

ANGUS COUNCIL

SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 15 FEBRUARY 2018

LONG TERM AFFORDABILITY OF THE GENERAL FUND FINANCIAL PLAN

REPORT BY THE HEAD OF CORPORATE FINANCE

ABSTRACT

This report summarises the outcome from an assessment of the long term affordability of the Council's 2017/2022 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 65/18 refers);
- 1.3 Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2017/2022 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 £1.0 million 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, including the financial implications detailed in Appendix 1 attached, 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 achievement of the Council's corporate priorities and the specific targets and objectives within the Council Plan and Local Outcome Improvement Plan.

3 BACKGROUND

- 3.1 The Provisional Revenue & Capital Budgets 2018/19 - Background Report (report 60/18 refers) set out the background to the preparation of the Council's General Fund Capital Budget 2018/19 and Financial Plan 2017/2022. 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 to set Prudential Indicators which measure affordability, prudence and sustainability.

- 3.3 These indicators however only require to be set for 3 forward years and this is considered insufficient to robustly assess the long term impact of capital investment decisions. The Council has therefore adopted a 25 year planning model.
- 3.4 Using the updated capital spending intentions as contained in the 2017/2022 Financial Plan (report 62/18 refers), this report advises members of the updated long term affordability position.
- 3.5 By necessity, this assessment is based on a number of key assumptions, particularly in respect of future government grant levels, future levels of capital expenditure, and interest rates.
- 3.6 This report has been prepared on a basis which recognises that the Council will face significant revenue budget and capital investment pressures over the 25 year planning period. This is reflected within the assumptions that have been made to provide for an ongoing core capital programme on a basis which is both affordable and sustainable for the Council.

4 2017/18 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

- 4.1 As noted in the Background Report (report 60/18 refers) updated funding allocations have been provided for 2017/18 and 2018/19 as shown in Table 1 below:

Table 1

	2017/18 £m	2018/19 £m
Angus Council General Capital Grant	12.259	12.601
Specific Capital Grant	0.160	0.159
Total Capital Funding	12.419	12.760

5 LOAN CHARGES BUDGET HEADROOM / SPECIAL REPAYMENT STRATEGY

- 5.1 The Council has for a number of years used a portion of any loan charges budget headroom to make special repayments of debt as part of the prudent management of the Council's debt position. The debt portfolio contains a number of assets that the Council no longer owns and therefore it's considered beneficial at this time to retain the approach of using a portion of loan charges budget headroom for special repayments, 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 £1.0 million per annum, subject to such headroom existing at the year end and being highlighted in the regular revenue monitoring reports.
- 5.3 In previous years, any balance of headroom over and above the £1.0 million special repayment was carried forward to be used in funding the following year's capital programme. For 2018/19 however, it is necessary for the balance of loan charges budget headroom to be used to help balance the revenue budget.
- 5.4 **Loan charges budget headroom is however only available on a temporary basis as one-off resources, as the 25 year projections of this affordability assessment confirm that the budget will be required in full in future years.**
- 5.5 To this end, £4.600 million of loan charges budget resources have been utilised on a one-off basis in funding the 2018/19 wider revenue budget. These resources comprise:
- £2.306 million – 2016/17 underspend carried forward in balances;
 - £1.662 million – 2017/18 projected underspend to carry forward in balances; and
 - £0.632 million – one-off reduction in loan charges budget for 2018/19.
- 5.6 The ongoing effects of the proposed continuation of special repayments and amended use of headroom balance have been included within the updated long term affordability assessment presented in this report.

6 CAPITAL PROJECT PRIORITISATION

- 6.1 The continuing priority of the existing projects in the capital programme was agreed by the Policy & Budget Strategy Group (PBSG) in the course of their meetings during the budget setting process. The PBSG also reviewed the projects previously included under the “later years” column of the plan and agreed that a number of these should now be removed as being of lower priority and / or unlikely to be affordable in the current planning period.
- 6.2 As in past years, annual core capital allowances have been added to the 2017/2022 Financial Plan as follows:

Directorate / Division – Additional Annual Core Capital Allowances	£m
Place – Technical & Property Services <ul style="list-style-type: none"> Property capitalised maintenance Roads capitalised maintenance 	0.300 4.000
Place – Housing, Regulatory & Protective Services <ul style="list-style-type: none"> Ground Maintenance machinery replacement programme General vehicle replacement programme 	0.100 0.100
People – Schools & Learning <ul style="list-style-type: none"> Information & communication technology (ICT) equipment 	0.250
Total Additional Annual Core Capital Allowances	4.750

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

Directorate / Division	£m
Place – Technical & Property Services <ul style="list-style-type: none"> Additional property capitalised maintenance Additional roads capitalised maintenance 	1.700 4.350
Place – Housing, Regulatory & Protective Services <ul style="list-style-type: none"> Works required at Elms Cemetery, Arbroath Works required at Kirriemuir Cemetery Additional parks & burial grounds capitalised maintenance 	0.227 0.056 0.500
People – Schools & Learning <ul style="list-style-type: none"> Upgrade to changing areas at Arbroath High swimming pool School investment strategy support 	0.300 0.450
People – Information Technology (IT) <ul style="list-style-type: none"> New core annual capital allowance for IT hardware refresh programme (to be allocated as £0.250 million per annum) Investment in critical IT infrastructure 	1.000 2.600
Adult Services / Integrated Joint Board <ul style="list-style-type: none"> Provision for complex care accommodation 	0.400
Chief Executive – Strategic Policy & Transformation <ul style="list-style-type: none"> Implementation of participatory budgeting outcomes 	0.460
Total Additional Allowances / New Priority Projects	12.043

- 6.4 The above list includes £5.000 million of additional capital spending power provided through the Council’s Special Funds strategy.

