Fermanagh & Omagh District Council
Comhairle Ceantair Fhear Manach agus na hÓmaí

Prudential and Treasury Indicators

2024-2029

Introduction

The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Finance Act (Northern Ireland) 2011 and was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. The objectives of the Prudential Code are to provide a framework for local authority capital finance that will ensure for individual local authorities that:

a) capital expenditure plans and investment plans are affordable and proportionate
b) all external borrowing and other long-term liabilities are within prudent and sustainable levels
c) treasury management and other investment decisions are taken in accordance with professional good practice, and
d) that in taking decisions in relation to a) to c) above the local authority is accountable, by providing a clear and transparent framework.

The most recent edition of the Code (2021) includes a key requirement to develop a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and which gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

The Prudential Code requires authorities to look at capital expenditure plans, investments and debt in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-run financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investments and debt.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. These are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators, these are for the Council to set itself, subject only to any controls under Section 14 of the Local Government Finance Act (Northern Ireland) 2011.

The Prudential Code details a number of measures/limits/parameters (known as Prudential Indicators) that are required to be set each financial year. In setting or revising its prudential indicators, the Council is required to have regard to the following matters:

- Service objectives, e.g. strategic planning for the Council
- Stewardship of assets, e.g. asset management planning
- Value for money, e.g. option appraisal
- Prudence and sustainability, e.g. risk, implications for external debt and whole life costing
- Affordability, e.g. implications for council tax/district rates
- Practicality, e.g. achievability of the forward plan

The Code requires authorities to ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through Minimum Revenue Provision or repayment of loans funds advances) and consideration of risk, and the impact and potential impact on the Council's overall fiscal sustainability. The Code requires consideration of affordability in the light of the Council's medium-term forecast and other fiscal strategies with due regard to risk and uncertainty. Capital expenditure plans should be considered alongside the cost of past borrowing, maintenance requirements and planned disposals. The Council's Minimum Revenue Provision (MRP) Policy Statement will have a critical impact on the overall affordability of new borrowing and for this reason it is important to look at affordability not just in the medium term but also over the life of the asset base or underlying debt.

Approval of these Prudential Indicators will ensure that the Council complies with the relevant legislation and is acting prudently and that its capital expenditure proposals are affordable and sustainable. This report presents for approval the Prudential Indicators required to be set by the Council to comply with the code. These will be monitored, at least quarterly and reported to the Council's Policy and Resources Committee.

The Council has adopted the CIPFA Code of Practice for Treasury management in the Public Sector and all Treasury Management activities are carried out in accordance with the Code. This report also includes a number of Treasury Indicators to ensure compliance with the CIPFA's Treasury Management Code.

1) <u>Capital Expenditure Indicators</u>

The Council has made reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and the following four years. The estimates of capital financing requirement reflect the Council's underlying need to finance capital expenditure by borrowing or other long-term liabilities after utilising existing financial reserves.

a) Estimates of Capital Expenditure

The Council's estimated planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total Expenditure	**11.7**	**13.8**	**31**	**44.3**	**30.5**	**12.8**
Grants	2.4	6.4	22.6	13.1	9.3	2.8
Reserves	5.5	6.7	6.9	4.2	1.2	0.8
Provisions	0	0	0.8	0.8	0	0
Revenue	1.2	0.7	0.7	0.7	0.7	0.7
Borrowing - Internal	2.6	0	0	15.0	0	0
Borrowing - External	0	0	0	10.5	19.3	8.5
Total Financing	**11.7**	**13.8**	**31.0**	**44.3**	**30.5**	**12.8**

b) Capital Financing Requirement

The Council has made reasonable estimates of the total Capital Financing Requirement (CFR) at the end of the forthcoming financial year and the following four years. The CFR reflects the Councils underlying need to borrow after utilising available capital reserves but does not commit the Council to particular methods of financing, these will be determined on an annual basis.

2022/23 Actual £m	2023/24 Estimate £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
6.0	7.3	6.0	4.9	29.4	46.3	51.0

2) <u>External Debt Indicators</u>

The Council will set for the forthcoming financial year and the following four financial years an operational boundary, based on the Council's plans, for its total external debt, excluding investments, and separately identifying borrowing from other long-term liabilities. The operational boundary will provide in year monitoring and is set lower than the authorised limit (affordable borrowing limit) as it is based on an estimate of the most likely level of external borrowing at any point during each year.

a) Operational Boundary

The Operational Boundary is the maximum level of external debt projected based on the most likely prudent view of existing loans and further debt required to fund Capital Expenditure proposals.

2022/23 Actual £m	2023/24 Estimate £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Estimate £m
3.9	3.2	2.6	2.0	12.0	30.4	37.4

b) Authorised Limit

The Authorised Limit (Affordable Borrowing Limit for external debt) is the Operational Boundary plus headroom for unusual cash movements of £1m.

