

Title of Report:	Prudential Indicators
Committee Report Submitted To:	Finance Committee
Date of Meeting:	11 March 2021
For Decision or For Information	For Decision – in committee

Linkage to Council Strategy (2019-23)	
Strategic Theme	Budgetary Control
Outcome	Contract Compliance & Governance
Lead Officer	Chief Finance Officer

Budgetary Considerations	
Cost of Proposal	
Included in Current Year Estimates	YES/NO
Capital/Revenue	Capital
Code	
Staffing Costs	Finance staff time

Screening Requirements	Required for new or revised Policies, Plans, Strategies or Service Delivery Proposals.		
Section 75 Screening	Screening Completed:	Yes/No	Date:
	EQIA Required and Completed:	Yes/No	Date:
Rural Needs Assessment (RNA)	Screening Completed	Yes/No	Date:
	RNA Required and Completed:	Yes/No	Date:
Data Protection Impact Assessment (DPIA)	Screening Completed:	Yes/No	Date:
	DPIA Required and Completed:	Yes/No	Date:

1.1 Background

In setting the rate Council should also consider its Prudential Indicators which summarise the cost of servicing its loan finance.

1.2 Detail

The prudential indicators summary attached as an appendix to this report were not formally adopted at the rates strike meeting.

1.3 Recommendation

It is recommended Prudential indicators be formally adopted as tabled in the appendix.

Not For Publication

Prudential Indicators for 2020/21 to 2023/24

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 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Gross Capital Expenditure	8,500	8,500	8,500	8,500

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 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Capital Financing Requirement	83,234	83,933	84,126	84,587

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

Prudential Indicators for 2020/21 to 2023/24

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 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Capital Financing Requirement	83,234	83,933	84,126	84,587
Gross Borrowing - Sinking Fund	65,914	65,830	65,075	68,141
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 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Financing Costs	9,523	8,774	9,267	8,797
Net Revenue Stream	50,943	52,866	53,923	55,001
Percentage	18.7	16.6	17.2	16.0

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

4.2 Incremental Impact of Capital Investment Programme 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.

Table 5
Impact of Capital Investment Programme on the Rates (- is saving)

	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Incremental impact on Rates	1.43%	-1.50%	0.96%	-0.90%

Prudential Indicators for 2020/21 to 2023/24

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 2023/24 is set out in table 6 below.

Table 6
Council Authorised Borrowing Limit

	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Authorised Borrowing Limit	78,334	77,628	77,366	77,072

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 Boundary for Borrowing

	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Operational Borrowing Limit	71,213	70,571	70,333	70,066