Finance Committee

Date: **26 February 2025**

Item: **Treasury Activities, Policies and Strategies**

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 21 September 2024 to 6 February 2025 (the Reporting Period), including a summary of the proposed changes to the Treasury Management Strategies and Policies.

1.2 Appended are the proposed TfL Treasury Management Strategy (TMS) for 2025/26, the proposed TfL Treasury Management Policies (TMP) and the proposed TfL Group Policy Relating to the Use of Derivative Investments (Derivatives Policy), along with the proposed Places for London Limited (Places for London), TfL's property development company, Treasury Management Strategy (Places for London TMS) and the Places for London Treasury Management Policies (Places for London TMP).

1.3 Approval of these strategies and policies is within the authority of the Committee. The Committee is asked to exercise that authority in relation to each of the TfL and Places for London TMS, each of the TfL and Places for London TMP and the Derivatives Policy.

1.4 A paper is included on Part 2 of the agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial or business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from the 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:

(a) approve the proposed TfL Treasury Management Strategy (TMS) 2025/26, attached as Appendix 1 to this paper, including the Investment Strategy, the Borrowing Strategy, the Liquidity Strategy and the Risk Management Strategy;

(b) approve the proposed TfL Treasury Management Policies attached as Appendix 2 to this paper;

(c) approve the proposed TfL Group Policy Relating to the Use of Derivative Investments attached as Appendix 3 to this paper;

(d) approve the proposed Places for London Limited Treasury Management Strategy, attached as Appendix 4 to this paper, including the Borrowing Strategy, the Investment Strategy and the Liquidity Strategy;

(e) approve the proposed Treasury Management Policies for Places for London Limited attached as Appendix 5 to this paper; and

(f) subject to the approval of the TMS 2025/26 and approval of the TfL Group Policy Relating to the Use of Derivative Investments (Derivatives Policy) by the Committee (pursuant to paragraph 2.1(c) above)), approve, pursuant to Section 49 of the Transport for London Act 2008 (as amended by the Transport for London Act 2016, together the Act), and in accordance with the Derivatives Policy for 2025/26, Transport for London Finance Limited (as a qualifying TfL subsidiary for the purposes of the Act) entering into derivative investment(s) in relation to:

(i) mitigating exchange rate risk related to specific currency exposures arising from the procurement of goods or services by any member of the TfL Group or grants or revenues payable in currencies other than Sterling to any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of exchange rate risk to any member of the TfL Group is established;

(ii) mitigating exchange rate risk arising from any TfL Group investments in foreign currencies and/or any TfL borrowing in accordance with the TMS 2025/26;

(iii) mitigating commodity rate and/or price risk related to specific commodity (including fuel and electricity) exposures arising from the procurement of goods or services by any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of commodity risk to any member of the TfL Group is established;

(iv) mitigating interest rate risk and if applicable currency risk related to any existing, imminent and/or future TfL Group borrowing (including any leases), once the borrowing has become certain and authorised in accordance with the TMS 2025/26; and

(v) mitigating inflation risk related to specific exposures arising from the procurement of goods or services by any member of the TfL Group once the quantum of inflation risk to any member of the TfL Group is established; and mitigating risk related to any index reflecting any of the above matters referred to in paragraphs 2.1(f)(i) to (iv) above.

3 Key Highlights

3.1 During the Reporting Period there have been significant events such as the US Presidential election and the delivery of the Autumn Budget 2024 by the Chancellor of the Exchequer. UK inflation rates were generally higher than anticipated, influenced by factors such as rising energy costs and higher taxes, consequentially the Bank of England has followed a cautious approach to future base rate cuts. UK Gilt yields have experienced notable fluctuations driven by a combination of domestic fiscal policies and global economic factors.

3.2 TfL remains largely insulated from short-term movements in interest rates except in circumstances of refinancing or new borrowing needs. In 2025/26 we expect to have around £915m of combined refinancing and new borrowing needs and are planning the best way to manage this.

3.3 During the Reporting Period, the level of our borrowing exceeded the Operational Boundary set for borrowing purposes. The Operational Boundary was set based on the 2024/25 TfL Budget in March 2024 however, in our submission to the Greater London Authority (GLA) Budget in November 2024, we accelerated previously planned borrowing from future years into 2024/25 to help mitigate the lower than budgeted operating surplus this year. This means that the total borrowing for 2024/25 is now expected to be higher than when the Operational Boundary was set. There are no direct consequences of exceeding the Operational Boundary; it is intended as a warning to prompt a review of plans where necessary. We have remained within the Authorised Limit at all times.

