

Prudential Indicators for 2016/17 to 2019/20

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 annual gross capital expenditure is included in table 1 below.

Table 1
Estimated Annual Capital Expenditure

	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Gross Capital Expenditure	7,926	8,710	9,000	9,000

2.2 Capital Financing Requirement

The Capital Financing Requirement reflects the Council's underlying need to borrow for a capital purpose. It shows the 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 (MRP) mechanism. The Capital Financing Requirement for the Council is shown in table 2 below.

Table 2
Capital Financing Requirement

	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Capital Financing Requirement	78,395	78,277	78,165	77,648

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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 the Capital Financing Requirement

	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Capital Financing Requirement	78,395	78,277	78,165	77,648
Gross Borrowing	70,627	71,741	73,044	74,420
Is Gross Borrowing within CFR?	Y	Y	Y	Y

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 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Financing Costs	2,765	2,709	2,794	2,793
Net Revenue Stream	42,767	42,859	43,072	43,400
Percentage	6.5%	6.3%	6.5%	6.4%

The net revenue stream is calculated as the income from the Rates plus government grants.

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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 impact within the proposed Rates attributable to the proposed changes in the Capital Programme. This impact is illustrated in table 5 below.

	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Incremental impact on Rates	3.2%	0.1%	0.8%	0.9%

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 while prevents excess borrowing and provides headroom for the operational management of the treasury function. The authorised borrowing limit, or estimated debt, to 2018/19 is set out in table 6 below.

Table 6
Authorised Borrowing Limit

	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Authorised Borrowing Limit	80,000	80,000	80,000	80,000

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 the worst case, estimate of gross external debt.

Table 7
Operational Borrowing Limit

	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Operational Borrowing Limit	72,393	73,535	74,870	76,281