

# 2021/2026 CAPITAL PLAN - INTRODUCTION

## **The Prudential Code**

The 2022/23 capital budget has been prepared by Angus Council under the self-regulating Prudential Code regime (CIPFA Prudential Code for Capital Finance in Local Authorities, 2017 Edition). CIPFA published the revised Prudential Code in December 2021, but this is not required to be formally adopted until the 2023/24 financial year. The 2022/23 capital budget has been prepared under the 2017 Edition of the Prudential Code.

The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, as well as being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal. Under the Prudential Code the level of capital expenditure is not the key influence within the setting of the capital plan, rather the affordability and sustainability of the revenue consequences of capital investment decisions are the major factors. It is within this context that the 2021/2026 Capital Plan has been prepared.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code requires the council to set a number of indicators covering affordability, capital expenditure, prudence and external debt and these are detailed in report 69/22.

## **Capital Strategy**

The Prudential Code requires the production of a capital strategy, the purpose of which 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 and affordability. Angus Council's capital strategy for 2022/23 is reflected in report 66/22.

## **Capital Resources 2022/23**

Under the Prudential Code it is not necessary to determine a finite level of capital resources available. Rather the council must determine the capital financing costs which will be generated by the borrowing associated with the capital expenditure proposed and the affordability and sustainability of these costs and any other associated ongoing revenue costs in terms of the overall revenue budget.

The principal means of funding capital expenditure comes from the following sources:

- borrowing
- Scottish Government capital grants
- contributions from other external sources
- capital receipts from the sale of surplus assets
- capital financed from current revenue (CFCR).

### *Borrowing*

A significant level of the council's capital expenditure is, and will continue to be, funded through borrowing. Whilst the council is not currently constrained by an annual borrowing limit it is limited by the level of loan charges (also known as capital financing costs) arising from borrowing which the revenue budget can afford.

A considerable proportion of the borrowing is currently funded by the Scottish Government through loan charges support grant, with the strategy continuing of not providing loan charges support grant for new borrowing incurred during 2022/23 (this is what was previously termed supported borrowing). Loan charges support grant for capital borrowing incurred up to and including 2010/11 will continue to be received from the Scottish Government.

It should also be noted that the Scottish Government retains the power to impose capital borrowing limits both nationally and on individual local authorities if it determines that this is required.

### *Scottish Government Capital Grant*

Finance Circular 9/2021 (issued on 20 December 2021) provided details of funding allocations for 2022/23. No definitive information is available for 2023/24 onwards. Table 1 details Angus Council's capital support in 2022/23, with 2021/22 shown for comparison purposes:

**Table 1 – Provisional Government Grant Allocation**

Funding Source	2022/23 £000	2021/22 £000
General Capital Grant	10,982	10,448
Additional General Capital Grant	n/a	408
Specific Capital Grant - Cycling, Walking & Safer Streets	507	509
Total Support for Capital	11,489	11,365

It should further be noted that where general capital grant is being used to fund third party capital expenditure (i.e. capital expenditure on assets which do not belong to Angus Council), this is reflected within the relevant departmental capital programme under the heading 'Non Enhancing Expenditure'. In this regard, general capital grant totalling £0.562 million has been directly applied to projects within the capital plan in 2022/23, revising the general capital grant available to fund Angus Council capital projects to £10.420 million.

#### *Corporate Capital Receipts*

Corporate capital receipts from the sale of council assets can be utilised to reduce the level of borrowing required and this is anticipated to be in the region of £0.250 million in 2022/23. It should be noted that where Policy & Resources Committee approval has been given for a capital receipt to be ring-fenced against a particular project, this is reflected against the project in the capital plan itself.

#### **Capital Project Prioritisation**

The 2021/2026 Capital Plan has been formed on the basis of a number of existing priority capital projects, as agreed by the Policy & Budget Strategy Group (PBSG) and Council Leadership Team.

Bids for new priority projects / programmes were also considered and a number of additional projects were added in to the 2021/2026 Capital Plan (see report 65/22 for detail).

