Finance and Policy Committee

Date: 15 October 2015

Item 7: Group Treasury Activities

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to provide an update on Group Treasury's activities from 1 April 2015 to 30 September 2015, as required by the Treasury Management Policy Statement and Treasury Management Practices 2015/16, approved by the Board in March 2015.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL or of a sensitive nature to our listed counterparties. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.

3 Background

3.1 On 26 March 2015, the Board approved the Treasury Management Strategy (TMS) 2015/16 (which includes an Investment Strategy 2015/16, a Borrowing Strategy 2015/16 and a Risk Management Strategy 2015/16) and reiterated the following strategic objectives for Group Treasury:

(a) to undertake treasury management operations with primary regard for the security and liquidity of capital invested;

(b) to maximise the yield from investments consistent with the security and liquidity objectives identified above;

(c) to ensure that sufficient cash is available to enable TfL to discharge its financial obligations when they become due, in accordance with approved spending plans;

(d) to undertake treasury management activities having regard to prudential indicators;

(e) to secure TfL's funding requirements by accessing the most cost efficient source of finance, while ensuring TfL has flexibility and sufficient alternatives not to be dependent on any particular source; and

(f) to exercise TfL's statutory power relating to risk management to achieve greater value for money through reducing costs or protecting revenues, reducing volatility / increasing certainty in the Business Plan and to holistically manage financial risks across the whole of TfL.

3.2 This paper provides an update on TfL's investment, borrowing and risk management activity from 1 April 2015 to 30 September 2015. By doing so, the paper fulfils the requirement under the TfL Treasury Management Policy Statement and Treasury Management Practices 2015/16 to provide the Committee with a monitoring report on treasury management activities and risks, and the performance of the treasury management function.

4 Compliance with the TMS 2015/16

4.1 The TMS 2015/16 sets out the parameters within which the Group Treasury function is permitted to operate.

4.2 There have been no breaches of the TMS 2015/16 (comprising the Investment Strategy 2015/16, Borrowing Strategy 2015/16 and Risk Management Strategy 2015/16) in the year to 30 September 2015.

5 Group Treasury Highlights

5.1 There are a number of activities undertaken by Group Treasury within the last six months that are particularly worth noting and will be expanded upon later in this paper:

(a) in April 2015, TfL issued a debut £400m Green bond which, with a 10-year tenor, represented the longest Sterling Green bond at the time of issuance. The TfL Green Bond framework was the first developed purely for sustainable transport;

(b) in April 2015, TfL issued a £120m 15-year private placement at the tightest spread to Gilt to date of any TfL bond issue;

(c) in May 2015 TfL signed a £500m 20-year corporate loan facility with Export Development Canada (EDC), Canada's Export Credit Agency, to support the Crossrail Rolling Stock and Depot project;

(d) in June 2015, TfL entered into a new £1bn framework facility with the European Investment Bank (EIB). The facility, called Urban Mobility for London (UML), represents a landmark transaction because of its large size and the broad range of TfL projects it will support;

(e) the continued active investment management of TfL's cash portfolio, currently £4.2bn, resulted in a year-to-date average return of 0.55 per cent versus the benchmark seven-day London Interbank Bid Rate (LIBID) of 0.362 per cent; and

(f) the support provided to commercial procurement activity with foreign currency exposure has crystallised savings of £8.8m for TfL from reduced contract pricing.

6 Borrowing Update

Transactions Update

6.1 TfL's incremental prudential borrowing limit for 2015/16 is £600m. This amount reflects the additional borrowing for 2015/16 agreed with government as part of the 2010 funding settlement.

6.2 The borrowing limits agreed with government are incremental and, in the event that TfL did not borrow up to the limit, it is unable to automatically carry over the unused borrowing capacity into future years without agreement from HM Treasury. The delivery of the projects included in the Business Plan is reliant on such incremental borrowing. If TfL did not raise the incremental borrowing, it would not have sufficient funding to deliver all the projects included in the Business Plan in future years.

6.3 Table 1 below shows the amount of borrowing TfL is planning to raise and refinance by 31 March 2016 as being £660m, £605m of which has been arranged since 1 April 2015, in line with TfL's Borrowing Strategy for 2015/16.

