

**ANGUS COUNCIL**

**SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 21 FEBRUARY 2019**

**LONG TERM AFFORDABILITY OF THE GENERAL FUND FINANCIAL PLAN**

**REPORT BY THE HEAD OF FINANCE & LEGAL**

**ABSTRACT**

This report summarises the outcome from an assessment of the long term affordability of the Council's 2018/2023 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 Capital Strategy report (report 60/19 refers) and Prudential Indicators report (report 63/19 refers);
- 1.3 Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2018/2023 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 earmarking of a further £1.620m of one-off resources for possible use as a special repayment at the end of financial year 2019/20 (per paragraph 5.5), noting that a decision on whether to apply this sum as a special repayment in March 2020 will be the subject of a separate report to the Policy & Resources Committee;
- 1.6 Approve the updated capital project priority list attached at Appendix 2;
- 1.7 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; and
- 1.8 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 COUNCIL PLAN / LOCAL OUTCOMES IMPROVEMENT PLAN**

- 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 Outcomes Improvement Plan.

**3 BACKGROUND**

- 3.1 The Provisional Revenue & Capital Budgets 2019/20 - Background Report (report 57/19 refers) set out the background to the preparation of the Council's General Fund Capital Budget 2019/20 and Financial Plan 2018/2023. That report highlighted the need for the Council to comply with a

self regulating Prudential Code when setting its capital budget, including the new requirement to set an annual capital strategy (report 60/19).

- 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 2018/2023 Financial Plan (report 59/19 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 2019/20 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING**

- 4.1 As noted in the Background Report (report 57/19 refers) updated funding allocations have been provided for 2018/19 and 2019/20 as shown in Table 1 below:

**Table 1 – 2019/20 Finance Settlement**

	2018/19 £m	2019/20 £m
General Capital Grant	12.601	14.314
General Capital Grant – Re-profiled from 2016/17	n/a	2.426
Specific Capital Grant – Cycling, Walking & Safer Streets*	0.159	0.191
Specific Capital Grant – Early Years Expansion	2.700	3.200
<b>Total Capital Funding</b>	<b>15.460</b>	<b>20.131</b>

\* includes specific grant of £33,000 re-profiled from 2016/17

- 4.2 Loan charges support grant in 2019/20 has been confirmed, in line with expectations, at £8.737 million.

#### **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 Any balance of headroom over and above the £1.0 million special repayment will be used to support the wider pressures in the revenue budget unless otherwise approved by members.
- 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 In addition to the £1.0 million above there is a further £1.620 million of loan charges budget resources (comprising of the 2018/19 projected underspend which will be carried forward in balances) which are available on a one-off basis in 2019/20. It is recommended that the Council earmark this sum for possible use as a special repayment at the end of the financial year 2019/20 subject to those resources not being required for other purposes at that time. A decision on whether to apply this sum as a special repayment in March 2020 will be the subject of a separate report to the Policy & Resources Committee.
- 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.
- 6.2 As in past years, annual core capital allowances have been added to the 2018/2023 Financial Plan as detailed in Table 2 below:

**Table 2 – Annual Core Capital Allowances**

<b>Directorate / Division</b>	<b>£m</b>
Place – Infrastructure	
• Property capitalised maintenance	0.300
• Roads capitalised maintenance	4.000
Place – Environmental Services	
• Ground maintenance machinery replacement programme	0.100
• General vehicle replacement programme	0.100
People – Schools & Learning	
• Information & communication technology (ICT) equipment	0.250
People – Information Technology	
• IT hardware refresh programme	0.170
<b>Total Additional Annual Core Capital Allowances</b>	<b>4.920</b>

- 6.3 The PBSG subsequently considered a number of bids for additional allowances / new priority projects and agreed that the projects detailed in Table 3 (below) should be added to the Financial Plan:

