AGENDA ITEM NO 5(I)

Report 73/21

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 4 MARCH 2021

CAPITAL STRATEGY 2021/22

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report presents Angus Council's capital strategy for the financial year 2021/22.

1 RECOMMENDATIONS

The council is recommended to:

1.1 Note the requirement by CIPFA for local authorities to have an overarching annual capital strategy in place; and

1.2 Approve the capital strategy for 2021/22 as set out in this report noting its links to a number of other named capital and treasury management related reports.

2 ALIGNMENT TO COUNCIL PLAN / COMMUNITY PLAN

2.1 An effective capital strategy both safeguards and maximises the resources available to the council to provide services and ensures those resources are directed at the council's priorities. The activities undertaken through the council's capital and treasury management processes within the framework of the capital strategy contribute as a whole to the achievement of the council's corporate priorities and the specific targets and objectives within the Council Plan and Community Plan.

3 BACKGROUND

3.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition) includes a requirement for the production of a capital strategy, the purpose of which is to tell a story that gives a clear and concise view of how a local authority:

- determines its priorities for capital investment;
- decides how much it can afford to borrow; and
- sets its risk appetite.

3.2 Paragraph 21 of the CIPFA Prudential Code states that "the capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability".

3.3 The strategy, which encompasses both the General Fund and Housing Revenue Account (HRA), is not intended to duplicate other more detailed policies, procedures and plans. Rather its purpose is to sit above and reference these, thereby allowing those seeking more detail to know where to find it. In this regard, Angus Council's 2021/22 capital strategy will not replicate, but reference, the detailed information contained in the following capital and treasury related reports:

- Report 72/20 – Treasury Management Strategy Statement 2020/21 – approved by the Scrutiny and Audit Committee of 3 March 2020 and Angus Council on 19 March 2020 (it is necessary for the capital strategy to refer to last year's treasury report as 2021/22's statement will not be presented for approval until the March 2021 meeting of Angus Council);

- Report 25/21 – Housing Revenue Account Rent Setting and Budget Strategy 2021/22 to 2024/25 – presented to the Communities Committee of 9 February 2021;
- Report 71/21 – Provisional Capital Budget Volume – presented at this special budget meeting (agenda item 5(j) refers);
- Report 76/21 – Long Term Affordability of the General Fund Capital Plan – presented at this special budget meeting (agenda item 6(b) refers); and
- Report 77/21 – Setting of Prudential Indicators for 2021/22 Budget Process – presented at this special budget meeting (agenda item 6(c) refers).

3.4 The structure of Angus Council's capital strategy is in line with that recommended in CIPFA's Prudential Code and covers the specific areas identified by CIPFA (where relevant) under the following broad headings:

- Section 4 - capital expenditure
- Section 5 - debt, borrowing and treasury management
- Section 6 - commercial activities
- Section 7 - other long-term liabilities
- Section 8 – knowledge and skills.

4 CAPITAL EXPENDITURE

FRAMEWORK

Core Influences on Capital Investment

4.1 The capital investment we undertake is influenced by many different factors. These core influences must be taken into account when establishing the wider strategic framework within which the capital programme operates. In addition to the council's own aspirations, these influences also reflect the ambitions of our local and regional partners, as well as national strategies.

4.2 The following table illustrates Angus Council's core influences:

NATIONAL	○ National Performance Framework ○ Scottish Government's Housing Beyond 2021 ○ Scottish Government's Homes Fit for the 21st Century ○ Scotland's Economic Strategy ○ Scotland's National Transport Strategy ○ Scottish Government's Learning Estate Strategy ○ Learning Estate Investment Programme ○ Early Learning & Child Care Policy ○ SEPA Flood Risk Management Strategies ○ Transport Scotland / Sustrans Policy for Scotland ○ One Public Estate ○ Scottish Government's Mental Health Strategy 2017-2027
REGIONAL	○ Tay Cities Deal ○ Tayside Contracts Business Plan ○ TACTRAN Strategic Plans ○ Tayside Mental Health & Wellbeing Strategy
LOCAL	○ Angus Council Plan ○ Angus Community Plan / Local Outcomes Improvement Plan ○ Locality Plans ○ Finance and Change Plan ○ Enterprising Angus – Commercialisation Strategy ○ Strategic Housing Investment Plan 2021/22 – 2025/26 ○ Asset Management Plans ○ Angus Health & Social Care Partnership Strategic Plan ○ Local Flood Risk Management Plans