Table 1

Borrowing Strategy 2015/16	**£m**
2015/16 Incremental Borrowing agreed with DfT	600
Refinancing of Principal repayments	25
Refinancing of Commercial Paper (CP)*	35
	660
Financed by:	
EIB £85m LOCIP Loan	85
Green Bond – 10 Year	400
Private Placement – 15 Year	120
Public Works Loan Board (PWLB)	nil
Incremental balance to fund before 31 March 2016	55
	660

**The £725m of TfL Commercial Paper that is hedged through interest rate swaps is expected to be refinanced on a rolling basis as it matures, to match the existing swaps.*

European Investment Bank

6.4 In May 2015, TfL completed the scheduled drawdown of the entire £85m London Overground Capacity Improvement Project (LOCIP) facility with the EIB at a pre-agreed fixed rate set in December 2014. The facility had been signed in October 2014.

6.5 In June 2015, TfL entered into a new £1bn framework facility with the EIB. The facility, called Urban Mobility for London (UML), represents a landmark transaction because of its large size and the broad range of TfL projects it will support, including the Victoria and Bank station upgrades, Cycle Superhighways and track replacements. In July 2015 TfL fixed the interest rates on three separate £100m UML tranches to be disbursed between 2016/17 and 2018/19 and in August 2015 TfL fixed a further £50m UML tranche to be disbursed in 2017/18. Further details of the agreed interest rates and disbursement dates are contained in the paper on Part 2 of the agenda.

Export Development Canada

6.6 In May 2015 TfL signed a £500m 20-year corporate loan facility with EDC, Canada's Export Credit Agency, to finance part of the costs associated with the ca £1bn Crossrail rolling stock and depot contract with Bombardier. TfL is financing another £500m of costs through a £500m EIB Crossrail Rolling Stock and Depot facility, which was signed in December 2013 and will be disbursed in 2017/18. The EDC facility has similar features to the EIB's facilities in that it can be drawn down in multiple tranches, it has a long availability period (6 years) and the interest rate for each tranche can be fixed prior to the disbursement date. The latter feature enables TfL to hedge future interest rate risk. To date no tranches have been fixed.

Capital Markets

6.7 Since the beginning of the 2015/16 financial year, TfL has successfully issued its inaugural Green Bond and a private placement.

Green Bond

6.8 In April 2015, TfL published the first Green Bond framework developed purely for sustainable transport and issued a debut £400m Green Bond which, with a 10-year tenor, represented the longest Sterling Green bond at the time of issuance. The decision to issue a Green Bond was driven by strong interest from a wide range of existing and new UK real money and international investors and by the desire to highlight TfL's commitment to sustainable transport through initiatives and projects with significant environmental benefits.

6.9 The bond, which has an annual fixed rate coupon of 2.125 per cent (with a semi-annual yield of 2.154 per cent), was issued at a spread of 57 basis points over Gilts, one of the tightest spreads of any of TfL's issues. Initial price guidance had been set at 60 basis points over reference Gilt, but the large size of the order book enabled pricing to be tightened by 3 basis points.

6.10 The bond compares favourably with the alternative of borrowing from the PWLB, with the April issuance saving 33 basis points against the Public Works Loan Board (PWLB) rate (or around £13m in interest over the 10-year term on an undiscounted basis).

6.11 One of the key differences between a green bond and a traditional bond is that an amount equivalent to the funds received by TfL can only be used to fund those 'Green' projects TfL identified upfront in its Green Bond framework and investors have to receive regular updates on the impact of projects/categories of projects on predefined environmental or social metrics. As a result, TfL has committed to report to investors on the use of proceeds (by project categories) on an annual basis and to make publicly available its annual Health, Safety and Environment Report during the life of the Green Bond.

6.12 The advantage of a Green Bond is that investors are becoming more and more sensitive to what the proceeds of their investments are used for and some investors will only invest in Green Bonds. This led to a much larger number and more diverse range of investors than TfL had seen on previous bond issues.

Private Placement

6.13 In April 2015, TfL also issued a £120m 15-year private placement at an annual fixed rate coupon of 2.474 per cent (with a semi-annual yield of 2.459 per cent). This compares favourably with the alternative of borrowing from the PWLB, with the issuance saving 35 basis points against the PWLB rate (or circa £6m in interest over the 15-year term on an undiscounted basis).

