Board

Date: **27 March 2013**

Item 8: **Treasury Management Strategy 2013/14**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to ask the Board to approve the proposed TfL Treasury Management Strategy (TMS) for 2013/14. The TMS 2013/14 comprises the Investment Strategy 2013/14, the Borrowing Strategy 2013/14 and the Risk Management Strategy 2013/14.

1.2 This paper also asks the Board to ratify the approval and execution of a guarantee by TfL to HSBC plc in respect of Crossrail Limited (CRL) in connection with the TfL Group banking arrangements (CRL Guarantee).

1.3 On 13 March 2013, the Finance and Policy Committee considered the TMS 2013/14 and the ratification of the CRL Guarantee and supported the recommendations to the Board.

2 Recommendations

2.1 **That the Board:**

(a) note the paper;

(b) approve the Treasury Management Strategy for 2013/14, including the Investment Strategy, Borrowing Strategy and the Risk Management Strategy and the TfL Policy on Minimum Revenue Provision included as Appendix 1; and

(c) ratify the approval and execution of a guarantee by TfL to HSBC plc dated 25 June 2010 in respect of Crossrail Limited in connection with the TfL Group banking arrangements.

3 Proposed changes to Treasury Management Strategy

3.1 The TMS 2012/13 has fulfilled its function well and provided a framework under which the Finance and Policy Committee has approved multiple transactions. Therefore, it is proposed that the TMS 2013/14 should closely follow the form and structure of the TMS 2012/13. Within that form and structure, various changes are proposed and these proposals are described and explained in the sections that follow. All of the proposed changes compared to the TMS 2012/13 are shown with changes tracked in Appendix 2.

4 Investment Strategy

4.1 The Investment Strategy 2012/13 set out the basic conditions that an investment must satisfy in order for TfL to invest and delegated authority to the Finance and Policy Committee to approve specific counterparties that comprise the Approved Investments List. Further changes to the Approved Investments List were agreed by the Finance and Policy Committee on 13 March 2013.

4.2 The following changes are proposed to the Investment Strategy 2013/14 as compared with the Investment Strategy 2012/13:

(a) drafting changes to remove duplication and clarify the status of the Prudential Code (paragraphs 4.1, 4.7, 5.1);

(b) the deletion of paragraph 4.2b to reflect the latest guidance issued by the Department for Communities and Local Government (DCLG). The paragraph previously stated that an investment could not be considered a Specified Investment if it involved the acquisition of share or loan capital. The change to DCLG's recommended drafting is intended to remove any uncertainty over whether investments in bonds or commercial paper (which might be considered to be loan capital) or investments in Money Market Funds (MMF) (which technically are a purchase of shares in the fund) can be considered specified investments;

(c) a change is proposed to paragraph 4.3 to provide that the Approved Investments list should include the types of investment instruments that are permitted as well as the counterparties. The Finance and Policy Committee's approval will be required before TfL can use a new form of instrument. The instruments TfL already uses are:

(i) UK Treasury Bills, Gilts and Debt Management Office deposits;

(ii) repurchase agreements ("Repos") on UK Government Treasury Bills and Gilts;

(iii) bank deposits and certificates of deposit;

(iv) bonds and commercial paper; and

(v) MMFs.

This list of instruments will be incorporated into the Approved Investments List to ensure that it is regularly reviewed by the Finance and Policy Committee and subject to the same ongoing scrutiny as investment counterparties;

(d) a change to the drafting of the eligibility criteria for MMFs to clarify that a fund may have no more than 10 per cent of fund size invested in Asset Backed Commercial Paper in order to be considered by TfL. It is proposed that the reference to structured investment vehicles in paragraph 4.5e be deleted as asset backed commercial paper is a form of structured investment vehicle;

(e) a change to paragraph 4.8a to clarify that investments of exactly one year are permitted;

(f) the addition of authority for the Group Treasurer, in consultation with the Chief Finance Officer, to authorise the switching of investments for similar investments prior to maturity for economic reasons. For example, TfL may have the opportunity to sell a holding of Government t-bills of one maturity and buy t-bills with a slightly different maturity with a better return. Market opportunities such as this arise reasonably frequently where market dynamics result in high demand for particular instruments. On 19 February 2013, for example, TfL was offered an opportunity to sell £18m of 13 May t-bills at a yield of 0.30 per cent in exchange for buying £18m of 20 May t-bills at a yield of 0.34 per cent. By switching investments in circumstances such as this TfL can increase its investment return without changing its risk profile but the sale of instruments other than to guard against potential losses was not provided for under the TMS 2012/13. It is not proposed that this authority will amend in any way the counterparties, instruments or tenors that TfL is permitted to consider and any instrument to be acquired as part of any such switch would be an investment TfL could make on a standalone basis;

(g) it is proposed that the limits on the maximum tenor of deposits be extended, this change is explained in detail below; and

(h) it is proposed that where an investment with a bank benefits from collateral arrangements, for example Repos, the investment exposure will be calculated by reference to the potential uncollateralised exposure rather than the face value of the investment. This proposed change is also explained in detail below.

4.3 The only other changes proposed to the Investment Strategy are minor points of drafting which are nonetheless tracked for completeness.

Extension of Tenor

4.4 The table below shows the amount and tenors approved under TMS 2012/13 and the proposed changes to tenor and the change to the investment limit per MMF.

	S&P	Moody's	Fitch	Investment Limit per counterparty (£m)	Existing Maximum tenor of deposit	Proposed maximum tenor
UK Sovereign and UK Government Guaranteed				Unlimited	Unlimited	unchanged
Money Market Fund	AAA	Aaa	AAA	5% of fund changing to 3.5% of fund	Max 7 day (normally Instant access)	unchanged
Non-UK Sovereigns, SSAs,Transports, and Banks	AAA	Aaa	AAA	300	2 years*	3 years
	AA+	Aa1	AA+	250	2 years*	3 years
	AA	Aa2	AA	200	2 years*	3 years
	AA-	Aa3	AA-	175	2 years*	3 years
	A+	A1	A+	150	12 months	2 years
	A	A2	A	125	12 months	unchanged
	A-	A3	A-	100	12 months	unchanged
	BBB+	Baa	BBB+	0	n.a.	unchanged
* 50% of the limit may be invested for up to 2 years and up to 100% may be invested for 12 months – it is proposed that this restriction is removed						

4.5 It is also proposed that the previous restriction limiting maturities beyond one year to 50 per cent of the counterparty limit be removed to allow decisions regarding the tenor of investment to be made by reference to market conditions and TfL's wider portfolio.

4.6 The increase in tenor proposed above will give TfL the flexibility to improve the return received on its investments while preserving a conservative investment strategy. The controls currently in place for Non Specified Investments, as approved by the Board in March 2012, will remain unchanged and TfL will only be able to make investments beyond 12 months if it is considered that such investments will not have negative consequences on TfL's liquidity requirements.

4.7 The increased yield available as a result of entering into longer tenor varies depending on the issuer and the market at the time. As an example of the types of yields available, the table below shows the current bond yield (ask) quoted on Bloomberg across a five year period for selected names. An ability to invest for up to three years would also permit TfL to participate in new issuance, which would be expected to improve yield and will improve TfL's ability to actually source the desired investments. Presently, TfL must purchase multiple small amounts of investments with less than two years remaining in order to acquire the desired exposure to counterparties.

	3m	1 Yr	2 Yr	3 Yr	5 Yr
European Investment Bank	.21%	.53%	.58%	.63%	1.38%
FMS Wertmanagement	.35%	.47%	.79%	.90%	n.a.
Bank Nederlandse Gemeenten	.36%	.54%	1.03%	1.05%	1.60%
Network Rail	n.a.	.61% (1.2yrs)	.71%	.77%	n.a.

Source Bloomberg 3/1/2013

5 Borrowing Strategy

5.1 TfL's incremental Prudential Borrowing to be undertaken in 2013/14 is £345m, being the additional borrowing agreed with the Government as part of the 2010 Funding Settlement. The scheduled drawdown of a tranche of the European Investment Bank loan in support of Crossrail loan of this borrowing will account for £150m of this borrowing.

5.2 TfL's borrowing strategy for 2013/14 is largely unchanged from 2012/13. TfL's objective is still to manage its borrowing in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money. TfL seeks to achieve this by maintaining access to capital markets through its Commercial Paper programme and Medium Term Note (MTN) programme, and complementing this with loans and other facilities from banks where appropriate.