4.3 Notwithstanding these core influences and the wider framework within which the capital programme operates, the ongoing COVID-19 pandemic has caused disruption to the delivery of the council's 2020/21 capital strategy and has the potential to impact on 2021/22 also. Whilst this does not change our core influences or the general approach to our capital strategy, over the medium term it may impact on specific areas of capital investment and asset strategies. For example, the increase in agile / working from home that the pandemic and associated lockdown has brought about may mean fewer office buildings being required into the future should a more blended approach to the office environment continue.

Angus Council Plan

4.4 As highlighted in many capital related reports presented to council committees over the years, the aim of the Prudential Code is to support local strategic planning, local asset management planning and proper option appraisal. Its objectives are to ensure, within a clear framework, that the capital expenditure plans are affordable, prudent and sustainable. A key element of the capital strategy however is the ability to demonstrate this, i.e. that our General Fund and HRA capital programmes fit in with Angus Council's wider objectives and that a framework is in place to ensure effective and sustainable investment.

4.5 The Council Plan 2021-2024 (report 61/21 refers) sets out these wider objectives, the main features of which are:

- VISION – For Angus to be a great place to live, work and visit.
- STRATEGIC PURPOSE – Our strategy on a page sets out what is to be achieved and where the focus of resources should be deployed, comprising four complimentary themes – eliminate, reduce, raise and create.
- STRATEGIC PRIORITIES – We want:
    - Angus to be a go-to place for business
    - To maximise inclusion and reduce inequalities
    - Our communities to be strong, resilient and led by citizens
    - Angus Council to be efficient and effective.

4.6 It is against this backdrop, and with these ideals in mind, that Angus Council must set both its capital and revenue budgets.

Finance and Change Plan

4.7 The Finance and Change Plan (report 61/21 refers) demonstrates that the resources Angus Council has available are being targeted towards delivering the council priorities, something which is of particular importance when available resources are limited. It demonstrates how Angus Council can meet its budget and provides forward looking links to the council's medium-term budget strategy.

Capital Investment Framework

4.8 A well-developed framework is in place that allows for existing investment needs to be identified, new capital investment proposals to be brought forward, an affordable and sustainable capital programme to be determined and ongoing delivery to be monitored.

4.9 Rolling 5-year plans for capital investment are produced for both the General Fund and Housing capital programmes, with an extensive governance process in place for the approval and monitoring of capital expenditure as set out in the commentary below.

BUDGET APPROVAL PROCESS

Standing Orders & Related Documents / Financial Regulations

4.10 All capital activity must be carried out in accordance with the Council's Standing Orders (Part 1 (4) refer), Order of Reference of Committees (Section 7 (2) (i) and Section 8 (22) & (23) refer) and Financial Regulations (Sections 5, 6 and 7 refer).

Policy & Budget Strategy Group Role

4.11 The approval of the General Fund and Housing Revenue Account capital budgets are ultimately undertaken at the annual Special Council Budget Setting and Rent Setting Meetings. In advance of these meetings the majority of the informal budgetary proposals considered during the capital budget setting cycle are by the Policy & Budget Strategy Group (PBSG), who will meet 3 to 4 times over the budget setting period.

4.12 In fulfilling its remit on the revenue, capital and special funds strategy, the PBSG submits proposals to the Special Budget Setting meeting of the Council for formal consideration.

Budget Preparation Process

4.13 To support the consideration of a coherent budget strategy by the PBSG the following process is in place to facilitate this:

