

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 2013/14, 2014/15 and 2015/16 (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

	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
HRA	0.24	0.20	0.18	0.21	0.20	0.22	0.23	0.25	0.25	0.25	0.24
Non-HRA	-0.33	-0.36	-0.44	-0.40	-0.29	-0.28	-0.37	-0.34	-0.34	-0.35	-0.36
Total	-0.29	-0.32	-0.39	-0.36	-0.26	-0.25	-0.32	-0.30	-0.29	-0.29	-0.30
<i>At this time last year</i>	-0.29	-0.32	-0.39	-0.36	-0.26	-0.28	-0.26	-0.28	-0.30	-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 negative.

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

Table 2

	2012/13 Revised £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Incremental increase/(decrease) Per Band 'D' Equivalent	(82.00)	(322.00)	(569.00)	(539.00)
<i>At this time last year</i>	(5,195.00)	(5,272.00)	(5,088.00)	-

This ratio has been calculated to show the net incremental revenue impact of variations in the capital programme since the 2012/13 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. 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

	2012/13 Revised £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Incremental increase/(decrease) on Average Weekly Rent	(0.15)	(1.10)	(0.02)	(0.02)
<i>At this time last year</i>	0.04	0.99	0.29	-

The current figures reflect the variations in annual capital costs associated with delivering the decent homes standard and other improvements. The 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 City is reviewing its rent setting policy including the extent to which capital will impact on future rent levels.

Prudential Indicator of Prudence

Net debt and the Capital Financing Requirement

Table 4

	Period 2012/13 to 2015/16 £m
Net borrowing/(Net investments)	(134.615)
Capital Financing Requirement	(2.039)

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 2012/13 to 2015/16. 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

	2005/06 Actual £m	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 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
HRA	1.662	1.303	0.444	1.755	1.000	3.541	12.910	4.621	7.803	6.498	-
Non-HRA	62.376	28.936	27.060	121.934	76.404	42.109	210.156	27.752	38.282	87.513	253.985
Total	64.038	30.239	27.504	123.689	77.404	45.650	223.066	32.373	46.085	94.011	253.985
<i>At this time last year</i>	64.038	30.239	27.504	123.689	77.404	45.650	99.681	74.525	46.614	33.537	-

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 increased levels of capital expenditure over the planning period arising from prudent provision for future new schemes including police accommodation, the Central Criminal Court and the City's contribution towards the Crossrail project.

Estimate of the Capital Financing Requirement

Table 6

	2005/06 Actual £m	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 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
HRA	12.374	12.164	11.958	11.758	11.563	11.374	11.374	11.166	11.068	10.799	10.578
Non-HRA	-15.901	-15.545	-15.158	-14.558	-14.282	-14.016	-13.413	-13.205	-13.107	-12.838	-12.617
Total	-3.527	-3.381	-3.200	-2.800	-2.719	-2.642	-2.039	-2.039	-2.039	-2.039	-2.039
<i>At this time last year</i>	-3.527	-3.381	-3.200	-2.800	-2.719	-2.719	-2.642	-2.642	-2.642	-2.642	-

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 2012/13 to 2015/16 on investment income

Table 7

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Net investment income lost/(gained) due to capital disposals and capital expenditure in the period 2012/13 to 2015/16	(4.6)	(2.4)	(2.1)	(4.1)
<i>At this time last year</i>	(4.4)	(0.2)	(0.3)	-

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 rents receivable from Crossrail investment properties.

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

	2012/13	2013/14	2014/15	2015/16
Times cover on unencumbered revenue reserves	(149.6)	(20.5)	(139.7)	83.1
<i>At this time last year</i>	(28.5)	(35.7)	109.0	-

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit, and demonstrates that annual revenue surpluses (denoted by brackets) are forecast until 2015/16. The anticipated deficit in the final year, which is mainly as a result of the cumulative impact of increases in pay and prices and reductions in government grant, can be adequately covered by reserves in the shorter term pending further savings reviews.