

TRANSPORT FOR LONDON

TREASURY MANAGEMENT POLICIES

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1 BACKGROUND

1.1 This document 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:

- (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');
- (ii) the Prudential Code for Capital Finance in Local Authorities issued by CIPFA and last updated in 2021 (the 'Prudential Code'); and
- (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, and last updated in 2018 (the 'Investments Guidance'), with respect to treasury investments.

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1.2 The Investments Guidance requires investment strategies to be published for treasury and non-treasury investments such as property portfolios. All references to 'investments' in this document and the TfL Group Policy Relating to the Use of Derivative Investments refer to investments held for treasury management purposes and/or risk management purposes only.

1.3 CIPFA recommends that all public service organisations adopt a series of clauses for effective treasury management, and which this document duly incorporates, including the creation and maintenance of:

- (i) a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
- (ii) suitable treasury management practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.4 Under the Treasury Management Code, Transport for London (TfL) is required to adopt Prudential Indicators and Treasury Management Indicators (together the 'Prudential Indicators') that support planned capital expenditure, borrowing and treasury management activities. TfL's Prudential Indicators (approved separately at least annually by the Board) are outside the scope of this Treasury Management Policies document.

1.5 This document therefore sets out TfL's treasury management policies and practices, including approach to risk management of its treasury management activities. It also sets out authorities and delegations for treasury management activities.

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2 TREASURY MANAGEMENT POLICY STATEMENT

2.1 TfL defines its treasury management activities as:

- (i) the management of the organisation's borrowing, investments, and cash flows;
- (ii) its banking, money market, capital market and derivative transactions;
- (iii) the effective control of the risks associated with those activities; and
- (iv) the pursuit of optimum performance consistent with those risks.

2.2 TfL regards the successful identification, monitoring and control of treasury risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 TfL acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, always in the context of effective risk management.

2.4 The following sections detail TfL's overarching policies for treasury management, including high level policies for borrowing and investments, as recommended by the Treasury Management Code.

2.5 The policies and practices in this document apply to TfL and all its subsidiaries, save where specified otherwise and save as may be approved otherwise by the Finance Committee in respect of TTL Properties Limited (and/or its subsidiaries).

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Borrowing Policy

2.6 As required by the Local Government Act 2003, at all times, the aggregate of all TfL's borrowings will be within the Authorised Limit set by the Mayor and adopted by the Board.

2.7 Under section 2(3) of the Local Government Act 2003, TfL may not, without the approval of HM Treasury, borrow other than in Sterling. All borrowings will be in Sterling unless HM Treasury grants approval to borrow in alternative currencies, in which case TfL may borrow in any currency approved by HM Treasury.

2.8 Under section 13(1) of the Local Government Act 2003, TfL (the local authority) may not charge any of its property as security for money which it has borrowed or which it otherwise owes. All money borrowed by TfL (the local authority) shall be charged indifferently on all revenues of the authority. TfL subsidiaries however may

charge their property as security for money which they borrow or otherwise owe, pursuant to Section 4 of the Transport for London Act 2016¹.

- 2.9 Where TfL is issuing new debt, or refinancing existing debt, it may be necessary or commercially desirable to draw the new debt prior to the repayment of the debt being refinanced, which may result in a temporary increase in liabilities above the planned incremental borrowing for the year. This is permitted, provided the position is temporary and TfL remains within the Authorised Limit at all times (ie it reflects the temporary utilisation of headroom between the planned incremental borrowing and the legal limit on TfL's liabilities).

Investment Policy

- 2.10 All cash balances will be invested having regard to the Investments Guidance, as applicable to treasury investments, and the GLA Responsible Investment Policy.
- 2.11 If any investment or derivative limit applicable to a counterparty under the Treasury Management Policies or Treasury Management Strategy (TMS) 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 discretion of the Director of Corporate Finance or the Group Treasurer, may decide to allow an investment or derivative to run its course for economic reasons.