- Guidance: detailed annual guidance on the preparation of the General Fund capital plan is distributed across the council, asking senior officers to make any necessary updates to existing capital projects and inviting bids for funding of new capital projects they consider to be required to support ongoing service delivery.
- Capitalisation policy: there is no formal policy in place within the council with regard to the capitalisation of expenditure (i.e. what can and cannot be capitalised). However, the capital plan guidance provides a definition of property, plant and equipment (based on the CIPFA Code of Practice) that is expected to be followed. With regard to any ambiguous areas of expenditure, these are subject to discussion on a case by case basis, with departments required to seek advice from Finance officers.
- Links to council strategy: any new capital project bids (as well as those existing projects within the capital programme) should connect with what is in departmental asset management plans and also reflect the council’s corporate priorities and objectives.
- Business case: Change Programme project governance arrangements have been adopted for projects with an estimated gross capital cost in excess of £500,000. The programme’s business case template is required to be completed for such projects and submitted alongside the associated new project bid.
- Resource assessment: a calculation of the estimated level of resources available over the 5-year period of the capital plan is undertaken by Finance officers to allow a total capital spending resource to be identified. Once calculated and compared with the level of already approved capital projects, the headroom available for new projects to be approved through the current capital budget cycle can be established.

Council Leadership Team Role

4.14 The Council Leadership Team (CLT) consists of senior council officers who discuss and agree the recommended utilisation of available capital resources to Council following discussion through the Policy & Budget Strategy Group (PBSG) which is a member / officer working group. This includes new project proposals, issues arising on existing projects within the programme that need an additional injection of resources and the level of resources to be set aside for core maintenance / replacement programmes (IT, property including economic development property for let, roads, vehicles and equipment).

4.15 The CLT assess new project bids against the following specific principles and key objectives:

- Investment in the school and early years / nursery estate
- Investment in core infrastructure and technology
- Investment in spend to save initiatives that will bring about efficiencies and revenue budget savings into the future
- Investment in the Change Programme in areas such as digital service provision
- Promotion of inward investment and economic benefits to the wider Angus economy.

4.16 The CLT recommendations are considered by the PBSG and Angus Council and, if approved by the Council, these projects / programmes will be built into the draft capital plan.

4.17 The process culminates in the five year capital plan, long term affordability assessment and prudential indicators being presented to the annual Special Budget Meeting of Angus Council and Rent Setting meeting (for the Housing capital plan) for final approval.

Shadow Budget Group Role

4.18 The role of the Shadow Budget Group (SBG) is very similar to that of the PBSG, however this particular group is made up of non-administration members supported by senior council officers. The SBG make budgetary proposals with regard to any alternative budget they wish to be considered at the Special Council Budget Setting and Rent Setting Meetings.

MONITORING

4.19 The monitoring of capital projects is carried out on a monthly basis by accountable managers supported by Finance officers. This General Fund capital monitoring is co-ordinated into a single report which is presented to meetings of the Policy & Resources Committee. The Housing capital monitoring is presented periodically to the Communities Committee.

4.20 The council also has a Capital Projects Monitoring Group (CPMG) to consider matters relating to the monitoring of both General Fund and Housing capital expenditure. The CPMG has only a monitoring role and will not consider the strategic aspects or the development of the capital programme (which is the remit of the PBSG). The remit of the CPMG is to:

- Perform an overview role in the monitoring of the General Fund and Housing capital programmes which will supplement, but not take the place of, the existing monitoring arrangements at officer level and through committee.
- Investigate with relevant officers the issues and reasons for identified areas of substantial potential overspend / underspend, as highlighted through the regular General Fund and Housing capital monitoring statements.
- Investigate with relevant officers the service impact of project slippage, as well as the financial impact.
- Agree the corrective action to be taken in order to rectify any identified issues with the appropriate officer.
- Where overspend situations arise, make recommendations to the PBSG on the potential use of the council's corporate contingency.
- Provide a forum to promote discussion on learning from issues affecting previous projects (in particular slippage issues), including the requesting of post project review information for use as a learning tool.

Long Term Impact of Capital Investment Plans

4.21 Whilst the approved capital programmes for both the General Fund and Housing cover a rolling 5-year period, the implications of this over the longer term is assessed on an annual basis based upon the approved budgets. The long-term affordability analysis looks 25 years ahead, whilst still taking into account the costs that must be met relating to existing borrowing.

4.22 The long-term affordability assessment takes into account a number of estimates and assumptions relating to:

- 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 (see section 6 of report 76/21 for details)
- estimated levels of capital expenditure
- estimated levels of capital grants
- estimated levels of capital receipts and other contributions
- estimated levels of borrowing.

4.23 Further detail on the long-term impact of the council's 2021/22 capital investment plans can be found in report 76/21.