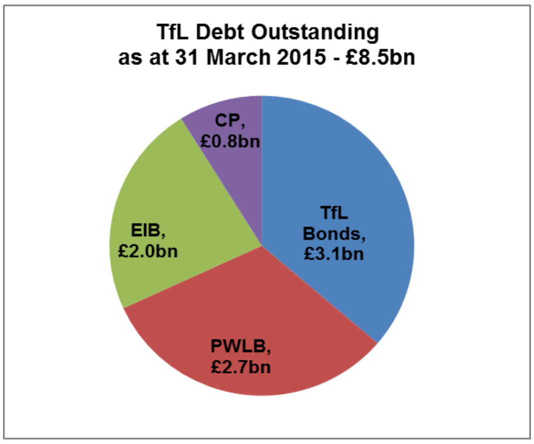
6.14 This private issuance was a result of a reverse enquiry from international investors and its spread was the tightest TfL has achieved on any bond issuance. More information on the transaction is available in Part 2 of the paper.

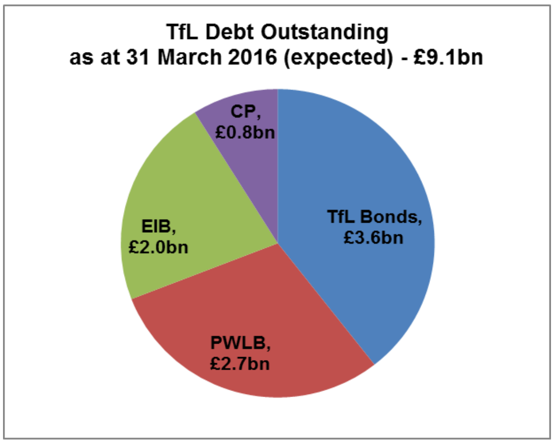
6.15 Both bonds allowed TfL to take advantage of what were at the time historically low interest rates and to lock-in a low cost of funding. While rates have since fallen to even lower levels in recent months, the bonds still represent a low cost of funding in the context of long term rates.

Debt Outstanding

6.16 The combined effect of the borrowing transactions completed in the year to date are reflected in the Chart 1, which shows TfL's direct debt outstanding as at 31 March 2015 and 31 March 2016 (expected).

Chart 1





6.17 As at 31 March 2015, TfL had £8,548m of debt, of which approximately £760m was short-term borrowing under TfL's Commercial Paper (CP) Programme. The weighted average interest rate on TfL's debt was 3.81 per cent (with a weighted average life of 21.5 years). As at 31 March 2016, TfL is expected to have £9,148m of debt outstanding, of which £780m is expected to be short-term CP. The weighted average interest rate on TfL's debt as at 23 August 2015 was 3.71 per cent (with a weighted average life of 20.5 years).

Compliance with Internal and External Legal Requirements

Borrowing Limits & PWLB

6.18 The Operational Boundary for Borrowing (broadly speaking, TfL's expected debt levels given the aggregate incremental borrowing agreed with the Department for Transport in any one year) and Authorised Limit for Borrowing (the legal limit) were approved by the Board and established by the Mayor in March 2015.

6.19 TfL has remained below the Authorised Limit for Borrowing approved by the Board and established by the Mayor in March 2015 at all times during the year to date.

6.20 The Mayor also established an Operational Boundary and Authorised Limit for Other Long-Term Liabilities. These primarily relate to finance lease creditors and long-term provisions related to compensation for property acquired for Crossrail. Due to property claims being settled more slowly than anticipated, at the end of period 3 TfL was £66m over the limit, TfL forecasts to be below the limit at year end.

6.21 In April 2015, TfL followed the process required to maintain access to the PWLB at the discounted 'Certainty Rate' of Gilts plus 0.80 per cent for the year beginning 1 November 2015.

Borrowing Documentation & Covenants

6.22 On 23 July 2015 TfL issued the updated documentation for its £5bn Medium Term Note Programme. The update of the Base Prospectus was required to enable TfL to retain its access to the capital markets. The Base Prospectus is publicly available on TfL's website.

