

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD1324

Title: Approval of GLA Group Borrowing Limits and Prudential Indicators for 2014-15 to 2016-17 and Amendment of Borrowing Limit for TfL for 2013-14

Executive Summary:

The Mayor is required under Section 3 (2) of the Local Government Act 2003 (the "2003 Act") to set an "Authorised Limit" (affordable borrowing limit) for external debt, which includes direct borrowing as well as other long-term liabilities, for the GLA and each functional body. Under sections 3 (3) and 3(4) of the 2003 Act he must consult with the Assembly and each functional body before approving new limits or amending existing approvals. Alongside these limits the Mayor also approves the Prudential Indicators for the GLA Group and the associated Capital Financing Requirements as is required under the CIPFA Prudential Code.

The core GLA and functional bodies' (the Mayor's Office for Policing and Crime - MOPAC, the London Fire and Emergency Planning Authority - LFEPA, Transport for London - TfL and London Legacy Development Corporation - LLDC) capital programmes for 2014-15 to 2016-17 were set out in the Mayor's capital spending plan published on 27 February 2014 which was approved under Mayoral Decision 1321.

The proposed borrowing limits and prudential indicators for 2014-15 to 2016-17 - which have regard to the capital spending plans and the final budgets agreed for each functional body and the GLA - are set out in Appendices A and B respectively. Appendix C sets out a proposed in year revision to TfL's borrowing limits for 2013-14.

The Mayor consulted the Assembly and each functional body on the proposed borrowing limits for 2014-15 to 2016-17 as part of his consultation budget issued on 20 December 2013. The consultation on the revision to TfL's 2013-14 limits was issued on 4 March 2014. Each functional body supports the limits and indicators being proposed for approval and the Assembly raised no specific objections to the proposed limits submitted to them for consideration as part of the 2014-15 budget consultation process.

Decision:

The Mayor is requested to agree:

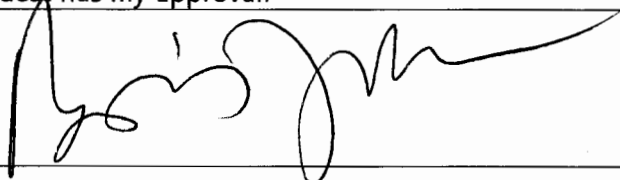
the Authorised borrowing Limits (Appendix A) and Prudential Indicators (Appendix B) for 2014-15 to 2016-17 for the GLA and for each functional body and the amendment to the Authorised Borrowing Limit (Appendix C) for TfL for 2013-14.

Mayor of London

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct for elected Members of the Authority. Any such interests are recorded below.

The above request has my approval.

Signature



Date

31.3.2014

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1 The Mayor is required, under section 122 of the Greater London Authority Act 1999 (“the GLA Act”, as amended), to prepare a capital spending plan for the GLA’s functional bodies. The final 2014-15 GLA Group capital spending plan was approved under Mayoral Decision 1321 and published on the GLA website on 27 February 2014 at: <http://www.london.gov.uk/mayor-assembly/gla/spending-money-wisely/budget-expenditure-charges/the-mayors-budget-for-2014-15>.
- 1.2 The Mayor is also required under Section 3 (2) of the Local Government Act 2003 (“the 2003 Act”) to set an Authorised Limit (or affordable borrowing limit as it is described in the 2003 Act) for external debt, which includes direct borrowing as well as other long-term liabilities, for each of the functional bodies and the GLA which has regard to the approved capital spending plans. Under section 3 (3) of the 2003 Act he must consult with the Assembly before approving new limits or amending existing approvals. The objective in setting the limits is to ensure that these are consistent with each organisation’s plans for capital expenditure and financing (i.e. the GLA group capital spending plan); and with its treasury management policy statement and practices. The Local Government (Capital Finance and Accounting) (England) Regulations 2003 (“the 2003 Regulations”) require each functional body and the GLA to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities in exercising their functions under Part I of the 2003 Act, including the determination of the Authorised Limit.
- 1.3 Local authorities can borrow on the basis of need and affordability, which they have to demonstrate through compliance with the Prudential Code developed by CIPFA and given statutory force through the 2003 Regulations. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.
- 1.4 Two borrowing limits are set under the Prudential Code. The Authorised Limit – the formal limit approved under the 2003 Act – is the expected maximum borrowing needed by each functional body with headroom provided for each functional body for unexpected developments such as unusual cash movements. The operational boundary for external debt is based on the same estimates as the authorised limit. However it reflects an estimate of the most likely, prudent but not worst case scenario. It equates to the maximum level of external debt projected by the agreed capital spending plan and excludes any headroom included within the authorised limit. There are two elements to these limits – the limit on actual borrowing and that on any long term liabilities included on each authority’s balance sheet (e.g. Finance leases).
- 1.5 Alongside the borrowing limits the Mayor is required to approve the Prudential Indicators for the GLA Group under the CIPFA Prudential Code which assess the affordability and prudence of the capital spending plans. Under the Code local authorities are also required to calculate a capital financing requirement (CFR) – the estimated underlying need for an authority to borrow having regard to its capital spending plan and financing from other sources such as capital receipts and government grants. Treasury management indicators on interest rate exposures and the expected maturity structure of borrowing are also approved under the Code.

