Item 13: Report of the meeting of the Finance and Policy Committee held on 17 July and the extraordinary meeting held on 20 August 2014

This paper will be considered in public

1 Summary
1.1 To report to the Board on the meeting of the Finance and Policy Committee held on 17 July and the extraordinary meeting held on 20 August 2014.

2 Recommendation
2.1 That the Board notes the report.

3 Background
3.1 On 26 March 2014, the Board delegated to the Committee authority to approve any matter reserved to the Board from 4 July to 23 September 2014. The occasions when the Committee exercised this authority are identified below.

3.2 The main matters considered by the Committee were:

**17 July 2014**

(a) Crossrail Train Operating Concession;
(b) Crossrail Track Access;
(c) Independent Investment Programme Advisory Group – Annual Report 2013/14
(d) Project Monitoring – Project Approvals;
(e) Northern Line Extension to Battersea;
(f) Sub-Surface Upgrade Programme Automatic Train Control Contract – Lessons Learnt;
(g) Traffic Control Maintenance Services;
(h) Revenue Collection System and Associated Services Procurement;
(i) Recruitment Services Tender – Award of Framework Agreement for Master Vendor Engineering;
(j) Update on Planning Obligations;
(k) Chief Finance Officer Interim Arrangements
20 August 2014

(l) Wandsworth Gyratory Removal;
(m) Northern Line Extension to Battersea; and
(n) Special Purpose Sub-Committee Terms of Reference.

4 Issues Discussed – 17 July 2014

Crossrail Train Operating Concession

4.1 The Committee approved TfL entering into the Concession Agreement and ancillary agreements with MTR Corporation (Crossrail) Limited to operate Crossrail passenger train services from May 2015. The contract included robust financial incentives for the operator to deliver performance at a level significantly higher than London Overground, which was itself one of the highest performing Train Operating Companies. The operator was also incentivised to work directly with Network Rail to resolve infrastructure issues.

4.2 MTR had a good reputation internationally, particularly on metro systems, and had made a significant contribution to the success of the London Overground as 50 per cent owner of LOROL. MTR was expected to employ around 1,100 staff with up to 850 new posts, creating many hundreds of jobs for local people, including almost 400 drivers and over 50 apprenticeships for people from communities along the route.

4.3 Under Standing Orders, the decision was reserved to the Board. The Committee exercised the authority delegated by the Board to enable the MTR to commence the mobilisation phase to ensure its organisation was in place prior to Concession Commencement in May 2015.

Crossrail Track Access

4.4 The Committee approved the terms of the Crossrail Supplementary Access Charge and its incorporation into the Crossrail Track Access Option (TAO). The TAO provided TfL with a better rate for paying Network Rail for on network works and covered a longer period than Network Rail’s five year funding settlement with government.

4.5 The TAO Agreements would be novated to TfL from the Secretary of State for Transport. There was sufficient financial authority in the TfL Business Plan to cover the estimated cost of £337.2m up to 2022/23 but as the TAO Agreements had a duration beyond the end of the current Business Plan, future Business Plans would need to provide for the remaining years of payment up to 2047/48.

4.6 Under Standing Orders, the decision was reserved to the Board. The Committee exercised the authority delegated by the Board to avoid delaying formal submission to the Office of Rail Regulation, as all other approvals necessary had already been obtained from Network Rail, the Department for Transport and (subject to TfL approval) the Crossrail Sponsor Board.
Independent Investment Programme Advisory Group – Annual Report 2013/14

4.7 The Committee noted the Independent Investment Programme Advisory Group’s (IIPAG’s) Annual Report for 2013/14 and endorsed TfL’s management response, for approval by the Mayor.

4.8 IIPAG representatives confirmed that there was a greater willingness across TfL to undertake and respond to benchmarking analysis. Benchmarking was increasingly targeted on areas where it would add the most value. Members were given examples of savings and innovations arising from benchmarking and how this was embedded into the Business Planning process.