6.23 Group Treasury continues to monitor all the covenants included in the financial documentation and reports to external stakeholders as required. It is important to note that the ongoing increase in the amount of debt outstanding and the increasing amount of lending notionally linked (in the case of EIB) or explicitly linked (in the case of Green Bonds) to specific projects requires ongoing project monitoring and significant interaction between Group Treasury and the wider organisation.

TfL's Credit Ratings

6.24 At least once a year TfL holds a general update meeting with each one of the three rating agencies that rate TfL's short and long term debt. Following these meetings, each rating agency re-assesses the entity's credit rating and outlook. Table 2 sets out TfL's current credit ratings:

Table 2

	Standard & Poor's	Moody's	Fitch
Long-term rating	AA+	Aa2	AA
Outlook	Stable	Stable	Stable
Short-term rating	A-1+	P-1	F1+

6.25 Moody's, Standard & Poor's and Fitch all affirmed their ratings in March 2015, May 2015 and November 2014 respectively. Moody's have upgraded TfL's base line credit assessment by two notches to a1 as a result of changes in the rating methodology. Moody's now rate TfL as one of the mass transit issuers, and such factors as strong demand for TfL services and its strategic importance for national transport plans have more weight than under previous rating methodology.

6.26 The rating agencies have indicated that substantially higher debt and reduced support from the UK Government (in the form of grants) are the main factors that could lead to a rating downgrade. The rating could be upgraded if TfL's total revenue rises to such an extent that any deficits after capital expenditure are eliminated or if the level of debt is significantly reduced.

Bank and Bond Investor Relations

6.27 TfL continues to pursue a strategy of establishing closer relationships with its existing and potential investors (including central banks and non-traditional sterling investors) through ongoing engagement, as well as with the broader banking community, in order to diversify its investor base and thereby achieve the tightest pricing possible. The success of this strategy has been highlighted in the form of both the Green Bond and private placement issued in April 2015. A number of reverse enquiries continue to be generated as a result of this strategy.

7 Investments Update

7.1 As at 30 September 2015, TfL had £4.2bn of cash under management (including £2.1bn of cash ring-fenced to fund the construction of the Crossrail project).

7.2 TfL's cash balances have been built up as a result of securing the most favourable funding and financing terms for TfL's £23bn capital investment programme to a pre-agreed schedule with Government which sometimes comes in advance of delivery of major projects – including Crossrail, renewing and enhancing the capacity of the Tube and rail network, the £4bn Roads Modernisation Programme, and the delivery of the Mayor's Cycling Vision – as well as from timing differences in the expenditure profile of complex multi-year infrastructure projects. In this financial year alone, £1.6bn of these cash reserves are expected to be spent on the investment programme. Table 3 summarises how this cash is allocated under the latest Quarter 1 forecast of the Business Plan.

Table 3

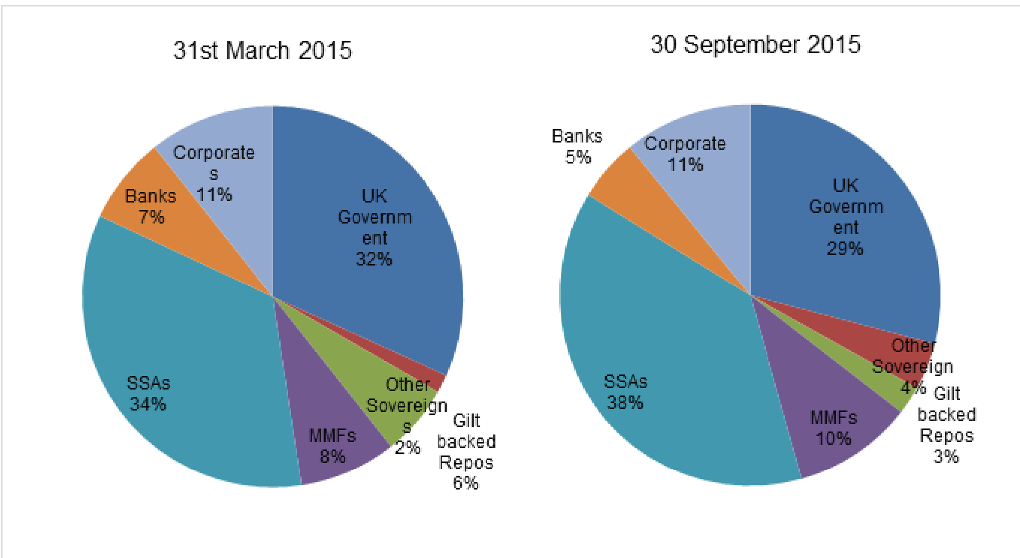
£4.1bn cash funding for investment projects

