APPENDIX 3

Prudential and Treasury Indicators

Capital Expenditure Indicators

1. Capital Expenditure

The Council is required to establish and keep under review capital investment plans which are affordable. It should make reasonable estimates of total capital expenditure that it plans to incur during the forthcoming year and the following two years.

This indicator outlines capital spending plans for 2024/25 based on the proposed capital plan, with indicative figures for 2025/26 and 2026/27 based on the indicative 10 year capital plan.

For comparison purposes, the actual spend for 2022/23 is presented together with estimates for 2023/24 based on the latest figures at 31 December 2023.

	2022/23 Actual £000	**2023/24 Estimate £000**	**2024/25 Budget £000**	**2025/26 Budget £000**	**2026/27 Budget £000**
Capital Expenditure					
General Services	28,356	29,901	49,662	63,521	44,120
HRA *	17,657	6,298	31,979	49,568	31,513
Total Capital Expenditure	**46,013**	**36,199**	**81,941**	**113,089**	**75,633**
Financed by:					
Capital Receipts	-	1,306	890	1,186	183
Capital Grants	23,316	11,119	22,877	35,913	11,791
Revenue	2,085	2,317	3,292	4,162	4,776
Total Funding	25,401	14,742	27,059	41,261	16,750
Net financing need for the year	**20,612**	**21,457**	**54,582**	**71,828**	**58,883**

In General Services, the 2023/24 estimated capital expenditure includes a number of major projects. The most significant items are; £5.3m for the Council's share of the cost of the construction of the NESS Energy for Waste (EfW) facility in Aberdeen, £4.5m on Road Improvement projects and £5.3m on the Learning Estate. In 2024/25 the Council has budgeted to spend £49.662m: including £20.9m on the Learning Estate, £3.54m on Road Improvements and £3.53m on vehicle and plant replacement. The other most significant project is the Moray Growth Deal and there is currently £15.5m in the capital plan for funded projects under this heading.

The increase on the HRA from 2023/24 relates principally to the phasing of the new build housing programme, along with an increase in investment in existing Housing Stock. An improvement plan is also being developed to accelerate delivery of energy efficiency programmes in 2024/25.

Capital grant and other contributions show an increase of £4.7m from 2023/24 estimated amounts to the 2024/25 budget, explained mainly by an increase in grants to fund HRA new builds and government grant funding for Moray Growth Deal. Capital expenditure includes two projects to be funded from the Learning Eastate Improvement Programme (LEIP). LEIP funding is revenue and consequently is not reflected in the funding figures above.

2. Capital Financing Requirement

The capital financing requirement measures the Council's underlying need to borrow for capital investment. The capital financing requirement rises over the period as a large proportion of the Council's capital expenditure is financed by additional borrowing thus increasing the Council's total outstanding debt.

The Council pays off an element of the accumulated debt each year through a revenue charge (the scheduled debt amortisation).

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital Financing Requirement (CFR)					
General Services	292,114	301,140	331,761	374,186	396,874
HRA	76,366	76,283	86,961	101,213	120,419
Total CFR	**368,480**	**377,423**	**418,722**	**475,399**	**517,293**
Movement in CFR	**16,500**	**8,943**	**41,299**	**56,677**	**41,894**
Net financing Need (Indicator 1)	20,610	21,457	54,582	71,828	58,883
Scheduled debt amortisation	(4,110)	(12,514)	(13,283)	(15,151)	(16,989)
Movement in CFR	**16,500**	**8,943**	**41,299**	**56,677**	**41,894**

Affordability Indicators

The following three indicators measure whether the Council's level of borrowing is affordable and financially prudent.

3. Ratio of Financing Costs to Net Revenue Stream

This indicator provides a measure of the percentage of the budget that is being set aside to pay debt financing costs. For General Services this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers. For Housing, the indicator is the ratio of financing costs to gross house rental income.

Service	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Services	8.62%	8.84%	10.73%	11.05%	10.94%
HRA	21.51%	24.36%	28.68%	29.04%	27.67%

The percentages in General Services from 2022/23 to 2026/27 reflect the ongoing general requirement to increase borrowing to fund capital expenditure in the capital plan, particularly in the Learning Estate and the Moray Growth Deal. The Growth Deal expenditure is front-loaded against the anticipated grant profile and the Council has made provision for this.

The increase in percentages in the HRA from 2022/23 to 2026/27 reflects the ongoing requirement to increase borrowing due to the ongoing programme of new build housing and an increase in investment in existing housing stock. This is reflected in the HRA business plan.

4. Estimates of Incremental Impact of New Capital Investment Decisions on Council Tax and House Rents

This indicator demonstrates the incremental impact of planned capital expenditure and associated borrowing on council tax and rent levels, were these to rise to cover the cost of capital.

