

**Board**



**Date:** 8 February 2017

**Item:** Report of the meeting of the Finance Committee held on 26 January 2017

---

**This paper will be considered in public**

## **1 Summary**

- 1.1 To report to the Board on the meeting of the Finance Committee held on 26 January 2017. During the discussion of the Commercial Development Quarterly Report, the Committee noted and endorsed proposed amendments to the Property Partnership Framework delegations, given to TfL Officers and Subsidiaries by the Board in February 2016, to enable TfL to acquire, sell, issue and subscribe for shares in any joint venture company established for the purpose of the joint venture and to form or become a member of any LLP established for the purpose of the joint venture.

## **2 Recommendation**

2.1 **The Board is asked to note the report and to:**

- (a) **authorise the TfL Officers and any of its Subsidiaries (as described in 2.2 below) to:**
- (i) **acquire, sell, issue and subscribe for shares in any company and/or form or become a member of any Limited Liability Partnership (LLP) that is to be used as the joint venture vehicle for the purposes of delivering the relevant development opportunity under the Property Partnership Framework (the Framework); and**
  - (ii) **take any decisions necessary to set up any company or LLP to be used as the joint venture vehicle for the purposes of delivering the relevant joint venture opportunity under the Framework including:**
    - (a) **the approval of the constitutional documents of any new company or LLP;**
    - (b) **individuals appointed to the board of directors for each new company or board of members/partners for each new LLP;**
    - (c) **the Company Secretary for each new company or designated members for each new LLP; and**

- (d) the name of the new entity;**
- (b) note that, as indicated in the paper considered by the Board on 3 February 2016, authorities for individual development opportunities will be sought at the levels of authority applicable to Land Authority set out in TfL's Standing Orders and agrees that this will include the value of any related guarantees in respect of liabilities not otherwise incurred by any member of the TfL group of companies; and**
- (c) agree that, where the disposal of land is proposed to take place by means of a disposal of all or any part of the company or LLP in which it is held, such disposal shall be treated as a disposal of land for the purposes TfL Standing Orders and Land Authority and Disposal Authority will be deemed to have been given.**

**2.2 The following Officers and Subsidiaries have delegated authority:**

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

### **3 Background**

**3.1** The main matters considered by the Committee are listed below. Items marked with an asterisk appear elsewhere on the agenda for this meeting.

- (a) Finance Report – Period 9 2016/17\*;**
- (b) 2017/18 TfL Scorecard Development;**
- (c) Group Treasury Activities;**
- (d) Crossrail - Revised Interim Crossrail Limited Funding Payments Agreement with Network Rail\*;**
- (e) One Facilities Management Services Procurement - Extension of Current Contracts;**
- (f) Commercial Development Quarterly Report;**
- (g) Tottenham Court Road West Over Site Development Update; and**
- (h) Strategy for the Broadway Complex.**

## **4 Issues Discussed**

### **Finance Report – Period 9 2016/17**

- 4.1 The Committee noted the report, which showed a shortfall in operating income due to lower than projected fares income and reduced Congestion Charge income. Operating costs were lower than budget as cost reductions were being made across the business..
- 4.2 The Committee discussed the impact of declining bus usage on income and potential mitigation measures and a strategy to increase bus usage was in development. Further information would be presented to Members on bus usage and how the milestones would be monitored.
- 4.3 The Committee suggested that the Finance team explore the possibility of developing a 24 month or 12 month rolling forecast to help Members and the business achieve a longer view of TfL's finances. Detailed budget figures for 2017/18 would be presented to the next meeting of the Committee for review prior to submission to the Board.
- 4.4 A paper on the Finance Report appears elsewhere on the agenda for this meeting.

### **2017/18 TfL Scorecard Development**

- 4.5 The Committee noted progress on the development of TfL's 2017/18 Scorecard, which set out suggested objectives for inclusion and sought feedback from Members. The Scorecard would be finalised alongside the 2017/18 Budget and would provide a mechanism to drive its delivery by maintaining the organisation's focus on key priorities
- 4.6 Members were encouraged by the spread and focus of the chosen priorities. It was noted that the current structure comprised a mixture of objectives and measures. The Committee agreed that the priorities should consist of key aims and objectives, with appropriate measures and metrics to be developed for each objective. It was suggested that the safety objectives should be more cohesive and prominent and that a wider environmental objective could be included, with the proposed NO<sub>x</sub> reduction forming one of its key measures. The potential for inclusion of an explicit reference to accessibility within the Customer objectives was also discussed.
- 4.7 Staff were encouraged to consider including a measure that directly addressed the business community and also to better reflect the Mayor's focus on delivering affordable homes. Members suggested that some individual business objectives, such as increasing bus usage, may merit inclusion at the top level of the Scorecard.
- 4.8 Once finalised, the cascade of the chosen priorities through TfL would be crucial. Clear lines of sight would need to be maintained to ensure the integrity of key measures and individual accountability.

- 4.9 Based on Members feedback, Scorecard priorities would be developed further before submission to the Board for approval on 29 March 2017 and staff would continue to seek Board Members' input throughout the development process.

