

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 2022/23 based on the proposed capital plan, with indicative figures for 2023/24 and 2024/25 based on the indicative 10 year capital plan.

For comparison purposes, the actual spend for 2020/21 is presented together with estimates for 2020/21 based on the latest figures at 31 December 2021.

| | 2020/21 Actual £000 | 2021/22 Estimate £000 | 2022/23 Budget £000 | 2023/24 Budget £000 | 2024/25 Budget £000 |
|--|------------------------------------|--------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Capital Expenditure | | | | | |
| General Services | 39,439 | 42,661 | 51,265 | 53,702 | 63,836 |
| HRA * | 11,858 | 15,136 | 24,709 | 31,463 | 13,254 |
| Total Capital Expenditure | 51,297 | 57,797 | 75,974 | 85,165 | 77,090 |
| Financed by: | | | | | |
| Capital Receipts | - | - | 700 | 156 | 156 |
| Capital Grants | 13,768 | 14,714 | 28,569 | 24,520 | 16,060 |
| Revenue | 6,421 | 8,298 | 4,903 | 4,568 | 4,727 |
| Total Funding | 20,189 | 23,012 | 34,172 | 29,244 | 20,943 |
| Net financing need for the year | 31,108 | 34,785 | 41,802 | 55,921 | 56,147 |

In General Services, the 2021/22 estimated capital expenditure includes a number of major projects. The most significant items are; £10.8m for the Council's share of the cost of the construction of the NESS Energy for Waste (EfW) facility in Aberdeen and £3.8m on Roads capital projects. In 2022/23 the NESS facility is budgeted to spend £2.3m and other significant projects include the Findrassie Primary School and investment in projects under the Moray Growth Deal.

The increase on the HRA from 2021/22 to 2022/23 relates principally to the phasing of the new build housing programme, with an increase of £7.6m. There is also an increase in investment in existing Housing Stock.

Capital grant and other contributions show an increase of £13.8m from 2021/22 estimated amounts to the 2022/23 budget, explained mainly by an increase in grants to fund HRA new builds and government grant funding for Moray Growth Deal.

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).

| | 2020/21 Actual £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 | 2023/24 Estimate £000 | 2024/25 Estimate £000 |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Capital Financing Requirement (CFR) | | | | | |
| General Services | 260,619 | 279,849 | 304,122 | 327,708 | 363,432 |
| HRA | 81,272 | 85,416 | 90,591 | 109,098 | 113,491 |
| Total CFR | 341,891 | 365,265 | 394,713 | 436,806 | 476,923 |
| Movement in CFR | 20,729 | 23,374 | 29,448 | 42,093 | 40,117 |
| | | | | | |
| Net financing Need (Indicator 1) | 31,108 | 34,785 | 41,802 | 55,921 | 56,147 |
| Scheduled debt amortisation | (10,379) | (11,411) | (12,354) | (13,828) | (16,030) |
| Movement in CFR | 20,729 | 23,374 | 29,448 | 42,093 | 40,117 |

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 | 2020/21 Actual | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| General Services | 8.00% | 8.34% | 8.90% | 9.27% | 10.25% |
| HRA | 21.63% | 18.20% | 19.26% | 19.30% | 22.62% |

The percentages in General Services from 2020/21 to 2024/25 reflect the ongoing general requirement to increase borrowing to fund capital expenditure in the capital plan, particularly in the Learning Estate, Roads and the Moray Growth Deal

The increase in percentages in the HRA from 2020/21 to 2024/25 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, were these to rise to cover the cost of capital.

| | 2020/21 Actual | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|-------------------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Council Tax - Band D | £(36.37) | £13.47 | £32.14 | £32.32 | £69.14 |
| Average Weekly Housing Rents | £0.52 | £(1.48) | £0.96 | £0.68 | £3.24 |

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 increase in calculated amount on Council Tax in 2021/22 is low because the 2020/21 capital plan had significant slippage due to the Covid-19 pandemic and the subsequent knock-on effect in lead-time increases for materials and the wider supply chain. The projections for 2022/23 assume an element of catching up on planned spend. Included in 2023/24 are high cost projects of construction of Findrassie Primary School and Investment in the School Estate and in our roads network.

In the HRA, the increase in incremental impact on housing rents from 2022/23 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.

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.

| | 2020/21 Actual £000 | 2021/22 Estimate £000 | 2022/23 Estimate £000 | 2023/24 Estimate £000 | 2024/25 Estimate £000 |
|-------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Borrowing | 253,978 | 280,530 | 311,478 | 354,893 | 396,520 |
| Other Liabilities | 56,009 | 52,381 | 51,331 | 50,009 | 48,499 |
| Gross Debt | 309,387 | 333,361 | 362,809 | 404,902 | 445,019 |
| CFR | 341,891 | 365,265 | 394,713 | 436,806 | 476,923 |
| Under Limit By | 31,904 | 31,904 | 31,904 | 31,904 | 31,904 |

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.

| | 2020/21 Actual Maximum £000 | 2021/22 Estimate Maximum £000 | 2022/23 Estimate Maximum £000 | 2023/24 Estimate Maximum £000 | 2024/25 Estimate Maximum £000 |
|---------------------|--|--|--|--|--|
| Borrowing | 253,978 | 310,396 | 379,527 | 427,631 | 479,015 |
| Other Liabilities | 56,009 | 56,425 | 54,831 | 53,331 | 52,009 |
| Total External Debt | 309,987 | 366,821 | 434,358 | 480,962 | 531,024 |

The authorised limits shown above are based on the proposed capital investment plan for 2021/22 to 2024/25 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 | 2020/21 Actual Maximum £000 | 2021/22 Estimate Maximum £000 | 2022/23 Estimate Maximum £000 | 2023/24 Estimate Maximum £000 | 2024/25 Estimate Maximum £000 |
|---------------------------------|--|--|--|--|--|
| Borrowing | 253,978 | 305,396 | 364,527 | 412,631 | 464,015 |
| Other Liabilities | 56,009 | 55,425 | 53,831 | 52,331 | 51,009 |
| Total External Debt | 309,987 | 360,821 | 418,358 | 464,962 | 515,024 |

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.

| | 2020/21 Actual | 2021/22 Estimate | 2022/23 | 2023/24 & 2024/25 |
|--|--------------------|---------------------|--------------------|----------------------|
| 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.

| | 2020/21 Actual | 2021/22 | | 2022/23 | | 2023/24 & 2024/25 | |
|----------------|-------------------|---------|-------|---------|-------|----------------------|-------|
| | | Lower | Upper | Lower | Upper | Lower | Upper |
| < 12 months | 23.56% | 0% | 30% | 0% | 30% | 0% | 30% |
| 12 – 24 months | 3.74% | 0% | 20% | 0% | 20% | 0% | 20% |
| 2 – 5 years | 9.75% | 0% | 25% | 0% | 25% | 0% | 25% |
| 5 – 10 years | 10.10% | 0% | 50% | 0% | 50% | 0% | 50% |
| >10 years | 52.85% | 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.

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