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Council Tax - Band D	£54.45	£39.49	£140.89	£38.00	£6.93
Average Weekly Housing Rents	£0.79	£2.64	£5.23	£1.47	(£0.08)

An increase in the calculated amount on Council Tax is indicative of the Council's requirement to borrow in order to fund the General Services Capital Plan. The 2024/25 estimate reflects the inclusion of high cost projects of Investment in the School Estate and the Moray Growth Deal and also the increase in interest rates.

In the HRA, the increase in incremental impact on housing rents from 2023/24 onwards demonstrates that the capital investment plans, including for new affordable housing, require an incremental increase on average rents to fund the cost of additional borrowing, hence the incremental impact of additional borrowing decreases over time.

Prudence Indicators

5. Gross Debt and the Capital Financing Requirement

This indicator records the extent that gross debt is less than the capital financing requirement (see Indicator 2 above). This indicator shows prudence by demonstrating that over the medium term external borrowing is used only for a capital purpose. The values are measured at the end of each financial year. Debt is the sum of external borrowing and other liabilities relating to the financing of assets (e.g. PPP and other finance leases).

Reported debt must include all liabilities relating to the financing of assets.

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Borrowing	241,020	251,285	294,094	352,310	395,785
Other Liabilities	50,009	48,687	47,177	45,638	44,057
Gross Debt	291,029	299,972	341,271	397,948	439,842
CFR	368,480	377,423	418,722	475,399	517,293
Under Limit By	77,451	77,451	77,451	77,451	77,451

The above figures confirm that the Council's borrowing will be under the Capital Financing Requirement due to the Council's policy in the economic climate of low interest rates of using internal balances and short term temporary loans.

External Debt Indicators

The prudential indicator for actual external debt is considered at a single point in time, which is at the end of each financial year. Therefore, it is only comparable to the authorised limit and operational boundary at that specific time. The actual external debt reported in the annual accounts for the previous year is required to be shown in the tables below for comparison purposes only.

6. The Authorised Limit For External Debt

The authorised limit for external debt is required by the Prudential Code to separately identify external borrowing and other liabilities such as PPP and finance lease obligations. This limit provides a maximum figure to which the Council could borrow at any given point during each financial year. The authorised limit should contain sufficient headroom to provide for any anticipated payments as well as being based on the Council's capital investment plan.

	2022/23 Actual Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000	2025/26 Estimate Maximum £000	2026/27 Estimate Maximum £000
Borrowing	241,020	279,635	362,029	427,319	482,014
Other Liabilities	50,009	50,687	49,177	47,638	46,057
Total External Debt	291,029	330,322	411,206	474,957	528,071

The authorised limits shown above are based on the proposed capital investment plan for 2023/24 to 2026/27 and anticipated Other Liabilities and take account of Treasury Management policy and practice. The figures allow sufficient headroom for unanticipated cash movements. Total debt must include all liabilities relating to the financing of assets.

7. Operational Boundary for External Debt

This indicator is a management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point during each year.

