

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 4 MARCH 2021

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 2020/2025 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 73/21 refers) and prudential indicators report (report 77/21 refers);
- 1.3 Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2020/2025 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;
- 1.5 Approve that the finalisation and implementation of the Loans Fund Review be deferred until financial year 2021/22 on the basis for and the reasons set out in Section 4 of this report;
- 1.6 Agree, based on recommendation 1.5, to limit the use of the special repayment strategy in 2020/21 in order to part fund, on a one-off basis, the Change Programme saving relating to the Loans Fund Review;
- 1.7 Approve the updated capital project priority list attached at Appendix 2;
- 1.8 Note the specific issues highlighted in section 11 of this report regarding the prospects for future capital funding and the implications for Angus Council and the decisions it makes on capital spending;
- 1.9 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
- 1.10 Note that any update required to the long-term affordability resulting from the review of Angus Council's loans fund will be brought to Council for approval in due course.

2 ALIGNMENT TO COUNCIL PLAN / COMMUNITY PLAN

- 2.1 The undertaking of a review of the long-term affordability of the 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 the Community Plan.

3 BACKGROUND

- 3.1 The Provisional Revenue & Capital Budgets 2021/22 - Background Report (report 68/21 refers) set out the background to the preparation of the council's General Fund Capital Budget 2021/22 and 2020/2025 Capital Plan. That report highlighted the need to comply with a self-regulating Prudential Code when setting the capital budget, including the requirement to set an annual capital strategy (report 73/21).
- 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 three 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 2020/2025 Capital Plan (report 71/21 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 continue to 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.
- 3.7 Furthermore, both the revenue and capital budgets for 2021/22 have been prepared within the context of the ongoing COVID-19 pandemic. This has included consideration of fiscal flexibilities, the package of measures identified by the Scottish Government for local authorities to utilise – should doing so be deemed prudent and appropriate – in order to address the funding pressures faced due to the pandemic. A separate report on the budgetary impact from COVID-19 and potential use of fiscal flexibilities has been prepared for consideration at the Special Council meeting on 4 March 2021 (report 72/21 refers).

4 REVIEW OF ANGUS COUNCIL'S LOANS FUND - UPDATE

- 4.1 The Local Authority (Capital Financing and Accounting) (Scotland) 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.
- 4.3 Whilst Link have concluded their review and provided a draft report, the application of the review findings (in particular the phasing of the savings) still requires to be finalised. The Director of Finance recommends that finalising the Loans Fund Review (originally intended to be implemented in financial year 2020/21) be deferred to financial year 2021/22. This deferral will allow the council to conclude on whether it requires to use the COVID-19 fiscal flexibilities (report 72/21 refers) prior to implementation of the savings from the Loans Fund Review. This will allow full exploration of the various options for maximum benefit to the council. As with any use of the fiscal flexibilities, the finalised outcome of the Loans Fund Review, and its impact on long-term affordability, will be brought before Council for approval prior to its implementation.
- 4.4 There is a saving from the corporate loan charges budget (which meets the costs associated with loans fund advances – repayment of principal, interest and expenses) of £2.0 million within the Change Programme in 2020/21. A deferral of the Loans Fund Review would mean a shortfall arising in the 2020/21 revenue budget but this can be covered on a one-off basis by limiting the

use of the special repayment strategy in 2020/21 (£1.5 million) and through use of uncommitted Reserves of £0.5 million.

- 4.5 In 2021/22 the £2.0 million saving has been reflected in the base loan charges budget (£11.051 million), as set out in the Provisional Revenue and Capital Budgets 2021/22 – Background Report (report 68/21). It cannot be reflected in this long-term affordability assessment however until the Loans Fund Review is fully implemented during 2021/22, hence the loan charges budget of £13.051 million detailed in Appendix 1 of this report.

5 2021/22 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

- 5.1 As noted in the background report (report 68/21 refers) funding allocations have been provided for 2021/22, per Table 1 below, with funding for 2020/21 shown for comparison purposes:

Table 1 – 2021/22 Capital Grant Settlement

	2021/22 £m	2020/21 £m
General Capital Grant	10.448	12.442
Specific Capital Grant – Cycling, Walking & Safer Streets	0.509	0.511
Specific Capital Grant – Town Centre Improvement Fund	n/a	0.387
Specific Capital Grant – Early Years Expansion	n/a	2.200
Total Capital Funding	10.957	15.540