4.24 As the title of the report suggests, the key issue considered in the report is the affordability of the capital financing costs arising from current and future capital spend and the ability of the General Fund revenue budget or Housing Revenue Account to bear this burden - this is essentially the biggest restriction to capital investment.

4.25 We know that the level of General Fund loan charges grant Angus Council will receive into the future is reducing year on year and will cease completely in 2034/35. To service both existing and new borrowing, additional revenue funding must be put into the annual loan charges budget. Not only does this deprive other essential services of budget resources, but short term or single year finance settlements from UK or Scottish Government make sound, long term capital investment strategies more difficult to do effectively.

4.26 Furthermore, the wider strain on revenue budgets means less resources being devoted to routine maintenance. This allows buildings and infrastructure to build up a high level of maintenance backlog thereby increasing the scope of capital works requiring to be undertaken. In other words the reduction and prioritisation of revenue budgets puts more pressure on the capital budget, which in turn puts more pressure on the revenue budget in terms of capital financing costs should the capital programme be expanded.

4.27 Angus Council's ongoing strategy of reducing its estate, as well as setting aside specific sums in each year's capital budget for core capitalised maintenance and replacement, are done so with a view on easing such revenue budget pressures.

Asset Management Planning

4.28 The following strategies and sources of asset information are utilised by service departments to inform the projects and works programmes that are either currently in the capital plan or are planned for the future:

- Schools & Learning - Report 36/18 details Angus Council's School Investment Strategy 2017-2047, with further updates provided in reports 130/18, 189/18, 36/19, 285/19 and 329/20.
- Roads & Transportation - Report 168/19 sets out the Roads Asset Management Plan to 2024
- Property Asset – individual asset management plans held within division for each property.

4.29 Service directors ensure the above strategies and plans are taken into account when putting forward new project bids and building their annual core capitalised maintenance / replacement programmes.

4.30 Likewise, these also need to be taken into account by the CLT and PBSG when assessing the split of any capital budget headroom between brand new projects and core maintenance programmes.

RISKS

4.31 Capital monitoring reports are presented to the council's Policy & Resources Committee containing data and narrative which enables the council to effectively monitor and manage the overall risks associated with the capital programme. Risk registers are maintained and managed by relevant senior officers and are considered within the council's risk management arrangements (including scrutiny of the corporate risk register by the Scrutiny & Audit Committee, the latest being report 13/21).

5 DEBT, BORROWING AND TREASURY MANAGEMENT

5.1 Angus Council's approach to debt, borrowing and treasury management, particularly with regard to due diligence and risk, is contained within the annual Treasury Management Strategy Statement. As noted previously, the 2020/21 statement forms part of report 72/20 and the 2021/22 statement will be presented to full meeting of Angus Council in March 2021.

5.2 The Council's policy for the repayment of loans fund debt has been reviewed as part of our Change Programme under the heading of Loans Fund Review. The outcome of the review has not been deployed as yet whilst Finance officers look to maximise its impact in conjunction with the fiscal flexibility measures that have been made available to local authorities to deal with the ongoing COVID-19 pandemic. Any consequential changes to accounting policies, future repayment commitments and other financial implications will be brought before Council or the relevant committee for approval.

External Debt Projection

5.3 CIPFA's Prudential Code recommends that a local authority's capital strategy should include a long-term projection of external debt and that this projection reflects any internal borrowing, i.e. where a local authority uses cash backed reserves to defer the need to externally borrow for capital purposes. The code is silent as to what classifies as long-term however.

5.4 The council's actual external debt position along with forward projections for a further 4 years is detailed in the annual Treasury Management Statement. Table 1 within Appendix A of report 72/20 reflects the position over the years 2019/20 to 2023/24. Furthermore, a detailed profile with regard to the repayment of existing external borrowing is known over the entire life of that debt and this information is used to inform cash flows both present and future.

5.5 Table 1 below summarises the projected external debt position at 5-year intervals over the next 25 years, along with details of internal borrowing (i.e. where the council has used cash reserves to finance expenditure rather than borrow externally).

