

**Date: 9 March 2022**

**Item: Treasury Activities**

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## **This paper will be considered in public**

### **1 Summary**

- 1.1 This paper provides a brief update on our key treasury activities for the period from 17 September 2021 to 17 February 2022 (the Reporting Period).
- 1.2 During the Reporting Period, we have complied at all times with the Treasury Management Strategy (TMS), the Treasury Management Policies and the TfL Group Policy relating to the use of Derivative Investments (Policies) each approved by Finance Committee Chair's Action (as delegated by the Board) on 10 March 2021, including the GLA Responsible Investment Policy.
- 1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL or of a sensitive nature to our listed counterparties. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

### **3 Liquidity**

- 3.1 The Treasury Management Policies state that, 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, equating approximately to £1.2bn. During the Reporting Period TfL cash reserves, excluding identified, separate subsidiaries, remained above this level.

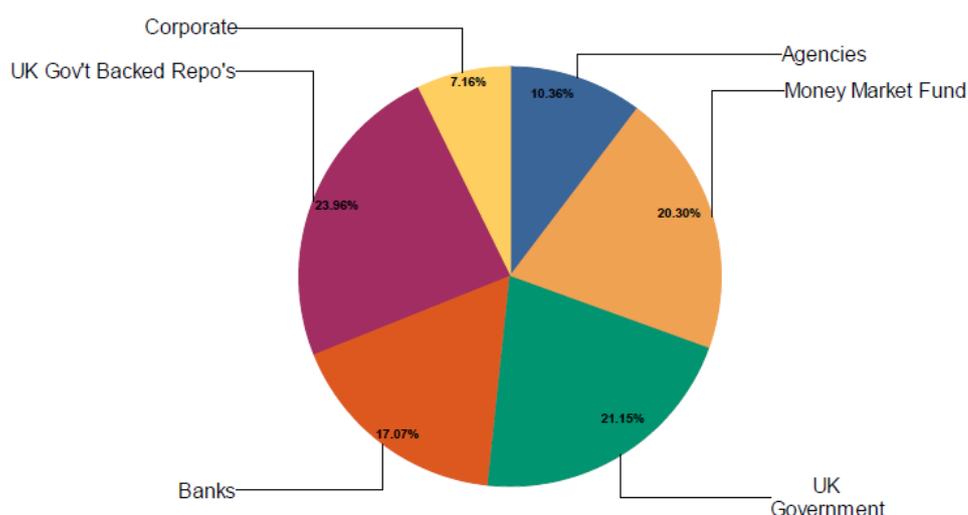
### **4 Investment Update**

- 4.1 During the Reporting Period we have continued to diversify cash investments by country, sector, liquidity and counterparty risk. The maximum duration of investments has remained at three months to reflect the relatively short-term nature of the funding agreement with government.
- 4.2 On 17 February, cash under management was £1.3bn of which £391m (29 per cent) was held in highly rated, overnight money market funds (MMF) and government collateralised repurchase agreements (Gilt repo). Investments

maturing within two months totalled £1,155m (87 per cent). The weighted average maturity (WAM) of investments over the Reporting Period increased slightly from 22 days to 24.

- 4.3 While we have prioritised investments in short dated, highly rated instruments we continue to seek opportunities to diversify the portfolio and maximise yield. As at 17 February we held a diversified portfolio of investments in supra-national, government agencies and highly rated financial and corporate investments, as shown in Chart 1.

**Chart 1 – Sector breakdown of cash position on 17 February 2022**



- 4.4 The weighted average investment yield on 17 February was 28bps, 16bps lower than the Sterling Overnight Index Average (SONIA) benchmark. The yield is reflective of low interest rates, short duration and liquid investments in highly rated counterparties.

## 5 Borrowing Update

### Borrowing during the Reporting Period

- 5.1 As at the end of the Reporting Period, we had £12,880.4m outstanding borrowing with a weighted average maturity of 17.0 years and an average interest rate of 3.2 per cent. We remained within the Authorised Limit for borrowing of £14,494.8m at all times during the Reporting Period.
- 5.2 In September 2021, we refinanced the last of the four variable rate Public Works Loan Board (PWLB) loans arranged as part of the £600m borrowing agreed under the early Extraordinary Funding and Financing Agreements with Government to benefit from the 1 per cent reduction in margin payable on new PWLB loans. The other three variable rate loans had already been refinanced earlier in 2021/22.
- 5.3 In September 2021, we also refinanced £259.9m of debt maturities with two new PWLB loans. The new loans included a variable rate loan (with monthly resets) of £100m and a fixed rate loan of £159.9m.

## Remaining 2021/22 borrowing requirement

- 5.4 We have £55m of maturing long-term debt still to refinance in 2021/22. This debt matures with the European Investment Bank at the end of the financial year and we expect to refinance it shortly before its maturity. Whilst we will continue to monitor all our refinancing options, it is likely we will utilise our access to PWLB to refinance this debt.
- 5.5 We have access to the Local Infrastructure Rate for a modest amount of new PWLB borrowing, which presents a 20 basis point discount compared to the Certainty Rate that is otherwise available to TfL.
- 5.6 In addition to the refinancing detailed above, we will consider refinancing a portion of our rolling commercial paper with alternative sources, should this be appropriate.

## 6 Credit ratings

- 6.1 Our credit ratings as at 17 February 2022 are shown in the table below.

**Table 1: TfL's credit ratings as at 17 February 2022**

	<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>Fitch</b>
<b>Long-term rating</b>	A+	A3	A+
<b>Outlook</b>	Stable	Negative	Stable
<b>Short-term rating</b>	A-1	P-2	F1+

- 6.2 On 17 September 2021, Fitch affirmed our credit ratings and maintained the stable outlook on our rating. This reflects Fitch's expectation that our credit metrics will remain compatible with the rating, despite the impact of the coronavirus pandemic in 2021.
- 6.3 There have been no changes to our rating from Standard & Poor's, Moody's, or Fitch during the Reporting Period

## 7 Banking

- 7.1 We have successfully implemented Image Survivable Features (ISF) on TfL's cheque stationery. The new security features on the cheques should reduce the risk of cheque fraud for TfL. The new ISF cheque stationery was introduced in December 2021 in advance of our banking provider moving to a new image clearing system on 1 January 2022.
- 7.2 We continue to work with our banking provider and the Business Support Function (BSF) to automate the daily manual CHAPS payment process. The new process brings cost efficiencies as the files are cheaper to process and

automating the current payment process will allow the BSF to focus on other activities. Workshops are taking place to map out the to-be process and system integration testing is underway. The target date for implementation is April 2022

## **8 Other**

### **Treasury Management System upgrade**

- 8.1 Our treasury management system, Quantum, has been upgraded from version 6.5 to version 21. Version 21 ensures we continue to receive support from the software vendor and to obtain new functionality required for the replacement of LIBOR. Version 21 allows interest to be calculated from SONIA based products and for the instruments to be revalued. The project has been delivered on time and to budget

#### **List of appendices to this report:**

A paper containing exempt supplemental information is included on Part 2 of the agenda.

#### **List of background papers:**

None

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