

## Annexe 4

### Prudential Indicators

To fulfil the requirements of the Prudential Code, the Council must produce and maintain a specified set of 'Prudential Indicators'. In setting and revising these indicators, and more importantly in any decision on borrowing, the Council must take into account affordability, eg implications for Council Tax and housing rents and prudence and sustainability, eg implications for external borrowing. All of the required Prudential Indicators are included below. Explanatory text is included where necessary.

The prudential indicators are there to support decision-making and are not designed to be comparative performance indicators with other councils. The indicators which require future forecasts are rolling scenarios, not fixed for the three-year period. They can be reviewed at any time by the S151 Officer, subject to Council approval. The S151 Officer must monitor performance against each indicator during the year.

There are other major decisions for the Council in the next few years that may have a significant impact on capital financing decisions, such as the ongoing development of the HRA Business Plan and the Brightwells development. As these details become available, the indicators will be reviewed and, if necessary, reconsidered by Members.

### Indicator 1 - Estimates of capital expenditure

	<b>2014-15 £000 Actual</b>	<b>2015-16 £000 Latest Estimate</b>	<b>2016-17 £000 Estimate</b>	<b>2017-18 £000 Estimate</b>	<b>2018-19 £000 Estimate</b>
General Fund	5,562	3,425	2,254	1,462	1,060
HRA	10,181	17,911	22,745	27,786	24,036
<b>Total</b>	<b>15,743</b>	<b>21,336</b>	<b>24,999</b>	<b>29,248</b>	<b>25,096</b>

These estimates are as included in the capital programme report and, in the case of the previous year's actuals, as shown in the Statement of Accounts.

### Indicator 2 - Estimates of the ratio of financing costs to net revenue stream

	<b>2014-15 Actual</b>	<b>2015-16 Estimate</b>	<b>2016-17 Estimate</b>	<b>2017-18 Estimate</b>	<b>2018-19 Estimate</b>
General Fund	-2.42%	-2.48%	-2.49%	-2.59%	-2.69%
HRA	20.14%	19.95%	20.16%	18.51%	17.73%

The net revenue stream is the total net expenditure to be met from Government grant and local taxpayers or, in the case of the HRA, the net amount to be met from rent income. Financing costs are the net of any interest on borrowing, interest earned on investments and any amounts made as revenue provision to repay debt.

The estimates of financing costs include current commitments and the proposals in the budget report. At 31st March 2015, investments totalling £51.5 million were held, much of which represented balances and reserves, with the balance being held for cash flow purposes. The projected reduction in the General Fund ratio reflects

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estimates of the overall draw on capital receipts and other internal resources to fund the capital programme. The HRA figures are determined by Regulations and reflect the external borrowing rate on the self-financing debt.

### **Indicator 3 - Capital financing requirement**

	<b>2014-15</b> <b>£000</b> <b>Actual</b>	<b>2015-16</b> <b>£000</b> <b>Estimate</b>	<b>2016-17</b> <b>£000</b> <b>Estimate</b>	<b>2017-18</b> <b>£000</b> <b>Estimate</b>	<b>2018-19</b> <b>£000</b> <b>Estimate</b>
General Fund	2,056	00	0	0	0
HRA	192,187	192,187	192,187	192,187	192,187
<b>Total</b>	<b>194,243</b>	<b>192,187</b>	<b>192,187</b>	<b>192,187</b>	<b>192,187</b>

This indicator is a measure of the underlying need to borrow for capital purposes, it is not the level of actual borrowing held or required or of the actual level of other capital resources held. The requirement increases as capital expenditure is incurred or planned, and reduces when financing from capital receipts, grants or revenue is applied. The HRA self-financing debt is deemed to be capital expenditure under the regulations. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Waverley intends to finance most of its General Fund routine capital programme from existing resources in the medium term. The programme will be reviewed as part of each year's General Fund budget setting process to match planned expenditure to the level of resources available.

### **Indicator 4 - Actual External Debt**

<b>Actual External Debt as at 31/03/2015</b>	<b>£m</b>
Borrowing	187.0
Other Long-term Liabilities	0
<b>Total</b>	<b>187.0</b>

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit. The HRA self-financing transaction included internal borrowing of £5m from the General Fund which is not included in the prudential indicators.

