APPENDIX 8

PRUDENTIAL INDICATORS FOR 2016/2017 ONWARDS

1. INTRODUCTION

1.1 The Prudential Capital Finance system came into effect on 1st April 2004.

1.2 The Prudential Capital Finance system replaced the previous system of basic and supplementary credit approvals allocations (BCA and SCA) from Central Government and allows authorities to borrow as much as they can prudently afford to pay back from their revenue resources (subject to national safeguards). CIPFA developed the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) (last revised in 2011) to provide a mechanism (the Prudential Indicators) to enable Councils to ensure, that in line with the new freedom given, their capital investment plans are affordable, prudent and sustainable. Thus the Prudential Indicators provide an assessment of how much unfunded (i.e. from within its own resources) borrowing can be afforded by an authority.

1.3 It is up to the Council to set its own Prudential Indicators having had regard to its own individual set of circumstances. The Council will then be able to demonstrate that its capital investment proposals are affordable, prudent and sustainable.

1.4 The Prudential Indicators are divided into groups covering Affordability, Prudence, Capital Expenditure, External Debt and Treasury Management. This appendix explains what the Prudential Indicators are as well as revising them for 2015/16 where appropriate and setting them for 2016/17 and, if required, subsequent financial years. Certain indicators are required to be completed separately for the General Fund (GF) and Housing Revenue Account (HRA) whilst others relate to the whole authority only.

2. THE INDICATORS

2.0 Affordability - Ratio of financing costs to net revenue stream

2.1 This ratio sets an upper limit on the proportion of the Council's net revenue streams both for GF and HRA which goes to service debt.

2.2 The table below shows the ratios proposed for the General Fund, Housing Revenue Account and Overall as required by the Prudential Code.

Year	General Fund	Housing Revenue Account	Overall
2015/16 Revised	+1.00% to -4.00%	36.00% to 41.00%	22.00% to 27.00%
2016/17	-1.00% to -6.00%	36.00% to 41.00%	23.00% to 28.00%
2017/18	-1.00% to -6.00%	36.00% to 41.00%	21.00% to 26.00%
2018/19	+2.50% to -2.50%	36.00% to 41.00%	22.00% to 27.00%

For information :-			
Year	**General Fund**	**Housing Revenue Account**	**Overall**
2014/15 Actual	-1.20%	39.41%	22.91%
2015/16 Orig.	+2.00% to -3.00%	37.00% to 42.00%	20.00% to 25.00%

2.3 It is felt best to have a ratio which is a range rather than a precise figure as at this point in time it is difficult to predict what long term interest rates will be in the future and even a small variation in the interest rate at which borrowing is incurred could cause a ratio based on a precise percentage to be breached but with little effect on the Authority's finances.

2.4 The significant size of the HRA ratio is due to the impact of taking on the HRA Self Financing debt and reflects the need to provide for repayment of the debt throughout the life of the Business Plan. This debt repayment provision was not required under the previous Subsidy system but is fully covered within the Business Plan as the Council will retain all its rent income in order to provide for debt servicing costs.

2.5 There will be a need to monitor these ratios during the year and, if necessary, to take remedial action to avoid them being breached. It is recommended that the trigger point be set at the lowest point of each range. This will give sufficient time to remedy the situation.

3.0 Affordability - Estimates of the incremental impact of the new capital investment decisions on the Council Tax / Average Weekly Housing Rents

3.1 This is seen as a fundamental indicator of affordability as it allows the Council to see what impact additional capital expenditure (including revenue consequences) and the way it is financed has on the Council Tax/Housing Rents and therefore whether or not any resultant increases are either financially or politically acceptable. The table below shows the incremental impact on the Council Tax and Housing Rents of the capital programmes in paragraph 5.2:-

Year	Council Tax	Housing Rent
2016/17	£3.61	£0.45
2017/18	£2.86	£0.73
2018/19	£4.44	£1.01

3.2 The impact on the Council Tax is positive due in the main to the revenue effects of various past capital projects e.g. Victoria Park Bowls Complex Improvements, Crematorium Refurbishment and Cubbington Flood Alleviation Scheme and also new schemes within the capital programme such as extensions to the RUCIS and Recycling and Refuse Containers annual budgets in 2018/19 . In addition it includes an estimate of the lost investment interest on the resources used to finance the capital programme.