3.4 On 19 December 2024 the managing Chief Finance Officer approved an increase to the investment limit for investment in London Treasury Liquidity Fund LP (LTLF) from £10m to £900m. This followed satisfactory delivery of the changes proposed under the GLA investment collaboration, as anticipated in TfL's TMS for 2024/25 and TfL's TMP approved by the Committee in March 2024, and noted and authorised at the meeting of the Committee on 11 July 2024. We started increasing our investment in LTLF from 6 January 2025, the date of collaboration go-live, and we have continued to invest proceeds from maturing arrangements on a weekly basis. We expect to continue investing until we reach a balance slightly below our investment limit for 2024/25 of up to £900m. We expect to be fully invested by April 2025 leaving around £400m to be managed directly by us.

3.5 On 6 January 2025 we began providing full back-office treasury services to the GLA's investment management subsidiary, London Treasury Limited. The back-office treasury function includes instructing high value bank payments and inter account transfers, settlement of financial investments and transactional and regulatory reporting.

3.6 Otherwise during the Reporting Period we have complied with each of the TfL TMS, the TfL TMP, the Derivatives Policy, the Places for London TMS and the Places for London TMP, each approved by the Committee on 8 March 2024. We have also complied with the GLA Responsible Investment Policy.

3.7 The TfL TMS, TMP and Derivatives Policy have been reviewed and updated along with the Places for London TMS and Places for London TMP and changes made to these are noted in section 10 of this paper.

4 Investment Update

4.1 During the period we began increasing our investment with LTLF. We plan to continue increasing our investment in LTLF until balances reach a level slightly below the counterparty investment limit, allowing for future growth in our investment without breaching limits. While we are investing regularly in LTLF we continue to manage the residual balance in accordance with our policies and strategies, prioritising short-term instruments to ensure adequate liquidity to meet TfL's ongoing payment requirements. Going forward we will continue to report the total makeup of the total investment portfolio, including our investment in LTLF and the funds that we manage locally.

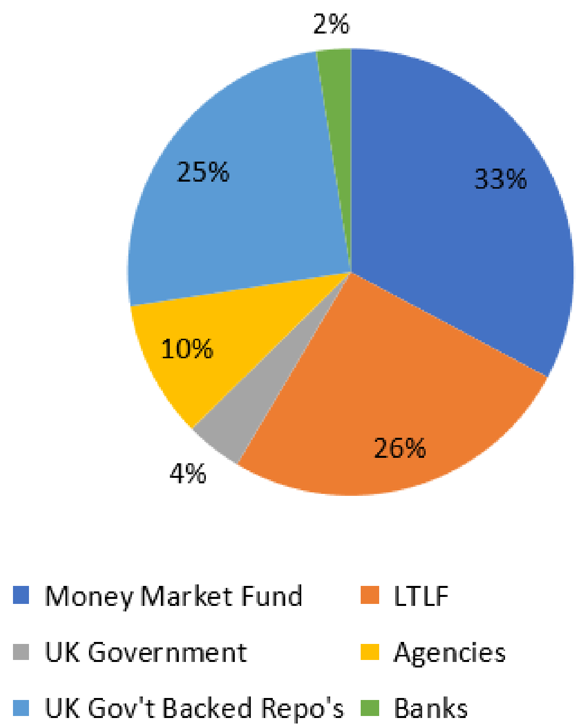
4.2 The maximum duration of investments has remained at three months. The Bank of England reduced the base rate twice during the Reporting Period, from 5.00 per cent to 4.75 per cent on 7 November 2024 and from 4.75 per cent to 4.50 per cent on 6 February 2025.

4.3 Our investments remain short dated with 100 per cent maturing within two weeks. The weighted average maturity of investments over the Reporting Period decreased from 15 days to two days. The reduction in weighted average maturity reflects the increased investment in LTLF, 98 per cent of which is available for same day redemption.

4.4 The weighted average investment yield on 6 February 2025 was 4.75 per cent, 29 basis points higher than the Sterling Overnight Index Average benchmark for the same period.

