

Transport for London

Minutes of the Finance Committee

Conference Rooms 1&2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Wednesday 18 October 2017

Members

Ron Kalifa (Chair)
Ben Story (Vice-Chair)
Anne McMeel
Val Shawcross CBE
Dr Nina Skorupska CBE

Executive Committee

Howard Carter	General Counsel
Simon Kilonback	Acting Chief Finance Officer

Staff

Sarah Bradley	Acting Chief Finance Officer (Statutory)
Emanuela Cernoia-Russo	Interim Corporate Finance Director
Tanya Coff	Director of Finance, London Underground
Glyn Lenton	Lead Commercial Manager (for minute reference 54/10/17)
Shashi Verma	Chief Technology Officer (for minute reference 52/10/17 & 53/10/17)
David Wylie	Chief Procurement Officer (for minute reference 54/10/17)
Sue Riley	Secretariat

Also in attendance

Sir Terry Morgan, CBE, Chairman of Crossrail

45/10/17 Apologies for Absence and Chair's Announcements

An apology for absence was received from Michael Liebreich.

46/10/17 Declarations of Interests

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.

47/10/17 Minutes of the Meetings of the Finance Committee held on 5 July, 15 September and 27 September 2017

The notes of the informal meeting held on 5 July 2017 were received and the actions were adopted.

The minutes of the meetings held on 15 September and 27 September 2017 were approved as a correct record and signed by the Chair.

48/10/17 Matters Arising and Actions List

It was noted that the action relating to affordable housing glossary (27/03/17) had not been circulated and would be sent to Finance Committee Members following the meeting. **[Action: Graeme Craig/Secretariat]**

The Committee noted the Actions List.

49/10/17 Finance Report – Period 5, 2017/18

Simon Kilonback presented the Finance Report for Period 5, ending 19 August 2017. Further information was circulated at the meeting.

The Members thanked officers for the additional information circulated at the meeting as clear and concise and welcomed the presentation of absolute savings in the separation of income and operational costs.

Challenges in the shortfall in passenger revenue, year on year, continued and this was reflected in the decline in both bus and Tube passenger revenues. This was consistent with a wider trend in the decline in discretionary journeys across London and the South East, due to a range of macro-economic factors. Commercial income had also decreased due to the decline in consumer spending and the resulting fall in advertising.

TfL cash balances were stable and Crossrail cash balances had increased due to the repayment of a loan previously advanced to Network Rail.

Operating cost reductions included £54m of absolute savings, including previously announced procurement savings in London Underground, and £60m of costs rephased/deferred. The opportunity to make further savings would be discussed in detail at the Board Business Planning session.

It was agreed that staff submit supplementary detailed commercial financial information on the Finance Reports to future meetings, on Part 2 of the agenda.

[Action: Simon Kilonback]

The Committee noted the Finance Report.

50/10/17 Prudential Indicators – Outturn for the Year Ended 31 March 2017

Sarah Bradley introduced the paper on TfL's performance against the indicators for the Financial Year 2016/17.

The two main elements of external debt included the standard loan arrangements and long term liabilities, which incorporated provisions. As these were difficult to forecast and subject to timing differences, headroom allowance had been included to allow for

flexibility. The legal limits were set out in the Treasury Management Indicators and aligned with the Treasury Management Strategy, which was approved by the Finance Committee.

The Corporate Finance and Treasury team scrutinised system generated daily reports on TfL's borrowing authority limits and operational boundaries, so a breach was highly unlikely. It was agreed that an example of a daily report would be sent to the Vice-Chair.

[Action: Simon Kilonback]

Other prudential indicators were reviewed on a quarterly basis against forecasts. These were reported to the Executive Committee on a by exception basis only. The overall affordability of borrowing formed part of the financial scorecard reported to the Executive Committee on a regular basis.

The Deputy Chair of TfL highlighted the importance of continued close scrutiny in the context of ever tightening financial constraints.

Although there was no need currently to review the overall limits, this had been done in the past on an exceptional basis, for example after the absorption of Tube Lines Limited into TfL.

The Committee noted the paper.

51/10/17 Treasury Activities

Emanuela Cernoia-Russo introduced the update on the key Treasury activities for the period from 1 April to 30 September 2017.

