

## APPENDIX 1

### 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 2016/17 based on the recommended capital plan and estimates for 2017/18 and 2018/19 based on the ten year plan.

For comparison purposes, the actual spend for 2014/15 is presented together with estimates for 2015/16 based on figures at the end of February 2016.

	<b>2014/15 Actual £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>	<b>2018/19 Estimate £000</b>
<b>Capital Expenditure</b>					
General Services	44,479	35,748	37,329	40,585	29,144
HRA	12,258	13,871	11,755	14,736	11,766
<b>Total Capital Expenditure</b>	<b>56,737</b>	<b>49,619</b>	<b>49,084</b>	<b>55,321</b>	<b>40,910</b>
<b>Financed by:</b>					
Capital receipts	1,070	682	729	400	400
Capital grants	38,058	18,528	10,716	10,086	11,333
Reserves	-	947	100	2,995	-
Revenue	2,438	3,401	3,086	3,530	4,134
<b>Total Funding</b>	<b>41,566</b>	<b>23,558</b>	<b>14,631</b>	<b>17,011</b>	<b>15,867</b>
<b>Net financing need for the year</b>	<b>15,171</b>	<b>26,061</b>	<b>34,453</b>	<b>38,310</b>	<b>25,043</b>

Although, overall, the total capital expenditure in 2015/16 and 2016/17 are similar, there is a £2M increase on General Services. This is due to increases in school estate of £8.5M; a new residential facility for people with complex needs of £2M; consolidation of waste facilities costing £1.5M and an overall reduction on infrastructure expenditure of £9M as the major flood schemes and replacement dredger are near completion and the Lossiemouth cycle way is completed. There is also a £1M allowance for slippage in the overall programme.

The £2M reduction on the HRA relates to the phasing of the new build housing programme.

Capital grant and other contributions see a reduction from 2015/16 to 2016/17, principally because of “one-off” grants received in 2015/16 coupled with repayment of flood scheme grant in 2016/17 which was originally received in 2014/15.

## 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).

	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
<b>Capital Financing Requirement (CFR)</b>					
General Services	170,921	182,098	204,166	251,859	261,594
HRA	64,758	71,105	75,147	82,778	86,630
<b>Total CFR</b>	<b>235,679</b>	<b>253,203</b>	<b>279,313</b>	<b>334,637</b>	<b>348,224</b>
<b>Movement in CFR</b>	<b>6,689</b>	<b>17,524</b>	<b>26,110</b>	<b>55,324</b>	<b>13,587</b>
Net financing Need (Indicator 1)	15,171	26,061	34,453	38,310	25,043
Scheduled debt amortisation	(8,482)	(8,537)	(9,043)	(10,104)	(11,456)
Assets acquired under Finance leases/PPP (Estimate)	-	-	700	27,118	-
<b>Movement in CFR</b>	<b>6,689</b>	<b>17,524</b>	<b>26,110</b>	<b>55,324</b>	<b>13,587</b>

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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Services	8.22%	8.20%	8.89%	10.51%	11.72%
HRA	21.56%	22.13%	23.17%	24.33%	25.12%

The percentages in General Services are broadly similar for 2014/15 and 2015/16, but rise from 2016/17 onwards, reflecting that increasing borrowing costs are not matched by increased government grant and Council Tax income.

The percentage in the HRA continues to rise slowly and is due to the cumulative effect of increased borrowing costs for the new build affordable housing being undertaken by the Council.

### 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. As council tax charges are frozen, however, capital expenditure has no actual effect on Council Tax rates.

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
<b>Council Tax - Band D</b>	£8.68	£10.70	£41.49	£96.78	£74.32
<b>Average Weekly Housing Rents</b>	£1.09	£0.95	£1.28	£1.44	£1.40

The calculated increases on Council Tax reflect the impact of increased loan charges on a relatively stable Council Tax income base.

The significant increase between 2016/17 and 2017/18 is principally a combination of two things - a 16% increase in the loan charges based on the capital programme coupled with the first year of financing costs for the Elgin High School replacement which becomes operational in 2017/18. Although the Elgin High School replacement will be paid for through revenue (similar to the existing PPP contracts), the accounting

rules mean that the school must be treated as an acquired asset on a finance lease with associated interest and loan costs.

Housing capital investment plans 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 long term liabilities relating to the financing of assets (e.g. PPP and other finance leases).

	<b>2014/15 Actual £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>	<b>2018/19 Estimate £000</b>
Borrowing	166,136	184,295	210,561	240,407	255,476
Other Long Term Liabilities	32,883	32,248	32,092	57,570	56,088
Gross Debt	199,019	216,543	242,653	297,977	311,564
CFR	235,679	253,203	279,313	334,637	348,224
Under Limit By	36,660	36,660	36,660	36,660	36,660

The above figures confirm that for this year and the following year, the Council's net 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 long term 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>2014/15 Actual Maximum £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>	<b>2018/19 Estimate £000</b>
Borrowing	166,136	212,197	271,650	309,960	335,003
Other Long Term Liabilities	32,833	33,833	34,948	61,210	59,570
Total External Debt	199,019	246,080	306,598	371,170	394,573

The authorised limits shown above are based on the proposed capital investment plan and anticipated Other Long Term 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. The significant increase in other Long Term Liabilities in 2017/18 reflects the inclusion of Elgin High School as a finance lease from 2017/18 onwards in accordance with the accounting requirements.

### 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>2014/15 Actual Maximum £000</b>	<b>2015/16 Estimate £000</b>	<b>2016/17 Estimate £000</b>	<b>2017/18 Estimate £000</b>	<b>2018/19 Estimate £000</b>
Borrowing	166,136	207,197	261,650	299,960	325,003
Other Long Term Liabilities	32,833	33,883	33,948	60,210	58,570
Total External Debt	199,019	241,080	295,598	360,170	383,573

## 8. 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 2015
	£000
Borrowing	166,136
Other Long Term Liabilities	32,833
Total Debt	199,109

## 9. 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.

### 9.1 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.

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Interest Rate Exposures	Upper Limit	Upper Limit	Upper Limit	Upper Limit	Upper Limit
Limits on Fixed Interest Rates based on Net Debt	85.08%	100%	100%	100%	100%
Limits on Variable Interest Rates based on Net Debt	14.92%	35%	35%	35%	35%

## 9.2 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.

	2014/15 Actual	2015/16		2016/17	
		Lower	Upper	Lower	Upper
< 12 Months	3.39%	0%	20%	0%	15%
12 – 24 months	1.89%	0%	50%	0%	20%
2 - 5 years	5.48%	0%	50%	0%	25%
5 -10 years	13.08%	0%	75%	0%	50%
>10 years	76.16%	0%	100%	0%	85%

		2017/18		2018/19	
		Lower	Upper	Lower	Upper
< 12 Months		0%	15%	0%	15%
12 – 24 months		0%	20%	0%	20%
2 - 5 years		0%	25%	0%	25%
5 -10 years		0%	50%	0%	50%
>10 years		0%	85%	0%	85%

## 9.3 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.

	2014/15 Actual	2015/16	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£0M	£0M	£0M	£0M	£0M