AGENDA ITEM NO 5(v)

REPORT NO 69/24

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL - 29 FEBRUARY 2024

SETTING OF PRUDENTIAL INDICATORS FOR 2024/25 BUDGET PROCESS

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

1. ABSTRACT

1.1 The purpose of this report is to advise members of the prudential indicators which the council is required to consider and approve as part of the budget setting process.

2. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES

2.1 The projects undertaken through the council's capital programme reflect the corporate priorities and contribute as a whole to the achievement of those priorities and the specific targets and objectives within the Council Plan.

3. RECOMMENDATIONS

3.1 It is recommended that Council:

(i) Note the purpose of the Prudential Code and the prudential indicators which require to be set, as outlined in **Appendix 1**.

(ii) Note those prudential indicators set out in sections 7 and 8 of the report which are based on 2023/23 actual and 2023/24 estimated outturn information.

(iii) Approve the prudential indicators and narrative relating to financial years 2024/25 to 2027/28 as set out in sections 7 and 8 (tables 1 to 6) of the report in compliance with the Prudential Code requirements.

4. BACKGROUND

4.1 The 2024/25 capital budget has been prepared by Angus Council under the self-regulating Prudential Code for Capital Finance in Local Authorities (2021 Edition). Local authorities are required by regulation to comply with the Prudential Code in terms of meeting their statutory duty under Section 35(1) of the Local Government in Scotland Act 2003 to *"determine and keep under review the maximum amount which it can afford to allocate to capital expenditure"*.

4.2 A requirement of the Prudential Code is the need for local authorities to have in place an annual capital strategy. The purpose of the capital strategy is to demonstrate that an authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy should set out the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes.

4.3 This prudential indicators report should therefore not be considered in isolation, but rather in the context of the council's wider capital strategy (report 67/24 refers).

4.4 Appendix 1 to this report provides a brief description of each indicator and its purpose, whilst the remainder of this report presents the indicators themselves that require to be approved.

5. CURRENT POSITION

ACCOUNTING CHANGES WITH THE POTENTIAL TO IMPACT ON THE PRUDENTIAL INDICATORS

IFRS 16 – Leasing

5.1 IFRS 16 (International Financial Reporting Standard) is a new standard for lease accounting that was due to come into effect on 1 April 2020 but following several delays it will finally come into effect across the UK on 1 April 2024. This standard will require lessees to recognise leases on their balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments. In order to fully comply with IFRS 16 and ensure the Council's 2024/25 Annual Accounts have been prepared in accordance with the standard, all leases (including service contracts) where the council is the lessee (i.e. leasing an asset from a third party) will require to be identified and measured, both in order to establish an initial starting point and on an ongoing basis.

5.2 Work to prepare for IFRS 16 is underway and will continue throughout the 2024/25 financial year and the outcome will be reflected within future prudential indicator reports.

6. BASE INFORMATION & RISK ISSUES

6.1 The Council is advised that the prudential indicators shown in sections 7 and 8 below have been determined based on the budget proposals contained in each Directorate's 2024/25 Revenue & Capital Budget Reports. The 2023/2028 Capital Plan covers the five financial years 2023/24 to 2027/28. A number of the indicators presented in this report are calculated for six financial years in total (the 2022/23 actual year end position, latest projected outturns for 2023/24 and estimates for the 4 years 2024/25 to 2027/28). **The indicators which the council is being asked to formally approve are those relating to financial years 2024/25, 2025/26, 2026/27 and 2027/28, as detailed in tables 1 to 6 of this report**.

6.2 In particular members are asked to note that proposals which change the capital financing costs budget in the 2024/25 Provisional Revenue Budget, the estimated capital financing cost levels for 2025/26 to 2027/28 or the proposed capital budgets for 2024/25 to 2027/28 could impact on the prudential indicators detailed below.

6.3 The council will be aware that in setting any budget there is a degree of uncertainty and risk involved. The prudential indicators set out in this report are based on the best information available from the council's intended and projected budgets. Specific comment on any particular risks to be borne in mind is provided where relevant under each of the indicators.

6.4 The prudential indicators for the Housing Revenue Account (HRA) have been reported and considered separately as part of the rent setting process (report 30/24 refers). Members are asked to note however that for some of the treasury management indicators it is not possible to distinguish between General Fund and the Housing Revenue Account and that some of these indicators also include debt relating to the former Tayside Police. Whilst Angus Council is no longer liable for any costs associated with the police debt it continues to manage this debt on behalf of Police Scotland.

