MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Finance Committee

Date: Thursday 13 December 2018

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: Jamie Mordue, Senior Committee Officer; Telephone: 020 7983 5537; email: JamieMordue@tfl.gov.uk.

For media enquiries please contact the TfL Press Office; telephone: 0845 604 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Wednesday 5 December 2018

Agenda
Finance Committee
Thursday 13 December 2018

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 17 October 2018 (Pages 1 - 8)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 17 October 2018 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 - 24)

General Counsel

The Committee is asked to note the paper.

6 Finance Report - Period 8 2018/19 (Pages 25 - 34)

Chief Finance Officer

The Committee is asked to note the Finance Report.

7 Business Plan Approval

Chief Finance Officer

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair has agreed that this paper will be circulated after the publication of the agenda.

The Committee is asked to note the paper and, under the authority delegated by the Board, approve the Business Plan.

8 Treasury Activities (Pages 35 - 38)

Director of Corporate Finance (Interim)

The Committee is asked to note the paper and supplementary information on Part 2 of the agenda.

9 Elizabeth line Rolling Stock Sale and Leaseback (Pages 39 - 42)

Chief Finance Officer

The Committee is asked to note the paper and the supplemental information in the paper on Part 2 of the agenda and to approve entering into a sale and leaseback transaction and grant Procurement Authority.

10 Energy Purchasing 2021 to 2022 (Pages 43 - 50)

Chief Finance Officer

The Committee is asked to note the paper and the supplemental paper on Part 2 of the agenda and approve Procurement Authority.

11 Contract for Services between TfL and LRSL (Pages 51 - 52)

Managing Director Surface Transport

The Committee is asked to note the paper and to grant Procurement Authority.

12 TfL Office Accommodation Strategy Update (Pages 53 - 60)

Director of Commercial Development

The Committee is asked to note the paper.

13 Transformation Programme Update (Pages 61 - 62)

Transformation Director

The Committee is asked to note the paper.

14 Member Suggestions for Future Agenda Discussions

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

15 Any Other Business the Chair Considers Urgent

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

16 Date of Next Meeting

Tuesday 12 March 2019 at 10.00am.

17 Exclusion of the Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

18 Treasury Activities (Pages 63 - 66)

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

19 Elizabeth line Rolling Stock Sale and Leaseback (Pages 67 - 76)

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

20 Energy Purchasing 2021 to 2022 (Pages 77 - 80)

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

Transport for London

Minutes of the Finance Committee
King's Cross/St Pancras Room, 10th Floor, Palestra, 197 Blackfriars Road, London, SE1 8NJ
10.00am, Wednesday 17 October 2018

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

Executive Committee

Mike Brown MVO	Commissioner
Howard Carter	General Counsel
Graeme Craig	Director, Commercial Development
Simon Kilonback	Chief Finance Officer
Shashi Verma	Director of Strategy and Chief Technology Officer

Staff

Sarah Bradley	Group Financial Controller
Emanuela Cernoia-Russo	Interim Corporate Finance Director
Tanya Coff	Finance Director, London Underground
Patrick Doig	Finance Director, Surface Transport
Matthew Hudson	Head of Strategy, Technology & Data, Customers, Communication & Technology (for Minute 55/10/18)
Tony King	Finance Director, Major Projects Directorate
Patrice Locker	Senior Risk Manager, General Counsel (for Minute 54/10/18)
Rhona McGregor	Head of Corporate Insurance (for Minute 52/10/18)
Clive Walker	Director of Risk and Assurance
Jamie Mordue	Secretariat

45/10/18 Apologies for Absence and Chair's Announcements

Apologies for absence had been received from Ben Story (Vice-Chair).

46/10/18 Declarations of Interests

The Chair declared an interest on the item on Multi-lateral Interchange Fees and had not received the exempt supplemental information on Part 2 of the agenda and would leave the meeting during the discussion of the items.

Anne McMeel declared an interest as a TfL nominated non-executive director of Crossrail Limited on the exempt items on the minutes and actions from the meeting of the Committee on 27 September 2018 and would leave the meeting during any discussion of the exempt information.

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

47/10/18 Minutes of the Meetings of the Committee held on 4 July and 27 September 2018

The Committee noted that the Commissioner had mistakenly not been included on the list of attendees for the meeting of the Committee held on 4 July 2018 and would be added accordingly.

The minutes of the meetings held on 4 July and 27 September 2018 were approved as correct records and signed by the Chair.

48/10/18 Matters Arising and Actions List

The Committee noted the Actions List.

49/10/18 Use of Delegated Authority

Howard Carter introduced the paper, which set out the use of Chair’s Action and 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 4 July 2018, and details of Mayoral Directions to TfL within the Committee’s remit.

Responses to Members’ questions raised during the use of a Chair’s Action on Taxi Fares and Tariffs Update would be circulated following the meeting.
[Action: Secretariat]

The Chair suggested that it would be useful to understand TfL’s work to embrace the developing app-based culture. TfL would determine the most appropriate Panel or Committee for this. **[Action: Howard Carter and Shashi Verma]**

The Committee noted the paper.

50/10/18 Finance Report - Period 6, 2018/19

Simon Kilonback introduced the Finance Report for the period ending 15 September 2018 and accompanying presentation.

The Committee noted that overall passenger income and operating costs continued to outperform the 2018/19 budget and that the net cost of operations was ahead of budget. The focus on cost control would continue and further efficiencies were expected.

Bus passenger income remained below budget. Work to understand the economic and societal drivers of the decrease in demand, despite higher bus reliability, would be an area of focus throughout the year and next year.

London Underground (LU) passenger income had increased by 1.5 per cent and demand was 0.2 per cent higher than the same period in the previous year. The journey cost to TfL was £1.72, which was better than the £1.82 journey cost set out in the budget.

Cash balances were £282m lower than budget due to the management decision to delay borrowing, which had subsequently delivered savings in interest costs.

The Committee commended TfL staff for creating resilience and for performance ahead of budget. The Committee asked whether the impacts arising from the removal of the government grant were still live and whether there was a communications strategy in place to publicise how well TfL was managing the challenges since the removal of the grant.

Simon Kilonback told the Committee that the next Business Plan would be more upfront about the challenges that TfL was facing and include details on efficiencies that had been created. Further consideration would be given to how best to publically present TfL's success in managing financial challenges and its aspirations to be an exemplar of public sector management. The Commissioner stated that TfL would continue to put forward the argument that there was an inconsistency in having a responsibility to maintain London's Strategic Road Network but not have an income source to maintain it and LU customers should not expect their fares to subsidise the road network.

The Committee asked what had caused the decline in bus ridership and whether the decline was specific to certain parts of London. Members noted that while bus ridership across the UK was declining it was declining less sharply in London. 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. **[Action: Patrick Doig]**

Members asked whether there was potential recourse for the money that had already been spent on the potential pedestrianisation of Oxford Street. The Committee heard that there was no contractual recourse but that mechanisms did exist that would allow some money to be recovered if it was found to have been misspent or on assets that had since been removed. TfL considered whether money spent in Westminster would deliver value for money and £4m had been either saved or avoided being spent by cutting back the scope of some projects.

The Committee noted the report.

51/10/18 Treasury Activities

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda, which set out an update on Treasury activities for the period from 13 June 2018 to 28 September 2018.

The Committee noted that the increase in interest rates from 0.5 per cent to 0.75 per cent, on 2 August 2018, resulted in an increase in the rates payable on TfL's commercial paper (CP) issuance but that this was offset by higher yields received on short term investment.

At the end of the period, TfL had a remaining borrowing requirement of £292m for 2018/19, plus any refinancing of unhedged CP. There was £775m in outstanding CP, of which £400m was unhedged. Up to £275m could be refinanced as long term debt.

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

52/10/18 Strategic Risk Management Update

Clive Walker introduced the paper and related supplemental information on Part 2 of the agenda, which set out TfL's new Enterprise Risk Management Framework (ERMF), the Enterprise Risk Assessment Matrix (ERAM) and the TfL Strategic Risks (Level 0) that will be reported to the Committee in the future. A template had been developed to capture strategic risk information on one page and included: the specific causes and consequences; quantification of financial impact ranges; provision for recording of insurance information; current and target risk assessments against risk tolerance levels using the ERAM; key risk indicators, which provided a means of aligning risk to performance of scorecard measures; preventative and corrective controls; assurance assessments; and any further actions required. This meant that a consistent approach could be applied to strategic risks across TfL.

Deep dive reviews had been completed on TfL's set of 16 Level 0 strategic risks, using the new template, and had been assigned to a lead Committee or Panel. The Committee would receive updates on SR7 – Financial Sustainability, SR8 – Inability to deliver predicted revenue growth, and SR9 – Ability to meet changing demand.

The Committee welcomed the new approach to managing strategic risks and stated that the introduction of the ERMF and ERAM was a step forward in TfL's ability to manage risks. Members asked that the interconnection between risks be presented in future strategic risks papers. Clive Walker told the Committee that the risk management software was able to show connections between risks and which lower level risks could impact upon the larger risks. Consideration would be given as to how best to present these to the Committee. **[Action: Clive Walker]**

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

53/10/18 Prudential Indicators – Outturn for the Year Ended 31 March 2018

Sarah Bradley introduced the paper, which set out TfL's performance against the indicators for the Financial Year 2017/18, as approved by the Board in March 2017 and set out in the CIPFA Prudential Code (the Code).

