Appendix 1

TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2023/24

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1 SUMMARY

1.1 This Treasury Management Strategy (TMS) 2023/24 comprises the:

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(i) Investment Strategy;

(ii) Borrowing Strategy;

(iii) Liquidity Strategy;

(iv) Risk Management Strategy; and

(v) Counterparty Exposure Limits.

2 BACKGROUND

2.1 The TMS 2023/24 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

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(i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2021, (the ‘Treasury Management Code’);

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(ii) the Prudential Code for Capital Finance in Local Authorities issued by CIPFA and last updated in 2021, (the ‘Prudential Code’); and

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(iii) the Statutory Guidance on Local Government Investments issued by the Department for Levelling Up, Housing and Communities (DLUHC), formerly the Ministry of Housing, Communities and Local Government, last updated in 2018, (the ‘Investments Guidance’), with respect to treasury investments.

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2.2 This strategy will be updated at least annually and submitted for the approval of the Finance Committee.

2.3 All references to ‘investments’ in the TMS 2023/24 refer to investments held for treasury management purposes only.

3 POLICIES AND DELEGATIONS

3.1 The TMS 2023/24 will be implemented, operated and administered in accordance with the Treasury Management Policies and the TfL Group Policy Relating to the Use of Derivative Investments.

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3.2 The arrangements for the implementation, execution, operation and administration of the TMS 2023/24, including the arrangements for banking,

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cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer[1], Director of Corporate Finance and Group Treasurer, with the exception of the matters specified in 3.3, provided no decision contravenes the TMS 2023/24, the Treasury Management Policies, or the TfL Group Policy Relating to the Use of Derivative Investments.

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3.3 With respect to the investment of cash balances, the Investment Strategy and Investment Counterparty Exposure Limits contained within the TMS 2023/24 will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG). LTM and LTIG will each determine and apply their own investment strategy and counterparty exposure limits policy in respect of its investment of cash balances, subject to such strategies and policies and any deviations from or changes to any of them being approved in advance, from time to time, by the Corporate Finance Director or Group Treasurer.

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3.4 With respect to TTL Properties Limited (TTLP), TTLP's borrowing, investment and liquidity strategies and its banking and cash management will be subject to such strategies and banking and cash management related provisions set out in any Finance Committee approved TTLP Treasury Management Strategy.

4 STRATEGIC OBJECTIVES

4.1 The objectives underpinning the TMS 2023/24 are:

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(i) to ensure that sufficient cash and liquidity facilities are available to enable TfL to discharge its financial obligations when they become due, in accordance with approved budgets;

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

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

(iv) to undertake treasury management activities having regard to Prudential Indicators (including Treasury Management Indicators) and to remain at all times within the Authorised Limit for external borrowings;

(v) to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money;

[1] References to managing Chief Finance Officer in this document mean the managing (non-statutory) Chief Finance Officer.

(vi) to support TfL's commitment to maintaining its credit rating relative to that of the UK Government as it recognises the value of its strong credit rating; and

(vii) to use TfL subsidiaries' statutory power relating to risk management to manage financial market risks across TfL, with the primary objective of reducing volatility or increasing certainty in the Business Plan and achieving greater value for money through reducing costs or protecting revenues.

5 INVESTMENT STRATEGY

5.1 The Investment Strategy will be applied in accordance with the strategic objectives listed in 4.1.

5.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds, the overriding principle being the prioritisation of security before liquidity and liquidity before yield.

5.3 Where possible, TfL will seek to maximise active investment in counterparties, rather than passive investments held through Money Market Funds (MMFs). This allows greater control over the quality of investments, may allow higher returns, and reduces fees. Some MMF investments will still be required for liquidity purposes.

5.4 The maturity profile of investments will reflect the expected cash flow requirements of TfL and accommodate for forecast variability.

5.5 TfL will invest in the London Treasury Liquidity Fund LP, in addition to any other investments which meet the requirements of this investment strategy.

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5.6 Save in respect of the London Treasury Liquidity Fund LP, all investments will have a maximum tenor of one year and at the time of investment will be rated a minimum of A-2, P-2 or F2 by Standard & Poor's, Moody's or Fitch Ratings credit rating agencies. Investments with counterparties that have a credit rating of less than any of A-1, P-1 or F1 will have a combined total of no more than £240m.

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5.7 TfL will consider the risk of its overall portfolio as well as individual investments, seeking to diversify its investments as much as possible and have regard to the exposure to any one counterparty, country, industry, investment type, and credit. TfL will target allocating a portion of the portfolio across sovereign exposures, government agencies, financial institutions, and corporate instruments, subject to investments available at the time. TfL will seek to invest cash responsibly by investing in counterparties with strong Environmental, Social and Governance (ESG) performance and policies.