2. Issues for consideration

- 2.1 This Mayoral Decision requests the Mayor to approve the affordable borrowing limits (the 'Authorised Limit'), prudential indicators and capital financing requirements for the GLA and each functional body for 2014-15 to 2016-17 having regard to the above statutory requirements. These limits have regard to the Mayor's capital spending plan for 2014-15 which was published on 27 February 2014 (Mayoral Decision 1321) following the statutory consultation on the draft plan issued on 20 December 2013.
- 2.2 TfL's proposed borrowing limits for 2014-15, as set out in Appendix A to this document, have changed from those that were consulted upon in the draft capital spending plan issued on 20 December 2013. These changes reflect an updated borrowing profile and, as permitted under the 2013 Spending Review, allow for future scheduled debt repayments to be refinanced if required. The headroom to the operational boundary and authorised limit for other long term liabilities, allowing for the refinancing of certain PFI contracts, has also been reduced in 2014-15 and 2015-16 reflecting the reduction in the outstanding liabilities under these contracts since the prudential indicators were last set.
- 2.3 The GLA's proposed borrowing limits for 2014-15, as set out in Appendix A to this document, have also changed from those that were consulted upon in the draft capital spending plan reflecting updated assumptions regarding planned borrowing relating to the Northern Line Extension.
- 2.4 In regards to MOPAC, LFEPA and LLDC, there have been no changes made to the proposed borrowing limits for 2014-15 compared to the figures consulted upon in the draft capital spending plan published as part of the Mayor's consultation budget.
- 2.5 TfL has also requested that its Operational Boundary and Authorised Limit for gross debt for 2013-14, as approved in Mayoral Decision 1172 (March 2013), be amended to reflect a changed profile in the timing of settlement of certain long term liabilities relating to Crossrail's property claim provisions. The increase in long term liabilities as a result of this change results in a forecast required increase in the proposed Operational Boundary and Authorised Limit for total gross debt of £87.1 million. There is, however no impact on the Operational Boundary or Authorised Limit for the direct borrowing elements. This Decision therefore also seeks the Mayor's approval to amend the existing approved 2013-14 borrowing limits for TfL as set out in Appendix C.
- 2.6 Under section 3 (3) of the Local Government Act the Mayor must consult with the London Assembly before amending the approved borrowing limits for the GLA's functional bodies. The Budget and Performance Committee delegated authority to the Chairman of the Committee to respond, in consultation with Party Group Leads, to the Mayor's consultation on these proposed amendments to TfL's 2013-14 borrowing limits. A response was received from the Chairman on 14 March 2014 which raised no specific objections to the proposed amendments to the existing approved 2013-14 borrowing limits for TfL as set out in Appendix C to this document.

3. Financial Comments

- 3.1 The final 2014-15 capital spending plan was issued on 27 February 2014 at <http://www.london.gov.uk/mayor-assembly/gla/spending-money-wisely/budget-expenditure-charges/the-mayors-budget-for-2014-15> and approved in Mayoral Decision 1321. The borrowing limits (the 'Authorised Limits') and prudential indicators for 2014-15 to 2016-17 and the proposed revisions to the previously approved TfL limits for 2013-14 which are being submitted for approval are consistent with the final 2014-15 capital plan with the exception of TfL capital expenditure estimates which have been amended as a result of the changes arising from the 2013 Spending Review to the TfL Budget and Business Plan (see 2.2 above). The TfL capital expenditure estimates

set out in this document are those submitted to TfL's Finance and Policy Committee and approved by TfL's Board on 26 March 2014.

