AGENDA ITEM NO 6(b)

Report 63/15

ANGUS COUNCIL

SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 12 FEBRUARY 2015

LONG TERM AFFORDABILITY OF THE GENERAL FUND FINANCIAL PLAN

REPORT BY THE HEAD OF CORPORATE IMPROVEMENT & FINANCE

ABSTRACT
This report summarises the outcome from an assessment of the long term affordability of the Council's 2014/2019 Financial Plan carried out as part of the Council's longer term financial management strategy.

1 RECOMMENDATIONS

The Council is recommended to:-

1.1 Note the contents of this report for its interest and in particular the key assumptions underpinning the affordability assessment;

1.2 Note that the outcomes from the affordability assessment undertaken have been taken into account where appropriate in the separate Prudential Indicators Report (report 64/15 refers);

1.3 Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2014/2019 Financial Plan is considered to be affordable, prudent and sustainable as required by the Prudential Code;

1.4 Approve the continuation of the special repayment strategy of a maximum of £1.0million per annum as set out at paragraph 5.2;

1.5 Approve the updated capital project priority list attached at Appendix 2; and

1.6 Note the specific issues highlighted in Section 9 of this report regarding the prospects for future capital funding and the implications for Angus Council and the decisions it makes on capital spending.

1.7 Approve this long term affordability assessment as the basis for taking forward capital investment planning for the General Fund.

2 ALIGNMENT TO ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT

2.1 The undertaking of a review of the long term affordability of the Council's Financial Plan contributes as a whole to the local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

3 BACKGROUND

3.1 The Provisional Revenue & Capital Budgets 2015/16 - Background Report (report 59/15 refers) set out the background to the preparation of the Council's General Fund Capital Budget 2015/16 and Financial Plan 2014/2019. That report highlighted the need for the Council to comply with a self regulating Prudential Code when setting its capital budget.

3.2 The Prudential Code requires the Council to consider the affordability and sustainability of its capital spending plans and Prudential Indicators which measure affordability, prudence and sustainability require to be set for 3 forward years as part of the annual budget setting process. This 3 year horizon is however considered insufficient to genuinely assess the long term impact of capital investment decisions and the Council has for a number of years adopted a 25 year planning model.

3.3 Capital spending and how it is both paid for and affects the revenue budget is a particularly complex area of the Council's finances. Members are referred to the first long term affordability report submitted to the Special Budget meeting on 27 February 2008 (report 165/08 refers), and in particular Appendix 1, which provides detailed background information on how the Council funds its capital expenditure, how loan charges are calculated and the calculation of loan charges grant.

3.4 Using the updated capital spending intentions as contained in the 2014/2019 Financial Plan (report 61/15 refers), this report advises members of the updated long term affordability position.

3.5 In this regard, it has again been necessary to base this updated assessment on a number of key assumptions such as anticipated levels of government grant beyond the current Spending Review period (both loan charges grant and capital grant), future levels of expenditure, priority projects, special repayments, interest rates, etc.

3.6 Members should also bear in mind when considering this report, that the Government has the power to limit capital borrowing at both a national and local level. Whilst there has been no indication given that a limit is likely to be imposed in the near future, should such an eventuality arise, the Council's capital spending plans would require reviewing and possibly scaling back.

3.7 Members are asked to note that this report has been prepared on a basis which recognises that the Council will face significant capital investment pressures over the 25 year period of the assessment as highlighted through the updated capital prioritisation exercise. This is reflected within the assumptions that have been made to provide for a core capital programme on a basis which is both affordable and sustainable for the Council.

