

ANGUS COUNCIL

SPECIAL BUDGET MEETING OF ANGUS COUNCIL – 27 FEBRUARY 2020

LONG TERM AFFORDABILITY OF THE GENERAL FUND CAPITAL PLAN

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report summarises the outcome from an assessment of the long term affordability of the Council's 2019/2024 Capital 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 85/20 refers) and Prudential Indicators report (report 90/20 refers);
- 1.3 Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2019/2024 Capital 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 6.2;
- 1.6 Approve the updated capital project priority list attached at Appendix 2;
- 1.7 Note the specific issues highlighted in Section 10 of this report regarding the prospects for future capital funding and the implications for Angus Council and the decisions it makes on capital spending;
- 1.8 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; and
- 1.9 Note that any update required to the long term affordability resulting from the ongoing review of Angus Council's loans fund will be brought before committee for approval as required.

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 Capital 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 Angus Community Plan.

3 BACKGROUND

- 3.1 The Provisional Revenue & Capital Budgets 2020/21 - Background Report (report 82/20 refers) set out the background to the preparation of the Council's General Fund Capital Budget 2020/21 and 2019/2024 Capital Plan. That report highlighted the need for the Council to comply with a self regulating Prudential Code when setting its capital budget, including the requirement to set an annual capital strategy (report 85/20).

- 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 only require to be set for 3 forward years however 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 2019/2024 Capital Plan (report 84/20 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 which is both affordable and sustainable for the Council.

4 REVIEW OF ANGUS COUNCIL LOANS FUND

- 4.1 The Local Authority (Capital Financing and Accounting) Regulations 2016 sets out the statutory arrangements for local authority borrowing and lending and the requirement to maintain a loans fund. The 2016 Regulations replace the statutory arrangements set out in the Local Government (Scotland) Act 1975 (Schedule 3).
- 4.2 The loans fund essentially acts as an internal bank for the Council, providing the long term financing (known as loans fund advances) that it needs for capital investment. Angus Council's treasury advisor, Link Asset Services, has undertaken a review of the loans fund, brought about by revised flexibility that the 2016 Regulations has granted to local authorities on how they account for loans fund advances. On the basis of this flexibility, a saving to the corporate loan charges budget (which meets the costs associated with loans fund advances – repayment of principal, interest and expenses) of £2m has been included within the Change Programme in 2020/21.
- 4.3 The detail of Link's review is currently being assessed by Finance officers, however the outcome will in all likelihood require amendments to be made to both the long term affordability and prudential indicators. Such consequential changes will be brought before the relevant committee for approval.

5 2020/21 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

- 5.1 As noted in the Background Report (report 82/20 refers) updated funding allocations have been provided for 2019/20 and 2020/21 as shown in Table 1 below:

Table 1 – 2020/21 Capital Grant Settlement

	2019/20 £m	2020/21 £m
General Capital Grant	14.314	11.926
General Capital Grant – Re-profiled from 2016/17	2.426	n/a
General Capital Grant – Re-profiled from 2016/17 (Flooding)	3.132	n/a
Specific Capital Grant – Cycling, Walking & Safer Streets*	0.191	0.191
Specific Capital Grant – Town Centre Improvement Fund	1.080	n/a
Specific Capital Grant – Early Years Expansion	3.200	2.200
Total Capital Funding	24.343	14.317

* 2019/20 includes specific grant of £33,000 re-profiled from 2016/17

- 5.2 Loan charges support grant in 2020/21 has been confirmed, in line with expectations, at £8.464 million.

