

REQUEST FOR MAYORAL DECISION – MD1635

Title: Approval of GLA Group Borrowing Limits and Prudential Indicators for 2016-17 to 2018-19

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 associated capital financing requirements for the GLA group as 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 the London Legacy Development Corporation - LLDC) capital programmes for 2016-17 to 2018-19 were set out in the Mayor’s capital spending plan published on 25 February 2016 which was approved under Mayoral Decision 1616.

The proposed borrowing limits and prudential indicators for 2016-17 to 2018-19 - which have regard to the capital spending plans and the final budgets agreed for each functional body – including the new Old Oak and Park Royal Development Corporation - and the GLA - are set out in Appendices A and B respectively.

The Mayor consulted the London Assembly and each functional body on the proposed borrowing limits for 2016-17 to 2018-19 as part of his consultation budget issued on 21 December 2015. 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 2016-17 budget consultation process.

Decision:

The Mayor is requested to agree:

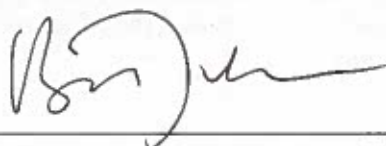
The Authorised borrowing Limits (Appendix A) and Prudential Indicators (Appendix B) for 2016-17 to 2018-19 for the GLA and for each functional body.

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:

31 MARCH 2016

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 2016-17 GLA Group capital spending plan was approved under Mayoral Decision 1616 and published on the GLA website on 25 February 2016 at: [The Mayor’s budget | London City Hall](#)
- 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 London 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 (“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 (“the Prudential Code”) 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 by 2003 Regulations. The Prudential 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.
- 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 Prudential Indicators for the GLA Group under the 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. Objectives and expected outcomes

- 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 2016-17 to 2018-19 having regard to the above statutory requirements. These limits have regard to the Mayor's capital spending plan for 2016-17 which was published on 25 February 2016 (Mayoral Decision 1616) following the statutory consultation on the draft plan issued on 21 December 2015.

Changes from the proposed borrowing limits for 2016-17 to 2018-19 set out in the Mayor's Consultation Budget published in December 2015

- 2.2 The proposed borrowing limits for MOPAC set out in this document have changed from those that were consulted upon in the Mayor's consultation budget and reflected in his Final Draft Consolidated Budget. The total Authorised Limit and Operational Boundary for 2018/19 have increased by £130.1m due to revisions made to MOPAC's Capital Spending Plan in the Mayor's final approved budget.
- 2.1 TfL's proposed borrowing limits set out in this document have changed from those that were consulted upon in the Mayor's consultation budget and reflected in his Final Draft Consolidated Budget – the total Authorised and Operational Boundaries for external debt have reduced by £19.8m in 2016-17, and increased by £3.6m in 2017-18 and by £6.1m in 2018-19. These reflect changes to the long term liabilities element reflecting an update to the assumptions on the timing of settlement of the Crossrail property provision.
- 2.2 The limits for LLDC are altered, increasing by £20m in 2017/18 and £40m in 2018/19. These movements are due to revisions made to LLDC's Capital Spending Plan in the Mayor's final approved budget.
- 2.3 The limits for GLA and LFEPA are unchanged from those published in the Final Draft Consolidated Budget.

3. Equality comments

- 3.1 As public bodies, the GLA and the functional bodies must comply with section 149 of the Equality Act 2010, which provides for the "public sector equality duty". This duty requires each body to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity, and to foster good relations between people who share a protected characteristic and those who do not. The protected characteristics covered by section 149 are: age; disability; gender reassignment; pregnancy and maternity; race; sex; religion or belief; and sexual orientation. Observance of the duty may involve, in particular, removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet the needs of such people and encouraging them to participate in public life or in any other activity where their participation is disproportionately low, including tackling prejudice and promoting understanding. In limited circumstances this may involve treating people with a protected characteristic more favourably than those without the characteristic.
- 3.2 There is no direct impact on the GLA group's public sector equality duty arising from the approval of borrowing limits, prudential indicators and capital financing requirements set out in this Mayoral Decision and its appendices with regard to the Mayor's final capital spending plan for 2016-17 (Mayoral Decision 1616). Part 3 to the Mayor's final draft consolidated budget provided detailed advice on the equalities implications of the Mayor's final draft budget relevant to their proposed

capital spending plans and section 3 of Mayoral Decision 1616 provided advice on the equalities implications of the Mayor's final GLA group capital spending plan 2016-17.