4 2015/16 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

4.1 As noted in the Background Report (report 59/15 refers) updated funding allocations have been provided for 2014/15 and 2015/16 as shown in Table 1 below:

Table 1

	2014/15 £m	2015/16 £m
Angus Council General Capital Grant	18.351	23.845
Specific Capital Grant	0.173	0.174
Total Capital Funding	18.524	24.019

5 SPECIAL REPAYMENT STRATEGY

5.1 Members will recall that a major debt re-profiling exercise was previously undertaken to address areas where debt costs did not match loan charges grant periods (report 109/13 refers). There remains within the debt portfolio however a significant level of debt relating to assets the Council no longer owns. It's considered that retaining an approach of using headroom for special repayments (as set out last year in report 87/14) is therefore still beneficial, both to allow such debts to be removed over time and to reduce future capital financing costs.

5.2 Members are accordingly asked to approve the continuation of the special repayment strategy at a maximum level of £1.0million per annum, subject to such headroom existing at the year end and being highlighted in the annual budget carry forward report. In line with previous years, any balance of headroom over and above the £1.0million special repayment will be carried forward to be used against budget pressures (in the form of corporate CFCR) in the following year. This approval will continue to be sought on an annual basis.

5.3 The ongoing effects of the debt re-profiling and the continuation of special repayments have been included within the updated long term affordability assessment presented in this report.

6 CAPITAL PROJECT PRIORITISATION

6.1 Members will recall the move to a capital project prioritisation process and the list of priority capital projects that was subsequently agreed and which formed the basis of the 2013/2018 Financial Plan (reports 85/14 and 87/14 refer).

6.2 The continuing priority of these existing projects in the capital programme was agreed by the Policy & Budget Strategy Group (PBSG) at their meeting on 19 December 2014.

6.3 The PBSG also considered a number of bids for new priority projects and agreed that the following should be added to the Financial Plan:

- £4.576million for phase 3 of the Arbroath Schools project;
- £1.600million for additional property capital maintenance;
- £1.500million for additional Roads preventative capital maintenance;
- £1.000million for Schools & Learning information & communication technology equipment (£0.250million p.a. for 4 years from 2015/16);
- £0.397million for maintenance / refurbishment of industrial units; and
- £0.107million towards ongoing cell opening / capping at the Restenneth landfill site.

6.4 Furthermore, to recognise that progress of capital projects is very fluid, it was accepted by the PBSG that the capital project priority list should continue to be taken forward on the basis of allowing an oversubscription of expenditure of no more than 10%. This level of maximum oversubscription is considered to be manageable and reflects the likelihood of an element of unavoidable project slippage arising.

6.5 An updated capital project priority list for members' approval is attached to this report as Appendix 2.

7 AFFORDABILITY ASSESSMENT

7.1 Starting with an update of the 2014/15 position, the affordability assessment which has been undertaken has projected the position over the 25 year period following the current financial year (i.e. 2015/16 to 2039/40) for the following:-

- the Council's loan charges grant;
- the Council's loan charges budget;
- the Council's existing loan charges commitments (unavoidable costs);
- the impact of the special repayment strategy;
- estimated levels of capital expenditure;
- estimated levels of capital grants;
- estimated levels of capital receipts & other contributions; and
- estimated levels of borrowing.

7.2 This has involved using estimates and making assumptions which will no doubt change over time but the assessment is considered to be both robust and reasonable based on known information at this time.

7.3 Key Assumptions

As with any exercise of this nature the outcomes depend on a number of key assumptions and these are summarised below:-

7.3.1 Loan Charges Grant

The levels of grant are known for 2015/16 based on the latest Spending Review. Changes to Scottish Government funding for capital expenditure have meant the removal of new supported borrowing. This grant therefore only covers the ongoing financing costs for borrowing incurred up to and including 2010/11.

Projections have been made for future years based on the calculation detail supplied by the Scottish Government as part of previous Spending Reviews. For debt already incurred it has been possible therefore to estimate with a reasonable degree of certainty how much grant will be paid each year.

As all grant streams end within the assessment period, members are asked to note that loan charges grant falls from £9.820million in 2015/16 to zero in 2035/36.

7.3.2 Loan Charges Budget

The following sections detail firstly the loan charges budget assumptions that have been made in respect of 2015/16, which is the final year in the current Spending Review period. Thereafter the loan charges budget assumptions for 2015/16 onwards are set out.

