

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix C) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition a local indicator has been calculated to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2017/18, 2018/19 and 2019/20 (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

	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA	0.24	0.25	0.21	0.50	1.13	0.53	0.53
Non-HRA	0.22	-0.46	-0.37	-0.14	-0.25	-0.33	-0.16
Total	0.22	-0.39	-0.30	-0.09	-0.12	-0.25	-0.10
<i>At this time last year</i>	0.22	-0.39	-0.28	-0.31	-0.03	-0.38	-

This ratio is intended to represent the extent to which the net revenue consequences of financing and 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, with the exception of a positive ratio in 2013/14 reflecting the one-off treasury decision to invest significant revenue reserves in property.

The upward trend in HRA ratios reflects increased revenue contributions to the major repairs reserve, peaking in 2017/18, which is used to fund the HRA programme of capital works necessary to maintain the housing estates.

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

Table 2

	2016/17 Revised £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Incremental increase/(decrease) Per Band 'D' Equivalent	2,500.00	4,488.00	5,614.00	9,527.00
<i>At this time last year</i>	1,546.00	1,455.00	1,335.00	

This ratio has been calculated to show the net incremental revenue impact of variations in the capital programme since the 2016/17 original estimates were prepared, expressed as a Band D equivalent. The variations reflect the net impact of changes in the capital programme on the revenue budget.

The increases over the indicators calculated at this time last year reflect the purchase of an investment property in 2016/17 to maximise income over the medium term and from 2017/18 onwards reflect the funding of the Museum of London relocation from revenue.

Whilst in theory, this indicator could be a strong measure 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

	2016/17 Revised £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Incremental increase/(decrease) on Average Weekly Rent	(3.64)	(4.89)	(4.06)	(1.70)
<i>At this time last year</i>	1.58	9.18	11.67	

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 (bracketed) figures denote a decrease in the costs to be borne by the Housing Revenue Account. These negative figures arise from lower levels of expenditure than anticipated at this time last year. Councils' discretion to amend rents has, 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 2016/17 to 2019/20
	£m
Net borrowing/(Net investments)	(35,193)
Capital Financing Requirement	154,509

To ensure that, over the medium term, net external borrowing will only be for capital purposes, this indicator is intended to demonstrate that net debt does not exceed the capital financing requirement over the period 2016/17 to 2019/20. For this purpose, net debt is defined as the net total of external borrowing and cash investments. The existing financial plans assume that no external borrowing will be undertaken within the planning period, giving a 'net investment' position.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 5

	2013/14 Actual £m	2014/15 Actual £m	2015/16 Actual £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA	2.502	4.534	8.984	9.903	36.615	25.253	7.331
Non-HRA	181.183	41.103	32.012	274.130	95.601	105.450	95.658
Total	183.685	45.637	40.996	284.033	132.216	130.703	102.989
<i>At this time last year</i>	183.685	45.637	56.709	304.809	73.580	57.151	-

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. Comparisons with the figures calculated at this time last year are generally reflective of the re-phasing of capital expenditure, together with the inclusion of additional provisions such as the Museum of London relocation and the increase in cost of the police accommodation programme.

Estimate of the Capital Financing Requirement

Table 6

	2013/14 Actual £m	2014/15 Actual £m	2015/16 Actual £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA	10.705	10.490	2.352	0.000	0.000	0.000	0.000
Non-HRA	-12.647	-12.309	-3.496	92.928	49.688	100.955	154.509
Total	-1.942	-1.819	-1.144	92.928	49.688	100.955	154.509
<i>At this time last year</i>	-1.942	-1.819	-1.818	99.567	118.457	158.186	-

The capital financing requirement (CFR) reflects the underlying need to borrow and is calculated by identifying the capital financing sources (e.g. capital receipts, grants) to be applied. A positive indicator reflects the use of external and/or internal borrowing to fund capital expenditure.

The overall negative figures before 2016/17 are indicative of the City's debt-free status. From 2016/17 onwards the City Fund will finance some capital expenditure from cash sums received from the sale of long leases, which are treated as deferred income in accordance with accounting standards. For the purposes of this indicator, such funding counts as 'internal borrowing' and has given rise to positive CFRs going forward. The City currently continues to remain free of external debt. Going forward, a funding strategy for the Museum of London relocation is to be developed which may result in a need for external borrowing or the sale of investment property.

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 C.

Local Indicator

A 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 7

	2016/17	2017/18	2018/19	2019/20
Times cover on unencumbered revenue reserves	1.2	(5.5)	26.0	1.1
<i>At this time last year</i>	(10.0)	32.8	11.1	-

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit/(surplus). By 2019/20 the cover is reduced, reflecting the diminution of the City Fund general reserves to fund the Museum of London relocation. A formal funding strategy is to be developed which may result in external borrowing or the sale of investment property.