

REQUEST FOR MAYORAL DECISION – MD1396

Title: Treasury Management Outturn for 2013-14 and Treasury Management Mid-Year Performance for 2014-15

Executive Summary:

The Treasury Management 2013-14 Outturn and the Treasury Management 2014-15 Mid-Year Performance are detailed in Appendix 1, with Prudential and Treasury Management Indicators at Appendix 2, and specific details of new borrowing and on-going financing of Crossrail at Appendices 3 and 4 respectively.

Decision:

The Mayor notes:

1. the 2013-14 Treasury Outturn results against the 2013-14 Treasury Management Strategy Statement (TMSS) approved under MD1187.
2. the 2014-15 Treasury Mid-Year performance against the 2014-15 TMSS approved under MD1325

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:

Date: 26 November 2014

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

Decision required – supporting report

1. Introduction and background

The purpose of this report is:

- to note the 2013-14 Treasury Outturn results against the 2013-14 Treasury Management Strategy Statement (TMSS) approved under MD1187,
- to note the 2014-15 Treasury Mid-Year performance against the 2014-15 TMSS approved under MD1325, and
- to ensure compliance with current legislation and regulations as defined in The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code).

2. Objectives and expected outcomes

2.1 Borrowing Performance

Crossrail

Savings of £0.15bn in Crossrail borrowings have been achieved. As a result, total Crossrail borrowing will be £3.35bn instead of the original prospectus figure of £3.5bn.

Credit Rating

The GLA's credit rating of AA+ with a stable outlook has been re-affirmed by Standard & Poors', following its six monthly review in November 2014.

2.2 Investment Performance

The Group Investment Syndicate, fully operational since mid-2013 and managing cash balances in excess of £1bn, is delivering good returns within low risk investment parameters. The GLA has outperformed its investment benchmark by 100% during 2013-14.

2.3 Treasury Management Budget Performance

The GLA's Treasury Management function contributed an additional £8.1m of income above budget to the GLA's overall 2013-14 outturn. This is due to debt restructuring of £45m and higher than expected interest receivables of £5.6m reflecting effective cash management and an increased rate of return due to the use of new investment opportunities and cash pooling arrangements under the Group Investment Syndicate (GIS).

2.4 Compliance with TMSS 2013-14 (MD1187) and TMSS 2014-15 (MD1325) and Treasury Management Practices (TMPs)

During the financial year the Authority has operated within the Treasury Limits and Prudential Indicators set out in the Authority's TMSS 2013-14 and TMSS 2014-15 and in compliance with the Authority's Treasury Management Practices (TMPs). This is evidenced in Appendix 2: CIPFA Prudential Code Indicators and Treasury Management Limits.

3. Equality comments

None directly arising from this report.

4. Other considerations

4.1 Key Risks and Issues

- 4.1.1 Increasing levels of borrowing is a key risk. Already at £3.25bn, as at the 31st March 2014, the GLA debt portfolio could increase by an additional £1bn because of the Northern Line Extension (NLE). The risks around the NLE borrowing and its management has already been documented in MD1269, dated 21st November 2013. Since MD1269 good progress has been made in progressing borrowing options and it is now the GLA's intent to borrow up to £480m from the EIB.

In addition, MD1393 London Housing Bank approved the GLA to receive £200m from the Department for Communities and Local Government (DCLG) as a repayable loan by the GLA for the purposes of the initial phase of the London Housing Bank (LHB). The LHB will be used to fund the delivery of 'Affordable Rent to Buy' housing. The primary risk to the GLA is in relation to non-repayment of loans, which the GLA has on-lent. This has been addressed in detail as part of the development of the London Housing Bank, but in summary is mitigated by investing only in financially sound organisations, by obtaining appropriate security cover for the GLA's loan and by managing the loans actively within the GLA's Treasury Management Team. This structure will ensure that the additional debt the GLA will be taking on will lead to no diminishment in the GLA's credit rating.

- 4.1.2 As well as substantial additional borrowing responsibilities, the GLA has also taken on substantial additional investment responsibilities through the GIS under which the GLA manages short term investments and cash balances, as well as the debt portfolio, for all other functional bodies, except Transport for London (TfL). In mid-2013, the London Pension Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (MOPAC) joined the GIS bringing the membership to a total of five, (as the GLA, the London Fire and Emergency Planning Authority (LFEPA) and the London Legacy Development Corporation (LLDC) were already members).

As at the 31st March 2014, the GLA managed short term investments and cash balances in the region of £419m for GIS members (excluding the GLA). The GLA also managed a debt portfolio of over £370m for GIS members (excluding the GLA). Including the GLA, cash balances were in excess of £1bn and the debt portfolio were in excess of £3.6bn, as at the 31st March 2014.

- 4.1.3 With the scale of borrowing and investment responsibilities being taken on through the GIS continuing to increase, the Treasury function has responded by:

- restructuring to split the Treasury function into two areas: 'Operations' and 'Control and Reporting and
- creating two additional operational posts and one additional control and reporting post.

The implementation of these changes was completed in mid-September 2014 and ensures the Treasury Function is well placed to operate in accordance with good Treasury practice, the GLA's TMSS and the GLA TMPs.