5.3 TfL intends to build upon the success of the three benchmark bonds issued in 2012 (at five, 10 and 30 year maturities) by continuing to source new borrowing from the capital markets. The details of planned bond size and duration will be discussed with the Finance and Policy Committee in due course.

5.4 In addition to the £345m of incremental borrowing in 2013/14, TfL may also replace some of its existing short term rolling debt with longer term debt and will continue to consider whether liability management exercises on other existing debt offer value for money.

5.5 TfL also intends to continue to make the case to HM Treasury that TfL should be permitted to borrow in currencies other than sterling where the currency risk can be eliminated and where doing so will result in cost savings.

5.6 The following changes are proposed in the Borrowing Strategy 2013/14 compared to 2012/13:

(a) paragraphs 6.2 and 6.3 have been updated to reflect the planned incremental borrowing for 2013/14 and the fact TfL successfully issued under its MTN programme in 2012;

(b) paragraph 6.10 has been added to incorporate into the strategy a requirement to manage commercial paper maturities to ensure no more than £200m matures in any three days. The programme has been managed on this basis since its inception in order to mitigate liquidity risk but it is appropriate that the requirement is incorporated into the strategy document which is considered by the Board annually; and

(c) it is proposed that the approval requirements for new borrowing under the MTN programme should be amended to reflect the approach to approvals in respect of new bond issuance adopted throughout 2012. It is proposed that new borrowing under the MTN programme should be permitted subject to the prior written approval of either the Managing Director, Finance or the Chief Finance Officer provided that:

(i) any such issuance is in accordance with any relevant parameters set out in the Treasury Management Strategy 2013/14; and

(ii) Officers consult with as many Members of the Finance and Policy Committee as are available, on:

I. the proposed term and amount of such Note issuance in advance of such Note issuance; and

II. the need for any Supplemental Prospectus prior to the proposed Note issuance.

5.7 Other minor drafting changes have been made and are tracked in the draft document.

6 Minimum Revenue Provision Statement

6.1 The Minimum Revenue Provision (MRP) is a government mandated mechanism requiring local authorities to set aside an amount from current revenue resources in relation to future debt repayment. The MRP policy has to be approved by the Board each year.

6.2 TfL has a duty to determine for the current financial year an amount of minimum revenue provision which it considers to be prudent in relation to debt service obligations.

6.3 It is proposed that TfL's policy on MRP remains unchanged from 2012/13, that is to treat debt service (interest and principal) in its Business Plan as an in-year operating cost. As TfL has a legal requirement to produce a balanced budget (and this approach had been extended to the full Business Plan), the cost of debt service is taken into account when determining whether annual budget and business forecasts are in balance.

7 Risk Management Strategy

7.1 No changes are proposed in the Risk Management Strategy 2013/14 compared to 2012/13.

7.2 It is a high level strategy and TfL will seek approval from the Finance and Policy Committee to exercise its powers under Section 49 of the Transport for London Act 2008 to use derivatives for the purposes of managing specific financial risks during the course of the year.

7.3 The Finance and Policy Committee remains responsible for approving Counterparty Exposure Limits and the current counterparties and limits (which are not proposed to be changed at this time).

8 TfL Guarantee for HSBC of Crossrail Limited

8.1 On 23 June 2010, the Board approved a new Facility Letter with HSBC for the TfL Group banking arrangements and delegated to the Commissioner, Managing Director, Finance and Director of Corporate Finance authority to agree the terms and conditions of the new Facility Letter and all other documentation relating to the facility including a Composite Joint and Several Guarantee in respect of TfL subsidiary companies.

8.2 At that time CRL had recently become a subsidiary of TfL and consequently became party to the TfL Group banking arrangements. As a subsidiary of TfL and as part of the new facility, HSBC required a guarantee from TfL in respect of all monies owed by CRL to HSBC. However, the Department for Transport would not permit CRL to sign up to the Composite Joint and Several Guarantee in respect of the TfL Group liabilities. Therefore, it was agreed that TfL would provide a separate guarantee in respect of CRL's liabilities to HSBC (CRL Guarantee). The form of the CRL Guarantee was essentially the same as the new Composite Joint and Several Guarantee, consequently TfL's potential liability to HSBC was no greater than if CRL had signed up to the new Composite Joint and Several Guarantee.

8.3 The CRL Guarantee was executed on 25 June 2010. A copy of the CRL Guarantee is set out in Appendix 3 to this paper.

8.4 As the original Board resolution on 23 June 2010 did not expressly refer to the CRL Guarantee (although TfL considered that it was sufficiently covered), HSBC has asked TfL to provide a further Board resolution confirming the approval and execution of the CRL Guarantee.

9 Views of the Finance and Policy Committee

9.1 On 13 March 2013, the Finance and Policy Committee considered the TMS 2013/14. Members discussed and supported the proposed changes from the TMS 2012/13 and noted that the case continued to be made to HM Treasury to allow TfL to borrow in currencies other than sterling.

9.2 Members were advised that although the current Board resolution in respect of the CRL Guarantee was valid and did not need to reapproved annually, HSBC had requested the revised resolution so that it was consistent with the standard form of resolution that it required from other clients.

9.3 The Committee supported the recommendations to the Board.

List of appendices to this report:

Appendix 1: Treasury Management Strategy 2013/14

Appendix 2: Treasury Management Strategy 2013/14 with changes compared to 2012/13 tracked

Appendix 3: Parental Guarantee from TfL to HSBC in respective of Crossrail Limited

List of Background Papers:

None

Contact Officer: Simon Kilonback, Group Treasurer
Number: 020 7126 4137
Email: SimonKilonback@tfl.gov.uk

APPENDIX 1: TREASURY MANAGEMENT STRATEGY 2013/14

TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2013/14

1 SUMMARY

1.1 This TfL Treasury Management Strategy (TMS) 2013/14 comprises the:

(a) Investment Strategy 2013/14;

(b) Borrowing Strategy 2013/14; and,

(c) Risk Management Strategy 2013/14.

2 BACKGROUND INFORMATION

2.1 TfL has had regard to the key recommendations of CIPFA's Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services 2011 (the 'Code') and the revised investment guidance issued by the Department for Communities and Local Government (DCLG) which came into effect from 1 April 2010 (DCLG Guidance) in preparing this Treasury Management Strategy.

2.2 As recommended by the Code, this strategy will be updated at least annually and submitted for the approval of the TfL Board.

2.3 TfL has considered the implications of its overall asset and liability management, taking into account its overall exposure to inflation and interest rates as they affect its commercial markets (passenger levels, fare revenues, and costs) and in its financial activities (financing costs and investment returns on cash balances). TfL has also reviewed its exposure to default risk in the investment of its surplus cash given the instability of the financial markets over the last year.

2.4 TfL continues to add to its sources of market information to enable it to support its future investment decisions and continues to seek prudent opportunities to maintain yield without risking underlying security.

2.5 The TfL Group Treasurer and TfL Group Treasury officers will implement, operate and administer the Treasury Management Strategy (including entering into any documentation where appropriate).

3 STRATEGIC OBJECTIVES

3.1 The objectives underpinning the TMS for 2013/14 are:

(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 activity 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 use 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.

4 INVESTMENT STRATEGY 2013/14

4.1 All cash balances will be invested in accordance with this Investment Strategy . Under the DCLG Guidance, investments fall into two categories:

(a) Specified Investments; and

(b) Non-specified investments.

SPECIFIED INVESTMENTS

4.2 Specified investments offer high security and high liquidity and must satisfy the conditions set out below:

(a) the investment is denominated in Sterling and any payments or repayments in respect of the investment are payable in Sterling only;

(b) the investment is not a long-term investment (i.e. has a maturity of less than one year); and

(c) the investment is either:

(i) made with the UK Government; or

(ii) made with a body or in an investment scheme which has been awarded a high (investment grade) credit rating by a credit rating agency.

4.3 Specified investments are limited to institutions and types of investment that have been placed on a TfL ‘Approved Investment List’. Investments may be made in any wholly owned and guaranteed UK subsidiary of the counterparties in the Approved Investment List, within the parent institution’s aggregate investment limit. The Finance and Policy Committee will approve entities and types of investment that may be added to the Approved Investment List.

4.4 In determining whether to recommend to the Finance and Policy Committee to place an institution on the Approved Investment List, TfL Officers will consider:

(a) the financial position and jurisdiction of the institution:

(b) the market pricing of credit default swaps for the institution;

(c) any implicit or explicit Government support for the institution;

(d) Standard & Poor’s, Moody’s and Fitch’s short and long term credit ratings; and

(e) Tier 1 capital ratios of those institutions.

