Finance and Policy Committee

Date: 11 March 2015

Item 22: 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 2014 to date, as required by the Treasury Management Policy Statement and Treasury Management Practices 2014/15, approved by the Board in March 2014.

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. 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 2014, the Board approved the Treasury Management Strategy (TMS) 2014/15 (which includes an Investment Strategy 2014/15, a Borrowing Strategy 2014/15 and a Risk Management Strategy 2014/15) and established 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 2014 to date. By doing so, the paper fulfils the requirement under the TfL Treasury Management Policy Statement and Treasury Management Practices 2014/15 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 2014/15

4.1 The TMS 2014/15 sets out the parameters under which the Group Treasury function is permitted to operate.

4.2 There have been no breaches of the TMS 2014/15 (comprising the Investment Strategy 2014/15, Borrowing Strategy 2014/15 and Risk Management Strategy 2014/15) in the year to date.

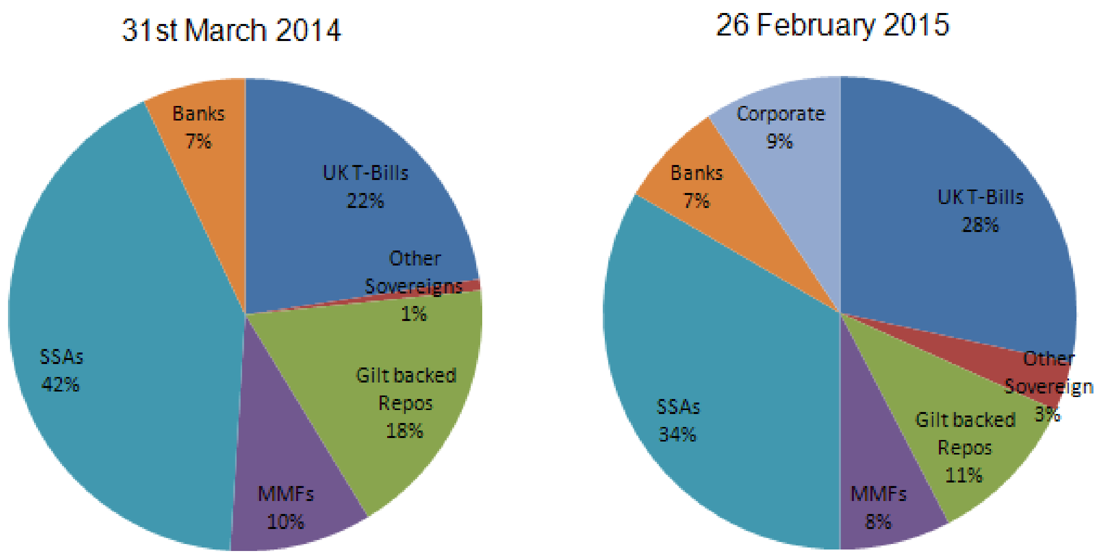
5 Investments Update

5.1 As at 26 February 2015, TfL had £5.1bn of cash under management (including £2.4bn of cash ring-fenced to fund the construction of the Crossrail project).

5.2 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 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. Securing funding and financing for these programmes in advance 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 and do not represent a surplus available to spend on additional projects or fare reductions.