The Committee heard that the Code was developed for local authorities in general, most of which did not have subsidiary companies, and did not require publication of Prudential Indicators based on the figures of the Group. TfL had previously issued equivalent Group indicators on a voluntary basis to recognise the unique nature of the TfL Group. The Code had been revised in 2017 to state that authorities must also prepare Group accounts; TfL would continue to publish Group accounts but on a required basis, rather than voluntary.

The Corporation, as at 31 March 2018, was within the limit for total debt and direct borrowings, however the Corporation's outturn for other long term liabilities exceeded the indicator by £5.1m, owing to a change from the expected settlement profile of long term Crossrail property claim provisions. This was purely a phasing issue and was not expected to impact the long term debt forecasts.

Capital expenditure for the TfL Corporation was below the indicator, however the TfL Group exceeded the estimate for capital expenditure by £61.7m, due to spend on the Crossrail project beyond what was budgeted at the time of setting the 2017/18 indicators. The breach acted as an early indicator and TfL had been actively monitoring Crossrail spend.

The outturn ratio of financing cost to net revenue stream for TfL Corporation was in line with the indicator set but was 0.8 per cent higher than estimated for TfL Group. The Committee noted that this was a function of accounting and primarily due to a variance in the proportion of interest eligible for capitalisation into the cost of fixed assets under construction.

Members asked whether the indicators could be revised in year. Simon Kilonback told the Committee that indicators could be revised in year but that it would generally only be necessary to revise the level of indebtedness and that the Mayor could revise this as needed if there was a valid reason.

The Committee noted the paper.

54/10/18 Insurance Activities

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda. TfL engaged Marsh, TfL's insurance brokers, to undertake a study to analyse both the financial and physical insurable risks associated with business activities and the insurance coverage options available.

The Committee noted that a review of cyber insurance remained ongoing and completion of renewal was targeted for later in 2018.

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

55/10/18 Fare Collection Systems

Matthew Hudson introduced the paper and related supplemental information on Part 2 of the agenda, which set out the proposed extension to the existing Contactless Back Office Licence Agreement with Cubic Systems Limited.

TfL had been supporting Cubic's global bid activity by providing a fixed number of consultancy hours, as agreed in the five-year non-exclusive agreement, signed in 2016. The licence agreement led to a number of payments up to a maximum amount; TfL had secured full value of the licence deal and sought to extend the contract to ensure TfL could earn additional revenue.

The Committee noted that the licence agreement with Cubic was non-exclusive and the experience would help TfL in future licence agreements. The Chair commented that contactless payment systems had increased in popularity rapidly, in a relatively short period of time, and TfL had been at the forefront of embracing the new technology.

The Committee noted the paper and the supplementary information on Part 2 of the agenda and granted Financial and Procurement Authority up to the sum set out in the paper on Part 2 of the agenda.

56/10/18 Multi-lateral Interchange Fees

The Chair, Ron Kalifa, left the meeting due to a previously declared interest. Anne McMeel took the Chair.

Howard Carter introduced the paper and related supplemental information on Part 2 of the agenda, which provided an update in relation to litigation commenced by TfL concerning the fees charged by Mastercard and Visa in respect of debit card and credit card transactions.

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

57/10/18 Members' Suggestions for Future Discussion Items

Ron Kalifa took the Chair.

The Chair commented that it would be useful to have a discussion about what TfL will look like in 5 to 10 years time, at some point in the future. **[Action: Secretariat]**

The Committee noted the forward programme.

58/10/18 Any Other Business the Chair Considers Urgent

There was no urgent business.

59/10/18 Date of Next Meeting

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

60/10/18 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: Treasury Activities; Strategic Risk Management Update; Insurance Activities; Fare Collection Systems; and Multi-lateral Interchange Fees.

61/10/18 Close of Meeting

The meeting closed at 11.50am.

Chair: ___________________________________

Date: ___________________________________

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Finance Committee

Date: **13 December 2018**

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 (reported to the meeting on 13 December 2018)

Actions from the meeting of the Finance Committee held on 17 October 2018

Minute No.	Description	Action By	Target Date	Status note
49/10/18	**Use of Delegated Authority – Taxi Fares and Tariffs** Responses to Members' questions raised during the use of a Chair's Action on Taxi Fares and Tariffs Update would be circulated following the meeting.	Secretariat	October 2018	**Complete.** Responses to Members' questions were circulated on 18 October 2018.
49/10/18	**Use of Delegated Authority – App-based culture** The Chair suggested that it would be useful to understand TfL's work to embrace the developing app-based culture. TfL would determine the most appropriate Panel or Committee for this.	Howard Carter and Shashi Verma	March 2019	An update will be provided to a future meeting.
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	March 2019	TfL is continuing with the work and will be update the Committee in early 2019.

Action from Chair’s Action on Connect PFI Transition

Minute No.	Description	Action By	Target Date	Status note
	Chair’s Action – Connect PFI Transition The Chair requested periodic updates on the progress being made with the transition including progress against the assurance log from the Integrated Team and IIPAG. As some of the actions are a way off, some intermediate actions may be needed to ensure delivery and success.	Shashi Verma	December 2018	An update was sent to the Committee on 14 November 2018. Updates will be provided to future meetings.

Actions from the Actions from previous meetings

Minute No.	Description	Action By	Target Date	Status note
21/07/18	**Finance Report - Period 2, 2018/19** Travel in London survey to be submitted to a future meeting.	Vernon Everitt/Alex Williams	21 November 2018	**Complete.** A Travel in London Survey summary was submitted to the Board on 21 November 2018 and a link to the full report on the website sent on 30 November 2018.

Finance Committee

Date: 13 December 2018

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 17 October 2018. The paper also provides information on Mayoral Directions to TfL within the Committee's remit.

1.2 Since the meeting of the Committee on 17 October 2018, the Committee has met once to exercise authority delegated by the Board in relation to Crossrail project funding and the Mayor has issued three Directions to TfL within the Committee's remit.

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 17 October 2018

3.1 On 19 September 2018, the Board delegated authority to the Finance Committee to approve those matters reserved to the Board in relation to the Crossrail project.

3.2 On 3 December 2018, an additional meeting of the Committee was held to consider funding arrangements for the Crossrail project.

4 Use of Chair's Action since 17 October 2018

4.1 Under Standing Order 114, in situations of urgency, the Board delegates to each of the Chair and the Chairs of any Committee or Panel the exercise of any functions of TfL on its behalf, including the appointment of Members to Committees and Panels. Any use of Chair's Action is reported to the next ordinary meeting.

4.2 There has been no use of Chair's Action since the meeting of the Committee on 17 October 2018.

5 Procurement and Land Authority Approvals since 17 October 2018

5.1 Procurement Authority is the authority to make a binding or contractual commitment with a supplier for the purchase of goods, services, land or works or to receive income arising from TfL Group activities in the areas of goods, services land or works.

5.2 Land Authority is the authority to engage in a Land Transaction or to dispose of any assets.

5.3 The Board had delegated to the Committee approval of unlimited Procurement Authority and Land Authority in relation to Transactions and Commercial Development opportunities. The approvals delegated to the Commissioner are up to £100m and the Chief Finance Officer up to £25m.

5.4 Since the meeting of Committee on 17 October 2018, there has been no use of delegated authority to approve Procurement or Land Authority.

6 Mayoral Directions to TfL

6.1 The Greater London Authority Act 1999 (as amended), permits the Mayor to issue to TfL general directions as to the manner in which TfL is to exercise its functions or specific directions as to the exercise of its functions (or not to exercise a power specified in the direction). Directions are also often made in relation to the implementation of matters in respect of which the Mayor delegates statutory powers to TfL.

6.2 The Mayor makes Mayoral Directions through Mayoral Decisions. Proposed Mayoral Decisions (including Mayoral Directions) are considered within the GLA by its Corporate Investment Board before being considered by the Mayor. Papers for Mayoral Directions set out the financial and other implications. If those implications change over time, that will be reported to the GLA.

6.3 All Mayoral Decisions are issued in writing, with the information that is not exempt from publication included on the GLA's Decisions Database on its website: https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC.

Mayoral Directions to TfL

6.4 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes. Mayoral Directions relating to TfL are reported to the Board's Committees for discussion as soon as possible after they are received by TfL. Regular reports will list the relevant Directions for as long as they are applicable.

6.5 Annually the Audit and Assurance Committee will consider 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 Table 1: Reporting of Mayoral Directions to TfL

Category of Direction:	Reported to and considered by:
Addressing technical issues with TfL's statutory powers	Finance Committee
Related to TfL's commercial development activities	Finance Committee
Related to TfL's projects and programmes, including the Investment Programme	Programmes and Investment Committee
All for assurance purposes	Audit and Assurance Committee

6.7 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.

6.8 Appendix 1 to this paper sets out the current Mayoral Directions to TfL that fall within the remit of the Finance Committee.

6.9 Since the meeting of the Committee on 17 October 2018, the Mayor has made the following three Mayoral Directions to TfL, which are summarised in the appendix.

(a) **MD2348 Legally challenging a third runway at Heathrow** (30 October 2018). The Mayor has joined with the London boroughs of Hammersmith and Fulham, Hillingdon, Richmond and Wandsworth, the Royal Borough of Windsor and Maidenhead and Greenpeace in bringing a legal challenge against the designation by the Secretary of State for Transport of the Airports National Policy Statement (ANPS) by way of judicial review. The Mayor has joined with TfL as an interested party in the proceedings. As TfL Legal provides legal services to the GLA under a shared services arrangement, the Mayor has directed TfL to pay the Mayor's legal costs of bringing the legal challenge as well as delegating to TfL any additional powers that are needed to comply with the direction.

