Finance Committee

Date: **11 October 2023**

Item: **Treasury Activities**

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 18 February 2023 to 22 September 2023 (the Reporting Period).

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. 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 exempt supplementary information on Part 2 of the agenda.**

3 Key Highlights

3.1 In May 2023, Standard & Poor's (S&P) revised its outlook on TfL to positive from stable and affirmed the ratings 'A+/A-1'. Our ratings with Moody's and Fitch remain unchanged.

3.2 We continue to monitor the affordability of our future borrowing plans, using the debt affordability ratios presented to the Committee in March 2023.

3.3 Our ongoing collaboration with the GLA and its investment subsidiary, London Treasury Limited (LTL), continues to progress. Focus remains on integrating treasury processes with banking and settlements of securities proposed as being provided by TfL as a shared service. Investment management will be managed by LTL with TfL seconding two of its treasury team, with one full time equivalent resource allocation, to assist in due course.

4 Liquidity Update

4.1 We continue to manage our liquidity levels to balance the requirements stated in our Treasury Management Policies (TMP) with those in the Government funding agreement of August 2022.

5 Investment Update

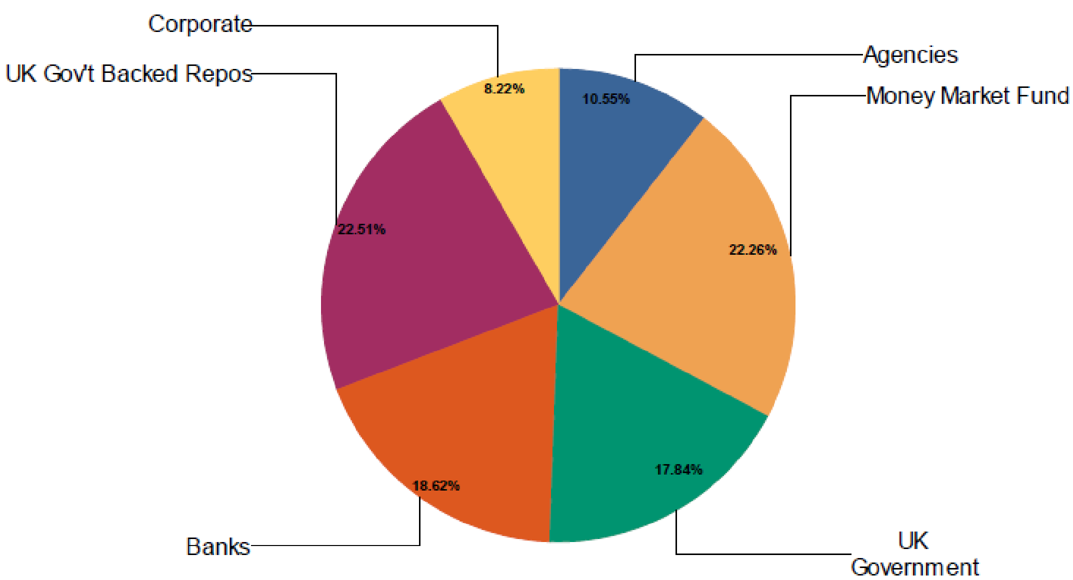
5.1 During the Reporting Period we have continued to diversify cash investments by country, sector, tenor, and counterparty. The maximum duration of investments has remained at three months. Bank of England base rates have continued to rise rapidly from 4 per cent to 5.25 per cent over the Reporting Period. The short-term nature of our investment strategy has meant that our investment yield has quickly reflected increases in interest rates.

5.2 Our investments remain short dated with 93 per cent maturing within two months. The weighted average maturity of investments over the Reporting Period decreased from 23 days to 18 days.

5.3 The weighted average investment yield on 22 September 2023 was 5.36 per cent, 17.5 basis points higher than the Sterling Overnight Index Average (known as SONIA) benchmark.

