

GOING PLACES



TfL's treasury team of 10 helps to keep London moving. Group treasurer Simon Kilonback explains how

Words: **Sally Percy** / Photos: **Will Amlot**

➤ If Simon Kilonback's career were a journey, it is one that has taken some interesting turns. He started out in retail banking with Lloyds and was appointed a branch manager at the tender age of 23. But after a spell working at the bank's head office, he seized the opportunity to move into treasury as a cash manager with Japanese consumer electronics giant Sony. The attraction, he says, was "the opportunity to see everything, which you can do in corporate treasury".

After cutting his treasury teeth at Sony, Kilonback left to join stationery retailer WH Smith as group treasury manager. Here, he set up a centralised group treasury function and put in place a treasury management system as well as cash management, funding and hedging strategies. But his career then took a detour from treasury when he joined Bank of Scotland as an assistant director in its financial markets division. So, why the return to banking once he had had a taste of treasury? "You don't do capital market transactions or hedging strategies every day when you're a treasurer," Kilonback explains. "It was a deliberate move to have that deep, immersive experience in financial and capital markets where we did thousands of transactions."

But by 2009, Kilonback was on the move again. This time his destination was Transport for London (TfL), the owner and operator of London's transport network including buses, river services, trains, the Tube and strategic roads. "With all the projects that were under way at TfL, it was an incredible opportunity to be involved in an exciting organisation," Kilonback recalls. "You can see exactly what your efforts are contributing towards. It was nice to feel part of something that's tangible. The pride with which people at TfL talk about their work and the organisation is uplifting."

As group treasurer, Kilonback has built TfL's treasury into a team of 10 that spans three core functions – banking and settlement operations; funding and investor relations; and cash investment and financial risk management. It also benefits from TfL's payment factory and a shared service centre that makes payments to TfL's counterparties, staff and suppliers. Treasury's role is to support TfL in its strategic priorities, which essentially means to keep London moving. By 2018, a million more people are expected to live in the UK's

capital than in 2001 – the population is effectively growing by an extra Tube carriage of people every week. And these people need to be able to live and work. "London isn't a city in which you can drive and park," Kilonback points out. "So we have to provide public transport that will allow London to continue to be the engine room of the UK economy."

A high priority at present is the £14.8bn Crossrail project, a joint venture between TfL and the Department for Transport, which involves building a train network that will cross London from east to west – both overground and through a new central London tunnel. TfL is also upgrading the entire Tube network. This entails everything from introducing new, air-conditioned trains to updating the signalling to reviewing congestion relief at stations and installing wi-fi. Not a small – or a cheap – task. The upgrade of the network is set to cost £4.4bn between 2013 and 2015.

To finance its day-to-day and investment activities, TfL secures funding from three sources. It earns revenues (mostly from fares) and these amounted to £4.8bn for the financial year ending 31 March 2013. It also receives around £3bn annually from central government and raises another £500,000 to £1bn each year through other borrowing, such as bond issuances and its commercial paper programme. As a public statutory body, TfL can piggyback off the UK government's valuable AA+ credit rating. It was downgraded from AA+ to AA with Fitch and Aa with Moody's after the UK was stripped of its AAA rating in February, although it is still rated AA+ by Standard & Poor's. Nevertheless, its enviable credit ratings mean that it can access funding at a cost that treasurers in the private sector can usually only dream of.

➤ TfL uses the bond market as its primary source of finance and it has raised around £2bn over the past 12-18 months by issuing long-term bonds. It also has a very successful £2bn commercial paper programme, £2bn in funding facilities from the European Investment Bank (EIB), which finances public projects all over Europe, and access to funds from the Public Works Loan Board within HM Treasury. "We have saved tens of millions of pounds over the past two years by using commercial paper alongside our long-term borrowings to drive down the overall cost of our debt," says Kilonback. "We can borrow very >

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VITAL STATISTICS

£4.4bn

TfL's forecast operating income for the year ending 31 March 2013

£5.8bn

TfL's forecast operating expenditure in 2012/13

£1.4bn

TfL's forecast capital expenditure in 2012/13

2.3 billion

the estimated number of London bus passenger journeys in 2012/13

£14.8bn

the cost of Crossrail, Europe's largest infrastructure project

150

the number of years the Tube has existed

33

the number of trains that can run each hour on the upgraded Victoria Line



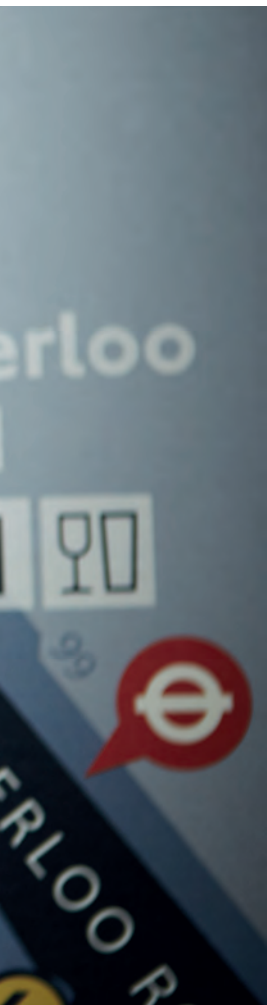
"I worry enormously about counterparty risk. This is public money. We have to find a safe home for it"

short-term on a revolving basis and we're in the markets almost every day at less than 0.5%. Every pound I can save on debt service is another pound we can spend on delivering transport."

