PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix E) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition two local indicators have been developed to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2014/15, 2015/16 and 2016/17 (values shown in bold) are required to be set by the Court of Common Council as part of the budget setting process, and should be taken into account when considering the affordability, prudence and sustainability of capital investments.

Prudential Indicators for Affordability

Estimate of the ratio of financing costs to net revenue stream

Table 1

	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
HRA	0.20	0.18	0.21	0.20	0.22	0.23	0.24	0.24	**0.31**	**0.31**	**0.31**
Non-HRA	-0.36	-0.44	-0.40	-0.29	-0.28	-0.37	-0.39	0.22	**-0.39**	**-0.41**	**-0.36**
Total	-0.32	-0.39	-0.36	-0.26	-0.25	-0.32	-0.33	0.22	**-0.34**	**-0.35**	**-0.31**
At this time last year	*-0.32*	*-0.39*	*-0.36*	*-0.26*	*-0.28*	*-0.26*	*-0.30*	*-0.29*	*-0.29*	*-0.30*	-

This ratio is intended to represent the extent to which the net revenue consequences of borrowing impact on the net revenue stream. Since the City Fund is a net lender in its Treasury operations and is in receipt of significant rental income from investment properties, the Non-HRA and Total ratios are usually negative. However, in 2013/14 these ratios are positive as a result of the treasury management decision to make a significant investment of revenue cash balances in property.

Estimate of the incremental impact of capital investment decisions on the Council Tax

Table 2

	2013/14 Revised £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Incremental increase/(decrease) Per Band 'D' Equivalent	(100.00)	**(918.00)**	**(1,744.00)**	**(2,035.00)**
At this time last year	*(322.00)*	*(569.00)*	*(539.00)*	-

This ratio has been calculated to show the net incremental revenue impact of variations in the capital programme since the 2013/14 original estimates were prepared, expressed as a Band D equivalent. The variations generally reflect the impact on interest earnings and rental income arising from changes in the capital programme. In particular the marked increase over the indicators at this time last year are a result of the treasury management decision to switch from cash to property investment in 2013/14. Whilst in theory, this could be a strong indicator of affordability, in reality it is difficult to demonstrate a direct link between capital expenditure and its impact on the Council Tax, due to the special arrangements relating to the setting of the City's Council Tax.

Estimate of the incremental impact of capital expenditure on housing rents

Table 3

	2013/14 Revised £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Incremental increase/(decrease) on Average Weekly Rent	(0.57)	**1.04**	**(0.37)**	**(0.27)**
At this time last year	*(1.10)*	*(0.02)*	*(0.02)*	-

The current figures reflect the variations in annual capital costs associated with maintaining the decent homes standard and other improvements. Positive figures denote an increase and negative figures denote a decrease in the costs to be borne by the Housing Revenue Account. Councils' discretion to amend rents has, until recently, been largely removed by the Government's restrictions on the levels of rent chargeable, which previously made the above figures purely notional. As a result of Government reforms to council housing finance, the extent to which capital will impact on future rent levels is under review.

Prudential Indicator of Prudence

Net debt and the Capital Financing Requirement

Table 4

	Period 2013/14 to 2016/17 £m
Net borrowing/(Net investments)	**(70.174)**
Capital Financing Requirement	**(1.928)**

To ensure that, over the medium term, net borrowing will only be for capital purposes, this indicator is intended to demonstrate that net external borrowing does not exceed the capital financing requirement over the period 2013/14 to 2016/17. For this purpose, net debt is defined as the net total of external borrowing and investments. The existing financial plans assume that no external borrowing will be undertaken within the planning period, resulting in a 'net investment position', and this indicator has been calculated simply to comply with the Code.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 5