5.3 The allocation of TfL's cash investments is summarised in Chart 1.

Chart 1

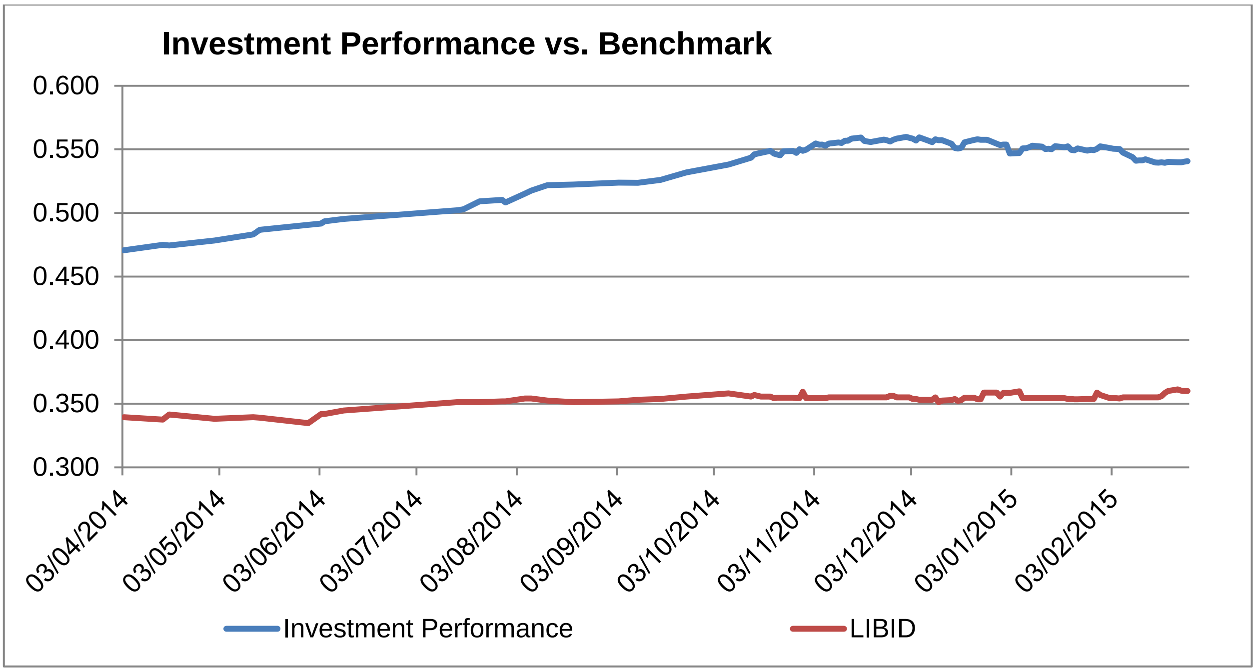


5.4 The current investment strategy seeks to maintain approximately 30 per cent of TfL's investment portfolio in direct UK Government investments, such as UK Treasury Bills (subject to availability). Group Treasury has increased the proportion of direct UK Government investments over the course of the year in order to maintain a prudent balance between prioritising security and liquidity, over yield while taking advantage of additional diversification opportunities as and when they become available. A smaller proportion of the portfolio is currently invested in UK Government backed investments, such as gilt backed repurchase agreements (repos), which are considered to also provide a very high level of security but arguably not quite as high as that of direct investment in the UK Government. This level of government security reflects leading practice amongst public sector investors, such as the Canadian Pension Plan Investment Board (CPPIB)'s approach.

5.5 TfL has continued to invest actively in repos. Repos have been placed for tenors of various maturities, from overnight out to 12 months. Overnight repos continue to provide a source of daily liquidity and act as an alternative to Money Market Funds (MMFs). Over the year TfL has increased the number of repo counterparties available to trade with, this has led to an improvement in yield on offer. 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.

5.6 The return on TfL's cash investments has increased during the year. The seven-day London Interbank Bid Rate (LIBID) has increased marginally since 1 April 2014, from 0.34 per cent to 0.36 per cent, while TfL's investment returns have increased from 0.47 per cent to 0.54 per cent over the same period. Chart 2 below shows the return on cash and LIBID over the year to 26 February 2015.

Chart 2



5.7 TfL's year-to-date average yield is 0.542 per cent, 19 basis points above benchmark, with an average of 86 days-to-maturity (down from 117 days at the beginning of the year).

5.8 While the UK economy showed signs of recovery over the first half of the year, these improvements have tapered lately and recent data outputs have been more negative partially as a result of weaker global demand and more challenging conditions in the Euro area.

