

## 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 2020/21 based on the proposed capital plan, with indicative figures for 2021/22 and 2022/23 based on the proposed 10 year capital plan.

For comparison purposes, the actual spend for 2018/19 is presented together with estimates for 2019/20 based on the latest figures at 31 December 2019.

	<b>2018/19 Actual £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Budget £000</b>	<b>2021/22 Budget £000</b>	<b>2022/23 Budget £000</b>
<b>Capital Expenditure</b>					
General Services	26,986	68,460	42,319	44,709	35,823
HRA	12,642	16,560	28,514	17,629	15,272
<b>Total Capital Expenditure</b>	<b>39,628</b>	<b>85,020</b>	<b>70,833</b>	<b>62,338</b>	<b>51,095</b>
<b>Financed by:</b>					
Capital Receipts	75	0	0	0	400
Capital Grants	30,119	36,868	19,237	7,751	11,133
Revenue	4,679	5,877	5,343	6,594	7,275
<b>Total Funding</b>	<b>34,873</b>	<b>42,745</b>	<b>24,580</b>	<b>14,345</b>	<b>18,808</b>
<b>Net financing need for the year</b>	<b>4,755</b>	<b>42,275</b>	<b>46,253</b>	<b>47,993</b>	<b>32,287</b>

In General Services, the 2019/20 estimated capital expenditure includes a number of major projects, the most significant items are £21.2m for the new Lossiemouth High School and £10.0m for the new Linkwood Primary School in Elgin. In 2020-21 these projects are budgeted to spend £10.3m and £1.2m respectively, a decrease of £19.7m which represents the main reduction in the overall General Services budget from 2019-20 to 2020/21. Other ongoing projects in 2020/21 include Early Learning and Childcare expansion and the NESS energy from Waste facility in Aberdeen. The increase on the HRA from 2019/20 to 2020/21 relates principally to the phasing of the new build housing programme, with an increase of £8.0m.

Capital grant and other contributions show a decrease of over £17m from 2019/20 estimated amounts to the 2020/21 budget. This is explained mainly by the one-off grant funding of over £11m received in 2019/20 for the new Lossiemouth High School

and a reduction in the Scottish Government 's general capital grant from 2019/20 to 2020/21 of over £4m.

## 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).

	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
<b>Capital Financing Requirement (CFR)</b>					
General Services	223,644	253,509	275,730	302,427	318,509
HRA	72,750	74,582	87,251	97,022	100,754
<b>Total CFR</b>	<b>296,394</b>	<b>328,091</b>	<b>362,981</b>	<b>399,449</b>	<b>419,263</b>
<b>Movement in CFR</b>	<b>(4,126)</b>	<b>31,697</b>	<b>34,890</b>	<b>36,468</b>	<b>19,814</b>
Net financing Need (Indicator 1)	4,755	42,275	46,253	47,993	32,287
Scheduled debt amortisation	(9,804)	(10,578)	(11,363)	(11,525)	(12,473)
Assets acquired under Finance leases/PPP (Estimate)	923	0	0	0	0
<b>Movement in CFR</b>	<b>(4,126)</b>	<b>31,697</b>	<b>34,890</b>	<b>36,468</b>	<b>19,814</b>

The figure for assets acquired under finance leases/PPP in 2018/19 relates to the capitalisation of the new Elgin High School.

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

## Affordability Indicators

### 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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Services	9.95%	9.86%	10.06%	9.78%	10.44%
HRA	20.33%	20.38%	19.97%	20.73%	21.16%

The percentages in General Services from 2018/19 to 2022/23, although fluctuating, reflect the ongoing general requirement to increase borrowing to fund capital expenditure in the capital plan.

The increase in percentages in the HRA from 2018/19 to 2022/23 reflects the ongoing requirement to increase borrowing due, in part, to the ongoing programme of new build housing.

