

Prudential Indicators for 2015/16 to 2017/18

1. Background

The Local Government Finance Act (Northern Ireland) 2011 requires the Council to adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In doing so, the Council is required to set and monitor a series of Prudential Indicators, the key objective of which is to ensure that, within a clear framework, the capital investment plans of the Council are affordable, prudent and sustainable.

2. Capital Expenditure Indicators

2.1 Capital Expenditure

This indicator outlines estimated annual Capital Expenditure which will be incurred by the Council, to ensure that capital investment plans are sustainable. The Council's estimated additional annual capital expenditure is included in table 1 below.

Table 1
Estimated Annual Capital Expenditure

| | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 | Estimate 2017/18 £'000 |
|---------------------|------------------------------|------------------------------|------------------------------|
| Capital Expenditure | 61,859 | 68,394 | 33,980 |

2.2 Capital Financing Requirement

The Capital Financing Requirement reflects the Council's underlying need to borrow for a capital purpose. It shows the total estimated capital expenditure that has not been resourced from capital or revenue sources. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision mechanism. The Capital Financing Requirement for the Council is shown in table 2 below.

Table 2
Capital Financing Requirement

| | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 | Estimate 2017/18 £'000 |
|-------------------------------|------------------------------|------------------------------|------------------------------|
| Capital Financing Requirement | 92,634 | 132,705 | 156,545 |

3. Prudence Indicator

3.1 Gross Borrowing and the Capital Financing Requirement

This is a key indicator of prudence which ensures that over the medium term, gross borrowing will only be for a capital purpose. Under the prudential code, it is permitted for gross borrowing to exceed the Capital Financing Requirement in the short term, provided that it does not exceed the estimate for the current year plus the next two financial years. The following table demonstrates that the estimated net debt position is comfortably within the estimated Capital Financing Requirement over the medium term.

Table 3
Gross Borrowing and Capital Financing Requirement

| | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 | Estimate 2017/18 £'000 |
|--------------------------------|------------------------------|------------------------------|------------------------------|
| Capital Financing Requirement | 92,634 | 132,705 | 156,545 |
| Gross Borrowing | 72,548 | 112,867 | 136,955 |
| Is Gross Borrowing within CFR? | Yes | Yes | Yes |

4. Affordability Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

An important aspect of the Prudential Code is the assessment of affordability of the capital investment plans. One mechanism for doing this is by ascertaining the proportion of the revenue budget which is spent on capital financing, net of receipts from investment income. This does not include direct revenue financing amounts for capital schemes. Table 4 below summarises the ratio of financing costs to the estimated net revenue stream for the Council.

Table 4
Financing Costs to Net Revenue Stream

| | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 | Estimate 2017/18 £'000 |
|--------------------|------------------------------|------------------------------|------------------------------|
| Financing Costs | 6,024 | 10,4501 | 13,616 |
| Net Revenue Stream | 148,208 | 148,208 | 148,208 |
| Percentage | 4.06% | 7.05% | 9.19% |

The net revenue stream is calculated as the amounts met by government grants and the Rates.

4.2 Incremental Impact of Capital Investment Decisions on the Rates

A key measure of the affordability of capital decisions is the ultimate impact on the Rates. This indicator identifies the increase in the proposed Rates which is attributable to the proposed changes in the Capital Programme being approved at this meeting. There has been no requirement to increase the current capital financing element of the Rate to finance the Council's Capital Programme and therefore there is no incremental. The impact of this increase is illustrated in table 5 below.

Table 5
Incremental Impact on Rates

| | Estimate 2015/16 | Estimate 2016/17 | Estimate 2017/18 |
|-----------------------------|---------------------|---------------------|---------------------|
| Incremental impact on Rates | 0.37% | 0.50% | 0.62% |

5. External Debt Indicators

5.1 Authorised Borrowing Limit

The Act requires the Council to set an affordable borrowing limit, which relates to gross debt. This limit is referred to within the Prudential Code as the Authorised limit and must not be breached. It is therefore set at a level which includes sufficient headroom for the operational management of the treasury function. It is important to note that a key feature of the Prudential Code is that borrowing ahead of immediate need is permitted to the extent by which net borrowing cannot exceed the Capital Financing Requirement. Going forward, it is essential that the limits allow sufficient flexibility to allow further borrowing in advance of immediate need provided that all the implications and risks have been adequately considered.

The Director of Finance and Resources has delegated authority to effect movement between borrowing and other long term liabilities. The authorised borrowing limit, or estimated debt, to 2017/18 is shown in table 6 below.

Table 6
Authorised Borrowing Limit

| Authorised limit | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 | Estimate 2017/18 £'000 |
|--------------------------------|------------------------------|------------------------------|------------------------------|
| Borrowing | 140,545 | 141,578 | 141,578 |
| Other Long Term Liabilities | 0 | 0 | 0 |
| Total | 140,545 | 141,578 | 141,578 |

5.2 Operational Boundary

Unlike the Authorised Borrowing Limit, the Operational Boundary is not a limit and instead provides an indication of the most likely, but not worst case scenario of the estimates of gross external debt.

Table 7
Operational Borrowing Limit

| Operational Boundary | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 | Estimate 2017/18 £'000 |
|-----------------------------|------------------------------|------------------------------|------------------------------|
| Borrowing | 76,634 | 116,705 | 140,545 |
| Other Long Term Liabilities | | | |
| Total | 76,634 | 116,705 | 140,545 |

6. Treasury Management Indicators

The Prudential Code also requires the production of key treasury management indicators. These are included within section 9 of the Council's Treasury Management Strategy.