

2017-2020 Prudential Indicators

Introduction

- 1.0 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying investment appraisal systems.
- 1.1 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. The draft Treasury Management Strategy for 2017/18 is included as Appendix B of the annex to the report.
- 1.2 The Prudential Code requires the following matters to be taken into account when setting or revising the prudential indicators:
 - a) Service Objectives – e.g. strategic planning for the Authority
 - b) Stewardship of assets – e.g. asset management strategy
 - c) Value for money – e.g. options appraisal
 - d) Prudence and sustainability – e.g. implications of external borrowing
 - e) Affordability – e.g. impact on Housing rents
 - f) Practicality – e.g. achievability of the forward plan
- 1.3 Matters of affordability and prudence are primary roles for the Prudential Code.
- 1.4 The revenue consequences of capital expenditure relating to the HRA must to be paid for from HRA resources.
- 1.5 Capital expenditure can be paid for through capital receipts, grants etc, but if these resources are insufficient then any residual capital expenditure will add to the HRA's borrowing need.
- 1.6 The key risks to the plans are that the level of funding, such as capital receipt levels or revenue contributions may change as capital receipts are reliant on an active property market.
- 1.7 In total there are fifteen prudential indicators, covering:
 - Affordability;
 - Prudence;
 - Capital expenditure;
 - External debt; and
 - Treasury management.
- 1.8 Prudential indicators are required to be set as part of the Financial Planning and Budget process. Any revisions must be reported through the financial management process.

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- 1.9 The prudential indicators for the forthcoming and future years must be set before the beginning of the forthcoming year. They may be revised at any time, following due processes and must be reviewed, and revised if necessary, for the current year when the prudential indicators are set for the following year.
- 1.10 The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council specifically relating to the Housing Revenue Account (HRA) for 2017–20. The remainder of the indicators will be included in the 2017-20 Financial Planning and Budget Process report to Cabinet on 25 January 2017.

Prudential Indicators for Affordability

- 1.11 The fundamental objective in considering affordability of the Authority's HRA Investment Plan is to ensure that the total capital investment remains within sustainable limits, and in particular to consider the impact on the "bottom line" and hence Housing rents. Affordability is ultimately determined by a judgement on acceptable housing rent levels.
- 1.12 In considering the affordability of its Investment Plan, the Authority is required to consider all the resources that are currently available, and estimated for the future, together with the totality of the Investment Plan, revenue income and revenue expenditure forecasts for the forthcoming year and following two years (as a minimum). The Authority is also required to consider known significant variations beyond this timeframe. This requires the development of rolling revenue forecasts as well as capital expenditure plans. In line with the Financial Plan, three-year forecasts have been provided for the prudential indicators.
- 1.13 When considering affordability, risk is an important factor to be considered. Risk analysis and management strategies should be taken into account.
- 1.14 Looking ahead for a three year period, the following are key prudential indicators of affordability:
- the ratio of financing costs to net revenue stream for the Housing Revenue Account (HRA); and
 - the incremental impact on housing rents. The scope for increases in both these elements is governed by the Government's ability to limit increases.

Ratio of financing costs to net revenue stream

- 1.15 This indicator identifies the trend in the cost of capital (predominately external interest) as a proportion of the net housing income budget and is shown in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream

	2016/17	2017/18	2018/19	2019/20
	Est.	Est.	Est.	Est.
HRA	27.46%	30.39%	27.22%	27.93%

1.16 The above indicator includes the financing costs of the North Tyneside Living PFI scheme. To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 2 below:

Table 2: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2016/17	2017/18	2018/19	2019/20
	Est.	Est.	Est.	Est.
HRA	6.22%	7.69%	4.28%	4.51%

1.17 The cost of capital related to past and current capital programmes has been estimated in accordance with proper practices. Actual costs will depend on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Any reprogramming in the Investment Plan, whether planned or unplanned, may delay the impacts of debt financing costs to future years.

Incremental impact of new capital investment decisions on housing rents

1.18 This indicator represents an estimate of the incremental impact of new capital investment decisions on average weekly housing rents.

1.19 Revenue budget impacts may arise from the following:

- Direct revenue contributions to capital expenditure;
- Use of the Major Repairs Allowance (MRA);
- Interest from the use of external borrowing;
- Amounts set aside for the repayment of debt; and,
- Revenue running costs or savings.

Table 3: Estimates of incremental impact of new capital investment decisions on weekly housing rents

	HRA
2017/18	£1.74
2018/19	(£0.49)
2019/20	(£1.73)

1.20 These figures are notional and in practice the incremental costs of borrowing for the HRA capital programme are incorporated into the calculations for the HRA budget build up along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Prudential Indicators for Capital Expenditure

Estimate of capital expenditure

1.21 This indicator requires reasonable estimates of the total capital expenditure to be incurred during the current financial year and at least the following three financial years.

1.22 The Investment Plan for 2017-2020 is included in paragraph 2.3 of the annex to this report. A full breakdown of individual projects is shown in Appendix D.

Table 4: Capital Expenditure

	2016/17	2017/18	2018/19	2019/20
	Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
HRA	23,268	26,049	24,144	22,790

1.23 There is a risk of cost variations to planned expenditure against the Investment Plan, arising for a variety of reasons, including tenders coming in over/under budget, changes to specifications, slowdown/acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the Investment Plan. These risks are managed by project officers on an ongoing basis, by means of active financial and project monitoring, they will be overseen by the Investment Programme Board and any changes will be made in accordance with Financial Regulations.

Estimate of Capital Financing Requirement (CFR)

1.24 The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The CFR is simply the total historic

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outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The HRA business plan includes provision to reduce the HRA CFR by additional voluntary contributions in the form of capital receipts and revenue contributions.

- 1.25 The HRA CFR also includes other long term liabilities in the form of the North Tyneside Living PFI scheme.
- 1.26 In accordance with best professional practice the Authority does not associate borrowing with particular items or types of expenditure. The Authority has a number of daily cash flows, both positive and negative, and manages its treasury position in terms of its borrowing and investments in accordance with the approved Treasury Management Strategy. In day to day cash management no distinction can be made between revenue cash and capital cash. Over the long term external borrowing may only be incurred for capital purposes.

Table 5: Capital Financing Requirement

	2016/17 Est. £000's	2017/18 Est. £000's	2018/19 Est. £000's	2019/20 Est. £000's
HRA	348,970	343,655	340,538	337,234

- 1.27 The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 6 below:

Table 6: Capital Financing Requirement for Unsupported Borrowing

	2016/17 Est. £000's	2017/18 Est. £000's	2018/19 Est. £000's	2019/20 Est. £000's
HRA	35,636	31,746	30,131	28,329

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HRA limit on indebtedness

1.28 Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. The HRA Capital Financing Requirement excluding the North Tyneside Living PFI scheme should be within the cap set. The table below confirms that the proposals remain within the cap set.

Table 7: HRA limit on indebtedness

	2016/17 £000's Est.	2017/18 £000's Est.	2018/19 £000's Est.	2019/20 £000's Est.
Gross HRA capital financing requirement	348,970	343,655	340,538	337,234
Less HRA PFI schemes	78,660	77,235	75,733	74,231
Adjusted HRA capital financing requirement	270,310	266,420	264,805	263,003
HRA limit on indebtedness	290,824	290,824	290,824	290,824