

Transport for London

Minutes of the Finance Committee

**Paddington Room, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am Monday 5 March 2018**

Members

Ron Kalifa OBE (Chair)
Ben Story (Vice-Chair)
Anne McMeel
Val Shawcross CBE
Dr Nina Skorupska CBE (from minute 09/03/18)

Executive Committee

| | |
|-----------------|---|
| Howard Carter | General Counsel |
| Graeme Craig | Director, Commercial Development |
| Simon Kilonback | Interim Chief Finance Officer |
| Andrew Pollins | Transformation Director (for minute reference 12/03/18) |

Staff

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|------------------------|---|
| Scott Anderson | Senior Property Development Manager (for minute reference 10/03/18) |
| Sarah Bradley | Group Financial Controller |
| Emanuela Cernoia-Russo | Interim Corporate Finance Director |
| Tanya Coff | Finance Director, London Underground |
| Patrick Doig | Finance Director, Surface Transport |
| Lester Hampson | Property Development Director (for minute reference 10/03/18) |
| Tony King | Finance Director, MPD |
| Ken Youngman | Divisional Finance Director, Commercial Development |
| Clive Walker | Director of Risk and Assurance |
| Sue Riley | Secretariat |

Also in attendance

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| Sir Terry Morgan, CBE, Francis Salway | Chairman of Crossrail Non-Executive Director, CDAG |
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01/03/18 Apologies for Absence and Chair's Announcements

Michael Liebreich sent his apologies.

02/03/18 Declarations of Interests

The Chair declared an interest in items 11 and 21 on the agenda, would leave the meeting during the discussion of these items and had not received copies of the reports for this reason.

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.

03/03/18 Minutes of the Meeting of the Finance Committee held on 18 October 2017

The minutes of the meeting held on 18 October 2017 were approved as a correct record and signed by the Chair.

The Chair advised the Committee that a factual error in the minutes of the meeting held on 15 September 2017 had been identified as there had been no Part 2 paper relating to the paper on Taxi and Private Hire Licence Fees. This would be amended and updated on the TfL website.

04/03/18 Matters Arising and Actions List

The Committee noted the Actions List.

05/03/18 Finance Report – Period 10, 2017/18

Simon Kilonback presented the Finance Report for the period ending 6 January 2018.

Pressure on TfL income continued but passenger patronage had stabilised. Bus passenger numbers were ahead of budget for the year and flat in comparison to the previous year. Commercial advertising income was down but this had been offset by a reduction in operating costs overall.

Budget increases had been due to increases in costs, inflation and lower than expected savings in buses for the reporting period, due to timing issues. £118m net costs had been re-phased and £20-30m would be banked savings over the same period.

While London Underground patronage had stabilised recently, it was too early to identify any meaningful trends, but it was constantly monitored by the Executive Committee. The recent extreme weather had reduced passenger journeys by approximately 20 per cent on the days impacted. TfL would be seeking to recover compensation from Greater Anglia, due to its decision to close London Rail due to weather conditions.

The Committee congratulated TfL on continuing to run the service during the difficult weather period.

It was agreed that Tube patronage income be included in future Finance Reports.

[Action: Simon Kilonback]

The Committee noted the report.

06/03/18 Treasury Management Strategy 2018/19

Emanuela Cernoia-Russo introduced the paper and related supplemental information on Part 2 of the agenda, which set out the proposed Treasury Management Strategy for approval by the Board.

The objectives of the Strategy remained unchanged: enabling sufficient cash and liquidity facilities; enhancing TfL's credit rating; having regard to good prudential measures and implementation of adequate risk mitigation measures.

Staff were in discussions with the Government regarding the potential impact of the proposed new accounting standards from January 2019. There was still a lack of clarity around the proposals and the impact on public sector deficits. A cautious approach by TfL was being taken in reflecting the potential changes in the borrowing limits.

All of TfL's cash balances were invested having regard to the relevant Investments Guidance and the GLA Responsible Investment Policy. TfL chose to invest directly to ensure greater control over types of investments, and anything under a year was only used as a cash management tool. Equity options were never used.

