Finance and Policy Committee

Date: 17 October 2013

Item 7: Borrowing Strategy – Part 1

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to provide information on:

(a) the legislative and institutional framework regulating TfL's borrowing activities; and

(b) the key principles underpinning TfL's Borrowing Strategy.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. 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. 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.**

3 Borrowing – Legislative and Institutional Framework

3.1 TfL borrows to fund a proportion of its capital investment. The borrowing programme was set up to provide TfL with greater flexibility to choose the best value procurement method for its investment programme compared to the period prior to 2003 when the only financing options available were leasing, Private Finance Initiative (PFI), or Public Private Partnership (PPP).

3.2 The borrowing programme also provides external market discipline from capital markets, rating agencies and lenders.

3.3 As a local authority for capital finance purposes, TfL derives its powers to borrow from the Local Government Act 2003 (LGA 2003), for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs, and is subject to the local government prudential borrowing regime. The LGA 2003 specifies that all money borrowed, together with interest on the money borrowed, shall be charged indifferently on all the revenues of TfL. The LGA 2003 also specifies that all securities created by TfL rank equally and without priority. A further requirement of LGA 2003 is that TfL should have regard to the CIPFA Code of

Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services 2011 (the Prudential Code).

3.4 The Public Works Loans Act of 1875 and the National Loans Act of 1968 provide TfL, as a GLA functional body, with immediate access to central government financing via the Public Works Loan Board (PWLB).

3.5 The Local Government Finance Act (LGFA) 1988 specifies that TfL must produce a balanced budget each year. The sum of revenues, grant, contingency and borrowing must equal total operating and capital costs, including debt service.

3.6 The Mayor is required to approve an affordable borrowing limit for TfL each year, (the Authorised Limit), which is the legal limit for TfL's indebtedness.

3.7 TfL Corporation borrowing is included in Public Sector Net Debt and as a result TfL's funding settlement with the Department for Transport contains agreed incremental borrowing limits for the period covered by each Spending Review. The limits for the 2013 Spending Review are outlined in Table 1:

Table 1

Year	2014	2015	2016	2017	2018	2019	2020	2021	Total
Incremental Borrowing Limit (£m)	345	650	600	700	700	600	600	600	4,450

4 Key Principles underpinning TfL's Borrowing Strategy

4.1 TfL's Borrowing Strategy objectives, as set out in the 2013/14 Treasury Management Strategy (TMS), approved by the Board in March 2013, are to manage its borrowing in a manner that combines flexibility, security of access to finance, diversity of finance sources, value for money (by minimising the average cost of borrowing over the long term) and affordability.

Access to Diverse Financial Sources

4.2 TfL is committed to maintaining a number of funding sources available to access at all times. This is a prudent approach that prevents TfL becoming reliant on any one source.

4.3 The current Approved Borrowing Sources under the TMS include (i) the PWLB, (ii) the capital markets through TfL's Euro Commercial Paper (ECP) and Euro Medium Term Note (EMTN) programmes, (iii) loans and other facilities with the European Investment Bank (EIB) and other banks (where appropriate), and (iv) a £200m overdraft facility with HSBC.

4.4 Additional sources of borrowing may only be added to the Approved Borrowing Sources with the approval of the Committee. The Committee's approval is required for any newly arranged facility (but not facilities being renewed) through the EIB or commercial banks.

4.5 The PWLB provides a backstop for TfL. However, in recent years, the rate at which TfL can borrow from the PWLB has changed significantly. Having access to the EIB and the capital markets in particular has meant these changes did not adversely affect TfL.

4.6 Diversification also creates significant flexibility, which is particularly evident with TfL's short-term funding sources. During the credit crunch and later the sovereign debt crisis, the long-term capital markets were severely disrupted for issuers. TfL found it very difficult to find a market window which offered suitably attractive terms.

4.7 During this time, short-term borrowing through the Commercial Paper and a one year Floating Rate Note provided over £2bn of TfL's borrowing needs. This short-term borrowing gave TfL the flexibility to make the most of advantageous market conditions when the opportunity presented itself in July 2012, when TfL issued two £500m bonds in 10 and 30 year tenors.

5 Borrowing Plans

5.1 The details of TfL's short to medium term borrowing plans are outlined in the 'Borrowing Strategy' paper on Part 2 of the agenda.

5.2 A further paper seeking approval for a new £500m corporate loan facility from the European Investment Bank is also on Part 2 of the agenda.

Appendices to this report:

A paper on Part 2 of the agenda contains exempt supplemental information.

List of background papers:

None

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