(b) **MD 2387 London Food Strategy** (26 November 2018). The Mayor approved the publication of the London Food Strategy and directed TfL in relation to restrictions on advertising of less healthy food on TfL's estate.

(c) **MD2377 January 2019 Fare Changes** (27 November 2018). The Mayor directed TfL in relation to implementing a freeze on all TfL fares that were under his control.

6.10 The other Mayoral Directions within the remit of the Committee relate to TfL's January 2018 fares and Heathrow fares, TfL's affordable housing programme (2017/18 and 2018/19), funding support to the London Borough of Croydon for community activities in Sandilands and TfL's involvement in the London Lite project that involves the GLA buying electricity from low to zero carbon electricity generators and selling it to TfL initially over a 12-month period as a pilot project.

List of appendices to this report:

Appendix 1: Mayoral Directions to TfL within the remit of the Finance Committee

List of Background Papers:

None

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Appendix 1

Mayoral Directions to Transport for London

The table below lists the current directions from the Mayor to TfL. The MD No. column includes a link to the direction and any appendices referred to in the decision that are published on the Greater London Authority website, london.gov.uk.

MD No.	Subject, Summary and Mayoral Decision
MD2120 09/05/17	**Revoking of approvals in respect of the Garden Bridge project** **Summary** The Garden Bridge Trust has been leading a project to build a ‘garden bridge’ spanning the River Thames from Temple to South Bank. The previous Mayor, in June 2015 and under MD1472 (as amended in April 2016 by MD1647), gave conditional approval for the GLA to provide three guarantees intended to help the Trust progress the project. The current Mayor will not permit any additional taxpayers’ funds under Mayoral control to be spent on the project. The Mayor has concluded it would not be prudent for the GLA to provide the aforementioned guarantees. Doing so would expose the taxpayer to unacceptable financial risk. He has also revoked the delegations and directions previously given to TfL (under MD1248, MD1355 and MD1472) pertaining to the project, save where necessary for TfL to fulfil any binding commitments and other related matters. **Decision** The Mayor approves: • That the GLA does not provide guarantees to the Port of London Authority, Westminster City Council and the London Borough of Lambeth in respect of the Garden Bridge and as authorised by the previous Mayor through MD1472 • The revocation of the delegation to the Executive Director of Resources to agree the guarantees’ terms and conditions and related arrangements and to execute the guarantees • That the delegations and directions to Transport for London given under MD1248, MD1355 and MD1472 are hereby revoked, save (i) to the extent that TfL has entered into binding commitments which it will need to honour; and save that (ii) TfL shall continue to perform activities relating to the Garden Bridge project necessary or expedient to protecting the interests of the GLA and TfL.

Appendix 1

MD No.	Subject, Summary and Mayoral Decision
MD2157 24/08/17	**Licence Lite** **Summary** The Licence Lite project involves the GLA buying electricity from low to zero carbon electricity generators and selling it to TfL initially over a 12-month period as a pilot project. The project will provide a proof of concept of Licence Lite and will enable the delivery of the Mayor's manifesto commitment to 'buy clean energy generated across the city' and for London to be a zero-carbon city by 2050. The Mayoral Decision authorises the GLA making a binding commitment to the 12-month pilot project, by means of granting the approvals set out below. **Decision** That the Mayor approves: 1 A 12-month pilot scheme for the Licence Lite Project, which includes the GLA being granted an electricity supply licence by the Ofgem and entering into contracts; 2 Expenditure of up to £498,000; 3 A related exemption, regarding the entry into contracts with Cornwall Energy and Arup, from the requirement of the GLA's Contracts and Funding Code that such services be procured competitively; 4 Procurement of the Operating Services by means of competitive tender; 5 The receipt of income of £336,000 from TfL and from the sale of the surplus electricity under the agreement with RWE nPower; and 6 A direction to TfL so that TfL can enter into the 12-month supply arrangements contemplated as part of the pilot, as attached at Annex 2 and issued pursuant to section 155(1)(c) of the GLA Act 1999.
MD2170	**Metropolitan Line Extension (MLX)** **Summary** The MLX (formerly the Croxley Rail Link) transferred from Hertfordshire County Council (HCC) to TfL for delivery on 20 November 2015. The project transferred with funding arrangements of £284.4m. Under Mayoral Directions MD1478 (26 March 2015) and MD1570 (4 November 2015), TfL was directed to provide up to £49.23m towards the

Appendix 1

MD No.	Subject, Summary and Mayoral Decision
28/09/17	cost of delivering the MLX and made responsible for any costs above the £284.4m funding package. Since taking over the project, TfL worked with the supply chain and Network Rail to progress the design and obtain market prices for delivery. The outturn cost of the project will be significantly in excess of £284.4m. The increased costs weaken the MLX business case and the loss of its operating grant means that TfL is no longer able to bear cost risk above the current £284.4m funding package. **Decision** The Mayor: 1. Directs TfL to continue to provide up to £49.23m of funding towards the cost of delivering the MLX subject to directions 2 and 3 below; 2. Directs TfL not to take responsibility for any costs above the current £284.4m funding package; and 3. Directs TfL to close out its current activities in respect of the MLX in an orderly fashion and not to commence any new activities, including procurement activities associated with the main works, unless and until arrangements to provide additional funding for the MLX are put in place to address direction 2 above. 4. Mayoral Directions MD1478 (26 March 2015) and MD1570 (4 November 2015) are with immediate effect to be read subject to this MD.
MD2189 06/11/17	**January 2018 Fare Changes** **Summary** The Mayor is committed to delivering a more affordable transport service by freezing TfL fares over the next three years. The Direction sets out how the Mayor's commitment will be implemented from 2 January 2018, with a freeze in all TfL bus and Tube fares, a freeze in fares on all other rail services in London where Tube fares apply, and the protection of all TfL fare concessions. **Decision** The Mayor: (i) Approves the proposed revisions to fares to be implemented from 2 January 2018 as set out below; and (ii) Directs TfL, pursuant to the power in section 155 (1)(c) of the Greater London Authority Act 1999, to implement these fares on 2 January 2018 (as set out at Appendix 2).

Appendix 1

MD No.	Subject, Summary and Mayoral Decision
MD2183 12/12/17	**Direction to TfL concerning its Affordable Housing Programme 2017/18** **Summary** The Mayor is committed to increasing the proportion of new homes that are affordable, to the benefit of local communities and the economy. He is prioritising affordable homes delivery on surplus or under-utilised land owned by the GLA Group. TfL has a programme for housing delivery on its surplus sites and its 2017/18 Business Plan includes a target of 50 per cent affordable homes by habitable room across its programme. **Decision** The Mayor directs TfL in relation to the disposal or development of its land in 2017/18 in the form at Appendix A to this decision form.
MD2208 18/12/17	**Independent Investment Programme Advisory Group (IIPAG)** **Summary** The IIPAG was established following the unwinding of the Underground public-private partnerships to provide independent assurance and expert advice to the Mayor and Secretary of State for Transport concerning TfL's Investment Programme. IIPAG is comprised of experts in fields such as civil engineering, rail signaling and ICT. Following an independent review, recommendations for changes to the role and remit of IIPAG were agreed by TfL's Audit and Assurance Committee and Programmes and Investment Committee. The Mayoral Direction implements those recommendations. **Decision** The Mayor: • approves the proposed change to the remit of Transport for London's Investment Programme Advisory Group and its governance; and • directs Transport for London under section 155(1)(c) of the Greater London Authority Act 1999 in the terms of the attached Direction (Appendix 1).

Appendix 1

MD No.	Subject, Summary and Mayoral Decision
MD2245 02/03/18	**Heathrow Fares** **Summary** TfL Rail services took over the all stations train service from Paddington to Heathrow Airport on 20 May 2018. The Direction set revised fares for this service, integrated with those on the rest of the TfL London rail network and included TfL's process of fare capping. This supports the Mayor's commitment to delivering a more affordable transport service by freezing TfL fares until 2020 and protecting all TfL fare concessions. **Decision** The Mayor: (i) Approves the proposed fares on TfL Rail services to the Heathrow rail stations to be implemented from 20 May 2018 as set out below; and (ii) Directs TfL, pursuant to the power in section 155 (1)(c) of the Greater London Authority Act 1999, to implement these fares on 20 May 2018 (by signing the direction at Appendix 1).
MD2253 09/03/18	**Funding for Croydon following Sandilands tram overturning** **Summary** TfL has a strong desire to support the London Borough of Croydon following the overturning of a tram at Sandilands on 9 November 2016. This Mayoral delegation and direction enables TfL to pay £750,000 to the London Borough of Croydon as a contribution to its community recovery activities following the tragedy. **Decision** Recognising the strong desire of TfL to support the London Borough of Croydon; the Mayor Directs and delegates powers to TfL (in the form at appendices 1 and 2) for the purpose of making payments totalling £750,000 to the London Borough of Croydon as a contribution to the borough's community recovery activities following the tragic overturning of a tram at Sandilands on 9 November 2016.