The Committee:

- 1 noted the paper and the supplementary information on Part 2 of the agenda;**
- 2 recommended that the Board approves the Treasury Management Strategy (TMS) for 2018/19, attached at Appendix 1, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy, the Risk Management Strategy and the Counterparty Exposure Limits;**
- 3 recommended that the Board authorise the Committee to approve any changes to the TMS 2018/19 during the course of the year;**
- 4 noted that the proposals to the Committee for derivative investments set out in Recommendation 2.1(e) had been approved by the Chief Finance Officer, as required under the TfL Group Policy Relating to the Use of Derivative Investments (the 'Derivatives Policy'); and**
subject to the Board approving the TMS 2018/19 and the Derivatives Policy:
- 5 approved, pursuant to Section 49 of the Transport for London Act 2008 (as amended by the Transport for London Act 2016, together the Act, and in accordance with the Derivatives Policy) for 2017/18 (or 2018/19 as may be applicable at such time), Transport for London Finance Limited (as a qualifying TfL subsidiary for the purposes of the Act) entering into derivative investment(s) in relation to:**
 - (a) mitigating exchange rate risk related to specific currency exposures arising from the procurement of goods or services by any member of the TfL Group or receipts of European Union subsidies or other grants or revenues payable other than in Sterling to any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of exchange rate risk to any member of the TfL Group is established;**

- (b) mitigating exchange rate risk arising from any TfL Group investments in foreign currencies in accordance with the TMS 2017/18 (or 2018/19 as may be applicable at such time);
- (c) mitigating commodity rate and/or price risk related to specific commodity (including fuel and electricity) exposures arising from the procurement of goods or services by any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of commodity risk to any member of the TfL Group is established;
- (d) mitigating interest rate risk and if applicable currency risk related to any existing, imminent and future TfL Group borrowing (including any leases), once the borrowing has become certain and authorised in accordance with the TMS 2017/18 (or 2018/19 as may be applicable at such time);
- (e) mitigating inflation risk related to specific exposures arising from the procurement of goods or services by any member of the TfL Group once the quantum of inflation risk to any member of the TfL Group is established; and
- (f) mitigating risk related to any index reflecting any of the above matters referred to in paragraphs (i) to (v).

6 The following Officers and Subsidiaries shall have delegated authority:

- (a) **TfL Officers: the Commissioner, Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999, the Managing Director (Chief Finance Officer), General Counsel and Corporate Finance Director; and**
- (b) **Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

07/03/18 Treasury Management and Derivative Investment Policies

Emanuela Cemoia-Russo introduced the paper, which set out the Treasury Management Policies and the proposed TfL Group Policy relating to the Use of Derivative Investments for approval by the Board.

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

- 1 the proposed Treasury Management Policies as set out in Appendix 1 to the paper; and**
- 2 the proposed TfL Group Policy Relating to the Use of Derivative Investments as set out in Appendix 2 to the paper.**

08/03/18 Treasury Activities

Emanuela Cernoia-Russo presented the paper and related supplemental information on Part 2 of the agenda, which provided an update on key treasury activities for the period from 1 April 2017 to 13 February 2018.

TfL's borrowing requirement for 2017/18 was broadly in line with requirements. There had been no significant change to TfL's credit rating since 2016.

Other areas highlighted included TfL's banking and cash management services, which were tendered in January 2018, MiFID 11, and changes to the Prudential Codes and Treasury Management Code.

The recent article in the Financial Times regarding TfL's financial position had not had any substantial impact on its credit rating and staff had contacted major investors to provide any assurance needed.

A meeting would be arranged for the Vice-Chair with the Treasury Management Team to discuss best market practices. **[Action: Emanuela Cernoia-Russo]**

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

09/03/18 Mayoral Direction to TfL on its Affordable Housing Programme 2017/18

Graeme Craig and Lester Hampson introduced the paper and related supplemental information on Part 2 of the agenda, which summarised the Mayoral Direction (MD2183) on TfL's delivery of affordable housing.

The 50 per cent affordable housing target was applicable to the whole of TfL's estate rather than on a site by site basis. TfL was on target to deliver 3,800 affordable homes across 24 sites for the current financial year.

As an organisation, TfL was seeking to maximise income while delivering on the Mayor's target but also with a view to enhancing long term income on developments and not just generate capital receipts. All developments were in accordance with local Borough planning policies.