Crossrail	£2.1bn
New Routemasters	£0.1bn
Better Junctions	£0.1bn
Cycle Superhighways, including North-South, East-West routes	£0.2bn
Northern Line upgrade	£0.4bn
Tottenham Court Road station upgrade	£0.1bn
Victoria station upgrade	£0.2bn
Bank station upgrade	£0.5bn
Victoria and Jubilee line capacity increases	£0.2bn
London Overground capacity	£0.1bn
New growth fund, including Tottenham Hale	£0.1bn

7.3 Securing the funding and financing for these programmes has provided significant benefits in the delivery of projects on time and to budget compared to the past – where annual funding pressures contributed directly to inefficient procurement and delivery of projects – and in delivering a long-term transport plan for London. TfL's cash balances are fully allocated to the delivery of TfL's Business Plan, with all income assigned to expenditure, and do not represent a surplus available for additional projects, fare reductions or any other purpose not already determined.

7.4 The allocation of TfL's cash investments is summarised in Chart 2.

Chart 2

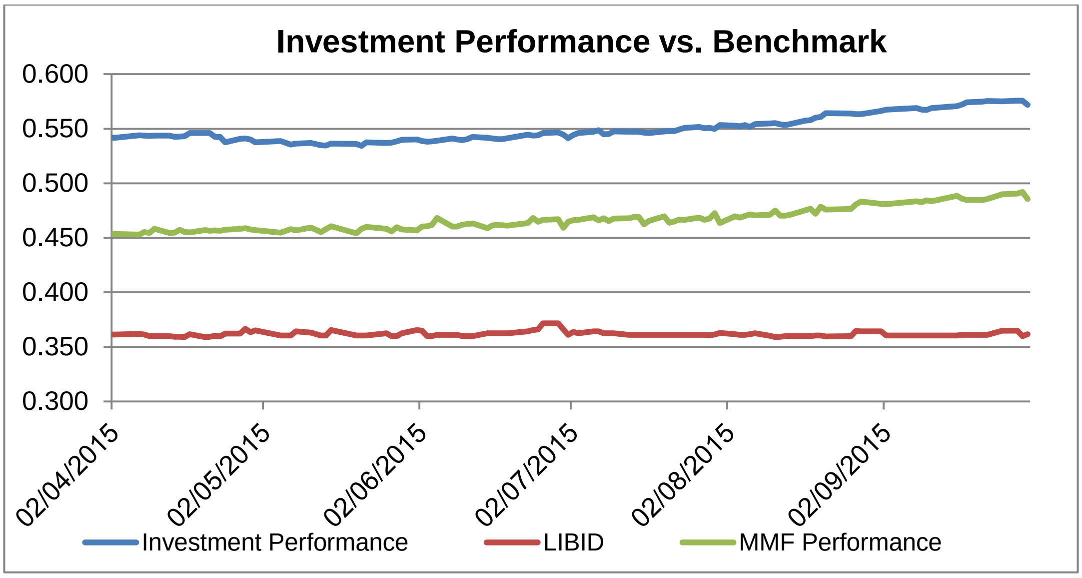


7.5 The current investment strategy seeks to maintain approximately 30 per cent of TfL's investment portfolio in direct UK Government investments, such as UK Treasury Bills. Group Treasury has broadly maintained the proportion of direct UK Government investments over the last six months in order to keep a prudent balance between prioritising security and liquidity over yield, while taking advantage of additional diversification opportunities as and when they become available.

7.6 TfL has continued to invest actively in UK Government Gilt backed repos, and in particular overnight repos, which continue to provide a source of daily liquidity and act as an alternative to Money Market Funds (MMFs). The yields on repos have been broadly in line with yields offered on both Sub-Sovereign Agencies and overnight returns have often been higher than some MMFs, while being fully collateralised by UK Government securities.