- 3.2 The borrowing limits along with the capital financing requirements and prudential indicators submitted here for approval have been determined in line with the provisions of the Local Government Act 2003 and relevant accounting codes.
- 3.3 The Treasury Strategy for the core GLA was approved under Mayoral Decision 1325 on 25 March 2014. The capital financing requirements and prudential indicators submitted here for approval are consistent with the strategy set out in that document. The indicators for the functional bodies are consistent with those approved as part of their internal decision making processes.

4 Legal Comments

- 4.1 The Mayor is required under section 122 of the GLA Act to prepare, for each financial year, a capital spending plan for the functional bodies. The 2014-15 capital spending plan was approved under Mayoral Decision 1321 in February 2014 and included the capital spending plans for the four functional bodies and the GLA.
- 4.2 The Mayor is also required under section 3(2) of the Local Government Act 2003 to determine how much money the GLA and each functional body can afford to borrow. This is the 'Authorised Limit' (or affordable borrowing limit). The limit determined for TfL under the 2003 Act concerns the borrowing of TfL as a body corporate established under s154(1) of the GLA Act and not the TfL Group (which includes TfL and its subsidiary companies).
- 4.3 Under sections 3(3) and 3(4) of the 2003 Act, before making any determination under section 3(2) in respect of the GLA, the Mayor has to consult the London Assembly, and before making any determination in respect of a functional body, the Mayor has to consult that functional body. Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the Mayor, in complying with his duty to determine the affordable borrowing limit for the GLA and the functional bodies, to have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA. The Mayor agrees the Prudential Indicators for each functional body and the GLA for the purposes of complying with the CIPFA Prudential Code. For TfL the Prudential Indicators recommended for approval are for the TfL Corporation and (where stated) the TfL Group (i.e. including its subsidiaries).
- 4.4 It is understood that the Mayor consulted with the Assembly on the proposed borrowing limits for the GLA and the functional bodies and consulted each functional body on the proposed borrowing limit for that body, set out in his draft capital spending plan issued on 20 December 2013. Paragraph 3.1 above confirms that the final limits proposed for approval are consistent with the requirements of the final 2014-15 capital spending plan for the GLA Group issued on 27 February 2014, with the exception of TfL where the final limits proposed for approval are consistent with TfL capital expenditure estimates which have been amended as a result of changes arising from the 2013 Spending Review to the TfL Budget and Business Plan.
- 4.5 It is further understood that the Assembly was consulted through its Budget and Performance Committee in March 2014 on the proposed changes to TfL's borrowing limits set out in Appendix C, and that it raised no specific objections to the proposed revisions.

5. Investment & Performance Board

- 5.1 This decision has not been considered by the Investment and Performance Board as it does not relate to the approval of a specific GLA programme or project. However the Mayor's capital spending

plan and the proposed limits have been consulted on and approved in line with the statutory process set out in the GLA Act and the Local Government Act 2003.

6. Background/supporting papers

Mayor's consultation budget for 2014-15 published on 20 December 2013

Mayor's final draft consolidated budget for 2014-15 published on 6 February 2014

Mayor's capital spending plan for 2014-15 published on 27 February 2014 and approved in MD1321

Mayoral Decision (MD) 1172 – Approval of GLA Group Borrowing Limits and Prudential Indicators for 2013-14 to 2015-16 and Amendment of Borrowing Limit for MOPAC for 2012-13 (March 2013)

Appendix A - Proposed Borrowing Limits for 2014-15 to 2016-17

Authorised Limits for 2014-15 to 2016-17

The Mayor is requested to approve the following Authorised Limits for the total external debt, excluding investments, for the next three years. This is the expected maximum borrowing needed by each functional body with some headroom for unexpected developments such as unusual cash movements. These limits separately identify borrowing from other long-term liabilities such as finance leases. For TfL, the Mayor is required to approve prudential borrowing limits for the Corporation and not the Group. In Appendix B, indicators are shown for both the Group and the Corporation.

Authorised limit for external debt – MOPAC

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	764.2	810.3	810.3
Other long term liabilities	104.1	99.8	95.2
Total	868.3	910.1	905.5

Authorised limit for external debt – LFEPA

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	145.0	145.0	150.0
Other long term liabilities	50.0	75.0	75.0
Total	195.0	220.0	225.0

Authorised limit for external debt – TfL (Corporation)*

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	9,776.5	10,376.5	11,076.5
Other long term liabilities	313.0	245.1	247.4
Total	10,089.5	10,621.6	11,323.9

*TfL subsidiary companies are not directly covered by the prudential borrowing regime and therefore the above limits relate to the TfL Corporation only.