On some sites, improvements such as Step-Free Access were considered more strategically beneficial than the housing target.

Work on the Mayoral Direction for 2018/19 had started and would be embedded into the future budget planning process.

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

10/03/18 South Kensington – Around Station Development

Graeme Craig, Scott Anderson and Lester Hampson presented the paper and related supplemental information on Part 2 of the agenda, which set out the proposed redevelopment of TfL's property in and around South Kensington station.

The Committee discussed how best value had been achieved on the site, while retaining the restoration aspects. Staff were confident that the preferred joint venture partner would deliver to the high standard required, based on their previous experience. All the appropriate financial tests of the joint venture partner were being carried out.

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

- 1 approved TfL or any subsidiary company or Limited Liability Partnership within the TfL group, whether existing or to be formed (Subsidiary Entity) entering into a joint venture with the preferred bidder as the selected joint venture partner for the purpose of developing the Around Station Development (ASD) on the basis as set out in the paper;**
- 2 approved the formation of a Subsidiary Entity as a wholly owned subsidiary of TTL Properties Limited for the purpose of working with the preferred bidder as the joint venture partner to satisfy the pre-conditions and then setting up and investing into a joint venture company (JVCo) that will undertake the development of the ASD and subsequently own part of the ASD as a long-term investment; and**
- 3 granted Land Authority in the sums and subject to the conditions set out in the paper on Part 2 of the agenda for:**
 - (a) the disposal of the property in and around South Kensington station, as described in this paper and depicted on the plan provided in Appendix 1 (the Site) to the JVCo, by way of the grant by TfL or any Subsidiary Entity of long leases of the Site;**
 - (b) the station enhancement works, which include the provision of Step Free Access (SFA) for the ticket hall and District and Circle line platforms, and repair of the supporting structure for part of the existing property and station that spans the railway;**
 - (c) the contractual commitments to the preferred bidder in the Conditional Joint Venture Agreement (CJVA), Shareholders Agreement, Business and Development Management Agreement and Works Agreement (described in paragraph 8 below) together with financial guarantees by TfL or any Subsidiary Entity, to stand behind such commitments; and**
 - (d) the costs to be incurred by TfL or any Subsidiary Entity including:**
 - (i) TfL's or any Subsidiary Entity's share during the CJVA conditional period of the professional fees and other costs incurred in obtaining satisfactory planning permission, securing vacant possession of parts of the Site and satisfying a site value condition prior to the disposal of the Site to the JVCo;**

- (ii) TfL's or any Subsidiary Entity's share of project-related professional fees and costs of development as shareholder in the JVCo in the proportion of its shareholding following the disposal of the Site to the JVCo;
- (iii) TfL's cost for the station enhancement works in paragraph (3)(b) above; and
- (iv) the 49 per cent equity investment by TfL or Subsidiary Entity in the JVCo.

11/03/18 Multi-lateral Interchange Fees

The Chair declared his interest in this item and left the meeting during its discussion and decision. The Vice-Chair chaired the meeting for this item.

Howard Carter provided an update in relation to litigation commenced by TfL concerning fees charged in respect of debit and credit card transactions.

The cost of claims was considered value for money against the potential outcome of the litigation.

Any progress updates would be reported to future meetings.

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

12/03/18 Transformation Programme

Andrew Pollins presented the update on the Transformation Programme. Members requested an informal deep dive session after the next meeting.

[Action: Secretariat/Andrew Pollins]

The Committee noted the paper.

13/03/18 Members Suggestions for Future Agenda Discussion

Howard Carter introduced the current forward programme.

The Committee noted the forward programme.

14/03/18 Any Other Business the Chair Considers Urgent

There was no urgent business.

15/03/18 Date of Next Meeting

Wednesday 4 July 2018 at 10.00am.

Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the items on: Treasury Management Strategy 2018/19; Treasury Activities; Mayoral Direction to TfL on its Affordable Housing Programme 2017/18; South Kensington – Around Station Development and Multi-lateral Interchange Fees.

The meeting closed at 11.45am.

Chair: *Ru Kaya*

Date: 4 July 2018