



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

Prudential and Treasury Indicators 2019-22

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. The Code has since been updated (2017 edition) with one of the key changes being the 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 Code 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.

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) 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.

2017/18	2018/19	2019/20	2020/21	2021/22
Prior Year	Current Year	Year +1	Year +2	Year +3
£ million	£ million	£ million	£ million	£ million
8.3	7.3	6.2	5.3	4.6

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.

2017/18	2018/19	2019/20	2020/21	2021/22
Prior Year	Current Year	Year +1	Year +2	Year +3
£ million	£ million	£ million	£ million	£ million
9.3	8.3	7.2	6.3	5.6

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 (01 April 2019).

Actual External Debt		Current Year £ million
Actual Borrowing -Loans at 01 April 2019		7.2
Other Long-Term Liabilities		-
Total		7.2
	Amount (£) million	Ave Rate %
Held at Fixed Rates	7.2	5.27%
Held at Variable Rates	-	-
Total	7.2	

2) CAPITAL EXPENDITURE INDICATORS

a) Estimates of Capital Expenditure

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

Capital Expenditure and Financing	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Total Expenditure	7.78	12.6	11	10.8
Total Net Expenditure of Capital Grants	5.92	8.3	8.3	8.5
Capital Receipts	0.05	0	0	0
Grants	1.86	4.3	2.7	2.3
Reserves	2.54	4	1.3	0.3
Revenue	0.69	0.7	0.7	0.6
Borrowing	2.64	3.6	6.3	7.6
Total Financing	7.78	12.6	11	10.8

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 two years. The CFR reflects the Councils underlying need to borrow:

2017/18	2018/19	2019/20	2020/21	2021/22
Prior Year	Current Year	Year +1	Year +2	Year +3
£ million	£ million	£ million	£ million	£ million
10.2	11.6	13.7	18.4	24.6

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 financing requirement reflects the Council's underlying need to finance capital expenditure by borrowing or other long-term liabilities.

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

2017/18	2018/19	2019/20	2020/21	2021/22
Prior Year	Current Year	Year +1	Year +2	Year +3
5.4%	4.4%	4.5%	4.5%	3.9%

This indicator demonstrates the incremental impact of planned capital spend and associated borrowing on the level of district rates, general grants and capital grants and contributions included within the Estimates.

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.

4) PRUDENCE INDICATORS

a) Gross Debt and the Capital Financing Requirement

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

	2017/18	2018/19	2019/20	2020/21	2021/22
	Prior Year	Current Year	Year +1	Year +2	Year +3
	£ million	£ million	£ million	£ million	£ million
Capital Financing Requirement	10.2	11.6	13.7	18.4	24.6
Total Borrowings: Loans	8.3	7.3	6.2	5.3	4.6
Under/(over) Limit by	1.9	4.3	7.5	13.1	20

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.

5) TREASURY & 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 – This indicator identifies a maximum limit for variable interest rates for the debt position net of investments.

Upper limits on variable interest rate exposure – This is 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.

Gross Debt	2017/18	2018/19	2019/20	2020/21	2021/22
	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%

Gross Investment	2017/18	2018/19	2019/20	2020/21	2021/22
	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 – 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	1%	1%	3%	3%
12 Months to 2 Years	7%	7%	3%	3%
2 Years to 5 Years	14%	12%	12%	10%
5 Years to 10 Years	60%	53%	80%	71%
10 Years and Above	100%	100%	100%	100%

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

In line with the Council's Treasury Management Policy, 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. Following guidance from the Council's Treasury Management Advisors, these limits have been calculated at 20% of the lowest cash position estimated for the year.

	2019/20	2020/21	2021/22
	Year +1	Year +2	Year +3
Principal sums invested > 364 days £	£3m	£1m	£0.5m