**Table 3 – Additional Allowances / New Priority Projects**

<b>Directorate / Division</b>	<b>£m</b>
Place – Environmental Services <ul style="list-style-type: none"> <li>• Play area surfacing</li> <li>• Aberlemno Cemetery extension</li> <li>• General vehicle replacement programme</li> </ul>	0.028 0.026 0.700
Place – Infrastructure <ul style="list-style-type: none"> <li>• Winter weather station repair / renewal</li> <li>• Local Flood Risk Management Plan 2019/20</li> <li>• Reservoirs Infrastructure Repairs</li> <li>• Roads core maintenance</li> <li>• Arbroath Harbour Ballast Quay Repairs</li> <li>• Property core maintenance</li> <li>• South Links holiday park drainage</li> </ul>	0.055 0.196 0.255 1.850 0.500 0.150 0.050
People – Schools & Learning <ul style="list-style-type: none"> <li>• Angus schools for the future</li> <li>• Alterations to Production Kitchens for Tayside Meals Centre</li> </ul>	0.401 0.100
People – Information Technology <ul style="list-style-type: none"> <li>• Wifi – Edzell / Craigowl / Rural</li> <li>• Eclipse equipment purchase</li> </ul>	0.290 0.060
Angus Health & Social Care Partnership <ul style="list-style-type: none"> <li>• Analogue to digital community alarm</li> </ul>	0.769
Angus Alive <ul style="list-style-type: none"> <li>• Integration of libraries / ACCESS – Monifieth</li> </ul>	0.080
<b>Total Additional Allowances / New Priority Projects</b>	<b>5.510</b>

6.4 In summary, after allowing for the projects in paragraphs 6.2 and 6.3 above, the following net capital spend levels (detailed in Table 4 below) are contained within the 2018/2023 Financial Plan.

**Table 4 – Net Capital Expenditure**

2018/2019 £m	2019/2020 £m	2020/2021 £m	2021/2022 £m	2022/2023 £m
19.330	31.551	14.623	9.510	9.557

6.5 In addition to the above additional allowances and new projects, a specific corporate contingency has been set aside for the Tay Cities Deal of £4.5 million. This is over and above the existing general capital contingency (of £3.239 million) and has been provided in order to ensure provision within the capital programme for any Tay Cities deal projects that may require a financial contribution from the Council, e.g. as match funding.

6.6 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.

6.7 An updated capital project priority list for members' approval is attached to this report as Appendix 2 and highlights an oversubscription level of 10% on the basis of the 2018/2023 financial plan.

## **7 AFFORDABILITY ASSESSMENT - ASSUMPTIONS**

7.1 Starting with an update of the 2018/19 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. 2018/19 to 2043/44) 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 2019/20 is evident, the majority of which relates to the Arbroath Primary Schools project (Hayshead / St Thomas Primary Schools shared campus).

8.3 Section 3 of Appendix 1, highlights that over the period of the Financial Plan (i.e. up to and including 2022/23), some £1.711 million of budget headroom is evident. As per section 5 above, some of this headroom may be used to make additional special repayments in March 2020. Table 5 details the application / treatment of that budget headroom:

**Table 5 – Budget Headroom**

Year	Headroom £m	Application / Treatment
2018/19	1.620	Recommended be earmarked for possible further special repayment in March 2020 subject to those resources not being required for other resources at that time – see paragraph 5.5
2019/20	0.063	Balance available to support future budget priorities and the 2020/21 budget strategy. This is after setting aside resources for carry forward into 2022/23 to meet the projected overspend against loan charges budget in that year.
2020/21	0.028	Available to support future budget priorities and the 2021/22 budget strategy
2021/22	Nil	No headroom available
2022/23	Nil	No headroom available – resources will need carried forward from 2019/20, through General Fund balances, to meet estimated loan charges costs in 2022/23
<b>Total Headroom</b>	<b>1.711</b>	

8.4 Beyond 2022/23, 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 budget issues are also evident in some years.

8.5 These projected budget issues in some of the future years will require to be managed over the period by a combination of: the continued adoption of the special repayment strategy; review of 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, policy priorities and funding may all 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 in the short to medium term, provided only relatively modest levels of future capital spend are incurred year on year. Some issues could arise in the longer term however and these will require to be managed going forward. This will be done through a combination of the continued adoption of the special repayment strategy, review of levels of new borrowing on an ongoing basis and, where possible, balancing out the budget issues with any available budget headroom.
- 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.

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 contingencies available; 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 2022/23 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 Finance & Legal 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 the scope to introduce new projects into the Financial Plan over the next few years is likely to continue to be significantly limited. In this regard it is therefore critical that the Council is agreed that those projects included in the 2018/2023 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:

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