Liquidity Policy

- 2.12 For prudent financial management purposes, TfL will aim to maintain a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, on average, with respect to TfL Group (excluding identified, separate subsidiaries; Crossrail Limited, London Transport Insurance (Guernsey) Limited, TTL Properties Limited (and/or its subsidiaries) and London Transport Museum Limited). Cash reserves include cash and short-term investments.
- 2.13 The total minimum cash reserve will consist of an operating cash reserve that allows TfL to meet its ongoing payment obligations and a strategic cash reserve that aims to provide contingency in case of unexpected events.
- 2.14 Actual cash balances fluctuate on a daily basis and could temporarily fall below the minimum requirement, but they are expected to stay within the operating cash reserve in the normal course of business. An assessment will be made as to whether any action is required by the Director of Corporate Finance and/or the Group Treasurer to address such temporary fluctuations, taking into account any undrawn credit facilities and access to commercial paper programme. If required, TfL may use short-term borrowing for working capital purposes, provided the position is temporary and TfL remains within the Authorised Limit at all times.
- 2.15 The strategic cash reserve will be held at a target level and, if the cash balance falls below the operating cash reserve and into the strategic cash reserve, it must be replenished as soon as possible.

¹ Section 4 of the Transport for London Act 2016 has not yet entered into force. It will enter into force on a day appointed by TfL.

- 2.16 The statutory and managing Chief Finance Officers² will be notified of any material changes in the usage of short-term sources of liquidity.

TREASURY MANAGEMENT AUTHORITIES AND DELEGATIONS

3 RESPONSIBLE OFFICERS

- 3.1 The Treasury Management Policies will apply to TfL and all its subsidiaries, save in respect of the matters specified in 3.2 and/or as described in 2.5. The Treasury Management Policies will be implemented, operated and administered through the Treasury team within the Corporate Finance Directorate.
- 3.2 With respect to the investment of cash balances, policies, practices, authorities and delegations relating to the investment of cash balances, the Treasury Management Policies 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 policies, practices, authorities and delegations in respect of its investment of cash balances, subject to such policies, practices, authorities and delegations 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.
- 3.3 The managing Chief Finance Officer is responsible for advising the Finance Committee on investments, borrowing, derivatives, financial risk management, capital financing and also for the establishment and operation of banking arrangements necessary for the TfL Group business. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.
- 3.4 The statutory Chief Finance Officer is responsible for ensuring the execution of the Treasury Management Policies, as the designated Section 127 officer under the Greater London Authority Act 1999. On an operational basis, this will be discharged through the Director of Corporate Finance and the Group Treasurer.
- 3.5 The Director of Corporate Finance, the Group Treasurer and Treasury officers will implement, execute, operate and administer the TMS.
- 3.6 The arrangements for the implementation, execution, operation and administration of the TMS, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer, Director of Corporate Finance and Group Treasurer, provided no decision contravenes the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments. Subject as otherwise provided for in the TMS, the Treasury Management Policies or the TfL Group Policy Relating to the Use of Derivative Investments, the Treasury officers will enter into any appropriate documentation.

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² References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999. References to managing Chief Finance Officer mean the managing (non-statutory) Chief Finance Officer.

- 3.7 The statutory or managing Chief Finance Officers or the Director of Corporate Finance or the Group Treasurer will appoint relevant Treasury officers to be authorised signatories for the purposes of paragraph 3.5.
- 3.8 Subject as otherwise provided for within these policies, no investments, borrowings or entry into credit arrangements (including, but not limited to any lease or other such arrangement that might count towards TfL debt or liabilities under relevant accounting standards) shall be permitted without the consent of the statutory or managing Chief Finance Officer or Director of Corporate Finance or the Group Treasurer.
- 3.9 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will provide guidance for accepting financial guarantees, performance bonds, letters of credit and other credit enhancing products, and this must be followed by TfL and/or its subsidiaries at all times.
- 3.10 For the purposes of this document, TfL Officers means the Commissioner, managing Chief Finance Officer, statutory Chief Finance Officer, General Counsel Director of Corporate Finance and Group Treasurer.

