

Brighton & Hove City Council – Prudential Indicators 2015/16 to 2017/18

The following prudential indicators are recommended for the council.

A Prudential indicators for Affordability

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 rent (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 2015/16 to 2017/18 (Referendum Budget)*

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000
Non-HRA	8.8%	9.2%	9.7%
HRA	14.5%	14.8%	11.2%

The above table, A1, sets out the ratio of financing costs to the net revenue stream under the assumption of the base budget position of a 5.9% council tax increase. The ratio of financing costs to the net revenue stream of the substitute budget are set out in A1a below:

A1a *Prudential indicator – Estimates of the ratio of financing costs to net revenue stream 2015/16 to 2017/18 (Substitute Budget)*

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000
Non-HRA	9.0%	9.4%	9.9%
HRA	14.5%	14.8%	11.2%

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 government support included for new borrowing.

A2 Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the council tax 2015/16 to 2017/18

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Addition in council tax requirement	£17.75	£23.78	£43.47

A3 Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the average weekly housing rents 2015/16 to 2017/18.

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Addition in average weekly housing rent	£39.21	£46.40	£43.46

B Prudential indicators for Prudence

A key indicator of prudence is that the Council's gross debt does not, except in the short term, exceed the total of the council's need to borrow. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. Under the Code the underlying need to borrow for a capital purpose is measured by the capital financing requirement.

Indicator B1 compares the estimated gross debt (i.e. including PFIs and other long term liabilities) with the estimated capital financing requirement as at 31 March each year. Indicator B2 compares gross debt to net debt to show the extent of borrowing in advance of need (where applicable).

B1 Prudential indicator – Gross debt (including PFI liabilities) and the capital financing requirement 2015/16 to 2017/18

	31-Mar-16 Estimate	31-Mar-17 Estimate	31-Mar-18 Estimate
	£'000	£'000	£'000
External Debt	225,792	240,134	247,457
PFI Liabilities	54,149	52,015	49,719
Gross debt (incl PFI liabilities)	279,941	292,149	297,176
Capital financing requirement	332,876	337,737	328,035

B2 Prudential indicator – Gross debt (including PFI liabilities) and Net debt 2015/16 to 2017/18

	31-Mar-16	31-Mar-17	31-Mar-18
	Estimate	Estimate	Estimate
	£'000	£'000	£'000
External Debt	225,792	240,134	247,457
PFI Liabilities	56,127	54,149	52,015
Gross debt (incl PFI liabilities)	279,941	292,149	297,176
Net debt (incl PFI liabilities)	250,807	262,952	252,365

C Prudential indicator for Capital Expenditure

Elsewhere on this agenda is a report recommending the capital investment plans for the council over the next three years. Indicator C1 summarises the recommendations 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 2015/16 to 2017/18

	2015/16	2016/17	2017/18
	Estimate	Estimate	Estimate
	£'000	£'000	£'000
Total non-HRA	73,750	110,708	136,299
Total HRA	47,311	36,225	27,000
Total programme	121,061	146,933	163,299

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 2015/16 to 2017/18

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000
Non-HRA	206,246	201,765	190,704
HRA	126,630	135,972	137,331
Total	332,876	337,737	328,035

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 cash-flows, 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 Prudential indicators for External Debt

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

D1 Prudential indicator – Authorised limit 2015/16 to 2017/18

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000
Borrowing	319,000	332,000	377,000
Other long term liabilities	57,000	55,000	53,000
Total	376,000	387,000	430,000

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 2015/16 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 Executive 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 2015/16 to 2017/18

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000
Borrowing	308,000	321,000	366,000
Other long term liabilities	57,000	55,000	53,000
Total	365,000	376,000	419,000

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 Executive 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 is recommended to delegate authority to the Executive 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.

D3 HRA limit on indebtedness 2015/16 to 2017/18

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000
HRA limit on indebtedness	156,840	156,840	156,840
HRA capital financing requirement (C2)	126,630	135,972	137,331

Under the reform of housing finance implemented from 1st April 2012 the Government has published the *Limits on Indebtedness Determination 2012* which sets out the maximum amount of housing debt that the council may have outstanding at any one time. For the

purposes of D3 housing debt is deemed to equal the HRA capital financing requirement.

E Prudential indicators for Treasury Management

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 2015/16 to 2017/18*

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	112%	111%	119%
Upper limit on variable interest rate exposure	45%	45%	48%

The above percentages are calculated on the net outstanding principal sums (i.e. net of investments). The upper limit of 119% is a consequence of the council maintaining a limited investment portfolio.

Indicator E2a exemplifies the indicator over borrowing and investment.

E2a *Prudential indicators (supplemental) – Upper limits on interest rate exposure 2015/16 to 2017/18*

	2015/16	2016/17	2017/18
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 that the Executive 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 2015/16

	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%	40%

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

	2015/16	2016/17	2017/18
	£000	£000	£000
Limit	25,000	25,000	25,000

