Finance and Policy Committee

Date: **22 January 2015**

Item 14: **Borrowing Strategy**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to:

(a) provide a brief update on TfL’s outstanding borrowing;

(b) set out the key principles of TfL’s borrowing strategy; and

(c) set out the options available to TfL for raising its borrowing requirements for 2015/16.

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.

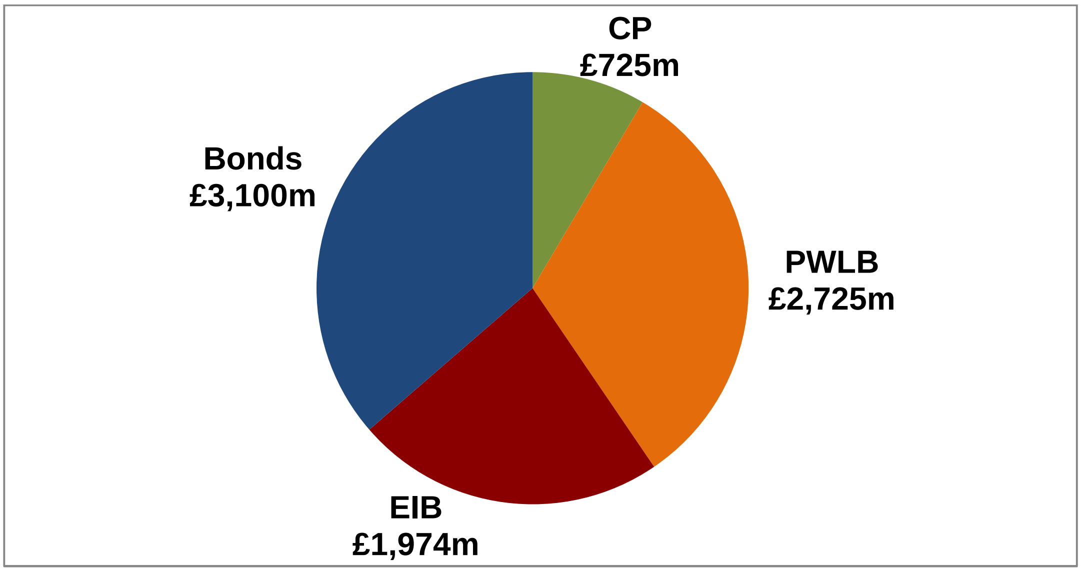
2 Recommendation

2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

3 Borrowing Outstanding

3.1 TfL borrows to fund a proportion of its capital investment. As at 1 December 2014, TfL’s debt outstanding was £8.5bn. Chart 1 gives a breakdown of the sources of TfL’s outstanding debt: (i) £3.1bn were raised in the capital markets under the £5bn European Medium Term Note (EMTN) programme, (ii) £2.7bn were raised from the Public Works Loan Board (PWLB), (iii) £2bn raised from the European Investment Bank (EIB), and (iv) £725m were raised in short term commercial paper (CP) under the £2bn Commercial Paper Programme. The average years to maturity are 22 years and the weighted average cost of debt is 3.8 per cent.

Chart 1 – TfL Outstanding Debt as at 1 December 2014



4 Future Borrowing Requirements

4.1 TfL's incremental borrowing limits from 2015/16 to 2020/21, as per the July 2013 Spending Review letter and subsequent January 2014 adjustment, are set out in Table 1 below:

Table 1 – TfL Incremental Borrowing Requirements

Year	2016	2017	2018	2019	2020	2021	Total
Incremental Borrowing Limit (£m)	600	700	900	500	500	600	**3,800**

4.2 TfL's borrowing requirement for 2015/16 is set out in Table 2:

Table 2 – TfL Borrowing Requirements 2015/16

Requirement	£m
Funding settlement (from Spending Review)	600
Refinancing of debt maturing in 2015/16	25.3
Refinancing of CP not required for swaps	34.7
Total Borrowing Requirement for 2015/16	**660**
EIB LOCIP to be drawn down 2015/16	(85)
Balance to be raised	**575**

4.3 In addition to £600m of incremental borrowing, as per the July 2013 Spending Review letter, TfL is planning to refinance £25m of existing debt maturing in 2015/16 and possibly up to £35m of short term CP which is not required to match existing interest rate swaps. In October 2014, TfL signed a £85m facility with the EIB to fund a portion of the London Overground Improvement Capacity project (LOCIP). Such amount will be drawn down in 2015/16, with the balance of up to £575m to be raised by 31 March 2016.