4.5 In determining whether to recommend Money Market Funds (MMFs) to the Finance and Policy Committee for inclusion on the Approved Investment List, TfL Officers will consider only MMF that:

(a) are AAA-rated (or equivalent) by at least two of the three main rating agencies;

(b) a member of the Institutional Money Market Funds Association;

(c) owned or backed by a UK clearing bank or by a reputable investment management company;

(d) are of a minimum size of £1bn;

(e) do not invest in equities, alternative assets, or derivatives;

(f) do not have more than 10% of total fund size invested in Asset Backed Commercial Paper;

(g) have a maximum notice period to access the funds of seven days, though likely to be intra-day access;

(h) have a weighted average maturity (WAM) of investments no greater than 60 days; and

(i) have a weighted average final maturity (WAFM) of investments no greater than 90 days.

4.6 TfL’s maximum investment in any fund will be three point five per cent of fund size.

NON-SPECIFIED INVESTMENTS

4.7 Non-specified investments do not, by definition, meet the requirements of a specified investment. The DCLG Guidance recommends an articulated risk management strategy and greater detail of the intended use of non-specified investments due to greater potential risk.

4.8 Non-specified investments approved for use by TfL under this strategy are investments in instruments and with entities on the Approved Investment List where:

(a) the maximum maturity is one year or greater than one year:

(i) any such investments would be in Sterling, so the potential risk for TfL is one of liquidity – that TfL requires the funds that are tied up in longer term deposits. Given the nature of the institutions (in some cases government or government guaranteed) the risk of default is very low;

(ii) before placing such longer term deposits, TfL would carry out a detailed cash forecast to determine the need for funds over a longer time period, and only place funds for longer than one year where it was confident on the most conservative basis that the monies would not be required in the meantime; and

(iii) any such investments will be in instruments which would be readily accepted as collateral to obtain liquidity facilities, should such a need arise; and

(b) investments are in currencies other than Sterling:

(i) deposits denominated in US Dollars (USD) or Euros, to a maximum amount of £100m, when funds are received in those currencies in the normal course of business and where TfL is expected to have costs in those currencies in the future; or,

(ii) deposits in any currency where the currency is bought in advance of a payment or payments in that currency (for example, if TfL has several payments in Euros within a matter of weeks and it is more cost effective to buy a single tranche of Euros to cover all of the payments rather than buy several smaller amounts on the days each payment is required).

LIQUIDITY OF INVESTMENTS

4.9 TfL will manage its cash to ensure that a minimum of £250m is available for redemption on any business day to ensure TfL has sufficient liquidity to meet its financial obligations.

4.10 Each investment decision will be made with regard to expected cash flow requirements resulting in a range of maturity periods within the investment portfolio.

4.11 Where the Group Treasurer, in consultation with Managing Director, Finance and/or Chief Finance Officer, deems such a step is appropriate in order to protect TfL against potential losses, TfL may break or resell fixed term investments early, including where doing so will result in TfL incurring penalties or crystallising a loss.

4.12 Where the Group Treasurer, in consultation with the Chief Finance Officer, deems it appropriate, TfL may break or sell fixed term investment instruments as part of a switch into similar instruments where doing so offers a positive investment return. For example, TfL may have the opportunity to sell a holding of T-bills of a particular maturity and buy T-bills with a slightly different maturity with a better return. Market opportunities such as this arise reasonably frequently where market dynamics result in high demand for particular instruments.

COUNTERPARTY INVESTMENT LIMITS AND MATURITY LIMITS

4.13 The maximum limits per investment per institution for 2013/14 are shown in the table below:

	S&P	**Moody's**	**Fitch**	**Investment Limit per counterparty (£m)**	**Maximum tenor of deposit**
UK Sovereign and UK Government Guaranteed				Unlimited	Unlimited
Money Market Fund	AAA	Aaa	AAA	3.5% of fund	Max 7 day (normally Instant access)
Non-UK Sovereigns, SSAs, Transports and Banks	AAA	Aaa	AAA	300	3 years
	AA+	Aa1	AA+	250	3 years
	AA	Aa2	AA	200	3 years
	AA-	Aa3	AA-	175	3 years
	A+	A1	A+	150	2 years
	A	A2	A	125	12 months
	A-	A3	A-	100	12 months
	BBB+	Baa	BBB+	0	n.a.

4.14 The counterparty credit limits apply solely to institutions on the Approved Investment List.

4.15 Where an instrument benefits from a UK Government Guarantee, the investment limit will be that for UK Government Guaranteed rather than the entity guaranteed by the UK Government.

4.16 Where an instrument benefits from collateral arrangements, for example Repos, the investment exposure will be calculated based on maximum expected movements in the value of collateral with a 99% confidence level and not the face value of the sum invested. For example the exposure on daily adjusted repo arrangements will £2.3m per £100m.

4.17 In exceptional circumstances the applicable limit for TfL’s clearing bank may be temporarily exceeded, for example where cash is available for investment after the daily deadline for deposits with the DMO has passed. Any such circumstance will be immediately notified to the Managing Director, Finance and Chief Finance Officer.

4.18 Where a counterparty has a split credit rating, the Investment Limit for each rating is calculated as the average of the relevant Investment Limits for each rating level available i.e. the limit is derived by taking the sum of one third of the applicable limit for each rating agency. The maximum tenor of deposit will be that of the lowest rating.

4.19 If the Investment Limit applicable to a counterparty changes while TfL has an outstanding investment with that counterparty, TfL may seek to bring its exposure down to within the revised limits but a breach of limits caused by such a change will not be considered a breach of this policy. TfL may at the Group Treasurer’s discretion (in consultation with the Managing Director, Finance and/or Chief Finance Officer) decide to allow an investment to run its course for economic reasons.

5 INVESTMENT MATURITY LIMIT

5.1 As recommended by the Code, TfL establishes a limit on sums that are invested for periods longer than 364 days. These are establised by a separate Prudential Indicators document approved by the Mayor.

6 BORROWING STRATEGY 2013/14

6.1 TfL’s objective is to manage its borrowing in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money. TfL seeks to achieve this by maintaining access to capital markets through its Commercial Paper programme and Medium Term Note programme, and complementing this with loans and other facilities from banks where appropriate. TfL’s borrowing plans are ultimately underpinned by access to the Public Works Loan Board (PWLB); other sources of funding will be used where they further TfL’s stated objectives (i.e. offer better value for money, flexibility, security of access or diversity of funding sources).

6.2 TfL intends to build upon the success of the liquid, benchmark sized bonds issued under its Euro Medium Term Note (EMTN) programme where this represents good value for money.

6.3 TfL intends to borrow an additional £345m in 2013/14 (in accordance with the 2010 funding settlement). £150m of this borrowing has already been arranged and approved and will be drawn in April 2013 from the European Investment Bank (EIB) under the fixed rate loan in support of Crossrail. The balance of TfL's borrowing for the year will be drawn from TfL's Approved Borrowing Sources. TfL also intends to replace an element of its rolling short-term debt with longer-term finance.

6.4 TfL's Approved Borrowing Sources comprise:

(a) the PWLB;

(b) TfL's EMTN programme;

(c) TfL's Euro Commercial Paper (ECP) programme;

(d) EIB or commercial bank loans; and,

(e) A £200m overdraft facility with HSBC;

6.5 Additional sources of borrowing may only be added to the Approved Borrowing Sources with the approval of the Finance and Policy Committee.

6.6 The Finance and Policy Committee's approval is required for any newly arranged facility (but not facilities being renewed) through the EIB or commercial banks.

6.7 Issuance under TfL's MTN programme is permitted subject to the prior written approval of Managing Director, Finance or Chief Finance Officer provided that:

(a) any such issuance is in accordance with any relevant parameters set out in the Treasury Management Strategy 2013/14; and,

(b) Officers consult with as many Members of the Finance and Policy Committee as are available, on:

(i) the proposed term and amount of such Note issuance and/or derivative investment in advance of such Note issuance and/or derivative investment; and

(ii) the need for any Supplemental Prospectus prior to the proposed Note issuance.

6.8 The prior written approval of Managing Director, Finance or Chief Finance Officer is required for any new borrowing from the PWLB.