Table 1

	2021/22 £m	2026/27 £m	2031/32 £m	2036/37 £m	2041/42 £m	2045/46 £m
Underlying Borrowing Requirement	161.019	205.392	196.132	193.322	175.394	149.839
Projected External Debt	148.019	205.392	196.132	193.322	175.394	149.839
Internal borrowing	13.000	0.000	0.000	0.000	0.000	0.000

Provision for the Repayment of Debt

5.6 Finance circular 7/2016 requires the Council to set out its policy for the statutory repayment of loans fund advances on an annual basis and this is detailed in paragraphs 5.4 and 5.5 of the Treasury Management Strategy Statement (report 72/20, Appendix A). Paragraph 5.6 of the same report details the future repayment commitments, split into the bandings stipulated within the circular and showing General Fund, Housing and Police advances separately.

5.7 The loans fund review (noted in paragraph 5.2) will, once deployed, change both the policy and the schedule of debt repayments, however this will be brought before the relevant committee for approval prior to implementation.

Authorised Limit and Operational Boundary

5.8 CIPFA's Prudential Code requires the council to set authorised limits and operational boundaries for its total external debt. These are detailed in paragraphs 7.6 and 7.7 of the 2021/22 Prudential Indicators report (report 77/21), with a description of each given in the appendix of the same report.

5.9 In terms of monitoring these boundaries, a comparison of the council's external debt position, capital financing requirement and both the authorised limit and operational boundary is made on a regular basis as this forms part of the weekly report on Angus' treasury position provided to senior managers within the Finance service, including the Section 95 Officer (Director of Finance).

6 COMMERCIAL ACTIVITIES

6.1 Local authority involvement in commercial activities is an area not only of increasing occurrence, but also of increasing risk, hence why it has been specifically included in both the Prudential Code and Treasury Management Codes of Practice. The Prudential Code requires local authorities to make clear their engagement in, and approach to, commercial activities, including due diligence, risk appetite and proportionality (in respect of overall resources).

6.2 Commercial activities can be split into two broad categories:

(i) treasury related activities, e.g. lending to other local authorities, money market investments; and
(ii) non-treasury activities, where the focus is principally on the pursuit of income generation rather than the pursuit of service objectives or priorities, e.g. borrowing to fund / investment in commercial property.

Treasury Related Activities

6.3 The investment of surplus cash is the principal source of treasury related commercial activity currently undertaken by Angus Council. Opportunities for such investment arise naturally through daily treasury management activity and in particular the management of the timing of cash paid out and cash received, which can result in peaks and troughs in the amounts of surplus cash at any point during the year.

6.4 Whilst the income generated on such surplus cash helps to fund (albeit very marginally) the services the wider council delivers, it is vital that this is done so by investing wisely and in line with the following investment priorities (in order of priority):

(i) SECURITY – safety of the investment;
(ii) LIQUIDITY – accessibility of cash when needed; and
(iii) RETURN – income received.

6.5 To ensure these priorities are met, the parameters within which the council can invest are clearly laid out in the Annual Investment Strategy which forms part of the annual Treasury Management Strategy Statement. These parameters cover the creditworthiness of counterparties (including specific criteria for different types of investment / financial product), investment duration, investment level and country limits. The Annual Investment Strategy also clearly identifies the risks associates with the various counterparties and financial products.

6.6 Specific detail on the above is not repeated for the purpose of this report, rather reference should be made to the council's current approved Annual Investment Strategy which is contained in report 72/20 'Treasury Management Strategy Statement 2020/21' (section 6 and Annex C of Appendix A specifically refer). Any deviation from these criteria and permissions (either planned or unplanned) would require to be reported to Council at the earliest available opportunity.

Non-Treasury Activities

6.7 Appendix A – Annex C of the 2020/21 Treasury Management Strategy Statement (report 72/20 refers) describes the various non-treasury activities that Angus Council is permitted to invest in (but not necessarily actively doing so) should an appropriate opportunity arise, including:

- Property Fund
- Local Authority Mortgage Guarantee Scheme
- Investment Properties
- Home Loans
- East Central Territory Design, Build, Finance & Maintain Projects
- Common Good Loans
- RSL Loans
- Third Party Loans.

6.8 Whilst no such investment is currently built into either the period of the current capital plan (2020/2025) or the wider long term affordability calculations (extending up to 2045/46), some of the ongoing Tay Cities Deal work may fall into this non-treasury category and any future proposals in this regard will be brought to committee as necessary. Furthermore, there are three specific investments that require to be highlighted – the land that Carnoustie Golf Hotel sits on, East Central HubCo and home loans.