Appendix 1

MD No.	Subject, Summary and Mayoral Decision
MD2335 07/08/18	**Direction to TfL concerning its Affordable Housing Programme** **Summary** The Mayor is committed to increasing the proportion of new homes that are affordable, to the benefit of local communities and the economy. He is prioritising affordable homes delivery on surplus or under-utilised land owned by the GLA Group. TfL shares the Mayor's commitment to delivering affordable housing - targeting 50 per cent affordable in both its business plan and within the Mayor's Transport Strategy. TfL has a programme for housing delivery on its surplus sites and TfL's Business Plan includes a target of 50 per cent affordable homes by habitable room across its programme. **Decision** The Mayor directs TfL in relation to the disposal or development of its land in 2018/19 in the form at Appendix A to this decision form.
MD2348 30/10/18	**Legally challenging a third runway at Heathrow** **Summary** The Mayor has joined with the London boroughs of Hammersmith and Fulham, Hillingdon, Richmond and Wandsworth, the Royal Borough of Windsor and Maidenhead and Greenpeace in bringing a legal challenge against the designation by the Secretary of State for Transport of the Airports National Policy Statement (ANPS) by way of judicial review. The Mayor has joined with TfL as an interested party in the proceedings. As TfL Legal provides legal services to the GLA under a shared services arrangement, the Mayor has directed TfL to pay the Mayor's legal costs of bringing the legal challenge as well as delegating to TfL any additional powers that are needed to comply with the direction. **Decision** The Mayor: 1. Directs TfL under s 155(1)(c) of the Greater London Authority Act 1999 ('GLA Act') in the terms of the attached Direction (Appendix 1); 2. Authorises TfL under s 38(1) of the GLA Act to exercise the Mayor's powers under sections 30 and 34 of the GLA Act to undertake the activities required by the attached Direction in accordance with the terms of the attached

MD No.	Subject, Summary and Mayoral Decision
	delegation (Appendix 1); and 3. Notes that if the legal challenge is unsuccessful in whole or part, the Mayor may be liable for a proportion of the Secretary of State's costs if an adverse costs order is made by the Court.
MD 2387 26/11/18	**London Food Strategy** **Summary** The Mayor approved the publication of the London Food Strategy and directed TfL in relation to restrictions on advertising of less healthy food on TfL's estate. **Decision** The Mayor, having regard to and taking account of the London Food Strategy Consultation Report (Appendix B) and the IIA and IIA Post Adoption Statement (Appendix C): 1. Approves the final recommended version of the London Food Strategy; 2. Directs TfL in relation to restrictions on advertising of less healthy food on TfL's estate; and 3. Notes the Implementation Plan that will be published separately from, but at the same time as, the London Food Strategy.
MD2377 27/11/18	**January 2019 Fare Changes** **Summary** The Mayor directed TfL in relation to implementing a freeze on all TfL fares that were under his control. **Decision** The Mayor: 1. Approves the proposed revisions to fares to be implemented from 2 January 2019 as set out below; and 2. Signs the attached Direction to TfL issued pursuant to the power in section 155 (1)(c) of the Greater London Authority Act 1999 to implement these fares on 2 January 2019.

Finance Committee

Date: **13 December 2018**

Item: **Finance Report – Period 8, 2018/19**

This paper will be considered in public

1 Summary

1.1 The Finance Report sets out TfL's financial results for Period 8, 2018/19 – the year-to-date period ending 10 November 2018.

2 Recommendation

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

3 Financial Reporting to the Board and Committees

Finance Report – Period 8, 2018/19

3.1 In response to feedback from a number of stakeholders, the Finance Report has been changed. The objective is to provide this information in a consistent and transparent way so that the progress and financial performance of the business become much clearer.

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

Quarterly Performance Report – Quarter 2, 2018/19

3.3 Since the last meeting of the Committee, the Quarterly Performance Report for Quarter 2 has been published online. This report shows TfL's results for year-to-date period ending 15 September 2018. The report can be viewed at:

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

List of appendices to this report:

Appendix 1: Finance Report – Period 8, 2018/19

List of Background Papers:

None

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Transport for London finance report

Period 8 2018/19

MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

About Transport for London (TfL)

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

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

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

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

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

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

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

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

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

Contents

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

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

Management results

Operating account

Period 8 year to date – 01 April to 10 November 2018

	Year to date				Year on year		
(£m)	Actuals	Budget	Variance to budget	% variance to budget	2017/18 actuals	Variance	% variance
Passenger income	2,940	2,918	22	1%	2,886	54	2%
Other operating income	491	490	1	0%	442	49	11%
Total operating income	**3,431**	**3,408**	**23**	**1%**	**3,328**	**103**	**3%**
General grant	–	–	–	–	140	(140)	-100%
Business rates retention	568	568	–	0%	513	55	11%
Other revenue grants	37	44	(7)	-16%	46	(9)	-20%
Total income	**4,036**	**4,020**	**16**	**0%**	**4,027**	**9**	**0%**
Operating costs	(3,750)	(3,908)	158	-4%	(3,707)	(43)	1%
Net operating surplus	**286**	**112**	**174**	**155%**	**320**	**(34)**	**-11%**
Capital renewals	(235)	(306)	71	-23%	(319)	84	-26%
Net cost of operations before financing	**51**	**(194)**	**245**	**-126%**	**1**	**50**	**5000%**
Net financing costs	(275)	(291)	16	-5%	(260)	(15)	6%
Net cost of operations	**(224)**	**(485)**	**261**	**-54%**	**(259)**	**35**	**-14%**

Year-to-date net operating surplus is £174m better than budget, and the net cost of operations is £261m better

- Passenger income is £22m above budget and £54m above last year. The trends reported in the year continue, with London Underground performing slightly better than budget, offset by lower income on buses
- Operating costs are £158m below budget – £110m is as a result of cost reductions across all divisions. A further £48m is from timing differences – principally from projects

Passenger journeys

Year to date

2,457m total journeys | 2,467m budget | 2,477m prior year

London Underground
843m
1.2%▲ budget
0.6%▲ prior year

Buses
1,370m
1.5%▼ budget
2.0%▼ prior year

DLR
75m
1.3%▼ budget
0.2%▼ prior year

London Overground
117m
0.2%▼ budget
1.8%▼ prior year

London Trams
18m
1.4%▼ budget
1.2%▼ prior year

TfL Rail
34m
4.7%▲ budget
18.7%▲ prior year

Capital account

	Year to date				Year on year		
(£m)	Actuals	Budget	Variance to budget	% variance to budget	2017/18 actuals	Variance	% variance
New capital investment	(893)	(1,066)	173	-16%	(783)	(110)	14%
Crossrail	(899)	(440)	(459)	104%	(907)	8	-1%
Total capital expenditure	**(1,792)**	**(1,506)**	**(286)**	**19%**	**(1,690)**	**(102)**	**6%**
Financed by:							
Investment grant	586	586	-	0%	576	10	2%
Third-party contributions	26	32	(6)	-19%	57	(31)	-54%
Property and asset receipts	3	19	(16)	-84%	20	(17)	-85%
Borrowing	708	831	(123)	-15%	664	44	7%
Crossrail funding sources	326	188	138	73%	83	243	293%
Other capital grants	111	145	(34)	-23%	114	(3)	-3%
Total	**1,760**	**1,801**	**(41)**	**-2%**	**1,514**	**246**	**16%**
Net capital account	**(32)**	**295**	**(327)**	**-111%**	**(176)**	**144**	**-82%**

Cash

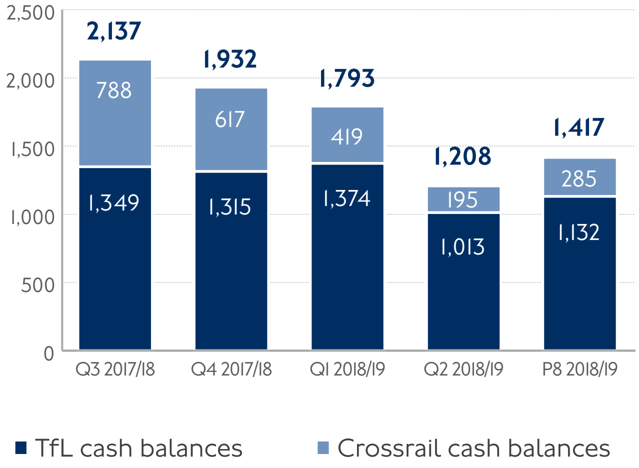
Cash flow summary

	Year to date			
(£m)	Actuals	Budget	Variance	% variance
Net cost of operations	(224)	(485)	261	-54%
Net capital account	(32)	295	(327)	-111%
Working capital movements	(259)	(413)	154	-37%
Decrease in cash balances	**(515)**	**(603)**	**88**	

Cash balances

(£m)	2018/19 opening cash	YTD movement	Period 8 closing cash	Budget closing cash	Variance to budget
TfL cash balances	1,315	(183)	1,132	1,057	75
Crossrail cash balances	617	(332)	285	272	13
Total	**1,932**	**(515)**	**1,417**	**1,329**	**88**

Cash balances (£m)



- Cash balances are £1,417m – £515m lower than at the start of the year
- Net borrowings of £374m have been drawn down, contributing to the increase in cash balances since the end of Q2

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Finance Committee

Date: **13 December 2018**

Item: **Treasury Activities**

This paper will be considered in public

1 Summary

1.1 This paper provides an update on our key treasury activities for the period from 29 September to 26 November 2018 (the Reporting Period).

1.2 During the Reporting Period, we have complied at all times with the Treasury Management Strategy and the Treasury Management Policies approved by the Board on 20 March 2018, including having regard to the GLA Responsible Investment Policy.