7.7 The return on TfL's cash investments has increased during the last six months due to the continued active management of the investment portfolio by Group Treasury versus the passive approach through the use of MMFs. Through active management Group Treasury has been able to increase TfL's daily weighted average (WA) investment returns to 0.575 per cent which remains attractive versus the 0.48 per cent being achieved by MMF's and the benchmark seven-day LIBID of around 0.36 per cent. In particular, this higher rate of return is being achieved whilst holding much higher credit quality investments, including maintaining the target holding of 30 per cent UK Treasury Bills, within the TfL cash portfolio than that of our MMF's counterparties. Chart 3 below shows the daily returns on cash, weighted average MMF's and LIBID over the six months to 30 September 2015.

Chart 3



7.8 TfL's year-to-date average yield is 0.55 per cent, 19 basis points above benchmark, with an average of 66 days-to-maturity (down from 92 days at the beginning of the year).

7.9 TfL has continued to benefit from favourable return versus risk as a result of increased diversification in investment counterparties, from the ability to invest in corporate names and the approval to invest in both Euro and US Dollar assets.

As such, Group Treasury is requesting to add new counterparties, as well as some other changes, to the Approved Investment List 2015/16 in a separate paper on this agenda.

7.10 As an example, £20m equivalent was invested for 3 months in the CP of Electricite de France (A1 / A+ / A+) at 0.85 per cent. Not only was this a benefit to similar levels of risk but, as this issuer is not available in Sterling, this demonstrates that TfL has benefitted from improved diversification by being able to invest in Euro and US Dollar assets. In addition to this, a Euro investment in Toyota (Aa3 / AA- / A) CP allowed TfL to benefit from an improved yield of 17 basis points compared to the available Sterling CP whilst not taking on any additional investment risk for that counterparty.

Internal Limits

7.11 As part of its standard investment procedures, TfL has implemented internal forward looking and dynamic investment limits within the Board approved counterparty investment limits. These limits allow TfL to further increase the security of cash under management.

7.12 The internal limits are dynamic and will change in line with various financial metrics, such as credit ratings, equity and bond prices movements, and counterparty Credit Default Swap spread. These internal limits are uploaded to the Treasury Management System at the end of each day. Limit reports are also published several times a day and adhered to before any investment is made. The internal limits have helped to ensure that TfL has remained within the Board approved limits, even when counterparties have suffered from a change in credit rating.

7.13 The Group Treasury investment team continually monitors the strength of these internal limits, and have been holding quarterly reviews with the Director of Group Treasury. This has allowed TfL to ensure that limits remain dynamic and proactive to developments in the market.

8 Regulatory Update

Money Market Funds

8.1 As reported to the Committee in March 2015 as part of the annual update, since the financial crisis in 2008, the United States (US) and European Union (EU) have been seeking ways to reform MMFs in order to address systemic risk and to reduce the possibility of an investor run on fund assets.

8.2 In April 2015, members of the EU Parliament’s Committee on Economic and Monetary Affairs (ECON Committee) adopted its own formal position on the proposed regulation, which is an amendment to the European Commission (EC) proposals from September 2013, as follows:

(a) Constant Net Asset Value (CNAV) MMFs will be limited to two types: Retail CNAV that would be available for subscription only for charities, non-profit organisations, public authorities and public foundations; and Public Debt CNAV which would invest 99.5% of its assets in public debt instruments. The requirement for CNAV funds to hold a capital buffer, as previously proposed, are no longer applied;

(b) MMFs will not be allowed to receive external support from third parties, including their sponsors;

(c) the introduction of a Low Volatility Net Asset Value MMF (LVNAV) which is seen as a compromise between CNAV and Variable Net Asset Value (VNAV) might display a CNAV as long as net asset value changes remain less than 0.20 per cent. Where prices change below 0.20 per cent, assets with less than 90 days to maturity will be valued at amortised cost, as is the treatment for all assets within the current CNAV structure) and those above this term will use market or model prices. Authorisations granted to LVNAV MMFs would lapse after five years, at which point the structure would be reapproved or funds would realistically need to convert to VNAV;

(d) all CNAV MMF's must, and all LVNAV MMF's have the option to, apply fees and/or redemption gates if liquidity levels fall below 30 per cent. Fees and/or redemption gates must be applied if liquidity falls below 10 per cent;

(e) MMFs will be required to diversify their portfolios and implement processes for stress-testing them. Assets should be valued at least once a day, with the result published daily; and

(f) a requirement that MMFs report weekly all of the following information to their investors: the liquidity profile; the credit profile and portfolio composition; weighted average maturity (WAM) of the portfolio; weighted average life (WAL) of the portfolio; and concentration of the top five investors in the MMF.

