APPENDIX 2

TREASURY AND PRUDENTIAL INDICATORS

External Debt and Treasury Indicators

1. The Authorised Limit for External Debt

The authorised limit for external debt is required to separately identify external borrowing and other liabilities such as PPP, DBFM and finance lease obligations. This limit provides a maximum figure to which the Council could borrow at any given point during the financial year.

Authorised Limit	2021/22 Approved Indicator	2021/22 Estimated Indicator	2021/22 Actual Maximum
	£000	£000	£000
Borrowing	388,542	352,536	236,757
Other Liabilities	56,425	56,425	54,365
Total External Debt	**444,967**	**408,961**	**291,122**

The table shows that the limit was not breached.

2. Operational Boundary for External Debt

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

Operational Boundary	2021/22 Approved Indicator	2021/22 Estimated Indicator	2021/22 Actual Maximum
	£000	£000	£000
Borrowing	337,536	373,542	236,757
Other Liabilities	55,425	55,425	54,365
Total External Debt	**392,961**	**428,968**	**291,122**

The table shows that the limit was not breached.

3. Actual External Debt

This is measured at the end of each financial year. The actual external debt reported in the annual accounts for the previous year is required to be shown as an indicator for comparison purposes only.

Actual Debt	At 31 March 2021	At 31 March 2022
	£000	£000
Borrowing	254,353	236,757
Other Liabilities	55,882	54,300
Total Debt	**310,235**	**291,057**

Other Liabilities include the PPP finance liability for Elgin Academy and Keith Primary School which became operational during 2011/12, the DBFM finance liability for Elgin High School and the finance liability for the leased multi-functional devices (printer / scanner / copier).

4. Treasury Management Indicator

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:

• 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 covers a maximum limit on fixed interest rates.

• 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.

• Maximum period of investment - 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 Nil for investing over 364 days.

Fixed and Variable Rate Limits

	2020/21 Actual	**2021/22 Approved Limits**	**2021/22 Actuals**
Interest Rate Exposures	Upper Limit	Upper Limit	Upper Limit
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	0%	35%	0%

Maturity Structure of Fixed Interest Rate Borrowing

	2020/21 Actual	**2021/22 Approved Limits**		**2021/22 Actual (£m)**	**2021/22 %**
		Lower	**Upper**		
< 12 months	37.68%	0%	30%	75.608	32.10%
12-24 months	3.01%	0%	20%	7.754	3.29%
2-5 years	8.43%	0%	25%	27.750	11.78%
5-10 years	8.57%	0%	50%	22.355	9.49%

>10 years	42.30%	0%	85%	102.082	43.34%

Short term rates are low compared to longer term borrowing and in 2021/22 the Council has continued its policy of short term borrowing. This approach is advised by the Council's Treasury Advisors. As a result the approved limit of 30% has been breached, however this is a result of carefully considered action and is not considered to be indicative of problems with treasury management practice.

Maximum Principal Sums Invested Greater than 364 days

	2020/21 Actual	**2021/22 Actual**
Principal sums invested >364 days	£0m	£0m

Capital Expenditure Indicators

5. Capital Expenditure

This indicator is included so the Council complies with the Local Government in Scotland Act 2003 which requires the Council to establish and keep under review capital investment plans which are affordable.

	2021/22 Approved Indicator	**2021/22 Revised Indicator**	**2021/22 Revised Capital Plan**	**2021/22 Actual**
	£000	**£000**	**£000**	**£000**
Capital Expenditure				
General Services	44,709	33,950	39,274	44,409
HRA	17,629	27,285	11,769	27,285
	62,338	**61,235**	**51,043**	**71,694**
Financed by:				
Capital Grant & Contributions	7,751	21,230	15,214	12,867
Reserves (Council Tax Discount on 2nd Homes)	-	-	662	525
Revenue	6,594	5,460	5,410	5,480
	14,345	**26,690**	**21,286**	**18,872**
Net Financing Need for the Year	**47,993**	**34,545**	**29,757**	**52,822**

The General Services Capital Programme for 2021/22 amounted to £44.409 million. Expenditure for the year was £31.018 million, representing a net underspend of £13.391 million. Various projects experienced delays due to ongoing issues stemming from the Covid pandemic and pressures within global supply chains, the most significant underspend being on the Town Centre Fund Initiative and was £1.388m. The NESS Energy from Waste project was underspent by £5.508m and experienced these same issues and also issues with labour shortages experienced by the contracting company. The Council's vehicle replacement programme and all ICT projects saw delays due to extended lead in period for the delivery of component parts and this added £1.032 and £0.653 million to the underspend respectively.

The Housing Capital Programme amounted to £28.514 million and actual expenditure was £11.769 million. The planned expenditure for 2021/22 included new build at Bilbohall in Elgin but there were delays in getting planning permission for this development. Thereafter there were difficulties in attracting a contractor, reflecting the state of the market with fluctuating costs, labour shortages and difficulties with the supply chain. There were also delays with planned new build in Aberlour. Ongoing pandemic restrictions and supply chain issues resulted in a significant underspend in planned housing improvements.

Prudence Indicators

6. Gross Debt and the Capital Financing Requirement

This indicator records the extent that gross debt is less than the capital financing requirement. 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, DBFM and finance leases).

The Capital Financing Requirement (CFR) 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).

	2020/21 Actual	**2021/22 Approved Indicator**	**2021/22 Revised Indicator**	**2021/22 Actual**
	£000	**£000**	**£000**	**£000**
Borrowing	254,353	322,623	286,269	236,757
Other Liabilities	54,300	52,831	52,381	54,365
Gross Debt	308,653	338,650	338,650	291,122
CFR	341,891	366,152	366,263	351,980
Under Limit By	**33,238**	**23,995**	**27,163**	**60,858**

The above figures confirm that the Council's borrowing is well under the Capital Financing Requirement.

Affordability Indicators

7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and calculates the proportion of the net revenue budget required to finance the costs associated with borrowing and investment. The relevant proportions are set out below.

Service	2020/21 Actual	2021/22 Approved Indicator	2021/22 Revised Indicator	2021/22 Actual
General Services	8.00%	9.78%	9.65%	8.27%
Housing Revenue Account (HRA)	21.63%	20.73%	19.38%	20.72%

The revised indicator for the HRA was based on reduced interest rates during the year. By the end of the year interest rates were rising and so the actual ratio is higher than the revised indicator.

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

This indicator demonstrates the expected incremental impact of planned capital expenditure and associated borrowing on council tax and rent levels, calculated on the assumption that capital expenditure is funded by an increase in Council Tax and rent.

Service	2020/21 Actual	2021/22 Approved Indicator	2021/22 Revised Indicator	2021/22 Actual
Council Tax – Band D	£(33.47)	£(12.40)	£27.77	£(15.88)
Average Weekly Housing Rents	£0.52	£1.35	£0.49	£0.62

The calculated amount on Council Tax reflects the reduction in financing costs in 2021/22 due to low costs of borrowing. Interest rates are rising and this will have an impact on the Council's future cost of borrowing.

For the HRA the 2021/22 actual impact on rents was more than the revised indicator due to the cost of borrowing increasing as a result of increases in interest rates during the financial year.