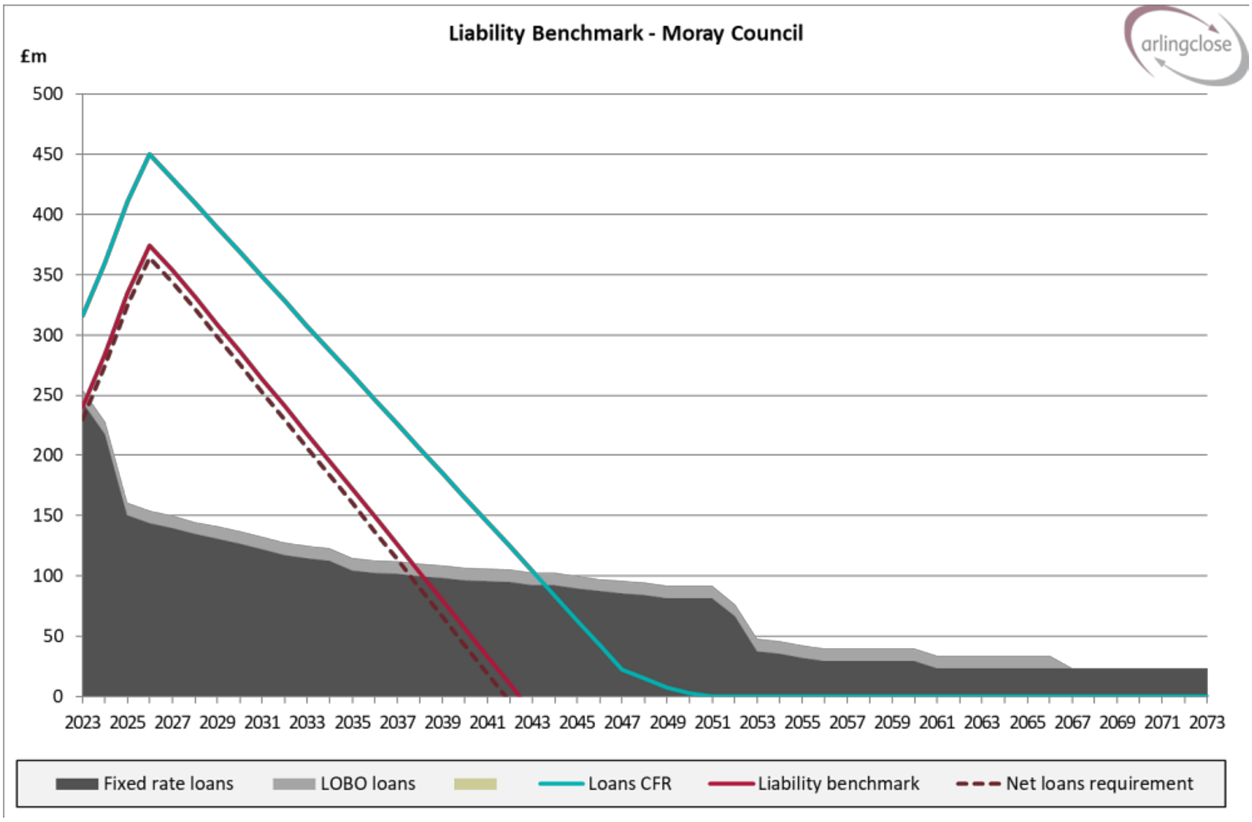
Operational Boundary	2022/23 Actual Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000	2025/26 Estimate Maximum £000	2026/27 Estimate Maximum £000
Borrowing	241,020	274,635	347,029	412,319	467,014
Other Liabilities	50,008	49,687	48,177	46,638	45,057
Total External Debt	291,028	324,322	395,206	458,957	512,071

8. Liability Benchmark

The liability benchmark was introduced as a new treasury management prudential indicator in the 2021 edition of the CIPFA Treasury Management Code. Unlike other indicators, the liability benchmark is to be shown graphically and consists of three lines – the loans capital financing requirement, the net loans requirement and the liability benchmark itself, with also an area for actual borrowing:

- The Loans Capital Financing Requirement (LCFR) is the total Capital Financing Requirement (CFR) less the amounts that are met by other long-term liabilities, such as lease liabilities. The Council does not need to borrow for these amounts as the liability is effectively providing the cash to fund that part of the CFR.
- The Net Loans Requirement (NLR) is the amount of borrowing needed to keep treasury investments at zero. It is almost lower than the LCFR due to the balance sheet resources that create cash.

The LCFR can be described as the maximum permitted level of borrowing. The NLR is the minimum possible if borrowing, at which investments would be zero. This would expose the authority to the liquidity risk of being unable to make payments when due. The liability benchmark is the point between the two, where an appropriate balance of risks can be struck between these two extremes.



8. Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

This is an adoption statement aimed at ensuring that treasury management is led by a clear and integrated forward treasury management strategy and recognition of the council's existing borrowing and investments portfolio.

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 restrictive they will impair the opportunities the Council may have to reduce financing costs.

8.1 Fixed and Variable Rate Limits

Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper limits on fixed interest rate exposure – similar to the previous indicator, this sets a maximum limit on fixed interest rates.

	2022/23 Actual	2023/24 Estimate	2024/25	2025/26 & 2026/27
Interest Rate Exposures	**Upper Limit**	**Upper Limit**	**Upper Limit**	**Upper Limit**
Limits on Fixed Interest Rates based on Net Debt	100%	100%	100%	100%
Limits on Variable Interest Rates based on Net Debt	0%	35%	35%	35%

8.2 Maturity Structure of Fixed Interest Rate Borrowing

Maturity structure of borrowing – these gross limits, both lower and upper, are set to reduce the Council's exposure to large fixed rate sums falling due to be refinanced within the same financial year.

	2022/23 Actual	2023/24		2024/25		2025/26 & 2026/27	
		Lower	Upper	Lower	Upper	Lower	Upper
< 12 months	36.44%	0%	37%	0%	40%	0%	37%
12 – 24 months	2.97%	0%	20%	0%	20%	0%	20%
2 – 5 years	10.77%	0%	25%	0%	25%	0%	25%
5 – 10 years	8.40%	0%	50%	0%	50%	0%	50%
>10 years	41.43%	0%	85%	0%	85%	0%	85%

8.3 Maximum Principal Sums Invested Greater than 364 days

Following changes arising from the 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 therefore has set a limit of Nil for investing over 364 days.

	2022/23 Actual	2023/24	2024/25	2025/26 & 2026/27
Principal Sums Invested > 364 days	£0M	£0M	£0M	£0M