6.9 Without further reference to the Finance and Policy Committee, TfL will use the ECP programme and any other short-term facilities approved by the Finance and Policy Committee e.g. overdraft or commercial paper back-stop facilities, to meet its short-term liquidity requirements pending the execution of longer-term borrowing agreed with the Finance and Policy Committee.

6.10 TfL will normally arrange new short-term borrowings to replace short-term borrowings falling due for repayment. In order to limit the liquidity risk that this creates TfL manages maturites such that no more than £200m of short-term borrowings falls due for repayment in any three day period.

6.11 The overdraft facility will not be used in the normal course of business, but only for short periods to meet unexpected liquidity requirements. The Managing Director, Finance will be notified immediately of any drawing of more than £20m on the overdraft facility.

6.12 At all times, the aggregate of all of TfL’s liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board.

6.13 Where TfL is issuing new medium or long-term 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. Borrowing in excess of the planned incremental borrowing is permitted provided the position is temporary and that TfL remains within the Authorised Limit at all times (i.e. it reflects the temporary use of headroom between the planned incremental borrowing and the legal limit on TfL’s liabilities).

6.14 The Code requires that upper and lower limits are set for the mix of fixed and variable rate borrowing, and for the maturity structure of fixed rate borrowings to manage interest rate risk. These are established by a separate Prudential Indicators document approved by the Mayor.

LIABILITY MANAGEMENT

6.15 TfL will seek to buyback, refinance, or otherwise restructure, existing liabilities (including finance 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.

6.16 TfL may pre-pay or refinance loans or re-purchase or redeem existing debt instruments in accordance with the delegated authorities set out in TfL Standing Orders

6.17 Any liability management exercise in excess of these limits will be subject to the approval of the Finance and Policy Committee.

MINIMUM REVENUE PROVISION

6.18 The Minimum Revenue Provision (MRP) is a Government mandated mechanism requiring local authorities to set aside an amount from current revenue resources in relation to future debt repayment. The MRP policy has to be approved by the Board each year.

6.19 TfL has a duty to determine for the current financial year an amount of minimum revenue provision that it considers to be ‘prudent’ in relation to debt service obligations.

6.20 TfL’s policy on MRP remains unchanged from 2012/13. That is to treat debt service (interest and principal) in its business plan as an in-year operating cost. As TfL has a legal requirement to produce a balanced budget (and this approach had been extended to the full business plan), the cost of debt service is taken into account when determining whether annual budget and business plans are in balance.

7 RISK MANAGEMENT STRATEGY 2013/14

7.1 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. There is significant potential to reduce costs and add value to TfL by managing financial risks more effectively.

7.2 Under Section 49 of the Transport for London Act 2008 (the TfL Act), TfL was conferred powers to make arrangements for risk mitigation.

7.3 This Risk Management Strategy 2013/14 provides for measures to address identifiable financial risks that fall within the categories outlined below:

(a) interest rate risk related to TfL’s planned future borrowing requirements;

(b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by the TfL Group; and from receipts of European Union (EU) subsidies or other grants / revenues payable other than in Sterling; and,

(c) commodity price risk related to specific procurements containing a significant cost element for a commodity component and ongoing operational procurements such as power and fuel.

7.4 The high level principles established by this Risk Management Strategy 2013/14 are to:

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

(b) reduce volatility / increase certainty relating to the impact of financial risks upon the business plan; and

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

7.5 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.

7.6 Under the TfL Group Policy relating to the use of Derivative Investments, the Finance and Policy Committee have delegated authority to approve derivative transactions. It is expected that during the year, TfL will propose a number of specific risk management programmes to the Finance and Policy Committee.

APPENDIX 2: TREASURY MANAGEMENT STRATEGY 2013/14

TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2013/14

1 SUMMARY

1.1 This TfL Treasury Management Strategy (TMS) 2013/14 comprises the:

(a) Investment Strategy 2013/14;

(b) Borrowing Strategy 2013/14; and,

(c) Risk Management Strategy 2013/14.

2 BACKGROUND INFORMATION

2.1 TfL has had regard to the key recommendations of CIPFA's Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services 2011 (the 'Code') and the revised investment guidance issued by the Department for Communities and Local Government (DCLG) which came into effect from 1 April 2010 (DCLG Guidance) in preparing this Treasury Management Strategy.

2.2 As recommended by the Code, this strategy will be updated at least annually and submitted for the approval of the TfL Board.

2.3 TfL has considered the implications of its overall asset and liability management, taking into account its overall exposure to inflation and interest rates as they affect its commercial markets (passenger levels, fare revenues, and costs) and in its financial activities (financing costs and investment returns on cash balances). TfL has also reviewed its exposure to default risk in the investment of its surplus cash given the instability of the financial markets over the last year.

2.4 TfL continues to add to its sources of market information to enable it to support its future investment decisions and continues to seek prudent opportunities to maintain yield without risking underlying security.

2.5 The TfL Group Treasurer and TfL Group Treasury officers will implement, operate and administer the Treasury Management Strategy (including entering into any documentation where appropriate).

Deleted: 2012/13

Deleted: 2012/13

Deleted: 2012/13

Deleted: 2012/13

Deleted: 2012/13

Deleted: 2012/13

Deleted: adopted

Deleted: In accordance

Deleted: with

Deleted: will receive an annual Treasury Management Strategy for approval in advance of the start of the relevant financial year.

Deleted: <#>TfL complies with the revised investment guidance issued by the Department for Communities and Local Government (DCLG) which came into effect from 1 April 2010 (DCLG Guidance). This guidance requires an Annual Investment Strategy that contains specific reference to the security and liquidity of investments. This TMS incorporates those requirements in the Investment Strategy 2012/132013/14.¶

Deleted: ¶

3 STRATEGIC OBJECTIVES

3.1 The objectives underpinning the TMS for 2013/14 are:

Deleted: 2012/13

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

Deleted: with reference to DCLG Guidance

(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 activity 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 use 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.

4 INVESTMENT STRATEGY 2013/14

Deleted: 2012/13

4.1 All cash balances will be invested in accordance with this Investment Strategy. Under the DCLG Guidance, investments fall into two categories:

Deleted: the Code

Deleted: and with regard to DCLG Guidance, which requires a prudent approach to the investment of surplus funds with priority given to security and liquidity

(a) Specified Investments; and

(b) Non-specified investments.

SPECIFIED INVESTMENTS

4.2 Specified investments offer high security and high liquidity and must satisfy the conditions set out below:

(a) the investment is denominated in Sterling and any payments or repayments in respect of the investment are payable in Sterling only;

(b) the investment is not a long-term investment (i.e. has a maturity of less than one year); and

Deleted: ¶
the investment does not involve the acquisition of share or loan capital in any body corporate;

(c) the investment is either:

(i) made with the UK Government; or

Deleted: ¶

(ii) made with a body or in an investment scheme which has been awarded a high (investment grade) credit rating by a credit rating agency.

4.3 Specified investments are limited to institutions and types of investment that have been placed on a TfL 'Approved Investment List'. Investments may be made in any wholly owned and guaranteed UK subsidiary of the counterparties in the Approved Investment List, within the parent institution's aggregate investment limit. The Finance and Policy Committee will approve entities and types of investment that may be added to the Approved Investment List.

Deleted: (see Appendix 4)

Deleted: s

4.4 In determining whether to recommend to the Finance and Policy Committee to place an institution on the Approved Investment List, TfL Officers will consider:

(a) the financial position and jurisdiction of the institution:

(b) the market pricing of credit default swaps for the institution;

(c) any implicit or explicit Government support for the institution;

(d) Standard & Poor's, Moody's and Fitch's short and long term credit ratings; and

(e) Tier 1 capital ratios of those institutions.

4.5 In determining whether to recommend Money Market Funds (MMFs) to the Finance and Policy Committee for inclusion on the Approved Investment List, TfL Officers will consider only MMF that:

(a) are AAA-rated (or equivalent) by at least two of the three main rating agencies;

(b) a member of the Institutional Money Market Funds Association;

(c) owned or backed by a UK clearing bank or by a reputable investment management company;

(d) are of a minimum size of £1bn;

(e) do not invest in equities, alternative assets, or derivatives;

Deleted: or structured investment vehicles

(f) do not have more than 10% of total fund size invested in Asset Backed Commercial Paper;

(g) have a maximum notice period to access the funds of seven days, though likely to be intra-day access;

(h) have a weighted average maturity (WAM) of investments no greater than 60 days; and

(i) have a weighted average final maturity (WAFM) of investments no greater than 90 days.