6 LOAN CHARGES BUDGET HEADROOM / SPECIAL REPAYMENT STRATEGY

- 6.1 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. It is considered beneficial at this time to retain the approach of using a portion of loan charges budget headroom for special repayments in order to better manage capital financing costs into the future.
- 6.2 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. The ongoing benefit of this special repayment strategy will be reassessed as part of the loans fund review work that is being undertaken as part of the Council's Change Programme.
- 6.3 For financial year 2019/20, any balance of headroom over and above the £1.0 million special repayment will be carried forward to be used against budget pressures (in the form of Capital Funded from Current Revenue - CFCR) in the following year. This approval will continue to be sought on an annual basis.
- 6.4 **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.**
- 6.6 The ongoing effects of the proposed continuation of special repayments and use of headroom balance arising in 2019/20 have been included within the updated long term affordability assessment presented in this report.

7 CAPITAL PROJECT PRIORITISATION

- 7.1 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.
- 7.2 As in past years, annual core capital allowances have been added to the 2019/2024 Capital Plan as detailed in Table 2 below:

Table 2 – Annual Core Capital Allowances

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

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

Table 3 – Additional Allowances / New Priority Projects

Directorate / Division	£m
Environmental Services <ul style="list-style-type: none"> Equipment Replacement at Sandy Sensation, Carnoustie 	0.015
Infrastructure <ul style="list-style-type: none"> Renewable & Low Carbon Technologies LED Lighting Upgrades Arbroath Active Travel Active Town (report 86/20 refers) Montrose Coast Protection – Preliminary Works Flood Risk Management 	0.450 0.115 3.000 0.800 3.000
Schools & Learning <ul style="list-style-type: none"> Angus Schools for the Future (Monifieth Cluster) Stracathro Primary School – Toilet Improvements Stracathro Primary School – Nursery Works (Departmental Borrowing) Woodlands Primary School Reconfiguration 	22.500 0.160 0.090 0.177
Angus Health & Social Care Partnership <ul style="list-style-type: none"> Seaton Grove Improvements 	0.650
Angus Alive <ul style="list-style-type: none"> Purchase of Display Cases for Carnoustie Archaeological Finds 	0.007
Total Additional Allowances / New Priority Projects	30.964

7.4 The following must be noted with regard to the above new priority projects:

- The allowances for Flood Risk Management (£3.0 million) and Angus Schools for the Future (Monifieth Cluster) (£22.5 million) are phased over financial year 2023/24 and then into later years (with later years being outwith the 5 year period of the capital plan). The element of each project that is funded within the 5 year period of the capital plan is £0.2 million and £10.0 million respectively.
- Montrose Coast Protection Preliminary Works, Flood Risk Management and Angus Schools for the Future (Monifieth Cluster) all rely heavily on the availability of external funding from Scottish Government and related agencies, without which it will not be possible for them to proceed in the manner in which they are currently planned.

7.5 In summary, after allowing for the projects in paragraphs 7.2 and 7.3, the following net capital spend levels (detailed in Table 4 below) are contained within the 2019/2024 Capital Plan.

Table 4 – Net Capital Expenditure

2019/2020 £m	2020/2021 £m	2021/2022 £m	2022/2023 £m	2023/2024 £m
20.959	27.313	14.574	14.375	18.372

7.6 In addition to the above additional allowances and new projects, further specific corporate contingency of £1.5m has been set aside for the Tay Cities Deal (taking the total available to £6.0 million). The general capital contingency has also been replenished and now sits at £4.0 million.

7.7 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.

7.8 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 2019/2024 Capital Plan.

8 AFFORDABILITY ASSESSMENT - ASSUMPTIONS

8.1 Starting with an update of the 2019/20 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. 2019/20 to 2044/45) 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.

8.2 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 9 below.

9 AFFORDABILITY ASSESSMENT - OVERALL SUMMARY POSITION

9.1 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.

9.2 A projected peak in new borrowing in 2020/21 is evident, the majority of which relates to the Arbroath Flood Strategy project (although this project is backed by 80% government grant, there is a mismatch between the timing of the expenditure and the receipt of the grant).

