

Transport for London

Minutes of the Finance and Policy Committee

Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Tuesday 14 October 2014

Members

Peter Anderson	Chairman
Daniel Moylan	Vice Chairman
Brian Cooke	Member
Isabel Dedring	Deputy Chair of TfL (from 88/10/14)
Baroness Grey-Thompson DBE	Member
Angela Knight	Member
Michael Liebreich	Member (from 88/10/14)
Eva Lindholm	Member

Staff

Steve Allen	Managing Director, Finance
Sarah Atkins	Commercial Director, Rail and Underground (for 96/10/14)
Peter Blake	Director of Service Operations, Surface Transport (for 91 & 93/10/14)
Sarah Bradley	Head of Group Financial Accounting, Finance (for 84/10/14)
Howard Carter	General Counsel
Leon Daniels	Managing Director, Surface Transport
Patrick Doig	Director of Finance, Surface Transport
Andy Eastaugh	Head of TfL Programme Management Office
Garrett Emmerson	Chief Operating Officer, Surface Transport
David Hughes	Director of Major Programme Sponsorship, Rail and Underground (for 97/10/14)
Simon Kilonback	Director of Group Treasury
David Leaper	Victoria & Northern Line Upgrades Sponsor, London Underground (for 97/10/14)
Glyn Lenton	Utilities Commercial Sourcing Manager, London Underground (for 97/10/14)
Charlotte Leonard	Assistant Project Manager Asset Development, London Underground (for benchmarking)
Terry Morgan	Chairman, Crossrail Limited (from 88/10/14)
Andrew Pollins	Interim Chief Finance Officer
Gareth Powell	Director of Strategy & Service Development, Rail and Underground
Simon Reed	Head of Technical Services Group, iBus, Surface Transport (for 92/10/14)
Rachel Stretton	Interim Director of Finance, Rail and Underground
Steve Townsend	IM Chief Information Officer, Finance (for 95/10/14)
Clive Walker	Director of Internal Audit
Shamus Kenny	Head of Secretariat

Also in Attendance

Paul Jenkins	Member, Independent Investment Programme Advisory Group
Michael Woods	Member, Independent Investment Programme Advisory Group

80/10/14 Apologies for Absence and Chair's Announcements

Apologies for absence were received from Sir John Armit CBE.

81/10/14 Declarations of Interests

Peter Anderson declared an interest as a director of the Canary Wharf Group plc in relation to Crossrail and the Jubilee line upgrade. Daniel Moylan declared an interest as a Councillor for the Royal Borough of Kensington and Chelsea, as a Non Executive Director of Crossrail Limited (appointed by TfL) and as Chairman of Urban Design London. Baroness Grey Thompson declared an interest as a member of the London Legacy Development Corporation. Angela Knight declared an interest as Chief Executive of Energy UK and as a Non Executive Director of William Cook Holdings Limited. Michael Liebreich declared an interest as Chairman of the Advisory Board of Bloomberg New Energy Finance.

82/10/14 Minutes of the Meeting held on 17 July and the Extraordinary Meeting held on 20 August 2014

The minutes of the meeting held on 17 July 2014, subject to the inclusion of Garrett Emmerson on the attendance list, and the extraordinary meeting held on 20 August 2014 were approved as a correct record and signed by the Chairman.

83/10/14 Matters Arising and Actions List

The Committee noted the Actions List.

84/10/14 Prudential Indicators – Outturn for the Year Ended 31 March 2014

Andrew Pollins and Sarah Bradley introduced the paper, which reported TfL's performance against the final revised prudential indicators for the Financial Year 2013/14. These demonstrated that TfL had exercised prudence in assessing the affordability of the capital expenditure and debt necessary to support the budget outputs.

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

The Committee noted the paper.

85/10/14 Group Treasury Activities

Steve Allen and Simon Kilonback introduced the paper and the related exempt supplemental information on Part 2 of the agenda. The papers updated the Committee on Group Treasury's activities from 1 April 2014 to date, as required by the Treasury Management Policy Statement and Treasury Management Practices 2014/15, approved by the Board in March 2014.

There had been no breaches of the Treasury Management Strategy 2014/15 (comprising the Investment Strategy 2014/15, Borrowing Strategy 2014/15 and Risk Management Strategy 2014/15) in the year to date.

