ANNEX C - Prudential Indicators

1) Background and Summary

1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code for Capital Finance in Local Authorities (2011 Edition) and agree Prudential Indicators. This report revises the Indicators for 2015/16, 2016/17, 2017/18 and introduces new Indicators for 2018/19. Each indicator either summarises the expected activity or introduces limits upon the activity and reflects the outcome of the Council's underlying capital appraisal systems.

1.2 Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the Treasury Management Strategy for 2016/17 is included at Annex B to complement the Indicators and this report includes the Prudential Indicators relating to the treasury activity.

2) Capital expenditure plans

2.1 The Council's capital expenditure plans are reported and recommended for approval in the Capital Programme 2016/17 Report and are summarised below. This forms the first of the Prudential Indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants, etc.), but if resources are insufficient any residual expenditure will need to be borrowed.

2.2 A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources. The Government retains an option to control either the total of all local authorities' plans or those of a specific council, although no such control has yet been invoked.

2.3 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

2.4 The Council is referred to the summary capital expenditure projections below, as reported in the Capital Programme Report 2016/17. This forms the first Prudential Indicator:

£'000s	2015/16 Revised	2016/17 Programme	2017/18 Programme	2018/19 Programme
Capital Expenditure:				
Non-HRA	30,569	11,827	18,486	21,200
HRA	8,295	9,274	9,938	3,171
Financed by:				
Capital receipts	(114)	(100)	(100)	(100)
Capital grants	(32,474)	(16,088)	(22,999)	(17,870)
Capital reserves	-	-	-	-
Revenue	(4,912)	(4,913)	(5,325)	-
Net financing need for the year: *(para 3.3)*	**1,364**	**-**	**-**	**6,401**

3) The Council's borrowing need (the Capital Financing Requirement)

3.1 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. The capital expenditure above which has not immediately been paid for will increase the CFR.

3.2 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge known as the Minimum Revenue Provision (MRP). The overriding principle in calculating the MRP is that it must be prudent and this is covered in more detail in Annex D.

3.3 The Council is asked to approve the CFR projections below:

£'000s	2015/16 Revised	2016/17 Programme	2017/18 Programme	2018/19 Programme
Capital Financing Requirement:				
CFR – Non Housing	268,851	260,090	251,390	249,091
CFR - Housing	11,363	11,363	11,363	11,363
Total CFR	280,214	271,453	262,753	260,454
Movement in CFR	**(6,961)**	**(8,761)**	**(8,700)**	**(2,299)**

Movement in CFR represented by:				
Net financing need for the year: *(para 2.4)*	1,364	-	-	6,401
MRP/Voluntary Revenue Provision and other financing movements:	(8,325)	(8,761)	(8,700)	(8,700)
DCLG - HRA Settlement	-	-	-	-
Movement in CFR	**(6,961)**	**(8,761)**	**(8,700)**	**(2,299)**

3.4 In order to ensure that over the medium-term net borrowing will only be taken for a capital purpose, the local authority should ensure that net external borrowing 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. This is a key indicator of prudence.

4) <u>The use of the Council's resources and the investment position</u>

4.1 The application of resources (capital receipts, reserves, etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

4.2 No capital receipts or capital reserves are expected to be available to finance capital expenditure during the period covered by the Treasury Management Strategy.

5) <u>Limits to borrowing activity</u>

5.1 Within the Prudential Indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

5.2 For the first of these the Council needs to ensure that its total borrowing - net of any investments - does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

Y/end positions £'000s	2015/16 Revised	2016/17 Projection	2017/18 Projection	2018/19 Projection
L/T borrowing	88,574	80,154	89,957	103,180
Short-term debt	66,000	81,196	60,477	40,707
LCC/ex-LCC	19,602	18,818	18,065	17,342
PFI Schemes	71,085	71,085	71,085	71,085
Gross borrowing	245,261	251,253	239,584	232,314
(Investments)	(1,000)	-	-	-
Net borrowing	244,261	251,253	239,584	232,314
CFR	280,213	271,453	262,753	260,454

5.3 The Director of Resources reports that the Council has complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in next year's budget report.

5.4 A further two Prudential Indicators control or anticipate the overall level of borrowing:

5.5 **The Authorised Limit for external debt -** This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

5.6 **The Operational Boundary for external debt -** This indicator is based on the expected maximum external debt during the course of the year; it is not a limit. The Operational Boundary differs from the Authorised Limit in that it is based on expectations of the maximum external debt according to probable - not simply possible - events and is consistent with the maximum level of external debt projected by the estimates. The setting of this Operational Boundary is a matter of careful judgement. If it is set too high then it may be too near the Authorised Limit for there to be a margin sufficient to allow time to take corrective action before the Authorised Limit is breached. Alternatively, if it is set too low it will be breached so frequently that it will cease to act as a credible warning indicator. The intention therefore is that this operates as a form of early warning about certain cash-flow problems.

5.7 The Council is asked to approve the following Authorised Limit and Operational Boundaries, two indicators which are based on debt (including short-term) and are gross of investments.

Authorised Limit £'000s	2015/16 Revised	2016/17 Projection	2017/18 Projection	2018/19 Projection
Borrowing limit	206,000	198,000	189,000	187,000
Other long term liabilities limit	73,000	73,000	73,000	73,000
Total limit	279,000	271,000	262,000	260,0000
Operational Boundary £'000s	**2015/16 Revised**	**2016/17 Projection**	**2017/18 Projection**	**2018/19 Projection**
Borrowing limit	191,000	186,000	184,000	177,000
Other long term liabilities limit	73,000	73,000	73,000	73,000
Total limit	261,000	259,000	257,000	250,000

5.8 The Authorised Limit is set to allow for any potential overdraft position, since this will be counted against the overall borrowing. The Operational Boundary is set to equate to expected debt levels without headroom.

6) Affordability Prudential Indicators

6.1 The previous sections cover the overall capital and control of borrowing Prudential Indicators, but within this framework Prudential Indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

6.2 **Actual and estimates of the ratio of financing costs to net revenue stream -** This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	2015/16 Revised	2016/17 Programme	2017/18 Programme	2018/19 Programme
Non-HRA	10.6%	13.6%	15.1%	16.0%
HRA	3.1%	3.0%	3.0%	3.0%

The estimates of financing costs include current commitments and the proposals in the Budget Report presented concurrently for approval.

6.3 **Estimates of the incremental impact of capital investment decisions on the Council Tax -** This indicator identifies the revenue costs associated with new schemes introduced to the three-year capital programme recommended in the budget report, compared with the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support.

Incremental impact of capital investment decisions on Average Council Tax	Proposed Budget 2016/17	Forward Projection 2017/18	Forward Projection 2018/19
Average Council Tax	£5.71	£5.86	£6.00

6.4 **Estimates of the incremental impact of capital investment decisions on housing rent levels -** Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels	Proposed Budget 2016/17	Forward Projection 2017/18	Forward Projection 2018/19
Weekly housing rent levels	£0.27	£0.25	£0.02

This indicator shows the revenue impact on any newly approved schemes, although any discrete impact will be constrained by rent controls.