6.9 The most notable investment that could perhaps be classified as commercial relates to the land that the Carnoustie Golf Hotel sits on. Whilst the hotel itself is very much a commercial enterprise, Angus Council had this land in its ownership long before a hotel was built upon it. In other words, the land was not specifically purchased for the purpose of constructing a hotel. Furthermore, the income generated from the lease of the land is minimal in this regard, with little associated risk and no borrowing attached. This particular arrangement is therefore only highlighted for completeness of reporting purposes rather than due to any commercial or financial related risk.

6.10 Report 72/14 to the Policy & Resources Committee permitted the council's investment in East Central HubCo projects. That report also approved the amending of the Investment Strategy at that time to include subordinated debt in East Central HubCo projects, setting appropriate duration and exposure limits. It also clearly identified the potential risks. Whilst at the time of writing report 72/14 no investment opportunities were available to the council, investment has since been made (through the taking up of subordinated debt financing) in the Forfar Community Campus and Arbroath Schools projects.

6.11 In respect of home loans, there are a number of existing ongoing loans on the council's balance sheet. Whilst the issuing of new loans is rare, they can occur in circumstances where the council has an obligation as lender of last resort in the case of non-standard construction properties that were previously owned by the council under the Housing Revenue Account.

6.12 Notwithstanding, should the council decide to pursue any non-treasury commercial arrangements in the future, their scrutiny and approval in terms of financial and risk implications would require to be considered in full through the appropriate committee (as demonstrated in report 72/14).

6.13 Based on the above the extent to which a balanced budget and Council Tax calculation is dependent upon commercial activity is at the present time non-material as far as Angus Council is concerned.

Commercialisation Strategy – Enterprising Angus

6.14 Report 104/20 sets out the council's commercialisation strategy, known as Enterprising Angus, along with a two year action plan designed to introduce a more commercial approach to delivering services whilst building upon the work already being done by services to reduce costs and re-design services.

6.15 Importantly, the strategy is not about income generation and the associated large-scale commercial activity that has been embraced by a number of English local authorities (e.g. commercial property investment). Not only does Scotland's regulatory framework permit less scope to become involved in such commercial activity but the Public Works Loan Board will no longer lend to local authorities if they have plans to undertake any such projects within their capital programmes.

6.16 In its simplest form the strategy is intended to ensure the council will be more commercial, more business-like, in its approach to delivering services by:

- Making sure we get maximum value when we buy the goods and services we need;
- Making sure we properly understand what it costs to provide our services – gross and net;
- Making sure we know what drives our costs and incomes and using this information to inform our decisions;
- Making sure we design services in a way which meets our citizens needs in an efficient way; and
- Taking the right opportunities to cost recovery and where appropriate generate income to support service provision.

6.17 By adopting such a strategy the council is aiming to integrate commercial activities and a commercial mind-set, into the core of how it operates. Progress with implementation of Enterprising Angus has been severely disrupted by COVID-19 during financial year 2020/21.

7 OTHER LONG-TERM LIABILITIES

7.1 Angus Council has entered into a number of long-term contracts that, despite their ongoing funding being from revenue resources, classify as 'long term liabilities' for the purposes of capital affordability and sustainability.

7.2 These long-term liabilities are split into two broad categories – finance leases and PFI / PPP type contracts.

Finance Leases

7.3 The council has acquired three buildings under finance leases:

- Scutching Mill (Strategic Policy & Economy – industrial unit at Kirkton Industrial Estate, Arbroath)
- Glenloch Centre (Angus Health & Social Care Partnership – rehabilitation centre for adults with a physical disability at Whitehills Health & Community Care Centre, Forfar)
- Residual Waste Treatment Plant (Environmental Services, in partnership with Dundee City Council).

The most significant (and in financial terms, material) of the above leases is the Residual Waste Treatment Facility in Dundee which, following the closure of Restenneth Landfill Site, processes all of Angus' non-recyclable waste. Further detail on these leases can be found within note 24 of Angus Council's 2019/20 Annual Accounts and may be accessed through this link.