Members supported the approach to borrowing through the European Investment Bank, given its current rates and were advised that further proposals would be submitted for agreement later in the year.

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

86/10/14 Review of TfL's Approved Counterparties and proposed amendments to the Treasury Management Strategy 2014/15

Steve Allen and Simon Kilonback introduced the paper and the related exempt supplemental information on Part 2 of the agenda. The papers addressed the request by the Committee, in March 2014, to review and discuss the continuing diversification strategy and the changing risk environment for TfL's investments on a regular basis.

As highlighted in the Treasury Management Strategy (TMS) 2014/15, by continuing to diversify its investment counterparties, TfL would benefit from obtaining greater direct control and transparency of investments while maintaining appropriate levels of liquidity.

As part of the continuous development of the TMS, Group Treasury proposed a small number of amendments to the TMS 2014/15 for the purposes of good housekeeping or removing redundant clauses that had been superseded by the Committee's direct approval of counterparties on a named basis.

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

- 1 additions and amendments to the Approved Investment List 2014/15 as set out in Appendix 1 to the paper on Part 2 of the agenda;**
- 2 additions and amendments to the Approved Derivative Counterparties List 2014/15 as set out in Appendix 2 of the paper on Part 2 of the agenda; and**
- 3 amendments to the Treasury Management Strategy 2014/15, as set out in Appendix 1.**

87/10/14 European Investment Bank London Overground Capacity Improvement Programme Facility

Steve Allen and Simon Kilonback introduced the paper and the related exempt supplemental information on Part 2 of the agenda. The papers sought approval for TfL to enter into a corporate loan facility agreement with the European Investment Bank to fund infrastructure enhancements required as a result of the conversion of the existing fleet of 57 London Overground Class 378 four car trains to five car trains, as part of the London Overground Capacity Investment Programme.

The Committee:

- 1 noted the paper and the related paper on Part 2 of the agenda;**

- 2 noted that under the Treasury Management Strategy 2014/15 approved by the Board in March 2014, the Committee's approval was required for any newly arranged facility (but not facilities being renewed) through the European Investment Bank (EIB);
- 3 approved the substantive terms of the proposed loan facility agreement between TfL and the EIB for up to £95m, as set out in Appendix 1 to the paper on Part 2 of the agenda, subject to any further amendments that the TfL Officers (as described in paragraph 6 below) may approve further to the authorisation in paragraph 4 below;
- 4 authorised the TfL Officers (as described in paragraph 6 below) such that any one of them may approve, authorise and agree on behalf of TfL the final terms and conditions of the loan facility agreement (including the final amount of the loan (subject to a maximum of £95m), the tenor, interest rates, specific drawdown dates, loan profile and repayment schedules and any amendments to the substantive terms) and any other documentation relating to the loan; and
- 5 authorised the TfL Officers (as described in paragraph 6 below) to approve, sign, execute (if necessary, by authorising the fixing of the TfL seal), deliver on behalf of TfL the loan facility agreement and any and all ancillary documentation to be entered into by TfL in relation to the loan facility and to do all such other things as they consider necessary or desirable to implement the above.
- 6 The following TfL Officers have authority: the Commissioner, Managing Director Finance, General Counsel, Chief Finance Officer and Director of Group Treasury.

88/10/14 Benchmarking and Financial Planning at TfL

Steve Allen introduced the paper, which presented an overview of how TfL was using benchmarking to inform projected operating costs and to provide assurance for both the level and pace of cost reductions. TfL used benchmarking data to drive projects and costs, by looking at best practice internally and externally. The analysis has been reviewed with the Independent Investment Programme Advisory Group (IIPAG).

Members recognised the importance of safeguarding the safety of staff and users but welcomed active investigation into means to maximise maintenance productivity by undertaking work when stations were operational or options for limited early closures.

Members requested a paper to a future meeting setting out the current efficiencies saving initiatives and the benchmarking activities (including stretch targets) that contributed to these to be delivered over the current Business Plan. **[Action: Steve Allen]**

The Committee noted that:

- 1 TfL's existing efficiency plans, once fully secured, should bring the costs of operating London Underground into line with other efficient and comparable metros;

- 2 TfL's repeatable activities in Surface Transport, notably road maintenance/ renewal and bus operations were the subject of benchmarking that demonstrated TfL delivered good value for money; and
- 3 TfL was sharing best practice across the organisation and broadening the scope of benchmarking as the scope of its investment programme and activities (especially in Surface Transport) increased.