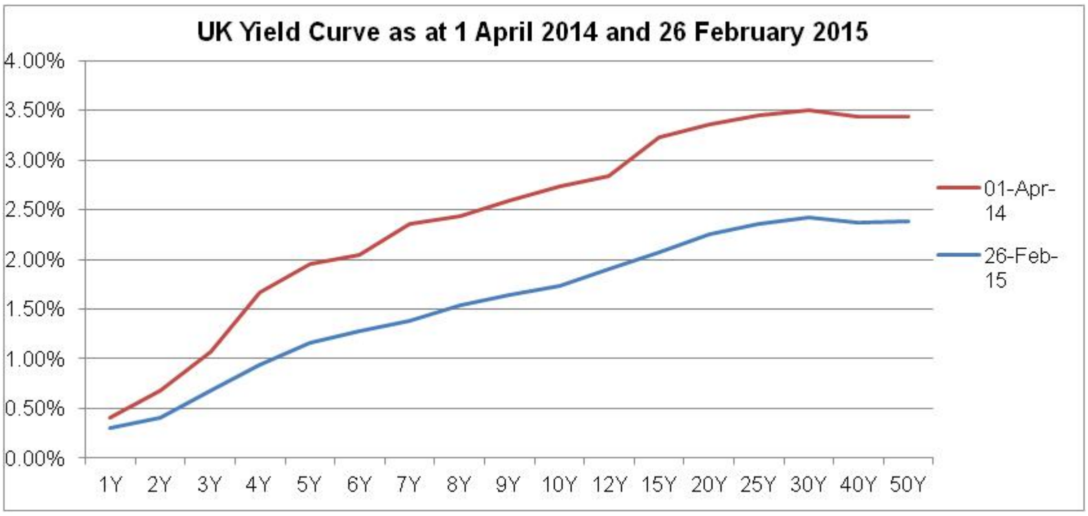
5.9 Central bank policy appears to be the main market driver with significant developments and announcements within the Federal Reserve (Fed) and the Bank of England. The market pricing for the first base rate increase has changed dramatically over the year, and consequently short term rates have also moved around. Initial expectations were pricing a rise in early 2015. This was then brought forward to late 2014 on the back of comments by Bank of England governor Mark Carney in June, stating that interest rates could rise sooner than the market currently forecasted. It has since moved back consistently and is now not priced in until Q1 2016.

5.10 UK Inflation fell to a 15-year low in January 2015 of 0.3 per cent. This has been driven by the fall in oil prices, which has fallen over 50 per cent in the last six months, as a result of increased supply, competition from US Shale resources and concerns over global growth.

5.11 These factors, along with deflation in the EU and uncertainty over the results of the UK General Election later this year has all lead to a lower rates outlook for investment returns. Group Treasury has adopted an investment strategy to consider this uncertainty, by looking to keep investments shorter and this is reflected in the reduced weighted average maturity of the investment portfolio.

5.12 The deferral of the market's expectation of a base rate hike and general weakening of economic position has meant the UK Government yield curve has decreased across the entire curve over the year. This is shown in Chart 3.

Chart 3



5.13 The decrease in short term rates has had a more limited impact on TfL's weighted average yield on investments due to a number of factors.

5.14 First, TfL has been able to obtain a more favourable return versus risk as a result of increased diversification in its potential investment counterparties. This is the result of the additional investment counterparties that were approved by the Committee on 12 March and 14 October 2014.

5.15 In particular, TfL is now permitted to invest in corporate names for the first time, where an increase in yield can be available for similar levels of risk, including £48m of French Commercial Paper (CP) investments with Electricite de France (EDF) paying a sterling equivalent yield of 0.60 per cent for three months and 0.75 per cent for six months, and a one month bond investment in Volkswagen yielding 0.64 per cent. Further diversification into the corporate debt market will follow as and when attractive opportunities arise. TfL currently has £475m of outstanding investments in corporate names across 13 different counterparties.

5.16 Secondly, TfL has benefitted from the Committee's approval to invest in approved counterparties in Euros and US Dollars, as well as Sterling. Such non Sterling investments are swapped back into Sterling as a matter of course. After carrying out substantive testing, TfL has begun investing in both US Dollar and Euro assets over the first half of the year. TfL has been able to further diversify the portfolio by investing in approved counterparties not available in Sterling, and in some instances, to take advantage of an improved yield to the Sterling equivalent investment. TfL currently has £661m in non-Sterling investments outstanding and is seeking to benefit from further diversification by continuing these investments as further investment opportunities arise.

5.17 The EDF CP investments detailed above are an example of a counterparty that is not available in Sterling, demonstrating that TfL has benefitted from improved diversification by being able to invest in Euro and US Dollar assets. A Euro investment in FMS Wertmanagement (Aaa / AAA / AAA) CP allowed TfL to benefit from an improved yield of 11 basis points compared to the Sterling equivalent investment. This equates to an additional £21,923.79 of interest income over the six month tenor, while not taking on any additional investment risk compared to the Sterling equivalent investment.