4.6 TfL's maximum investment in any fund will be three point five per cent of fund size.

Deleted: ¶

NON-SPECIFIED INVESTMENTS

4.7 Non-specified investments do not, by definition, meet the requirements of a specified investment. The DCLG Guidance recommends an articulated risk management strategy and greater detail of the intended use of non-specified investments due to greater potential risk.

Deleted: requires

4.8 Non-specified investments approved for use by TfL under this strategy are investments in instruments and with entities on the Approved Investment List where:

Deleted: The possible n

Deleted: in the TMS for 2012/132013/14 are for

(a) the maximum maturity is one year or greater than one year:

(i) any such investments would be in Sterling, so the potential risk for TfL is one of liquidity – that TfL requires the funds that are tied up in longer term deposits. Given the nature of the institutions (in some cases government or government guaranteed) the risk of default is very low;

(ii) before placing such longer term deposits, TfL would carry out a detailed cash forecast to determine the need for funds over a longer time period, and only place funds for longer than one year where it was confident on the most conservative basis that the monies would not be required in the meantime; and

(iii) any such investments will be in instruments which would be readily accepted as collateral to obtain liquidity facilities, should such a need arise; and

Deleted: chosen as

(b) investments are in currencies other than Sterling:

(i) deposits denominated in US Dollars (USD) or Euros, to a maximum amount of £100m, when funds are received in those currencies in the normal course of business and where TfL is expected to have costs in those currencies in the future; or,

(ii) deposits in any currency where the currency is bought in advance of a payment or payments in that currency (for example, if TfL has several payments in Euros within a matter of weeks and it is more cost effective to buy a single tranche of Euros to cover all of the payments rather than buy several smaller amounts on the days each payment is required).

LIQUIDITY OF INVESTMENTS

4.9 TfL will manage its cash to ensure that a minimum of £250m is available for redemption on any business day to ensure TfL has sufficient liquidity to meet its financial obligations.

Deleted: ¶

4.10 Each investment decision will be made with regard to expected cash flow requirements resulting in a range of maturity periods within the investment portfolio.

Deleted: is

4.11 Where the Group Treasurer, in consultation with Managing Director, Finance and/or Chief Finance Officer, deems such a step is appropriate in order to protect TfL against potential losses, TfL may break or resell fixed term investments early, including where doing so will result in TfL incurring penalties or crystallising a loss.

Deleted: larger

4.12 Where the Group Treasurer, in consultation with the Chief Finance Officer, deems it appropriate, TfL may break or sell fixed term investment instruments as part of a switch into similar instruments where doing so offers a positive investment return. For example, TfL may have the opportunity to sell a holding of T-bills of a particular maturity and buy T-bills with a slightly different maturity with a better return. Market opportunities such as this arise reasonably frequently where market dynamics result in high demand for particular instruments.

COUNTERPARTY INVESTMENT LIMITS AND MATURITY LIMITS

4.13 The maximum limits per investment per institution for 2013/14 are shown in the table below:

Deleted: 2012/13

	S&P	Moody's	Fitch	Investment Limit per counterparty (£m)	Maximum tenor of deposit
UK Sovereign and UK Government Guaranteed				Unlimited	Unlimited
Money Market Fund	AAA	Aaa	AAA	3.5% of fund	Max 7 day (normally Instant access)
Non-UK Sovereigns, SSAs, Transports and Banks	AAA	Aaa	AAA	300	3 years
	AA+	Aa1	AA+	250	3 years
	AA	Aa2	AA	200	3 years
	AA-	Aa3	AA-	175	3 years
	A+	A1	A+	150	2 years
	A	A2	A	125	12 months
	A-	A3	A-	100	12 months
	BBB+	Baa	BBB+	0	n.a.

Deleted: 2

Deleted: *

Deleted: 2

Deleted: *

Deleted: 2

Deleted: *

Deleted: 2

Deleted: *

Deleted: 12 months

Deleted: * 50% of the limit may be invested for up to 2 years and up to 100% may be invested for 12 months

Deleted: ¶

4.14 The counterparty credit limits apply solely to institutions on the Approved Investment List.

4.15 Where an instrument benefits from a UK Government Guarantee, the investment limit will be that for UK Government Guaranteed rather than the entity guaranteed by the UK Government.

4.16 Where an instrument benefits from collateral arrangements, for example Repos, the investment exposure will be calculated based on maximum expected movements in the value of collateral with a 99% confidence level and not the face value of the sum invested. For example the exposure on daily adjusted repo arrangements will £2.3m per £100m.

4.17 In exceptional circumstances the applicable limit for TfL's clearing bank may be temporarily exceeded, for example where cash is available for investment after the daily deadline for deposits with the DMO has passed. Any such circumstance will be immediately notified to the Managing Director, Finance and Chief Finance Officer.

4.18 Where a counterparty has a split credit rating, the Investment Limit for each rating is calculated as the average of the relevant Investment Limits for each rating level available i.e. the limit is derived by taking the sum of one third of the applicable limit for each rating agency. The maximum tenor of deposit will be that of the lowest rating.

4.19 If the Investment Limit applicable to a counterparty changes while TfL has an outstanding investment with that counterparty, TfL may seek to bring its exposure down to within the revised limits but a breach of limits caused by such a change will not be considered a breach of this policy. TfL may at the Group Treasurer's discretion (in consultation with the Managing Director, Finance and/or Chief Finance Officer) decide to allow an investment to run its course for economic reasons.

5 INVESTMENT MATURITY LIMIT

5.1 As recommended by the Code, TfL establishes a limit on sums that are invested for periods longer than 364 days. These are establised by a separate Prudential Indicators document approved by the Mayor.

6 BORROWING STRATEGY 2013/14

6.1 TfL's objective is to manage its borrowing in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money. TfL seeks to achieve this by maintaining access to capital markets through its Commercial Paper programme and Medium Term Note programme, and complementing this with loans and other facilities from banks where appropriate. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (PWLB); other sources of funding will be used where they further TfL's stated objectives (i.e. offer better value for money, flexibility, security of access or diversity of funding sources).

Deleted: an additional measure,

Deleted: requires that limits are set for

Deleted: described

Deleted: in

Deleted: the

Deleted: paper

Deleted: for 2012 to 2014

Deleted: 2012/13

Deleted: ¶

6.2 TfL intends to build upon the success of the liquid, benchmark sized bonds issued under its Euro Medium Term Note (EMTN) programme where this represents good value for money.

6.3 TfL intends to borrow an additional £345m in 2013/14 (in accordance with the 2010 funding settlement). £150m of this borrowing has already been arranged and approved and will be drawn in April 2013 from the European Investment Bank (EIB) under the fixed rate loan in support of Crossrail. The balance of TfL's borrowing for the year will be drawn from TfL's Approved Borrowing Sources. TfL also intends to replace an element of its rolling short-term debt with longer-term finance.

6.4 TfL's Approved Borrowing Sources comprise:

(a) the PWLB;

(b) TfL's EMTN programme;

(c) TfL's Euro Commercial Paper (ECP) programme;

(d) EIB or commercial bank loans; and,

(e) A £200m overdraft facility with HSBC;

6.5 Additional sources of borrowing may only be added to the Approved Borrowing Sources with the approval of the Finance and Policy Committee.

6.6 The Finance and Policy Committee's approval is required for any newly arranged facility (but not facilities being renewed) through the EIB or commercial banks.

6.7 Issuance under TfL's MTN programme is permitted subject to the prior written approval of Managing Director, Finance or Chief Finance Officer provided that:

(a) any such issuance is in accordance with any relevant parameters set out in the Treasury Management Strategy 2013/14; and,

(b) Officers consult with as many Members of the Finance and Policy Committee as are available, on:

(i) the proposed term and amount of such Note issuance and/or derivative investment in advance of such Note issuance and/or derivative investment; and

(ii) the need for any Supplemental Prospectus prior to the proposed Note issuance.

6.8 The prior written approval of Managing Director, Finance or Chief Finance Officer is required for any new borrowing from the PWLB.

6.9 Without further reference to the Finance and Policy Committee, TfL will use the ECP programme and any other short-term facilities approved by the Finance and Policy Committee e.g. overdraft or commercial paper back-stop facilities, to

Deleted: remains committed to establishing a number of

Deleted: of varying duration

Deleted: will

Deleted: 445m

Deleted: 2012/13

Deleted: 200m

Deleted: 2012

Deleted: T

Deleted: Committee's approval is required for any new debt issuance under the EMTN programme, or newly arranged facility (but not facilities being renewed) through the EIB or commercial banks.