2015/16 Financial Year
The starting point for determining projected future budget levels is £13.817million in 2015/16 (£13.885million per Appendix 1 to the Council Tax Setting Report (report 62/15 refers) less £0.068million in respect of Other Housing).

The starting budget comprises the following elements:

- Loan charges support grant (£9.820million); and
- General Revenue Grant applied (£3.997million).

This means that the proposed loan charges budget for 2015/16 is predominantly funded from loan charges grant but because this is insufficient to cover the full budget, a proportion of general grant within the Council's overall budget resources is also being applied to fund loan charges.

2016/17 Financial Year Onwards
For the financial years after the conclusion of the current Spending Review period, it has been assumed that the base General Revenue Grant applied will continue at its 2015/16 level and that further increases of £0.250million will take place annually over the remainder of the 25 year assessment period, to partially offset the reducing level of loan charges grant.

It is considered that this assumed annual increase in General Revenue Grant applied is a manageable level to accommodate within the annual budget process in future years. These annual increases in loan charges will however result in a lower level of resources being available to meet other revenue costs such as staff costs.

Loan Charges Budget Summary
The approach and assumptions set out above result primarily in a reducing loan charges budget over the 25 year assessment period reflecting the reducing nature of the loan charges support grant as noted above.

In respect of the assumed annual increase in the General Revenue Grant applied, members are asked to note that even should the Council undertake no new borrowing beyond the period of the Financial Plan (i.e. from 2019/20 onwards), a basic annual increase in General Revenue Grant applied averaging some £0.055million per annum would still be required over the period 2015/16 to 2039/40. This would be required to meet the projected loan charges costs of the borrowing already undertaken up to and including 2013/14 and projected to be undertaken over 2014/15 to 2018/19 (i.e. already unavoidable costs) but would not allow for any new borrowing to be undertaken beyond that. A core capital programme would still exist, however it would be exactly matched to General Capital Grant and capital receipts levels which is impractical as it assumes that no slippage would ever occur on the capital programme.

It is considered appropriate therefore that an annual uplift to the General Revenue Grant applied in excess of the basic £0.055million noted above should be assumed in order to provide a sufficient core capital programme level to allow flexibility to deal with slippage issues as they arise. In this regard it should be noted that the net effect of the assumptions and detail set out in this report combined with the £0.195million balance of the assumed £0.250million annual increase in General Revenue Grant applied, has allowed a future core capital programme value to be assumed of up to £14.000 million per annum.

Members should therefore note that as a consequence of previous spending and borrowing decisions over the life of Angus Council and the unavoidable need for further capital investment both now and in the future, the Council will on a year on year basis, need to commit an increasing amount of whatever revenue resources it has available to

loan charges. Such year on year increases have been assumed at a level which it's considered ought to be manageable (£0.250million per annum) but this doesn't mean that such increases will be without consequences for other parts of the revenue budget.

On the basis of all of the above assumptions, the loan charges budget for each year of the assessment is considered to represent the maximum level of loan charges costs that can be incurred and the affordability position is therefore based on the premise of not breaching the assumed budget level in future years.

7.3.3 Existing Commitments

The cost of principal repayments on existing commitments is known with certainty from the Council's fixed asset management system.

Assumptions have to be made however in respect of future interest and debt management expenses rates in order to project forward the overall loan charges costs arising from past expenditure and borrowing as well as the anticipated future borrowing levels. In light of current interest rate expectations, it's assumed that after a couple of flat years the interest rate on the Consolidated Loans Fund will initially rise steadily but will rise more sharply in the later part of the 25 year period and the following interest rates have therefore been assumed:-

- 4.80% for 2014/15 to 2016/17;
- 4.85% for 2017/18;
- 4.90% for 2018/19;
- 5.00% for 2019/20 to 2023/24;
- 5.25% for 2024/25 to 2028/29;
- 5.50% for 2029/30 to 2033/34; and
- 5.75% for each year thereafter.