4.2 Links to Mayoral strategies and priorities

Effective management of long term financing is key to the delivery of the Mayor's capital spending plans, in particular existing funding obligations in respect of Crossrail and future funding obligations in respect of the NLE.

Effective and prudent cash management is essential to protect the GLA against loss of capital and ensure adequate liquidity to meet spending obligations and aspirations.

4.3 Impact assessments and consultations

None required.

5. Financial comments

Financial implications are integral to the report and further comment is not required.

6. Legal comments

Part 1 of the Local Government Act 2003 introduced a statutory regime to regulate the borrowing and capital expenditure of local authorities. Section 23(1)(d) and (e) provides that the Greater London Authority (GLA) and the functional bodies are local authorities for this purpose.

Section 3(1) of the 2003 Act provides that all local authorities are to determine and keep under review how much money they can borrow. Section 3(2) of the Act is more specific in relation to the Mayor and functional bodies by providing that the determination is to be made by the Mayor following consultation with the Assembly, in the case of the GLA, or the relevant functional body. As a result, borrowing limits could be changed in-year, as well as at the start of financial years. Under section 1 of that Act the GLA and the functional bodies may borrow money for any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs; they may also invest for the same purposes under section 12.

Under section 127 of the Greater London Authority Act 1999 the Authority has a duty to make arrangements for the proper administration of its affairs. Responsibility for the administration of those affairs lies with the Executive Director of Resources as the statutory chief finance officer of the Authority under section 127(2)(b) of the Act. The management of the Authority's Treasury function and the development and monitoring of the Treasury strategy fall within this responsibility of the chief financial officer.

7. Investment & Performance Board

Submission of this report to the Investment & Performance Board (IPB) is not required. However, key treasury management decisions, such as borrowing for the NLE, have been considered separately by the IPB.

Appendices and supporting papers:

Appendices

Appendix 1 Treasury Management Outturn 2013-14

Appendix 2 CIPFA Prudential Code Indicators and Treasury Management Limits

Appendix 3 New Long Term Borrowing

Appendix 4 Crossrail Financing Monitoring

Supporting Papers

MD1187 – TMSS 2013-14

MD1325 – TMSS 2014-15

MD1391 – GLA Outturn 2013-14

MD1269 – Northern Line Extension

MD1393 – London Housing Bank

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form –NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Sandra Thompson 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 has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

Martin Clarke has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Sir Edward Lister has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

Date

CHIEF OF STAFF:

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

Signature

Date

Appendix 1 - Treasury Management Outturn for 2013-14 and Mid-Year Review for 2014-15

1. The Economic Environment

After 5 years of recession, the UK economy is growing, with 2.7% GDP growth in 2013 and forecasts of 3.1% GDP growth for 2014 as at Q3 and BoE forecasts of 2.9% growth in 2015 and 2.6% in 2016. In addition, UK unemployment and wage data for the three months to September 2014 is showing a positive outlook for the economy: For the first time since 2009, wage growth outperformed consumer- level inflation, while unemployment is falling and at 6% is below the initial threshold of 7% set by the Monetary Policy Committee (MPC), before it said it would consider any increases in Bank Rate.

However, there is some uncertainty over the sustainability and depth of this growth:

- There continues to be considerable productivity slack in the economy and November's Bank of England (BoE) Inflation Report showed that the BoE expects inflation to drop further to below 1% over the next six months, before gradually rising again towards the Monetary Policy Committee's (MPCs) 2% target over the medium term.
- The Eurozone continues to be weak, with November European GDP data showing a small growth of 0.2% on the quarter. Inflation is also falling, reaching a low of 0.3% in September. In early September 2014, the European Central Bank cut its benchmark interest rate from 0.15% to 0.05% and the deposit rate to minus 0.2%, in an effort to spur economic growth and stave off the threat of deflation.
- Geopolitical issues are creating instability.

The UK economy is therefore still not secure: Pressure on household incomes could threaten UK growth from within the UK, whilst Eurozone and geopolitical issues could threaten UK growth from outside the UK.

Such concerns are used as arguments for not increasing the interest rate from its five year record low of 0.5%. As a result, the markets are only tentatively pricing in a Bank Rate increase to 0.75% in Quarter 2 2015.

Against such continued uncertainty, the GLA continues to adopt a prudent and cautious approach in its Treasury investment and borrowing activities, keeping good levels of liquidity to ensure it is able to respond quickly to any current economic uncertainties as they arise.

2. Summary Portfolio Position

Summary Portfolio Position (Crossrail and Non Crossrail combined)

	Actual As At 31.03.13		Actual As At 31.03.14		Actual As At 30.09.14	
	£m	Av Rate	£m	Av Rate	£m	Av Rate
Long Term Borrowing	2,500.00	3.98%	3,254.25	3.69%	3,563.25	3.50%
Short Term Borrowing	0.00	0.00	0.00	0.00	10.00	0.75%
Total Borrowing	2,500.00		3,254.25		3,573.25	
Investments In-house	982.49	1.14%	1,031.40	0.79%	1,310.66	0.68%
Total Investments	982.49		1,031.40		1,310.66	
Total Net Debt/Borrowing	1,517.51		2,222.85		2,262.59	

Further analysis of borrowing and investments is covered in the following two sections (sections 3 and 4).