4.5 As of 6 February 2025, we held a portfolio of investments as shown in Chart 1 below.

Chart 1 – Sector breakdown of TfL cash position on 6 February 2025



5 Risk Management Update

5.1 The level of floating rate borrowing, as a percentage of all borrowings outstanding, has increased over the Reporting Period, from 10.2 per cent to 11.2 per cent. The level of floating rate borrowing is monitored and will move according to cash flow needs, refinancings and the price and availability of floating rate debt. The increase during the Reporting Period is due to an increase in outstanding commercial paper (CP), to ensure sufficient liquidity. We remain comfortably within the maximum limit of 25 per cent set out in our TMS for 2024/25.

5.2 Although 11.2 per cent, or £1,516m, 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 (or fall) in interest rates on our floating rate debt is somewhat offset by a rise (or fall) in interest receivable from our investment portfolio.

5.3 We continue to manage foreign exchange and interest rate risk, using derivatives to hedge material exposures relating to investments, borrowing and commercial activities.

6 Borrowing Update

6.1 At the end of the Reporting Period, we had £13,554m in outstanding borrowing with an average tenor of around 18 years and a weighted average interest rate of 3.65 per cent. We remained within the Authorised Limit for borrowing of £14,657m for the Group at all times during the Reporting Period.

6.2 The outstanding borrowing of £13,554m is above the Operational Boundary of £13,457m as outlined above. This is an acceleration of borrowing only and the overall level of planned borrowing to 2027/28 remains the same as our 2024 TfL Business Plan. There are no direct consequences of exceeding the Operational Boundary; it is intended as a warning to prompt a review of plans where necessary.

GLA Green Finance Fund (GFF) loans

6.3 In December 2024 we entered into four new GFF borrowing facilities with the GLA for projects that support the Mayor's ambition for London to be net zero by 2030. The four new GFF facilities total £33.5m and are in relation to:

(a) London Underground – small station LED upgrade (up to £19,022,118);

(b) TfL Road Network – LED upgrade to accelerate conversion of highway lighting (up to £8,829,583);

(c) 200 Buckingham Palace Road – sustainability upgrades (up to £4,400,000); and

(d) Neasden depot – environmental improvements and installation of low carbon technology (up to £1,251,000).

6.4 The funds under each of the above facilities were fully drawn in January 2025 for an eight year-tenor. The interest rate for the first three years is Gilts minus 15 basis points, and the interest rate for the remaining term is Gilts plus 60 basis points, representing a 20 to 95 basis point saving compared to the Public Works Loan Board (PWLB) Certainty Rate.

6.5 In January 2025 we also made the final drawdown of £16.8m under our GFF ULEZ facility with the GLA, with no further eligible spend expected to be incurred on the project. The interest rate is Gilts plus 60 basis points, representing a 20basis point saving compared to the PWLB Certainty Rate.

6.6 All of the above GFF borrowing forms part of our annual planned borrowing.

National Wealth Fund borrowing

6.7 On 27 September 2024 we drew the remaining £100m under our £300m National Wealth Fund (formerly UK Infrastructure Bank) loan agreement to support the DLR rolling stock replacement programme. The interest rate is Gilts plus 40 basis points, representing a 40 basis point saving compared to the PWLB Certainty Rate.

Remaining 2024/25 borrowing requirement

6.8 Based on the borrowing assumptions in our submission to the GLA Budget, we expect to have around £152m of borrowing left to undertake before the end of 2024/25. We will continue to monitor our borrowing options and will draw on the most appropriate borrowing source to meet our borrowing needs at the time.

7 Credit Ratings

7.1 Our credit ratings as at the end of the Reporting Period are shown in Table 1 below.

Table 1: TfL's credit ratings as of 6 February 2025 (the end of the Reporting Period)

	S&P	Moody's	Fitch
Long-term rating	AA-	A2	AA-
Outlook	Stable	Stable	Stable
Short-term rating	A-1+	P-1	F1+
Last update	20 May 2024 (upgraded)	15 July 2024 (upgraded)	15 April 2024 (affirmed)

7.2 We continued to engage with all three credit rating agencies during the Reporting Period. There have been no changes since our last update to the Committee.

8 Banking

8.1 We have been working with our banking provider HSBC and Places for London to implement an automated direct debit mandate process for new tenants. The Automated Direct Debit Instruction Service application is in the process of being completed and will be returned to our sponsoring bank (HSBC) to implement the changes with an estimated go-live date in March 2025.

8.2 We have also been working with HSBC and our subsidiary London Transport Museum Limited (LTM) to implement an automated direct debit process within LTM's website. HSBC have assigned an Implementation Manager to oversee the project and LTM are currently in the process of procuring an accredited Bureau for their direct debit collections.