8.3 The introduction of LVNAV seeks to compromise between the move from CNAV to VNAV funds whereby it allows the use of CNAV as long as this is within 20 basis points of its actual NAV, based on the amortised cost accounting approach for assets maturing within 90 days. All other assets must be valued using market or model prices.

8.4 This next step in reaching the three-way agreement between the ECON Committee, the EC and the EU Council of Ministers, is that the latter must review the EC and ECON proposals and put forward their own before the trilogue, the term used to describe the three-way discussion and agreement, can begin. During the trilogue itself a compromise will need to be reached between the parties in order to agree and subsequently implement the MMF reform regulation.

8.5 Whilst the EC and ECON have taken a position on this regulation, it is unlikely the EU Council of Ministers will review this until mid-2016 due to the semi-annual rotation of presidency currently with Luxembourg, which has a conflict of interest given much of the MMF industry is domiciled there.

Financial Transactions Tax

8.6 Regulatory developments remain ongoing regarding the possible introduction of a Financial Transactions Tax (FTT). An introduction of an FTT would have an impact on some of TfL's investments as although the UK is not one of the 11 European countries making up the FTT Zone, the market would still be affected.

8.7 In March 2015, the participating Member States released a statement renewing their commitment to the FTT and the start date of 1 January 2016. However, since this time senior officials have said early 2017 is more likely given that members have failed to reach agreement on specific details on how the tax would be applied, including which derivative transactions will be within the scope, which taxation principles will apply and the collection mechanisms.

8.8 The UK attempted to block the FTT during April 2014, however, this campaign was rejected on the basis it was aimed at elements of a future tax which had not yet been agreed. This outcome was expected, but it does now give the UK the right to take action against the tax if it is adopted in the future.

8.9 The FTT would apply to secondary market trades that are negotiable on the capital markets, money market instruments and derivative contracts. The current charges being proposed include 10 basis points on all cash instruments and one basis point on the notional of derivative contracts. The likely impact of this is a significant reduction in volume, and therefore liquidity, in the secondary market, which in turn would have an impact on primary issues.

8.10 Potential impacts for TfL include, but are not limited to: increased cost of funding for TfL related to CP issuance, a decreased return on investments in CP, and reduced liquidity offered by MMFs. The costs associated with the FTT, on affected transactions, are most likely to be passed onto the client.

European Bank Recovery and Resolution Directive

8.11 The Bank Recovery and Resolution Directive (BRRD) provides a common procedure for EU member states to pre-empt bank crises and resolve financial institutions in an orderly fashion in the event of failure. It seeks to provide clarity on the conditions necessary to trigger a bank resolution, the authorities responsible for the process and the tools available to these authorities.

8.12 The BRRD was required to be transposed into national legislation by 31 December 2014, and to take effect from 1 January 2016. The UK, Germany and Austria decided to fully implement the BRRD a year early on 1 January 2015. Denmark followed suit implementing it on 1 June 2015. All other EU member states are required to bring the BRRD into effect by 1 January 2016.

8.13 Since 2014, banks due to be subject to the BRRD have been placed on negative outlook by the rating agencies due to the reduced likelihood of government support under the new regime. Following the implementation of BRRD in the UK, Germany and Austria, the rating agencies have now downgraded banks based in these countries by one to two notches. While Moody's has also downgraded banks in other EU member states, Standard & Poor's will only downgrade banks based in these areas from the 1 January 2016, when BRRD comes into effect.

8.14 TfL continues to monitor the impact of the BRRD on its existing and new investments, and if necessary to adjust its Investment Strategy to account for the new landscape.