7.4 Any impact from the introduction of the accounting standard for leases - IFRS 16 (International Reporting Standard) - will require to be taken into account when it comes into effect from 1 April 2022. IFRS 16 will require lessees to recognise leases on the balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments. Fully complying with IFRS 16 and ensuring the council's 2022/23 year end accounts have been prepared in accordance with the standard is a major exercise that will require the input of officers from a wide range of council services, not just Finance. All leases, including potentially 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 position and on an ongoing basis.

7.5 Work to prepare for IFRS 16 is already underway and will continue during the 2021/22 financial year, however it will not be a quick or easy process identifying and then measuring every lease under IFRS16 the council is entered into. The outcome of this extensive extercise will require to be reflected within future capital related reports, including the Treasury Management Strategy Statement and Prudential Indicators.

PFI / PPP and Similar Contracts

7.6 The council has entered into five Private Finance Initiative (PFI) / Public Private Partnership (PPP) or similar contracts:

- A92 Dual Carriageway (Roads & Transportation)
- Beech Hill House, Forfar (Angus Health & Social Care Partnership)
- Forfar / Carnoustie Schools (Schools & Learning)
- Forfar Community Campus (Schools & Learning)
- Arbroath Schools (Schools & Learning).

7.7 Further detail (including project descriptions and contract duration) on the above PFI / PPP projects can be found within Note 23 of Angus Council's 2019/20 Annual Accounts and may be accessed through this link.

Governance Arrangements

7.8 Given their scale, the development of high value, long term projects such as the residual waste treatment facility and Arbroath Schools would generally be done via a dedicated project group, usually reporting to a project board. Periodic update reports would be provided to the relevant committee, with final approval on the procurement, funding arrangements, financial implications and timescale commitment requiring to be sought from committee also.

7.9 The financial monitoring of such long-term liabilities is undertaken by the appropriate divisions in conjunction with Finance officers. As the ongoing financial implications are generally revenue in nature (in the form of monthly unitary charge or lease payments), this is wrapped up within the monthly revenue monitoring procedures that are in place, including periodic revenue monitoring reports to the Policy & Resources Committee.

Material Financial Guarantees

7.10 The Treasury Management Code requires a register of non-treasury management investments and financial guarantees to be maintained and regularly reviewed, including periodic reassessment of the probability of financial guarantees being called upon.

7.11 Details of material financial guarantees are disclosed in the council's annual accounts. The latest annual accounts available relate to 2019/20 (link attached) and information on financial guarantees forms part of note 28 – Financial Instruments.

8 KNOWLEDGE AND SKILLS

8.1 The Treasury Management Code of Practice requires that members with responsibility for treasury management have access to adequate training in treasury management. In this regard the last briefing session for members was held on 2 November 2020, which focussed at a high level on the basic principles of our treasury management activity and the loans fund review. Further briefing / training sessions will be arranged by the Director of Finance as required.

8.2 As treasury management is a highly technical and specialist area, the council recognises that there is value in employing external treasury management advisers to access specialist skills and resources and currently uses Link Asset Services in this regard following a tender process. Responsibility for treasury management decisions however remains with the council at all times and officers within the treasury management section will ensure that undue reliance is not placed upon the external advisers.

8.3 Day to day operational duties are carried out in-house by a treasury team within Finance. In order to carry out these duties, as well as to take forward the more strategic aspects of treasury, the knowledge and skills of all those involved is kept up to date through the following methods:

- receiving regular updates from both Link (our external advisers) and other appointed brokers with regard to counterparty ratings, interest rates, general economic conditions, etc.;
- access to the Passport system which is operated by Link and provides a wealth of data and information, both current and historic, on treasury related topics;
- quarterly meetings with Link to discuss Angus Council's treasury position;
- periodic benchmark meetings to share knowledge on treasury matters with other Scottish local authorities; and
- attendance at workshops and seminars as required – these are often run by Link or CIPFA.

9 OVERALL CONCLUSIONS FROM CAPITAL STRATEGY

9.1 Angus Council has in place well established treasury management and capital budgeting policies, processes and procedures, including the 25-year long term affordability assessment that is carried out annually. This capital strategy highlights the many documents, linkages and workflows that exist across the council in order to produce on an annual basis General Fund and Housing capital budgets that are in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

10 FINANCIAL IMPLICATIONS

10.1 There are no specific financial implications associated with this 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.

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