5.18 TfL has entered 42 non Sterling investments over the course of the year, totalling £1.2bn. The weighted average tenor of these investments is 108 days and the weighted average yield is 0.594 per cent, both of which compare favourable to the Sterling portfolio. Of these investments, 19 had an equivalent investment available in Sterling at the time. TfL has been able to generate an additional £0.178m of interest income on these investments, while not taking on additional investment risk compared to the Sterling equivalent. The remaining 23 investments, totalling £545m, have been in counterparties which do not issue in Sterling, showing the diversification TfL has been able to achieve by being able to invest in non Sterling investments.

Internal Limits

5.19 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.

5.20 Over the course of the year, TfL has continued to improve the quality and strength of both the internal limits and the limit reports. The internal limits are dynamic and will change in line with various financial metrics, such as a counterparty's Credit Default Swap spread. These internal limits are uploaded to the Treasury Management System multiple times a 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.

5.21 The Group Treasury investment team continually monitor the strength of these internal limits, and will hold quarterly reviews with the Director of Group Treasury.

6 Borrowing Update

Transactions Update

6.1 TfL's incremental Prudential Borrowing limit for 2014/15 is £650m. This amount reflects the additional borrowing for 2014/15 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 carry over the unused borrowing capacity into future years. 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 As shown in Table 1, TfL has undertaken £637m of incremental long-term borrowing since 1 April 2014. This includes £500m of bonds and £100m from the European Investment Bank (EIB) under the £1bn Crossrail Loan Facility. In addition, £37m has been raised in the short-term CP market, increasing the CP balance to £725m to fully match existing interest rate swaps. The above transactions are in line with TfL's Borrowing Strategy for 2014/15.

6.4 The remaining balance of incremental borrowing to fund prior to 31 March 2015 is £13m. In addition, TfL expects to refinance £22m of principal repayments made in 2014/15. The total of £35m of additional borrowing before 31 March 2015 is expected to be raised through CP.

Table 1

Borrowing Strategy 2014/15	**£m**
2014/15 Incremental Borrowing agreed with DfT	650
Financed by:	
EIB £1bn Crossrail Loan drawdown (completed)	100
1st Bond – 50 Year (completed)	370
2nd Bond – 50 Year (completed) (tap of 1st Bond)	130
Increase to year on year Commercial Paper balance	37
PWLB	nil
Incremental balance to fund before 31 March 2015	13
	650
Principal repayments to be re-borrowed	22
Total 2014/15 borrowing	**672**

European Investment Bank

6.5 In April 2014, TfL completed the scheduled drawdown of £100m under the existing £1bn Crossrail loan facility with the EIB at a pre-agreed fixed rate set in October 2009. This was the final drawdown of the overall £1bn facility.

6.6 In May 2014, TfL agreed both the rates and disbursement dates in relation to a £500m 20-year EIB corporate facility for the Crossrail Rolling Stock and Depot project. The EIB facility agreement had been signed in December 2013. Further details of the agreed rates and disbursement dates are contained in the Paper on Part 2 of the agenda.

6.7 In December 2014, TfL agreed both the rates and disbursement date in relation to a £85m 10-year EIB corporate facility for the London Overground Capacity Improvement Project (LOCIP). The facility had been signed in October 2014. Further details of the agreed rates and disbursement dates are contained in the Paper on Part 2 of the agenda.

6.8 TfL is also currently working with the EIB on a new ‘Urban Mobility for London’ (UML) loan facility. Whereas previously each existing EIB loan was specific to one TfL project, the proposed UML facility would fund a number of selected projects included in TfL Business Plan. The benefit of pooling a number of projects is that it will allow the EIB to provide a larger facility size than for any eligible individual project, The UML facility was approved by both the Committee and the EIB’s Management Committee in January 2015, subject to the agreement of final terms and conditions.

Export Development Canada

6.9 In January 2015 the Committee approved, subject to the agreement of terms and conditions, a £500m corporate loan facility to TfL from Export Development Canada (EDC) to finance the portion of Crossrail Rolling Stock and Depot costs not financed through the EIB Crossrail RSD facility.

