

Date: 6 October 2021

Item: Prudential Indicators – Outturn for the Year Ended 31 March 2021

This paper will be considered in public

1 Summary

- 1.1 On 16 March 2021, the Board approved restated prudential indicators and debt limits for TfL for the 2020/21 Financial Year as required and defined in the Chartered Institute of Public Finance and Accountancy Prudential Code (the Code). These indicators had been restated from those originally approved by the Mayor in March 2020, to reflect the early adoption by TfL of IFRS 16 Leases. Under the Code, TfL is required to adopt prudential indicators which support decision making on planned capital expenditure, borrowing and treasury management activities.
- 1.2 The purpose of this paper is to report on TfL’s performance against the indicators for the Financial Year 2020/21.

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 for 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.
- 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 2020/21 TfL Statement of Accounts has been used to calculate the outturn against the Board approved indicators (see Appendix 1).

- 3.4 Revised prudential indicators for the year 2020/21 were approved by the Board in March 2021, based on the 2020/21 forecast included in the TfL 2021/22 Budget approved at the same time, which included the impact of the implementation of IFRS 16 Leases. The Authorised Limited and Operational Boundary for direct borrowings remained as approved by the Mayor in Mayoral Decision 2615 on 18 March 2020. Limits for the long-term liabilities element of the Authorised Limit for total External Debt were restated at this time for the impact of the application by TfL of IFRS 16 Leases.
- 3.5 As required by the Code, TfL prepares Prudential Indicators at both the TfL Corporation (Corporation) and TfL Group (Group) level. The Corporation is made up of London Streets, Taxi and Private Hire and the corporate centre which, for legal and accounting purposes, constitutes TfL – a local authority. The Group comprises the Corporation and its subsidiaries.
- 3.6 There are no penalties applied to a local authority for breaching individual indicators, with the exception of the Authorised Limit. Under the Code, the audited Statement of Accounts is the source for comparison of performance against indicators approved.

4 Outturn

- 4.1 The key prudential indicator is the Authorised Limit for External Debt (Authorised Limit), which sets the total limit for direct and indirect (e.g. long-term creditors, provisions) debt for the organisation. There are no penalties applied to a local authority for breaching individual indicators, with the exception of the Authorised Limit for External Debt (the Authorised Limit). Both the Corporation and the Group were within their total Authorised Limits for the year ended 31 March 2021.
- 4.2 As shown in Appendix 1, the Authorised Limit for direct borrowings for the Group and Corporation was set at £14,029.3m. Total actual borrowings at 31 March 2021 at both the Group and Corporation level were below this limit at £12,995.5m. Long-term liabilities for the Group as at 31 March 2021 were £2,825.4m, compared to a limit of £3,266.5m, resulting in an outturn for the total Authorised Limit for external debt for the Group of £15,820.9m, £1,474.9m under the limit approved.
- 4.3 For the Corporation, long-term liabilities as at 31 March 2021 totalled £591.4m, compared to a limit of £862.5m, resulting in an outturn for the total Authorised Limit for external debt for the Group of £13,586.9m, £1,304.9m under the limit approved.
- 4.4 The Operational Boundary for direct borrowing for the Group and Corporation was set at £13,164.3m, with the operational boundary for long-term liabilities at 31 March 2021 set at £2,883.6m for the Group and £612.5m for the Corporation. The outturn for direct borrowings was £168.8m below the Operational Boundary for the Group and Corporation, whilst the outturn for long term liabilities was £21.1m below the boundary for the Corporation and £58.2m below for the Group.
- 4.5 Other Corporation and Group indicators were all within target.

5 Conclusions

- 5.1 Both the Corporation and the Group were within their total Authorised Limits for the year ended 31 March 2021; and other Corporation and Group indicators were all within target.

List of appendices to this report:

Appendix 1 – Outturn Prudential Indicators

List of Background Papers:

None

Contact Officer: Patrick Doig, Interim Statutory Chief Finance Officer
Email: Patrick.Doig@tfl.gov.uk

**Prudential Indicators for Capital Expenditure and External Debt
2020/21 (£'m)**

<u>Operational Boundary for External Debt</u>	<u>Approved</u>	<u>Outturn (IFRS 16)</u>
<u>TfL Corporation</u>		
Borrowing	13,164.3	12,995.5
Long-term liabilities	612.5	591.4
Total Operational Boundary for External Debt	13,776.8	13,586.9
<u>TfL Group</u>		
Borrowing	13,164.3	12,995.5
Long-term liabilities	2,883.6	2,825.4
Total Operational Boundary for External Debt	16,047.9	15,820.9
<u>Authorised Limit for External Debt*</u>	<u>Approved</u>	<u>Outturn (IFRS 16)</u>
<u>TfL Corporation</u>		
Borrowing	14,029.3	12,995.5
Long-term liabilities	862.5	591.4
Total Authorised Limit for External Debt	14,891.8	13,586.9
<u>TfL Group</u>		
Borrowing	14,029.3	12,995.5
Long-term liabilities	3,266.5	2,825.4
Total Authorised Limit for External Debt	17,295.8	15,820.9
<u>Capital Expenditure (Annual)</u>	<u>Approved</u>	<u>Outturn (IFRS 16)</u>
TfL Corporation	2,280.5	2,175.7
TfL Group	2,754.6	2,120.5

**Prudential Indicators for Prudence and Affordability
2020/21**

The ratio of financing costs to net revenue stream	<u>Approved</u>	<u>Outturn (IFRS 16)</u>
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TfL Corporation	10.0%	9.9%
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TfL Group	21.3%	19.5%
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Gross Debt and the Capital Financing Requirement*	<u>Approved</u>	<u>Outturn (IFRS 16)</u>
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Gross Debt including long term liabilities at 31 March 2021

- Corporation**	n/a	13,586.9
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- Group**	n/a	15,820.9
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Capital Financing Requirement at 31 March 2023

Approved Indicator - Corporation	14,620.1	N/A
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Approved Indicator - Group	18,899.0	N/A
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** The Code requires that Gross Debt at 31 March 2021 does not exceed the expected Capital Financing Requirement at 31 March 2023.*

***Gross Debt at 31 March 2021 includes all lease obligations and long-term liabilities.*