- 5.2 Loan charges support grant in 2021/22 has been confirmed in line with expectations at £8.191 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 debt position. It is considered beneficial at this time to retain the approach of using a portion of loan charges budget headroom (where available) 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 work to conclude the Loans Fund Review.
- 6.3 Based on the proposals in Section 4 of this report for financial year 2020/21, only a small special repayment will be possible (some £46,000) and there will be no balance of headroom available to carry forward for use against budget pressures (in the form of Capital Funded from Current Revenue – CFCR) in the following year. Nevertheless, use of available headroom will continue to be considered and approval sought as necessary 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.**
- 6.5 The ongoing effects of the proposed continuation of special repayments 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 2020/2025 Capital Plan as detailed in Table 2 below:

Table 2 – Annual Core Capital Allowances

Directorate / Division	£m
Infrastructure <ul style="list-style-type: none"> Property capitalised maintenance Roads capitalised maintenance 	0.300 4.000
Environmental Services <ul style="list-style-type: none"> Ground maintenance machinery replacement programme General vehicle replacement programme 	0.100 0.100
Schools & Learning <ul style="list-style-type: none"> Information & communication technology (ICT) equipment 	0.250
Digital Enablement & Information Technology <ul style="list-style-type: none"> 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	Net Cost £m
Strategic Policy & Economy <ul style="list-style-type: none"> Property Portfolio Improvements (for future budget cycles it will be proposed that a core capital allowance (per paragraph 7.2) of £50,000 be built into the capital plan for property portfolio improvements) 	0.200
Communities <ul style="list-style-type: none"> Sandy Sensations, Carnoustie – Replacement of Boundary Fence Restenneth Landfill Leachate Treatment System General Vehicle Replacement Programme 	0.140 nil * 0.389
Infrastructure <ul style="list-style-type: none"> Capital Maintenance – Boilers / Electrical Distribution Boards / Electric Heating Systems Pavement Parking Assessment & Implementation Arbroath Harbour Cathodic Protection Reservoir Infrastructure Repairs 	0.740 nil * 0.120 0.285
Education & Lifelong Learning <ul style="list-style-type: none"> Replacement of Monifieth High School (see section 8 below) 	37.1 **
Digital Enablement & Information Technology <ul style="list-style-type: none"> Data Integration 	nil *
Tay Cities Deal <ul style="list-style-type: none"> Rural Highspeed Broadband 	nil *
Total Additional Allowances / New Priority Projects	38.974

* these are new projects which are intended to be fully funded from other sources, e.g. from new or specific grant funding.

** the total cost of the replacement is £47.1 million (net), however an allowance of £10.0 million had already been built into the capital programme through the 2020/21 capital budget and long-term affordability assessment.

7.4 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 2020/2025 Capital Plan. This includes the £6.0 million provision previously agreed for Tay Cities Deal projects which is now reflected within the body of the capital plan itself.

Table 4 – Net Capital Expenditure

2020/2021 £m	2021/2022 £m	2022/2023 £m	2023/2024 £m	2024/2025 £m
14.240	26.321	23.210	31.083	30.760

- 7.5 The general capital contingency if all the capital budget proposals are agreed will be £4.473 million.
- 7.6 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.
- 7.7 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 2020/2025 Capital Plan.

8 REPLACEMENT OF MONIFIETH HIGH SCHOOL (ANGUS SCHOOLS FOR THE FUTURE)

- 8.1 At an estimated gross capital cost of £50.0 million (reducing to some £47.1 million once anticipated developer's contributions and early years funding has been taken into account) and spread over financial years 2021/22 to 2026/27, the replacement of Monifieth High School has dominated the affordability calculations for the 2020/2025 Capital Plan.
- 8.2 The Scottish Government has confirmed an intention to support the project as part of its Learning Estate Investment Programme (LEIP) but as yet no further details on grant funding to support the project has been confirmed. For the purposes of this report it has been assumed that grant support to be provided to the council will be revenue in nature and be for facilities management and lifecycle maintenance costs on the new facility. A broad assumption that this grant support will equate to 50% of the upfront build costs has been made in line with LEIP national modelling. Furthermore, in order for the council to receive the full grant it has been allocated, a number of key outcomes will require to be met with regard to condition of the building, energy efficiency, digital enablement and economic growth. There is, therefore, an element of risk with regard to the delivery of these outcomes and thus securing all of the available funding which will be addressed in future committee reports.
- 8.3 What is known with certainty however is that none of this grant is available to finance the upfront capital cost of the project – the full £50.0 million (estimated gross cost) must be borne in its entirety by Angus Council, along with the associated loan charges costs that this will incur. A provision of £10.0 million had already been set aside within the capital programme for the school, approved as part of the 2020/21 budget process last year.
- 8.4 In order to fully accommodate the Monifieth High School project it has been necessary to make an assumption on the uplift required to the loan charges budget going forward. This cannot be fully confirmed until more information is available about the grant award and analysis is undertaken on the potential savings to existing budgets that may arise from the new facility. For the purpose of informing this report however, it has been assumed that an uplift of £1.1 million will be required into the base loan charges budget from 2024/25 onwards. This has been calculated based on how much it would cost to borrow £25.0 million (i.e. 50% of the gross cost) over 25 years (the assumed period over which the government will provide grant). Once confirmation of government funding for the project has been confirmed the long-term affordability assessment in this report will be updated.
- 8.5 Building the financing of Monifieth High School through borrowing into the long-term affordability calculation has significantly increased the level of estimated capital resources reflected in the project priority list at Appendix 2 when comparing against the equivalent appendix from 2020/21 – an increase of £21.085 million. It is the assumption with regard to the £1.1 million loan charges uplift (per paragraph 8.4) that has enabled the level of capital resources available to be increased in this way.