6.10 Negotiations with the EDC continue to agree terms and conditions, as well as pricing.

Capital Markets

6.11 Since the beginning of the financial year, TfL has also successfully issued and tapped a 50-year bond.

6.12 The first transaction was launched in March 2014 as a result of a large reverse inquiry (and lead orders) from UK real money investors. The transaction, which had a delayed settlement in April 2014, resulted in a £370m 50 year issuance at a fixed rate coupon of 4 per cent (with a semi-annual yield of 4.011 per cent) issued at an all-in-price including bank fees of 98.659 per cent.

6.13 The above bond was tapped in May 2014 for an additional £130m, again with a fixed rate coupon of 4 per cent (with a semi-annual yield of 3.915 per cent), issued at an all-in-price including bank fees of 101.1804. The tap has now funged with the original bond issue making the total issuance of £500m.

6.14 Both the original 50 year bond issue and the subsequent tap were issued at a spread of 55 basis points over Gilts, which represents the tightest spread of any of TfL’s issues. The bonds compare very favourably with the alternative of borrowing from the Public Works Loan Board (PWLB), with:

(a) the April issuance saving 25 basis points against the PWLB rate (or £46.3m in interest over the 50 year term); and

(b) the May tap saving 26 basis points (or £16.9m over the 50 year term).

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.

6.16 The issues also represented excellent opportunities for TfL to increase the weighted average life of its debt as well as extending the curve on which its bonds trade in the secondary markets. Investors have advised TfL that they prefer to invest with issuers who have a well established curve of varying tenor debt and this should help TfL to achieve the best possible pricing in future.

Debt Outstanding

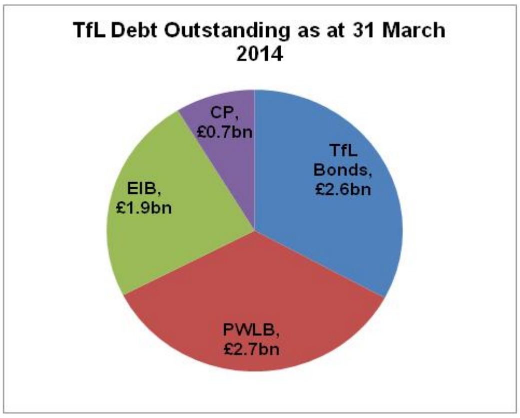
6.17 The Operational Boundary for Borrowing (broadly speaking, TfL's expected debt levels given the aggregate incremental borrowing agreed with the Department for Transport in any one year) and Authorised Limit for Borrowing were approved by the Board and established by the Mayor in March 2014.

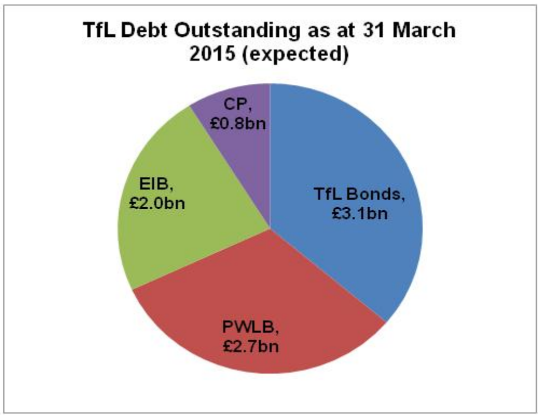
6.18 TfL has remained below the Authorised Limit for Borrowing approved by the Board and established by the Mayor in March 2014 at all times during the year to date.

6.19 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 originally anticipated TfL is forecasting that the balance of property provisions will be approximately £106m higher than expected and will recommend that the Mayor increase the Operational Boundary and Authorised Limit for Other Long-term Liabilities to reflect this. This proposed change is the subject of a separate paper to the Committee.

6.20 The combined effect of the borrowing transactions completed in the year to date are reflected in the Chart 5, which shows TfL's direct debt outstanding as at 31 March 2014 and 31 March 2015 (expected).

Chart 5





6.21 As at 31 March 2014, TfL had £7,898m of debt, of which approximately £688m was short-term borrowing under TfL's CP Programme. The weighted average interest rate on TfL's debt was 3.81 per cent (with a weighted average life of 19.5 years). As at 31 March 2015, TfL is expected to have £8,548m of debt outstanding, of which £760m is expected to be short-term CP. The weighted average interest rate on TfL's debt as at 26 February 2015 was 3.83 per cent (with a weighted average life of 22 years).