Authorised limit for external debt – LLDC

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0
Total	0.0	0.0	0.0

Authorised limit for external debt – GLA

	2014-15	2015-16	2016-17
	£m	£m	£m
Borrowing	5,000.0	5,000.0	5,000.0
Other long term liabilities	0.0	0.0	0.0
Total	5,000.0	5,000.0	5,000.0

Notes

- Section 5(1) of the Local Government Act 2003 allows the Authorised Limit to be increased by the amount of any payment which was due to the Authority in the period to which the limit relates, but had not yet been received. However section 5(2) states that section 5(1) shall not apply to any payment whose delayed receipt had been taken into account in the setting of the Authorised Limit. This applies to the functional bodies as follows.
 - The Authorised Limits for MOPAC for 2014-15 onwards include headroom over and above the Operational Boundary which is to be used to manage cashflow differences; therefore section 5(2) applies.
 - The Authorised Limits for TfL include an element of headroom over and above the Operational Boundary which is to be used to manage cashflow differences; therefore section 5(2) applies. The Authorised Limits also include headroom to allow for the potential refinancing by the TfL Corporation of PFI liabilities currently held by the Corporation's subsidiaries.
 - The Authorised Limits for the GLA for 2014-15 provide headroom to allow for the maximum flexibility in relation to the expected borrowing to be undertaken to finance its contribution towards the Northern Line Extension to Battersea.
 - The Authorised Limits for LFEPA for 2015-16 provide headroom in relation to £28m of borrowing in the form of finance leases expected to be undertaken to finance a contribution to its PFI property project. There will be no impact on Council tax as the financing cost of the leases are expected to be contained with existing budgets and central government support in the form of PFI credits.
- The Authorised Limits for borrowing and other long-term liabilities are deemed to have been separately approved. Therefore Authorities must manage external debt within these separate limits, and not just within the total external debt limit.
- The authorised limit for external debt is the statutory limit that has to be determined, by the Mayor in consultation with the Assembly, under section 3 of the Local Government Act 2003.

Operational boundary for external debt for 2014-15 to 2016-17

The operational boundary for external debt is based on the same estimates as the authorised limit. However it reflects an estimate of the most likely, prudent but not worst case scenario. It equates to the maximum level of external debt projected by the 2014-15 capital spending plans approved by the Mayor and excludes the headroom included within the authorised limit.

Operational Boundary – MOPAC

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	639.2	685.3	685.3
Other long term liabilities	104.1	99.8	95.2
Total	743.3	785.1	780.5

Operational Boundary – LFEPA

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	140.0	140.0	145.0
Other long term liabilities	50.0	75.0	75.0
Total	190.0	215.0	220.0

Operational Boundary – TfL (Corporation)*

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	8,651.9	9,251.9	9,951.9
Other long term liabilities	313.0	245.1	247.4
Total	8,964.9	9,497.0	10,199.3

*TfL subsidiary companies are not directly covered by the prudential borrowing regime and therefore the above limits relate to the TfL Corporation only.

Operational Boundary – LLDC

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0
Total	0.0	0.0	0.0

Operational Boundary – GLA

	2014-15 £m	2015-16 £m	2016-17 £m
Borrowing	4,000.0	4,500.0	4,750.0
Other long term liabilities	0.0	0.0	0.0
Total	4,000.0	4,500.0	4,750.0

**Changes in borrowing limits from those approved in March 2013
(2013-14 Borrowing Limits Approval)**

Authorised limits	2014-15 £m	2015-16 £m
MOPAC	0.0	0.0
LFEPa	-38.0	-35.0
TfL (Corporation)	3.5	62.6
LLDC	0.0	0.0
GLA	1,000.0	1,000.0

Operational boundary	2014-15 £m	2015-16 £m
MOPAC	0.0	0.0
LFEPa	-38.0	-40.0
TfL (Corporation)	31.9	91.0
LLDC	0.0	0.0
GLA	0.0	500.0

Reasons for the change in authorised limits for 2014-15 and 2015-16

The borrowing requirements for 2014-15 and 2015-16 have changed from last year's estimates, in the following instances, because:

- **MOPAC:** 2014-15 and 2015-16: No change
- **LFEPa:** 2014-15 and 2015-16: This change is the result of the termination of the PFI Finance lease liability for the contract for the provision and management of LFEPa fleet.
- **TfL (Corporation):** 2014-15 and 2015-16: The operational boundary for direct borrowings has been changed in both years, reflecting a revised borrowing profile following the 2013 Spending Review and, as permitted under the 2013 Spending Review, to allow for future scheduled debt repayments to be refinanced if required.

