AGENDA ITEM NO 7(c)

Report 90/20

ANGUS COUNCIL

Special Budget Meeting of Angus Council – 27 February 2020

Setting of Prudential Indicators for 2020/21 Budget Process

Report by the Director of Finance

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

1.1 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 7 and 8 of the report which are based on 2018/19 actual and 2019/20 estimated outturn information.

(iii) Approve the prudential indicators and narrative relating to financial years 2020/21 to 2023/24 as set out in sections 7 and 8 (tables 1 to 5) of the report in compliance with the Prudential Code requirements.

(iv) Note that any update required to the prudential indicators 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 projects undertaken through the Council's capital programme reflect the Council's corporate priorities and contribute as a whole to the achievement of those priorities and the specific targets and objectives within the Council Plan and Angus Community Plan.

3 BACKGROUND

3.1 The 2020/21 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"*).

3.2 A requirement of the Prudential Code is the need for local authorities to have in place an annual capital strategy. 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.

3.3 This Prudential Indicators report should therefore not be considered in isolation, but rather in the context of the Council's wider capital strategy (report 85/20 refers).

3.4 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 ACOUNTING CHANGES WITH THE POTENTIAL TO IMPACT ON THE PRUDENTIAL INDICATORS

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 the prudential indicators, in particular those relating to the capital financing requirement and financing costs to net revenue stream. Such consequential changes will be brought before the relevant committee for approval.

IFRS 16 – Leasing

4.4 IFRS 16 (International Financial Reporting Standard) is a new standard for lease accounting coming into effect on 1 April 2020 that will require lessees to recognise leases on their balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments. In order to fully complying with IFRS 16 and ensure the Council's 2020/21 year end accounts have been prepared in accordance with the Standard, all leases (including service contracts) where the Council is the lessee (i.e. leasing an asset from a third party) will require to be identified and measured, both in order to establish an initial starting point and on an ongoing basis.

4.5 Work to prepare for IFRS 16 is underway and will continue throughout the 2020/21 financial year, the outcome of which will be reflected within future prudential indicator reports.

5 BASE INFORMATION & RISK ISSUES

5.1 The Council is advised that the prudential indicators shown in sections 7 and 8 below have been determined based on the budget proposals contained in the Provisional Revenue Budget Volume 2020/21 (report 83/20) and the 2019/2024 Capital Plan and 2020/21 Provisional Capital Budget Volume (report 84/20). The 2019/2024 Capital Plan covers the five financial years 2019/20 to 2023/24. A number of the indicators presented in this report are calculated for six financial years in total – the 2018/19 actual year end position, latest estimates for 2019/20 and estimates for the 4 years 2020/21 to 2023/24. **The indicators which the Council is being asked to formally approve are those relating to financial years 2020/21, 2021/22, 2022/23 and 2023/24, as detailed in tables 1 to 5 of this report**.

5.2 In particular Members are asked to note that proposals which would alter the capital financing costs allowance in the 2020/21 Provisional Revenue Budget, the currently estimated capital financing cost levels for 2021/22 to 2023/24 or the proposed capital budgets for 2020/21 to 2023/24 could impact on the prudential indicators to be set.

5.3 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.

5.4 The prudential indicators for the Housing Revenue Account (HRA) have been reported and considered separately as part of the rent setting process (report 43/20 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.

6 PRUDENTIAL INDICATORS - INTRODUCTION

6.1 It is important to view the indicators in sections 7 and 8 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. The Council goes beyond best practice in setting prudential indicators by undertaking a long term affordability review (over 25 years) of its capital expenditure each year (report 89/20 refers in this regard).

Treasury Management

6.2 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 2020.

Monitoring Against Indicators

6.3 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.

Private Finance, Scottish Futures Trust and Finance Lease Projects

6.4 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.

7 PRUDENTIAL INDICATORS FOR PRUDENCE

CAPITAL EXPENDITURE

7.1 **Table 1 – Actual / Estimated Capital Expenditure**

	Actual 2018/19 £m	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m	Estimate 2023/24 £m
Net Expenditure	n/a	20.959	27.313	14.574	14.375	18.372
Add: General Contingency	n/a	0.000	1.000	1.000	1.000	1.000
Add: Specific Provision (Tay Cities Deal)	n/a	0.000	0.900	1.800	3.000	0.300
Remove: Oversubscription	n/a	0.000	(2.226)	(2.226)	(2.226)	(2.226)
Add: Receipts / Contributions Netted Off within Capital Plan	n/a	9.951	9.898	5.271	7.584	10.838
Gross Capital Expenditure	22.738	30.910	36.885	20.419	23.733	28.284

7.2 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 with Arbroath Primary

Schools (Hayshead and St Thomas Primary Schools – Shared Campus), 2020/21 with Arbroath Flood Strategy and 2023/24 with Angus Schools for the Future (Monifieth Cluster).

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

Actual 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	Estimate as at 31/03/24 £m
255.539	244.793	282.750	270.136	258.790	248.377

7.4 The significant increase in capital financing requirement 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 the capital financing requirements between the years thereafter reflect the expectation that the level of debt repaid will exceed the borrowing incurred.

7.5 The capital financing requirement is one of the indicators that will require to be reviewed upon conclusion of the wider loans fund review, with any changes being brought before committee for approval.

EXTERNAL DEBT

7.6 **Table 3 – Authorised Limits**

Commitment	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	220.000	220.000	220.000	220.000	220.000
Finance Lease Liabilities (Note 1)	4.000	39.000	37.000	34.000	32.000
PPP / PFI / Hubco Liabilities (Note 2)	122.000	119.000	115.000	111.000	106.000
Total – Authorised Limit for External Debt	346.000	378.000	372.000	365.000	358.000

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.

7.7 **Table 4 – Operational Boundary**

Commitment	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	205.000	205.000	205.000	205.000	205.000
Finance Lease Liabilities	4.000	39.000	37.000	34.000	32.000
PPP / PFI / Hubco Liabilities	122.000	119.000	115.000	111.000	106.000
Total – Operational Boundary for External Debt	331.000	363.000	357.000	350.000	343.000

7.8 **Actual External Debt**

Angus Council's actual external debt as at 31 March 2019 was £276.719 million, comprising of:

Liability	£m
Borrowing	147.757
Finance Leases	5.027
PPP / PFI Liability	123.935
Total	276.719

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

Analysis undertaken shows that the Council will have no difficulty in meeting this requirement in 2020/21, 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 83/20 and 84/20 refer).

8 PRUDENTIAL INDICATORS FOR AFFORDABILITY

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

Actual 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
11.6%	10.2%	10.6%	11.6%	11.4%	11.4%

8.2 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 89/20 on the long term affordability of the 2019/2024 Capital Plan and as such form part of the consideration of the Council forward planning to address its funding challenges.

8.3 As with the capital financing requirement, this indicator will require to be reviewed upon conclusion of the wider loans fund review, with any changes being brought before committee for approval.

9 PRUDENTIAL INDICATORS – CONCLUSION

9.1 The prudential indicators laid out in sections 7 and 8 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.

9.2 In this regard, reference should also be made to report 89/20 concerning the long-term affordability of the General Fund Capital Plan.

10 FINANCIAL IMPLICATIONS

10.1 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