In respect of debt management expenses, a rate of 0.08% has been applied in all years as this is in line with the average actual expenses rate in recent years.

These rates are considered reasonable and prudent based on current information.

7.3.4 Special Repayment Strategy

The affordability projections allow for continued special repayments of principal (debt) in line with paragraph 5.2 above. In this regard, the updated long term affordability review assumes that special repayments of approximately £5.000 million may be available over the 5 years of the Financial Plan (2014/15 to 2018/19 inclusive).

These projections are based on such special repayments being available and affordable within the assumed maximum loan charges budget each year.

Some additional special repayments may be possible in some years thereafter based on budget headroom projected to be available, but the benefit of these in reducing loan charges has not been reflected in the projections at this stage as a prudence measure.

7.3.5 Financially Significant Projects

The provisional 2014/2019 Financial Plan (report 61/15 refers) was used as the starting point for making the long term affordability projections described in this report. It has however also been necessary to make some specific assumptions about contingency and the cost, phasing and risks of certain projects as follows:

Brechin Flood Prevention Scheme
Members will be aware that work to deliver this scheme is now underway. Having completed the tendering process for the various works, the Council has secured more competitive prices than had initially been estimated and as a result the overall gross cost of the scheme is estimated to reduce by some £4.4million. This project however attracts an 80% grant from the Scottish Government and after adjusting for the impact on the grant, capital resources of some £2.0million of the original budgeted cost are now thought to no longer be required. This

estimated cost reduction was identified late in the budget process, however recognising the risks involved with such a significant project the freed up sum of £2.0 million has at this time been added to the overall capital budget contingency amount as noted below. It is intended that this provision be reviewed in conjunction with the PBSG once the costs for 2014/15 have been finalised through the Council's final accounts process.

Arbroath Schools Project
The Council has an agreed long term objective of improving the entire primary school estate in Arbroath and a medium term strategy to achieve this was agreed at the Education committee of 3 October 2013 (report 552/13 refers).

Currently funding has been allocated to undertake phases 1 and 2 of this strategy and this will see delivery of replacements for Timmergreens, Warddykes and Hayshead primary schools. In order to allow further progress in respect of the medium term strategy, further funding of £4.6million has been provided to partly progress phase 3 and should allow Muirfield and Ladyloan primary schools to be addressed on a refurbishment basis. It should be noted however that the costing information contained in report 552/13 was very much indicative at that time and accordingly plans now need to be finalised in terms of the specific works to be carried out at these schools.

Transforming Angus
A provision of £3.9million has been set aside for capital expenditure relating to the Council's Transforming Angus programme and any related estate rationalisation expenditure. Use of this provision will be assessed via the Policy & Budget Strategy Group initially in line with existing procedures.

Contingency
A core contingency of £5.0million has been included both within the updated capital project priority list and this affordability assessment to allow flexibility to address unforeseen circumstances over the 5 year period of the 2014-2019 Financial Plan.

As noted above however, further headroom has arisen late in the budget process through the estimated reduced cost of the Brechin Flood Prevention project and a further £2.0million has been added to the contingency provision at this time to recognise the large overall capital investment programme and exceptional risks the Council faces therein over the next 5 years. Use of this increased contingency will be considered by the PBSG initially with any proposals being formally considered thereafter by the Policy & Resources Committee.

A total contingency of £7.0million has therefore been provided at this time and for the purposes only of this assessment, it has been assumed that some £1.0million of this contingency will be required annually over 2015/16 to 2017/18, with the balance of £4.0million utilised in 2018/19.