Increases are also proposed to the previously approved long term liabilities element of the 2013-14 operational boundary due to a change in the expected settlement profile of long term Crossrail property claim provisions.

Appendix A

The headroom to the operational boundary and authorised limit for other long term liabilities, allowing for the refinancing of certain PFI contracts, has been reduced in 2014-15 and 2015-16 reflecting the reduction in the outstanding liabilities under these contracts since the Prudential Indicators were last set.

- **LLDC:** 2014-15 and 2015-16: No change
- **GLA:** 2014-15 and 2015-16: This change is the result of updated assumptions concerning planned borrowing that the GLA will undertake to fund the Northern Line Extension.

Appendix B - Proposed Prudential Indicators for 2014-15 to 2016-17**Prudential Indicators**

The prudential capital finance system of self-regulation allows authorities to borrow for capital investment, subject to controls which ensure that borrowing is affordable and consistent with Government fiscal rules. The main factors influencing total levels of authority borrowing are the amount of revenue support provided by central government, and, for TfL, the level of fares income.

The Prudential Code, developed by CIPFA (Chartered Institute of Public Finance and Accountancy) has a central role in capital finance decisions. Its key objectives are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in a manner that supports its key objectives. The Prudential Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

The Prudential Code sets out a clear governance procedure for the setting and revising of prudential indicators and requires regard to be had to the following matters:

- Affordability e.g. implications for council tax
- Prudence and sustainability e.g. implications for external borrowing
- Value for money e.g. option appraisal
- Stewardship of assets e.g. asset management planning
- Service objectives e.g. strategic planning
- Practicality e.g. achievability of the Forward Plan/Business Plan/Corporate Plan

The prudential indicators relevant to the GLA group, which need to be set before the start of the financial year and then monitored, are explained below. The Prudential Indicators recommended for approval are for the TfL Corporation (as required under the 2003 Act) but TfL Group figures are also disclosed in respect of the financing ratios and capital financing requirement data for information.

Affordability

The fundamental objective in the consideration of affordability of the authority's capital plans is to ensure total investment plans remain within sustainable limits, and in particular to consider the impact on council tax and transport fares income.

In considering affordability of its capital plans, an authority is required to consider all the resources currently available and estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and following two years. This requires the development of three year revenue forecasts as well as three year capital expenditure plans on a rolling basis.

For the GLA group the prudential indicators of affordability are:

- Estimates of ratio of financing costs to net revenue stream (expressed as a percentage) for years 1,2 and 3
- Estimates of the incremental impact of capital investment decisions on council tax

Capital financing costs to net revenue stream for 2014-15 to 2016-17

This indicator compares the total principal and net interest payments on external debt and lease payments to the overall revenue spending of the authority. The estimates of financing costs include current commitments, and proposals in the Mayor's budgets and capital spending plan for 2014-15. The calculations treat funding provided through business rates retention - approximately £1.3 billion in 2014-15 as being the revenue of the functional body which the Mayor has determined will receive this. Statutorily this funding is the Greater London Authority's and therefore this methodology overstates its financing ratio.

Ratio of financing costs to net revenue stream

	2013-14	2014-15	2015-16	2016-17
	Estimate	Estimate	Estimate	Estimate
	%	%	%	%
MOPAC	2.1	2.3	2.7	2.6
LFEPA	2.6	2.6	3.1	3.8
TfL – Corporation	20.0	58.9	35.5	24.8
TfL – Group	40.1	135.7	81.3	57.1
LLDC	0.0	0.0	0.0	0.0
GLA (Crossrail)	54.5	54.0	54.0	52.0
GLA (Non Crossrail – incl. NLE)	10.1	10.5	10.7	10.9

Note 1: GLA financing costs are split into two components. Its Crossrail financing costs which are met by the ring fenced Crossrail BRS revenue stream and its non Crossrail financing costs (mainly Olympic park debt and NLE related borrowing) which are met from its general revenues.