3 Borrowing Activity

3.1 Crossrail

A saving of £0.150bn in borrowings has been achieved reducing total Crossrail borrowing to £3.35bn from £3.5bn. This saving has been due to the borrowing decisions the GLA has made compared to the original budget set.

Subject to other assumptions in the Crossrail financing package, this saving will allow the GLA to reduce the time period over which the Business Rate Supplement (BRS) needs to be levied to service Crossrail debt.

As at the 31st March 2014, £3.564bn of the £4.1bn contribution had been paid, comprising £3.0bn borrowing and £0.564bn BRS receipts. The £3.0bn borrowing was raised through fixed rate loans split between the Public Works Loan Board (PWLb), bonds and market loans.

In line with the Crossrail prospectus, the GLA is on target to meet its full contribution of £4.1bn for the £15bn Crossrail project by the end of 2014-15. This will require the GLA to make a final contribution of £0.536bn in 2014-15 and it is expected this final contribution will consist of £0.35bn of borrowing and £0.186bn BRS receipts.

3.2. Credit Rating

Despite the GLA's commitment to borrow up to £960m to finance the NLE, the GLA's credit rating of AA+ with a stable outlook has been re-affirmed in November 2014. However, any further borrowing that is not supported by a ring-fenced revenue stream and with sufficient safeguards may trigger a deterioration in the GLA's credit rating.

3.3 Northern Line Extension

The NLE may involve the GLA having to borrow up to an additional £1bn. The risks around the NLE borrowing and its management has already been documented in MD1269, dated 21st November 2013.

Since MD1269, progress has been made in respect of borrowing options: HM Treasury has signed a re-financing facility which

1. allows the GLA access to a further five years of income from the Enterprise Zone, if required and.
2. provides a guarantee for three quarters of the borrowing .

This guarantee also allows borrowing to be sourced from other sources other than the PWLB. In response to economic and market conditions, the GLA has therefore decided to take advantage of this increased flexibility, by exploring funding not only from the PWLB, but also from the European Investment Bank and from an index linked bond issuance. Negotiations are currently in progress to borrow up to £480m from the EIB and contracts are currently being drawn up.

This NLE borrowing, like Crossrail, is ring-fenced and will be accounted for on a similar basis as a Tax Increment Financing (TIF) scheme.

4 Investment Activity

4.1 The GLA invests short term cash balances through the GLA Group Investment Syndicate (GIS). Current GIS participants are the GLA, LFEPA, LLDC, LPFA and MOPAC.

4.2 Pooling resources allows the Group Treasury team to make larger individual transactions and exploit the greater stability of pooled cash flows to obtain better returns. A risk sharing agreement ensures risk and reward relating to each instrument within the jointly controlled portfolio are shared in direct proportion to each participants' investment. Investments are made in line with a common GIS

Investment Strategy, which includes a requirement to maintain a weighted average maturity of less than three months.

- 4.3 Additionally, the GLA may invest sums independently of the GIS, for instance if the Authority identifies balances which are available for longer term investment. Such investments shall also remain within the parameters of the GIS Investment Strategy, except that there shall be no requirement to maintain a weighted average maturity of less than three months. However, total exposure to instruments maturing in more than 364 days shall not exceed 50% of the minimum forecast balance for the next 12 months (as at the date of investment)
- 4.4 At no time does the GIS Investment Strategy conflict with the Treasury Management Strategy Statements (TMSSs) of the individual participants.
- 4.5 The creditworthiness methodology developed and maintained by Capita Asset Services - Treasury Solutions, and used by the GIS participants in their Treasury Management Investment Strategies, with effect from the 27th June 2014, no longer considers viability, financial strength and support ratings as key criteria in the choice of creditworthy investment counterparties. This is in response to the main rating agencies (Fitch, Moody's and Standard & Poors') indicating that they are going to remove implied sovereign support levels, which were introduced in response to the financial crisis of 2008, but are now no longer considered necessary, given the evolving regulatory environment.

Whilst this now means the credit element of the Capita Asset Services methodology will focus solely on the Short and Long Term ratings of an institution, the Rating Watch and Outlook information will continue to be used where it relates to these categories and CDS prices will continue to be utilised as an overlay to ratings.

As a result, counterparties will no longer be penalised for weaker viability/support ratings or missing rates. Creditworthiness changes will, however, continue to arise from i) changes in CDS prices in the overlay to ratings or ii) changes in credit ratings.