Oversubscription
The 2014/2019 Financial Plan has been prepared on the basis of assuming a maximum oversubscription level of 10% as set out at paragraph 6.4 above. For the purposes of this affordability assessment however, it has been necessary to exclude the oversubscription amount from the projected new borrowing in order to reflect the true impact and comparison in respect of future loan charges budget levels. It can be seen from the updated capital project priority list attached at Appendix 2 that the oversubscription amount currently sits at £11.353million and for the purposes only of this affordability assessment this has been removed as follows - £3.406million within each year 2015/16 and 2016/17, £3.633million in 2017/18 and the balance of £0.908million in 2018/19. This of course does not mean that the oversubscription simply goes away - it will still require to be managed over time. As noted earlier at paragraph 6.4, the oversubscription is considered manageable due to the likelihood of expenditure slippage occurring, however this would then become the first call on the more modest core capital programme values in the future years.

7.3.6 Projects Funded Under Departmental Borrowing

Members will be aware that the Council has undertaken a number of projects under a "prudential borrowing" approach. This approach involves the loan charges costs arising from the expenditure on such projects being met from income generated or from departmental revenue budgets rather than the corporate loan charges budget.

The removal of supported borrowing effectively means all borrowing is now “prudential borrowing”, however a distinction will continue to be made between departmental borrowing (loan charges funded from department revenue budgets) and corporate borrowing (loan charges funded from corporate revenue budget).

Whilst the Council must take care not to over commit itself in relation to departmental borrowing projects, these are likely to remain a feature of the Council’s business into the future. For the purposes of the affordability projections however, departmental borrowing projects are excluded as the loan charges are not covered by the corporate loan charges budget. The Council can thus decide on such projects into the future on their individual merits.

The loan charges which would arise from any supplementary capital budget allocations as part of the Special Fund announcements in future years’ budgets are also excluded. If any such supplementary capital allocations are made for 2015/16 and beyond the loan charges arising will require to be covered by transferring additional budget resources from elsewhere to augment the corporate loan charges budgets assumed in the affordability projections.

7.3.7 Capital Grants & Other External Contributions

General Capital Grant is one of the Council’s principal sources of funding capital expenditure (new borrowing being the other main source).

The affordability projections therefore make a number of important assumptions in relation to capital grants as follows:

- unless a capital grant is specifically ear-marked as being ring-fenced by the Scottish Government (e.g. Cycling, Walking & Safer Streets), all capital grant will be used to fund the overall capital programme;

- General Capital Grant is not netted off specific projects within the Financial Plan, except where these are non-enhancing;

- the balance of General Capital Grant is offset against the total net expenditure position of the Financial Plan;

- the assumed base capital grant level for 2016/17 onwards has been maintained in line with last year’s affordability assessment at £10.0million per annum, albeit that the buying power of that grant would be eroded over time through the impact of inflation.

- the assumed base capital grant level for 2016/17 of £10.0million (in line with last year’s affordability assessment) has been reduced to reflect an expected grant adjustment in respect of the final cost / funding position for the Brechin Flood Prevention project.

In line with the assumptions narrated above, the following balance of general capital grant levels have been therefore been assumed within the affordability assessment:-

- £16.601million for 2014/15;
- £22.228million for 2015/16;
- £5.923million for 2016/17;
- £9.524million for 2017/18;
- £9.550million for 2018/19; and
- £9.550million p.a. for each year thereafter.

There is risk in the above assumptions however that future capital grants may not reach the assumed levels or may have a different profile.

In relation to any funding contributions from, for example, Sportscotland or Historic Scotland, the affordability projections have taken these into account where they are already identified within the 2014/2019 Financial Plan. Beyond 2016/17 the possibility of such funding sources being available has been ignored on the basis that should they become available this could augment the assumed level of capital expenditure in those years - i.e. if these funding sources were available the Council could spend at a higher level in gross terms without incurring additional borrowing and loan charges costs.

7.3.8 Contributions from the 2015/16 Revenue Budget

Members are referred to the Net Expenditure Summary at Appendix 1 to Report 62/15 on the setting of the 2015/16 Council Tax. Within the Net Expenditure Summary is a provision of £0.700million for a contribution from the revenue budget to capital expenditure. This contribution is being made on a one-off revenue basis in 2015/16 to net down the borrowing which would otherwise be required for existing capital projects.