Deleted: ¶

Deleted: ¶

meet its short-term liquidity requirements pending the execution of longer-term borrowing agreed with the Finance and Policy Committee.

6.10 TfL will normally arrange new short-term borrowings to replace short-term borrowings falling due for repayment. In order to limit the liquidity risk that this creates TfL manages maturites such that no more than £200m of short-term borrowings falls due for repayment in any three day period.

Deleted: 3

6.11 The overdraft facility will not be used in the normal course of business, but only for short periods to meet unexpected liquidity requirements. The Managing Director, Finance will be notified immediately of any drawing of more than £20m on the overdraft facility.

6.12 At all times, the aggregate of all of TfL's liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board.

6.13 Where TfL is issuing new medium or long-term 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. Borrowing in excess of the planned incremental borrowing is permitted provided the position is temporary and that TfL remains within the Authorised Limit at all times (i.e. it reflects the temporary use of headroom between the planned incremental borrowing and the legal limit on TfL's liabilities).

Deleted: utilisation

6.14 The Code requires that upper and lower limits are set for the mix of fixed and variable rate borrowing, and for the maturity structure of fixed rate borrowings to manage interest rate risk. These are established by a separate Prudential Indicators document approved by the Mayor.

Deleted: described

Deleted: in the

Deleted: paper

Deleted: for 2012 to 2014

LIABILITY MANAGEMENT

6.15 TfL will seek to buyback, refinance, or otherwise restructure, existing liabilities (including finance 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.

6.16 TfL may pre-pay or refinance loans or re-purchase or redeem existing debt instruments in accordance with the delegated authorities set out in TfL Standing Orders

6.17 Any liability management exercise in excess of these limits will be subject to the approval of the Finance and Policy Committee.

MINIMUM REVENUE PROVISION

6.18 The Minimum Revenue Provision (MRP) is a Government mandated mechanism requiring local authorities to set aside an amount from current revenue resources in relation to future debt repayment. The MRP policy has to be approved by the Board each year.

Deleted: ¶

6.19 TfL has a duty to determine for the current financial year an amount of minimum revenue provision that it considers to be 'prudent' in relation to debt service obligations.

6.20 TfL's policy on MRP remains unchanged from 2012/13. That is to treat debt service (interest and principal) in its business plan as an in-year operating cost. As TfL has a legal requirement to produce a balanced budget (and this approach had been extended to the full business plan), the cost of debt service is taken into account when determining whether annual budget and business plans are in balance.

Deleted: 1

Deleted: 2

Deleted: forecasts

7 RISK MANAGEMENT STRATEGY 2013/14

Deleted: 2012/13

7.1 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. There is significant potential to reduce costs and add value to TfL by managing financial risks more effectively.

7.2 Under Section 49 of the Transport for London Act 2008 (the TfL Act), TfL was conferred powers to make arrangements for risk mitigation.

7.3 This Risk Management Strategy 2013/14 provides for measures to address identifiable financial risks that fall within the categories outlined below:

Deleted: 2012/13

(a) interest rate risk related to TfL's planned future borrowing requirements;

(b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by the TfL Group; and from receipts of European Union (EU) subsidies or other grants / revenues payable other than in Sterling; and,

(c) commodity price risk related to specific procurements containing a significant cost element for a commodity component and ongoing operational procurements such as power and fuel.

7.4 The high level principles established by this Risk Management Strategy 2013/14 are to:

Deleted: 2012/13

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

(b) reduce volatility / increase certainty relating to the impact of financial risks upon the business plan; and

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

7.5 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.

Deleted: a

Deleted: Ltd

Deleted: ¶

7.6 Under the TfL Group Policy relating to the use of Derivative Investments, the Finance and Policy Committee have delegated authority to approve derivative transactions. It is expected that during the year, TfL will propose a number of specific risk management programmes to the Finance and Policy Committee.

Deleted: Page Break

Deleted: ¶

HSBC

Bank ref: (NS)

Dated 25th June 2010

Transport for London

to

HSBC Bank plc

GUARANTEE

Re: Crossrail Limited

IMPORTANT – PLEASE READ THE FOLLOWING NOTE BEFORE SIGNING THIS GUARANTEE

This document is a Guarantee. You should sign this Guarantee in front of a witness who should be your solicitor, other legal adviser or a HSBC Bank plc official.

- HSBC Bank plc will hold this Guarantee as security for the debts and/or the other liabilities to HSBC Bank plc as set out in clause 3 of this Guarantee. What this means is that only the debts, together with the other liabilities mentioned in that clause, are secured by this Guarantee

- HSBC Bank plc can, on demand, make you pay all the Borrower's debts however and whenever they arise and/or your liabilities under this Guarantee.

- The debts may include overdrafts, loans or money due under any other facilities that HSBC Bank plc has granted to the Borrower or grants to the Borrower in the future, whether or not you know about or agree to them. Normally, HSBC Bank plc will not inform you of existing or future debts or liabilities of the Borrower.

- The debts may also include any liabilities under any guarantee or indemnity that the Borrower has given, or may give in the future, to HSBC Bank plc, for example, agreements by the Borrower to be responsible for the liabilities of another customer or for liabilities incurred by HSBC Bank plc on the Borrower's behalf.

- If there is more than one person named as Borrower, this Guarantee will be held as security for the debts which all or any of them owe as well as for the debts which all or any of them owe with any other person.

- Unless there is a limit on the amount of this Guarantee, there is no limit on the amount you may be made to pay. Where there is a limit you can be made to pay up to that limit together with any interest and costs arising.

- This Guarantee is separate from, and not limited by, any other mortgage or guarantee which may already have been given to HSBC Bank plc or which may be given in the future.

- This Guarantee contains other terms which affect you.

This Guarantee is an important legal document. HSBC Bank plc strongly recommends that you seek the advice of your solicitor or other legal adviser before signing this Guarantee.

HSBC

Bank ref: (NS)

THIS GUARANTEE made by deed the 25th day of June Two Thousand and ten

BETWEEN Guarantor: **Transport for London a statutory corporation whose principal place of business is at Windsor House, 42-50 Victoria Street, London SW1H 0TL**("you")

and HSBC BANK plc ("the Bank")

to secure the Debt of Borrower: **Crossrail Limited Company Number 04212657** ("Borrower")

WITNESSES as follows:

Meaning of certain words

1. (a) "The Bank" means HSBC Bank plc (registered in England number 14259) and any person who is entitled at any future date to exercise all or any of the Bank's rights under this Guarantee.

   (b) "you" means all and any persons named above as the Guarantor, and words such as "your", "yours", etc. should be read in this way. If there is more than one of you, the obligations under this Guarantee apply to each of you individually as well as jointly.

   (c) "Borrower" means all and any persons named above as the Borrower.

   (d) "Guarantee" means this Deed.

The Main Subject Matter of this Guarantee

The Debt

2. (a) You agree to pay to the Bank on written demand (subject to any limit in clause 4 below) the whole and each and every part of the debt mentioned in clause 3 below ("the Debt") and this Guarantee is continuing security for the Debt.

   (b) Any sum or sums demanded from you under this Guarantee will carry interest from the date of demand until payment in accordance with paragraph 3(a)(iv) below.

3. The Debt is:

   (a) all monies and liabilities whatever, whenever and however incurred, whether with or without your knowledge or consent, and whether now or in the future due, or becoming due, from the Borrower to the Bank.

   This includes, but is not limited to (whether as originally given or subsequently varied, extended or increased in any way):

   (i) overdrafts, personal and other loans or facilities and further advances of money;

   (ii) guarantees and indemnities to the Bank and any of the Borrower's other contingent liabilities;

   (iii) discount, commission and other lawful charges and expenses;

   (iv) interest in accordance with any agreement between the Borrower and the Bank and, if there is no agreement, interest on any money and liabilities due from the Borrower at an annual rate of 3% above the Bank's base rate from time to time computed and compounded monthly and/or according to the Bank's then current practice. Interest as above applies before and after any judgement.

HSBC

(b) any amount due under the indemnity in clause 15 below.

(c) money agreed to be paid by you under clause 17 below.

The Debt is not:

(a) any money and liabilities arising under a regulated consumer credit agreement falling within the Consumer Credit Act 1974.

(b) if you are a corporate body, such part (if any) of the Debt as may have been incurred by the Borrower, directly or indirectly, in connection with the acquisition of shares in your share capital (or in the share capital of any holding company) unless and to the extent that the provision of financial assistance by this Guarantee in connection with that acquisition, is lawful.