7. PRUDENTIAL INDICATORS - INTRODUCTION

7.1 It is important to view the indicators in sections 7 and 8 of this report as a comprehensive and inter-related package which is intended to demonstrate that the council's capital investment plans are prudent, affordable and sustainable. It is emphasised that it is for the Council to set its own prudential indicators and in this sense there is no right or wrong answer to be reached for each indicator. The Council goes beyond best practice in setting prudential indicators by undertaking a long-term affordability review (over 25 years) of its capital expenditure each year (report 68/24 refers in this regard).

Treasury Management

7.2 The CIPFA Treasury Management in the Public Services Code of Practice (2021 Edition) requires a number of treasury management related indicators to be set and these are reflected in the council's treasury management strategy which will be presented to Angus Council for approval on 21 March 2024.

Monitoring Against Indicators

7.3 The Prudential Code requires performance against forward looking indicators to be monitored at least quarterly, with any significant deviations from expectations to be reported to members. This monitoring happens throughout the year as part of ongoing capital and treasury management monitoring and reporting processes. No significant deviations have required to be reported in the past year.

Private Finance, Scottish Futures Trust and Finance Lease Projects

7.4 A number of indicators are impacted by specific International Financial Reporting Standards relating to Public Private Partnerships (PPP) / Private Finance Initiatives (PFI), East Central Territory Hub and finance lease related projects. These Standards brought about a change in the accounting treatment of such projects (namely the A92 Dual Carriageway, Beech Hill House, Forfar / Carnoustie Schools, Forfar Community Campus, Arbroath Schools and the finance lease for the Residual Waste Facility in Dundee). Notwithstanding that they have been carried out with private finance with unitary charges paid from the revenue budget, in line with the latest version of the Prudential Code (2021 Edition), they are considered capital in nature and therefore are taken into account for indicators which have a capital connection.

8. PRUDENTIAL INDICATORS FOR PRUDENCE

8.1 **Table 1 – Actual / Estimated Capital Expenditure**

	Actual 2022/23 £million	Estimate 2023/24 £million	Estimate 2024/25 £million	Estimate 2025/26 £million	Estimate 2026/27 £million	Estimate 2027/28 £million
Net Expenditure	n/a	26.210	56.824	27.321	11.319	7.965
Add: General Contingency	n/a	0.000	1.328	1.328	1.328	1.328
Remove: Oversubscription	n/a	0.000	(3.535)	(3.535)	(3.535)	(3.533)
Add: Receipts / Contributions Netted Off within Capital Plan	n/a	10.461	25.226	8.951	0.274	0.000
Gross Capital Expenditure	22.159	36.671	79.843	34.065	9.386	5.760

8.2 The above figures show significant movements between years on both net and gross capital expenditure. The main increase in estimated expenditure happens in 2024/25 and this reflects the main construction phase of the Monifieth Learning Campus project.

8.3 **Table 2 – Actual / Estimated Capital Financing Requirement**

Actual as at 31/03/23 £million	Estimate as at 31/03/24 £million	Estimate as at 31/03/25 £million	Estimate as at 31/03/26 £million	Estimate as at 31/03/27 £million	Estimate as at 31/03/28 £million
274.103	279.563	316.368	323.353	313.840	303.669

8.4 The rise in the capital financing requirement in 2024/25 and 2025/26 reflects when most of the building works relating to the Monifieth Learning Campus will take place. Where there is a reduction in the capital financing requirement between years, there is an expectation that the level of debt repaid will exceed the new borrowing incurred.

EXTERNAL DEBT

8.5 **Table 3 – Authorised Limits**

Commitment	2023/24 £million	2024/25 £million	2025/26 £million	2026/27 £million	2027/28 £million
Borrowing	235.000	255.000	255.000	255.000	255.000
Finance Lease Liabilities	36.000	34.000	32.000	30.000	28.000
PPP / PFI / Hubco Liabilities (Note 1)	132.000	130.000	129.000	127.000	125.000
Total – Authorised Limit for External Debt	403.000	419.000	416.000	412.000	408.000

Note 1: Hubco is the Council's partner in the delivery of the Forfar Community Campus and Arbroath Primary Schools projects.