9 AFFORDABILITY ASSESSMENT - ASSUMPTIONS

- 9.1 Starting with an update of the 2020/21 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. 2020/21 to 2045/46) 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 and other contributions; and
- estimated levels of borrowing.

9.2 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 10 below.

10 AFFORDABILITY ASSESSMENT - OVERALL SUMMARY POSITION

10.1 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.

10.2 A projected peak in new borrowing in 2023/24 and 2024/25 is evident, relating in the main to the replacement of Monifieth High School.

10.3 Section 3 of Appendix 1, highlights that over the period of the capital plan (i.e. up to and including 2024/25), only a small amount of budget headroom is evident - some £430,000 in 2021/22. This may be made available to support future budget priorities and the 2022/23 budget strategy.

10.4 Beyond 2024/25, 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.

10.5 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.

10.6 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.

11 CAPITAL FUNDING PROSPECTS AND IMPLICATIONS FOR FUTURE CAPITAL SPENDING

Funding Prospects

11.1 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.

11.2 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.

11.3 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 challenging financial position that the council may well face, as well as recognising the revenue budget and capital investment pressures the council will face.

Implications

- 11.4 The updated affordability assessment set out in this report confirms that whilst the impact of the replacement of Monifieth High School can be managed in the short to medium term, this has only been possible by reducing the level of capital expenditure projected to be affordable in future years. Capital expenditure from 2025/26 onwards is now projected to be £14.0 million per annum compared to the £17.5 million per annum assumed in the 2020/21 budget and long-term affordability assessment. Some issues could still 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.
- 11.5 In particular it is vital that members recognise that after the significant levels of capital spend planned over the next few of years (largely as a result of the replacement of Monifieth High School), there is then a period where lower spending is projected to be affordable based on current assumptions. The specific issue to recognise is that capital spending over the coming years will be much higher than the Council is likely to be able to afford thereafter.

This has three 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 more 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 2024/25 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

- 11.6 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:
- Replacement of Monifieth High School (Angus Schools for the Future)
 - Arrats Mill – Implementation of Closure Plan
 - Flood Risk Management Duties
 - Route Action Plan – Montrose to A90 Road Link.

These projects must have first call on the resources available from 2025/26 onwards as works will have already commenced in the year(s) prior to this.

- 11.7 In order to get a picture of how the capital plan will look into the future, Table 5 projects the estimated capital expenditure (on a net basis) for a further 6 years beyond the current 5 year period (from 2025/26 to 2030/31), specifically highlighting the aforementioned projects. Members are asked to note that the phasing shown is necessarily indicative only at this point.

Table 5 – Future Capital Plan

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
Estimated Net Expenditure:						
Replacement of Monifieth High School	1.900	0.720	-	-	-	-
Arrats Mill – Implementation of Closure Plan	0.029	0.029	0.029	0.029	0.029	0.029
Flood Risk Management Duties	1.400	1.400	-	-	-	-
Route Action Plan – Montrose to A90 Road Link	3.639	-	-	-	-	-
Other Priority Capital Projects (specific projects to be confirmed in future budgets)	7.032	11.851	13.971	13.971	13.971	13.971
Total Net Expenditure	14.000	14.000	14.000	14.000	14.000	14.000
Estimated Funding:						
General Capital Grant	10.650	10.650	10.650	10.650	10.650	10.650
Corporate Capital Receipts	0.100	0.100	0.100	0.100	0.100	0.100
Borrowing	3.250	3.250	3.250	3.250	3.250	3.250
Total Funding	14.000	14.000	14.000	14.000	14.000	14.000

- 11.8 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.

12 OVERALL CONCLUSIONS FROM AFFORDABILITY ASSESSMENT

- 12.1 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.
- 12.2 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.
- 12.3 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 2020/2025 Capital Plan are regarded as top priority even if further new projects come forward.

13 FINANCIAL IMPLICATIONS

- 13.1 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:

- Appendix 1 Affordability Analysis: 25 Year Projection
Appendix 2 Capital Project Priority List: 2020/21 – 2024/25
Appendix 3 Affordability Assessment Key Assumptions