- 4.6 All strategies adhere to the CIPFA Prudential Code investment principle of investments placing security above liquidity and investment yield and liquidity above investment yield. As such the GLA maintains a low risk appetite consistent with good stewardship of public funds.
- 4.7 The GLA has outperformed its investment benchmark by 100% during 2013-14. It achieved a cumulative weighted average yield of 0.79% on its daily balances against an average 3 month LIBID to the 26th March 2014 of 0.39%, whilst maintaining its liquidity target of a weighted average maturity (WAM) of not more than 3 months.
- 4.8 This reflects the success of the decision to place investments in-house through the GLA GIS, which became fully operational in mid-2013, and where equivalent returns have been made by other functional bodies in the GIS.
- 4.9 However, going forwards into 2014-15, it is likely that MOPAC will achieve yields significantly less than the other GIS participants. This is because MOPAC revised its treasury strategy for 2014-15 in year. Whilst the new strategy allows for essentially identical investment counterparties and instruments, a significant difference is fixed exposure limits for individual counterparties, rather than limits that vary in proportion to forward looking average balances, as adopted by the rest of the participating Group. Since MOPAC's balances have been considerably higher than anticipated, their pro rata share of GIS investments would have breached these fixed limits; accordingly the Group Treasury team was obliged to withdraw some of the MOPAC monies from the GIS and invest in lower yielding instruments such as treasury bills. As at the 30th September 2014, if all MOPAC's money had been left in the GIS rather than split between the GIS and own name investments, MOPAC would have earned interest in excess of £1.065m. However, by adopting an investment strategy that is not fully aligned with the GIS, MOPAC has only earned just under £0.865m during this period.

- 4.10 Investments have been almost exclusively with Lloyds and RBS, reflecting the attractive rates offered by these institutions and also the view that while they remain in significant public ownership, these institutions offer quasi-sovereign risk. However, this position may change in the future (See 4.11 and 4.12 below).
- 4.11 With regard to RBS, RBS is currently seeking funding over one to three years and offering good rates to attract such funds. It is possible the GLA will consider investing with RBS over these longer durations in 2014-15.
- 4.12 With regard to Lloyds, whilst any further Government sale may not occur until after the 2015 general election, it is likely its quasi-sovereign risk status will not be as long-lived as RBS's. Therefore, the issue of disinvestment in Lloyds is being closely monitored to ensure the GLA is not exposed, as the Government seeks to withdraw from Lloyds. As a result, investments in Lloyds are being kept short.

5 Treasury Management Budget

Treasury Management Budget Outturn

	2013-14 Opening Estimate £m	2013-14 Year End Actual £m	Variance between Actual Capital Expenditure and Opening Estimate £m
Interest payable – Other	7.90	7.80	(0.10)
Interest receivable – Other	(2.30)	(8.00)	(5.70)
Minimum Revenue Provision	12.30	9.80	(2.50)
Total	17.90	9.60	(8.30)

- 5.1. Additional interest receivable has been generated by effective cash management and an increased rate of return due to the use of new investment opportunities and cash pooling arrangements. A review of the interest receivables budget is to be performed for 2015/16.
- 5.2. Crossrail savings are reported under Appendix 1, Section 3 'Borrowing Activity' and further supported by information in Appendix 4, Crossrail Monitoring.
- 5.3. Other expenditure associated with Treasury Management activity such as brokerage fees, external advisor fees, treasury training and bank charges are currently covered separately within the central Finance budget.

Appendix 2 CIPFA Prudential Code Indicators and Treasury Management Limits

Background

The Prudential Code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code has a central role in capital finance decisions, including borrowing for capital investment. Its key objectives are to provide a framework for local authority capital finance that will ensure for individual local authorities that capital expenditure plans are affordable; all external borrowing and other long-term liabilities are within prudent and sustainable levels and that treasury management decisions are taken in accordance with good professional practice.

The Prudential Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

Any such framework for the internal control and self-management of capital finance must therefore deal with all three of the following elements:

- Capital expenditure plans
- External debt
- Treasury Management

To ensure compliance with the Code in relation to the above elements, the Authority is required to set and monitor a number of Prudential Indicators. The setting of these Prudential Indicators is a circular rather than a linear process. For example, the level of external debt will follow on from the Authority's capital plans, revenue forecasts and treasury management strategy. However, if initial estimates would result in outcomes that would not be affordable or prudent, then plans for capital and/or revenue are reconsidered.

These Prudential Indicators are set out below and reviewed for compliance.

1. Capital Expenditure

1.1 Capital Expenditure

Capital expenditure results from the approved capital spending plan and proposed borrowing limits. It is the key driver of Treasury Management activity.

All capital expenditure is stated, not just that covered by borrowing.

Capital Expenditure

	2013-14 Original Estimate £m	2013-14 Year End Actual £m	2013-14 Variance between Original Estimate and Year End Actual £m	2014-15 Original Estimate £m	2014-15 Actual As At 30.09.14 £m	2014-15 Revised Estimate £m	2014-15 Variance between Original Estimate and Revised Estimate £m
Crossrail	875.00	875.00	0.00	530.00	375.00	530.00	0.00
Non Crossrail	707.40	485.00	(222.40)	1,077.50	99.90	862.94	(214.56)
Total	1,582.40	1,360.00	(222.40)	1,607.50	474.90	1,392.94	(214.56)

For 2013-14, the GLA had a capital budget of £1.6bn against which £1.36bn was spent, equating to 85% delivery. Of this expenditure, £875m relates to the GLA's contribution to Transport for London (TfL) towards the cost of the Crossrail project – of which £800m was financed by borrowing and £75m from a share of Business Rate Supplement revenues.

