Finance and Policy Committee

Date: 17 October 2013

Item 5: Prudential Indicators – Outturn For The Year Ended 31 March 2013

This paper will be considered in public

1 Summary

1.1 In March 2012, the Mayor approved the prudential indicators for TfL for the 2012/13 Financial Year (Mayoral Decision 963), 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. The purpose of this paper is to report on TfL's performance against these indicators.

2 Recommendation

2.1 **The Committee is asked to note this 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 Prudential 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 Prudential Code was developed for local authorities in general, the vast majority of which do not have subsidiary companies. The Corporation's audited accounts have been used to calculate the outturn against the 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.

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 breaching individual indicators, with the exception of the Authorised Borrowing Limit.

4 Outturn

4.1 The key prudential indicator is the Authorised Limit for External Debt, which sets the total limit for direct and indirect (e.g. long term creditors, provisions) debt for the organisation. Both the Corporation and the Group were within the total Authorised Limits set for External Debt for the year ended 31 March 2013. However, within this overall limit, the Corporation and the Group each exceeded their planned total for indirect debt. In both cases the excess was more than offset by actuals below the set indicator for direct borrowings as detailed below.

4.2 As is shown in Appendix 1, for 2012/13, the limit for the Corporation was set at £9,224.0m and total debt at 31 March 2013 was below this limit at £7,888.0m. Within the overall Authorised External Debt Limit, the Corporation was also within the limit for borrowings with a direct borrowings total at 31 March 2013 of £7,492.5m compared to the Authorised Limit of £8,832.0m. However, the Corporation's outturn for other long term liabilities of £395.5m was £3.5m over the indicator set for long term liabilities due to a switch in financing from direct borrowings to finance lease liabilities in Q4 2012/13. This was a consequence of a new contract entered into by Taxi and Private Hire within Surface Transport being treated as containing a finance lease under International Financial Reporting Standards. The issue was identified by Surface Transport only after the contract had been signed, and revised review procedures have since been put in place to ensure earlier identification of potential finance leases in commercial contracts. The Prudential Code, however, stipulates that, provided that the total authorised limit and operational boundary for external debt for a year are unchanged, movement may be made between the separately identified figures within the prudential indicators for borrowing and other long-term liabilities without penalty. These debt reclassifications therefore are not considered to be a matter for concern.

4.3 For the Group, total external debt at £8,681.3m was within the Authorised Limit of £9,611.1m. However, within this overall group position, the Group outturn for long term liabilities was significantly over the voluntary indicator. The borrowing element of the authorised limit is calculated and set to allow TfL to refinance certain PFI transactions (namely City Airport and Northern Line Trains), as and when it is commercially advantageous to do so, without the need to revise the indicator. The long term liabilities element of the authorised limit is adjusted down by the same amount to ensure that there is no overall increase in the total authorised limit. The higher outturn long term liabilities are offset by lower direct borrowing reflecting the fact that no such refinancing took place during the year. These debt reclassifications are not considered to be a matter for concern, as indicated above, so long as total debt remains within the overall authorised limit, movement may be made between direct borrowings and other long-term liabilities without penalty.

4.4 The outturn capital financing requirement (CFR) for the Corporation and Group also exceeded the indicator set. This was largely due to revisions to the calculation methodology made in March 2013 when the most recent prudential indicators were approved for the years from 2013/14 to 2015/16. The change in methodology was to move from an incremental movements based method of calculation to a balance sheet method of calculation more easily reconciled to figures in the published financial statements. As there are no consequences for breaching this indicator (unless the breach is a reflection of a genuine deterioration in financial position) the indicator was not formally reset. However even after adjusting for the change in methodology, the outturn CFR exceeded the recalculated indicator by £71.4m for the Corporation. This reflected short-term timing differences in the release of the Corporation's Crossrail property provision. The outturn CFR also exceeded the recalculated indicator by £190.9m for the Group; again reflecting short-term timing differences in grant allocation across the Group. As the impacts of the timing differences will reverse in the near future, they do not affect the affordability of the Business Plan.

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

4.6 All other Corporation and Group 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. Under the Prudential Code, movement may be made between the separately identified figures within the prudential indicators for borrowing and other long-term liabilities without penalty. The debt reclassifications experienced between the composite elements of the Limit for Total External Debt are not, therefore, considered to be a matter for concern.

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.

List of appendices to this report:

Appendix 1: Outturn Prudential Indicators

List of Background Papers:

None

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Appendix 1

Prudential Indicators for Capital Expenditure and External Debt 2012/13

Authorised Limit for External Debt [1]	Actual £m	Approved Indicators £m
TfL Corporation		
Borrowing	**7,492.5**	**8,832.0**
Long term liabilities [2]	395.5	392.0
Total Authorised Limit for External Debt in TfL Corporation	**7,888.0**	**9,224.0**
TfL Group		
Borrowing	7,564.6	8,832. 0
Long term liabilities [2]	1,116.7	779.1
Total Authorised Limit for External Debt in TfL Group	8,681.3	9,611.1

Capital Expenditure (Annual)	Actual £m	Approved Indicators £m
TfL Corporation	**3,110.7**	**3,234.7**
TfL Group	3,107.0	3,404.5

The Capital Financing Requirement (Cumulative) [3]	Actual £m	Approved Indicators £m
TfL Corporation	**8,112.6**	**7,607.0**
Total TfL Group	9,555.1	8,475.7

[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. The calculation methodology has been amended since the calculation of the approved indicator following a review by KPMG in January 2013. The indicator for 2012/13 based on the 2012 business plan, using the new methodology, would have been £8,041.2 for the Corporation and £9,364.2 for the Group.

Prudential Indicators for Prudence and Affordability

2011/12

The ratio of financing costs to net revenue stream	Actual	Approved Indicators
TfL Corporation	**13.1%**	**16.8%**
TfL Group	15.7%	28.3%
Comprising:		
On-balance sheet PFIs and leases	2.9%	3.5%
Direct borrowing/(Investment) and other financing*	12.8%	24.8%

Net Borrowing and the Capital Financing Requirement*	Actual £m	Approved Indicators £m
Net Borrowing /(Investment) including long term liabilities at 31 March 2013		
- Corporation**	**4,088.5**	**5,823.0**
- Group**	4,787.9	5,854.9
Capital Financing Requirement at 31 March 2015		
Approved Indicator - Corporation	N/A	**8,608.6**
Approved Indicator - Group	N/A	9,642.4

* The Prudential Code required that Net Borrowing at 31 March 2013 will not exceed the Capital Financing Requirement at 31 March 2015.

**Net borrowing at 31 March 2013 includes all lease obligations and long term liabilities.