8.6 **Table 4 – Operational Boundary**

Commitment	2023/24 £million	2024/25 £million	2025/26 £million	2026/27 £million	2027/28 £million
Borrowing	220.000	240.000	240.000	240.00	240.000
Finance Lease Liabilities	36.000	34.000	32.000	30.000	28.000
PPP / PFI / Hubco Liabilities	132.000	130.000	129.000	127.000	125.000
Total – Operational Boundary for External Debt	388.000	404.000	401.000	397.000	393.000

8.7 The increase in both the authorised limit and operational boundary in 2024/25 and 2025/26 is to allow for the peak in expenditure and required borrowing in both years brought about by the Monifieth Learning Campus project. The PPP / PFI / Hubco Liabilities element of this indicator has also been increased to reflect the impact of applying the new accounting policy relating to service concessions.

8.8 **Actual External Debt**

Angus Council's actual external debt as at 31 March 2023 was £306.205 million, comprising of:

Liability	£million
Borrowing	137.758
Finance Leases	35.424
PPP / PFI Liability	133.023
Total	306.205

8.9 **Gross Debt and the Capital Financing Requirement**

Analysis undertaken shows that the council will have no difficulty in meeting this requirement in 2024/25, nor are any difficulties envisaged for the current or future years. This view takes into consideration current commitments, existing plans and the proposals in the Provisional Revenue & Capital Budget 2024/25 – Background Report & Setting of the Council Tax 2024/25 (report 63/24 refers).

9. PRUDENTIAL INDICATORS FOR AFFORDABILITY

9.1 **Table 5 – Actual / Estimated Financing Costs to Net Revenue Stream**

Actual 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
9.8%	8.0%	7.5%	7.8%	7.9%	7.0%

9.2 It may be noted from the above table that the level of financing costs expressed as a percentage to net revenue stream fluctuates between 9.8% in 2022/23 to 7.0% in 2027/28. The 2022/23 percentage than is higher at 9.8% mainly due to the impact of an underspend position on actual net revenue stream in 2022/23. There is minimal movement between 2023/24 and 2026/27 however the percentage drops to 7.0% in 2027/28. This mainly relates to lower estimated capital expenditure levels after the completion of the Monifieth Learning Campus project and a reduction in loan charges per the schedule prepared for Angus Council by our treasury advisors, Link Group. The financing costs for future years are provided for in report 68/24 on the long-term affordability of the General Fund Capital Plan and as such form part of the consideration of the Council's forward planning to address its funding challenges.

9.3 **Table 6 – Actual / Estimated Net Income from Commercial Investments to Net Revenue Stream**

Actual 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
0.02%	0.02%	0.02%	0.01%	0.01%	0.01%

9.4 The income from commercial investments relates to holdings in 10% Fixed Rate Unsecured Loans with Hub East Central (Angus Schools) Limited and Hub East Central (Forfar) Limited of £155,500 and £364,200 respectively. The annual income received on these investments is not significant (around £50,000) and the prudential indicator is shown for completeness.

10. PRUDENTIAL INDICATORS – CONCLUSION

10.1 The prudential indicators laid out in sections 7 and 8 above are considered to provide the council with a robust framework and reflect a capital investment strategy which is prudent, affordable and sustainable. Members of the council are asked to consider the indicators both individually and collectively and decide whether they consider the proposals to be prudent, affordable and sustainable.

10.2 In this regard, reference should also be made to report 68/24 concerning the long-term affordability of the General Fund capital plan which confirms the Director of Finance's view that the Council's capital spending plans are affordable, prudent and sustainable.

11. FINANCIAL IMPLICATIONS

11.1 There are no specific financial implications associated with this report which have not been explained in the main body of the report.

12. RISK MANAGEMENT

12.1 The following risks from the Corporate Risk Register are relevant to this report:-

- Financial Sustainability

13. ENVIRONMENTAL IMPLICATIONS

13.1 There are no direct environmental implications arising from the recommendations of this report.

14 EQUALITY IMPACT ASSESSMENT, HUMAN RIGHTS AND FAIRER SCOTLAND DUTY

14.1 An equality impact assessment is not required, this report is for noting only.

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, were used in the preparation of this report.

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:**Appendix 1 – Purpose and Description of the Prudential Indicators**