European Market Infrastructure Regulation

8.15 In August 2012, the European Markets and Infrastructure Regulation (EMIR) came into force as binding law within the European Union. Compliance with the requirements is being phased in over time. A key purpose of EMIR is to reduce systemic risk in the financial markets.

8.16 TfL submitted its first EMIR file in May 2014, which was within the regulated deadline, and all records were accepted into the Depositary Trust and Clearing Corporation (DTCC) system. Further to this, a report was generated to import any new derivative transactions into DTCC on a daily basis.

8.17 TfL qualifies as a Non-Financial Counterparty (NFC) and must comply with requirements to report to trade repositories and certain requirements for risk management procedures in relation to non-cleared over-the-counter derivatives , which are not conducted on an exchange.

9 Other Activities

Supply Chain Finance

9.1 Group Treasury has been considering whether to implement a Supply Chain Finance (SCF) solution, which would give TfL's suppliers the option to seek early settlement of their invoices at an attractive rate of financing that is reflective of TfL's credit risk, rather than that of the suppliers. SCF solutions are becoming more common in the market with large companies such as Rolls Royce, Vodafone and the UK Government having programmes to support their supply chains.

9.2 Group Treasury has continued to work closely with other departments within TfL on this initiative and will lead the procurement for an SCF solution, which will involve an OJEU process, later in 2015.

9.3 For an SCF solution to be successful and provide most value to TfL's supply chain, a number of process and system changes will be necessary to ensure efficiency in the processing of supplier invoices is maximised. A number of initiatives to address this have been identified and are being implemented.

Counterparty Credit Analysis

9.4 Working with the Commercial team, Group Treasury has developed a spreadsheet tool for monitoring the credit ratings, equity prices, Credit Default Swap rates, key news items and market sentiment for TfL's key suppliers, as well as its investment and performance bond counterparties. This tool is being used to flag significant financial issues or concerns about TfL's counterparties to senior management and the operating businesses.

9.5 In conjunction with the daily monitoring of TfL's key suppliers, Group Treasury has identified a shortlist of suppliers that are considered strategically important to the business. Additional procedures have been set up in order to provide more detailed monitoring of these entities for any changes that may impact their business or financial positions.

Credit Support Arrangements

9.6 Group Treasury, working with other departments, has developed a guidance document for TfL on performance bonding arrangements, parent company guarantees and other forms of financial risk mitigation in contracts.

9.7 Once the guidance is finalised, which is expected by mid-October 2015, a programme of training will be developed for commercial and contract managers in order to ensure that the guidance is followed and that a more consistent approach towards credit support arrangements is adopted across TfL.

9.8 In addition, Group Treasury is also working with other departments to develop internal guidance relating to creating a framework for a co-ordinated approach to the mitigation of risks arising from property developments. This includes developments led by third parties that encroach on TfL's estate and other developments and is expected to be completed by the end of 2015.

Banking

9.9 Group Treasury has worked with the Surface Transport Cycle Hire team to implement direct debit payments. Phase 1, where business accounts are given this payment option, went live on 19 May 2015 with no major issues.

9.10 Group Treasury has worked with Capita, IBM, NSL, HSBC and Surface Transport to set-up and streamline all banking arrangements following the award of the London Road User Charging (LRUC) contract. Capita took over bus lane enforcement during June 2015 and all necessary banking arrangements and services were in place to ensure a smooth transition. Work is now being undertaken to ensure the banking arrangements for Phase 2, where Capita will take over congestion charging in full during early 2016, is complete and fit for purpose.

9.11 Group Treasury has been continuing to work with Capita, HSBC and the Surface Transport LRUC team to implement direct debit as a method of payment from the start of Phase 2 (congestion charging) of the new LRUC contract (early 2016). All documentation and indemnities have been completed and the testing the BACS standards is now in the final stages.

9.12 Group Treasury has given banking advice on a number of smaller projects such as the sale of Year of the Bus sculptures, E-Bikes, the current tendering of cash in transit services and Taxi & Private Hire licensing online payments.

List of appendices to this report:
A paper containing exempt supplemental information is included in Part 2 of this agenda.

List of Background Papers:
None

Contact Officer: Simon Kilonback, Director of Group Treasury
Number: 020 7535 5300
Email: SimonKilonback@tfl.gov.uk