Note 2: The MOPAC rise in the ratio of financing costs is largely due to the planned short term funding through borrowing of the HQ and Hendon major redevelopment programmes. Receipts from the sale of surplus land and buildings arising from these two projects are expected to redeem this short term borrowing in 2016-17.

Note 3: The ratios for TfL are those submitted to TfL's Finance and Policy Committee and due to be submitted to TfL's Board for approval on 26 March 2014. They exclude fares revenues from the calculation of the net revenue stream and do not, therefore, reflect the true affordability of TfL's capital plans. The indicator is, in addition, disproportionately impacted by reducing revenue grant streams and by changing management allocations of the Transport Grant received from revenue to capital spend.

Estimated incremental impact of capital investment decisions on the council tax for 2014-15 to 2016-17

This indicator measures the changes in the council tax precept as a result of incremental changes in the GLA group capital investment decisions.

Impact of capital financing decisions on band D council tax

	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
	£	£	£
MOPAC	0.23	-0.30	2.28
LFEPa	0.00	0.00	0.00
TfL (Group)	0.00	0.00	0.00
LLDC	0.00	0.00	0.00
GLA	0.00	0.00	0.00

The proposals in the Mayor's budget and the capital spending plan for 2014-15 assume that TfL's capital expenditure is funded from fares and other revenue, the Department for Transport through the GLA transport grant and specific capital grants, retained business rates, third party contributions and prudential borrowing. TfL's investment activities do not therefore have any direct impact on council tax. Similarly the impact on the Band D council tax of the GLA's borrowing is also assumed to be nil as this is primarily financed by both revenues from the Crossrail business rate supplement which are ring fenced for this purpose and, from 2016-17, the business rates revenues from an enterprise zone ring fenced to finance borrowing for the Northern Line Extension. The LLDC does not precept so its decisions are forecast to have no impact on council tax. MOPAC and LFEPa's capital plans have the potential to incrementally impact on the council tax.

Prudence

The key prudential indicator of prudence is to ensure over the medium term net borrowing will only be for a capital purpose. Accordingly the prudential indicator for prudence is:

- In order to ensure that over the medium term net borrowing will only be for a capital purpose, a local authority should ensure that net borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

Ensuring that treasury management is carried out in accordance with good professional practice is an essential feature of prudence. The prudential indicators on treasury management are designed to help in this regard.

Net borrowing and capital financing requirement for 2014-15 to 2016-17

This section sets out the capital expenditure and capital financing requirements for the GLA and each functional body resulting from the approved capital spending plan and proposed borrowing limits. The Executive Director of Resources of the GLA, acting on the advice of the Chief Finance Officers of each functional body, has agreed authorised limits and operational boundaries that take account of the requirement that the net borrowings of any functional body should not exceed their capital financing requirement. The capital financing requirement is an indication of each functional body's underlying need to borrow for capital purposes. For all functional bodies this requirement is complied with over the three year business plan period although because TfL is borrowing in advance of expenditure in line with its agreed business plan with Department for Transport phasing issues arise. Borrowing levels are kept under review, in order to ensure compliance and having regard to the impact of the wider economic situation on the non borrowing related funding assumed in the capital spending plan. This view takes into account current commitments and existing plans, having regard to the agreed 2014-15 capital spending plans for each functional body updated for MOPAC to reflect the revised financing requirements for its plan.

Capital Expenditure and Capital Financing Requirement for 2014-15 to 2016-17

The prudential indicators that have to be set and monitored are:

- Estimates of capital expenditure which each authority/body plans to incur during the forthcoming year and at least the following two financial years
- Estimates of capital financing requirement at the end of the forthcoming financial year and following two years

This indicator reports the latest actual figure and the estimate for three forward years for capital expenditure in the GLA Group. This indicator states all capital expenditure and not just that covered by borrowing.

Capital expenditure

	2012-13	2013-14	2014-15	2015-16	2016-17
	Actual	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
MOPAC	179.0	177.8	368.2	224.1	152.0
LFEPa	7.9	14.5	62.9	45.0	18.2
TfL - Corporation	3,110.7	3,779.8	4,853.6	3,313.9	3,555.0
TfL - Group*	3,107.0	3,797.2	4,566.7	4,438.2	3,832.4
LLDC	119.4	253.8	144.3	92.8	28.9
GLA	1,521.0	1,385.2	1,607.5	796.0	502.5

The table below sets out the proposed capital financing requirement for the GLA and each functional body for 2014-15 to 2016-17 with comparative data for the two previous financial years. As stated above the capital financing requirement measures an authority's underlying need to borrow for a capital purpose. Within the GLA Group borrowing is not associated with particular items or types of expenditure.

