

**ABERDEEN CITY COUNCIL
2022/23 to 2027/28**

**THE PRUDENTIAL CODE
For Capital Finance in Local Authorities**

From 1 April 2004, Councils are required by Regulation to have regard to the Prudential Code (the Code) when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003.

In setting the revenue and capital budgets, members will be aware that under the Prudential Code, the level of capital investment is determined locally. Therefore, these indicators will be reviewed on an ongoing basis to ensure that the Council does not breach the indicators it sets.

The key objectives of the Code are to ensure: -

- The Council's capital programmes are affordable, prudent and sustainable.
- Treasury management decisions are taken in accordance with good professional practice.

The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

In setting the indicators, cognisance should be paid to the level of capital investment looking ahead for a five-year period, for both the housing and non-housing capital programmes that the Council wishes to embark upon. The Code also requires that the underlying requirement to finance PPP projects and finance leases be included when setting the indicators.

The Code requires the following Prudential Indicators to be set for the Council:

	Capital Expenditure						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Non HRA	123,833	158,229	246,256	126,323	138,136	116,678	31,723
HRA	100,000	95,184	159,015	123,229	133,837	66,552	73,706

	Ratio of Financing Costs to Net Revenue Stream						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Non HRA	5.1%	6.9%	8.3%	8.5%	9.0%	9.3%	9.3%
HRA	5.8%	9.0%	11.0%	11.9%	12.3%	11.9%	11.4%

	Capital Financing Requirement						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Non HRA	1,181,871	1,262,208	1,402,661	1,479,182	1,568,943	1,645,535	1,637,373
HRA	286,474	353,328	475,918	568,977	679,433	732,576	799,064
Total	1,468,345	1,615,536	1,878,579	2,048,159	2,248,376	2,378,111	2,436,437

	Gross Borrowing						
	2021/22 £'000 Actual	2022/23 £'000 Estimate	2023/24 £'000 Estimate	2024/25 £'000 Estimate	2025/26 £'000 Estimate	2026/27 £'000 Estimate	2027/28 £'000 Estimate
Borrowing	1,299,262	1,451,476	1,720,389	1,894,856	2,098,465	2,234,440	2,299,534

The Prudential Code states:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.”

The Chief Officer - Finance reports that the Council can meet this requirement in 2021/22, and it is expected to do so for the future years, as outlined, taking into account current commitments, existing plans, and the assumptions in this report.

	Authorised Limit for External Debt					
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Operational Boundary	1,639,257	1,902,300	2,071,880	2,272,097	2,401,832	2,460,158
10% Margin	163,926	190,230	207,188	227,210	240,183	246,016
Total	1,803,183	2,092,530	2,279,068	2,499,307	2,642,015	2,706,174

	Operational Boundary for External Debt					
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Borrowing	1,451,476	1,720,389	1,894,856	2,098,465	2,234,440	2,299,534
Other Long-Term Liabilities	187,781	181,911	177,024	173,632	167,392	160,624
Total	1,639,257	1,902,300	2,071,880	2,272,097	2,401,832	2,460,158

The latest version of the Prudential Code for Capital Finance in Local Authorities introduced a new indicator – the Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream.

The Code defines Commercial Investments as investments taken or held primarily for financial return and not linked to treasury management activity and Service Investments as those directly involved in the delivery of a service, for example, loans to leisure providers, loans to trusts providing services, a shareholding in a shared service vehicle, and investments in local companies for regeneration.

As the Council has no investments that fall into these categories, there is no requirement to report this indicator.

The latest version of the CIPFA Treasury Management in the Public Services code requires the reporting of an additional treasury management indicator known as the Liability Benchmark.

The liability benchmark (shown below) is a comparison of existing borrowing levels against future capital financing requirements from both committed and planned future borrowing over the next ten years.

