

3 Background

3.1 The tender process commenced on 30 July 2018 with the issue of an Official Journal of the European Union contract notice seeking expressions of interest in tendering. Selection Questionnaires were issued to all companies expressing interest, from which five companies submitted completed questionnaires for evaluation. From these submissions three companies were successful in passing all the selection criteria and submitted bids. These three companies were Engie Services Ltd, Telent Technology Services Ltd and Thales Transport and Security Ltd. Bids have been evaluated and a winning bidder has been identified. Contract award will be subject to completion of a standstill period in compliance with regulatory requirements. Further details are set out in the paper on Part 2 of the agenda.

3.2 The proposed contract award is required to replace the following contracts which are all due to expire on 31 December 2019:

(a) Installation and Maintenance Services to Communication Assets and Systems - London Underground stations and head office buildings;

(b) Supply of Maintenance Services to LU Operational Facilities Security Systems – London Underground operational buildings;

(c) Installation and maintenance of PA systems on Bus Services Infrastructure - Surface Transport; and

(d) CCTV Maintenance Services - Surface Transport.

3.3 The duration of the proposed contract is an initial term of seven years and three months with an option to extend exercisable by TfL once for a maximum further term of five years (12 years and three months in total).

3.4 The proposed contract is structured by service type which includes:

(a) Maintenance Services;

(b) Integrated Team Services (design, planning and estimating services for Upgrade Work Activities); and

(c) Upgrade Work Activities (as may be instructed by TfL annually).

3.5 The Maintenance Services and Upgrade Work Activities are to be contracted on a target cost basis with payment linked to incurred defined cost. There will be a Guaranteed Maximum Price (GMP) for each target cost. Cost overruns and underruns will be shared in equal proportion with the Supplier (up to the value of the GMP in the case of cost overruns). Where costs exceed the GMP the supplier bears the cost of the excess.

3.6 The Integrated Team comprises of staff from TfL and the supplier and progresses the design of each Upgrade Works activity. Integrated Team Services will be paid for on a cost reimbursable basis subject to annual prior agreement of budget costs and resourcing for each Budget Period. Where the supplier is successful in providing design solutions that achieve the output requirements set for each Upgrade Work activity for a sum less than TfL’s budget, the supplier receives a value management bonus payment linked to the value of the saving made.

3.7 Key Performance indicators (KPIs) are used across all service types to create a focus on safe and reliable service delivery, continuous improvement, cost control and innovation. For the maintenance services these KPIs can result in payment abatements. Additional remedies include an escalation process and delay damages for upgrade works.

4 Assurance

4.1 TfL Project Assurance have reviewed the documentation and are content that the procurement has been carried out in accordance with the procurement strategy.

List of appendices to this report:

A Part 2 paper contains information that is exempt from publication.

List of Background Papers:

None

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Finance Committee

Date: **1 July 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 programme. Members are also invited to suggest items 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 or periodic reports. For this Committee these are the Finance Report and Group Treasury Activities.

(b) Regular items (annual, half year or quarterly) which are for review and approval or noting: Examples for this Committee include the Prudential Indicators Outturn.

(c) Matters reserved for annual approval or review: Examples include the treasury management strategy and policies on derivative investments.

(d) Programmes, Projects and Land Transactions at a level requiring Committee approval or review prior to Board approval. These are scheduled following advice from the operating business.

(e) Items requested by Members: The Deputy Chair of TfL and the Chair of this Committee will regularly review the forward programme 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: Finance Committee Forward Plan

List of Background Papers:

None

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Finance Committee Forward Planner 2019/20

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

Abbreviations: CFO (Chief Finance Officer) and D (Director) Comm Dev (Commercial Development)

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.
Strategic Risk: Financial Stability	CFO	To note.
Facilities Strategy (Palestra)	D Comm Dev	To approve.
Applied Solutions	D Comm Dev	To approve.

11 December 2019		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Business Plan	CFO	To approve under authority delegated by the Board.

As at 21 June 2019

Finance Committee Forward Planner 2019/20

11 March 2020		
Use of Delegated Authority	General Counsel	To note.
Finance Report	CFO	To note.
Treasury Management Update	CFO	To note.
Treasury Management Strategy	CFO	To recommend Board approval.
Treasury Management and Derivative Instruments Policies	CFO	To recommend Board approval.
TfL Budget	CFO	To recommend Board approval.
Prudential Indicators	CFO	To recommend Board approval.
TfL Capital Strategy 2020/21	CFO	To recommend Board approval.
TfL Investment Strategy	CFO	To recommend Board approval.
TfL Scorecard 2020/21	CFO	To recommend Board approval.

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)
- Southwark Station Development (update)
- Treasury Management update (semi-annual – September/October and March) (CFO)
    - Additional updates to be provided where necessary.
- Treasury Management Strategy (annual – March) (CFO)
- Treasury Management Policies (annual – March) (CFO)
- Developer income (MCIL/CIL/s.106) (annual – June/July) (D. City Planning)

Finance Committee Forward Planner 2019/20

Additional items to be scheduled:

- Spending Review Issues (e.g. Business Rates Devolution) (CFO)
- Income Generation Proposals (CFO & CCT)
- Securing new income streams (CFO & CCT)
- TfL Strategy on Working Capital
- Commercial Development: Royal Oak
- Broadway Sale
- Victoria Coach Station
- App Based Culture – paper to cover TfL perspective on the strategy, plans and issues for TfL e.g. TPH regulation