The individual authorities have integrated treasury management strategies and have adopted the CIPFA Code of Practice for Treasury Management in the Public Services. Each authority has, at any point in time, a number of cashflows both positive and negative. With the exception of TfL the position is managed by the Group Treasury Function, which under functional delegation is the responsibility of the GLA, in accordance with approved treasury management strategies and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the underlying need to borrow for a capital purpose.

Capital Financing Requirement

	2012-13	2013-14	2014-15	2015-16	2016-17
	Actual	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
MOPAC	734.8	734.8	921.3	749.1	716.6
LFEPA	144.3	144.8	185.9	216.1	217.1
TfL – Corporation	8,112.6	8,513.6	9,399.1	9,960.4	10,633.6
TfL – Group	9,555.1	9,688.1	10,017.8	10,474.1	11,095.8
LLDC	0.0	0.0	0.0	0.0	0.0
GLA	1,745.1	3,500.0	4,000.0	4,500.0	4,750.0

External Debt

The prudential indicators that have to be set and monitored for external debt are to be set at two levels:

- The authorised limit (intended to be an absolute ceiling which cannot be exceeded during the period, except as provided under section 5 of the Local Government Act 2003) for external debt.
- The operational boundary (a working limit representing the expected level, any persistent breach of this should result in remedial action) for external debt.

The recommended authorised limits for external debt and the operational boundaries were set out in Appendix A.

The actual external debt of the GLA and each functional body at 31 March 2013 is set out below.

Actual external debt at 31 March 2013

	£m
MOPAC	294.3
LFEPA	122.4
TfL – Corp.	7,888.0
TfL- Group	8,681.3
LLDC	0.0
GLA	2,500.0

Actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time. It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cashflow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate.

Treasury Management Indicators for 2014-15 to 2016-17

Prudential indicators for treasury management should be considered together with the local authority's treasury management strategy and the annual report on treasury management activities.

It is also prudent that treasury management is carried out in accordance with good professional practice. The Prudential Code includes the following as required indicators in respect of treasury management:

- Compliance with CIPFA Code of Practice of Treasury Management in the Public Services
- Upper limits on fixed interest rate and variable interest rate exposures
- Upper and lower limits for the maturity structure of borrowings
- Upper limit for principal sums invested for periods longer than 364 days

Prudential limits will be set before the start of the financial year and may be revised if necessary.

CIPFA Code of Practice for Treasury Management in the Public Services

The GLA Group has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Interest rate exposures for 2014-15 to 2016-17

Each functional body and the GLA is required to set for the forthcoming financial year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. These relate to both fixed interest rates and variable interest rates and referred to as the upper limit on fixed interest rate and variable interest rate exposures. They are presented as a percentage of principal outstanding. No exposure indicators are included for the LLDC although by default these are assumed to be the same as for the core GLA which is carrying out its treasury management functions.

Gross borrowing for 2014-15 to 2016-17

Upper limit on fixed interest rate exposures

	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
	%	%	%
MOPAC	100%	100%	100%
LFEPA	100%	100%	100%
TfL	100%	100%	100%
LLDC	N/A	N/A	N/A
GLA	100%	100%	100%

Upper limit on variable interest rate exposures

	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
	%	%	%
MOPAC	50%	50%	50%
LFEPA	75%	75%	75%
TfL	50%	50%	50%
LLDC	N/A	N/A	N/A
GLA	20%	20%	20%

Gross investment for 2014-15 to 2016-17 (for MOPAC, LFEPA, TfL and GLA only)

Upper limit on fixed interest rate exposures

	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
	%	%	%
MOPAC	100%	100%	100%
LFEPA	75%	75%	75%
TfL	50%	50%	50%
GLA	100%	100%	100%

Upper limit on variable interest rate exposures

	2014-15	2015-16	2016-17
	Estimate	Estimate	Estimate
	%	%	%
MOPAC	100%	100%	100%
LFEPA	100%	100%	100%
TfL	100%	100%	100%
GLA	100%	100%	100%

Maturity structure of borrowing for 2014-15 to 2016-17

Local authorities are exposed to the risk of having to refinance debt at a time in the future when interest rates may be volatile or uncertain. The maturity structure of borrowing indicator is designed to assist authorities in avoiding large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time. The indicator is calculated as the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total borrowing that is fixed rate. For each maturity period an upper and lower limit is set. The maturity structures for each of the functional bodies and the GLA recommended for approval are set out below.

