Report 63/19

ANGUS COUNCIL

Special Budget Meeting of Angus Council – 21 February 2019

Setting of Prudential Indicators for 2019/20 Budget Process

Report by the Head of Finance & Legal

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 1**.

(ii) Note those prudential indicators set out in sections 6 and 7 of the report which are based on 2017/18 actual and 2018/19 estimated outturn information.

(iii) Approve the Prudential Indicators and narrative relating to financial years 2019/20 to 2022/23 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 COUNCIL PLAN / LOCAL OUTCOMES IMPROVEMENT PLAN

The projects undertaken through the Council's capital programme reflect the Council's corporate priorities and contribute 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

The 2019/20 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"*).

A new requirement of the 2017 edition of the Prudential Code is the need for local authorities to have in place an annual capital strategy, with effect from 2019/20 onwards. The purpose of the capital strategy is to demonstrate that an authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy should set out the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes.

This Prudential Indicators report should therefore not be considered in isolation, but rather in the context of the Council's wider capital strategy (report 60/19 refers).

Appendix 1 to this report 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 2019/20 (report 58/19) and the 2018/2023 Financial Plan and 2019/20 Provisional Capital Budget Volume (report 59/19). The 2018/2023 Financial Plan covers the five financial years 2018/19 to 2022/23. A number of the indicators presented in this report are calculated for six financial years in total – the 2017/18 actual year end position, latest estimates for 2018/19 and estimates for the 4 years 2019/20 to 2022/23. **The indicators which the Council is being asked to formally approve are those relating to financial years 2019/20, 2020/21, 2021/22 and 2022/23, 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 2019/20 Provisional Revenue Budget, the currently estimated capital financing cost levels for 2020/21 to 2022/23 or the proposed capital budgets for 2019/20 to 2022/23 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 47/19 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 CIPFA Treasury Management in the Public Services Code of Practice (2017 Edition) requires a number of treasury management related indicators to be set and these are reflected in the Council's treasury management strategy which will be presented to Council for approval in March 2019.

Monitoring Against Indicators
The Prudential Code 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, Scottish Futures Trust and Finance Lease Projects
A number of indicators are impacted by specific International Financial Reporting Standards relating to Public Private Partnerships (PPP) / Private Finance Initiatives (PFI), East Central Territory Hub and finance lease 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, Forfar Community Campus, Arbroath Schools and the finance lease for the Residual Waste Facility in Dundee). 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 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
Net Expenditure	n/a	19.330	31.551	14.623	9.510	9.557
Add: General Contingency	n/a	0.000	0.000	0.648	0.648	1.943
Add: Specific Provision (Tay Cities Deal)	n/a	0.000	0.225	1.350	2.700	0.225
Remove: Oversubscription	n/a	0.000	(1.980)	(1.979)	(1.979)	(1.979)
Add: Receipts / Contributions Netted Off within Financial Plan	n/a	5.394	14.690	14.239	0.664	0.250
Slippage Assumption (for profile purposes)	n/a	0.000	(2.500)	(1.000)	1.400	2.100
Gross Capital Expenditure	23.071	24.724	41.986	27.881	12.943	12.096

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 2019/20 when the bulk of the capital expenditure on Arbroath Primary Schools (Hayshead and St Thomas Primary Schools – Shared Campus) and Early Years Expansion will be incurred.

6.2 **Table 2 – Actual / Estimated Capital Financing Requirement**

Actual 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	Estimate as at 31/03/23 £m
249.646	258.983	257.528	283.999	270.420	255.907

The increase in capital financing requirement between 2017/18 and 2018/19 is due to the addition of the capital cost of the Hubco procured Arbroath Primary Schools project (Ladyloan and Muirfield Primary Schools) in 2018/19. Similarly, the spike between 2019/20 and 2020/21 reflects the capital cost of the second phase of the Residual Waste Treatment Facility partnership with Dundee City Council. Reductions in capital financing requirements between the years thereafter reflect the expectation that the level of debt repaid will exceed the borrowing incurred.

EXTERNAL DEBT

6.3 **Table 3 – Authorised Limits**

Commitment	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	220.000	220.000	220.000	220.000	220.000
Finance Lease Liabilities (Note 1)	6.000	4.000	39.000	37.000	34.000
PPP / PFI / Hubco Liabilities (Note 2)	124.000	122.000	119.000	115.000	111.000
Total – Authorised Limit for External Debt	350.000	346.000	378.000	372.000	365.000

Note 1: the rise in authorised limit in 2020/21 reflects the new residual waste facility in Dundee becoming operational.
Note 2: Hubco is the Council's partner in the delivery of the Forfar Community Campus and Arbroath Primary Schools projects.

6.4 **Table 4 – Operational Boundary**

Commitment	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing Finance Lease Liabilities PPP / PFI / Hubco Liabilities	205.000 6.000 124.000	205.000 4.000 122.000	205.000 39.000 119.000	205.000 37.000 115.000	205.000 34.000 111.000
Total – Operational Boundary for External Debt	335.000	331.000	363.000	357.000	350.000

6.5 **Actual External Debt**

Angus Council's actual external debt as at 31 March 2018 was £272.841 million, comprising of:

Liability	£m
Borrowing	153.998
Finance Leases	6.861
PPP / PFI Liability	111,982
Total	272.841

6.6 **Gross Debt and the Capital Financing Requirement**

Analysis undertaken shows that the Council will have no difficulty in meeting this requirement in 2019/20, 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 58/19 and 59/19 refer).

7 PRUDENTIAL INDICATORS FOR AFFORDABILITY

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

Actual 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
11.4%	11.0%	10.9%	11.1%	11.9%	11.8%

It may be noted from the above table that the level of financing costs expressed as a percentage to net revenue stream is anticipated to increase year on year between 2019/20 and 2021/22. 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 62/19 on the long term affordability of the 2018/2023 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 62/19 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 1 – Purpose and Description of the Prudential Indicators