Finance and Policy Committee

Date: 17 October 2012

Item 6: Prudential Indicators – Outturn For The Year Ended 31 March 2012

This paper will be considered in public

1 Summary

1.1 In March 2011, the Mayor approved the prudential indicators for TfL (Mayoral Decision 800), 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 March 2012, the indicators for borrowing limits were revised by the Mayor to allow for the impact on TfL's balance sheet of the acquisition of City Airport Rail Enterprises (Holdings) Limited and Woolwich Arsenal Rail Enterprises (Holdings) Limited and their respective subsidiaries (the CARE and WARE groups).

1.2 The purpose of this paper is to report on TfL's performance against the final revised indicators for the Financial Year 2011/12.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 The Prudential Code plays a key role in capital finance in local authorities. The Code was developed as a professional code of practice to support local authorities in their decision making processes for capital expenditure and its financing.

3.2 Local authorities are required by Regulation to have regard to the Code when carrying out their duties under Part 1 of the Local Government Act 2003 (the Act).

3.3 The framework of Prudential Indicators established by the Code aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the Statement of Accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management.

3.4 The Code was developed for local authorities in general, the vast majority of which do not have subsidiary companies. The Corporation's (TfL's) audited accounts have been used to calculate the outturn against the revised Board approved indicators (see Appendix 1 below) as the scope of the Code only extends to the Corporation's accounts and not those of the Group.

3.5 Although not covered by the Code, equivalent Group indicators have been included in Appendix 1 for information purposes only. Group indicators are provided on a voluntary basis to recognise the unique nature of the TfL Group compared to local authorities in general. Group indicators, although voluntary, can provide a better indication of overall performance as they are not affected by some intercompany transactions that can distort the outturn for the Corporation.

3.6 It should be noted that there are no penalties applied to a local authority for failing individual indicators, with the exception of the Authorised Borrowing Limit.

4 Outturn

4.1 The key prudential indicator is the Corporation's Authorised Borrowing Limit, which sets the total amount of direct and indirect (e.g. long term creditors, provisions) debt for the Corporation. As is shown in Appendix 1, for 2011/12, the limit was set at £7,848.6m and total debt at 31 March 2012 was below this limit at £7,495.4m.

4.2 The Code also requires calculation of capital expenditure. Capital expenditure for the Corporation is defined as expenditure on fixed assets within the Corporation, any equity investments made by the Corporation including in subsidiaries, plus any grants or loans passed to subsidiaries for capital purposes.

4.3 The indicator for Corporation capital expenditure was breached for 2011/12. The breach arose as a result of a timing difference in the funding of the Crossrail project. An agreement was reached with Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. The timing of the transaction was not finalised until shortly before the end of the financial year and £160m was advanced on 30 March 2012 to Network Rail. The funds were initially advanced by the Corporation to Crossrail Limited and this advance is treated as capital expenditure for the purposes of the Prudential Code. As the transaction was not included in the forecast, it resulted in a breach of the indicator.

4.4 There are no consequences for breaching this indicator and, as this represents a timing difference rather than a trend of above target capital expenditure, no remedial action is required.

4.5 The outturn capital financing requirement for the Corporation also exceeded the indicator set. This was as a result of differences from the forecast in intercompany transactions relating to capital expenditure and has no bearing on the affordability of the Business Plan. It should be noted that the capital financing requirement for the Group, which by definition excludes intercompany transactions, was below the indicator set.

4.6 There are no consequences for breaching this indicator. As TfL's capital plans remain affordable no remedial action is required.

4.7 All other Corporation indicators were within target.

5 Conclusions

5.1 No remedial action is required to be taken in light of TfL's performance against the approved prudential indicators.

5.2 TfL will continue to monitor prudential indicators on a quarterly basis. In the event that corrective action is required, or a statutory indicator requires a change, a paper will be presented to the Committee.

5.3 TfL has also requested that KPMG review the methodology for calculating the indicators to ensure that it remains in line with the requirements of the Prudential Code. KPMG last undertook such a review approximately seven years ago.

List of appendices to this report:

Appendix 1: Outturn Prudential Indicators for the year ended 31 March 2012

List of Background Papers:

None

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Appendix 1

Outturn Prudential Indicators for the year ended 31 March 2012

Prudential Indicators for Capital Expenditure and External Debt 2011/12

Authorised Limit for External Debt [1]	Actual £m	Approved Indicators £m
TfL Corporation		
Borrowing	7,067.0	7,434.0
Long term liabilities [2]	428.3	414.6
Total Authorised Limit for External Debt in TfL Corporation	**7,495.4**	**7,848.6**
TfL Group		
Borrowing	7,142.5	7,434.0
Long term liabilities [2]	1,284.8	1,318.9
Total Authorised Limit for External Debt in TfL Group	8,427.3	8,752.9

Capital Expenditure (Annual)	Actual £m	Approved Indicators £m
TfL Corporation	**3,294.3**	**3,162.5**
TfL Group	2,650.9	2,731.4

The Capital Financing Requirement (Cumulative) [3]	Actual £m	Approved Indicators £m
TfL Corporation	**7,672.5**	**7,246.7**
Total TfL Group	8,095.3	8,274.3

[1] 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.

[2] Includes all lease obligations.

[3] 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.

Prudential Indicators for Prudence and Affordability

2011/12

The ratio of financing costs to net revenue stream	Actual	Approved Indicators
TfL Corporation	**13.5%**	**15.5%**
TfL Group	27.2%	31.7%
Comprising:		
On-balance sheet PFIs and leases	4.8%	5.3%
Direct borrowing/(Investment) and other financing*	22.5%	26.4%

Net Borrowing and the Capital Financing Requirement**	Actual £m	Approved Indicators £m
Net Borrowing /(Investment) including long term liabilities at 31 March 2012		
- Corporation***	**4,485.2**	**5,081.9**
- Group	4,480.8	5,055.7
Capital Financing Requirement at 31 March 2014		
Approved Indicator – Corporation	N/A	**6,940.8**
Approved Indicator – Group	N/A	12,623.3

* 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 Code requires that Net Borrowing at 31 March 2012 will not exceed the Capital Financing Requirement at 31 March 2014.

*** Includes all lease obligations.