9.3 Section 3 of Appendix 1, highlights that over the period of the capital plan (i.e. up to and including 2023/24), some £1.046 million of budget headroom is evident. Table 5 details the application / treatment of that budget headroom:

Table 5 – Budget Headroom

Year	Headroom £m	Application / Treatment
2019/20	nil	Headroom to be carried forward into 2020/21 and applied as CFCR.
2020/21	0.557	Balance available to support future budget priorities and the 2021/22 budget strategy.
2021/22	0.267	Available to support future budget priorities and the 2022/23 budget strategy
2022/23	0.188	Available to support future budget priorities and the 2023/24 budget strategy
2023/24	0.034	Available to support future budget priorities and the 2024/25 budget strategy
Total Headroom	1.046	

9.4 Beyond 2023/24, 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.

9.5 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.

- 9.6 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.

10 CAPITAL FUNDING PROSPECTS AND IMPLICATIONS FOR FUTURE CAPITAL SPENDING

Funding Prospects

- 10.1 Significant real terms reductions in overall funding for local government have been experienced over recent years and there remains limited information to suggest this position will change in the short term at least. It is very difficult to know exactly how this uncertainty 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 continued strain on the resources made available to the Council. This expectation has informed certain of the assumptions set out in Appendix 3.
- 10.2 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.
- 10.3 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

- 10.4 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.
- 10.5 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 capital 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 2023/24 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.

Future Years Spend

10.6 Section 5 of the priority list attached at Appendix 2 details those priority projects with expenditure falling outwith the 5 years of the capital plan, namely:

- Angus Schools for the Future (Monifieth Cluster)
- Arrats Mill – Implementation of Closure Plan
- Analogue to Digital Community Alarm
- Flood Risk Management Duties
- Route Action Plan – Montrose to A90 Road Link.

These projects must have first call on the resources available from 2024/25 onwards as works will have already commenced in the year(s) prior to this.

10.7 In order to get a picture of how the capital plan will look into the future, Table 6 projects the estimated capital expenditure (on a net basis) for a further 6 years beyond the current 5 year period (from 2024/25 to 2029/30), specifically highlighting the aforementioned projects. Members are asked to note that the phasing shown is necessarily indicative only at this point.

Table 6 – Future Capital Plan

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Estimated Net Expenditure:						
Angus Schools for the Future (Monifieth Cluster)	10.000	2.500	-	-	-	-
Arrats Mill – Implementation of Closure Plan	0.029	0.029	0.029	0.029	0.029	0.029
Analogue to Digital Community Alarm	0.098	0.095	-	-	-	-
Flood Risk Management Duties	1.400	1.400	-	-	-	-
Route Action Plan – Montrose to A90 Road Link	3.300	-	-	-	-	-
Other Priority Capital Projects (specific projects to be confirmed in future budgets)	2.673	13.476	17.471	17.471	17.471	17.471
Total Net Expenditure	17.500	17.500	17.500	17.500	17.500	17.500
Estimated Funding:						
General Capital Grant	12.150	12.150	12.150	12.150	12.150	12.150
Corporate Capital Receipts	0.100	0.100	0.100	0.100	0.100	0.100
Borrowing	5.250	5.250	5.250	5.250	5.250	5.250
Total Funding	17.500	17.500	17.500	17.500	17.500	17.500

10.8 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.

11 OVERALL CONCLUSIONS FROM AFFORDABILITY ASSESSMENT

11.1 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.

11.2 Despite this risk the Director of 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.

11.3 In terms of policy implications the affordability assessment confirms that the scope to introduce new projects into the Capital 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 2019/2024 Capital Plan are regarded as top priority even if further new projects come forward.

12 FINANCIAL IMPLICATIONS

12.1 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.

REPORT AUTHOR: Dawn Johnston
EMAIL DETAILS: Finance@angus.gov.uk

List of Appendices:

Appendix 1 Affordability Analysis: 25 Year Projection
Appendix 2 Capital Project Priority List: 2019/20 – 2023/24
Appendix 3 Affordability Assessment Key Assumptions