AGENDA ITEM NO 6c

Report 65/16

ANGUS COUNCIL

Special Budget Meeting of Angus Council – 18 February 2016

Setting of Prudential Indicators for 2016/17 Budget Process

Report by the Head of Corporate Improvement & Finance

ABSTRACT
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.

1 RECOMMENDATIONS

It is recommended that the Council:

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

(ii) Note those Prudential Indicators set out in sections 6 to 10 of the report which are based on 2014/15 actual and 2015/16 estimated outturn information.

(iii) Approve the Prudential Indicators and narrative relating to financial years 2016/17 to 2019/20 as set out in sections 6 to 10 (tables 1 to 6) of the report in compliance with the Prudential Code requirements.

(iv) Note the prudential indicator monitoring information provided in **Appendix B**.

2 ALIGNMENT TO ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT

The projects undertaken through the Council's capital programme contribute as a whole to the local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

3 BACKGROUND

The 2016/17 capital budget has been prepared by Angus Council under the self regulating Prudential Code for Capital Finance in Local Authorities (2011 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"*).

For further background on the Prudential Code, Members are referred to reports 727/03 and 997/03 to the Resources & Central Services Committee which outlined the changes to the system of central government controls on local authority capital expenditure which took effect from 1 April 2004. The reports are available on the Council intranet.

Appendix A 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.

4 BASE INFORMATION & RISK ISSUES

The Council is advised that the Prudential Indicators shown in Sections 6 to 10 below have been determined based on the budget proposals contained in the Provisional Revenue Budget and Savings Proposals Volume 2016/17 (report 61/16) and the 2015/2020 Financial Plan and 2016/17 Provisional Capital Budget Volume (report 62/16). The 2015/2020 Financial Plan covers the five financial years 2015/16 to 2019/20. A number of the indicators presented in this report are calculated for six financial years in total – the 2014/15 actual year end position, latest estimates for 2015/16 and estimates for the 4 years 2016/17 to 2019/20. **The indicators which the Council is being asked to formally approve are those relating to financial years 2016/17, 2017/18, 2018/19 and 2019/20, as detailed in tables 1 to 6 contained in this report**.

In particular Members are asked to note that proposals which would alter the capital financing costs allowance in the 2016/17 Provisional Revenue Budget, the currently estimated capital financing cost levels for 2017/18 to 2019/20 or the proposed capital budgets for 2016/17 to 2019/20 could impact on the Prudential Indicators to be set.

The Council will be well 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.

The Prudential Indicators for the HRA have been reported and considered separately as part of the rent setting process (report 46/16 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.

5 PRUDENTIAL INDICATORS - INTRODUCTION

It is important to view the indicators in sections 6 to 10 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.

PPP / PFI Projects

Members are asked to note that a number of indicators are impacted by specific International Financial Reporting Standards relating to PPP / PFI projects. These standards brought about a change in the accounting treatment of the Council's PPP / PFI projects (namely the A92, Beech Hill House and Forfar / Carnoustie Schools) whereby they are now included on the Council's balance sheet. 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 (2011 Edition), they are considered capital in nature and therefore are taken into account for indicators which have a capital connection.

Scottish Futures Trust – Forfar Academy Community Campus Project

Forfar Academy Community Campus is being built largely using private finance with Unitary Charges paid from the revenue budget and is therefore not automatically reflected in the prudential indicators. As with the aforementioned PPP / PFI projects however, it is still considered capital in nature and has therefore been taken into account where necessary for those indicators with a capital connection.

6 PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE

6.1 Table 1 – Actual / Estimated Capital Expenditure

	Actual 2014/15 £m	Estimate 2015/16 £m	Estimate 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m
Net Expenditure	n/a	45.177	28.560	18.433	14.086	6.184
Add: Contingency	n/a	0.000	1.000	0.000	0.000	6.516
Remove: Oversubscription	n/a	0.000	(4.724)	(4.724)	(0.210)	(0.839)
Add: Receipts / Contributions Netted Off within Financial Plan	n/a	4.523	3.426	4.618	3.076	2.658
Gross Capital Expenditure	35.082	49.700	28.262	18.327	16.952	14.519

The above figures show some significant movements between years both on a gross and net capital expenditure basis. The main cause of this is the value of the capital projects which are undertaken in any particular year – this is particularly evident in 2014/15 and 2015/16 when the bulk of the capital expenditure on Brechin Flood Prevention Scheme, Brechin High School Community Campus and Arbroath Primary Schools (Phase 1) has been incurred.

6.2 Table 2 – Actual / Estimated Capital Financing Requirement

Actual as at 31/03/15 £m	Estimate as at 31/03/16 £m	Estimate as at 31/03/17 £m	Estimate as at 31/03/18 £m	Estimate as at 31/03/19 £m	Estimate as at 31/03/20 £m
209.053	217.380	223.483	250.460	241.798	232.183

7 PRUDENTIAL INDICATORS FOR AFFORDABILITY

7.1 Table 3 – Actual / Estimated Ratio of Financing Costs to Net Revenue Stream

Actual 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
8.86%	8.71%	9.81%	10.19%	10.81%	10.81%

It may be noted from the above table that from 2015/16 onwards the ratio of financing costs to net revenue stream is anticipated to marginally increase year on year. In simple terms, this means that the percentage of the Council’s income which will be utilised to fund capital expenditure financing costs will rise each year.