The majority of the remaining expenditure of £485m is related to the GLA's housing and land programmes during 2013/14.

For 2014/15, the projected capital expenditure underspend of £214.56m mainly reflects re-profiling into 2015-16.

1.2. Capital Financing Requirement

The capital financing requirement is an indication of the underlying need to borrow for capital purposes. It is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resource.

This borrowing is not associated with particular items or types of capital expenditure.

Capital Financing Requirement

2013-14 Original Estimate £m	2013-14 Year End Actual £m	Variance between Original Estimate and Year End Actual £m	2014-15 Original Estimate £m	2014-15 Actual As At 30.09.14 £m	2014-15 Revised Estimate £m	Forecast Variance between Original Estimate and Revised Estimate £m
3,500.00	3,195.28	(304.72)	4,000.00	3,551.41	3,701.43	(298.57)

The favourable variances reflect the reduction in total Crossrail borrowing from £3.5bn to £3.35bn as a result of financing cost savings and the use of internal borrowing to fund NLE expenditure in the early stages of the NLE project.

2. **External Debt Prudential Indicators**

2.1 Authorised Limit for External Debt

The Authorised limit is the expected maximum borrowing needed with some headroom for unexpected developments such as unusual cash movements.

For the purposes of the Prudential Code borrowing is distinguished from other long term liabilities.

The Authorised limit is the statutory limit that is determined, by the Mayor in consultation with the Assembly, under section 3 of the Local Government Act 2003. It is intended to be an absolute ceiling which cannot be exceeded, except as provided under section 5 of the Local Government Act 2003, where payments expected but not yet received can temporarily result in the limit being exceeded, provided the original setting of the limit had not taken into account any delay in receipt of the payment.

Authorised Limit for External Debt

2013-14 Final Authorised Limit £m	2013-14 Actual External Debt £m	Headroom £m	2014-15 Original Authorised Limit £m	2014-15 Actual External Debt As At 30.09.14 £m	Headroom £m	2014-15 Revised Authorised Limit £m
4,000.00	3,254.25	745.75	5,000.00	3,573.25	1,426.75	5,000.00

Actual external debt is not directly comparable to the Authorised Limit, since the actual external debt reflects the position at one point in time, whereas the Authorised Limit is set as a ceiling for the whole year. Notwithstanding this, the borrowing is well within acceptable limits.

2.2 Operational Boundary for External Debt

The operational boundary 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 under the capital spending plans approved by the Mayor and excludes the headroom included within the authorised limit.

The Operational Boundary is set as a warning signal that external debt has reached a level nearing the Authorised limit and must be monitored carefully. It is probably not 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, requiring further investigation and action as appropriate.

Operational Boundary for External Debt

2013-14 Final Operational Boundary £m	2013-14 Actual External Debt £m	Headroom £m	2014-15 Original Operational Boundary £m	2014-15 Actual External Debt As At 30.09.14 £m	Headroom £m	2014-15 Revised Operational Boundary £m
3,500.00	3,254.25	245.75	4,000.00	3,573.25	426.75	4,000.00

Actual external debt is not directly comparable to the Operational Boundary, since the actual external debt reflects the position at one point in time, whereas the Operational Boundary is set as a ceiling for the whole year. Notwithstanding this, the borrowing is well within acceptable limits.

2.3 Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence seeking to identify whether or not a Local Authority's financial strategy is prudent and sustainable by measuring the extent to which a Local Authority is using borrowing to fund revenue expenditure in the short and medium term. Since financing costs have to be repaid from revenue, borrowing to fund revenue expenditure may be affordable in the short term, but not in the medium term. It therefore follows that in the medium term borrowing should only be funding capital expenditure and this indicator seeks to check that this is so, by identifying that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

For the purposes of the Prudential Code, gross debt refers to the sum of borrowing and other long term liabilities.

Gross Debt and the Capital Financing Requirement (CFR) as at 31.03.14

2013-14 Actual Gross Debt As At 31.03.14 £m	Preceding Year CFR £m	2013-14 Estimated Additional CFR £m	2014-15 Estimated Additional CFR £m	2015-16 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
3,292.98	2,456.78	738.50	804.72	500.00	4,500.00	1,207.02

Gross debt is £1,207.02m less than the estimated total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This suggests that the GLA's current financial strategy is prudent and sustainable, in that borrowing is only used to fund capital expenditure, in the medium term.

Gross Debt and the Capital Financing Requirement (CFR) as at 30.09.14

2014-15 Actual Gross Debt As At 30.09.14 £m	Preceding Year CFR £m	2014-15 Estimated Additional CFR £m	2015-16 Estimated Additional CFR £m	2016-17 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
3,573.25	3,195.28	506.15	798.57	250.00	4,750.00	1,176.75

Gross debt is £1,176.75m less than the estimated total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This suggests that the GLA's current financial strategy is prudent and sustainable, in that borrowing is only used to fund capital expenditure, in the medium term.

3. Affordability Prudential Indicators

3.1 Ratio of Financing Costs to Net Revenue Stream

This indicator compares the total principal and net interest payments on external debt to the overall revenue spending of the authority. The calculations treat funding provided through business rates retention as being the revenue of the functional body which the Mayor has determined will receive this. Statutorily this funding is the GLA's and therefore this methodology overstates this financing ratio.