But just in case you think that Kilonback has it too easy, it's worth touching on the formidable administrative and sign-off processes that exist where public money is at stake. TfL is a public sector statutory corporation that was founded in 2000 by the Greater London Authority Act. "We can only do what the law says we can do," notes Kilonback. "Most corporates can do anything that is not illegal. We can't do lots of things that are not normally illegal, but are not necessarily provided for us to do in law. For example, our bank facility and our back-up lines for our commercial paper programme are very different from the way a corporate would normally have to structure them." When Kilonback first started in the job, he had to get up to speed with a swathe of legislation, including various local government and local government finance acts, the Greater London Authority Act, the Public Works Loans Act and the Transport for London Act. "The first thing I had to do here was really understand the statutory framework and work out ways in which you could adapt normal approaches to treasury management within our statutory frameworks," Kilonback recalls. "I spoke to the lawyers a lot."

The mayor of London and TfL's board review treasury strategy and policy documents annually. Meanwhile, Kilonback is a regular at board meetings, which are chaired by Boris Johnson, London's charismatic mayor, and attended by commercial big hitters such as Angela Knight, the former chief executive of the British Bankers' Association, and Keith Williams, the CEO of British Airways. "We're talking to people from both financial and non-financial backgrounds on fairly technical subjects," says Kilonback. "We have to break it down in a way that they can understand so that, as a board, they are clear on the risks and policies they are signing up to. This is a public organisation with public money at stake."

> Kilonback plays a role in influencing TfL's strategy, something that treasurers in many other organisations aspire to. He sits on TfL's strategic leadership team for finance, alongside TfL's MD for finance, its statutory CFO and the FDs of the operating divisions. "We help to inform the overall TfL leadership team on how best to allocate TfL's resources," he explains, "which in my case includes what is the minimum amount of cash we need to keep for liquidity purposes and how much can we afford to borrow?"



Treasury works with finance and the operating divisions to put together pitches to government as to why it should continue to invest in London's transport infrastructure. "It's critically important, not only in terms of helping London to grow, but because most of that investment goes into construction and manufacturing, of which over 48% are companies based in the UK," says Kilonback. Indeed, investment sustains around 60,000 jobs in TfL's supply chain, both inside and outside London, on a rolling basis.

Spending on London's transport may seem a no-brainer, but in this squeezed economic climate, no public body can take funding for granted. "We're certainly not ring-fenced in the way the National Health Service is," says Kilonback. "We have to fight alongside other parts of government for our funding and we have to demonstrate to central government, the mayor and the London Assembly – which has oversight of the mayor's budgets – that we are spending that money wisely." As a result, TfL is under pressure to become ever more efficient and it is aiming to save nearly £15bn between now and 2022.

TfL has £4bn in cash reserves, of which £2bn is ring-fenced for Crossrail. As you would expect of a body that spends public money, it takes an ultra-conservative approach to cash management and investment, prioritising security and liquidity over yield. "I worry enormously about counterparty risk," Kilonback admits. "It's probably the one thing that keeps me awake at night. This is public money. We have to find a safe home for it." TfL's cash management strategy is 'sterling-centric', so it invests with the main UK clearing banks and money market funds. But, predominantly, it invests in gilts, treasury bills and gilt repos with banks in the UK and elsewhere. It also buys sterling-denominated commercial paper issued by the main triple-A-rated sovereigns, supranationals and agencies that have government guarantees or multilateral funding arrangements, for example, the EIB.

In February, TfL's treasury team was awarded special recognition in the UK treasury team of the year (market cap above £2bn) category in *The Treasurer's Deals of the Year Awards* (see page 26, February 2013). It is testament to the team's success that it has grown from three to 10 people over just three years in these straitened times. "As we've grown and become more successful as a team, we've been given the opportunity to do more things," says Kilonback. And as you'd expect for a treasury team that works in the transport industry, it never stands still. "Every time we get something done, we move on to the next thing and continue to push the strategic role of treasury within the organisation and the benefits we can help to deliver." Kilonback's career may have been a journey with some interesting turns, but you get the feeling he's still far from the end of the line. ♦

Sally Percy is editor of *The Treasurer*

SIMON'S TOP TIPS FOR SUCCESS:

♦
"Try to ensure that you are showing the value that treasury can add to strategic decisions. Be innovative and agile. Push boundaries and the role of treasury in the organisation."

♦
"I encourage as many of my team as possible to do the AMCT exams. I built the treasury function from within TfL so the AMCT has helped to develop my team's technical knowledge. What I've looked for are people with really good analytical skills, then I've overlaid those sound analytical skills with specific treasury knowledge through the AMCT."

♦
"My favourite gadget is my MacBook Air. I'm doing an MBA at Oxford (Said Business School) so I need it to study."

♦
"The secret to my career success is being pretty driven and self-motivated. I continually look for new opportunities and challenges and find impressive people to learn from."

♦
"The most difficult question my MD of finance could ask is: 'How could you have done that better?'"

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SIMON'S CURRICULUM VITAE

2009 to present

Group treasurer, Transport for London

2007-2009

Director and head of strategic relationships, financial markets, Bank of Scotland/Lloyds

2005-2007

Assistant director, financial markets, Bank of Scotland

2002-2005

Group treasury manager, WH Smith

1999-2002

Cash manager and treasury analyst, Sony

1996-1999

Various roles, including branch manager and control function at head office, Lloyds

Qualifications

ACT Certificate in International Cash Management
Securities and Investments Institute Level 3