

TRANSPORT FOR LONDON

FINANCE COMMITTEE

SUBJECT: PRUDENTIAL CODE - INDICATORS OF PRUDENCE AND AFFORDABILITY – OUTTURN FOR THE YEAR ENDED 31 MARCH 2008

DATE: 16 SEPTEMBER 2008

1 PURPOSE AND DECISION REQUIRED

- 1.1 When the Board approved the 2007-08 budget it also approved indicators, as required and defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code (the Code), to demonstrate it had exercised prudence in assessing the affordability of the capital expenditure and debt necessary to support the budget outputs.
- 1.2 This report is to confirm that approved indicators for TfL have been met. Two related Group indicators have been exceeded. Group indicators are not required under the Code but are provided to recognise the unique nature of TfL Group compared to local authorities in general.

2 BACKGROUND

- 2.1 The Corporation and Group accounts have now been audited and the actual results used to calculate the outturn against the Board approved indicators as set out in Appendix 1.
- a) The PPP Capital Expenditure indicator was set at £909m. The accounts report £1,093m, an increase of £184m (20%). This expenditure is incurred by PPP providers and is therefore outside the direct control of TfL. However, the increase is offset by a £94m (8%) decrease in expenditure on fixed assets under TfL's control. Overall, Group capital expenditure exceeded the approved indicator by £90m (4%).
- b) The Capital Finance Requirement (CFR) reflects the level of capital expenditure funded by debt and has increased by the PPP additional expenditure noted above.

3 RECOMMENDATIONS

- 3.1 The Finance Committee is asked to NOTE that TfL approved indicators for prudence and affordability have been met and that the Group indicator for capital expenditure and the CFR has been marginally exceeded, due to higher PPP investment expenditure, which is outside the direct control of TfL.

Prudential Indicators for Prudence and Affordability		
2007- 08		
The ratio of financing costs to net revenue stream	Actual	Approved Indicators
TfL Corporation	0.6%	1.7%
TfL Group	12.8%	13.1%
Comprising:		
PPP finance leases	8.5%	9.3%
On-balance sheet PFIs	1.6%	1.6%
Direct borrowing/(Investment) and other financing*	2.7%	2.2%
The ratio of payments to gross revenue stream (this Indicator is not required by the Prudential Code)	Actual	Approved Indicators
Payments due under PPP	22.4%	22.8%
Payments due under On-balance sheet PFIs	0.7%	0.8%
Payments due under direct borrowing	1.2%	1.1%
Net Borrowing and the Capital Financing Requirement**	TfL Corporation	TfL Group
	£m	£m
Net Borrowing /(Investment) including long term liabilities at 31 March 2008		
Approved Indicator ***	241	3,629
Actual	123	3,367
Capital Financing Requirement at 31 March 2010		
Approved Indicator (restated)	3,168	8,921
* The line titled 'Direct Borrowing and other financing' includes net depreciation charged to TfL's Group Income and Expenditure Account.		
** The Prudential Code requires that Net Borrowing at 31 March 2008 will not exceed the Capital Financing Requirement at 31 March 2010.		
*** Includes all PPP lease obligations.		

**Prudential Indicators for Capital Expenditure and External Debt
2007- 08**

Capital Expenditure (Annual)

TfL Corporation

TfL Group

Acquired

PPP finance leases

TfL Group Total

Actual £m	Approved Indicators £m
1,071	1,368
1,071	1,165
1,093	909
2,164	2,074

**The Capital Financing Requirement
(Cumulative)**¹

TfL Corporation

Total TfL Group

Actual £m	Approved Indicators (Restated) £m
1,915	1,984
6,098	6,018

Authorised Limit²

TfL Corporation

Borrowing

Long term liabilities

**Total Authorised Limit for External
Debt in TfL Corporation**

TfL Group

Borrowing

Long term liabilities³

Total Authorised Limit for External Debt
in TfL Group

Actual £m	Approved Indicators £m
1,950	2,000
9	30
1,959	2,030
1,950	2,000
3,320	3,760
5,270	5,760

¹ The Capital Financing Requirement is the cumulative amount of capital expenditure financed by debt. This has been re-stated to reflect revised CIPFA guidance. This re-statement has no adverse impact on Group finances.

² The authorised limit is the maximum amount that TfL may borrow legally.

³ Includes all PPP lease obligations.