5 Key Principles of TfL's Borrowing Strategy

5.1 TfL's Borrowing Strategy objectives, as set out in the 2014/15 Treasury Management Strategy (TMS), approved by the Board in March 2014 and updated in November 2014, 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.

5.2 Since October 2010, when the UK Government increased the PWLB lending rate to Gilt+100bps[1], TfL has not accessed such source of funding to raise its borrowing as it is not competitively priced relative to other sources (i.e. capital markets, EIB).

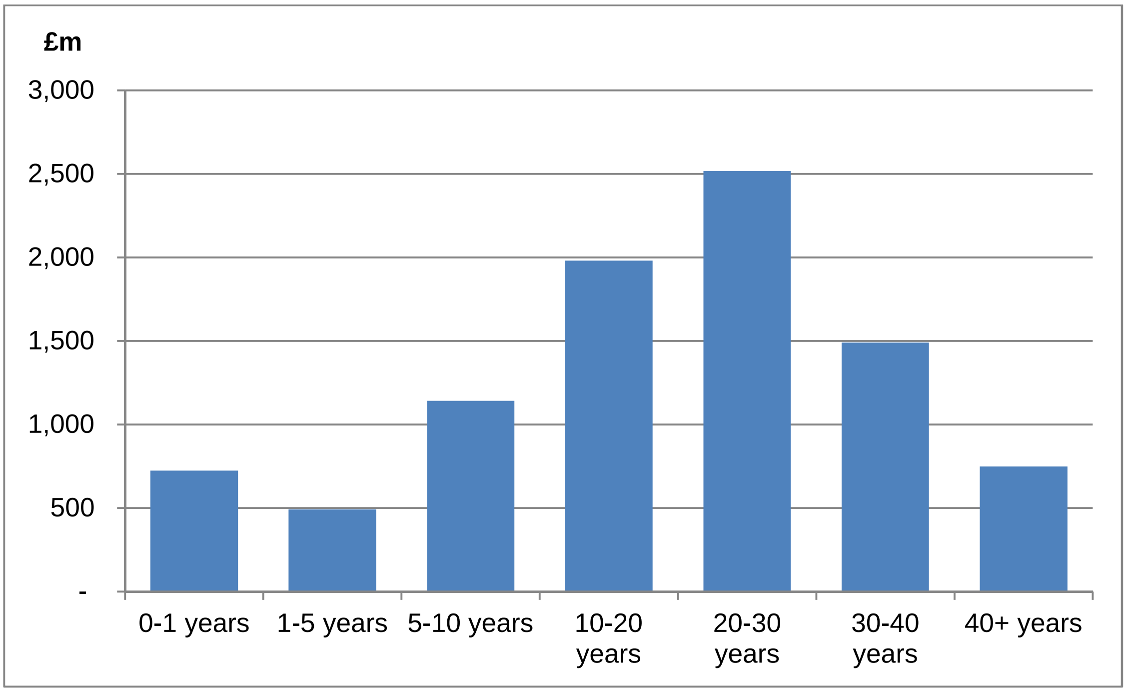
5.3 Over the past four years, TfL has focused on:

(a) issuing in the capital markets in different maturities to build a liquid curve. Since 2012, TfL has issued seven bonds of different tenors (from five years to 50 years, as shown in Chart 2). By building a liquid curve and remaining present in the bond market, TfL has been able to reduce the credit spread on each of its issuances, moving from a spread of 98bps in 2012 to 55bps in May 2014. At present TfL can only issue debt in Sterling. HM Treasury approval is required for TfL to issue in other currencies. To date, such approval has not been granted; and

(b) establishing corporate loan facilities with the EIB (i.e. the £500m loan facility for the Crossrail Rolling Stock and Depot project signed in December 2013, the £85m loan facility for the London Overground Capacity Improvement project signed in October 2014) and exploring alternative sources of funding (i.e. from export credit agencies, commercial banks). Additional facilities with the EIB and export credit agencies are being discussed with the Committee at this meeting under separate papers.

[1] In November 2012, the PWLB rate was reduced to G+80bps for TfL and other entities which qualify for a discounted rate (the Certainty Rate).

Chart 2 – TfL Principal Repayments Profile



5.4 TfL remains committed to maintaining a number of funding sources available to access at all times and is committed to exploring new funding options (in terms of investor base or instruments) as they become available. This is a prudent approach that prevents TfL becoming reliant on any one source or any one investor and being able to secure access to finance and minimising the average cost of borrowing over the long term.

5.5 Part 2 of this paper sets out the options considered to raise up to £575m of debt in 2015/16.

List of 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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