TfL had been actively managing its cash portfolio with a 0.27 per cent weighted average return year to date. TfL had drawn down £450m of debt in Financial Year 2017/18 to date, as part of its borrowing requirement. An additional amount of £500m will be drawn by March 2018. The interest rates on such debt are already fixed. As a result, TfL still had a balance of £300.5m to raise by FYE 2017/18.

The Committee sought further information on how the downgrade by Moody's of the UK Sovereign long term rating had impacted on TfL's credit rating. TfL was downgraded by Moody to Aa3 as a result. The current outlook was now stable for Moody's and TfL's revenue growth and ability to realise savings was critical to its credit rating. Relationships with the credit agencies continued to be good with regular dialogue. TfL's long term sustainable financial position was also key.

TfL's exposure to foreign exchange currencies was being effectively managed. It was agreed that TfL's Hedging Strategy be submitted to a future meeting.

[Action: Emanuela Cernoia-Russo]

Under the current Markets in Financial Instruments Directive, TfL was defined as a professional client due to TfL's size, experience and financial expertise and this enabled TfL to utilise a wide range of investment products. Under the new arrangements to come into force with changes in the regulations, there was little risk in TfL's status changing but it was important that TfL made the necessary administrative arrangements.

TfL and the GLA had taken part in CIPFA's consultation on proposed changes to the Prudential Code, which could potentially impact on TfL's future Treasury Management Strategy. It was suggested that staff should contact the Chief Executive of CIPFA directly if TfL's position is not being fully taken into account.

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

52/10/17 Access and WAN Network Agreement Award

Shashi Verma set out the approach and process undertaken to date to identify a new supplier for the provision and on-going management of TfL's outsourced commodity data network services (WAN). The paper sought a recommendation from the Committee that the Board approve Procurement Authority in respect of the Access and WAN Network Agreement award.

The objective was to consolidate the 40 plus networks in use across TfL and develop an integrated and effective overall network strategy for the organisation, while achieving savings. The current model was complex due to a number of historical legacy factors that had developed over time.

The Board would be required to approve the Procurement Authority due to the size of the contract, although under proposed changes to the current Standing Orders this may be delegated to the Finance Committee in the future.

Members were keen for TfL to commercially exploit its digital networks and pursue any revenue stream opportunities. The Committee requested that the paper to be submitted to the Board should include reference to how OPEX could be funded by the private sector and how the supplier provision fitted in to TfL's overarching strategy.

[Action: Shashi Verma]

The Committee noted the paper and the supplementary information on Part 2 of the agenda, supported the approach taken, and noted that a paper containing additional information would be submitted to the Board seeking Procurement Authority in respect of the award of an agreement for Access and Wide Area Network services.

53/10/17 Connect: A Managed Transition from the PFI

Shashi Verma set out the work currently being undertaken to provide for continuity of telecommunication services after the expiry of the Connect Private Finance initiative.

This service was safety critical to the operation of London Underground and therefore transition to a new provider needed to be seamless. It was important that any future contract was of high quality and fit for the future in terms of technological advances, up to the next 10 years.

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

54/10/17 TfL Energy Purchasing 2020 to 2023

David Wylie presented the paper setting out TfL's energy purchasing strategy for the supply of electricity and gas through the Crown Commercial Services (CCS) agreed framework. Glyn Lenton was also present for this item.

The extension of the CCS contract was recommended as it had delivered savings in a market where margins were small and prices volatile, while meeting TfL's carbon objectives. The nature of the contract also allowed for flexibility if TfL decided to purchase energy directly.

TfL officers were represented on the CCS Extended Risk and Governance Board and were able to influence strategy.

Dr Nina Skorupska was interested to discuss other options which TfL could consider, including the establishment of a London based energy supplier and it was agreed that a meeting would be arranged. **[Action: Nina Skorupska/David Wylie]**

It was also agreed that TfL's energy purchasing be an item for discussion at a future meeting of the Safety, Sustainability and Human Resources Panel.

[Action: David Wylie/Secretariat]

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

55/10/17 Date of Next Meeting

Tuesday 5 December 2017 at 10.00am.

56/10/17 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; Access and WAN Network Agreement Award; Connect: A Managed Transition from the PFI; and TfL Energy Purchasing 2020 to 2023.

The meeting closed at 11.45am.

Chair: _____

Date: _____