

## 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 2021/22 based on the proposed capital plan, with indicative figures for 2022/23 and 2023/24 based on the proposed 10 year capital plan.

For comparison purposes, the actual spend for 2019/20 is presented together with estimates for 2020/21 based on the latest figures at 31 December 2020.

	<b>2019/20 Actual £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Budget £000</b>	<b>2022/23 Budget £000</b>	<b>2023/24 Budget £000</b>
<b>Capital Expenditure</b>					
General Services	56,728	41,118	33,950	37,036	38,012
HRA	18,124	10,932	27,285	24,969	9,187
<b>Total Capital Expenditure</b>	<b>74,852</b>	<b>52,050</b>	<b>61,235</b>	<b>62,005</b>	<b>47,199</b>
<b>Financed by:</b>					
Capital Receipts	-	-	-	400	400
Capital Grants	34,612	12,710	21,230	10,805	9,299
Revenue	4,345	5,300	5,460	6,276	6,559
<b>Total Funding</b>	<b>38,957</b>	<b>18,010</b>	<b>26,690</b>	<b>17,481</b>	<b>16,258</b>
<b>Net financing need for the year</b>	<b>35,895</b>	<b>34,040</b>	<b>34,545</b>	<b>44,524</b>	<b>30,941</b>

In General Services, the 2020/21 estimated capital expenditure includes a number of major projects, the most significant items are £9.2m for the new Lossiemouth High School and £2.9m for the new Linkwood Primary School in Elgin, which is now complete. In 2021-22 Lossiemouth High School is budgeted to spend £3.8m, a decrease of £8.3m which represents the main reduction in the overall General Services budget from 2019-20 to 2020/21. The other ongoing project in 2021/22 is the NESS energy from Waste facility in Aberdeen.

The increase on the HRA from 2020/21 to 2021/22 relates principally to the phasing of the new build housing programme, with an increase of £8.5m.

Capital grant and other contributions show an increase of £8.5m from 2020/21 estimated amounts to the 2021/22 budget, explained mainly by an increase in grants to fund HRA new builds.

## 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).

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
<b>Capital Financing Requirement (CFR)</b>					
General Services	242,786	263,666	277,066	293,921	309,582
HRA	78,375	80,217	89,197	104,502	105,097
<b>Total CFR</b>	<b>321,161</b>	<b>343,883</b>	<b>366,263</b>	<b>398,423</b>	<b>414,679</b>
<b>Movement in CFR</b>	<b>25,478</b>	<b>22,722</b>	<b>22,380</b>	<b>32,160</b>	<b>16,256</b>
Net financing Need (Indicator 1)	35,895	34,040	34,545	44,524	30,941
Scheduled debt amortisation	(10,417)	(11,318)	(12,165)	(12,364)	(14,685)
<b>Movement in CFR</b>	<b>25,478</b>	<b>22,722</b>	<b>22,380</b>	<b>32,160</b>	<b>16,256</b>

### 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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Services	9.50%	9.19%	9.65%	9.34%	9.85%
HRA	21.46%	19.23%	19.38%	20.57%	20.66%

The percentages in General Services from 2019/20 to 2023/24, 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 2020/21 to 2023/24 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.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
<b>Council Tax - Band D</b>	£(2.89)	£6.44	£27.77	£(15.33)	£39.35
<b>Average Weekly Housing Rents</b>	£0.84	£(0.64)	£0.49	£1.35	£0.85

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 results from the fact that the 2020/21 capital plan has seen significant slippage due to the Covid-19 pandemic and projects have been delayed from 2020/21 to 2021/22. There is not expected to be slippage to 2022/23, hence the reason for the decrease. 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 estimated decrease in the incremental impact on housing rents in 2020/21 from 2019/20 is due to the delays that have arisen to projects as a result of the Covid-19 pandemic. The increase in incremental impact on housing rents from 2020/21 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>2019/20 Actual £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
Borrowing	237,989	262,295	286,269	319,929	337,507
Other Liabilities	56,009	54,425	52,381	51,331	50,009
Gross Debt	293,998	316,720	339,100	371,260	387,516
CFR	321,161	343,883	366,263	398,423	414,679
Under Limit By	27,163	27,163	27,163	27,163	27,163

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

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.

	<b>2019/20 Actual Maximum £000</b>	<b>2020/21 Estimate Maximum £000</b>	<b>2021/22 Estimate Maximum £000</b>	<b>2022/23 Estimate Maximum £000</b>	<b>2023/24 Estimate Maximum £000</b>
Borrowing	237,989	291,662	352,536	389,389	412,513
Other Liabilities	56,009	58,009	56,425	54,831	53,331
Total External Debt	293,998	349,671	408,961	444,220	465,844

The authorised limits shown above are based on the proposed capital investment plan for 2020/21 to 2023/24 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.

<b>Operational Boundary</b>	<b>2019/20 Actual Maximum £000</b>	<b>2020/21 Estimate Maximum £000</b>	<b>2021/22 Estimate Maximum £000</b>	<b>2022/23 Estimate Maximum £000</b>	<b>2023/24 Estimate Maximum £000</b>
Borrowing	237,989	286,662	337,536	374,389	397,513
Other Liabilities	56,009	57,009	55,425	53,831	52,331
Total External Debt	293,998	343,671	392,961	428,220	449,844

## 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.

	2019/20 Actual	2020/21 Estimate	2021/22	2022/23 & 2023/24
<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.

	2019/20 Actual	2020/21		2021/22		2022/23 & 2023/24	
		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 Actual	2019/20	2020/21	2021/22 & 2022/23
Principal Sums Invested > 364 days	£0M	£0M	£0M	£0M