

Date: 11 July 2024

Item: **Greater London Authority Treasury Collaboration**

This paper will be considered in public

1 Summary

- 1.1 This paper provides an update on recent progress in relation to the investment collaboration between TfL Treasury and the Greater London Authority's (GLA) investment subsidiary London Treasury Limited (LTL).
- 1.2 As many of the key milestones of the collaboration are moving towards imminent completion, we feel sufficient progress has been made to allow us to seek approval from the Committee in relation to an increase in TfL's counterparty investment limit in respect of London Treasury Liquidity Fund LP (LTLF) from £10m to £900m, as anticipated in TfL's Treasury Management Strategy 2024/25 (included as Appendix 1) and TfL's Treasury Management Policies (TMP) (included as Appendix 2).
- 1.3 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 and to authorise the managing Chief Finance Officer to approve an increase in the TfL investment counterparty limit in respect of London Treasury Liquidity Fund LP from £10m to £900m, following confirmation from the Group Treasurer of satisfactory delivery of the changes proposed under the GLA investment collaboration, as anticipated in TfL's Treasury Management Strategy 2024/25 and TfL's Treasury Management Policies approved by the Committee in March 2024.**

3 TfL Investment Requirements

- 3.1 In March 2024, the Committee approved the TfL TMP for 2024/25. The TMP include TfL counterparty investment limits, with the investment limit for LTLF currently being £10m. The TMP also provide that following the satisfactory delivery of the changes proposed under the GLA collaboration, approval will be sought from the Committee for the LTLF exposure limit to increase to £900m. At that meeting of the Committee we also proposed the requirements for TfL to be able to substantively invest in LTLF and thereby increase the exposure limit to

£900m. These requirements were that the operational processes and systems operated by LTL would be to an equivalent, or better, standard to those TfL currently operate; and that the investment strategy will provide no greater risk than TfL currently takes or is protected by further guarantees. Good progress has been made in implementing the Treasury Management System, Quantum, for LTL. The expected date for it to go live is 27 July 2024. Shared service and secondment agreements are in the process of being finalised and operational procedure documents are being written and agreed between LTL and TfL.

4 Operational Processes and Systems

- 4.1 TfL and LTL formed a joint working group to identify and design a solution for LTL to automate their systems and for both organisations to have one service provider to enable shared back office and front office operations. Significant progress has been made to roll out Quantum to LTL. Fidelity National Information Services (FIS) have been appointed to roll out Quantum to LTL, as principal portfolio manager of LTLF. LTL are expected to go live with the Quantum treasury management system in July 2024.
- 4.2 The use of Quantum will ensure there is further segregation of duties in the operational processes of investments made for the fund, provide a complete audit trail for activity, and ensure that many of the critical tasks in investing for the fund, currently supported by spreadsheets, are completed using an external treasury management system.
- 4.3 FIS has finalised the design of Quantum and the project is currently in the user acceptance testing phase. Once completed, we expect that LTL will transition from its current spreadsheet-based system to the external treasury management system Quantum. This will mean that the investments managed by LTL will follow processes and systems of an equivalent standard to TfL.
- 4.4 A second phase of the Quantum roll-out may follow the go live in July 2024. The purpose of this is to capture investments managed by external investment managers within Quantum. As these investments are placed and managed by specialist managers, there is no direct operational risk to TfL from these investments. Therefore, we do not believe this phase needs to be completed before investing further in LTLF.
- 4.5 In addition to the use of Quantum, we will concurrently work to finalise and implement a shared service arrangement in which TfL provide back office services including settlements, confirmations, bank reconciliations to the GLA and LTL. This provides further comfort to TfL in the form of further segregation of duties, with a specialist independent team administering these financial transactions.
- 4.6 Through the collaboration with the GLA and LTL, TfL will be reimbursed for the proportion of resource cost associated with delivering the back office services. In addition, secondment arrangements are being finalised to allow TfL's incumbent investment team to provide a proportion of its resource to LTL.

5 Investment Strategy

- 5.1 Our investment in LTLF will have two components, a core commitment to LTLF, representing two per cent of expected investment balances over the next year; and loan contributions which make up the remaining 98 per cent of the investment.
- 5.2 Loan contributions are available for daily redemption, subject to LTLF's General Partner's ability to facilitate such a redemption. The core contribution is only redeemable three years after initial investment in the fund, following complete withdrawal from LTLF. Both the core commitment and loan contributions are covered by the guarantee provided by the GLA.
- 5.3 To help manage and facilitate redemption requests, we will provide a cash forecast detailing anticipated redemptions and investments in the fund. We will also invest a portion of TfL's cash balance ourselves, in liquid short-term investments to provide liquidity to meet ongoing cash requirements and absorb excess volatility in our cash balances without relying completely on LTLF.

6 Fund Governance

- 6.1 Any changes to LTLF's investment strategy (other than material changes as set out under paragraph 6.2 below), or admission of a new limited partner to the fund, require approval by 70 per cent by number of voting limited partners, voting at a meeting of the Limited Partners' Advisory Committee (LPAC) or approving through written resolution. The quorum required for an LPAC meeting is 75 per cent by number of voting limited partners representing at least 50 per cent of the core account balances held in the fund. Where written resolution is used, the required approval threshold must likewise be met from limited partners representing at least 50 per cent of the core account balances.
- 6.2 Material changes to the investment strategy, such as changes to the strategic asset allocation, value at risk limit, permitted investments and investment duration, are subject to unanimous approval from all voting limited partners who individually hold more than 2.5 per cent of the core account balances.
- 6.3 Based on the current fund size, if TfL invested £900m in LTLF, we would represent around 20 per cent of the fund by value and be one of six limited partners in the fund.
- 6.4 LTL operate with two investment committees; the Investment Advisory Committee and the Investment Committee.
- 6.5 The purpose of the Investment Advisory Committee is to challenge, scrutinise and provide advice concerning recommendations by the investment team including; asset allocation, the investment strategy of LTLF and strategic investments proposals. The Investment Advisory Committee is not decision making. There is at least one independent member required by the membership of the Investment Advisory Committee. Minutes of the Investment Advisory Committee discussions will be provided to the LPAC for when changes to the investment strategy are proposed.

- 6.6 The Investment Committee provides challenge, oversight and approval in relation to the investment management process and activities of LTLF. It may also seek the advice of the Investment Advisory Committee and make recommendations to LTLF's General Partner or the LPAC as required.
- 6.7 LTL have agreed to having a TfL representative as one of the members of the Investment Advisory Committee while TfL is an investor in the fund.

List of appendices to this report:

Appendix 1: TfL Treasury Management Strategy

Appendix 2: TfL Treasury Management Policies

Exempt supplementary information is included in the paper on Part 2 of the agenda.

List of background papers:

None

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