6.22 On 24 July 2014 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 In April 2014, 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 2014.

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 4 sets out TfL's current credit ratings:

Table 2

	S&P	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 and Poor's and Fitch all affirmed their ratings in May 2014, October 2014 and November 2014 respectively.

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.

Investor Relations

6.27 Over the past months, TfL has continued to pursue a strategy of establishing closer relationships with its existing and potential investors (including Central Banks and non-traditional sterling investors), as well as with the broader banking community, in order to diversify its investor base and thereby achieve the tightest pricing possible. A number of reverse enquiries were generated as a result of this strategy. In addition, Group Treasury is reviewing the investor relations web-pages to ensure investors have access to key information on TfL.

PWLB Reform

6.28 In mid-2014, the government published legislative proposals to abolish the PWLB in the current form to replace it with a new body under different governance arrangements. In January 2015, Ministers tabled an amendment to the Infrastructure Bill which would allow them to make an order under the Public

Bodies Act 2011 abolishing the PWLB commissioners and transferring their functions to another body.

6.29 While detailed plans about the replacement have yet to be released, the change is not expected to have an impact on existing loans held by local authorities or the government's policy on Local Authorities' borrowing.

7 Regulatory Update

Money Market Funds

7.1 Since the financial crisis in 2008, the 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.

7.2 As reported to the Committee in October 2014 as part of the semi-annual update on Group Treasury Activities, legislators in the US in July 2014 published proposals for reform of MMFs, with new rules set to take effect from October 2016. While these reforms only apply to US MMFs, and therefore have no impact on TfL investments, there are similar rules under consideration in Europe that are expected to follow those in the US.

7.3 The original proposals for European MMFs were published by the European Commission in September 2013 and would apply to all MMFs domiciled, managed or marketed in the European Union (EU). The key changes published were:

(a) MMFs will have to hold 10 per cent of their portfolio in assets that mature within a day and a further 20 per cent that mature within one week;

(b) a maximum five per cent exposure will be allowed with any single issuer;

(c) any funds wanting to remain using Constant Net Asset Valuation (CNAV) will need to hold a capital buffer of three per cent of the fund;

(d) MMFs will only be able to buy Asset Backed Commercial Paper backed by short-term debt instruments that have arrived in the course of normal business activity, for example trade receivables; and

(e) MMFs will need to implement customer profiling policies to help anticipate any upcoming large redemptions from the fund.

7.4 In late 2014, members of the EU Parliament's Committee on Economic and Monetary Affairs requested an economic assessment of the revised proposals. These proposals were to be offered in December 2014, and were set to be reviewed in January 2015 before a parliament vote in March 2015. This assessment is thought to favour those who oppose the reforms. The capital buffer for funds wanting to remain using CNAV is likely to be the most contentious area.

7.5 While delays to the proposals are likely, if the new rules are agreed, the transition period for the new regulation could be as short as six months. Group Treasury will continue to monitor the progress of the reforms.

Financial Transactions Tax

7.6 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 will still be affected.

7.7 During May 2014, ten Eurozone countries committed to introducing a limited FTT by 1 January 2016. However, as of early 2015 the FTT block, including France, Germany, Italy and Spain, have been unable to agree to the 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. This means that implementation is likely to be further delayed.

7.8 The UK attempted to block the tax 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.

7.9 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.

7.10 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, is most likely to be passed onto the client.

European Bank Recovery and Resolution Directive

7.11 In June 2014, the Bank Recovery and Resolution Directive (BRRD) was published by the EU Commission. The BRRD sets 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.

7.12 The Directive 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 have chosen to bring forward the implementation date to 1 January 2015.

7.13 A key objective of the BRRD is to ensure that losses from bank failures do not fall on taxpayers, and that instead a bank's creditors are written down or converted into equity. Equity and subordinated debt will be the first to take losses, followed by senior unsecured creditors (including holders of bonds, commercial paper, deposits and certificates of deposit).