Maturity structure of borrowing – MOPAC

	Upper limit	Lower limit
	%	%
Under 12 months	20%	0%
12 – 24 months	25%	0%
24 months – 5 years	40%	0%
5 – 10 years	30%	0%
10 years and over	20%	0%

Maturity structure of borrowing – LFEPA

	Upper limit	Lower limit
	%	%
Under 12 months	20%	0%
12 – 24 months	20%	0%
24 months – 5 years	50%	0%
5 – 10 years	75%	0%
10 years and over	90%	25%

Maturity structure of borrowing – TfL

	Upper limit	Lower limit
	%	%
Under 12 months	35%	0%
12 – 24 months	35%	0%
24 months – 5 years	50%	0%
5 – 10 years	75%	0%
10 years and over	100%	20%

**Maturity structure of borrowing –
GLA and LLDC**

	Upper limit	Lower limit
	%	%
Under 12 months	100%	0%
12 – 24 months	100%	0%
24 months – 5 years	100%	0%
5 – 10 years	100%	0%
10 years and over	100%	0%

Principal sums invested for periods longer than 364 days – Policies for 2014-15 to 2016-17

There are currently no plans for MOPAC, LFEPA, the LLDC or the GLA to invest sums for longer than 364 days. The investment strategy for TfL is summarised in the table below:

Maximum Outstanding Principal sum Invested for more than 364 days	Estimates 2014-15 £m	Estimates 2015-16 £m	Estimates 2016-17 £m
Forward Financial Year 1	1,500	1,500	1,500
Forward Financial Year 2	1,000	1,000	1,000
Forward Financial Year 3	750	750	750
Forward Financial Year 4	500	500	500

Proposed Changes to 2013-14 Borrowing Limits for TfL

Authorised Limit

The authorised limits below are the statutory limits determined under section 3 of the Local Government Act 2003. This is the expected maximum borrowing needed by each functional body with some headroom for unexpected developments such as unusual cash movements.

Authorised limit for external debt – TfL

	Current Approved 2013-14 £m	Proposed 2013-14 £m	Change to limit £m
Borrowing	9,177.0	9,177.0	-
Other long term liabilities	346.0	433.1	87.1
Total	9,523.0	9,610.1	87.1

Operational Boundary

The operational boundary for external debt is based on the same estimates as the authorised limit. However it reflects an estimate of the most likely, prudent but not worst case scenario. It equates to the maximum level of external debt projected by the capital spending plans set out earlier and excludes the headroom included within the authorised limit.

Operational Boundary for external debt – TfL

	Current Approved 2013-14 £m	Proposed 2013-14 £m	Change to limit £m
Borrowing	8,024.0	8,024.0	-
Other long term liabilities	346.0	433.1	87.1
Total	8,370.0	8,457.1	87.1

Public access to information

Information in this form is subject to the Freedom of Information Act 2000 (FOI Act) and other legislation. Part 1 of this form will be made available on the GLA website within 1 working day of approval. Any facts and advice that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would compromise the implementation of the decision being approved.

Is the publication of this approval to be deferred? **No**
If yes, for what reason:

Until what date:

Is there a part 2 form? **No**

ORIGINATING OFFICER DECLARATION:

Tick to indicate approval

Drafting officer:

Matthew Beals, Financial Analyst, has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

Assistant Director/Head of Service:

David Gallie, Assistant Director – Group Finance, has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring director

Martin Clarke, Executive Director – Resources, has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral adviser

Sir Edward Lister, Chief of Staff and Deputy Mayor for Planning, has been consulted about the proposal and agrees the recommendations.

✓

Legal and Finance advice

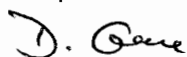
The Public and Regulatory Law team has commented on this proposal. The proposal originates from the Finance team.

✓

OFFICER APPROVAL**Executive Director, Resources**

I have been consulted about the proposal and confirm that financial and legal advice have been taken into account in the preparation of this report.

Signature



Date

27 / 3 / 14

Chief of Staff

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature



Date

31.03.2014