89/10/14 Independent Investment Programme Advisory Group Benchmarking Report 2013/14

Steve Allen introduced the paper, which provided TfL's management response to the Independent Investment Programme Advisory Group's (IIPAG) Annual Benchmarking Report for 2013/14.

Members discussed the relevant comparators for TfL. It was agreed that there would be value in separating benchmarking within London Underground for Victorian infrastructure replacement, which was likely to be more expensive due to access constraints and more recent lines, such as the Victoria and Jubilee, which could be benchmarked against international metros.

Paul Jenkins and Mike Woods from the IIPAG said the management response would have benefitted from a clear statement stating whether the recommendations were accepted and giving reasons if not.

The Committee noted the Independent Investment Programme Advisory Group's Annual Benchmarking Report for 2013/14 and endorsed the management response.

90/10/14 Project Monitoring – Project Approvals

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

Members requested briefings on the proposals for the Silvertown Tunnel, which was the subject of a public consultation, and the progress with procuring the Automatic Train Control contract for the sub-surface railway. **[Action: Michele Dix and Mike Brown]**

Under the Fit for the Future Stations Programme, Members requested a breakdown of the costs relating to producing and distributing Police Oyster cards. **[Action: Mike Brown]**

Members were provided with information on the Woolwich Ferry life extension costs, in particular why the Phase 1 costs had been significantly underestimated and were given assurances that lessons had been learned for Phase 2 and future projects.

Members discussed the factors impacting on the cost of providing step free access to different stations. Information on the costs, civil engineering challenges and benchmarking data for step free access to Finsbury Park station would be provided to the Rail and Underground Panel. **[Action: Mike Brown]**

The Committee noted the report.

91/10/14 Licence Fee for Taxis Fitted with Digital Taxi Top Advertising

Leon Daniels, Garrett Emmerson and Peter Blake introduced the paper, which sought a recommendation that the Board note the change to the taxi vehicle licence fee to include a higher licence fee for taxis fitted with a digital taxi top advertising unit. It was proposed that this change come into effect from 1 December 2014, subject to approval by the Board. All other licence fee proposals would be reviewed during the annual licence fee review.

Digital Taxi top advertising had been tested for safety or distraction risks for other road users. The policy and number of licences would be reviewed in the light of experience.

Members requested that the paper to be submitted to the Board include information on the different means for taxi owners or operators to generate supplementary income.

[Action: Leon Daniels]

The Committee noted the paper and recommended that the Board notes the proposed change to the taxi vehicle licence fee for those taxis fitted with a digital taxi top advertising unit.

92/10/14 iBus Contract Extension

Leon Daniels and Simon Reed introduced the paper, which sought a recommendation that the Board approve Procurement Authority and approve the extension of London Buses' "iBus" Contract. The proposed extension term was from May 2015 for a maximum of seven years (five years initial term with two potential one year extensions) during which time the Buses Directorate would procure the next generation system.

Members discussed the proposed extension but deferred any decision pending further information. A paper would be submitted to the next meeting providing:

- a breakdown of the financial information in the table under paragraph 5.1 in the paper, including the figures for the previous five years as well as the proposed extension, and why it was considered to represent value for money;
- a further management discussion with the Independent Investment Programme Advisory Group (IIPAG) and a response to the issues that had been raised by the IIPAG; and
- advice on whether extending the contract was consistent with public procurement rules.

[Action: Leon Daniels]

Given its criticality to TfL's business, the approach to software development and procurement was being reviewed and would include considerations around intellectual property ownership, to ensure that lessons from other contracts had been learned.

The Committee noted the paper and deferred a decision on the iBus contract to a future meeting.

93/10/14 Cycle Hire Implementation – Phase 2 and CHEI Project Close

Leon Daniels and Peter Blake introduced the paper, which briefed the Committee on the end of the implementation phases of Cycle Hire and the proposed closure of Cycle Hire

Phase 2 and Cycle Hire Expansion and Intensification (CHEI) projects.

Leon Daniels confirmed that the process was underway to secure a new sponsor for the Cycle Hire scheme, for when the current sponsorship contract expired in 2015.

The Committee noted the paper, including the proposed closures of both the Cycle Hire Phase 2 and the Cycle Hire Expansion and Intensification projects.