2022/23 Actual £m	2023/24 Estimate £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
4.9	4.2	3.6	3.0	13.0	31.4	38.4

c) Actual External Debt

The prudential indicator for Actual External Debt is considered at a single point in time and therefore is only directly comparable to the authorised limit and operational boundary at that point in time.

Actual External Debt	£m
Loans at 31 March 2024	3.2
Other Long-Term Liabilities	-
Total	**3.2**

	Amount (£m)	Ave Rate %
Held at Fixed Rates	3.2	5.27%
Held at Variable Rates	-	-
Total	**3.2**	

The Council has previously reviewed this historical debt and have assessed that it is not financially advantageous to repay early as penalty charges would be applied.

3) Affordability Indicators

The Council shall ensure that the revenue implications of capital finance, including financing costs, are properly considered within option appraisal processes, the capital programme and medium-term plans, with due regard to risk and uncertainty. In assessing affordability, the authority shall consider the council tax implications of its capital programme, borrowing and investment decisions.

a) Ratio of Financing Costs to Net Revenue Stream

This indicator provides a measure of the proportion of the net revenue budget that is being allocated to the financing of capital expenditure. This indicator is a measure for the forthcoming financial year and following four years.

	2023/24 Estimate £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Financing costs (£m)	1.3	1.3	1.1	1.0	2.4	3.8
Proportion of net revenue stream	2.8%	2.5%	1.6%	1.6%	3.9%	6.6%

This indicator demonstrates the incremental impact of estimated planned capital spend and associated cost of borrowing on the estimated level of district rates, general grants and capital grants and contributions included within the Estimates. The estimated capital spend included in the 2025-2029 forecast capital plan requires further development including the completion of a number of Business Cases before affordability of spend and its associated funding impact on Revenue Budgets is fully determined.

4) Prudence Indicators

In order to comply with the Prudential Code, the Council must not borrow to invest primarily for financial return. It is not prudent for the Council to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

a) Gross Debt and the Capital Financing Requirement

The Gross Debt is determined as the balance of external borrowing and credit arrangements.

	2023/24 Estimate £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Capital Financing Requirement	7.3	6.0	4.9	29.4	46.3	51.0
Total Borrowings: Loans	3.2	2.6	2.0	12.0	30.4	37.4
Under/(over) Limit by	4.1	3.4	2.9	17.4	15.9	13.6

The Council must ensure that debt does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus estimates of any additional Capital Financing Requirement for the current and next four financial years.

5) Treasury and External Debt Indicators

There are six treasury prudential indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce financing costs. The indicators are:

a) Compliance with CIPFA Code of Practice for Treasury Management (Public Services)

The Council has adopted the CIPFA Code of Practice for Treasury management in the Public Sector and all Treasury Management activities are carried out in accordance with the Code. Details of compliance are included within the Treasury Management Strategy Statement 2024/25.

b) Maturity Structure of Borrowing

Maturity structures of borrowing are the gross limits set to reduce the Council’s exposure to large, fixed rate sums falling due to refinancing within the same financial year and are required for upper and lower limits. The percentage for the Lower Limit is the percentage of the Council's total debt that will mature in the periods defined. The percentage for the Upper Limit is the percentage of the Council's total debt that will mature in the periods defined and allowance of a maximum of 10% of additional borrowing repaid in that period.

	Lower Limit	Upper Limit +10%
Under 12 Months	1%	1%
12 Months to 2 Years	2%	2%
2 Years to 5 Years	41%	45%
5 Years to 10 Years	65%	77%
10 Years and Above	100%	100%

c) Total Principal Sums Invested for periods longer than 1 year

In line with the Council's Treasury Management Strategy Statement 2024/25, the Council may invest for periods more than 1 year. The below table represents the limits on the long-term principal sum invested to final maturities beyond the period end, which have been set at 20% of the lowest cash position estimated for the year, based on guidance from the Council's Treasury Management Advisors.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Principal sums invested > 364 days	£2m	£2m	£2m	£2m	£2m	£2m

d) Credit risk Indicator

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the credit rating of its investment portfolio. The target Credit risk rating indicator for 2024/25 is BBB or higher. The current average counterparty rating of all financial institutions in which the Council holds investments is A+.

Credit risk indicator	Target
Portfolio average credit rating	**A+**

e) Liquidity risk indicator

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£4m

f) Interest Rate Risk Indicator

This indicator is set to control the Council's exposure to interest rate risk and details the upper limits on a one-year revenue impact of a 1% rise or fall in interest rates, based on current levels of external borrowing. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	(£5,400)
Upper limit on one-year revenue impact of a 1% fall in interest rates	£5,400