Furthermore, to recognise that the progress of capital projects is very fluid, it was accepted by the PBSG that the priority capital projects should continue to be taken forward on the basis of allowing an oversubscription of expenditure up to a maximum of 12.5%. This level of maximum oversubscription is considered to be manageable and reflects the likelihood of an element of unavoidable project slippage arising.

#### **Departmental Borrowing 2022/23**

Table 2 details those project(s) whose capital financing costs are to be funded directly from departmental revenue budgets in 2022/23. Mechanisms are in place to ensure the transfer of departmental revenue resources into the Council's capital financing cost budget.

**Table 2 – Departmental Borrowing 2022/23**

Project / Programme	Departmental Borrowing 2022/23 £000	Loan Charges Met By
Waste Vehicle Replacement Programme	2,354	Vibrant Communities & Sustainable Growth – Environmental Services
Total Departmental Borrowing	2,354	

#### **2021/2026 Capital Plan and 2022/23 Capital Budget**

The 2021/2026 Capital Plan details, for the General Fund, the total cost and phasing of those priority capital projects anticipated to be undertaken by Angus Council in the foreseeable future. The costs of each project are shown on an outturn basis, i.e. including an allowance for inflation. For budget planning purposes the capital

expenditure on each departmental capital programme is differentiated between that which is anticipated to be legally committed by 31 March 2022 and that which is not anticipated to be legally committed by 31 March 2022.

The estimated net capital expenditure detailed for 2022/23, totalling £27.111 million, is the council's proposed capital budget for the forthcoming financial year. Table 3, below, details the projected level of new corporate borrowing required in 2022/23 after accounting for the agreed contingency and oversubscription levels, anticipated slippage, capital receipts, capital grant and other funding elements. The table also highlights how much of this borrowing results from projects funded directly by departments and how much will be supported by the corporate loan charges budget. The current projected positions for 2023/24, 2024/25 and 2025/26 have also been shown for information.

**Table 3 – Capital Expenditure and Financing**

Capital Expenditure / Funding Source	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Total Net Capital Expenditure per 2021/2026 Capital Plan	<b>27,111</b>	39,074	35,659	10,270
<i>Add: Contingency (not in 2021/2026 Capital Plan)</i>	<b>188</b>	941	941	1,693
<i>Remove: Oversubscription Level</i>	<b>(3,581)</b>	(3,581)	(3,581)	(3,581)
<i>Less: Anticipated Corporate Capital Receipts</i>	<b>(250)</b>	(250)	(100)	(100)
<i>Less: General Capital Grant</i>	<b>(10,420)</b>	(9,842)	(9,842)	(9,850)
<i>Less: Capital Fund Contribution</i>	<b>(210)</b>	-	-	-
<i>Less: Corporate CFCR</i>	<b>(1,783)</b>	(600)	-	-
<b>New Borrowing</b>	<b>11,055</b>	25,742	23,077	*(1,568)
Total New Borrowing (per above)	<b>11,055</b>	25,742	23,077	(1,568)
<i>Less: Departmental Borrowing Element</i>	<b>(2,354)</b>	(1,953)	(1,710)	-
<b>New Corporate Borrowing Funded by Loan Charges Budget</b>	<b>8,701</b>	23,789	21,367	(1,568)

\* No new borrowing is projected to be required in 2025/26 as resources exceeds expenditure.

A thorough exercise has been carried out by Finance officers to assess the long-term affordability of the 2021/2026 Capital Plan (report 68/22 refers). Looking at the position over 25 years, from 2022/23 to 2046/47, a detailed comparison of projected loan charges grant, assumed loan charges budget and projected loan charges costs arising from both past and projected capital expenditure has been undertaken.

Furthermore, the 2022/23 capital budget proposals have been assessed in the terms required by the Prudential Code (as detailed further in report 69/22 to be considered at the Special Angus Council meeting) and are considered to be both affordable and sustainable in the context of the 2022/23 budget proposals per report 65/22.