7.2 Table 4 – Incremental Impact of Capital Investment Decisions on the Council Tax

Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
£nil	£nil	£nil	£nil

The capital financing cost consequences of the capital budget proposals contained within the 2015/2020 Financial Plan and 2016/17 Provisional Capital Budget (report 62/16) have been assessed as part of the long term affordability strategy (report 64/16). The resulting capital financing costs have been compared with the provision for these costs in the Council’s 2016/17 Provisional Revenue Budget and Savings Proposals Volume (report 61/16) and the currently estimated levels for 2017/18 onwards. This analysis indicates that the capital financing cost consequences of the capital budget proposals contained in report 62/16, which covers the period to 2019/20, will be contained within the provision for such costs within the proposed / projected budgets for those years.

The Code requires the Council to isolate the growth in the latest capital programme from that previously approved. The revision to the Council's Financial Plan (per report 62/16) from that previously approved and reported in the Final Capital Budget Volume has been assessed in line with the requirements of the Code. For financial years 2016/17 to 2019/20, the capital financing costs consequences arising from the proposed capital programme have been assessed and compared to the revenue resources set aside to meet these costs (as detailed in the long term affordability strategy contained in report 64/16).

In summary, the capital expenditure proposals contained within report 62/16 are considered to be affordable without requiring any specific additional increase in the Council Tax in these years.

8 PRUDENTIAL INDICATORS FOR PRUDENCE

8.1 Gross Borrowing and the Capital Financing Requirement

Analysis undertaken by the Head of Corporate Improvement & Finance shows that the Council will have no difficulty in meeting this requirement in 2016/17, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans and the proposals in the revenue and capital budgets (reports 61/16 and 62/16 refer).

9 PRUDENTIAL INDICATORS FOR EXTERNAL DEBT

9.1 Table 5 – Authorised Limits

Commitment	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	220.000	220.000	220.000	220.000	220.000
Finance Lease Liabilities	0.414	0.394	0.372	0.349	0.326
PPP / PFI Liabilities	84.000	82.000	80.000	77.000	76.000
East Central Territory Hubco Liability	0.000	0.000	35.000	34.500	34.000
Total – Authorised Limit for External Debt	304.414	302.394	335.372	331.849	330.326

The overall authorised limit rises significantly in 2017/18 to accommodate the East Central Territory Hubco liability incurred in relation to Forfar Academy Community Campus.

9.2 Table 6 – Operational Boundary

Commitment	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	205.000	205.000	205.000	205.000	205.000
Finance Lease Liabilities	0.414	0.394	0.372	0.349	0.326
PPP / PFI Liabilities	84.000	82.000	80.000	77.000	76.000
East Central Territory Hubco Liability	0.000	0.000	35.000	34.500	34.000
Total – Operational Boundary for External Debt	289.414	287.394	320.372	316.849	315.326

As with the authorised limit, the overall operational boundary rises significantly in 2017/18 to accommodate the East Central Territory Hubco liability incurred in relation to Forfar Academy Community Campus.

9.3 Actual External Debt

Angus Council's actual external debt as at 31 March 2015 was £246.304 million, comprising of:

Liability	£m
Borrowing	160.480
Finance Leases	0.434
PPP / PFI Liability	85.390
Total	246.304

10 PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT

The latest version of the Code of Practice for Treasury Management (2009) was formally adopted by Angus Council at its meeting of 25 March 2010 (report 244/10 refers) and was updated in 2011. No formal adoption of the revised version was required and the 2011 edition has been followed in preparing this report.

11 PRUDENTIAL INDICATORS – CONCLUSION

The Prudential Indicators laid out in Sections 6 to 10 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.

In this regard, reference should also be made to report 64/16 concerning the long-term affordability of the General Fund Financial Plan.

12 PRUDENTIAL INDICATOR MONITORING

The Prudential Code requires the Chief Finance Officer to "establish procedures to monitor both performance against all forward looking prudential indicators and the requirement specified in paragraph 45" (ensuring that treasury management is carried out in accordance with good professional practice). Each of the Prudential Indicators required by the Code has been reviewed and a conclusion reached on the monitoring procedures to be applied. The monitoring requirements of the Code will accordingly be picked up through each year's prudential indicator setting report and through the operation of the daily treasury management activity.

Appendix B to this report provides members with additional monitoring information in relation to the Prudential Indicators set in February 2015.

13 FINANCIAL IMPLICATIONS

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

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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List of Appendices:

Appendix A – Purpose and Description of Prudential Indicators
Appendix B – Prudential Indicator Monitoring

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