### **Indicator 5 - Authorised limit for external debt**

	<b>2015-16</b> <b>Estimate</b>	<b>2016-17</b> <b>Estimate</b>	<b>2017-18</b> <b>Estimate</b>	<b>2018-19</b> <b>Estimate</b>
General Fund	£5m	£5m	£5m	£5m
HRA	£188m	£188m	£188m	£188m
<b>Total</b>	<b>£193m</b>	<b>£193m</b>	<b>£193m</b>	<b>£193m</b>

The Authorised Limit sets the maximum level of external borrowing on a gross basis (ie not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet ie long and short term borrowing,

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overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

Whilst cash flows are currently managed using the investment portfolio, it is possible that short-term borrowing may be necessary. As the indicators in this report show, other than the £187m self-financing external debt on the HRA, a significant amount of borrowing for capital purposes is not currently expected to be necessary in the short term. However, it is sensible to have in place an authorised borrowing limit at a prudent level to enable treasury activity if necessary. In approving this limit, the Council is approving the limit as required under section 3(1) of the Local Government Act 2003.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

### **Indicator 6 - Operational boundary for external debt**

	<b>2015-16 Estimate</b>	<b>2016-17 Estimate</b>	<b>2017-18 Estimate</b>	<b>2018-19 Estimate</b>
General Fund	£5m	£5m	£5m	£5m
HRA	£188m	£188m	£188m	£188m
<b>Total</b>	<b>£193m</b>	<b>£193m</b>	<b>£193m</b>	<b>£193m</b>

The operational boundary for external debt is the most likely, prudent but not worst-case scenario, without the additional headroom allowed for in the authorised limit to allow for unusual cash movements. As the authorised limit for external debt is currently intended to cover mainly cash flow movements and the £187m HRA self-financing external borrowing, it is not necessary to set the operational boundary at a lower level. If a greater degree of borrowing for capital purposes is required in the future, both indicators will be reviewed.

### **Indicator 7 - Incremental impact of current capital investment decisions on the council tax**

	<b>2016-17 £000 Estimate</b>	<b>2017-18 £000 Estimate</b>	<b>2018-19 £000 Estimate</b>
For Band D Council Tax	Nil	Nil	Nil
For average weekly housing rents	Nil	Nil	Nil

This indicator shows the impact of the capital investment decisions on the Council Tax and rent levels. It allows the totality of the Council's plans to be considered at budget setting time. Whilst this is an indicator that Members must consider when taking decisions on borrowing, it doesn't necessarily follow that council tax or rent has actually been increased by the amount shown in the indicator.

In reality, due to the pressures on Waverley's budget, any net cost of borrowing will have to be offset by savings in other budgets, therefore the impact on the council taxpayer in cash terms would be zero. This is currently the intention with any future

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borrowing for General Fund capital schemes. The self-financing debt on the HRA does not impact adversely on housing rents as the HRA 30-year business plan is modelled to meet interest and principal repayments from the cessation of negative housing subsidy payments. If this position changes in the future, this indicator will be revised and reported to Members for approval.

### **Indicator 8 – Limits on Investments**

	<b>2016-17 Estimate</b>	<b>2017-18 Estimate</b>	<b>2018-19 Estimate</b>
The upper limit on fixed rate investments as a % of net outstanding principal sums	100%	100%	100%
The upper limit on variable rate investments as a % of net outstanding principal sums*	10%	10%	10%

\*Excludes money held in call or instant access deposit accounts

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The Council calculates these limits on net principal outstanding sums. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate reductions which could adversely impact on the revenue budget.

### **Indicator 9 – Maturity Structure of Borrowing**

The maturity structure of borrowing (as % of overall projected fixed rate borrowing)	<b>2016-17 Estimate</b>		<b>2017-18 Estimate</b>		<b>2018-19 Estimate</b>	
	Upper	Lower	Upper	Lower	Upper	Lower
-under 12 months	100%	90%	100%	90%	100%	90%
-between 1 and 30 years	100%	100%	100%	100%	100%	100%

This indicator highlights the existence of any large concentrations of fixed rate debt and is intended to help protect against excessive exposures to interest rate changes in any one period. All borrowing related to the HRA.

### **Indicator 10 – Upper Limits on Investments >364 days**

	<b>2015-16 Estimate</b>	<b>2016-17 Estimate</b>	<b>2017-18 Estimate</b>	<b>2018-19 Estimate</b>
The upper limit of principal sums invested for periods of more than 364 days	£10m	£10m	£10m	£10m

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

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### Indicator 11 – Gross debt and the Capital Financing Requirement

	<b>2016-17 Estimate</b>	<b>2017-18 Estimate</b>	<b>2018-19 Estimate</b>
Gross debt (Indicator 4)	£187m	£187m	£187m
Capital Financing Requirement (Indicator 3)	£193m	£193m	£193m

In order to ensure that over the medium term debt will only be for a capital purpose, external debt should not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. Based on the definition of this indicator, Waverley's figures are showing a prudent position.