Finance Committee

Date: **6 October 2022**

Item: **Prudential Indicators – Outturn for the year ending 31 March 2022**

This paper will be considered in public

1 Summary

1.1 On 16 March 2021, the Board approved prudential indicators and debt limits for TfL for the 2021/2022 financial year as required and defined in the Chartered Institute of Public Finance and Accountancy Prudential Code (the Code). The limits and indicators were based on figures in TfL's Budget and Business Plan as approved by the Board on 9 December 2020, adjusted for known significant changes in assumptions relating to revenue, cost and funding where relevant, and subject to assumptions on future Government funding at the time these limits and indicators were approved.

1.2 The purpose of this paper is to report on TfL's performance against the indicators for the financial year 2021/2022. In line with Code requirements, TfL's 2021/2022 Statement of Accounts has been used to calculate the outturn which has been compared against the Board approved indicators (see Appendix 1).

1.3 The outturn for the financial year 2021/2022 is satisfactory upon comparison with the Prudential Indicators approved.

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 The framework 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 outturn indicators based on the Statement of Accounts at each financial year end. Indicators relate to capital expenditure, external debt and treasury management.

3.3 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.

3.4 The Code states that when an authority prepares group accounts, in setting indicators, the authority must include all items where a residual interest remains with the authority. Thus, TfL prepares prudential indicators at both the TfL Corporation (“Corporation”) and TfL Group (Group) level. The Corporation is made up of our road network operations, Taxi and Private Hire licensing and compliance and the TfL corporate centre which, for legal and accounting purposes, constitutes TfL – a local authority. The Group comprises the Corporation and its subsidiaries, in which the remainder of our operations are carried out.

3.5 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). The other indicators, if breached, act as an early warning that financial plans may require review and amendment.

3.6 The Authorised Limit is derived by adding an element of headroom to the Operational Boundary for External Debt (the Operational Boundary), to allow for unexpected cashflow fluctuations.

3.7 The Operational Boundary is a sum of all the borrowings, and long-term capital liabilities, including finance lease creditors and provisions as shown in the TfL Budget and Business Plan.

4 Outturn

4.1 The key prudential indicator is the Authorised Limit, which sets the maximum legal limit for direct and indirect (e.g. long-term creditors, provisions) debt for the organisation. Both the Corporation and the Group were within their Authorised Limits for the year ended 31 March 2022.

4.2 By definition, the Authorised Limit comprises TfL’s budgeted expectation (via the Operational Boundary) for the financial year, which is subsequently uplifted to provide a mechanism to raise further debt in a limited number of circumstances, without breaching TfL’s maximum legal debt limit, at any point during the financial year – albeit these are an unbudgeted set of circumstance.

4.3 As shown in Appendix 1, the Authorised Limit for direct borrowings for the Group and Corporation was set at £14,495m. Total actual borrowings as at 31 March 2022 were below this limit at £12,994m (£1.5bn headroom as at 31 March 2022).

4.4 This £1.5bn headroom to the Authorised Limit does not represent additional borrowing that TfL can undertake to fund its activities. It includes a £0.2bn overdraft facility that TfL can access to mitigate short-term adverse cash flows to meet liquidity requirements. Of the remainder, £1.1bn provided flexibility should in-year opportunities arise to refinance borrowing (£1bn) and a limited number of PFI contracts (£0.1bn) in advance of their maturities. This is beneficial as it offers the flexibility to reduce refinancing risk or interest rate risk without the restriction of timing a refinancing to precisely match existing debt maturities. The residual variance is explained in paragraph 4.7 below.

4.5 Long-term liabilities for the Group as at 31 March 2022 were £2,724m, compared to the Authorised Limit for indirect borrowing limit of £3,156m (£0.4bn lower than the limit set). Aligned with the principle explained in paragraph 4.2 above, the Authorised Limit for indirect debt included an uplift to the Operational Boundary of £0.5bn to capture the potential for new commercial contracts to be entered into that are classified as long-term leases under IFRS 16. Additionally, a £0.1bn offset was applied to avoid a double count of the headroom already provided for in relation to the refinancing of specific PFI contracts referred to in paragraph 4.4 above.

4.6 Similarly, for the Corporation, long-term liabilities as at 31 March 2022 totalled £554m, compared to an indirect borrowing limit of £821m, resulting in an outturn of £267m lower than the limit set. The Authorised Limit for indirect debt included an uplift to the Operational Boundary of £250m to capture the potential for new commercial contracts to be entered into that are classified as long-term leases under IFRS 16 with the residual variance explained in paragraph 4.8 below.