5.4 While we have continued to prioritise investments in short dated, highly rated instruments, we continue to seek opportunities to diversify the portfolio and maximise yield, within the bounds of our Treasury Management Strategy (TMS) and TMP. As of 22 September 2023, we held a diversified portfolio of investments in supra-nationals, government agencies and highly rated financial and corporate investments, as shown in Chart 1.

Chart 1 – Sector breakdown of TfL cash position on 22 September 2023



5.5 In the Reporting Period we worked with TfL's commercial property subsidiary, Places for London Limited (Places, formerly TTL Properties Limited), to enable Places to meet the requirements of its own Treasury Management Strategy and Policy, including the production of cash forecasts, which enabled us to begin depositing surplus cash. We are now working to open a Money Market Fund account for Places to allow for better diversification within their investments.

6 Risk Management Update

6.1 The level of floating rate borrowing, as a percentage of all borrowings outstanding, has decreased slightly over the Reporting Period, from 7.7 per cent to 6.6 per cent, primarily due to a small reduction in our Commercial Paper (CP) balance. This remains comfortably within the maximum target of 25 per cent set out in our TMS for 2023/24.

6.2 Although 6.6 per cent, or £985m, of total debt is exposed to floating interest rates, there is an element of natural hedge in the form of our short-term investments. This is because the income on those investments is also exposed to short-term interest rates. Therefore, a rise in interest rates on our floating rate debt is somewhat offset by a rise in interest receivable from our investment portfolio.

6.3 We continue to manage foreign exchange and interest rate risk, using derivatives to hedge material exposures. Over the Reporting Period we hedged the interest rate risk in respect of the lease arrangement for the Elizabeth line class 345 rolling stock and hedged the foreign exchange exposure for the additional Docklands Light Railway rolling stock, and the Northern Line Vehicle Control Centre Incremental Upgrade, which is replacing many of the components within the control centre systems that are now obsolete or becoming obsolete.

7 Borrowing Update

7.1 As of 22 September 2023, we had £12,725m in outstanding borrowing with an average tenor of 19.46 years and a weighted average interest rate of 3.46 per cent. We remained within the Authorised Limit for borrowing of £14,114m at all times during the Reporting Period.

7.2 During March 2023 our borrowing levels temporarily increased by £221m. This is a result of various new loans from the Public Works Loan Board which were used to fund some large cash outflows ahead of the end of 2022/23.

7.3 During the remainder of this financial year, we expect to refinance £109m of maturing borrowing (excluding maturing CP). Additionally, we estimate an incremental borrowing requirement of £191m for 2023/24. We will continue to monitor our options for the remainder of our borrowing requirement.

8 Credit ratings

8.1 Our credit ratings as of 22 September 2023 are shown in the table below.

Table 2: TfL's credit ratings as of 22 September 2023

	Standard & Poor's	Moody's	Fitch
Long-term rating	A+	Baa1	AA-
Outlook	Positive	Stable	Negative
Short-term rating	A-1	P-2	F1+

8.2 We continued to engage with all three credit rating agencies during the Reporting Period. On 25 May 2023, S&P revised its outlook on TfL from stable to positive. This reflects S&P's view that recovering ridership and cost control should allow TfL to gain higher financial flexibility despite a challenging economic environment. They also highlighted expectations that borrowing, and risk related to real estate operations will remain contained. There have been no rating actions from either Moody's or Fitch during the Reporting Period.

9 Banking Update

9.1 Automation of the daily CHAPS payment process was successfully implemented in May 2023. This brings cost efficiencies in both banking fees and time management, allowing the Business Support Function to concentrate on other tasks.

9.2 We are working with our banking provider and outsourced partner to build a new virtual bank account structure as part of the Places for London Limited Client Split Project. A new structure is required as 900 tenant deposit accounts and balances need to be transferred from Transport Trading Limited to Places for London Limited. Both of these are expected to be completed by late October 2023.

List of appendices to this report:

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

List of background papers:
None

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