Financing Costs to Net Revenue Stream 2013-14

	2013-14 Opening Estimate %	2013-14 Year End Actual %	Variance between Opening Estimate and Year End Actual %
Crossrail	54.50	47.67	(6.83)
Non Crossrail	10.10	1.05	(9.05)
Total	64.60	48.72	(15.88)

Crossrail financing costs are being met from the ring fenced Crossrail BRS revenue stream.

Non Crossrail financing costs for 2013-14 comprises Olympic park debt and this debt is being met from general revenues and has stabilised.

Financing Costs to Net Revenue Stream 2014-15

	2014-15 Opening Estimate %	2014-15 Revised Estimate %	Variance between Opening Estimate and Revised Estimate %
Crossrail	54.00	52.98	(1.02)
Non Crossrail	10.50	11.38	0.88
Total	64.50	64.36	(0.14)

The favourable movement in the 2014-15 Crossrail revised estimate is consistent with the delivery of savings in Crossrail financing costs while the Non Crossrail 2014-15 revised estimate reflects the increase in financing costs as NLE related borrowing commences initially via internal borrowing.

3.2 Incremental impact of capital investment decisions on the council tax

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

It allows the effect of the totality of the GLA's plans to be considered at budget setting time and the achievement of these plans to be assessed at year end.

Incremental Impact on Council Tax

2013-14 Opening Estimate £	2013-14 Year End Actual £	Variance between Opening Estimate and Year End Actual £
(3.23)	(3.23)	0.00

The GLA inherited debt from the London Development Agency (LDA), arising from the 2012 Olympic and Paralympic games. However, the GLA was able to make savings on the cost of that Olympic debt, and this has resulted in an annual Council Tax saving for London taxpayers, which to date is ongoing.

3.3 Local Affordability Indicators

The GLA sets two local affordability indicators to support its Standard & Poors' credit rating. This credit rating was reaffirmed in November 2014 as 'AA+' with a stable outlook.

3.3.1 Balance after capital accounts (% of total revenues)

The GLA 'AA+' credit rating has been awarded against a balance after capital accounts ratio averaging 71% between 2010/11 to 2012/13, improving to 57% in 2013/14. Further improvements in this ratio are unlikely to be significant as the forthcoming cessation in Crossrail payments to TfL will be offset by the commencement of NLE borrowing commencing.

The GLA will therefore target to ensure that there is no deterioration in this ratio, and ideally aim for a ratio lower than the S&P trigger ratio of 22.5%. For ratios above 22.5%, S&P may consider additional factors to support its rating decision. Currently, the extraordinary UK government support received by the GLA is a key mitigating factor for its balance after capital accounts ratio being higher than the international norm.

3.3.2 Interest cover ratio

Given the scale of financing costs involved in the Crossrail borrowing and forthcoming NLE borrowing, the financing arrangements for these two projects included the requirement that the GLA will always hold at least 80% of the cash required to cover six months' worth of interest.

As at the 30th September 2014, forecast average cash balances to the end of the financial year stood at £124.70m against a six months forecast interest payable of £62.29m. With 80% of £62.29m being £49.832m, cash balances are easily meeting the interest cover ratio by providing cover of 2.5 over the amount required to cover six monthly interest payments.

4. **Treasury Management Prudential Indicator**

The Treasury Management Prudential Indicator requires the adoption of the latest version of the CIPFA Code of Practice for Treasury Management in the Public Services.

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

5. **Treasury Management Limits on Activity**

5.1 Net Borrowing Upper Limits to Fixed and Variable Rate Interest Rates Exposure

The upper limit on interest rate exposure sets an upper limit to exposure to the effects of changes in interest rates. These limits are presented as a percentage of the net principal sum outstanding on the Local Authority's borrowing. The calculation formula is therefore

Total Fixed (or Variable Rate) Borrowings less Investments
Total Borrowing less Investments

Upper limit on interest rate exposure on net principal sum outstanding on borrowing

	Opening 2013-14	As At 31.03.14	Opening 2014-15	As At 30.09.14
	%	%	%	%
Fixed rate	100	100	100	100
Variable rate	0	0	20	0

The 100% fixed rate interest exposure reflects the prudent approach taken by the GLA when raising the £3bn borrowing for Crossrail. To achieve certainty over its borrowing costs the GLA has locked into fixed rate loans.

5.2 Limits for Maturity Structure of Borrowing

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 projected borrowing that is fixed rate. For each maturity period an upper and lower limit is set.

2013-14 Limits for Maturity Structure of Borrowing

	Upper Limit	Lower Limit	As At 31.03.14
	%	%	%
Under 12 months	100	0	0
12 months and within 24 months	100	0	0
24 months and within 5 years	100	0	1
5 years and within 10 years	100	0	21
10 years and above	100	0	78

2014-15 Limits for Maturity Structure of Borrowing

	Upper Limit	Lower Limit	As At 30.09.14
	%	%	%
Under 12 months	100	0	0
12 months and within 24 months	100	0	4
24 months and within 5 years	100	0	5
5 years and within 10 years	100	0	20
10 years and above	100	0	71

The GLA has a risk appropriate dispersion of debt over the years.