1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL or of a sensitive nature to our listed counterparties. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper and supplementary information on Part 2 of the agenda.**

3 Market Update

3.1 There are approximately four months left until Britain is due to leave the European Union after triggering Article 50 of the Lisbon Treaty. A text of the Withdrawal Agreement has been published and agreed with the European Union. The vote within the UK Parliament is scheduled for 11 December 2018. The outlook for Sterling is highly dependent on the outcome of the Withdrawal Agreement.

3.2 A 0.25 per cent interest rate hike by the Bank of England is expected in 2019, as reported in Bloomberg (which collates forecasts from a number of banks). The market traded SONIA level currently shows a 62 per cent chance of the rate hike occurring in November next year. This is, again, dependent on the status and progression of the Withdrawal Agreement.

4 Borrowing Update

Current and target borrowing

4.1 As at 26 November 2018, we had £11,155m outstanding borrowing, and we have remained within the Authorised Limit for borrowing at all times during the Reporting Period.

4.2 During the Reporting Period we borrowed a total of £250m from the Public Works Loan Board (PWLB) across four tranches. All of these loans were at fixed interest rates and for tenors of around 40 years. The interest rates compared favourably to the equivalent capital market transactions and also secured savings on the transaction costs payable.

4.3 The total borrowing requirement for 2018/19 is £892m (excluding any refinancing of short-term commercial paper (CP)). Year to date borrowing and the remaining borrowing for 2018/19 is detailed in the table below.

Table 1 – 2018/19 remaining borrowing requirement

Description	**£m**
2018/19 incremental borrowing*	520
Incremental borrowing deferred from 2017/18	300
Refinancing of maturing debt (excluding CP)	72
Borrowing requirement for 2018/19	**892**
Borrowing drawn (year to date):	
Export Development Canada (EDC) ATC facility	150
European Investment Bank (EIB) UML facility	100
Public Works Loan Board (PWLB)	500
Total drawn (year to date)	750
Borrowing fixed:	
EIB UML facility (to be drawn in March 2019)	100
Total drawn or fixed for 2018/19	**850**
Remaining requirement for 2018/19	**42**

**including £20m of incremental borrowing provisionally agreed with HMT in July 2018*

4.4 As described above, we have a remaining borrowing requirement of £42m for 2018/19, plus any refinancing of unhedged CP. Currently there is £775m outstanding CP, of which £400m is unhedged. A portion of this unhedged CP could be refinanced as long term debt.

4.5 We retain access to the PWLB and to £200m across two facilities with EDC, which are available for drawdown up to May 2020 and May 2021.

Local Infrastructure Rate

4.6 On 29 October 2018, HM Treasury informed us that our application for the discounted local infrastructure rate of PWLB borrowing had been successful. We were one of only five successful bidders to be given access to this discounted interest rate, and the only authority in London. This allows us to borrow a portion of the funds required to deliver the London Underground Accessibility programme at the local infrastructure rate of gilts + 60 basis points, which represents a discount of 0.20 per cent to the PWLB Certainty Rate.

Credit Rating Agencies

4.7 On 27 November 2018, Moody's published a research piece on TfL. This report is not the result of a rating action. It provides Moody's view of TfL's budgetary challenges, including their view on the impact of the delay to the opening of the central section of the Elizabeth line on TfL. They note that we are now more reliant on our own operational performance than we have been in the past, pointing to reducing grant income. Moody's acknowledge that our cost cutting programme is progressing well, although highlight that the recently announced delay to the Elizabeth line is one of a number of short-term budgetary challenges for us. Moody's expect that TfL will manage the impact of the delay, although note it will place the organisation under significant strain until 2023, remaining critical to our long-term financial sustainability.

5 Investment Update

5.1 As at 26 November 2018, we held £1.0bn of cash under management for TfL and £0.3bn of cash under management for Crossrail, which is a total increase of £0.1bn over the Reporting Period. The investment yield is 0.79 per cent and the weighted average maturity of the portfolio is 29 days. Our investments are well diversified by sector, instrument and geography.

6 Risk Management Update

Foreign Exchange Risk

6.1 In November 2018, the foreign exchange risk associated with the contract for the procurement of the 94 Piccadilly line trains as part of the Deep Tube Upgrade Programme was mitigated.

List of appendices to this report:

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

List of background papers:

None

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Finance Committee

Date: **13 December 2018**

Item: **Elizabeth line Rolling Stock Sale and Leaseback**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to update the Committee on TfL's financing competition for the sale and leaseback of the new rolling stock fleet purchased for the Elizabeth line, as envisaged in TfL's proposed Business Plan 2018/2019 to 2022/2023. Due to the time between the meetings of the Committee on 13 December and 12 March, the Committee is asked now to approve the transaction and give authority to enable its completion.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. 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 note the paper and the supplemental information in the paper on Part 2 of the agenda and to:**

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

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

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

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

3 Background

3.1 A contract was entered into between Rail for London Limited (RfL) and Bombardier Transportation UK Limited (Bombardier) on 18 February 2014 (the RSPA). Under the RSPA, a fleet of 70 nine-car units will be delivered for use on the Elizabeth line.

3.2 After an initial period of market engagement, a finance competition for the sale and leaseback of the rolling stock fleet structured in two phases was launched in September 2018. An Information Memorandum for the competition was issued to 48 organisations at the end of September 2018, inviting those organisations to submit indicative offers (Round 1). Round 1 offers were received from five separate bidders on 5 October 2018.

3.3 In late October for Round 2 of the competition, TfL selected the three most economically advantageous bidders and invited them to submit fully formed offers. A description of the bids received on 23 November 2018 is contained in the Part 2 paper.

3.4 The sale and leaseback competition envisaged a lease of the new fleet of trains for a minimum period of 20 years from the date of financial close (January 2019), but encouraged bidders to offer additional flexibility to RfL in the form of options either to acquire the fleet at the end of the lease or otherwise continue leasing the units.

3.5 The financing bids have been evaluated and a number of bidders have been taken forward to undertake detailed due diligence on the transaction documents, prior to selection of the preferred financier. Subject to the necessary approvals and completion of the documentation, it is expected that the leasing arrangement will be concluded in late January 2019.

3.6 Upon completion of the sale and leaseback, various rights and obligations of RfL under the RSPA will be transferred to the lessor, and the lessor will reimburse RfL for payments already made to Bombardier under the RSPA as well as assume further payments under the RSPA. The lessor will then take title to the already delivered new trains as well as taking title to the remaining new trains as they are delivered and lease them to RfL. RfL will sub-lease them to the operator of the Elizabeth line.

3.7 It is anticipated that the transaction will be accounted for as an operating lease and the views of TfL’s Auditor will be sought to confirm this. TfL will guarantee RfL’s payment obligations under the lease and related documentation.

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: **13 December 2018**

Item: **TfL Energy Purchasing 2021 to 2022**

This paper will be considered in public

1 Summary

1.1 This paper:

(a) asks the Committee to approve Procurement Authority of £222m for the continuation of the procurement of energy through the Crown Commercial Service (CCS) frameworks from April 2021 to March 2022, in line with the gating process implemented by the Committee in December 2017;

(b) provides an update to the Committee on energy purchases since December 2017 through the CCS agreed frameworks; and

(c) provides an outline summary of the TfL Energy Strategy and how low-carbon energy opportunities are being pursued.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that information must take place after the press and public have been excluded from this meeting.

2 Recommendation

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

3 Energy Cost and Carbon Reduction

3.1 This paper is part of and written with reference to the TfL Energy Strategy ("the Energy Strategy"). The Energy Strategy sets out TfL's approach to achieving best value for money from TfL's operational spend and capital investment in energy, while seeking to meet the Mayor's strategic aims for TfL's energy use and CO_2 emissions. It includes the electrification of the TfL bus fleet, supporting the provision of electric vehicle charging infrastructure for London and seeking to meet the London Environment Strategy's ambition for all TfL-controlled rail services to be wholly powered by zero carbon sources by 2030.

3.2 The Energy Strategy has been developed with input from with the Mayor's Transport Strategy Delivery Group, London Underground (where more than 75 percent of the energy–related expenditure resides), Surface Transport, the GLA's Energy for Londoners working group (chaired by the Deputy Mayor for the Environment) and has been noted by TfL's Safety, Sustainability and Human Resources Panel.

3.3 The Energy Strategy includes 12 key initiatives, which can be consolidated into four high-level work streams; energy efficiency, energy procurement, generation/storage, and road transport electrification. Feasibility studies will be carried out to identify key projects that will be prioritised on their ability to significantly reduce carbon emissions and financial benefit, with the aim of meeting the Mayor's zero carbon agenda and supporting the electrification of road transport to improve London's air quality. An outline of the four work streams and key initiatives are detailed in Appendix 1, together with a high-level summary of progress for each initiative.

3.4 These four workstreams will be further developed over the next 12 months with the guiding principles being to optimise TfL's asset base and take advantage of innovations in the energy sector. Workstreams will align as far as possible with the Mayor's Energy for Londoners programme.

4 Background – Energy Purchasing / Crown Commercial Service (CSS) Frameworks

4.1 TfL has an annual aggregated requirement for the supply of ~1650 Gigawatt-hours (GWhs) of electricity and ~80 GWhs of natural gas. While TfL is a modest consumer of natural gas, TfL is London's single largest consumer of electricity and among the top users in the UK.

4.2 TfL has been fully utilising the procurement services and frameworks of the CCS for energy purchasing since 2013. This has enabled TfL to have additional commercial leverage by subscribing to the largest buyer of energy in the UK and aggregating its volume with other public sector organisations.