6.5 Early Years Expansion of Provision

A number of projects to address Early Years provision within schools have also been included in the Financial Plan on a net zero cost basis on the assumption they will be fully funded from specific Government capital grant funding.

The level of grant funding is however uncertain at this time as the Scottish Government and COSLA are still discussing the overall level of capital resources for Early Years expansion and the method of distributing the available grant funding.

These projects therefore represent a significant risk for the Council. Should less than full grant ultimately be received, these projects would require to be revisited to determine whether to amend the projects or to apply our own very limited capital funding to bridge any gap.

6.6 In summary, after allowing for paragraphs 6.2 to 6.5 above, the following net capital spend levels are contained in the 2017/2022 financial plan.

2017/2018 £m	2018/2019 £m	2019/2020 £m	2020/2021 £m	2021/2022 £m
17.993	31.600	18.104	11.354	6.411

6.7 To recognise that progress of capital projects is very fluid, it was agreed by the PBSG that as with previous years, the capital project priority list should continue to be taken forward on the basis of allowing an oversubscription of expenditure up to a maximum of 10%. This level of maximum oversubscription is considered to be manageable and reflects the likelihood of an element of unavoidable project slippage arising.

6.8 An updated capital project priority list for members' approval is attached to this report as Appendix 2 and highlights an oversubscription level of 9.4% on the basis of the 2017/2022 financial plan.

7 AFFORDABILITY ASSESSMENT - ASSUMPTIONS

7.1 Starting with an update of the 2017/18 position, the affordability assessment which has been undertaken has projected the position over the 26 year period covering the current financial year and the following 25 years (i.e. 2017/18 to 2042/43) for the following:-

- the Council's loan charges grant;
- the Council's overall 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 estimates and assumptions which will change over time but which are considered reasonable and robust based on known information at this time. A summary of the assumptions is provided in Appendix 3 and the outcome of the assessment is included at section 8 below.

8 AFFORDABILITY ASSESSMENT - OVERALL SUMMARY POSITION

8.1 The affordability assessment brings together a large volume of data and makes a number of assumptions and Appendix 1 details the main financial implications which result.

8.2 A projected peak in new borrowing in 2018/19 is evident, the bulk of which relates to the Arbroath Primary Schools project.

8.3 Section 3 of Appendix 1, highlights that over the period of the Financial Plan (i.e. up to and including 2021/22), some £2.677 million of budget headroom is evident. As per section 5 above, some of this headroom will be used to help balance the 2018/19 revenue budget. In this regard, the following application / treatment of the budget headroom should be noted:

Year	Headroom £m	Application / Treatment
2017/18	1.662	Applied in full to balance 2018/19 revenue budget on a one-off basis – see paragraph 5.5
2018/19	n/a	£0.632 million removed from loan charges budget on a one-off basis to help balance the 2018/19 revenue budget – see paragraph 5.5

2018/19	0.961	Available (after removal of the £0.632 million above) in full to support future budget priorities and the 2019/20 budget strategy
2019/20	0.054	Available in full to support future budget priorities and the 2019/20 budget strategy
Total Headroom	2.677	

- 8.4 Beyond 2021/22, Appendix 1 also highlights a number of peaks and troughs in terms of the comparison of estimated loan charges against projected future budget levels. In some years the projected loan charges costs arising from the projected levels of borrowing can be contained but potential relatively minor budget issues are also evident in some years.
- 8.5 Whilst members may be concerned about the projected budget issues in some of the future years, the Head of Corporate 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.
- 8.6 In addition these future issues 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 annual basis to ensure the position is suitably managed.

9 CAPITAL FUNDING PROSPECTS AND IMPLICATIONS FOR FUTURE CAPITAL SPENDING

Funding Prospects

- 9.1 Significant real terms reductions in overall funding for local government have been experienced over recent years and nationally the period of austerity is expected to continue for several years. 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 in Appendix 3.
- 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 revenue budget and capital investment pressures the Council will face.

Implications

- 9.4 The updated affordability assessment set out in this report confirms that there is not projected to be any significant issues over the assessment period provided only relatively modest levels of future capital spend are incurred year on year. Some relatively minor potential issues could arise in some future years however and these will need to be managed going forward.

9.5 In particular it is vital that Members recognise that after the significant level of capital spend planned over the next couple of 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 is likely to 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 there is no capacity to introduce significant new projects for the foreseeable future without either: using the limited 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 significantly to its intended capital spending without considering the consequences on other resources; and
- Thirdly the amount of capital resources projected to be available beyond 2021/22 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.

9.6 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 Finance believes that the assumptions which have been made are robust, reasonable and prudent for the purposes of informing the Council's decisions. 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 2017/2022 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 and the attached Appendices 1 to 3.

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 1 Affordability Analysis: 25 Year Projection
Appendix 2 Capital Project Priority List: 2017/18 – 2021/22