This contribution will reduce capital financing costs in future years and thereby assist the longer term affordability position. The availability of this contribution in 2015/16 has been factored into the affordability projections. In broad terms this contribution will save the Council around £1.360million in loan charges costs over the next 25 years (an average of around £0.050million per annum).

Members are also referred to paragraph 15.3 of the Background Report (report 59/15 refers) and are asked to note that additional one-off revenue resources of £1.450 million are being added to the Council's Capital Fund. This represents a one-off boost to capital expenditure levels as it has allowed an equivalent level of capital spend to be added to the capital programme.

For the purposes of the affordability assessment, no further contributions have been assumed in future years.

7.3.9 Capital Receipts

The Council has been reasonably successful in generating capital receipts over the years, however predicting how much income will be generated and when the cash will be received is extremely difficult. There is no guarantee that an asset will sell for its estimated value or within the timescale predicted, particularly in the current economic climate. Negotiations over price, terms and conditions, planning issues, etc. can often make the selling of surplus assets a protracted process. Furthermore, the policy on the appropriation of surplus General Fund assets by the HRA (report 509/13 refers) will also have a downward impact on the value of capital receipts generated where the "purchaser" is the Housing Revenue Account.

Notwithstanding these difficulties and the inherent risk therein the affordability assessment assumes that with the Council's pursuit of property estate rationalisation, non ring-fenced capital receipts of £0.500million will be achievable in each year of the Financial Plan period. It has however been assumed that for the years beyond the current Financial Plan period, there will be much fewer surplus property assets, which combined with the HRA appropriation issue noted above, means that there is a more significant risk that capital receipts will be harder to generate. Accordingly from 2019/20 onwards capital receipts have only been assumed at a level of £0.100million per annum which is considered a prudent position to adopt in the circumstances.

In the event that capital receipts exceed these estimated levels this will reduce the Council's need to borrow and therefore create some future headroom within the loan charges budget.

7.3.10 New Borrowing

As members will be aware it is the level of new borrowing required to fund capital expenditure which, when added to borrowing already undertaken, determines future commitments in relation to loan charges costs. The affordability projections therefore estimate the level of new borrowing required after taking into account all of the other assumptions set out above and this in turn has been used to calculate estimated loan charges costs into the future. These costs have been projected on an annuity basis applying the interest rates detailed under Existing Commitments at paragraph 7.3.3 above.

Within this affordability assessment, the new borrowing assumed for 2014/15 to 2018/19 is derived from the Financial Plan after applying all specific funding streams and known / assumed grant levels etc. This is augmented by the £7.0million contingency amount and then reduced by the oversubscription amount (£11.353million). In the years following (i.e. 2019/20 onwards), relatively modest core capital allocations of £14.0million per annum have been assumed, before application of grant and borrowing. This is an increase of £1.000million from the position assumed last year (£13 million p.a.).

The assumed grants and receipts levels highlighted at paragraphs 7.3.7 and 7.3.9 above have been utilised to make adjustments to arrive at projected new corporate borrowing requirements as follows:

- £9.689million in 2014/15;
- £14.748million in 2015/16;
- £10.139million in 2016/17
- £1.814million in 2017/18;
- £0.782million in 2018/19; and
- £4.350million per annum thereafter.

7.3.11 Expenditure Slippage

The 2014/2019 Financial Plan makes an allowance for expenditure slippage over the period of the Financial Plan, however this has been excluded for the purposes of the affordability assessment. This is on the basis that slippage isn't a funding source but merely affects the phasing of expenditure. There is of course potential for expenditure slippage to occur, however this would merely delay the loan charges being incurred.

7.3.12 Inflation

With the exception of the period of the Financial Plan (which is stated on an outturn basis), the affordability assessment does not make specific allowance for the effects of inflation, on the basis that this is highly unpredictable over time. Whilst this will mean that the true purchasing power of the assumed capital expenditure total into future years will gradually be eroded, members are asked to bear in mind that inflation has also been ignored in relation to capital receipts and capital grants over the period of the assessment.