4. Other considerations

Old Oak Common and Park Royal Development Corporation

- 4.1 The Old Oak Common and Park Royal Development Corporation (OPDC) was established as a functional body on 1 April 2015. The Mayor's Final Draft Consolidated Budget (i.e. his revenue budget) published on includes revenue funding for the OPDC. Mayoral Decision 1616 – GLA group capital spending plan for 2016-17 – published on 25 February 2016 confirms that no capital expenditure for OPDC is assumed in the GLA capital spending plan for 2016-17. As OPDC was established on 1 April 2015 the Mayor is required to set borrowing limits for it; these are nil because the CIPFA Prudential Code requires the borrowing limits to be set with regards to capital expenditure plans and there is currently no such data on which to base the limits. The OPDC is therefore excluded from all the tables in Appendices A & B.

Consultation responses in regards to the Mayor's 2016-17 GLA group consultation budget

- 4.2 The Mayor consulted on the 2016-17 budget – including the capital spending plan and borrowing limits – with the London Assembly, London boroughs, the Corporation of London and other key stakeholders between 21 December 2015 and 12 January 2016. No items of specific direct relevance to the borrowing limits and prudential indicators were raised.

Risks

- 4.3 There are no further implications for risk management as these have been addressed as part of the budgetary process.

5. Financial comments

- 5.1 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 21 December 2015.
- 5.2 The final 2016-17 capital spending plan was issued on 25 February 2016 at [The Mayor's budget | London City Hall](#) and approved in Mayoral Decision 1616. The borrowing limits (the 'Authorised Limits') and prudential indicators for 2016-17 to 2018-19 which are being submitted for approval are consistent with the final 2016-17 capital plan with the following exceptions:
- LFEPA's capital expenditure plan for 2016/17 is lower by £19.4m, primarily due to works being completed in 2015/16. The plan is also slightly higher in 2017/18 by £2.7m, due to slippage on specific programmes.
 - TfL capital expenditure estimates for 2016/17 have been amended following the publication of its Budget 2016/17 and Business Plan to take account of TfL's latest capital expenditure assumptions as included in TfL's approved Business Plan. The TfL capital expenditure estimates for 2016/17 set out in this document are consistent with figures submitted as part of the budget document submitted to TfL's Board for approval on 17 March 2016. Capital expenditure estimates for 2017/18 and 2018/19 are consistent with figures submitted as part of the detailed 2014 Business Plan approved by TfL's Board on 26 March 2015.

- 5.3 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.
- 5.4 The Treasury Strategy for the core GLA is being approved under a separate Mayoral Decision. 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.
- 6. Legal comments**
- 6.1 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 2016-17 capital spending plan was approved under Mayoral Decision 1616 in February 2015 and included the capital spending plans for the four functional bodies and the GLA.
- 6.2 The Mayor is also required under section 3(2) 2003 Act 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).
- 6.3 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 2003 Regulations 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 published by CIPFA. The Mayor agrees the Prudential Indicators for each functional body and the GLA for the purposes of complying with the 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).

7. Investment & Performance Board

- 7.1 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.

8. Planned delivery approach and next steps

- 8.1 Once the Mayor has approved this request for Mayoral decision he will have discharged his responsibility under Section 3 (2) of the Local Government Act 2003 ("the 2003 Act") and the Local Government (Capital Finance and Accounting) (England) Regulations 2003 to set borrowing limits and prudential indicators for the forthcoming and following years.

Appendices and supporting papers:

Appendices

Appendix A – Proposed borrowing limits for 2016-17 to 2018-19
Appendix B – Proposed prudential indicators for 2016-17 to 2018-19

Supporting papers

Mayor's consultation budget and draft capital spending plan for 2016-17, published on 21 December 2015
Mayor's final draft consolidated budget for 2016-17, published on 12 February 2016
Mayoral Decision 1616 – GLA group capital spending plan for 2016-17, published 25 February 2016
Mayoral Decision 1324 – Approval of GLA Group Borrowing Limits and Prudential Indicators for 2015-16 to 2017-18

Appendix A - Proposed borrowing limits for 2016-17 to 2018-19

Authorised Limits for 2016-17 to 2018-19

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

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	501.1	484.7	598.3
Other long term liabilities	83.3	79.2	76.2
Total	584.4	563.9	674.5