4.9 As part of the Business Plan development, information would be provided on the use of contingency in projects to inform a discussion on the appropriate level of contingency within the overall and individual budgets.

4.10 Arising from the discussion on the IIPAG annual report, the Committee would receive future papers on the links between benchmarking data and financial planning by the operational businesses and on telecommunications.

Project Monitoring – Project Approvals

4.11 The Committee noted the forward approval programme for projects with a value in excess of £50m, from July 2014 to January 2016 and the Project Authority granted by the Commissioner since the last meeting. The Managing Director, Finance had not approved any Project Authority in that period.

Sub-Surface Upgrade Programme Automatic Train Control Contract – Lessons Learnt

4.12 The Committee noted the Lessons Learnt Review of the Sub-Surface Upgrade Programme (SUP) Automatic Train Control contract, carried out by KPMG and the SUP management response. The report was thorough. The TfL management response was positive and implementation of the recommendations had already commenced.

4.13 Members acknowledged that while the decision to terminate the contract had been taken reluctantly, it was the right decision in terms of the overall delivery and cost of the project.

4.14 The Committee agreed to establish a task and finish sub-committee to consider the KPMG report and management response, with a focus on the decision making and assurance processes. The first meeting of the Special Purpose Sub-Committee was held on 20 August and a further meeting would be held before reporting back to the Committee on its views on the robustness of the current decision making and assurance processes.

4.15 Under Standing Orders, the authority to establish a sub-committee is subject to the approval of the Board. The Committee exercised the authority delegated by the Board to enable the sub-committee to meet in August 2014.
**Traffic Control Maintenance Services**

4.16 The Committee approved TfL entering into the Traffic Control equipment Maintenance and related Services (TCMS 2) contracts with Imtech Traffic Limited (Lots 1 and 4), Siemens PLC (Lots 2 and 3) and Cubic (Lot 5). It also granted Procurement Authority of £317m, being the sum of the contract value for the capital works and maintenance expenditure for the eight year contract period up to September 2022. The Committee welcomed the considerable savings achieved compared to the TCMS 1 contracts.

4.17 Under Standing Orders, the decision was reserved to the Board. The Committee exercised the authority delegated by the Board to enable the intended contract commencement date to be met.

**Revenue Collection System and Associated Services Procurement**

4.18 The Committee noted the outcome of the procurement for revenue collection and associated services to replace those currently provided under the Future Ticketing Agreement contract until August 2015.

4.19 The current contract provided the rail and bus front office devices (gatelines, validators, ticket vending equipment and their control systems), back office, and other services to support Oyster, contactless, ITSO and magnetic ticket retailing and acceptance across TfL’s services. Some services, such as communications networks and card procurement had been separated from the FTA contract and were now provided directly under separate contracts.

4.20 Under Standing Orders, the decision was reserved to the Board. The Committee exercised the authority delegated by the Board to allow entry into the new contract as soon as possible to enable planning of future activities.

**Recruitment Services Tender – Award of Framework Agreement for Master Vendor Engineering**

4.21 At the extraordinary meeting of the Committee on 13 May 2014, under authority delegated by the Board, the Committee approved the award of seven Framework Agreements for Recruitment Services. One of the contracts had not been signed by the first ranked bidder. The Committee agreed to award the Master Vendor Engineering Framework Agreement (Lot 3) to the next ranked bidder, in the event that it was not possible to conclude a contract with the first ranked bidder. There was sufficient financial authority in the TfL Business Plan to cover the estimated cost of the Framework Agreement.

4.22 Under Standing Orders, the decision was reserved to the Board. The Committee exercised the authority delegated by the Board to avoid any further delay in the award of the contract.

