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, a local indicator has been calculated to reflect the City Corporation's particular circumstances. Those indicators relating to estimates for the financial years 2019/20, 2020/21 and 2021/22 (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**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Revised	Estimate	Estimate	Estimate
HRA	0.21	0.41	0.71	**0.61**	**0.68**	**0.71**	**0.71**
Non-HRA	-0.37	-0.17	-0.40	**-0.09**	**-0.39**	**-0.45**	**-0.41**
Total	-0.30	-0.12	-0.29	**-0.04**	**-0.30**	**-0.35**	**-0.31**
At this time last year	*-0.30*	*-0.12*	*-0.15*	*-0.14*	*-0.05*	*-0.15*	*-*

This ratio is intended to represent the extent to which the net revenue consequences of capital financing and borrowing impact on the net revenue stream. Since the City Fund is currently 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. The upward trend in HRA ratios reflects increased revenue contributions to the major repairs reserve, which is used to fund the HRA programme of capital works necessary to maintain the housing estates.

Prudential Indicator of Prudence

Gross Debt and the Capital Financing Requirement

> **Table 2**

	Period 2018/19 to 2021/22
	£m
Gross Debt	286,498
Capital Financing Requirement	399,843

To ensure that, over the medium term, borrowing will only be for capital purposes, this indicator demonstrates that gross debt will not exceed the capital financing requirement over the period 2018/19 to 2021/22. As a result of two major projects to be funded through City Fund - the Museum of London relocation and the new combined courts building at Fleet Street – significant external borrowing is anticipated from 2019/20 onwards. The remainder of the capital financing requirement (the underlying need to borrow) is to be met largely through internal borrowing.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 3

	2015/16 Actual £m	2016/17 Actual £m	2017/18 Actual £m	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
HRA	8.984	8.775	6.974	24.161	37.142	45.540	11.842
Non-HRA	32.012	250.705	42.575	92.961	173.903	137.684	274.403
Total	40.996	259.480	49.549	117.122	211.045	183.224	286.245
At this time last year	*40.996*	*259.480*	*92.689*	*152.551*	*161.247*	*170.932*	*-*

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 more robust estimates relating to the major projects (Museum of London relocation and the new combined courts building).

Estimate of the Capital Financing Requirement

Table 4

	2015/16 Actual £m	2016/17 Actual £m	2017/18 Actual £m	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
HRA	2.352	0.000	0.000	3.141	9.460	9.276	8.889
Non-HRA	-3.496	40.628	44.590	43.804	117.830	215.361	390.954
Total	-1.144	40.628	44.590	46.945	127.290	224.637	399.843
At this time last year	*-1.144*	*40.628*	*48.095*	*77.604*	*124.992*	*184.582*	*-*

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

The overall negative figure before 2016/17 indicatives the City's debt-free status at that time. From 2016/17 onwards, the City Fund has been financing 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. In addition, from 2019/20 the City Fund will need to take out loans with third parties (external borrowing) towards funding for the major projects.

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

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 5

	2018/19	2019/20	2020/21	2021/22
Times cover on unencumbered revenue reserves	2.7	(3.8)	N/a	N/a
At this time last year	(4.3)	15.2	0.1	-

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit/(surplus). For 2018/19 a revenue deficit is forecast, mainly as a result of funding this year's major project expenditure from unencumbered reserves. In 2019/20 a revenue surplus is forecast, denoted by the brackets. From 2020/21 a break even position is forecast, which is dependent on the identification of savings in revenue expenditure. A positive balance of reserves is to be maintained to guard against the risk of savings not being achieved.