AGENDA ITEM 4

TRANSPORT FOR LONDON

FINANCE AND POLICY COMMITTEE

SUBJECT: PRUDENTIAL INDICATORS – OUTTURN FOR THE YEAR ENDED 31 MARCH 2011

DATE: 12 OCTOBER 2011

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1 PURPOSE AND DECISION REQUIRED

1.1 In March 2010, the Mayor approved the prudential indicators for TfL (Mayoral Decision 591), as required and defined in the CIPFA Prudential Code (the Code), to demonstrate it exercised prudence in assessing the affordability of the capital expenditure and debt necessary to support the budget outputs. In August 2010, the indicators were revised (under Mayoral Decision 625) to allow for the impact on TfL's balance sheet of the acquisition of Tube Lines (Holdings) Limited (TLH) and the initial restructuring of certain tranches of borrowings held on the balance sheet of Tube Lines Finance Plc (TLF). In March 2011, the indicators were revised again (under Mayoral Decision 801) to reflect further potential restructuring of TLF borrowings.

1.2 The purpose of this paper is to report on TfL's performance against the final revised indicators for the Financial Year 2010/11. The Committee is asked to note the paper.

2 BACKGROUND

2.1 The Corporation's audited accounts have been used to calculate the outturn against the revised Board approved indicators (see Appendix 1) as the scope of the Code only extends to the Corporation's accounts and not those of the Group.

2.2 Although not covered by the Code, equivalent Group indicators have been included in Appendix 1 for information purposes only.

3 OUTTURN

3.1 The key prudential indicator is the Corporation's Authorised Limit, which sets the total amount of direct and indirect (e.g. long term creditors, provisions) borrowings for the Corporation. For 2010/11, the limit was set at £7,221.4m and total borrowings at 31 March 2011 were £5,279.3m.

3.2 One key factor contributed to the outturn number being significantly lower than the target indicator. The target indicator assumed that the Corporation would borrow to repay the existing TLF debt (£1,640m) prior to the year end. However, re-financing did not take place by that date, and the Corporation's borrowings were therefore significantly below the Authorised Limit.

3.3 The Corporation has an indicator which measures financing costs as a proportion of net revenue – the latter amount being the amount of total grant funds apportioned to revenue. The outturn number for this indicator (11.2 per cent) was marginally above the target as set (10.8 per cent). This was due to higher capital grant being applied in the Corporation than assumed in the target, causing a 0.5 per cent increase in the outturn number. Financing costs were below the target number. There are no consequences for breaching this indicator, and as financing costs were below the target no remedial action is required.

3.4 All other Corporation indicators were within target.

4 RECOMMENDATION

4.1 The Committee is asked to NOTE TfL's outturn performance against approved Corporation indicators for 2010/11.

5 CONTACT

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Appendix 1

Prudential Indicators for Prudence and Affordability 2010/11

The ratio of financing costs to net revenue stream	Actual	Approved Indicators
TfL Corporation	**11.2%**	**10.8%**
TfL Group	27.2%	27.1%
Comprising:		
Finance leases	2.3%	2.3%
On-balance sheet PFIs	2.2%	2.4%
Direct borrowing/(investment) and other financing*	22.7%	22.4%
TfL Group excluding the effect of net depreciation*	16.7%	16.4%

Net Borrowing and the Capital Financing Requirement**	Actual £m	Approved Indicators £m
Net borrowing /(investment) including long term liabilities at 31 March 2011		
- Corporation***	**4,519.9**	**4,699.7**
- Group	4,699.8	4,882.5
Capital Financing Requirement at 31 March 2013		
Approved Indicator - Corporation	N/A	**7,038.4**
Approved Indicator - Group	N/A	11,126.8

* The line titled 'Direct Borrowing and other financing' includes net depreciation charged to TfL's Group Income and Expenditure Account as set out in the Code. The ratio excluding the net depreciation is shown for information as this is believed to be more relevant to TfL.

** The Prudential Code requires that Net Borrowing at 31 March 2011 will not exceed the Capital Financing Requirement at 31 March 2013.

*** Includes all lease obligations.

Prudential Indicators for Capital Expenditure and External Debt 2010- 11

Capital Expenditure (Annual) [1]	Actual £m	Approved Indicators £m
TfL Corporation	**4,361.9**	**4,529.0**
TfL Group		
Acquired	2,539.7	2,356.8
Finance leased assets	259.1	259.1
TfL Group Total	2,798.8	2,615.9

The Capital Financing Requirement (Cumulative) [2]	Actual £m	Approved Indicators £m
TfL Corporation	**6,521.4**	**6,735.2**
Total TfL Group	9,170.8	9,387.9

Authorised Limit for External Debt [3]	Actual £m	Approved Indicators £m
TfL Corporation		
Borrowing	4,750.1	6,683.0
Long term liabilities	529.2	538.4
Total Authorised Limit for External Debt in TfL Corporation	**5,279.3**	**7,221.4**
TfL Group		
Borrowing	6,766.6	6,865.8
Long term liabilities [4]	1,303.3	1,297.4
Total Authorised Limit for External Debt in TfL Group	7,869.9	8,163.2

[1] Capital expenditure for the Corporation is defined as expenditure on fixed assets within the Corporation plus any grants or loans passed to subsidiaries for capital purposes. The equivalent Group indicator is simply the capital spend on tangible and intangible assets. The different definition of capital expenditure is the reason for the apparent disconnect between the Corporation and Group capital expenditure totals.

[2] The Capital Financing Requirement is the cumulative amount of capital expenditure to be financed over and above the amount funded by grant, capital receipts or third party contributions.

[3] The authorised limit for external debt is the sum of the authorised limit for borrowing and the authorised limit for other long term liabilities. This limit must not be breached.

[4] Includes all lease obligations.