4.3 The competitively tendered framework arrangements set up by CCS are used for energy purchasing by all central government, more than 130 local authorities, approximately 85 per cent of the NHS in England and many other organisations across the public sector, including the not-for-profit sector, housing associations, education and emergency services. TfL has a contract with CCS which enables it to access the electricity and gas frameworks let by CCS and enter into the pre-agreed contract terms with suppliers appointed to the framework (currently EDF Energy and Corona Energy).

4.4 CCS leverages its position and aggregates customer volumes to deliver sustainable savings and innovative solutions and to provide an enhanced managed service delivering value directly to its customers.

4.5 In total CCS is responsible for the procurement and delivery of over £2bn per annum of energy across the public sector, and since April 2012 has secured savings for the public sector of £702m:

Financial Year	†Savings
2012/13	£110m
2013/14	£109m
2014/15	£98m
2015/16	£121m
2016/17	£94m
2017/18	£169m
Total	**£702m**

†All savings generated through the use of CCS are subject to independent audit by the Government Internal Audit Agency.

4.6 By combining customer volumes, CCS is able to exert greater buying power in the marketplace and reduce charges/costs incurred through supplier margin, bid/offer spread and brokerage fees. TfL saves ~£6.3m per annum through this benefit of aggregation with the wider public sector.

4.7 The aggregation of volume with other public sector customers creates further benefits for TfL by reducing the relative proportion of more expensive peak volume versus cheaper baseload volume. This together with a reduction in overall residual volume (unpredictable electrical usage) further reduces TfL's expenditure by ~£1.18m per annum.

4.8 On average and based on the last four years trading performance, CCS has out performed the market traded average by 3.35 per cent for power and 5.47 per cent for natural gas. This delivers an annualised saving of £2.85m per annum for TfL.

TfL CCS Benefit Summary	Savings
Aggregation	£6.30m
††Trading Performance	£2.85m
Load-Shaping (residual)	£1.18m
Total	**£10.33m per annum**

††Annualised performance based on 4 year average. Figures provided by CCS in accordance with agreed benefits methodologies and are subject to independent audit by the Government Internal Audit Agency. Figures do not include provisional 2018 savings 11.11 per cent for power and 14.59 per cent for natural gas.

5 CCS Risk Management

5.1 As the largest aggregator of gas and electricity purchasing requirements in the UK, CCS has skilled in-house market analysts and risk management specialists and has robust independent governance procedures in place.

5.2 The CCS frameworks offer a number of risk management products for its customers. The current proposal is that TfL continues to use the product it has used to date which comprises a minimum 30 month purchasing window ahead of delivery, e.g from December 2018 CCS will be looking to procure electricity and gas in respect of the year commencing in April 2021.

5.3 The product incorporates a minimum volume profile that CCS must purchase in order to provide minimum coverage levels closer to delivery; this is designed to mitigate the impact of wholesale market price spikes and provides greater budget certainty.

5.4 This strategy is complemented by a stop loss, a mechanism which limits customers' exposure to wholesale electricity and gas price volatility where market prices reach a certain threshold.

5.5 CCS also has the ability to un-lock/sell back previously hedged volumes, if it believes the market fundamentals indicate potential upside. It should be noted that this mechanism is limited to and operated within the established stop loss parameters.

5.6 The effectiveness and operation of the purchasing strategy is overseen by the CCS External Risk and Governance Board, current members include the MoD, NHS, Metropolitan Police, Department for Work and Pensions, the Highways Agency, and TfL.

5.7 CCS continues to develop and optimise its strategy with periodic strategy workshops attended by the CCS energy trading strategy team and key customers set out in paragraph 5.6.

6 Integration with pan-TfL Energy Strategy

6.1 The Energy Strategy sets out a hierarchy of actions to reduce cost and to achieve the zero-carbon railway by 2030 ambition as set out in the London Environment Strategy. The hierarchy of actions can be summarised as follows:

(a) Reduce total energy consumption;

(b) Reduce peak time demand;

(c) Maximise on-site renewable electricity generation; and

(d) Procure remaining energy through agreements guaranteeing additional renewable electricity in the UK system.

6.2 As part of the Energy Strategy, the continued use of CCS has been evaluated and benchmarked over the last twelve months. Through this exercise involving other large consumers and a Third Party Intermediary[1], it has been confirmed that the current CCS risk management strategy, contractual arrangement and supplier management fee continue to provide TfL with effective risk management and a competitive price.

6.3 A private wire market engagement exercise is currently underway to identify opportunities for sourcing power direct in to the TfL distribution network. This market engagement will look at the opportunities available for both base load, e.g. energy from waste and intermittent e.g. wind and solar low-carbon power, and its geographic suitability to the TfL power network.

[1] Third party intermediaries (TPIs) are organisations that give energy- related advice, aimed at helping customers buy energy and/or manage their energy needs. TPIs include switching sites, energy brokers and any company that offers support with energy procurement (source: Ofgem)

6.4 It is hoped that the market engagement will indicate the level of energy market interest and potential volume of power, which TfL could source directly into our network. This type of electricity supply could significantly reduce our carbon emissions and electricity cost, by avoiding some of the pass-through charges that are levied on grid derived power.

6.5 Depending on the outcome of the market engagement exercise, a procurement strategy may be developed with a view to tendering for low/zero-carbon energy supply direct into the TfL power network.

6.6 Concurrently with the private wire market engagement exercise, TfL is evaluating the potential ways to procure zero-carbon energy supply through Power Purchase Agreements (PPAs) with individual generators. PPA supply may be delivered through the CCS framework but does not have to be. However, the load shape (time and pattern of electrical demand), amount required and term could be affected by any private wire procurement activity, and so, any PPA procurement will closely reflect any private wire procurement.

6.7 There are no financial penalties for reduced or increased consumption under the CCS supply arrangements. Continued use of CCS framework will therefore allow flexibility and easy integration if any individual bilateral procurement by TfL of one or more private wire arrangements and/or PPAs is undertaken. In addition, TfL is able to source energy from other counterparties into our overall requirement through the CCS arrangements.

6.8 Regular updates on progress of the above initiatives to investigate the potential use of both private wire and PPAs will be provided to the Safety, Sustainability and Human Resources Panel.

7 Update – energy purchases for delivery from April 2020 to March 2021

7.1 Further to the approval of Procurement Authority for the financial year 2020-2021 by the Committee on 5 December 2017, TfL has secured 100 per cent of its energy requirement (commodity) for the financial year starting April 2020 at a total cost of £80.99m.

7.2 During the last six months, the wholesale market for this period of delivery has increased considerably. As such, if the energy were to be purchased today (market liquidity allowing), the requirement for April 2020 to March 2021 would cost in excess of £93m.

7.3 After environmental levies, taxes, transmission and distribution costs are added, it is anticipated the final cost at the meter for cost for April 2020 to March 2021 will be £187m, within the £200m authority granted by the Committee.

7.4 At the meeting on 5 December 2017, the Committee required further requests for draw down beyond March 2021 to be submitted to the Committee every 12 months (or when the £200m authority is exhausted).

7.5 The projected energy cost for the year starting April 2021 based on current market prices is £98m (£211m fully delivered, including non-energy costs). Due to the volatile nature of wholesale energy markets and the potential for unexpected changes in regulatory costs, the estimated outturn value may be exceeded.

7.6 Procurement Authority is therefore requested for draw down of £222m to continue with the current strategy for the delivery period April 2021 to March 2022. This includes headroom of approximately five per cent to cover additional costs arising from increases in the wholesale market and high than anticipated regulated pass-through charges. TfL is required to commit to CCS for this period by the end of 2018 to ensure continuity with TfL's risk management approach.

7.7 Continuing to source through CCS for this period will provide the flexibility of managing price risk whilst being able to source zero-carbon and lower cost energy bilaterally as outlined within Section 6.

7.8 Subject to approval by the Committee, further requests for draw down beyond March 2022 will be submitted to the Committee along with an update on progress of the Energy Strategy in quarter 3 of 2019.

List of appendices to this report:

Appendix 1: Overview of Energy Strategy work streams
A paper containing exempt supplemental information is included on Part 2 of the agenda

List of Background Papers:

TfL Energy Purchasing 2020 - 2023

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Appendix 1

Overview of Energy Strategy work streams

1 Energy Efficiency

1.1 **Traction energy efficiency:** Work is underway to ensure that major line upgrade projects deliver maximum energy efficiency benefit in terms of whole life cost. Outside of the major projects we are seeking sites where quick payback energy efficiency interventions could be installed. Work has been done with Thales to asses the benefits of Green CBTC (Computer Based Transmission Control) – optimising coasting to deliver energy efficiency improvements.

1.2 **Non-traction efficiency**: Measures to improve energy efficiency at TfL locations have been undertaken around the network in recent years, including lighting upgrades across street lighting, the tram network and river piers, and improvements to electrical and mechanical systems at Underground stations. A £2m programme of energy efficiency measures at TfL buildings delivered under the GLA's RE:FIT framework was completed in late 2017, which is expected to achieve a minimum of £200k savings per annum. We are working to collect data from across the business and identify further opportunities to improve energy efficiency. Business cases will be developed by Spring 2019 for funding appraisal.

