AGENDA ITEM NO 6(c)

Report 65/18

ANGUS COUNCIL

Special Budget Meeting of Angus Council – 15 February 2018

Setting of Prudential Indicators for 2018/19 Budget Process

Report by the Head of Corporate 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 and 7 of the report which are based on 2016/17 actual and 2017/18 estimated outturn information.

(iii) Approve the Prudential Indicators and narrative relating to financial years 2018/19 to 2021/22 as set out in sections 6 and 7 (tables 1 to 5) of the report in compliance with the Prudential Code requirements.

2 ALIGNMENT TO ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT

The projects undertaken through the Council's capital programme reflect the Council's corporate priorities and contribute as a whole to the local outcomes contained within the Council Plan and Local Outcome Improvement Plan.

3 BACKGROUND

The 2018/19 capital budget has been prepared by Angus Council under the self regulating Prudential Code for Capital Finance in Local Authorities (2017 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"*).

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 and 7 below have been determined based on the budget proposals contained in the Provisional Revenue Budget Volume 2018/19 (report 61/18) and the 2017/2022 Financial Plan and 2018/19 Provisional Capital Budget Volume (report 62/18). The 2017/2022 Financial Plan covers the five financial years 2017/18 to 2021/22. A number of the indicators presented in this report are calculated for six financial years in total – the 2016/17 actual year end position, latest estimates for 2017/18 and estimates for the 4 years 2018/19 to 2021/22. **The indicators which the Council is being asked to formally approve are those relating to financial years 2018/19, 2019/20, 2020/21 and 2021/22, as detailed in tables 1 to 5 contained in this report**.

In particular Members are asked to note that proposals which would alter the capital financing costs allowance in the 2018/19 Provisional Revenue Budget, the currently estimated capital financing cost levels for 2019/20 to 2021/22 or the proposed capital budgets for 2018/19 to 2021/22 could impact on the prudential indicators to be set.

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.

The prudential indicators for the Housing Revenue Account (HRA) have been reported and considered separately as part of the rent setting process (report 39/18 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 and 7 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.

Treasury Management
The prudential indicators should be considered in parallel with the treasury management indicators required by the *CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.* The Council's treasury management strategy based on the 2017 edition of the Code will be presented to Council for approval in March 2018.

Monitoring Against Indicators
The Prudential Code also requires performance against forward looking indicators to be monitored 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.

PPP / PFI and Scottish Futures Trust Projects
Members are asked to note that a number of indicators are impacted by specific International Financial Reporting Standards relating to Public Private Partnerships (PPP) / Private Finance Initiatives (PFI) and Scottish Futures Trust 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 and Forfar Community Campus). 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 (2017 Edition), they are considered capital in nature and therefore are taken into account for indicators which have a capital connection.

6 PRUDENTIAL INDICATORS FOR PRUDENCE

CAPITAL EXPENDITURE

6.1 Table 1 – Actual / Estimated Capital Expenditure

	Actual 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m
Net Expenditure	n/a	17.993	31.600	18.104	11.354	6.411
Add: Contingency	n/a	0.000	0.000	0.000	0.000	5.379
Remove: Oversubscription	n/a	0.000	(4.630)	(1.366)	(0.228)	(1.366)
Add: Receipts / Contributions Netted Off within Financial Plan	n/a	9.007	19.551	13.613	8.387	0.808
Gross Capital Expenditure	28.503	27.000	46.501	30.026	19.513	11.232

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 2018/19 when the bulk of the capital expenditure on Arbroath Primary Schools (Phases 2 & 3a) will be incurred.

6.2 Table 2 – Actual / Estimated Capital Financing Requirement

Actual 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	Estimate as at 31/03/21 £m	Estimate as at 31/03/22 £m
248.277	244.129	247.833	241.791	232.042	220.113

The decrease in capital financing requirement between 2016/17 and 2017/18 is due to the level of debt repayment being higher than new borrowing incurred in 2017/18. The anticipated spike in capital expenditure in 2018/19 as a result of Arbroath Primary Schools (Phases 2 & 3a) increases the capital financing requirement in that year as borrowing incurred exceeds debt repaid. Lower borrowing levels from 2019/20 onwards see the capital financing requirement steadily fall thereafter.

EXTERNAL DEBT

6.3 Table 3 – Authorised Limits

Commitment	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	220.000	220.000	220.000	220.000	220.000
Finance Lease Liabilities	0.372	0.349	0.326	0.301	0.275
PPP / PFI / Hubco Liabilities	113.000	110.000	107.000	105.000	101.000
Total – Authorised Limit for External Debt	333.372	330.349	327.326	325.301	321.275

Note: Hubco is the Council's partner in the delivery of the Forfar Community Campus

6.4 Table 4 – Operational Boundary

Commitment	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	205.000	205.000	205.000	205.000	205.000
Finance Lease Liabilities	0.372	0.349	0.326	0.301	0.275
PPP / PFI / Hubco Liabilities	113.000	110.000	107.000	105.000	101.000
Total – Operational Boundary for External Debt	318.372	315.349	312.326	310.301	306.275

6.5 Actual External Debt

Angus Council's actual external debt as at 31 March 2017 was £273.929 million, comprising of:

Liability	£m
Borrowing	158.739
Finance Leases	0.393
PPP / PFI Liability	114.797
Total	273.929

6.6 Gross Debt and the Capital Financing Requirement

Analysis undertaken by the Head of Corporate Finance shows that the Council will have no difficulty in meeting this requirement in 2018/19, 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 61/18 and 62/18 refer).

7 PRUDENTIAL INDICATORS FOR AFFORDABILITY

7.1 Table 5 – Actual / Estimated Ratio of Financing Costs to Net Revenue Stream

Actual 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22
9.76%	10.47%	10.62%	10.53%	10.69%	11.40%

It may be noted from the above table that the ratio of financing costs to net revenue stream is, in most years, anticipated to 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. The financing costs for future years are provided for in report 64/18 on the long term affordability of the 2017/2022 Financial Plan and as such form part of the consideration of the Council forward planning to address its funding challenges.

8 PRUDENTIAL INDICATORS – CONCLUSION

The prudential indicators laid out in Sections 6 and 7 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 64/18 concerning the long-term affordability of the General Fund Financial Plan.

9 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