	2006/07 Actual £m	2007/08 Actual £m	2008/09 Actual £m	2009/10 Actual £m	2010/11 Actual £m	2011/12 Actual £m	2012/13 Actual £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
HRA	1.303	0.444	1.755	1.000	3.541	12.910	3.502	2.838	**17.378**	**3.253**	**0.620**
Non-HRA	28.936	27.060	121.934	76.404	42.109	210.156	17.939	191.005	**56.209**	**231.551**	**20.655**
Total	30.239	27.504	123.689	77.404	45.650	223.066	21.441	193.843	**73.587**	**234.804**	**21.275**
At this time last year	*30.239*	*27.504*	*123.689*	*77.404*	*45.650*	*99.681*	*32.373*	*46.085*	*94.011*	*253.985*	-

This indicator is based on the capital budget, augmented to reflect the indicative cost of schemes which have been approved in principle but have yet to be evaluated. It should be noted that the figures represent gross expenditure and that a number of schemes are wholly or partially funded by external contributions. Comparison with this time last year's figures shows a significant increase in 2013/14 which reflects the investment of revenue cash balances in property.

Estimate of the Capital Financing Requirement

Table 6

	2006/07 Actual £m	2007/08 Actual £m	2008/09 Actual £m	2009/10 Actual £m	2010/11 Actual £m	2011/12 Actual £m	2012/13 Actual £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
HRA	12.164	11.958	11.758	11.563	11.374	11.374	10.924	10.706	**10.492**	**10.282**	**10.076**
Non-HRA	-15.545	-15.158	-14.558	-14.282	-14.016	-13.413	-12.852	-12.634	**-12.420**	**-12.210**	**-12.004**
Total	-3.381	-3.200	-2.800	-2.719	-2.642	-2.039	-1.928	-1.928	**-1.928**	**-1.928**	**-1.928**
At this time last year	*-3.381*	*-3.200*	*-2.800*	*-2.719*	*-2.719*	*-2.642*	*-2.039*	*-2.039*	*-2.039*	*-2.039*	*-2.039*

The capital financing requirement reflects the underlying need to borrow; the overall negative figures are indicative of the City's debt-free status. The estimate is calculated by considering the capital expenditure and identifying all the financing options (e.g. capital receipts, grants) to be applied to finance it. In accordance with the guidance contained in the Prudential Code, the 'Actual' indicators are calculated directly from the Balance Sheet, whilst the method of calculating the HRA and Non-HRA elements is prescribed under Statute.

The remaining prudential indicators relating to external debt and treasury management are included within Appendix E.

Local Indicators

The City has considerable reserves and unusual revenue streams when compared to a typical local authority, and as a result, some of the standard indicators required under the Code are not directly relevant.

To address this, a local indicator has been developed focusing on the impact of capital investment and disposal decisions on investment income.

Impact of capital disposals and capital expenditure in the period 2013/14 to 2016/17 on investment income

Table 7

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Net investment income lost/(gained) due to capital disposals and capital expenditure in the period 2013/14 to 2016/17	(0.6)	(4.9)	(5.1)	(0.4)
At this time last year	(2.4)	(2.1)	(4.1)	-

This is calculated by taking the interest lost and rent income gained due to capital investment, less the notional rent lost and the interest gained from asset disposals during the period. This indicator demonstrates the importance of developing spend to save capital schemes and evaluating projects using a whole life costing approach, in order to maximise the income from rents and interest which service delivery relies upon. It should be noted that the anticipated net investment income gains take account of income receivable from Crossrail investment properties and the investment of revenue balances in property, the fall in 2016/17 reflecting disposals to fund the Crossrail contribution at the end of 2015/16.

Another local indicator which gives a useful measure of both sustainability and of the adequacy of revenue reserves has been developed.

Times cover on unencumbered revenue reserves

Table 8

	2013/14	2014/15	2015/16	2016/17
Times cover on unencumbered revenue reserves	0.5	(7.7)	250.0	6.4
At this time last year	*(20.5)*	*(139.7)*	*83.1*	-

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit, and demonstrates that annual revenue deficits are generally forecast over the planning period with the exception of 2014/15. The anticipated deficits result from the cumulative impact of increases in pay and prices and further reductions in government grant and can only be covered by reserves in the short term pending benefits to be achieved from service based reviews.