Brighton & Hove City Council – Prudential Indicators 2010/11 to 2012/13

As part of the Government's commitment to introduce Whole of Government Accounts local authorities are required to phase in new accounting standards that comply with International Financial Reporting Standards (IFRS). The first change is the implementation of IFRS on the accounting principles underpinning PFI and lease agreements. Retrospectively the council has to include the land, buildings, plant, etc under the three PFI agreements as assets on it's own balance sheet and the "capital" element of the unitary charges payable under the PFI agreement as a liability.

The change to IFRS accounting impacts on the prudential indicators through an increase in the capital financing requirement (Indicator C2), the authorised borrowing limit (Indicator D1) and the operational boundary (Indicator D2). Discussions with the Audit Commission on the level of the liability relating to PFI agreements will be concluded as part of the 2009/10 closedown process but in the interim a provisional sum of £40 million has been included to represent the notional value of the agreements on the balance sheet.

There is also an impact on Indicator A1 through increased financing costs (minimum revenue provision and interest payments).

The following prudential indicators are recommended to Cabinet.

A <u>Prudential indicators for Affordability</u>

In demonstrating the affordability of its capital investment plan the council must:

- determine the ratio of financing costs (e.g. capital repayments, interest payments, investment income, etc) to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services for a 3 year period; and
- determine the incremental impact on the council tax and housing rents (in both instances the scope for increases is governed by the Government's ability to limit council tax increases and the current restriction on council rents).

Indicator A1 sets out the ratio of financing costs to net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

A1 Prudential indicator – Estimates of the ratio of financing costs to net revenue stream 2010/11 to 2012/13

	2010/11 Estimate	**2011/12 Estimate**	**2012/13 Estimate**
Non-HRA	**9.2%**	**9.6%**	**9.5%**
HRA	**29.5%**	**31.3%**	**32.5%**

Indicators A2 and A3 set out the estimated incremental impact on both the levels of council tax (Band D equivalent) and housing rents of the recommended capital investment plans and funding proposals. The impact has been calculated using the latest projections on interest rates for both borrowing and investments. The impact does not take account of any government support included for new borrowing within the formula spending share and housing subsidy.

A2 Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the council tax 2010/11 to 2012/13

	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Addition in council tax requirement	**£23.48**	**£35.12**	**£45.54**

A3 Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the average weekly housing rents 2010/11 to 2012/13

	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Addition in average weekly housing rent	**£5.81**	**£4.89**	**£4.05**

B Prudential indicators for Prudence

A key indicator of prudence is that, over the medium term, net borrowing will only be for a capital purpose (net borrowing being total borrowing less investment). Under the Code the underlying need to borrow for a capital purpose is measured by the capital financing requirement.

Indicator B1 compares the estimated net borrowing with the estimated capital financing requirement as at 31 March each year. Indicator B1a is supplemental to indicator B1 and compares the capital financing requirement against the aggregate of (i) projected gross debt levels (i.e. before the deduction of investments) and (ii) long-term liabilities under the PFI agreements.

B1 Prudential indicator – Net borrowing and the capital financing requirement 2010/11 to 2012/13

	31 Mar 11 Estimate	31 Mar 12 Estimate	31 Mar 13 Estimate
	£000	£000	£000
Net borrowing	**148,696**	**154,169**	**151,495**
Capital financing requirement	**310,022**	**317,502**	**317,279**

B1a Prudential indicator (supplemental) – Gross borrowing (including PFI liabilities) and the capital financing requirement 2010/11 to 2012/13

	31 Mar 11 Estimate	31 Mar 12 Estimate	31 Mar 13 Estimate
	£000	£000	£000
Gross borrowing	**219,046**	**226,546**	**226,546**
Capital financing requirement	**310,022**	**317,502**	**317,279**

Indicator B1a is not a requirement of the prudential code but it does show more clearly the comparison between the underlying need to borrow and outstanding long-term debt and other liabilities.

C **<u>Prudential indicator for Capital Expenditure</u>**

Elsewhere on this agenda is a report setting out the capital investment plans for the council over the next three years. Indicator C1 summarises the proposals within that report. Indicator C2 sets out the estimates of the capital financing requirement over the same period.

C1 Prudential indicator – Estimates of total capital expenditure 2010/11 to 2012/13

	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£000	£000	£000
Total non-HRA	**77,881**	**28,103**	**16,748**
Total HRA	**24,860**	**28,267**	**25,171**
Total programme	**102,741**	**56,370**	**41,919**

In considering the capital investment plan the council has had regard to a number of key issues, namely:

- affordability, e.g. implications for council tax/housing rents
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- service objectives, e.g. strategic planning for the authority
- practicality, e.g. achievability of the forward plan.