4 BORROWING

- 4.1 The managing Chief Finance Officer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL's Authorised Limit). The Director of Corporate Finance or the Group Treasurer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within TfL's Authorised Limit) for a tenor of not more than 12 months.
- 4.2 Without further reference to the statutory or managing Chief Finance Officer, Treasury officers will use the Euro Commercial Paper programme and any other short-term facilities (eg overdraft, commercial paper, back-stop facilities or revolving credit facilities) to manage TfL's liquidity requirements.
- 4.3 TfL Officers are authorised to approve and enter into any required agreements or other documentation in relation to the implementation of permitted borrowing.
- 4.4 The managing Chief Finance Officer may approve the pre-payment, refinancing, re-purchase or redeeming of existing loans, leases, debt securities or any other debt instruments.
- 4.5 TfL Officers will follow ongoing compliance and disclosure procedures set out in the TfL Disclosure Procedures Policy.

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5 INVESTMENTS

- 5.1 The Director of Corporate Finance, Group Treasurer and Treasury officers may enter into investment related agreements and/or documentation required to execute the TMS.
- 5.2 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will set individual investment counterparty exposure limits, which will be

within any limits approved by the Finance Committee in the Treasury Management Strategy.

- 5.3 The managing Chief Finance Officer or Director of Corporate Finance or Group Treasurer will approve investment and derivative counterparties.

6 BANKING

- 6.1 The Director of Corporate Finance or the Group Treasurer shall as and when necessary be authorised to:
- (a) supply to TfL's financial institutions, lists of officials authorised to sign in respect of each and any account(s) of TfL and/or any TfL subsidiary together with specimen signatures;
 - (b) open further accounts for and on behalf of TfL and/or any TfL subsidiary and supply to the financial institutions, details of the signatories together with specimen signatures in respect of such account(s);
 - (c) notify the financial institutions of any restrictions on the operation of any such accounts; and
 - (d) agree on behalf of TfL and/or any TfL subsidiary the terms of any facility or service provided by the financial institutions including but not limited to general banking services, bonds, guarantees and credit limits.
- 6.2 The financial institutions shall be entitled to rely on any such details or notifications supplied by the Director of Corporate Finance, Group Treasurer or any Treasury officer confirmed in writing as having the same authority as the Director of Corporate Finance or the Group Treasurer.

TREASURY MANAGEMENT PRACTICES (TMPs)

7 TREASURY RISK MANAGEMENT – TMP1

- 7.1 The Director of Corporate Finance and/or the Group Treasurer will:
- (a) design, implement and monitor all arrangements for the identification, management and control of treasury management risk;
 - (b) report annually to the Finance Committee on the adequacy/suitability thereof, and on any specific issues as directed by the Finance Committee; and
 - (c) report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect to the statutory and managing Chief Finance Officers.

8 PERFORMANCE MEASUREMENT – TMP2

- 8.1 TfL is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim within the framework set out in its Treasury Management Policy Statement.

8.2 The actual performance of the treasury management function will be measured using criteria to be agreed by the managing Chief Finance Officer.

9 DECISION-MAKING AND ANALYSIS – TMP3

9.1 TfL will maintain records of its key treasury management decisions and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time.

10 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES – TMP4

10.1 TfL will undertake its treasury management activities by employing recognised and approved instruments, methods and techniques and within the limits and parameters defined in its policies and practices.

10.2 Where TfL uses derivative instruments for the management of risks, these will be approved in accordance with the TfL Group Policy Relating to the use of Derivative Investments.

10.3 TfL and relevant subsidiaries intend to maintain their classification as professional clients with financial institutions under MiFID II in respect of all products and services that they receive.

10.4 All decisions on capital/project financing, borrowing, investment and derivatives will be made in accordance with TfL Standing Orders and relevant policies and strategies.

