

Brighton & Hove City Council – Prudential Indicators 2018/19 to 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The output of capital expenditure plans is reflected in the prudential indicators which are designed to assist members' overview.

The following prudential indicators are recommended for the council.

Capital Expenditure

Appendix 8 of this report sets out the recommended capital investment plans for the council over the next ten years. Indicator A1 summarises the recommendations for the next three years. Indicator A2 sets out the estimates of the capital financing requirement over the same period.

A1 Prudential indicator – Estimates of total capital expenditure 2018/19 to 2020/21

| | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|-----------------|-----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| Total non-HRA | 134,020 | 90,237 | 65,056 |
| Total HRA | 54,045 | 31,894 | 32,624 |
| Total programme | 188,065 | 122,131 | 97,680 |

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.

A2 Prudential indicator – Estimates of capital financing requirement 2018/19 to 2020/21

| | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|---------|-----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| Non-HRA | 233,209 | 228,101 | 223,624 |
| HRA | 146,062 | 150,083 | 151,013 |
| Total | 379,271 | 378,184 | 374,637 |

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's indebtedness and so its underlying need to borrow. Any capital expenditure which has not been funded through grants, capital receipts, reserves or revenue contribution will increase the council's need to borrow and thus increase the CFR.

The CFR does not increase indefinitely as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with the useful lives of the assets paid for by borrowing.

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.

Prudential indicators for Affordability

Prudential indicators are required to assess the affordability of the authority's capital expenditure plans. These provide an indication of the impact of the capital investment plans on the council's overall finances.

Indicator B identifies the trend on the cost of capital against the net revenue stream. The estimates of financing costs in Indicator B1 include current commitments and the capital investment proposals within this budget report.

B Prudential indicator – Estimates of the ratio of financing costs to net revenue stream 2018/19 to 2020/21

| | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|---------|-----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| Non-HRA | 8.7% | 8.3% | 7.4% |
| HRA | 10.9% | 11.4% | 11.0% |

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 C 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.

C Prudential indicator – Gross debt (including PFI liabilities) and the capital financing requirement 2018/19 to 2020/21

| | 31-Mar-19 Estimate | 31-Mar-20 Estimate | 31-Mar-21 Estimate |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | £'000 | £'000 | £'000 |
| External Debt | 303,106 | 313,499 | 316,404 |
| PFI Liabilities | 47,005 | 44,376 | 43,667 |
| Gross debt (incl PFI liabilities) | 350,111 | 357,875 | 360,071 |
| Capital financing requirement | 379,271 | 378,184 | 374,637 |
| Under borrowing (£'000) | 29,160 | 20,309 | 14,566 |
| Under borrowing (%) | 8% | 5% | 4% |

Prudential indicators for External Debt

A number of prudential indicators are required in relation to external debt. The key indicators are setting limits on the council's borrowing activities.

D1 illustrates the council's Operational Boundary expectations. This is a limit beyond which external debt is not normally expected to exceed. The operational boundary represents a key management tool for in-year monitoring by the Executive Director of Finance & Resources and allows flexibility for major projects incorporated within Appendix 8.

D2 sets out the Authorised Limit. This represents the maximum level of borrowing. This represents a limit beyond which external debt is prohibited. This limit is required to be set and amended by full Council. **In taking its decisions on the budget report the council is asked to note that the authorised limit determined for 2018/19 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.**

D1 Prudential indicator – Operational boundary 2018/19 to 2020/21

| | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| Borrowing | 373,000 | 414,000 | 444,000 |
| Other long term liabilities | 50,000 | 48,000 | 45,000 |
| Total | 423,000 | 462,000 | 489,000 |

D2 Prudential indicator – Authorised limit 2018/19 to 2020/21

| | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| Borrowing | 386,000 | 428,000 | 458,000 |
| Other long term liabilities | 50,000 | 48,000 | 45,000 |
| Total | 436,000 | 476,000 | 503,000 |

The borrowing limits in D1 & D2 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 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 cash flow requirements for all purposes.

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 2018/19 to 2020/21

| | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|--|-----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| HRA limit on indebtedness | 156,840 | 156,840 | 156,840 |
| HRA capital financing requirement (C2) | 146,062 | 150,083 | 151,013 |
| HRA Headroom | 10,778 | 6,757 | 5,827 |

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 indicators – Upper limits on interest rate exposure 2018/19 to 2020/21*

| | 2018/19 | 2019/20 | 2020/21 |
|--|----------------|----------------|----------------|
| Upper limit on fixed interest rate exposure | 108% | 108% | 109% |
| Upper limit on variable interest rate exposure | 43% | 43% | 43% |

The above percentages are calculated on the net outstanding principal sums (i.e. net of investments). The upper limit of 108% is a consequence of the council maintaining a limited investment portfolio.

Indicator E2a exemplifies the indicator over borrowing and investment.

E1a *Prudential indicators (supplemental) – Upper limits on interest rate exposure 2018/19 to 2020/21*

| | 2018/19 | 2019/20 | 2020/21 |
|---|----------------|----------------|----------------|
| 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 E1a is supplemental to Indicator E1 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.

E2 Prudential indicator – Upper and lower limits on the maturity structure of borrowing 2018/19

| | 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.

E3 Prudential indicator – Principle sums invested for periods longer than 365 days

| | 2018/19 | 2019/20 | 2020/21 |
|-------|----------------|----------------|----------------|
| | £000 | £000 | £000 |
| Limit | 27,000 | 27,000 | 27,000 |