5.8 TfL will invest in instruments including: sovereign Treasury bills and bonds, UK Debt Management Office deposits, repurchase agreements, bank deposits, certificates of deposit, bonds, commercial paper, floating rate notes, MMFs or any other instrument allowing TfL to achieve the objectives set out in 4.1. Save in respect of the London Treasury Liquidity Fund LP, due to the short term

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nature of TfL's investments and the desire not to lose any principal, TfL will not invest in equity.

5.9 TfL may invest in non-sterling denominated investments where:

(i) currency is bought in advance of a payment or payments in that currency, or where the currency is otherwise received and TfL can identify other future expenditures in that currency to offset against; or

(ii) instruments denominated in currencies other than Sterling are swapped back to GBP as a matter of course.

5.10 TfL will generally hold investments to maturity, however where the Director of Corporate Finance or the Group Treasurer deems it appropriate, TfL may seek to break or resell fixed term investments early (including where doing so will result in TfL incurring penalties or crystallising a loss), in order to protect TfL against potential losses, meet unexpected liquidity requirements, improve its investment return or for ethical or reputational reasons.

5.11 TfL will seek to achieve year to date returns greater than the year to date average benchmark of SONIA (Sterling Overnight Index Average), which is widely regarded as the appropriate benchmark for short-term cash investments and is used by professional investors such as MMFs.

6 BORROWING STRATEGY

6.1 The Borrowing Strategy will be applied in accordance with the strategic objectives listed in 4.1.

6.2 TfL's objective is to manage its borrowing in a manner that is affordable, sustainable and prudent and combines flexibility, security of access to funds, diversity of funding sources and value for money.

6.3

6.3 TfL's borrowing requirement for 2023/24 is expected to be up to £288.9m, excluding rolling commercial paper. This amount consists of £128.9m maturing borrowing that we intend to refinance, and up to £160m of incremental borrowing.

6.4 In addition to the expected TfL borrowing, TTL Properties Limited (TTLP) is expected to raise its own borrowing to meet its capital requirements. This funding would be non-recourse to TfL and is included in the TTLP Treasury Management Policy and TTLP Treasury Management Strategy.

6.5 The total value of outstanding borrowing and other long-term liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board (as required by the Local Government Act 2003). TfL seeks to achieve its borrowing objectives by maintaining access to capital markets through its Euro Commercial Paper programme, Euro Medium Term Note programme and stand-alone capital market transactions, and complementing this with loans and other facilities from financial institutions where appropriate. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (or

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Table 1 – expected 2022/23 refinancing requirement ¶
Description ...

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any future body replacing it), a readily available source of liquidity. Other sources of finance will be used where they further TfL's stated objectives.

6.6 As debt service represents a relatively significant part of TfL's annual expenditure. A high level of certainty over the interest payment amounts is desirable to meet the balanced budget requirement. While fixed rates of borrowing are generally preferred, as they provide more certainty, TfL will assess the merits of having a certain amount of floating debt, where it is consistent with the borrowing and risk management objectives. TfL aims to have at least 75 per cent of all outstanding borrowing at fixed interest rates and up to 25 per cent of borrowing at variable rates.

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6.7 All borrowing is expected to be drawn in Sterling, as currently permitted by HM Treasury. Should TfL receive HM Treasury approval to raise debt in foreign currencies, any foreign currency exposures arising from such borrowing will be subject to risk mitigation measures consistent with the principles of the Risk Management Strategy.

6.8 Given the long life of the majority of the assets financed by TfL, TfL's objective is to have a weighted average tenor of debt of at least 15 years. TfL will aim to structure its borrowing in a way that avoids large concentrations of debt of the same maturity in order to minimise the refinancing risk. The limits for maturity structure of borrowing are set out on annual basis, as suggested by the Treasury Management Code, and are the subject of a separate Prudential Indicators document approved by the Board.

6.9 TfL will consider opportunities to arrange loan facilities that enable drawdowns of debt in future years. Where TfL has the ability and option to do so it will consider fixing drawdowns beyond the 2023/24 financial year, in order to mitigate interest rate risk related to future borrowing requirements.

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6.10 The source, tenor, currency (subject to 6.7) and interest rate basis of individual debt transactions will be determined on a case by case basis taking into account value for money, TfL's risk appetite, market conditions, interest rate expectations, investors' preferences, the impact on TfL's debt maturity profile and target weighted average tenor.

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6.11 TfL will consider opportunities to buy back, refinance, or otherwise restructure existing liabilities (including leases) where doing so represents value for money, or will improve the structure of TfL's liabilities, or facilitate changes to TfL's corporate structure.