Authorised limit for external debt – LFEPA

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	150.0	150.0	150.0
Other long term liabilities	75.0	75.0	75.0
Total	225.0	225.0	225.0

Authorised limit for external debt – TfL (Corporation)*

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	11,074.9	11,962.8	12,462.9
Other long term liabilities	237.6	218.0	200.3
Total	11,312.5	12,180.8	12,663.2

*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

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	400.0	380.0	510.00
Other long term liabilities	0.0	0.0	0.0
Total	400.0	380.0	510.0

Authorised limit for external debt – GLA

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	4,800.0	4,900.0	5,000.0
Other long term liabilities	0.0	0.0	0.0
Total	4,800.0	4,900.0	5,000.0

Notes

1. 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. The difference between the Authorised Limit and the Operational Boundary for each body are due to headroom included for the purposes of operational cashflow management
2. 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.
3. 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 2015-16 to 2017-18

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 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 – MOPAC

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	376.1	359.7	473.3
Other long term liabilities	83.3	79.2	76.2
Total	459.4	438.9	549.5

Operational Boundary – LFEPA

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	145.0	145.0	145.0
Other long term liabilities	75.0	75.0	75.0
Total	220.0	220.0	220.0

Operational Boundary – TfL (Corporation)*

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	9,982.4	10,870.3	11,370.4
Other long term liabilities	237.6	218.0	200.3
Total	10,220.0	11,088.3	11,570.7

*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

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	390.0	370.0	500.0
Other long term liabilities	0.0	0.0	0.0
Total	390.0	370.0	500.0

Operational Boundary – GLA

	2016-17 £m	2017-18 £m	2018-19 £m
Borrowing	4,300.0	4,360.0	4,460.0
Other long term liabilities	0.0	0.0	0.0
Total	4,300.0	4,360.0	4,460.0

Changes in borrowing limits from those approved in March 2015

Authorised Limits	2016-17 £m	2017-18 £m
MOPAC	0.0	(16.4)
LFEPa	0.0	0.0
TfL (Corporation)	(26.3)	(26.2)
LLDC	120.0	140.0
GLA	50.0	(100.0)

Operational Boundary	2016-17 £m	2017-18 £m
MOPAC	0.0	(16.4)
LFEPa	0.0	0.0
TfL (Corporation)	5.8	5.9
LLDC	120.0	140.0
GLA	(240.0)	(420.0)

Reasons for the change in authorised limits for 2016-17 and 2017-18

The borrowing requirements for 2016-17 and 2017-18 have changed from last year's estimates in the following instances:

- **MOPAC:** 2017-18 is reduced by £16.4m reflecting changes in the Borrowing element of both limits
- **LFEPa:** 2016-17 and 2017-18: No change.
- **TfL (Corporation):** Authorised Limits reduce in 2016-17 by £26.3m and in 2017-18 by £26.2m, reflecting a change in the Long Term Liabilities element of the limits. The Operational Boundaries increase by £5.8m in 2016-17 and £5.9m in 2017-18. These are driven by the same reductions in the Long Term Liabilities elements and offset by larger increases in the Borrowing elements of the limits.
- **LLDC:** Both Authorised Limits and Operational Boundaries increase by £120m in 2016-17 and by £140m in 2018-19. All changes are reflective of alterations in the Borrowing element of the limits.
- **GLA:** The Authorised Limit for 2016-17 has increased by £50m and that for 2017-18 has decreased by £100m. The Operational Boundary has decreased in both years, by £240m in 2016-17 and by £420m in 2017-18. In all cases the change is reflective of changes in the Borrowing element of the limits.

Appendix B – Proposed prudential indicators for 2016-17 to 2018-19**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:

- service objectives e.g. strategic planning for the authority
- stewardship of assets e.g. asset management planning
- value for money e.g. option appraisal
- prudence and sustainability e.g. implications for external debt and whole life costing
- affordability e.g. implications for council tax
- practicality e.g. achievability of the forward 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.

Old Oak Common and Park Royal Development Corporation

The Old Oak Common and Park Royal Development Corporation (OPDC) was established as a functional body on 1 April 2015. The Mayor's Final Draft Consolidated Budget (i.e. his revenue budget) sets out that the GLA's budget includes revenue funding for the OPDC. Mayoral Decision 1616 – GLA group capital spending plan for 2016-17 - published on 25 February 2016 confirms that no capital expenditure for OPDC is assumed in the GLA capital spending plan for 2016-17. As there is no capital spending plan currently available for OPDC, there is no data on which to base the other prudential indicators. For this reason no prudential and treasury management indicators are included in this section for the OPDC.