94/10/14 New Routemasters

Leon Daniels introduced the paper and the related exempt supplemental information on Part 2 of the agenda. The papers sought a recommendation that the Board approve additional Project Authority for the purchase of 200 additional New Routemaster (NRM) buses for passenger service by the end of April 2016, taking the NRM fleet size to 800. This was an increase to the current project scope and increased total Project Authority. Additional Financial and Procurement Authority was also sought for the additional 200 NRMs and the associated iBus equipment, mid-life refurbishment costs and other related matters.

The 200 additional NRMs would be fitted with the latest ultra-low-emission Euro VI engine. NRMs with Euro V compliant engines had improved fuel efficiency by almost 50 per cent compared to the diesel vehicles that they had replaced and produced significantly lower levels of nitrogen oxide (NOx) and particulate matter (PM10) compared to other Euro V hybrid buses. The difference between the NRM Euro VI and Euro V engines was marginal, so it was not proposed to retrofit the entire fleet with Euro VI engines at this stage.

TfL remained on target to purchase 2,000 vehicles by 2020. TfL was able to purchase up to 1,000 buses from Wrightbus on the current contract terms. No decision was proposed on the order of the next 1,000 vehicles as other bus manufacturers were looking to develop their own double-decker buses with NRM features, which would give TfL options when considering the purchase of additional vehicles.

The Committee noted the paper, the supplementary information on Part 2 of the agenda and recommended that the Board:

- 1 approves Project Authority for the purchase of 200 additional New Routemasters from Wrightbus at the figure set out in the paper on Part 2 of the agenda;**
- 2 approves Financial and Procurement Authorities for the additional 200 New Routemasters and the associated iBus equipment, mid-life refurbishment costs and other related matters, at the figure set out in the paper on Part 2 of the agenda;**
- 3 delegates to the TfL Officers and the Subsidiaries (as described in paragraph 6 below) authority to:**
 - (a) settle the timing of any orders for new buses and the number of buses per order; and**
 - (b) finalise the terms on which the matters described in paragraph 2 above are to be supplied;**

- 4 authorises the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate) any documentation to be entered into in connection with the completion and implementation of the orders for buses made pursuant to the approval given in paragraph 2 above (the Orders) and any of the matters referred to in them (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, variations, letters or other documents); and
- 5 authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Orders and the matters referred to in them.
- 6 The following Officers and Subsidiaries shall have delegated authority:
 - (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Surface Transport, General Counsel; and
 - (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.

95/10/14 Supply of Data Communication Services and Support Contract Extension

Steve Allen and Steve Townsend introduced the paper and the related exempt supplemental information on Part 2 of the agenda, which sought authority to extend the Agreement for the Supply of Data Communications Services and Support with Fujitsu Services Limited (the Agreement), which was due to expire on 8 November 2014. It was proposed that the Agreement be extended to facilitate TfL's wider IM delivery strategy.

On 24 September 2014, the Board delegated to the Committee authority to grant additional Procurement Authority in respect of the Agreement and its proposed extension.

The Committee discussed the controls relating to Procurement Authority in relation to this contract. TfL Internal Audit, working with Andrew Pollins as the interim Chief Finance Officer, would be asked to determine if there were appropriate controls in place. Initial findings from the Internal Audit Review would be submitted to the Committee. A paper would then be submitted to the Audit and Assurance Committee, setting out the investigation results and the proposed additional controls. **[Action: Howard Carter]**

The Committee was aware that the current contract expired on 8 November 2014 but it required further information and assurance before agreeing to the length and scope of any contract extension. It agreed that the decision would be delegated to its Chairman in consultation with available members of the Committee. Further information would be provided on the issues that had been raised by the Independent Investment Programme Advisory Group (IIPAG) and whether extending the contract was consistent with public procurement rules.

Actions were already in hand to provide Members with further information on the proposed wider strategy to reduce the number of networks and their cost across TfL.

The Committee:

- 1 noted the paper and the supplementary information on Part 2 of the agenda; and
- 2 subject to the provision of additional information, delegated to its Chairman, in consultation with available Members of the Committee, authority to:
 - (a) approve an extension of the Supply of Data Communications Services and Support contract with Fujitsu Services Limited (the Extension);
 - (b) grant additional procurement authority (some of which has already been incurred); and
 - (c) delegate authority to TfL Officers and Subsidiaries to finalise the terms of the Extension and their execution and implementation.

