Finance Committee

Date: **6 October 2021**

Item: **Treasury Management Strategy 2021/22 and Treasury Management Policies – LTM and LTIG Investments update**

This paper will be considered in public

1 Summary

1.1 This paper asks the Committee to approve a proposed update to the Treasury Management Strategy (TMS) 2021/22 and to the Treasury Management Policies (TMP).

1.2 The update proposes that matters relating to investment of cash balances within the TMS 2021/22 and TMP will not apply to London Transport Museum Limited, its subsidiary London Transport Museum (Trading) Limited - (together, LTM) or London Transport Insurance (Guernsey) Limited (LTIG).

1.3 LTIG and LTM have cash balances of less than £80m on average and neither has a parental letter of comfort from TfL. In practical terms, neither is part of TfL's notional cash pooling structure and as such both have always been managed independently.

1.4 LTIG and LTM will be required to report their respective strategies and policies relating to the investment of cash balances, and any changes to them, to Group Treasury from time to time for approval by either the Corporate Finance Director or Group Treasurer for approval.

1.5 Approval of the TMS and TMP are matters reserved to the Board. However, on 29 July 2021, the Board delegated approval of these matters and any in-year changes to the Finance Committee. At its meeting on 6 October 2021, the Committee is asked to exercise that authority in relation to proposed updates to the TMS and TMP.

2 Recommendations

2.1 **The Committee is asked to note the paper and approve the updated Treasury Management Strategy 2021/22 and Treasury Management Policies, as set out in Appendices 1 and 2 to the paper.**

3 Background

3.1 LTM has charitable status and runs the London Transport Museum, and LTIG is an insurance company that provides insurance services to the TfL Group and some of its contractors. The funds of LTM and LTIG are held in standalone bank accounts and do not form part of TfL's notional pooling structure under its banking facilities, nor TfL's investment portfolio due to the respective charity and insurance status of these companies. In practice, LTM and LTIG manage their cash balances themselves or via appointed third parties.

3.2 LTM and LTIG do not have the benefit of a parental letter of comfort from TfL (unlike other TfL subsidiaries) and their accounts are audited on an annual basis. These subsidiaries have their own internal executive boards and governance structure where the matters relating to managing cash investments are considered.

4 Rationale for changes

4.1 LTM has asked TfL if it can invest in products and for tenors that are outside the boundaries of the TMS 2021/22, to better align its investment strategy with its strategic cash needs.

4.2 Due to the specific nature of their businesses and the size of the cash balances (currently below £80m combined), the cash management objectives of both LTM and LTIG may differ from those of the wider TfL Group. For example, the diversification across a large number of counterparties might not be practical or access to cash might not be required at very short notice and hence the longer-term cash investment tenors or alternative instruments could be more appropriate for LTM and/or LTIG. Therefore, the approach to investing cash balances taken by these subsidiaries (within the parameters of the TMS) has historically been slightly different to that of TfL.

4.3 It is proposed that matters related to setting, approving, implementing and monitoring policies and strategies related to cash investments, including monitoring of the financial risks associated with these investments, should be the responsibility of each of LTM and LTIG.

4.4 The TMS 2021/22, which includes the Investment Strategy, Borrowing Strategy, Risk Management Strategy and Counterparty Exposure limits, currently applies to TfL and all its subsidiaries. However, the Liquidity Policy under the TMP and the Liquidity Strategy under the TMS 2021/22 provide that they do not apply to the cash balances of certain subsidiaries; LTM, LTIG and Crossrail Limited. The proposed amendments to the TMS 2021/22 and TMP provide clarity that matters relating to investment of cash balances do not apply to LTM or LTIG.

4.5 This exclusion is prudent because LTM and LTIG each (a) have no parental letter of comfort from TfL; (b) have smaller cash balances when compared to TfL; and (c) are not part of TfL’s notional cash pooling structure.

5 Proposed changes

5.1 The proposed changes to the TMS 2021/22 and TMP specify which sections of the documents will not apply to LTM and LTIG. The remaining sections, including matters related to borrowing and risk management will continue to apply to all subsidiaries within the TfL Group. There are no proposed changes to the TfL Group Policy Relating to the Use of Derivative Investments.

5.2 LTM and LTIG will be required to obtain the approval of the Group Treasurer or Corporate Finance Director to their investment strategies and policies, as well as any changes to or deviations from them, from time to time.

5.3 TfL will continue to maintain oversight to ensure the robustness of the process and minimise financial risks for the TfL Group.

List of appendices to this report:

Appendix 1: Treasury Management Strategy (with changes compared to existing Treasury Management Strategy 2021/22 tracked)

Appendix 2: Treasury Management Policies (with changes compared to existing Treasury Management Polices tracked)

List of background papers:

None

Contact Officer: Joanna Hawkes, Director of Corporate Finance
Email: JoannaHawkes@tfl.gov.uk