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 following prudential indicators are key indicators of affordability:

- estimates of the ratio of financing costs to net revenue stream (expressed as a percentage)
- estimates of the incremental impact of capital investment decisions on council tax

Capital financing costs to net revenue stream for 2016-17 to 2018-19

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 2016-17. The calculations treat funding provided through revenue support grant – approximately £168 million – and business rates retention – approximately £1.0 billion in 2016-17 – 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

	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	%	%	%
MOPAC	1.8	1.8	1.8
LFEPa	4.5	4.6	4.6
TfL – Corporation	19.8	17.2	20.6
TfL – Group	8.1	7.1	7.7
LLDC	n/a	n/a	n/a
GLA (Crossrail)	51.5	49.3	49.3
GLA (Non Crossrail – incl. NLE)	(1.7)	(1.0)	(0.7)

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 ratios for TfL are those submitted to TfL's Board for approval on 17 March 2016. The indicator for the Corporation continues to exclude fares revenues earned by subsidiaries from the calculation of the Corporation's net revenue stream and does not, therefore, reflect the true affordability of TfL's capital plans.

Note 3: The higher 2016-17 TfL Corporation ratio is due to the impact of TfL's internal allocation of its Transport Grant between capital and revenue expenditure.

Note 4: the GLA ratios show as a negative sum due to interest income (including that from LLDC loans) totalling £18m per annum

Estimated incremental impact of capital investment decisions on the council tax for 2016-17 to 2018-19

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

	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	£	£	£
MOPAC	(0.50)	(3.41)	4.32
LFEPa	0.00	0.00	0.00
TfL (Group)	n/a	n/a	n/a
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 2016-17 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 have a council tax requirement 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. LFEPa estimates that there is a zero impact in the period 2015-16 to 2017-18 whereas MOPAC's estimates have the effect of reducing the impact on council taxpayers in the coming two years.

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 debt 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.

Capital expenditure, gross debt and capital financing requirements for 2016-17 to 2018-19

This section sets out the capital expenditure, capital financing requirements and a comparison of gross debt and the capital financing requirement 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 the Department for Transport phasing issues arise. Borrowing levels are kept under review in order to ensure compliance and have 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 2016-17 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 2016-17 to 2018-19

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 the 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

	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
MOPAC	199.4	246.0	264.9	357.4	326.8
LFEPa	39.3	47.4	39.4	52.5	28.1
TfL- Corporation	3,826.4	4,516.3	3,279.9	3,263.5	2,727.8
TfL – Group*	3,969.9	5,315.2	3,946.5	3,716.2	3,266.4
LLDC	151.9	139.2	106.5	126.2	356.5
GLA	1,490.0	1,097.5	812.1	1,073.7	623.1

The table below sets out the proposed capital financing requirement for the GLA and each functional body for 2015-16 to 2017-18 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

	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
MOPAC	670.6	642.1	614.5	588.0	693.0
LFEPa	145.0	173.2	171.6	185.0	179.2
TfL- Corporation	9,088.1	10,017.7	10,812.3	11,737.8	12,249.6
TfL – Group*	10,308.5	11,354.6	12,188.2	12,378.8	13,153.4
LLDC	168.6	287.2	346.9	292.2	465.7
GLA	3,630.0	3,644.0	3,764.0	3,994.0	4,009.0

Gross debt and the capital financing requirement

In order to ensure that over the medium term net debt will only be for a capital purpose, local authorities are required by the Prudential Code to ensure that gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This is a key indicator of prudence. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

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.

The table below sets out the gross external debt and capital financing requirements for the GLA and each of the functional bodies. The GLA's capital financing requirement is lower than its forecast external debt due primarily to the impact of the phasing of its agreed Crossrail borrowing profile with central government and timing issues in relation to its contribution to the Northern Line extension. Crossrail BRS revenues not required to meet the GLA's financing costs and – until 2015-16 – its direct contribution to the Crossrail project costs, are applied within the capital financing requirement and have the effect of reducing this. This has the effect of reducing the capital financing requirement below the level of the GLA's debt accumulated in line with the borrowing profile approved by central government. Timing issues in relation to the agreed profile of the GLA's contributions to the Northern Line extension and the associated financing through borrowing and the application of CIL and section 106 revenues have a similar impact for 2015-16 onwards. These differences reflect timing and phasing issues in relation to financing and not the affordability of Crossrail and the Northern Line extension.