### **Group Treasury Activities**

- 4.10 The Committee noted an update on TfL Group Treasury's activities from 1 April to 30 November 2016. No breaches of TfL's Treasury Management Policy or Strategy had occurred during that period. Of particular note were the forward fixing of a highly competitive interest rate on a £100m tranche of an existing corporate loan facility, the successful negotiation of inter-year deferral of borrowing with HM Treasury and the proactive management of investor relationships during significant market uncertainty.
- 4.11 The Committee discussed the implications of TfL's current and potential future credit ratings, which were closely linked to UK Sovereign debt and both had been downgraded by one level as a consequence of the decision to leave the European Union in June 2016. TfL had also been placed on 'negative outlook' by the three key agencies and would be judged against its ability to maintain strong financial discipline and deliver the planned Transformation Programme and its associated reductions in operating costs.
- 4.12 Staff were asked to provide further detail of TfL's investment strategy. The 2017/18 Treasury Management Strategy would be presented to the Committee and the Board in March 2017.

### **Crossrail - Revised Interim Crossrail Limited Funding Payments Agreement with Network Rail**

- 4.13 The Committee noted the paper, which set out a proposed re-phasing of repayments by Network Rail to Crossrail Limited under the Interim Funding Agreement (IFA). This would save Crossrail Limited £16-£20m through the avoidance of finance charges.
- 4.14 Members were supportive of the proposed approach and the Committee discussed the potential for a further amendment to the IFA that would generate additional savings. It was agreed that the Board would be recommended to delegate authority to the Committee to approve this additional change.
- 4.15 A paper on the Revised Interim Crossrail Limited Funding Payments Agreement with Network Rail appears elsewhere on the agenda for this meeting.

## **One Facilities Management Services Procurement - Extension of Current Contracts**

- 4.16 The Committee approved budgeted Procurement Authority for the extension of two key Facilities Management (FM) contracts until 24 June 2017. As part of its Transformation Programme, TfL was consolidating numerous FM contracts into six, pan-TfL 'One FM' contracts. An invitation to tender had been issued and bids were being evaluated, however additional time was needed to ensure contract negotiations with successful bidders were thorough and secured best value for money for TfL.
- 4.17 The Committee was supportive of the proposed extension. Approval would be sought from the Board in March 2017 to award the One FM contracts, allowing providers two to three months to mobilise prior to the new contracts coming into force on 25 June 2017.

## **Commercial Development Quarterly Report**

- 4.18 The Committee noted an update on Commercial Development activity, which was becoming increasingly important to TfL. The team was on track to meet a target of £130m operating income, while capital investment was currently significantly below budget. Francis Salway, Chair of TfL's Independent Commercial Development Advisory Group, updated the Committee on current property market conditions. Central London residential property values had fallen approximately 14 per cent from their peak in 2014, although there were signs that this trend was beginning to reverse. The commercial property market had continued to slow since the June 2016 EU Referendum, but demand for good quality long lease office accommodation remained stable.
- 4.19 The Committee noted that on 3 February 2016, the Board approved the establishment of the Property Partnership Framework to maximise the value of our property assets to assist with the delivery of £3.4bn of non fares income over the TfL Business Plan period. Authority was delegated to TfL Officers and Subsidiaries to put in place any call off contracts let under the Framework.
- 4.20 At that time it was envisaged that TfL would set up the joint venture companies necessary to deliver the joint venture and offer shares in those companies to our joint venture partners (via share sale or the issue of new shares). In certain cases it may be more efficient for the Framework Partner to set up the joint venture vehicle. Further, the Transport for London Act 2016 came in to force on 4 July 2016 which enables TfL to set up Limited Liability Partnerships (LLP). As a result, the Committee agreed to recommend that the Board amend the Property Partnership Framework delegations given to TfL Officers and Subsidiaries in February 2016 to enable TfL also to:
- (a) acquire, sell, issue and subscribe for shares in any joint venture company established for the purpose of the joint venture; and
  - (b) form or become a member of any LLP established for the purpose of the joint venture.

## **Tottenham Court Road West Over Site Development Update**

- 4.21 The Committee considered the disposal options for the Tottenham Court Road West oversite development (OSD). TfL had intended that the shell and core element of the development be completed using its existing contractor. Following an independent exit appraisal, the preferred course of action had been to then proceed with an open market sale of the shell and core. The Committee noted that further negotiations with the contractor had failed to reach an agreement. The Committee therefore agreed that TfL should sell the OSD deck without shell and core following its handover in Quarter 3 2017.

## **Strategy for the Broadway Complex**

- 4.22 The Committee approved the disposal of TfL's offices and associated buildings at 55 Broadway, via a long leasehold interest. As part of this transaction, TfL would lease back the building for a shorter period, with the underlease allowing operational assets housed within the building to remain in situ until toward the end of their viable lifespan. This would avoid the significant costs of decoupling and/or early replacement of equipment and had therefore been identified as the most cost effective option.
- 4.23 It was confirmed that office accommodation at the Broadway complex was satisfactory and that expenditure on improvements was unlikely to greatly exceed that which would be expected for routine maintenance and upgrades.

### **List of appendices to this report:**

None

### **List of Background Papers:**

Papers submitted to the Finance Committee on 26 January 2017.

Contact Officer: Howard Carter, General Counsel  
Number: 020 3054 7832  
Email: [HowardCarter@tfl.gov.uk](mailto:HowardCarter@tfl.gov.uk)