2 Generation

2.1 **Solar PV**: 24 buildings are included in our Solar programme procured through the GLA's RE:FIT framework, which will install a total of 1.1MW of peak generating capacity. Installation of the first panels is scheduled to start in early 2019 on a building within the Acton Depot complex. In parallel, detailed mapping activities will be undertaken to assess the entire TfL building portfolio for potential solar generation capacity, alongside TfL owned undeveloped (including trackside) land. This will complete in April 2019, with a second stage then commencing which aims to identify a range of feasible sites large enough to generate interest in third party investment. Concurrent work is underway to understand the level of opportunity for solar schemes to be funded through an off balance sheet, third party funded financing model, prior to potential engagement with investors.

2.2 **Waste Heat**: We have completed our work on site to deliver the first tube waste heat recovery scheme at City Road. Joint testing and commissioning with London Borough of Islington will be undertaken in 2019, which will then see the scheme fully operational. To identify future waste heat sites we have completed an internal study that identified more than 50 potential vent shafts that could be developed for waste heat export. The next stage will use the GLA's DEEP framework to further analyse opportunities and understand potential heat recipients. This will be split into two studies, one to further advance the technical ability of developing schemes at the identified sites and another to develop our commercial understanding to inform how TfL should proceed. Both will complete in Summer 2019 and third party funding options will continue to be pursued in the meantime.

3 Road Transport Electrification

3.1 **Optimised Electric Vehicle charging**: We are continuing to support the introduction of publicly-available electric vehicle charging infrastructure in London. The programme of rapid charge point installations will install 300 charge points by 2020, a proportion of which are exclusively for the use of zero emission capable taxis. We are working with London Councils and the boroughs to support on-street residential charging through the Go Ultra Low Cities Scheme. We are supporting the Mayor's Electric Vehicle (EV) Infrastructure Taskforce, bringing together stakeholders from a number of sectors in order to develop a shared delivery plan for increasing EV infrastructure in London. We are exploring potential future commercial models for us to develop and/or run our own chargepoint infrastructure.

3.2 **Optimised / accelerated bus electrification**: We have completed a joint study with UK Power Networks (UKPN) to understand the feasibility and estimated cost of electrifying over 60 bus garages located with the UKPN area. This will help to support the development of cost estimates for bus electrification over the next 10 years, based the tendering programme. Estimated electrification costs are being forecast as part of the business planning process. By the end of 2018 there will be over 150 pure electric buses in the fleet, with further routes forecast for conversion in 2019. We are engaging with bus operators to understand their thinking and continue to engage with the vehicle manufacturer market to drive development

Finance Committee

Date: **13 December 2018**

Item: **Contract for Services between TfL and LRSL**

This paper will be considered in public

1 Summary

1.1 This paper seeks approval for a contract for services agreement to be entered into between TfL and its wholly owned subsidiary, London River Services Limited (LRSL) and requests procurement authority to cover the provision of the Woolwich Ferry Service by LRSL. The requested Procurement Authority is £137m which takes into account the remaining year on the current operational contract which ends in March 2020.

2 Recommendation

2.1 **The Committee is asked note the paper and to grant Procurement Authority up to the sum of £137m in respect of the contract for services between TfL and London River Services Ltd for the provision of Woolwich Ferry services between the periods October 2008 to March 2020.**

3 Background

3.1 The requirement to provide a free ferry service at Woolwich is set out in the Metropolitan Board of Work (Various Powers) Act 1885. TfL inherited the obligation when it was established, but at that time it was contracted out to the then London Borough of Greenwich. When that arrangement came to an end in 2008, TfL took over the operating services.

3.2 This service is managed by LRSL and operated by an outsourced supplier, Briggs Marine Contractors Limited (BMCL). The outsourced suppliers operating costs are paid by LRSL and then subsequently recharged to TfL via the Surface Transport business unit. The assets and liabilities associated with managing the ferry service are owned by LRSL.

3.3 We have been reviewing the contractual and financial arrangement between LRSL and TfL, in the context of the acquisition of two new vessels which have recently been delivered and it has been concluded that the most effective tax and accounting treatment of the ferry service requires a contractual arrangement to be put in place between TfL and LRSL to cover the period since TfL took over operations in 2008 to 2020 when the contract with BMCL expires.

List of appendices to this report:

None

List of background papers:

None

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Finance Committee

Date: **13 December 2018**

Title: **TfL Office Accommodation Strategy Update**

This paper will be considered in public

1 Purpose

1.1 This paper provides an update to the Committee on TfL's Accommodation Strategy and the progress made on the key efficiency and savings initiative known as the Major Accommodation & Property Programme.

2 Recommendation

2.1 The Committee is asked to note the paper.

3 Background

3.1 In 2016, TfL's office accommodation portfolio comprised 37 properties, accommodating 15,000 workstation with an annual operating cost of £83m.

3.2 A new savings and efficiencies initiative, the Major Accommodation and Property Programme (MAPP), was approved in October 2016, with the objectives of:

(a) securing £94m in net financial benefits from the office portfolio, over the then Business Plan period 2017/18 to 2021/22;

(b) minimising the annual operating cost of the office portfolio, whilst maximising revenue opportunities and preserving any planned capital receipts; and

(c) ensuring that TfL's office accommodation is to be affordable, not aspirational.

3.3 In order to meet those objectives, MAPP was targeted with:

(a) vacating and sub-letting leasehold interests, such as Windsor House;

(b) reviewing re-gearing opportunities of existing leaseholds, such as Pier Walk;

(c) letting surplus freehold assets, such as Cranbourn Street; and

(d) preparing for the disposal of the Broadway Complex, retaining the planned capital receipt.

3.4 MAPP also incorporated planned key deliverables relating to the TfL Office Accommodation Strategy, including:

(a) the disposal of Westferry Circus by 27 October 2017;

(b) the occupation of our new hub at Stratford from 2 October 2017; and

(c) the disposal of Templar House at the lease expiry on the 29 January 2019.

3.5 MAPP was targeted with rationalising the occupied office estate and reducing the overall desk capacity in the portfolio from 15,000 to 12,000 by 2018/19. This was supported by a reduction in demand through the delivery of TfL's Transformation Programme, expansion of 'neighbourhood working' (desk sharing) and new initiatives such as Smart Working, third-party occupancy reviews and greater integration with the operational portfolio.

3.6 In order to secure the targeted benefits of £104m (gross) over the Business Plan years, an implementation budget of £10m was approved in December 2016. The £94m net target was subsequently stretched to a minimum £110m in 2017/18, which remains the current objective.

4 Progress to Date

TfL Office Accommodation Strategy

4.1 TfL's Office Accommodation Strategy was introduced in 2006, with the remit to:

(a) consolidate and modernise TfL's office portfolio, through the acquisition of integrated 'Accommodation Hubs', with over 2,000 staff, benefitting from increased productivity, collaboration and exploiting utilisation opportunities, such as Neighbourhood Working; and

(b) procure this higher quality space at no higher cost, with minimum change cost.

4.2 Recent delivery of the Strategy has been integrated into MAPP, achieving:

(a) completion in September 2017, under budget, of TfL's third Accommodation Hub at 5 Endeavour Square, Stratford, providing modern, fit for purpose workspace for a further 3,300 people (2,800 desks);

(b) the disposal of 14 Westferry Circus (1,600 desks) in October 2017; and

(c) the vacation of Templar House (1,250 desks), saving operating expense whilst we await lease expiry in January 2019.

4.3 This effectively concludes a 10-year programme of activity, which has seen TfL's office estate reduce by 39 properties and with 8,000 (68 per cent) of the 11,800 currently occupied desks now accommodated in three modern Hub buildings.

MAPP Programme

4.4 The more recent implementation of MAPP has successfully:

(a) sub-let the two largest leasehold liabilities at Windsor House and Albany House to Central Government tenants;

(b) commercially let three surplus freehold assets;

(c) disposed of three leasehold and managed space assets;

(d) mothballed offices such as Pelham Street and Templar House; and

(e) relocated TfL's Occupational Health team to freehold space at 200 Buckingham Palace Road, allowing the disposal of our leasehold interest at Townsend House.

4.5 By January 2020, with the disposal of 230 Blackfriars Road, TfL will only occupy three leasehold properties, namely the three accommodation Hubs, along with a number of satellite freehold premises required for operational and project reasons.

4.6 In addition to disposals and lettings, the MAPP team have been actively negotiating business rates and rebates, rent reviews and dilapidation payments on lease expiries, where to date, this collective initiative has secured £17.4m benefit over the Business Plan years.

4.7 The MAPP team has also secured further savings of £4.6m for other TfL Business Units through the negotiation of dilapidations and business rates, along with the early release of serviced office space.

Broadway Complex

4.8 More recently, in October 2018, we commenced a full review of the freehold office estate. Including the Broadway Complex, 13 freehold assets were identified for potential sale, with an indicative net capital receipt of at least £200m. Further feasibility activities are underway to test the viability, estimate the net receipts and prepare individual sales strategies.

4.9 The current working assumption is that the Broadway Complex will be disposed of in 2020 with the most likely route being a sale with vacant possession. In August 2018, the Committee approved the works necessary to secure the retention of the extant residential planning consent and to allow the operational elements of the Complex to be separated from the office building to enable its future disposal (the Separation Works).

4.10 The Separation Works are now underway with the installation of new UK Power Networks transformer on the ground floor of 55 Broadway in the area previously occupied by the café. The works are expected to complete by the end of December 2019, with the activities required to retain the extant planning consent completed by March 2019. The review of the future disposal options for the Broadway Complex continues and a recommendations paper will be submitted to the Committee prior to any future sale.