### 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.

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>Council Tax - Band D</b>	£35.03	£11.12	£22.14	£(12.40)	£43.38
<b>Average Weekly Housing Rents</b>	£0.92	£0.18	£0.49	£1.35	£0.85

The increases in calculated amount on Council Tax, except for the reduction in 2021/22 due to timing differences, demonstrate the requirement of the Council to borrow in order to fund the General Services Capital Plan which includes a number of high cost projects. These include Lossiemouth High School, Linkwood Primary School, a new primary school at Findrassie Elgin, NESS Energy from Waste Facility and Moray Growth Deal.

In the HRA, the increase in incremental impact on housing rents from 2018/19 onwards demonstrates that the capital investment plans, including for new affordable housing, require an incremental increase on average rents to fund costs of additional borrowing.

## 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.

	<b>2018/19 Actual £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
Borrowing	214,891	248,087	284,561	322,623	343,937
Other Liabilities	57,508	56,009	54,425	52,831	51,331
Gross Debt	272,399	304,096	338,986	375,454	395,268
CFR	296,394	328,091	362,981	399,449	419,263
Under Limit By	23,995	23,995	23,995	23,995	23,995

The above figures confirm that the Council's borrowing will be well 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. The Council does not envisage difficulties for the future after taking into account current commitments and existing plans.

## External Debt Indicators

### 6. 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 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.

	<b>2018/19 Actual Maximum £000</b>	<b>2019/20 Estimate Maximum £000</b>	<b>2020/21 Estimate Maximum £000</b>	<b>2021/22 Estimate Maximum £000</b>	<b>2022/23 Estimate Maximum £000</b>
Borrowing	214,891	276,080	348,593	388,542	413,785
Other Liabilities	57,508	59,508	58,009	56,425	54,831
Total External Debt	272,399	335,588	406,602	444,967	468,616

The authorised limits shown above are based on the proposed capital investment plan for 2019/20 to 2022/23 and anticipated Other Liabilities and take account of Treasury Management policy and practice. The figures allow sufficient headroom for unanticipated cash movements. The limits will be reviewed on an on-going basis during the year. 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.

<b>Operational Boundary</b>	<b>2018/19 Actual Maximum £000</b>	<b>2019/20 Estimate Maximum £000</b>	<b>2020/21 Estimate Maximum £000</b>	<b>2021/22 Estimate Maximum £000</b>	<b>2022/23 Estimate Maximum £000</b>
Borrowing	214,891	271,080	333,593	373,542	398,785
Other Liabilities	57,508	58,508	57,009	55,425	53,831
Total External Debt	272,399	329,588	390,602	428,967	452,616

## Actual External Debt

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 as an indicator for comparison purposes only.

<b>Actual Debt</b>	<b>At 31 March 2019 £000</b>
Borrowing	214,891
Other Long Term Liabilities	57,508
Total Debt	272,399

### 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.

	<b>2018/19 Actual</b>	<b>2019/20 Estimate</b>	<b>2020/21</b>	<b>2021/22 &amp; 2022/23</b>
<b>Interest Rate Exposures</b>	<b>Upper Limit</b>	<b>Upper Limit</b>	<b>Upper Limit</b>	<b>Upper Limit</b>
<b>Limits on Fixed Interest Rates based on Net Debt</b>	100%	100%	100%	100%
<b>Limits on Variable Interest Rates based on Net Debt</b>	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.

	2018/19	2019/20		2020/21		2021/22 & 2022/23	
	Actual	Lower	Upper	Lower	Upper	Lower	Upper
< 12 months	18.84%	0%	30%	0%	30%	0%	30%
12 – 24 months	3.88%	0%	20%	0%	20%	0%	20%
2 – 5 years	9.81%	0%	25%	0%	25%	0%	25%
5 – 10 years	9.86%	0%	50%	0%	50%	0%	50%
>10 years	57.61%	0%	85%	0%	85%	0%	85%

## 8.3 Maximum Principal Sums Invested Greater than 364 days

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 therefore has set a limit of Nil for investing over 364 days.

	2018/19	2019/20	2020/21	2021/22 & 2022/23
	Actual			
Principal Sums Invested > 364 days	£0M	£0M	£0M	£0M