Prudential and Treasury Indicators 2015-18

Fermanagh & Omagh District Council

BACKGROUND

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. It details a number of measures/limits/parameters (Prudential Indicators) that are required to be set each financial year. The 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. This report presents for approval the Prudential Indicators required to be set by the Council to comply with the code.

1. EXTERNAL DEBT INDICATORS

The Council will set for the forthcoming financial year and the following two financial years an operational boundary 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.

	13-14 Prior Year	14-15 Current Year	15-16 Year +1	16-17 Year +2	17-18 Year +3
£	12,065,321	15,357,259	18,168,643	21,326,078	22,512,038
Rounded to (£)	12,100,000	15,400,000	18,200,000	21,300,000	22,500,000

The Council will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, excluding investments and separately identifying borrowing from other long-term liabilities. The authorised limit will contain sufficient headroom to provide for any unanticipated payments as well as being based on the authorities capital investment plans.

b) Authorised Limit

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

	13-14 Prior Year	14-15 Current Year	15-16 Year +1	16-17 Year +2	17-18 Year +3
Rounded to (£)	13,100,000	16,400,000	19,200,000	22,300,000	23,500,000

c) Actual External Debt

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

£		Current Year
Actual Borrowing - Loans		11,376,977
Other Long Term Liabilities		688,344
(Hire Purchase & Lease agreements)		
		12,065,321

	Amount £	Ave Rate %	Ave Life (Yrs)
Held at Fixed Rates	12,065,321	6.0%	18
Held at Variable Rate	0	0.0%	0
	12,065,321		

2. CAPITAL EXPENDITURE INDICATORS

The Council has made reasonable estimates of the total Capital Financing Requirement (CFR) at the end of the forthcoming financial year and the following two years. The CFR reflects the Councils underlying need to borrow.

a) Capital Financing Requirement

	13-14 Prior Year	14-15 Current Year	15-16 Year +1	16-17 Year +2	17-18 Year +3
£	12,215,166	16,128,997	19,028,083	22,165,326	23,303,718
Rounded to (£)	12,200,000	16,100,000	19,000,000	22,200,000	23,300,000

The Council has made reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and the following two years. The estimates of capital spend includes any estimated spend (dependant on option appraisals) or spend dealt with as other long-term liabilities.

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3. AFFORDABILITY INDICATORS

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 two years.

a) Ratio of Financing Costs to Net Revenue Stream

	13-14 Prior Year	14-15 Current Year	15-16 Year +1	16-17 Year +2	17-18 Year +3
%	3.9%	3.6%	6.3%	8.7%	10.2%

This indicator demonstrates the incremental impact of planned capital spend and associated borrowing on the level of rates.
It is the Council's loan and lease interest payments and MRP charge in any one year as a percentage of the combined total of general grant, district rates and capital grants and contributions.

b) Estimate of the revenue impact of Capital Investment decisions on the District Council Rates

This indicator measures the revenue impact of capital investment decisions. The revenue impact is a combination of relevant financing and direct revenue costs as a result of operating the new capital projects e.g. electricity, light & heat, staff costs. particularly with the introduction of Economic Appraisals.

	13-14 Prior Year	14-15 Current Year	15-16 Year +1	16-17 Year +2	17-18 Year +3
£ / %	0.00%	0.0%	0.13%	0.14%	0.14%

4. PRUDENCE INDICATORS

a) Gross Debt and the Capital Financing Requirement

The Gross is determined as the balance of external borrowing and credit arrangements. Included below workings for the 2015/16 year however these will be subject to agreement by the new Council when Local Government Reform has been implemented. Indicators have not been set for 2016/17.

£	13-14 Prior Year	14-15 Current Year	15-16 Year +1	16-17 Year +2	17-18 Year +3
Capital Financing Requirement rounded to (£)	12,200,000	16,100,000	19,000,000	22,200,000	23,300,000
Borrowings					
-Loans rounded to (£)	11,400,000	14,600,000	17,100,000	20,000,000	21,100,000
Hire Purchase rounded to (£)	700,000	800,000	1,100,000	1,300,000	1,400,000
Total Borrowings (rounded to (£)	**12,100,000**	**15,400,000**	**18,200,000**	**21,300,000**	**22,500,000**
Under/(over) Limit by	**100,000**	**700,000**	**800,000**	**900,000**	**800,000**

The opening CFR at 31 March 2014, which reflects the Council's underlying need to borrow, differs from the combined opening CFR in the Audited Financial Statements of both Councils as at 31 March 2014, as these figures reflect technical accounting adjustments. In addition, the CFR does not fully take account of future capital expenditure that has already been funded through previous year rates and does not take account of the Council repaying loans at a faster rate than the associated asset is depreciated.

Both legacy Councils had taken a very prudent approach to borrowing and are confident they have not borrowed more than required, the prescribed method of calculating these figures does not adequately reflect this position.

b) 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 two financial years.

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5. TREASURY AND EXTERNAL DEBT INDICATORS

There are four 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 in the 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 Policy (incorporating Treasury Management Practices).

b) Interest Rate Exposures

Upper limits on fixed interest rate exposure ï This indicator identifies a maximum limit for variable interest rates for the debt position net of investments.

Upper limits on variable interest rate exposure ï Similar to the previous indicator this covers a maximum limit on fixed interest rates.

100% of the Council's borrowing is on fixed interest rates and 100% of the Council's investments are deemed to be on variable interest rates as their maturity periods are all of periods of less than one year.

	13-14	14-15	15-16	16-17	17-18
Gross Debt					
	Prior Year	Current Year	Year +1	Year +2	Year +3
Fixed interest Rate	100%	100%	100%	100%	100%
Variable interest Rate	0%	0%	0%	0%	0%

	13-14	14-15	15-16	16-17	17-18
Gross investment					
	Prior Year	Current Year	Year +1	Year +2	Year +3
Fixed interest Rate	0%	0%	0%	0%	0%
Variable interest Rate	100%	100%	100%	100%	100%

c) Maturity Structure of Borrowing

Maturity structures of borrowing ï These gross limits are 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.

	Current Year		Year +1	
	Upper	Lower	Upper	Lower
Under 12 Months	0%	0%	1%	1%
12 Months to 2 Years	2%	2%	1%	1%
2 Years to 5 Years	3%	3%	12%	11%
5 Years to 10 Years	25%	23%	15%	14%
10 Years and Above	100%	100%	100%	100%

d) Total Principal Sums Invested for periods longer than 364 days

Following changes arising from the new Investment Regulations applicable from 1 April 2010, the Council can invest for periods longer than 364 days .The Council does not currently take advantage of this change and so has set a limit of £0 million for investing over 364 days.

	12-13	13-14	14-15	15-16	New Council
	Prior Year	Current Year	Year +1	Year +2	Year +3
Principal sums invested > 364 days £	0	0	0	0	0