Limit on your Liability (if any)

4. The aggregate amount payable by you under this Guarantee (which includes the amount due under the indemnity in clause 15 below) shall be limited to the sum of £ (pounds Sterling)

and interest on that sum as mentioned in clause 2(b) above together with the money agreed to be paid by you under clause 17 below.

HSBC

Bank ref: (NS)

The Borrower

5. (a) If there is more than one person named as Borrower above, this Guarantee secures the Debt of them jointly and of each of them individually and of all or any of them with any other person.

(b) If the Borrower is in partnership or a trustee of a trust (and if described in this Guarantee as trustee of a trust), the Borrower includes all persons from time to time being partners in that partnership or from time to time being trustees of that trust even though there may be:

(i) any change in constitution or name of that partnership or trust;

(ii) any amalgamation with any other person; or

(iii) any death, retirement or addition to any of the partners or trustees.

Independence and Duration of this Guarantee

6. (a) This Guarantee is in addition to, and independent of, any other security which the Bank may hold at any time for any of the Debt.

(b) Subject to clause 7 below, this Guarantee remains continuing security against you, and if there is more than one of you, each of you, and if you are an individual, your personal representative, and your estate will remain liable in respect of this Guarantee following your death or mental incapacity until the Bank releases it in writing.

Determination of the Continuing Security of this Guarantee

7. (a) The Bank may, if it reasonably requires, treat the continuing security of this Guarantee as determined if you, or if there is more than one of you, any of you, or the Borrower, enter into any composition or arrangement with creditors or are made bankrupt, or any step is taken for administration, receivership, winding up (except with the Bank's written consent for the purpose of reconstruction or amalgamation only) or dissolution, or similar proceedings are taken against you, or any of you, or the Borrower.

(b) From the date the Bank treats the continuing security of this Guarantee as determined under clause 7(a) above, the Debt will (subject to any limit in clause 4 above) be limited to:

(i) so much of the Debt as is owing (whether actually or contingently and whether or not demand shall have been made) to the Bank by the Borrower at that date; and

(ii) the amount due under the indemnity in clause 15 below and the money agreed to be paid by you under clause 17 below, whether falling due before or after that date.

(c) You, or if there is more than one of you, any of you, or your personal representative may give the Bank three months' written notice of determination of the continuing security of this Guarantee.

(d) If notice of determination is given under clause 7(c) above, the Debt will (subject to any limit in clause 4 above) be limited to:

(i) so much of the Debt as is owing (whether actually or contingently and whether or not demand shall have been made) to the Bank by the Borrower at the expiration of three months after actual receipt of the notice by the Bank; and

(ii) the amount due under the indemnity in clause 15 below and the money agreed to be paid by you under clause 17 below, whether falling due before or after expiry of the notice.

HSBC

Bank ref: (NS)

Retention of Guarantee

8. (a) If the Bank reasonably requires, it may decline to release this Guarantee unless it is satisfied that any payment of the Debt will not be avoided whether as a preference or otherwise.

(b) Any release or discharge of this Guarantee will be conditional upon no security or payment by the Borrower or you to the Bank being avoided (whether under any statutory provision relating to insolvency or otherwise).

(c) Subject to any limit in clause 4 above on the amount payable, if any security or payment is avoided, the Bank is entitled to recover from you the value or amount of that security or payment as if there had been no release or discharge of this Guarantee.

The Bank's powers to deal with Accounts and Money received and set-off

9. (a) If the continuing security of this Guarantee is treated as, or is, determined under clause 7 above, the Bank may open a new account or accounts for the Borrower. If the Bank does not do so, then all payments made to the Bank after the determination (other than those expressly appropriated) shall be treated as having been credited to a new account in the Borrower's name instead of reducing the Debt.

(b) If the Bank has any other security for the Debt or any part of it, the Bank shall be able to appropriate any money received under this Guarantee or under the other security.

10. (a) All money received by the Bank under this Guarantee may, in the Bank's reasonable discretion, be credited to, and held in, a separate suspense account for so long as the Bank may reasonably think fit until the money, and any interest on it, is used by the Bank in or towards discharge of the Debt.

(b) Any money credited to a suspense account shall be deemed to carry interest from the date of payment into the suspense account at the following rate or rates:

(i) if and to the extent that the money is used in or towards discharge of the Debt, at the rate or rates applicable from time to time to the Debt which it discharges;

(ii) if and to the extent that the money is not used in or towards discharge of the Debt, and is later returned to you, simple interest at a rate to be agreed or, in default of agreement, at a reasonable investment rate.

11. In addition to all rights of set-off conferred by law, the Bank may set-off any money standing from time to time to the credit of any account you, or if there is more than one of you, any of you, have with the Bank against money due under this Guarantee.

Currency Conversion

12. The Bank may convert any money received under this Guarantee from the currency in which it is received into any other currency that the Bank requires for the purpose of, or pending, the discharge of the Debt. Any conversion will be effected at the Bank's then prevailing spot selling rate of exchange. References in this clause to currency, include funds of that currency and the Bank may convert funds of one currency into different funds of the same currency.

Restrictions on Recovery by You

13. Unless the Debt has been paid in full, and until the Bank releases this Guarantee (and even though there may be a limit in clause 4 above):

(a) you will not benefit (by subrogation or otherwise) from any rights the Bank may have, or any security (whether by way of mortgage, guarantee or otherwise) the Bank may hold, on account of the Debt;

(b) without the Bank's written consent, you will not exercise or enforce (or seek to) any rights which you may have against the Borrower, or any other person, which arise by reason of payment of the Debt;

(c) any money or asset which you receive by reason of the rights mentioned above will be held by you on trust to be applied as if the money or asset were received by the Bank under this Guarantee;

Bank ref: (NS)

(d) you hold any security given to you (now or in the future) for giving this Guarantee on trust for the Bank and will immediately deposit, transfer or assign it as the Bank reasonably requires; and

(e) you waive any right of set-off you may have now, or at any time in the future, in respect of the Debt.

Dealings with You, the Borrower and Others

14. The Bank may, at its discretion, whenever it wants, and without releasing or otherwise affecting this Guarantee as security for the Debt:

(a) give any loan, credit, financial accommodation or other facility ("the Facilities") to the Borrower (whether alone or with any other person) as may from time to time be agreed between the Bank and the Borrower;

(b) extend, increase, renew, determine or otherwise vary the Facilities;

(c) take any other security for the Debt (whether by way of mortgage, guarantee or otherwise);

(d) make any arrangement in respect of the Debt, or of any other security for it, with you, or if there is more than one of you, any of you, the Borrower or any other person (whether by way of giving time or other indulgence, variation, exchange, release, modification, refraining from perfection, enforcement or otherwise); or

(e) do, or omit to do, anything which might otherwise discharge or affect this Guarantee as security for the Debt;

(f) make demand under this Guarantee and enforce your liabilities under it even though it may not have made demand on the Borrower or begun to enforce its rights or remedies against the Borrower or any other person or security held in respect of the Debt.

Irregularities in other securities - Incapacity of the Borrower - Indemnity

15. (a) This Guarantee will not be discharged or otherwise affected as security for the Debt by any invalidity or unenforceability of, or irregularity or defect in, any other security for the Debt (whether by way of mortgage, guarantee or otherwise) which the Bank may hold now, or at any time in the future.

(b) You agree, as a separate obligation (subject to any limit in clause 4 above), to indemnify the Bank against all loss occasioned by, or arising from, any legal limitation, disability or want of capacity or authority of, or affecting, the Borrower or any person acting or purporting to act on behalf of the Borrower regarding the Debt.

Negligence in Realisations

16. This Guarantee shall not be affected as security for the Debt by any neglect by the Bank, or by any agent or receiver appointed by the Bank, in connection with the realisation of any other security (whether by way of mortgage, guarantee or otherwise) which the Bank may hold now, or at any time in the future, for the Debt.

Costs

17. (a) You must pay on a full indemnity basis all fees, expenses, legal and administrative and other costs incurred or charged by the Bank in, or incidental to, the preservation or enforcement of this Guarantee, including the costs of any proceedings in relation to this Guarantee or the Debt.

(b) Anything payable under (a) above (whether demanded or not) will be debited to an account in your name with the Bank and, once debited, will carry interest at the rate and in the manner mentioned in clause 2(b) above and shall be payable on written demand.