8.3 Our Treasury's Cash and Banking team are in discussions with HSBC to explore and maximise the benefits of Open Banking, a UK Government initiative that allows banks and financial institutions to securely share financial data with third-party providers using Application Programming Interfaces (APIs). Some of the areas that might benefit TfL is innovation around collecting income streams more quickly, making online payments simpler and securely using open banking apps or APIs.

9 Supplier Financial Risk Monitoring

9.1 We have been working with the Procurement and Commercial team to review how best to provide improved insight on supplier financial health and strengthen our enterprise risk management. Following the review, we are proposing to: (i) enhance monitoring of reported business activity and other market indices (for example share price and credit default swap moves); and (ii) complete regular detailed financial reviews of TfL and Places for London key suppliers to support relationship management. These activities will be completed by the Treasury team and we expect the new processes to be embedded by April 2025.

9.2 In tandem with this, the Procurement and Commercial team will increase focus on risk mitigation measures for high-risk suppliers as well as working more closely with project managers to help identify warning signals.

10 TfL Treasury Management Strategy and Policies

10.1 The updated Treasury Strategies and Policies from TfL and Places for London and the TfL Derivatives Policy are detailed in Appendices 1-5 with tracked changes from last year. The purpose of, and key changes to, each are noted below.

TfL Treasury Management Strategy 2025/26

10.2 This highlights the proposed strategies for investment, borrowing, liquidity and risk management for the financial year 2025/26, as well as proposed counterparty exposure limits. It sets out TfL's borrowing requirement for 2025/26.

10.3 In relation to the Risk Management Strategy, the proposals to the Committee for derivative investments set out in Recommendation 2.1(f) have been approved by the statutory and managing Chief Finance Officers, as required under the Derivatives Policy.

10.4 TfL's borrowing requirement for 2025/26 is expected to be £915m, excluding rolling CP. This amount consists of £595m maturing borrowing and £320m of incremental borrowing. We retain several options for refinancing during the year, including capital markets transactions, the PWLB, the UK Infrastructure Bank, the GLA, other financial institutions and issuance under our CP programme. Figures in this paragraph are based on the latest available information. However, this is subject to change as the 2025/26 budgeting process progresses and we may revise these numbers keeping in view our cash needs and debt affordability.

10.5 We have been issuing CP in Euros and US Dollars since HM Treasury gave permission for us to do so in December 2023. This has been very successful and has enabled us to minimise our financing costs. While do not expect any immediate expansion of the permission provided by HM Treasury, we have updated the TMS to clarify that should further permissions be forthcoming in future, we may raise foreign currency borrowing in other currencies or via other instruments if this is beneficial at the time.

TfL Treasury Management Policies

10.6 This sets out our treasury management authorities and delegations.

10.7 We have included an additional requirement for the statutory Chief Finance Officer to be consulted ahead of any new long-term borrowing. This is in accordance with their position as the designated Section 127 officer under the Greater London Authority Act 1999, and their requirement to ensure all borrowing is affordable.

10.8 We have proposed an increase in the investment limit for LTLF from £900m to the higher of £1,000m, or 75 per cent of the total portfolio in line with the changes stated to our TMS.

10.9 There have been no further material changes to the TMP. The TMP is included as Appendix 2.

TfL Group Policy Relating to the Use of Derivative Investments

10.10 The Derivatives Policy must be reviewed annually. This is because prior to section 49 (power to plan for risk mitigation) of the Transport for London Act 2008 being enacted, TfL agreed with the House of Commons Committee considering the original TfL promoted Bill, that an annual policy on the use and governance of derivative investments entered into under section 49, would be put in place and approved annually.

10.11 The Derivatives Policy has been reviewed and no material changes have been made. The proposed policy can be found with tracked changes in Appendix 3.

Places for London Limited Treasury Management Strategy

10.12 The Places for London TMS has been reviewed, and no material changes have been made. It has been provided with tracked changes in Appendix 4.

Places for London Limited Treasury Management Policies

10.13 The Places for London TMP has been reviewed, and no material changes have been made. It has been provided with tracked changes in Appendix 5.

List of appendices to this report:

Appendix 1: TfL Treasury Management Strategy

Appendix 2: TfL Treasury Management Policies

Appendix 3: TfL Group Policy Relating to the Use of Derivative Investments

Appendix 4: Places for London Limited Treasury Management Strategy

Appendix 5: Places for London Limited Treasury Management Policies

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

List of background papers:

None

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