The affordability assessment therefore ignores inflation on both the expenditure and funding side on the basis that its effects are assumed to be broadly neutral over the period in question.

8 AFFORDABILITY ASSESSMENT - OVERALL SUMMARY POSITION

8.1 The affordability assessment brings together a large volume of data and makes a number of assumptions. **Appendix 1** attached sets out the main information for the affordability projections. Table 2 below summarises the key figures in this regard for the current year (2014/15) and forward 4 years (2015/16 to 2018/19) as well as 3 snapshot years at 7 year intervals thereafter.

TABLE 2 – AFFORDABILITY ASSESSMENT – SUMMARY POSITION

	Year 1 14/15 £m	**Year 2 15/16 £m**	Year 3 16/17 £m	Year 4 17/18 £m	Year 5 18/19 £m	Year 12 25/26 £m	Year 19 32/33 £m	Year 26 39/40 £m
Net Capital Expenditure	**39.091**	**45.757**	**21.369**	**15.615**	**9.060**	**14.000**	**14.000**	**14.000**
Estimated Borrowing	**9.689**	**14.748**	**10.139**	**1.814**	**0.782**	**4.350**	**4.350**	**4.350**
Existing Loan Charge Commitments	9.748	**10.369**	10.407	10.043	9.941	9.444	2.655	0.711
Special Repayments	1.000	**1.000**	1.000	1.000	1.000	0.000	0.000	0.000
Loan Charges From New Borrowing	0.156	**0.834**	1.671	2.190	2.320	4.469	7.106	10.204
(A) Total Loan Charges	**10.904**	**12.203**	**13.078**	**13.233**	**13.261**	**13.913**	**9.761**	**10.915**

(B) Amount Set Aside For Following Year CFCR	2.936	**1.614**	0.715	0.536	0.485	0.000	0.000	0.000
(C) Maximum Loan Charges Budget	13.840	**13.817**	13.793	13.769	13.746	13.509	9.220	9.985
(D) Budget Headroom / (Issue) (C) – (A+B)	**0**	**0**	**0**	**0**	**0**	**(404)**	**(541)**	**(930)**

8.2 The above assessment shows a projected peak in new borrowing levels over years 2014/15 to 2016/17 and this can largely be attributed to the borrowing projected to be required in respect of the Brechin High School Community Campus project and Arbroath Primary Schools (Warddykes, Timmergreens and Hayshead). Thereafter only relatively modest levels of new borrowing are projected to be affordable.

8.3 Section 3 of the affordability assessment summary attached as Appendix 1, highlights that over the period of the Financial Plan (i.e. up to and including 2018/19), any available budget headroom is assumed to be utilised between special repayments and CFCR for the following financial year.

8.4 Beyond 2018/19, Appendix 1 also highlights a number of peaks and troughs in terms of the comparison of estimated loan charges against assumed future budget levels. In some years the projected loan charges costs arising from the projected levels of borrowing can be contained but potential budget issues are also evident in some years.

8.5 Over the full period of the affordability assessment however, these peaks and troughs broadly even each other out. When taken cumulatively, the position over the period 2019/20 to 2039/40 results in an overall budget issue of some £0.614million.

8.6 Whilst members may be concerned about the projected budget issues in some of the future years, the Head of Corporate Improvement & Finance is satisfied that these can be managed over the period by a combination of: the continued adoption of the special repayment strategy; relatively modest levels of new borrowing on an ongoing basis; and balancing out the budget issues with the budget headroom.

8.7 In addition these future problems remain only potential issues based on all of the assumptions which have been made and there is therefore a lead in time before such situations could arise. Any residual budget issue which is not addressed through the special repayment strategy and other measures, can accordingly be planned for well in advance and Finance officers will update the affordability assessment on an ongoing basis to ensure the position is suitably managed.