**Update on Planning Obligations**

4.23 The Committee noted an end of year update on the Mayoral Community Infrastructure Levy (CIL), borough CILs and section 106 funding that would contribute to the funding of Crossrail or other transport infrastructure.
4.24 The Committee was advised that the picture was mixed on securing £600m from the Crossrail funding streams by March 2019. There was increasing confidence in securing £300m from the Mayoral CIL, whereas the £300m income from the Crossrail Supplementary Planning Guidance was looking less certain. In this context it might be necessary to reassess the balance of these targets. In the light of experience, further consideration would be required on how Crossrail 2 could be funded, including consideration of greater use of over site development for the stations on the route.

Chief Finance Officer Interim Arrangements

4.25 Under Standing Orders, issues relating to the appointment of the Chief Finance Officer (CFO) are reserved to the Board. The Committee Chairman agreed to take this as an item of urgent business and the Committee exercised the authority delegated by the Board as the importance of this role meant an interim appointment needed to be confirmed as soon as possible to ensure a smooth handover of responsibilities.

4.26 The Committee authorised Andrew Pollins (Director of Finance, Rail and Underground) to act as the interim CFO from 1 October 2014 until a permanent appointment was in post. It was anticipated that the new CFO would be in post by the end of 2014.

4.27 As this was the last scheduled meeting of the Committee before his departure, the Committee expressed its thanks to David Goldstone for his contribution to TfL as its CFO and its congratulations on his appointment at Chief Executive Officer of the London Legacy Development Corporation.

5 Issues Discussed – Extraordinary Meeting Held on 20 August 2014

Wandsworth Gyratory Removal

5.1 The Committee approved an increase in Project Authority of £1.40m to enable concept design, value management and consultation to be undertaken in relation to the Wandsworth Gyratory Removal project. The scheme was integral to the intended transformation of Wandsworth town centre. By removing through traffic, the scheme would improve the experience for public transport users, cyclists, pedestrians and local residents, creating a strong sense of place in the civic and retail centre of Wandsworth and supporting local growth and regeneration.

5.2 Value management, surplus land valuation, risk allocation and funding discussions with the London Borough of Wandsworth were intended to close the gap between Estimated Final Cost and Financial Authority before the next Project Authority submission in December 2015. While keen to manage costs back to the original estimate of £55m, officers confirmed that the aspiration was to achieve the right solution for the most economic cost.
5.3 The public consultation would include an option that deterred traffic by design rather than by prohibiting it.

Northern Line Extension to Battersea

5.4 The Committee granted Procurement Authority and approved entering into the Northern Line Extension (NLE) main works design and build contract with Ferrovial Agroman / Laing O'Rourke Joint Venture.

5.5 Under Standing Orders, the decision was reserved to the Board. The Committee exercised the authority delegated by the Board to enable the contract to be awarded on 2 September 2014 to facilitate the project programme.

5.6 The Committee discussed the risks of awarding the contract ahead of conditions precedent being met, which included: the Secretary of State for Transport’s decision on the Transport and Works Act Order, expected in autumn 2014; and the government laying Enterprise Zone Regulations, for which TfL had a commitment from the Chancellor of the Exchequer that this would be done before March 2015. TfL would have incurred financial risk of around £30m ahead of the contract break point of 31 March 2015. A further paper would be submitted to the Committee and Board, prior to 31 March 2015, to confirm if the conditions precedent had been met.

5.7 All bids had been the subject of technical and price evaluation on a target cost contract and the winning bidder had the most innovative solution. Discussions were ongoing on options to reduce costs. The IIPAG had reviewed the procurement process and evaluation plan and commended them and the quality of the procurement team. It supported a lessons learnt exercise so that the good practice could be shared throughout TfL.

Special Purpose Sub-Committee Terms of Reference

5.8 In accordance with the authority delegated from the Board, the Committee agreed the terms of reference of its Special Purpose Sub-Committee.

List of appendices to this report:

None.

List of Background Papers:

Papers for the meeting of the Finance and Policy Committee held on 17 July and the extraordinary meeting held on 20 August 2014.

Contact Officer: Steve Allen, Managing Director, Finance
Number: 020 3054 8907
Email: StephenAllen@tfl.gov.uk