Finance and Policy Committee

Date: 14 October 2014

Item 5: Prudential Indicators – Outturn for the Year Ended 31 March 2014

This paper will be considered in public

1 Summary

1.1 In March 2013, the Mayor approved the prudential indicators for TfL for the 2013/14 Financial Year (Mayoral Decision 1172), 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 2014, the indicators were revised under Mayoral decision 1324 to allow for the impact on TfL's balance sheet of changes to the expected settlement profile of the Crossrail property provision and changes resulting from increased management recharges to subsidiaries.

1.2 This paper reports on TfL's performance against the final revised indicators for the Financial Year 2013/14.

2 Recommendation

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

3 Background

3.1 The 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. 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 to those of the Group.

3.4 The Code was developed for local authorities in general, the vast majority of which do not have significant subsidiary companies.

3.5 Although not covered by the Code, equivalent Group indicators have been included in Appendix 1 below 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 for TfL as they are not affected by some intercompany transactions that can distort the outturn for the Corporation.

3.6 There are no penalties applied to a local authority for breaching individual indicators, with the exception of the Authorised Limit for External Debt. Borrowing in excess of the Authorised Limit is ultra vires.

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 for External Debt for the year ended 31 March 2014.

4.2 As is shown in Appendix 1, for 2013/14, the Corporation outturn at 31 March 2014 was below the limits set for both the direct borrowings and the long term liabilities components of the Authorised Limit.

4.3 For the Group, total external debt at £8,970.2m was within the Authorised Limit of £9,960.6m. However, within this overall position, and in line with previous years, the Group outturn for long term liabilities of £1,073.2m was significantly over the voluntary indicator of £783.6m. The borrowing element of the authorised limit is calculated and set to allow TfL to refinance certain Private Finance Initiative (PFI) transactions (namely Lewisham DLR extension 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 the Code stipulates that, 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 There are no consequences for breaching this voluntary indicator. As TfL’s capital plans remain affordable, as demonstrated through the Business Plan approved by the Board, no remedial action is required.

4.5 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 Code, movement may be made between the separately identified figures within the prudential indicators for borrowing and other long-term liabilities without penalty, provided that the total Authorised Limit for external debt is unchanged. The debt reclassifications experienced between the composite elements of the Authorised Limit at Group level are not, therefore, a matter for concern.

5.2 Prudential indicators for the current year 2014/15 were approved by the Board in March 2014. TfL continues to monitor prudential indicators for the current year on a quarterly basis. In the event that corrective action is required, or a statutory indicator requires a change, a paper will be brought back 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 2013/14

Authorised Limit for External Debt [1]	Actual £m	Approved Indicators £m
TfL Corporation		
Borrowing	7,897.0	9,177.0
Long term liabilities [2]	410.9	433.1
Total Authorised Limit for External Debt in TfL Corporation	**8,307.9**	**9,610.1**
TfL Group		
Borrowing	7,897.0	9,177.0
Long term liabilities [2]	1,073.2	783.6
Total Authorised Limit for External Debt in TfL Group	**8,970.2**	**9,960.6**

Capital Expenditure (Annual)	Actual £m	Approved Indicators £m
TfL Corporation	**3,568.4**	**3,779.8**
TfL Group	3,493.9	3,797.2

The Capital Financing Requirement (Cumulative) [3]	Actual £m	Approved Indicators £m
TfL Corporation	**8,484.9**	**8,513.6**
Total TfL Group	9,660.0	9,688.1

[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

2013/14

The ratio of financing costs to net revenue stream	Actual	Approved Indicators
TfL Corporation	**17.6%**	**20.0%**
TfL Group	40.0%	40.1%
Comprising:		
On-balance sheet PFIs and leases	3.8%	3.8%
Direct borrowing/(Investment) and other financing*	36.2%	36.3%

Gross Debt and the Capital Financing Requirement*	Actual £m	Approved Indicators £m
Gross Debt including long term liabilities at 31 March 2014		
- Corporation**	**8,307.9**	**9,610.1**
- Group**	8,970.2	9,960.6
Capital Financing Requirement at 31 March 2016		
Approved Indicator - Corporation	N/A	**9,960.4**
Approved Indicator - Group	N/A	10,474.1

* The Prudential Code requires that Gross Debt at 31 March 2014 not exceed the Capital Financing Requirement at 31 March 2016.

**Gross Debt at 31 March 2014 includes all lease obligations and long term liabilities.