

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 2019/20 based on the proposed capital plan, with indicative figures for 2020/21 and 2021/22 based on the proposed 10 year capital plan.

For comparison purposes, the actual spend for 2017/18 is presented together with estimates for 2018/19 based on the latest figures at 31 December 2018.

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000
Capital Expenditure					
General Services	24,553	30,364	72,588	53,602	34,757
HRA	10,436	13,635	23,365	22,302	12,654
Total Capital Expenditure	34,989	43,999	95,953	75,904	47,411
Financed by:					
Capital Receipts	2,049	0	0	0	0
Capital Grants	14,412	31,413	31,068	18,943	10,788
Revenue	4,924	4,963	4,252	4,202	3,972
Total Funding	21,385	36,376	35,320	23,145	14,760
Net financing need for the year	13,604	7,623	60,633	52,759	32,651

In General Services, there is an increase between the 2018/19 estimated spend and the 2019/20 proposed budget of £42.2m. The most significant differences are an increase of £10.8m for the new Lossiemouth High School, an increase of £8.4m for the new Linkwood Primary School in Elgin South, an increase of £3.3m for Early Learning and Childcare expansion, an increase of £1.6m for the Integrated Waste Facility at Moycroft and an increase of £9.4m for the NESS energy from Waste facility in Aberdeen.

The £9.7m increase on the HRA relates principally to the phasing of the new build housing programme, with an increase of £8.5m. Additional energy efficiency requirements and central heating upgrades show an increase of £1.0m.

Capital grant and other contributions see a small decrease of £0.3m from 2018/19 estimated amounts to the 2019/20 budget. There is a £4.3m decrease anticipated in General Services, which relates mainly to reduced grant funding of £2.7m anticipated for the Lossiemouth High School replacement. There is an increase of £4.0m anticipated in the HRA which relates to grant funding for the new build housing programme.

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).

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital Financing Requirement (CFR)					
General Services	231,581	225,185	264,299	295,137	306,812
HRA	68,939	73,786	84,858	94,405	101,274
Total CFR	300,520	298,971	349,157	389,542	408,086
Movement in CFR	30,392	(1,549)	50,186	40,385	18,544
Net financing Need (Indicator 1)	13,604	7,623	60,633	52,359	32,251
Scheduled debt amortisation	(9,407)	(10,095)	(10,447)	(11,974)	(13,707)
Assets acquired under Finance leases/PPP (Estimate)	26,195	923	0	0	0
Movement in CFR	30,392	(1,549)	50,186	40,385	18,544

The figures for assets acquired under finance leases/PPP in 2017/18 and 2018/19 relate to the capitalisation of the new Elgin High School.

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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Services	9.52%	10.10%	9.61%	10.42%	11.09%
HRA	19.72%	20.26%	22.59%	24.49%	24.92%

The increase in percentages in General Services from 2017/18 to 2021/22 reflects the ongoing requirement to increase borrowing to fund capital expenditure in the capital plan. There is a reduction in the percentage from 2018/19 to 2019/20 which reflects the effect of interest capitalisation on several major projects.

The increase in percentages in the HRA from 2017/18 to 2021/22 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.

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Council Tax - Band D	£50.55	£40.74	£(20.40)	£51.30	£43.73
Average Weekly Housing Rents	£(0.39)	£0.86	£1.60	£1.66	£0.89

The calculated amount on Council Tax in 2019/20 reflects the reduction in financing costs in 2019/20 following the capitalisation of interest relating to several major projects. The increases in other years 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 Indicator

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.

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Borrowing	208,203	207,170	258,855	300,824	320,962
Other Liabilities	58,024	57,508	56,009	54,425	52,831
Gross Debt	266,227	264,678	314,864	355,249	373,793
CFR	300,520	298,971	349,157	389,542	408,086
Under Limit By	34,293	34,293	34,293	34,293	34,293

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.

	2017/18 Actual Maximum £000	2018/19 Estimate Maximum £000	2019/20 Estimate Maximum £000	2020/21 Estimate Maximum £000	2021/22 Estimate Maximum £000
Borrowing	208,203	235,064	319,819	366,689	394,542
Other Liabilities	58,024	60,947	59,508	58,009	56,425
Total External Debt	266,227	296,011	379,327	424,698	450,967

The authorised limits shown above are based on the proposed capital investment plan for 2018/19 to 2021/22 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.

Operational Boundary	2017/18 Actual Maximum £000	2018/19 Estimate Maximum £000	2019/20 Estimate Maximum £000	2020/21 Estimate Maximum £000	2021/22 Estimate Maximum £000
Borrowing	208,203	230,064	309,819	356,689	384,542
Other Liabilities	58,024	59,947	58,508	57,009	55,425
Total External Debt	266,227	290,011	368,327	413,698	439,967

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.

Actual Debt	At 31 March 2018 £000
Borrowing	208,203
Other Long Term Liabilities	58,024
Total Debt	266,227

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.

Treasury Prudential Indicators

There are three 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.

	2017/18 Actual	2018/19 Estimate	2019/20	2020/21 & 2021/22
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.

	2017/18 Actual	2018/19		2019/20		2020/21 & 2021/22	
		Lower	Upper	Lower	Upper	Lower	Upper
< 12 months	24.56%	0%	25%	0%	25%	0%	25%
12 – 24 months	1.86%	0%	20%	0%	20%	0%	20%
2 – 5 years	7.96%	0%	25%	0%	25%	0%	25%
5 – 10 years	7.42%	0%	50%	0%	50%	0%	50%
>10 years	58.20%	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.

	2017/18 Actual	2018/19	2019/20	2020/21 & 2021/22
Principal Sums Invested > 364 days	£0M	£0M	£0M	£0M