11 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS – TMP5

11.1 TfL considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the pursuit of optimum performance, and for the reduction of the risk of fraud or error, that activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.

11.2 The principle on which this will be based is a clear distinction between those charged with setting Treasury Management Policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

11.3 If for any reason there is intended to be or has been any departure from these principles, the Director of Corporate Finance and/or the Group Treasurer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements (below), and the implications properly considered and evaluated.

11.4 The Director of Corporate Finance and/or the Group Treasurer will ensure that there are clear lines of responsibilities, objectives and guidance for each post engaged in treasury management, and arrangements are in place for absence cover. The Director of Corporate Finance and/or the Group Treasurer will also

ensure at all times those engaged in treasury management will follow the policies and procedures set out.

- 11.5 The Director of Corporate Finance and/or the Group Treasurer will ensure all transactions are recorded, and that procedures exist for the effective transmission of funds. The Director of Corporate Finance and/or the Group Treasurer will fulfil all such responsibilities in accordance with TfL's Treasury Management Policy Statement and Treasury Management Practices.

12 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6

- 12.1 TfL will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

- 12.2 As a minimum, the following reports will be produced:

- (a) an annual report to the Finance Committee on the strategy to be pursued in the coming year;
- (b) a mid-year report to the Finance Committee on the performance of the treasury management function; and
- (c) an annual report to the Finance Committee on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any non-compliance with the organisation's Treasury Management Policy Statement and Practices.

- 12.3 The statutory and managing Chief Finance Officers will receive regular monitoring reports on treasury management performance, activities and risks.

- 12.4 In addition to the regular reporting requirements set out above, any non-compliance with the Treasury Management Policies or the Treasury Management Strategy must be immediately reported to the statutory and managing Chief Finance Officers. If the breach is material in the view of either the statutory or managing Chief Finance Officer, it must be reported to the Finance Committee as soon as practicable.

13 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS – TMP7

- 13.1 The Director of Corporate Finance and/or the Group Treasurer will prepare and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income.
- 13.2 TfL will account for its treasury management activities, for decisions made and transactions executed, in accordance with accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

- 13.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the treasury management function for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and practices.
- 13.4 The Audit and Assurance Committee will have responsibility for the scrutiny of Treasury Management Policies and this responsibility will be discharged through its regular scrutiny of the reports received from internal audit.

14 CASH AND CASH FLOW MANAGEMENT – TMP8

- 14.1 Unless statutory or regulatory requirements demand otherwise, all monies (with the exception of LTIG, ~~LTM~~ and ~~TTLP~~) in the hands of the TfL Group will be under the control of the Director of Corporate Finance and the Group Treasurer, and will be aggregated for cash flow and investment management purposes. ~~TTLP monies will be under the control of the Director of Corporate Finance and the Group Treasurer but will not be aggregated for cash flow and investment management purposes.~~ Cash flow projections will be prepared on a regular and timely basis, and the Director of Corporate Finance and the Group Treasurer will ensure that these are adequate for the purposes of monitoring compliance with the policy statement.

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15 MONEY LAUNDERING – TMP9

- 15.1 TfL is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, if required by law or regulation, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this, are properly trained.

16 TRAINING AND QUALIFICATIONS – TMP10

- 16.1 TfL recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Corporate Finance and the Group Treasurer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

17 USE OF EXTERNAL SERVICE PROVIDERS – TMP11

- 17.1 TfL recognises that it retains responsibility for treasury management decisions at all times. TfL recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods, by which their value will be assessed, are properly agreed and documented, and

subjected to regular review. The monitoring of such arrangements rests with the Director of Corporate Finance and the Group Treasurer.

18 CORPORATE GOVERNANCE – TMP12

- 18.1 TfL is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 18.2 TfL has adopted and implemented the key principles and recommendations of the Treasury Management Code. This document is considered vital to the achievement of proper corporate governance in treasury management. The Director of Corporate Finance and the Group Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.