5 Portfolio Capacity and Demand

5.1 At the start of MAPP, the portfolio held 15,000 desks with a target reduction to 12,000. The MAPP target of 12,000 desks will be secured by the end of March 2019 and then exceeded with the disposal of the final leasehold asset at 230 Blackfriars Road in January 2020.

5.2 The disposal of the Broadway Complex from April 2020 sees a further drop in capacity to nearly 10,000 desks. At that point demand will also need to be considered against further implementation of Smart Working.

5.3 By 2022, the desk capacity will have potentially reduced to 8,400 desks, with the completion of the freehold sales, a 46 per cent reduction over five years. It should be noted that MAPP is a fluid programme of activity and can flex to future deman requirements.

5.4 The chart provided at Appendix 1 shows the disposal profile of properties under MAPP and the potential sale of freehold assets, along with the associated reduction in desk capacity over time.

5.5 A wider review of TfL's accommodation requirements over the next ten years is being prepared and this will be brought to the Committee in March 2019.

6 Financial Summary

6.1 MAPP was targeted with a minimum of £110m net (£120m gross) benefits over the Plan Years 2018-22. As shown in the table below, MAPP has secured £94.88m to date with a further £31.18m of planned future activities (not yet secured), potentially achieving a total benefit £128.2m over the Business Plan years

Activity	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	Total £m
Lettings Related Benefits	6.7	19.5	19.9	19.6	15.5	81.2
Rent & Rates Savings	1.6	5.6	2.0	2.0	2.0	13.2
Dilapidation Savings	3.0	1.2	0.0	0.0	0.0	4.2
MAPP Overheads	0.4	-0.1	-0.1	0.0	0.0	0.2
Secured Benefits:	**11.7**	**26.2**	**21.8**	**21.4**	**17.5**	**98.8**
Planned Activities	0.0	1.3	7.8	8.2	8.3	25.5
Future Mothball Savings	0.0	0.0	1.3	1.3	1.3	3.9
Planned Benefits:	**0.3**	**1.3**	**9.8**	**10.00**	**11.2**	**29.4**
Total Net benefit:	**10.3**	**27.5**	**30.4**	**31.4**	**28.6**	**128.2**

Fig 6.1 – Net Benefits of the MAPP Programme

6.2 MAPP has therefore already secured the original target of £94m and on course to achieving the stretch target of £110m, with the potential for a further £15m savings.

6.3 The MAPP programme, along with supporting Facilities related efficiencies, will see the annual operating cost for the office portfolio, reduce from £83m in 2016-17 to a forecasted £66m in 2021-2022, whilst also absorbing rent reviews at the three hubs of circa £5m. Further rationalisation of the portfolio will reduce this further beyond the current Business Plan years.

6.4 It should be noted that the operating costs provided are directly building related and exclude Facilities Management overheads and Corporate Services such as mail, reprographics and catering in order to identify the estate cost only.

List of appendices to this report:

Appendix 1: Office Portfolio Capacity Chart

List of Background Papers:

TfL Executive Committee Paper, entitled 'TfL Office Accommodation Property Plan 2016', 12 October 2016

TfL Executive Committee Paper, entitled 'Implementation of the Office Accommodation Plan', 22 December 2016

Finance Committee Chair's Action paper, entitled 'Separation Works to the Broadway Complex', 31 August 2018

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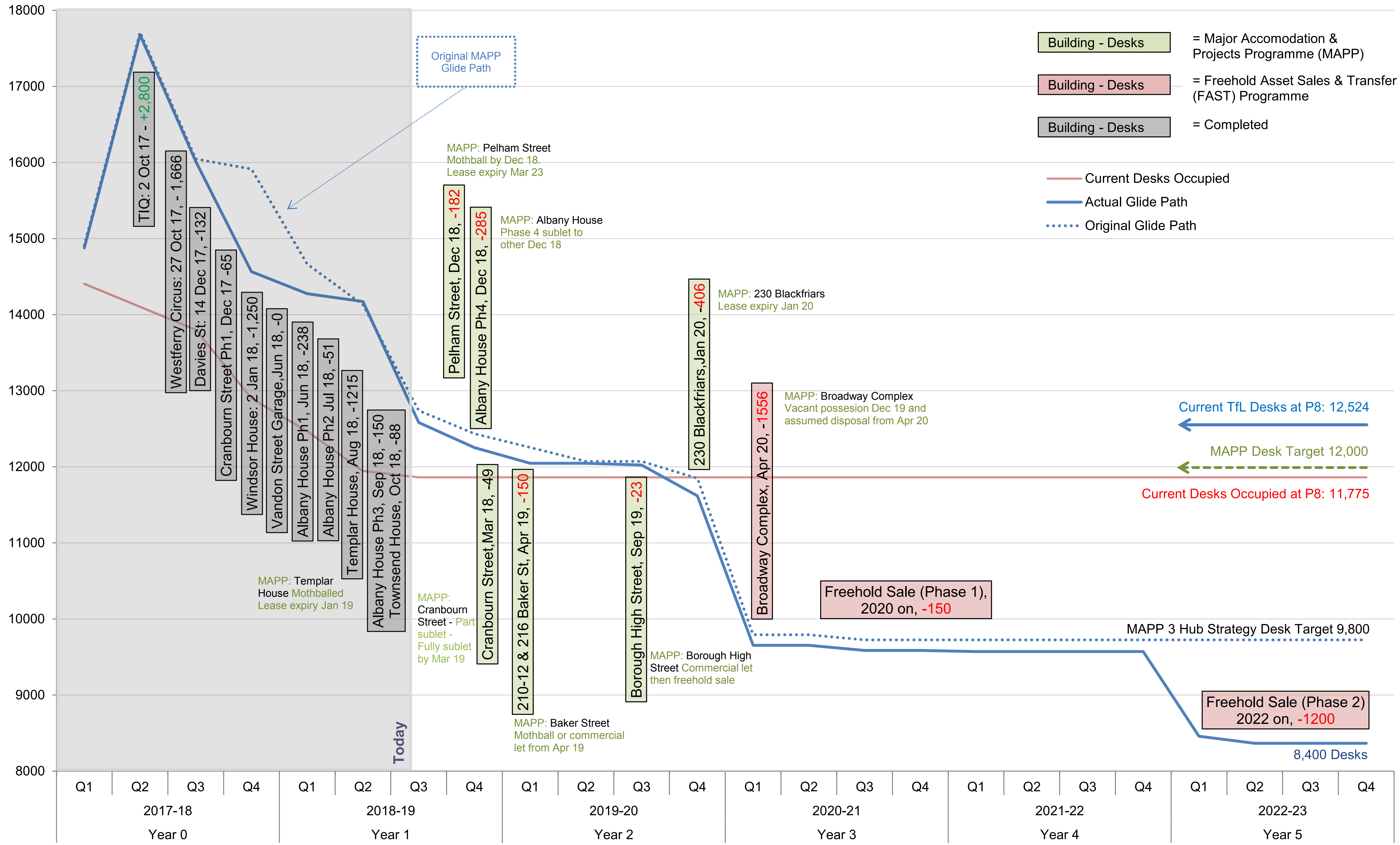
Office Accommodation Strategy: MAP Programme - 3 Hub Strategy with FAST Programme

Major Accommodation & Property (MAP)
MAP Programme
Transport for London



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Finance Committee

Date: **13 December 2018**

Item: **Transformation Programme Update**

This paper will be considered in public

1 Summary

1.1 This paper provides an update on the Transformation Programme.

2 Recommendation

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

3 Transformation Programme Background

3.1 We are undertaking our largest ever change programme to reduce costs and increase revenue as part of turning an operating deficit into a surplus, as set out in the TfL Business Plan.

3.2 The Programme recognises that change is continuous. Action taken to reduce our back office organisation over the last three years has realised total savings over the period of £209m and annual recurring savings of £111m. Total headcount has reduced by 1,770.

4 Current Organisational Change Activity

4.1 As part of our latest phase of Transformation, four further functions launched organisational change with staff and Trade Unions on 31 October 2018.

4.2 The functions involved are:

(a) Surface Transport, Public Transport Service Planning;

(b) London Underground, Transplant;

(c) London Underground, Track; and

(d) Professional Services, Human Resources.

4.3 This involves reviewing 629 roles with a proposed reduction in posts of 26 per cent (subject to consultation) and an estimated recurring annual saving of £13.9m. We will do all we can to mitigate redundancies and retain the skills and talent we need. This includes not filling posts that are currently vacant and reducing non-permanent labour.

5 A New Business Services Function

5.1 To date, our cost reduction programme has largely concentrated on 'vertical', divisional organisational change. We are now looking at potential further cost reduction and revenue opportunities through end-to-end process and structural integration 'across' the organisation.

5.2 In addition to reviewing the four areas mentioned in 4.2 above, we have created a new Business Services function. To begin with, this is responsible for transactional processes in Finance and HR and will deliver savings of around 30 per cent through standardisation of core processes. This is a common model in many organisations and will be structured to provide the option for further transactional services to be added to it over time.

5.3 The Business Service function is being led by Andrew Pollins, Transformation Director. We have moved 300 staff into the new function and staff have been engaged through a series of face-to-face briefings.

5.4 The immediate priority is to conduct end-to-end reviews of eight core business processes. We will do this while maintaining focus on business as usual activity and will ensure our staff are fully engaged throughout. Internal Audit will provide assurance during the development of the new processes

List of appendices to this report:

None

List of Background Papers:

None

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