C2 Prudential indicator – Estimates of capital financing requirement 2010/11 to 2012/13

	31 Mar 11 Estimate	31 Mar 12 Estimate	31 Mar 13 Estimate
	£000	£000	£000
Non-HRA	**206,284**	**205,164**	**200,604**
HRA	**103,738**	**112,338**	**116,675**
Total	**310,022**	**317,502**	**317,279**

The estimates are based on the financing options included in the capital investment report. The estimates will not commit the council to particular methods of funding – the actual funding of capital expenditure will be determined after the end of the relevant financial year.

The council has a number of daily cashflows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with the approved treasury management strategy and practices. In day to day cash management no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. It is possible, therefore, that external debt could exceed the capital financing requirement in the short term.

D <u>Prudential indicators for External Debt</u>

A number of prudential indicators are required in relation to external debt.

D1 Prudential indicator – Authorised limit 2010/11 to 2012/13

	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£000	£000	£000
Borrowing	**262,000**	**277,000**	**272,000**
Other long term liabilities	**40,000**	**40,000**	**40,000**
Total	**302,000**	**317,000**	**312,000**

The authorised limit is the aggregate of gross borrowing (i.e. before investment) and other long term liabilities such as finance leases. In taking its decisions on the budget report the council is asked to note that the authorised limit determined for 2010/11 in the above table is a statutory limit required to be determined by full Council under section 3(1) of the Local Government Act 2003.

The authorised limits are consistent with the council's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Director of Finance & Resources confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

D2 Prudential indicator – Operational boundary 2010/11 to 2012/13

	2010/11 Estimate	**2011/12 Estimate**	**2012/13 Estimate**
	£000	£000	£000
Borrowing	**238,000**	**253,000**	**247,000**
Other long term liabilities	**40,000**	**40,000**	**40,000**
Total	**278,000**	**293,000**	**287,000**

The operational boundary is based on the authorised limit but without the additional headroom. The operational boundary represents a key management tool for in-year monitoring by the Director of Finance & Resources. As with the authorised limit figures for borrowing (gross) and other long term liabilities are separately identified.

The authorised limit and operational boundary separately identify borrowing from other long-term liabilities. The council has delegated authority to the Director of Finance & Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the council at its next meeting following the change.

E <u>Prudential indicators for Treasury Management</u>

A number of prudential indicators are required in respect of treasury management. The indicators are based on the council's treasury management strategy and take into account the pre-existing structure of the council's borrowing and investment portfolios.

E1 Prudential indicator – Brighton & Hove City Council has adopted the "CIPFA Code of Practice for Treasury Management in the Public Services" within Financial Standing Orders.

E2 Prudential indicators – Upper limits on interest rate exposure 2010/11 to 2012/13

	2010/11	**2011/12**	**2012/13**
Upper limit on fixed interest rate exposure	**115%**	**115%**	**117%**
Upper limit on variable interest rate exposure	**46%**	**46%**	**47%**

The above percentages are calculated on the net outstanding principal sums (i.e. net of investments). The upper limit being above 100% is a consequence of the council maintaining an investment portfolio.

Indicator E2a exemplifies the indicator over borrowing and investment.

E2a Prudential indicators (supplemental) – Upper limits on interest rate exposure 2010/11 to 2012/13

	2010/11	2011/12	2012/13
Upper limit on borrowing – fixed rate exposure	**100%**	**100%**	**100%**
Upper limit on borrowing – variable rate exposure	**40%**	**40%**	**40%**
Upper limit on investments – fixed rate exposure	**100%**	**100%**	**100%**
Upper limit on investments – variable rate exposure	**100%**	**100%**	**100%**

Indicator E2a is supplemental to Indicator E2 and shows separately the maximum limits for both borrowing and investments. The indicator is not a requirement of the prudential code but it does show more clearly the interest rate exposure limits within which borrowing and investments will be managed. The effect of the limits is the Director of Finance & Resources will manage fixed interest rate exposure within the range 60% to 100% for borrowing and within the range 0% to 100% for investments.

E3 Prudential indicator – Upper and lower limits on the maturity structure of borrowing 2010/11

	Upper limit	Lower limit
under 12 months	**40%**	**0%**
12 months and within 24 months	**40%**	**0%**
24 months and within 5 years	**50%**	**0%**
5 years and within 10 years	**75%**	**0%**
10 years and above	**100%**	**50%**

The limits in Indicator E3 represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period.

E4 Prudential indicator – Principle sums invested for periods longer than 364 days

	2010/11	2011/12	2012/13
	£000	£000	£000
Limit	**25,000**	**25,000**	**25,000**