Notices, Governing Law and Jurisdiction

18. Any demand, notice or proceeding under this Guarantee may be served:

(a) by letter, sent by first class post to, or left at, your last known address or registered office and if sent by post, it will be deemed to have been served at the time it would, in the ordinary course of post, be delivered; or

(b) by fax or other electronic means to your last known fax number or electronic mail address and it will be deemed to have been served at the time of transmission.

If the Bank is unable to serve notice on all of you (where there is more than one of you) service on any one of you is deemed to be service on all of you. Any demand or notice may be served by any Bank manager or officer.

19. (a) This Guarantee will be governed by and construed in accordance with English law and all claims and disputes (including non-contractual claims and disputes) arising out of or in connection with this Guarantee, its subject matter, negotiation or formation will be determined in accordance with English Law.

(b) Both you and the Bank submit to the non-exclusive jurisdiction of the courts of England and Wales in relation to all claims, disputes, differences or other matters (including non-contractual claims, disputes, differences or other matters) arising out of or in connection with this Guarantee.

Disclosure of Information

20. You consent to the disclosure by the Bank of any information about you, this Guarantee or the Debt to:

(a) the Borrower;

(b) any person to whom the Bank has transferred, or proposes to transfer, all or any of its rights, under this Guarantee or the Debt and to any rating agencies and any advisers to the Bank in connection with such transfer; and/or

(c) any person with whom the Bank has entered into, or proposes to enter into, any contractual arrangements in connection with this Guarantee or the Debt; and/or

(d) any company within the HSBC Group, being HSBC Holdings plc and its associated and subsidiary companies from time to time, or any of its or their agents; and/or

(e) any insurer who is to or who proposes to provide insurance to the Bank in respect of this Debt;

(f) any other person to whom, and to the extent that, such information is required to be disclosed by any applicable law or regulation.

Transfer of Rights

21. (a) The Bank may transfer all or any part of its rights under this Guarantee to any person at any time.

(b) If the Bank transfers all or any part of its rights under this Guarantee, your rights under this Guarantee will stay exactly the same.

(c) You will be bound to any person to whom the Bank transfers any such rights. That person will have the Bank's powers and rights so far as the Bank transfers these to that person.

(d) The Bank will be released automatically from its obligations to you so far as that person assumes the Bank's obligations.

(e) You will, at the expenses of the Bank or the person to whom the rights are transferred, do anything reasonably requested by the Bank to effect a transfer of all or any part of its rights under this Guarantee.

(f) You will not transfer all or any part of your rights under this Guarantee without the prior written consent of the Bank.

(g) In these Transfer of Rights provisions and in the Disclosure of Information provisions above:

(i) the term **transfer** means sale, assignment and/or transfer;
(ii) the term **rights** means rights, benefits and/or obligations; and
(iii) the term **person** means any person, trust, fund or other entity.

The Bank's written consent and reasonable requirement

22. (a) Where the words "without the Bank's written consent" appear in any clause, the Bank will not unreasonably withhold consent. You agree that it is reasonable for the Bank to refuse to consent to something if, in the Bank's reasonable opinion, it adversely affects or might affect:

(i) The Bank's security under this Guarantee and the Bank's ability to enforce this Guarantee, or

(ii) The Bank's ability to recover the Debt.

(b) Where the words "the Bank reasonably requires" appear in any clause, you agree that it is reasonable for the Bank to require something if, in the Bank's reasonable opinion, it will or might assist in:

(i) the preservation of the Bank's security under this Guarantee; or

(ii) The Bank's ability to recover the Debt.

Severance and Modification - Unenforceability

23. (a) If any of the clauses (or part of a clause) of this Guarantee is or becomes invalid or unenforceable in any way under any law, the validity of the remaining clauses (or part of a clause) will not in any way be affected or impaired.

(b) If any invalid or unenforceable clause (or part of a clause) would not be invalid or unenforceable if its form or effect were modified in any way, it shall be deemed to have the modified form or effect so long as the Bank consents.

(c) If this Guarantee is unenforceable or otherwise ineffective against you, or if there is more than one of you, any of you, none of the rest of you will be released from your obligations under this Guarantee.

Interpretation

24. In this Guarantee:

(a) the headings are used for guidance only;

(b) any reference to a person includes a body corporate;

(c) any reference to any statute, or any section of any statute, includes reference to any statutory modification or re-enactment of it for the time being in force;

(d) references to the singular include the plural and vice versa.

IN WITNESS of the above, this document, which is intended to take effect as a deed, has been executed by the Guarantor and is now delivered on the date mentioned above.

HSBC

This is an important legal document. HSBC Bank plc strongly recommends that you seek the advice of your solicitor or other legal adviser before signing this Guarantee.

Signed as a deed by **Transport for London** acting by

Signature____________________ Director

(For use by a Company without a Common Seal)

Name in Full____________________
(Block letters)

Signature____________________ Director/Secretary

Name in Full____________________
(Block letters)

22239 1.2

Executed as a deed by affixing the Common Seal of **Transport for London** in the presence of:

Affixed in the presence of ....
Director an Officer authorised by the Company

Company Seal

Director/Secretary____________________

For and on behalf of HSBC Bank plc

Bank ref: (NS)

HSBC

Bank ref:

BOARD RESOLUTION
Provision of Security

Minutes of a Meeting of the Directors of Transport for London ("the Company")

This section and paragraph 4, onwards is to be completed by the Company giving the Resolution	held at ____________________ ____________________ on the __________ day of ______________ 20 at __________ am/pm

1. Reference was made to facilities made, or to be made, available by HSBC Bank plc ("the Bank") to Crossrail Limited.

2. There was produced to the Meeting the following document(s):-

An unlimited Guarantee

to be given by the Company in favour of the Bank to secure all the present and future indebtedness and liabilities to the Bank howsoever arising of Crossrail Limited subject to any limitation which appears in the Guarantee itself.

3. Those Directors present at the Meeting who had interests in the matter(s) under consideration declared those interests and it was noted that a quorum was available.

The Company is to complete fully the following section before returning the Resolution to the Bank

4. Accordingly, after considering the financial position of the Company and its future requirements and after giving consideration to the requirements of sections 171 to 177 of the Companies Act 2006,, IT WAS RESOLVED:-

   a) THAT IT WAS, IN THE OPINION OF THE Directors of the Company, for the benefit of the Company and for the purposes of or ancillary to its business that it should give the security and sign or execute and deliver to the Bank the document(s) referred to in paragraph 2 above; and

   b) THAT any two Directors or one Director and the Company Secretary*

*(if the Company wishes to make any other arrangements within what is authorised by its Articles of Association insert suitable details here)

be and they are hereby authorised on behalf of the Company to sign or execute as a Deed(s) the Guarantee; or
that the Company's seal be affixed thereto in the presence of a Director or the Company Secretary as appropriate and that (in either case) the same be delivered to the Bank with such amendments as the signatories may agree with the Bank.

The foregoing is certified to be a true extract/copy of the Minutes of the Board Resolution dated above.

Signed on ______________________________ 20 ______ (date)

For and on behalf of the Company.

By Chairman ______________________ and Company Secretary ______________________

THIS IS AN IMPORTANT RESOLUTION. IF IN DOUBT ABOUT ITS LEGAL OR FINANCIAL IMPLICATIONS, THE BOARD OF DIRECTORS SHOULD SEEK INDEPENDENT LEGAL ADVICE BEFORE CONSIDERING THE RESOLUTION.

Transport for London

Minutes of the Closed Meeting

Committee Rooms 4-5, City Hall, The Queen's Walk, London
11.00am, Wednesday 23 June 2010

C43/06/10 **Overdraft Facility and Guarantee**

The Board:

1 **delegated to the Commissioner, the Managing Director, Finance or the Director of Corporate Finance the authority to agree the terms and conditions of the Supplemental Facility Letter, the New Guarantee and all other documentation relating to the overdraft facility; and**

2 **that subject to obtaining the necessary approvals in accordance with the above, authorised the Commissioner, the Managing Director, Finance, General Counsel, the Director of Legal, the Director of Corporate Finance or the Chief Finance Officer to sign, execute (if necessary, by authorising the affixing of the TfL seal) and deliver on behalf of TfL the Supplemental Facility Letter, the New Guarantee and all other documentation relating to the overdraft facility.**

I confirm that this is a correct record of the resolution agreed at a meeting of the Board on 23 June 2010.

General Counsel: ______________________

Date: 2 July 2010

CERTIFIED A TRUE COPY

13/7/2010