4.7 The Operational Boundary for direct borrowing for the Group and Corporation was set at £13,163m, with the outturn coming £168m under this level. Around half of this variance is due to scheduled repayments of debt facilities, that were not refinanced, as had been assumed at the time the prudential indicators were set. The residual variance relates to a contract option to purchase additional trains which was not exercised and will no longer be included in setting future limits due to our constrained financial position.

4.8 The Operational Boundary for long-term liabilities as at 31 March 2022 was set at £2,761m for the Group and £571m for the Corporation. The outturn for indirect borrowing was £17m below the boundary for the Corporation and £37m below for the Group. Drivers of the variance predominately relate to a rephasing, and earlier settlement, of long-term capital provisions when compared with the expected profile at the time prudential indicators were set.

4.9 Consistent with paragraphs 4.5 and 4.6 above, the capital expenditure estimate included a £0.5bn for the Group and £0.25bn for the Corporation element of prudence to capture the potential for new commercial contracts to be entered into that are classified as long-term leases and consequently, capital spend/right of use assets under IFRS 16.

4.10 The Code acknowledges the capital expenditure indicator is an estimate and subject to fluctuation in the ordinary courses of business. Both the Corporation and the Group have significantly underspent in relation to capital expenditure, when actuals are compared with the estimate outlined in March 2021. This underspend was due to the lower Government funding received in 2021/22 compared to the Budget assumption by £0.5bn, which meant planned capital expenditure had to be reduced.

4.11 The Code acknowledges the ratio of financing costs to net revenue stream is an estimate and subject to fluctuations in the ordinary course of business. There are numerous variables within the calculation and no predominant driver has been noted when compared with the indicators set. The outturn for the Corporation has exceeded the indicator by 0.5 per cent. This does not represent an increase in the underlying interest charge and cash cost of direct and indirect debt and is not a cause for concern. For the Group and Corporation, the outturn is considered within a reasonable range of the estimates set.

4.12 The final indicator set is the comparison of Gross Debt to Capital Financing Requirement and in line with expectations, the level of Gross Debt as at 31 March 2022 does not exceed the anticipated level of Capital Financing Requirement as at 31 March 2024.

5 Conclusions

5.1 The outturn for the financial year 2021/2022 is satisfactory upon comparison with the Prudential Indicators approved.

List of appendices to this report:

Appendix 1 – Outturn Prudential Indicators

List of Background Papers:

None

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Appendix 1

Prudential Indicators 2021/22 (£'m)

Operational Boundary for External Debt	**Approved**	**Outturn**
TfL Corporation		
Borrowing	13,162.5	12,993.6
Long-term liabilities	570.8	554.4
Total Operational Boundary for External Debt	**13,733.3**	**13,548.0**
TfL Group		
Borrowing	13,162.5	12,993.6
Long-term liabilities	2,761.0	2,724.5
Total Operational Boundary for External Debt	**15,923.5**	**15,718.1**

Authorised Limit for External Debt*	**Approved**	**Outturn**
TfL Corporation		
Borrowing	14,494.8	12,993.6
Long-term liabilities	820.8	554.4
Total Authorised Limit for External Debt	**15,315.6**	**13,548.0**
TfL Group		
Borrowing	14,494.8	12,993.6

Long-term liabilities	3,155.6	2,724.5
Total Authorised Limit for External Debt	**17,650.5**	**15,718.1**

Capital Expenditure (£'m)	**Approved**	**Outturn**
TfL Corporation	2,671.2	2,122.4
TfL Group	3,634.9	2,356.9

The ratio of financing costs to net revenue stream	**Approved**	**Outturn**
TfL Corporation	11.0%	11.5%
TfL Group	16.6%	13.8%

	Approved	**Outturn**
Gross Debt at 31 March 2022*		
- Corporation**	n/a	13,548.0
- Group**	n/a	15,718.1
Capital Financing Requirement at 31 March 2024		
Corporation	14,398.4	n/a
Group	18,346.1	n/a

** The Code requires that Gross Debt as at 31 March 2022 does not exceed the expected Capital Financing Requirement at 31 March 2024.*

*** Gross Debt as at 31 March 2022 includes all lease obligations and long-term liabilities.*