5.3 Limits for Principal Sums Invested for Periods Longer than 364 Days

This indicator seeks to contain the risk inherent in the maturity structure of an Authority's investment portfolio, since investing too much for too long could

- adversely impact on the Authorities liquidity and in turn its ability to meet its payment obligations and
- also lead to the loss of some of its principal if it is forced to seek early repayment or redemption of principal sums invested.

Under this indicator the Local Authority is therefore required to set an upper limit for each financial year period for the maturing of its long term investments

The GLA has therefore, in both its TMSS 2013-14 and TMSS 2014-15, set an upper limit for investments maturing in more than 364 days to 50% of the minimum forecast balance for the next 12 months (as at the date of investment).

The tables below show the full year 2013-14 and the half year 2014-15 investment portfolio of investments maturing after 364 days. As at the 31st March 2014, £322.73m was invested in investments with maturity dates longer than 364 days against an end of year forecast cash balance of £1,179.00m, representing 27.37% of forecast cash balances, which is well within the upper limit. Similarly, as at the 30th September 2014, £247.37m was invested in investments with maturity dates longer than 364 days against an end of year forecast cash balance of £1,301.60m representing 19% of forecast cash balances, which is well within the upper limit.

Long Term Core Cash Investments taken between 01/04/13 and 31/03/14

Date of Deal	Counter Party	£m	Interest Rate %	Maturity Date
09.04.13	Lloyds Banking Group Plc	34.09	1.05	09.04.14
09.04.13	Lloyds Banking Group Plc	50.00	1.05	09.04.14
12.04.13	Ulster Bank Ltd	25.00	1.05	14.04.14
13.05.13	Lloyds Banking Group Plc	27.27	1.00	13.05.14
31.07.13	Ulster Bank Ltd	50.00	0.92	31.07.14
01.10.13	Cooperatieve Centrale Raiffeisen Boerenleenbank BA	17.05	0.73	01.10.14
03.10.13	Cooperatieve Centrale Raiffeisen Boerenleenbank BA	17.05	0.73	03.10.14
10.10.13	DBS Bank	6.82	0.60	10.10.14
15.10.13	Lloyds Banking Group Plc	34.09	0.93	15.10.14
24.10.13	Lloyds Banking Group Plc	34.09	0.93	24.10.14
31.10.13	Lancashire County Council	6.82	0.61	31.10.14
31.10.13	Lancashire County Council	6.82	0.64	31.10.14
04.11.13	Cooperatieve Centrale Raiffeisen Boerenleenbank BA	13.64	0.72	04.11.14
Total		322.73		

Long Term Core Cash Investments taken between 01/04/14 and 30/09/14

Date of Deal	Counter Party	£m	Interest Rate %	Maturity Date
20.05.14	Overseas Chinese Banking Corporation Ltd	48.66	0.90	20.05.15
29.07.14	The Royal Bank of Scotland Plc	50.01	1.00	29.07.15
06.08.14	The Royal Bank of Scotland Plc	32.44	1.07	06.08.15
09.09.14	The Royal Bank of Scotland Plc	100.03	0.98	10.09.15
01.10.14	Cooperatieve Centrale Raiffeisen Boerenleenbank BA	16.22	0.94	01.10.15
Total		247.37		

The risks inherent in overinvesting are further reduced by the majority of the GLA's investments being invested on a pooled basis through the Group Investment Syndicate (GIS) comprising

1. Greater London Authority (GLA)
2. Mayor's Office for Policing and Crime (MOPAC)
3. The London Fire and Emergency Planning Authority (LFEPA)
4. The London Legacy Development Corporation (LLDC)
5. The London Pensions Fund Authority (LPFA)

Whilst the pooled portfolio may contain instruments maturing in more than 364 days, the average maturity is restricted to 91 days, adding to the reduction of the risk this indicator is trying to address.

Finally, to further protect the liquidity and principal sums of a Local Authority, two additional constraints are placed on Local Authorities

- the Local Government Act 2003 requires an Authority to have regard to the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments 2010, which requires firstly the achievement of security (protecting the capital sum from loss), then liquidity (keeping the money readily available for expenditure when needed), and then lastly

investment yield. This investment strategy is endorsed by the Prudential Code. The GLA complies with this Guidance by adopting a low risk appetite in its Treasury Management Strategy.

- the Prudential Code states that Authorities must not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. The GLA does not borrow more than or in advance of its needs purely to profit from the investment of extra sums borrowed.

Appendix 3 New Long Term Borrowing taken between 01/04/13 and 31/03/14 and between 01/04/14 and 30/09/14

1. New Long Term Borrowing taken between 01/04/13 and 31/03/14 and between 01/04/14 and 30/09/14

The Code requires that all long term borrowing is taken out with due consideration to affordability, prudence and sustainability. This is incorporated in the TMSS.