Gross debt compared to the capital financing requirement

	2015-16		2016-17		2017-18		2018-19	
	Forecast	CFR	Forecast	CFR	Forecast	CFR	Forecast	CFR
	gross debt £m	£m	gross debt £m	£m	gross debt £m	£m	gross debt £m	£m
MOPAC	270.1	642.1	459.4	614.5	438.9	588.0	549.5	693.0
LFEPa	155.9	173.2	154.3	171.6	167.7	185.0	161.9	179.2
TfL- Corporation	9,557.9	10,017.7	10,220.0	10,812.3	11,088.3	11,737.8	11,570.7	12,249.6
TfL – Group*	10,116.6	11,354.6	10,714.9	12,188.2	11,485.2	12,378.8	11,908.6	13,153.4
LLDC	293.5	293.5	346.9	346.9	292.2	292.2	465.7	465.7
GLA	3,644.0	3,644.0	3,764.0	3,764.0	3,994.0	3,994.0	4,009.0	4,009.0

Treasury Management Indicators for 2016-17 to 201-19

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 2016-17 to 2018-19

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 are referred to as the upper limit on fixed interest rate and variable interest rate exposures. In the cases of MOPAC, LFEPA, LLDC and the GLA they are presented as a percentage of the net principal sum outstanding whereas TfL sets them on a gross basis. TfL has made this decision on the grounds that it holds material cash and investment balances and as a consequence, for the particular circumstances of its treasury management, separate limits for gross borrowing and gross investments are more appropriate indicators.

Interest rates exposures – net borrowing – 2016-17 to 2018-19 – MOPAC, LFEPA, LLDC and GLA

Net borrowing - upper limit on fixed interest rate exposures

	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	%	%	%
MOPAC	150	150	150
LFEPA	100	100	100
LLDC	150	150	150
GLA	150	150	150

Net borrowing - upper limit on variable interest rate exposures

	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	%	%	%
MOPAC	50	50	50
LFEPAC	75	75	75
LLDC	50	50	50
GLA	10	10	10

Interest rates exposures - gross borrowing and investments - for 2016-17 to 2018-19 – TfL Only

As noted above, TfL does not set limits to interest rate exposures on a net basis but on a gross basis. The table below set out these TfL limits.

Gross borrowing - upper limit on fixed and variable interest rate exposures

	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	%	%	%
TfL – fixed	100	100	100
TfL – variable	50	50	50

Gross investment - upper limit on fixed and variable interest rate exposures

	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	%	%	%
TfL – fixed	50	50	50
TfL – variable	100	100	100

Maturity structure of borrowing for 2016-17 to 2018-19

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 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 maturing in each period expressed as a percentage of total projected borrowing. 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	100	0
12 – 24 months	100	0
24 months - 5 years	100	0
5 – 10 years	100	0
10 years and over	100	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 – LLDC

	Upper limit	Lower limit
	%	%
Under 12 months	0	0
12 – 24 months	25	0
24 months – 5 years	50	0
5 – 10 years	100	0
10 years and over	0	0

Maturity structure of borrowing – GLA

	Upper limit	Lower limit
	%	%
Under 12 months	10	0
12 – 24 months	10	0
24 months – 5 years	10	0
5 – 10 years	45	15
10 years and over	100	70

Principal sums invested for periods longer than 364 days – policies for 2016-17 to 2018-19

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

Principal sums invested for periods longer than 364 days - TfL

Maximum outstanding principal sum invested for more than 364 days	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	£m	£m	£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

Principal sums invested for periods longer than 364 days - GLA

	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
	£m	£m	£m
Maximum outstanding principal sum invested for more than 364 days	100	100	100

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

If YES, for what reason:

Until what date: (a date is required if deferring)

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:

Anna Casbolt – Group Treasury Officer - 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:

Luke Webster – Chief Investment Officer - has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

David Gallie – Assistant Director – Group Finance - has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Edward Lister – Chief of Staff and Deputy Mayor for Planning - 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

30 MARCH 2016

CHIEF OF STAFF:

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

Signature



Date

31 MARCH 2016