7 LIQUIDITY STRATEGY

7.1 The Liquidity Strategy will be applied in accordance with the strategic objectives listed in 4.1.

7.2 The TfL Group (excluding LTIG, LTM and TTLP) will aim to hold sufficient cash and short-term investments to ensure it maintains a level of financial resilience that corresponds to TfL's size and risk profile, and in any event will hold a minimum level of cash and short-term investments as defined in the Treasury Management Policies. In practice this means TfL expects to hold higher cash balances than the absolute minimum set out in the Liquidity Policy. TTLP will aim to hold a minimum balance of cash and short-term investments of £10m as set out in the TTLP Treasury Management Strategy.

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7.3 Where appropriate, the cash and short-term investments will be supplemented by access to external liquidity sources, such as bank overdrafts, revolving credit facilities and other standby credit facilities. The adequacy of the external liquidity sources will be reviewed on an ongoing basis and TfL will arrange and maintain these facilities as required.

7.4 Bank overdrafts and standby credit facilities will not be used in the normal course of business, however TfL would consider borrowing temporarily within the Authorised Limit to address short-term liquidity needs, where it represents prudent management of TfL's financial affairs.

7.5 Cash and short-term investment balances ring-fenced for the construction of Crossrail will be managed to ensure sufficient liquidity to meet Crossrail Limited's forecast payment obligations.

7.6 In order to limit the liquidity risk created by rolling the commercial paper programme, TfL will aim to manage its maturities so that no more than £200m of short-term borrowings fall due for repayment in any six business-day period.

8 RISK MANAGEMENT STRATEGY

8.1 The Risk Management Strategy will be applied in accordance with the strategic objectives listed in 4.1.

8.2 TfL maintains a low risk appetite consistent with the good stewardship of public funds. It aims to mitigate financial risks to the extent possible, aiming to provide security of TfL's funds and certainty of costs and revenues.

8.3 The objectives of the Risk Management Strategy are to:

(i) achieve greater value for money through reducing costs or protecting revenues; and

(ii) holistically manage financial risks across the whole of TfL.

(iii) reduce volatility or increase certainty relating to the impact of financial risks upon the Business Plan;

8.4 TfL is materially exposed to a number of specific financial risks in the ordinary course of business, arising from the borrowing programme, the capital investment programme and certain ongoing contractual obligations. These risks include:

(a) interest rate risk related to TfL and its subsidiaries' existing or planned future borrowing requirements (including leases);

(b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by TfL or its subsidiaries; from receipts of grants or revenues payable to TfL or its subsidiaries in currencies other than Sterling; from any foreign currency borrowing (if permitted); and in the course of making foreign currency investments;

(c) commodity price and/or rate risk related to specific procurements or contracts across TfL and its subsidiaries containing a significant cost element for a commodity component and/or ongoing operational procurements such as power and fuel whether direct or indirect exposures; and

(d) inflation risk across TfL and its subsidiaries.

8.5 Financial risks will be identified, managed and controlled through a number of instruments, methods and techniques, including passing the risk to the counterparty where appropriate. Where the identified risks fall into the categories described in paragraph 8.4 and have highly probable exposures with a highly certain risk profile, TfL may use financial instruments to manage exposure to these risks.

8.6 Where TfL arranges derivative investments through its subsidiary, Transport for London Finance Limited, it may put in place intra-group arrangements to confer the benefit of those derivative investments to the TfL entity bearing the underlying risk.

9 COUNTERPARTY EXPOSURE LIMITS

9.1 The managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will approve individual counterparties and will set individual counterparty exposure limits (Approved Investment Counterparty list) following detailed analysis of each counterparty and its impact on the overall portfolio, including sector and country concentration risk and subject to the limits set out in table 2.

9.2 The maximum exposure limit per investment counterparty will be within the counterparty exposure limits set out in Table 2. Counterparties within the same group will be classified as one counterparty for the purposes of the exposure limit. Where banks are required to have separate entities for retail (ring-fenced) and investment (non-ring-fenced) activities, TfL will apply separate counterparty exposure limits to the applicable entities. This may result in ring-fenced banks having different counterparty limits to non-ring-fenced banks.

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9.3 To reduce investment risk and in line with the requirement to have primary regard to security, TfL aims to keep a diversified portfolio of investments by limiting exposures to individual counterparties. As the maximum tenor of investments is one year, short-term credit ratings will be the primary ratings used to determine these limits, as defined in Table 2.

9.4 As Moody's short-term credit rating does not have a P-1+ category, when a counterparty is rated P-1, its exposure limit will be based on the average limit derived from any Standard & Poor's and Fitch ratings. In the event the counterparty only has a short-term rating from Moody's and it is P-1, its limit will be £90m. Where it is rated P-2, its limit will be based on the average of all the rating agencies supplying a rating. If any of the rating agencies rates the counterparty A-3, P-3, or F3, no investments will be permitted.