7.14 The BRRD specifies a minimum 'bail-in' amount equivalent to 8 per cent of a bank's total liabilities including own funds before resolution funds and extraordinary public financial support can be provided. The degree to which senior unsecured creditors face any losses in a bail-in will depend on how much equity and subordinated debt a bank has, relative to the size of any losses.

7.15 On Tuesday 3 February, Standard & Poor's downgraded or placed on Credit Watch a number of UK, German, Austrian and Swiss banks in order to reflect the reduced likelihood of extraordinary government support as a result of BRRD. The other rating agencies (Moody's and Fitch) are likely to follow suit once they have concluded their reviews later this year.

7.16 The legislation relating to bail-in is still developing, with further important aspects of the BRRD requirements due to be refined through the European Banking Authority's recommended technical standards and guidelines, and with other related Directives due to be transposed by the UK later this year. TfL will monitor the impact of bail-in on its existing and new investments, and if necessary adjust its Investment Strategy once the full impact of the changes is understood.

European Market Infrastructure Regulation

7.17 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.

7.18 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.

7.19 TfL 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).

8 Other Activities

Cash Forecasting

8.1 Over the last few years Group Treasury has been supervising a step change in the Group's cash forecasting. The objectives of this strategy are to ensure cash flows are better understood in order to reduce liquidity risk, increase return on investments and reduce future borrowing costs.

8.2 Cash forecasting has been embedded over time across the entire Group and the Group now has procedures for short, medium and long term cash forecasting, the reliability and accuracy of which are monitored and challenged regularly by Group Treasury. Over the past 6-12 months Group Treasury has worked closely with the operating businesses to improve cash forecasting, with a particular focus on the long term forecast, which will require further work to improve their reliability and accuracy.

8.3 Currently weekly reports are prepared and distributed to Directors containing information on the current cash forecast, cash forecasting accuracy and historical cash movements. Group Treasury has accumulated a significant amount of historical income and expenditure cashflow data for each of the operating businesses. Analysis of this data has led to a better understanding of the Group's cashflows which, in turn has led to improved cash forecasting and decision making.

8.4 The improvements in cash forecasting and reporting have already enabled better management of short and medium term investments. Group Treasury will continue to work with all stakeholders to improve the accuracy and quality of information even further, in order to achieve the strategic objectives outlined above.

8.5 Cash forecasting will be a significant focus of the Building a Better Finance programme, a significant change programme being implemented across the TfL Finance function. Group Treasury will work with the project team to help deliver further improvements in the cash forecasting process.

Supply Chain Finance

8.6 Group Treasury has been considering whether to implement a Supply Chain Finance (SCF) programme 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 the suppliers. SCF programmes 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.

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

Counterparty Credit Analysis

8.8 Working with the Supply Chain Management 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 critical suppliers, as well as its investment and performance bond counterparties. This tool will be used to flag significant financial issues or concerns to senior management and the operating businesses.

Performance Bonding Arrangements

8.9 In recent months Group Treasury has been working with other departments to develop guidance for TfL on performance bonding arrangements, parent company guarantees and other forms of financial risk mitigation in contracts.

8.10 Once the guidance is finalised, 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 performance bonding arrangements is adopted across TfL.

Banking

8.11 Group Treasury is working closely with the Surface Transport cycle hire team, HSBC and Serco on the forthcoming implementation of direct debits for business and hotel users. This involves ensuring all the correct indemnities and documentation are completed and processed efficiently, and that all the necessary testing is carried out in accordance with BACS rules. Group Treasury has also acted as a point of contact for all general banking queries regarding this.

8.12 Following the award of the new London Road User Charging (LRUC) contract to Capita, Group Treasury has been involved in setting up the new banking arrangements and has reduced the number of operating accounts from eighteen to three. This has simplified both the accounting and cash loan procedures.

8.13 Group Treasury has been working with Capita, HSBC and the Surface Transport LRUC team to implement direct debit as a method of payment for congestion charging from the start of the new LRUC contract (November 2015). As with the Cycle Hire project Group Treasury has managed the documentation and indemnities required and will ensure correct testing in accordance with strict BACS rules and continue to give advice on banking matters.

List of appendices to this report:

A paper on Part 2 of the agenda contains exempt supplemental information.

List of Background Papers:

TfL MTN Base Prospectus 2014

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