New Long Term Borrowing taken between 01/04/13 and 31/03/14

Lender	Date	£m	Interest Rate %	Duration (years)
PWLB*	02.04.13 to 04.11.13	707.50	2.79	6.0-11.0
Bournemouth BC	12.11.13	4.75	1.5	3.0
Lancashire County Council	20.12.13	25.00	1.44	5.0
Portsmouth County Council	02.01.14	4.00	1.25	2.5
South Somerset	06.01.14	2.00	1.03	1.8
LB Barking and Dagenham	06.01.14	2.00	1.03	1.8
St Helens MBC	15.01.14	9.00	1.15	2.0
Total		754.25		

*£707.5m PWLB loans were taken out at different times during the year, at different rates and for different duration periods. The PWLB interest rate is therefore an average interest rate and the duration (years) represents the duration spread of the loans.

The new long term borrowing in the above table relates to the Crossrail borrowing in 2013-14 and was fully considered and planned for under the TMSS 2013-14.

New Long Term Borrowing taken between 01/04/14 and 30/09/14

Lender	Date	£m	Interest Rate %	Duration (years)
LB Bromley	01.04.14	15.00	1.14	2.0
LB Barnet	01.04.14	10.00	1.04	2.0
Lincoln City Council	01.04.14	2.00	0.95	1.5
PC for Devon & Cornwall	01.04.14	5.00	0.98	1.5
City of Coventry Council	01.04.14	8.00	0.70	1.0
LB Hounslow	01.04.14	10.00	1.05	1.8
LB Richmond Upon Thames	01.04.14	5.00	1.03	1.7
Nottinghamshire Office of the Police	01.04.14	5.00	1.05	2.0
LB Wandsworth*	01.04.14	50.00	1.12	1.9
London Borough of Newham	01.04.14	20.00	1.72	3.3
North West Leicestershire District Council	03.04.14	3.00	1.50	3.0
West Midlands Police	09.04.14	10.00	0.75	1.0
LB Havering	14.04.14	5.00	1.00	1.5
LB Hackney*	14.04.14 to 30.05.14	10.00	1.25	2.2
Oldham MBC	15.04.14	5.00	0.90	1.5
Warwick DC	15.04.14	2.00	0.95	1.5
LB Hounslow	15.04.14	10.00	1.00	1.5
Hampshire County Council*	17.04.14	20.00	2.03	4.0
West Midlands Police	22.04.14	10.00	1.00	1.5
Torbay BC	22.04.14	5.00	1.05	1.8
Admiral Insurance Gibraltar Ltd*	23.04.14	35.00	2.50	4.8
Admiral Insurance Company Ltd	23.04.14	15.00	2.50	5.0
Solihull BC	30.04.14	5.00	1.00	1.5
Surrey Heath BC	30.04.14	2.00	0.95	1.5
Luton BC	30.04.14	2.00	0.95	1.7
Bolton MDC	30.04.14	10.00	1.05	1.8
Cornwall Council*	30.04.14 to 15.05.14	30.00	2.00	4.2
Total		309.00	`	

*Indicates loans for the lender were taken out either at different times during the year, and/or at different rates and/or for different duration periods. The interest rate is therefore an average interest rate and the duration (years) represents the average duration spread of the loans.

The new long term borrowing in the above table relates to the finalisation of the Crossrail borrowing in 2014-15 and was fully considered and planned for under the TMSS 2014-15.

Appendix 4 Crossrail Monitoring

Crossrail Cash Totals for 2013/14

	2013-14 Original Budget £m	Actual As At 31.03.14 £m	Variance between Original Budget and Year End Actual £m
Total Borrowing of Project	3,000.00	2,999.25	(0.75)
13/14 In Year Interest Paid	136.07	107.10	(28.97)
less			
13/14 In Year Interest Receivable	(1.58)	(1.58)	0.00
Net 13/14 In Year Interest Paid	134.50	105.53	(28.97)
13/14 Net In Year BRS Receipts	(219.00)	(223.28)	(4.28)
13/14 In Year Payments to TfL	875.00	875.00	0.00

Crossrail Cash Totals for 2014/15

	2014-15 Original Budget £m	Actual As At 30.09.14 £m	2014-15 Revised Budget £m	Variance between Original Budget and Revised Budget £m
Total Borrowing of Project	3,500.00	3,308.25	3,350.00	(150.00)
14/15 In Year Interest Paid	121.00	58.92	117.74	(3.26)
less				
14/15 In Year Interest Receivable	(0.83)	(0.65)	(0.83)	0.00
Net 14/15 In Year Interest Paid	120.17	58.27	116.90	(3.26)
14/15 Net In Year BRS Receipts	(219.00)	(108.76)	(220.66)	(1.66)
14/15 In Year Payments to TfL	530.00	250.00	530.00	0.00

Total borrowing to-date is in line with budget. The remaining Crossrail borrowing will be completed in 2014-15.

The variance on interest paid reflects the securing of borrowing at lower interest rates than originally envisaged when the Prospectus to fund Crossrail was issued.

BRS Receipts are marginally above target, demonstrating the continued sustainability of the financing arrangements for Crossrail.

The GLA has been able to fully meet its budgeted contribution to TfL for Crossrail. This is further evidence of the success of the Crossrail financing arrangements.