

## Prudential Indicators 2017-18

1. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

## Estimates of Capital Expenditure

2. The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in report Month 8 Capital Monitoring for 2016-17 and Capital Programme Refresh for 2016-17 to 2025-26 as reported at Cabinet on 7 February 2017 Report.  
(<http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=5378&Ver=4>)

Capital Expenditure and Financing	2016-17 Revised £m	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
General Fund	138	251	121	46
HRA	195	193	97	97
<b>Total Expenditure</b>	<b>333</b>	<b>444</b>	<b>218</b>	<b>143</b>
Capital Receipts	73	50	21	51
Government Grants	58	76	12	12
Reserves	83	78	94	80
Revenue	119	240	91	0
Borrowing	<b>333</b>	<b>444</b>	<b>218</b>	<b>143</b>
Leasing and PFI	138	251	121	46
<b>Total Financing</b>	<b>195</b>	<b>193</b>	<b>97</b>	<b>97</b>

## Estimates of Capital Financing Requirement

3. The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.
4. The CFR is forecast to rise over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

<b>Capital Financing Requirement</b>	<b>31.03.17 Revised £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>	<b>31.03.20 Estimate £m</b>
General Fund	452	592	677	668
HRA	441	537	537	537
<b>Total CFR</b>	<b>893</b>	<b>1,129</b>	<b>1,214</b>	<b>1,205</b>

### Gross Debt and the Capital Financing Requirement

5. In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt 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.

<b>Debt</b>	<b>31.03.17 Revised £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>	<b>31.03.20 Estimate £m</b>
Borrowing	458	693	780	771
Other long term borrowing	105	100	96	91
<b>Total Debt</b>	<b>563</b>	<b>793</b>	<b>875</b>	<b>862</b>

6. Total debt is expected to remain below the CFR during the forecast period.

### Operational Boundary for External Debt

7. The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

<b>Operational Boundary</b>	<b>2016-17 Revised £m</b>	<b>2017-18 Estimate £m</b>	<b>2018-19 Estimate £m</b>	<b>2019-20 Estimate £m</b>
Borrowing	783	1,019	1,108	1,105
Other long-term liabilities	110	110	105	100
<b>Total Debt</b>	<b>893</b>	<b>1,129</b>	<b>1,214</b>	<b>1,205</b>

### Authorised Limit for External Debt:

8. The authorised limit is the affordable borrowing limit determined in compliance with the [Local Government Act 2003 / Local Government Finance Act (Northern Ireland) 2011]. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016-17 Limit £m	2017-18 Limit £m	2018-19 Limit £m	2019-20 Limit £m
Borrowing	1,088	1,085	1,135	1,185
Other long-term liabilities	126	120	115	109
<b>Total Debt</b>	<b>1,214</b>	<b>1,205</b>	<b>1,250</b>	<b>1,294</b>

### Ratio of Financing Costs to Net Revenue Stream

9. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016-17 Revised %	2017-18 Estimate %	2018-19 Estimate %	2019-20 Estimate %
General Fund	2%	3%	3%	4%
HRA	12%	12%	15%	17%

### Incremental Impact of Capital Investment Decisions

10. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2017-18 Estimate £	2018-19 Estimate £	2019-20 Estimate £
General Fund - increase in annual band D Council Tax	Nil	Nil	Nil
HRA - increase in average weekly rents	Nil	Nil	Nil

### Adoption of the CIPFA Treasury Management Code

11. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*. It fully complies with the Code's recommendations.