3.3 The Housing Rent figures in the table in 3.1 above reflect the cumulative effect of the investment interest foregone as a result of utilising Housing Capital Investment Reserve balances to finance the Sayer Court development. Although the HRA Self Financing debt counts as capital expenditure it is not "new" capital expenditure rather it is a transfer of existing debt between central and local government and is already fully resourced by the current rents being charged, hence its effects are excluded from this indicator.

4.0 Prudence - Gross Borrowing and the Capital Financing Requirement

4.1 This indicator requires that gross debt, except in the short term, is to be kept below the CFR for the same period. Currently it is estimated that gross external borrowing for this purpose at the end of 2017/18 will amount to £150,000,000 and the total CFR for the same period is estimated to be £148,680,300. Comparison of the two figures shows that in theory the Council is "over borrowed "to the tune of £1.320m. However, this is not the case as the Capital Financing Requirement previous to the self financing borrowing of £136.157m was negative by £1.697m and this negativity has been carried forward into the CFR calculation for this indicator. Therefore, it is likely that in the future the CFR will always be less than our external gross borrowing but this is not viewed as an issue and is a position faced by any Council which has or has had a negative CFR.

5.0 Capital Expenditure - Estimates of Capital Expenditure for at least 3 years

5.1 The Council is required to publish its estimated capital expenditure for both the General Fund and HRA for at least the next year and two years following it. By modelling various capital programmes, this indicator provides the data for other indicators such as the ratio of financing costs to net revenue stream and the incremental impact on the council tax / housing rents. It should be noted here that the General Fund Capital Programme and the General Fund element of the Housing Investment Programme (affordable housing programme and private sector Improvement Grants) are to be considered as one.

5.2 The table below shows the Councils estimated capital expenditure on the General Fund and Housing Revenue Account for the next four years:-

Year	General Fund	HRA	Overall
2016/17	£3,393,100	£8,325,400	£11,718,500
2017/18	£1,184,700	£4,705,500	£5,890,200
2018/19	£1,418,200	£4,705,500	£6,123,700
2019/20	£991,400	£4,705,500	£5,696,900

5.3 It should be noted that the General Fund expenditure in the above table does not yet include the projected spend on the Leisure Centre Refurbishment project. Once this has been finalised and formally included in the Council's General Fund capital programme this indicator will be updated accordingly.

6.0 Capital Expenditure - Estimates of Capital Financing Requirement

6.1 This is a key measure in that it measures the underlying need for an authority to borrow for capital purposes. However it may not be prudent from a Treasury Management point of view to actually borrow from an external source such as the Public Works Loans Board. This is especially the case when investment rates are lower than long term borrowing rates, in this instance it would be more economic and efficient to utilise the Council's investments instead (commonly known as internal borrowing) until borrowing interest rates are such that it then becomes economic to replenish the cash backing the internal borrowing . Either external or internal borrowing creates a cost to the Council in terms of having to pay interest on and provide for repayment of external loans or lost investment interest. The Capital Financing Requirement provides the starting point for calculating this cost and the results feed into the ratio of financing costs to net revenue stream indicator and also the incremental impact on the council tax / housing rents indicator.

6.2 The estimated Capital Financing Requirements (CFR) at the end of 2015/16 and each of the next three years are as follows and are based on the Council's capital programmes as outlined in paragraph 5.2 above and also include both the HRA Self Financing debt settlement itself and the effects of the debt repayment strategy contained within the latest version of the HRA Self Financing Business Plan.