9 CAPITAL FUNDING PROSPECTS AND IMPLICATIONS FOR FUTURE CAPITAL SPENDING

Funding Prospects

9.1 Members will be aware that significant real terms reductions in funding for local government have been experienced over recent years and that nationally the period of austerity is expected to continue for several years yet. It is very difficult to know exactly how national austerity measures and other funding pressures will impact the capital resources which the Scottish Government will make available to local authorities in future years, but it is expected that the pressures faced nationally will result in some further real terms reductions being applied overall. This expectation has informed certain of the assumptions set out at section 7 above.

9.2 Such funding projections need to be heavily qualified however because over the 25 year period of the assessment, governments may change, policy priorities may change and funding may change from current indications. Indeed if a change of government were to happen, it is possible that the priority of capital funding as opposed to revenue funding could also change.

9.3 The affordability assessment in this report has taken a balanced view of potential future capital funding whilst trying to reflect the challenging economic climate, the harsh financial position that the Council may well face, as well as recognising the capital investment pressures the Council will face.

Implications

9.4 Over the last few years Angus Council has identified a number of substantial capital projects to be taken forward and indeed this build up of spending pressure within the budget is what drove the preparation of the first long term affordability assessment as part of the 2007/08 budget setting process, as well as the need for the capital prioritisation process.

9.5 Although the updated affordability assessment set out in this report confirms that there does not appear to be any significant issues over the short to medium term provided only relatively modest levels of capital spend are incurred year on year, the longer term position shows that in some years potential issues could exist which will need to be managed.

9.6 In particular it is vital that Members recognise that after the period of relatively high spending on capital projected to take place over the next few years, there is then a period where only relatively modest spending is projected to be affordable based on current assumptions. The specific issue to recognise is that capital spending over the next couple of years will be much higher than the Council will be able to afford thereafter (based on the projections). This has 3 main implications:-

- Firstly members need to be certain that the projects in the current Financial Plan are of the highest priority - accordingly Members are asked to approve the updated capital project priority list attached at Appendix 2;

- Secondly that there is no capacity to introduce significant new projects for the foreseeable future without either: using the capital contingency; existing projects being deleted; existing projects being deferred; or a conscious decision being taken to divert additional revenue budget resources towards supporting loan charges costs - i.e. the Council cannot add to its intended capital spending without considering the consequences on other resources; and

- Thirdly that the amount of capital resources projected to be available beyond 2018/19 may be insufficient to address spending need at that time and this may bring significant pressure on the revenue budget by requiring more resources to be put into loan charges costs at the expense of other service provision at that time.

9.7 It is recommended that members note the specific issues highlighted above, regarding the prospects for future capital funding and the implications for the Council and the decisions it makes in respect of capital spending.

10 OVERALL CONCLUSIONS FROM AFFORDABILITY ASSESSMENT

10.1 A number of conclusions can be drawn from the affordability assessment which has been carried out. The affordability assessment is based on a number of assumptions and therefore carries some risk that some or all of these assumptions may prove to be inaccurate through time.

10.2 Despite this risk the Head of Corporate Improvement & Finance believes that the assumptions which have been made are robust, reasonable and prudent for the purposes of informing the Council's decisions. In particular the continuation of the special repayment strategy will greatly assist in managing future debt and loan charges cost levels. Critically the assessment confirms that the Council's spending plans can be regarded as affordable, prudent and sustainable in line with the requirements of the Prudential Code.

10.3 In terms of policy implications the affordability assessment confirms that there is likely to be a significant limitation on the scope to introduce new projects into the Financial Plan over the next few years. In this regard it is therefore critical that the Council is agreed that those projects included in the 2013/2018 Financial Plan are regarded as top priority even if further new projects come forward.

11 FINANCIAL IMPLICATIONS

11.1 There are no financial implications arising from this report beyond those outlined 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.

REPORT AUTHOR: **Kevin Lumsden, Finance Services Manager**
EMAIL DETAILS: **Finance@angus.gov.uk**

List of Appendices:

Appendix 1 Affordability Analysis: 25 Year Projection
Appendix 2 Capital Project Priority List: 2014/15 – 2018/19