Table 2 – Investment counterparty exposure limits

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">Standard & Poor's</th><th colspan="2">Fitch</th><th rowspan="2">Exposure limit per counterparty (£m)</th></tr>
<tr><th>ST</th><th>LT</th><th>ST</th><th>LT</th><th>ST</th><th>LT</th></tr>
<tr><td rowspan="2">P-1</td><td>Aaa
Aa1
Aa2
Aa3
A1</td><td>A-1+</td><td>AAA
AA+
AA
AA-</td><td>F1+</td><td>AAA
AA+
AA
AA-
A+</td><td>120</td></tr>
<tr><td>A2
A3</td><td>A-1</td><td>A+
A</td><td>F1</td><td>A+
A
A-</td><td>90</td></tr>
<tr><td>P-2</td><td>A3
Baa1
Baa2</td><td>A-2</td><td>A-
BBB+</td><td>F2</td><td>A-
BBB+
BBB</td><td>60</td></tr>
<tr><td>P-3</td><td>Baa2
Baa3</td><td>A-3</td><td>BBB
BBB-</td><td>F3</td><td>BBB
BBB-</td><td>0</td></tr>
<tr><td colspan="6">UK Sovereign</td><td>Unlimited</td></tr>
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9.5 Where a counterparty does not have a short-term rating, the equivalent long-term rating as shown in the above table will be used to determine the counterparty exposure limit. Where a long-term rating maps to more than one limit, the lower limit will be used.

9.6 The exposure limit for TfL's clearing bank may be temporarily exceeded (for example, where cash is made available for investment after the daily deadline for deposits with other entities has passed).

9.7 The exposure limit for London Treasury Liquidity Fund LP will be £10m.

9.8 Where an instrument benefits from a UK Government guarantee, the limit will be that for the UK Sovereign rather than that of the entity.

9.9 For investments benefitting from collateral arrangements, the counterparty exposure will not be counted as the full face value of the investment, but will be calculated based on the potential shortfall caused by any expected movement in the value of the collateral.

9.10 TfL calculates its derivative counterparty exposures based on accepted market methodology. The current mark to market of each derivative is added to the potential future exposure (PFE). The PFE is calculated based on the maximum counterparty exposure assuming a 95 per cent confidence level of possible adverse future movements in interest rates or foreign exchange rates over the life of the instrument.

9.11 TfL expects to hold all derivative contracts to maturity (save for example where underlying exposure comes to end on contract termination). As such, exposures under derivative contracts are contingent exposures during the life of the contract. The contingent exposure is therefore the relevant risk factor rather than the notional value of the contract.

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9.12 Derivative counterparty exposures have a limit based on long-term credit ratings, as these exposures will generally be for over one year. The notional limits shown in Table 3 are derived from notional limits used for Investments.

Table 3 – Derivative counterparty exposure limits

Moody's		**Standard & Poor's**		**Fitch**		**Derivative limit per counterparty (£m)**
ST	**LT**	**ST**	**LT**	**ST**	**LT**	
P-1	Aaa	A-1+	AAA	F1+	AAA	180
	Aa1		AA+		AA+	172.5
	Aa2		AA		AA	165
	Aa3		AA-		AA-	157.5
	A1				A+	150
		A-1	A+	F1	A+	135
	A2		A		A	120
	A3				A-	105
P-2	A3	A-2	A-	F2	A-	90
	Baa1		BBB+		BBB+	0
	Baa2				BBB	0

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9.13 Where a counterparty has a split rating, the limit for each rating is calculated as the average of the relevant limits for each rating available.

9.14 The proposed derivative counterparty exposure limits provide sufficient headroom for all proposed risk management activities in 2023/24. Derivative exposures are allocated over numerous approved counterparties to minimise concentration risk.

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9.15 TfL benefits from the one-way credit support annexes (CSAs), calculated from long term credit ratings at the time that International Swaps and Derivatives Association (ISDA) documentation was agreed. The one-way CSA obligates counterparties to post collateral in the event the mark to market exposure of the aggregated derivatives exceeds the specified CSA threshold. The CSA thresholds for derivative counterparties is shown in Table 4

Table 4 – Derivative counterparty Credit Support Annex thresholds

Moody's	Standard & Poor's	Fitch	CSA threshold for derivative counterparties (£m)
Aaa	AAA	AAA	50
Aa1	AA+	AA+	40
Aa2	AA	AA	40
Aa3	AA-	AA-	40
A1	A+	A+	25
A2	A	A	25
A3	A-	A-	20
Baa1	BBB+	BBB+	0

9.16 TfL will apply the investment and derivative limits as set out in this section for each counterparty unless circumstances outside its control prevent it from doing so. In this case the managing Chief Finance Officer or the Director of Corporate Finance or the Group Treasurer will implement appropriate replacement limits for that counterparty.

9.17 If any investment or derivative limit applicable to a counterparty changes while TfL has an outstanding investment or derivative with that counterparty it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits, or at the Director of Corporate Finance's or the Group Treasurer's discretion, may decide to allow an investment or derivative to run its course for economic reasons.