Year	General Fund	HRA	Overall
2015/16 Revised	-£999,510	£135,786,796	£134,787,286
2016/17	-£949,510	£135,786,796	£134,837,286
2017/18	-£949,510	£135,786,796	£134,837,286
2018/19	-£949,510	£135,786,796	£134,837,286
For Information :-			
2014/15 Actual	-£1,326,896	£135,786,796	£134,459,900
2015/16 Estimate	-£1,326,896	£135,786,796	£134,459,900

6.3 It is possible to have a General Fund negative Capital Financing Requirement as shown in the table above. Essentially this is because the Council still had capital receipts set aside to repay debt at 31st March 2004 which it no longer needed as the Council had gone debt free by this date. It will be noted that the negativity of the Capital Financing Requirement has reduced by a total of £377,386 when comparing 2016/17 onwards with the 2014/15 actual and this is due to the internal borrowing incurred in funding the current capital programme costs of the Leisure Centres refurbishment programme. Once the full costs of the refurbishment are included in the capital programme this indicator will require updating. With regard to the HRA the Capital Financing Requirement reflects the HRA Self Financing debt settlement of £136.157m. The CFR is slightly below the borrowing figure due to the £0.370m negative capital financing requirement at the commencement of 2011/12.The Council is also limited to a maximum HRA CFR which currently is £150 million for each of 2016/17, 2017/18 and 2018/19.

6.4 Because of variations in the capital programmes there will be a need to monitor this indicator in year to ensure that the in year limit is not breached by slippage from the previous year or expenditure brought forward from the following year. This is unlikely but will be kept under review by Finance.

7.0 External Debt - Authorised Limit

7.1 The Council is required to set for the forthcoming year and the following two financial years an Authorised Limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities. The Authorised Limit equates to the maximum external debt at any one time which the Council is allowed to have outstanding.

7.2 The recommended Authorised Limit is as shown in the table below:-

Year	**Authorised Limit for Borrowing**	**Authorised Limit for Other Long Term Liabilities**	**Authorised Limit for external debt**
2015/16 Revised	£160,050,000	£1,077,000	£161,127,000
2016/17	£206,050,000	£1,045,000	£207,095,000
2017/18	£216,050,000	£1,012,000	£217,062,000
2018/19	£216,050,000	£1,009,000	£217,059,000

7.3 The limits above take into account the HRA Self Financing debt settlement and also includes an allowance for any potential prudential borrowing on such projects as the Leisure Centres refurbishment , multi storey car parks refurbishment and new offices for the Council. In addition the Authorised Limit includes an allowance for possible borrowing in relation to potential schemes within the Housing Revenue Account such as Lillington regeneration and also the Self Financing Business Plan’s aims of providing 70 new homes per year during its life.

8.0 External Debt - Operational Boundary

8.1 The Council is also required to set an operational boundary for external debt. Again this is for three years and gross of investments. The Operational Boundary which is less than the Authorised Limit is effectively the day to day working limit for cash flow purposes. This indicator is sensitive to additional borrowing and to debt restructuring so will need to be set at an appropriate level at the outset of each financial year to cater for any forecast activity in these areas during the coming year. Occasional breach of the Operational Boundary is not seen as a cause for concern (so long as the Authorised Limit is not breached as well) but a sustained breach could mean that there are problems with the Councils cash flow therefore there will be a need to monitor this indicator during the year and , if necessary, to take remedial action.

8.2 The recommended Operational Boundaries are as shown in the table below:-

Year	Operational Boundary for Borrowing	Operational Boundary for Other Long Term Liabilities	Operational Boundary for external debt
2015/16 Revised	£151,050,000	£77,000	£151,127,000
2016/17	£163,050,000	£45,000	£163,095,000
2017/18	£163,050,000	£12,000	£163,062,000
2018/19	£163,050,000	£9,000	£163,059,000

9.0 Treasury Management - Adoption of the CIPFA Treasury Management Code of Practice

9.1 It is a requirement of the Prudential Code that the Council states that it has adopted the 2009 Revised CIPFA Treasury Management Code of Practice. The Council has adopted the code.