96/10/14 TfL Energy Purchasing 2017 to 2020

Sarah Atkins and Glyn Lenton introduced the paper and the related exempt supplemental information on Part 2 of the agenda, which reviewed the current purchasing strategy for the supply of electricity and gas to all applicable TfL supply points through the Crown Commercial Service (CCS) agreed frameworks. The paper sought a recommendation that the Board approve the continuation of the procurement of this requirement through future CCS frameworks from 2017 to 2020.

The paper also updated the Committee that the value of the existing Bulk Supply Electricity contract with CCS was expected to outturn at a value of £336m over three years (2014 to 2017). The Board granted procurement authority on 2 February 2012 to place this contract with CCS for a maximum of four TWhs, which at that day's forward wholesale market price would have cost £300m, but which could be more over three years.

The contract with CCS was considered to represent good value for money and provided sufficient flexibility to adjust supply to cater for projects currently at an early stage of development.

The Committee noted the paper and the supplemental paper on part 2 of the agenda and recommended that the Board:

- 1 approves the contract with Crown Commercial Services (CCS) for the purchase of electricity and natural gas from 2017 to 2020 pan-TfL, with a value of up to £600m (the Agreement);
- 2 notes the outturn value of £336m in respect of the existing Bulk Supply Electricity contract with CCS. This is £36m more than was originally estimated when the contract was approved by the Board in February 2012 due to the unexpected increases at the time around increased regulatory charges and wholesale market movements;
- 3 authorises the TfL Officers and the Subsidiaries (described in paragraph 6 below) to finalise the final terms of the contract with CCS and its execution;
- 4 authorises the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate)) any documentation to be entered into in connection with the completion and implementation of the

Agreement and any of the matters referred to in it (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents); and

- 5 authorises TfL Officers and Subsidiaries to do all such things as they consider necessary or desirable to facilitate the execution and implementation of the Agreement and the matters referred to in it.**
- 6 The following Officers and Subsidiaries shall have delegated authority:**
 - (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Rail and Underground, General Counsel; Commercial Director Rail and Underground; and**
 - (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

97/10/14 Jubilee Line World Class Capacity

David Hughes introduced the paper and the related exempt supplemental information on Part 2 of the agenda, which sought a recommendation that the Board grants additional budgeted project authority to commence the design stage of the Jubilee Line World Class Capacity (JL WCC) programme. The programme would increase the number of trains per hour (tph) on the Jubilee line from 30tph (current peak service) to 36tph peak service by 2019. 36tph was the maximum possible on the Jubilee line with the existing signalling and allowing for necessary dwell times at stations.

The Committee noted the paper and the supplemental paper on Part 2 of the agenda and recommended that the Board:

- 1 approves additional project authority of £32.4m increasing total project authority to £35.624m, and procurement authority as detailed in the supplemental paper on Part 2 of the agenda;**
- 2 delegates to the TfL Officers and the Subsidiaries (as described in paragraph 5 below) the authority to agree and finalise the terms of the Contracts;**
- 3 authorises the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate)) of any documentation to be entered into in connection with the completion and implementation of the Contracts and any of the matters referred to therein (including, without limitation, all agreements, deeds, guarantees, indemnities, property or other licences, announcements, notices, contracts, certificates, letters or other documents); and**
- 4 authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Contracts and the matters referred to therein.**
- 5 The following Officers and Subsidiaries shall have delegated authority:**

- (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Rail and Underground, Commercial Director Rail and Underground and General Counsel; and**
- (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

98/10/14 Any Other Business the Chair Considers Urgent

There were no other items of business raised.

99/10/14 Exclusion of 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), in order to consider the exempt information in relation to the items on: Group Treasury Activities; Review of TfL's Approved Counterparties and Proposed Amendments to the Treasury Management Strategy 2014/15; European Investment Bank London Overground Capacity Improvement Programme Facility; iBus Contract Extension; New Routemasters; Supply of Data Communication Services and Support Contract Extension; TfL Energy Purchasing 2017 to 2020; and Jubilee Line World Class Capacity.

The meeting closed at 12.15pm.

The next meeting would be held on Tuesday 25 November 2014 at 10.00am.

Chair: _____

Date: _____