

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 3 MARCH 2022

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 2021/2026 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 66/22 refers) and prudential indicators report (report 69/22 refers);
- 1.3 Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2021/2026 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 Note that a report concluding the finalisation and implementation of the Loans Fund Review will be considered by Angus Council on the 10 March 2022.
- 1.6 Approve the updated capital project priority list attached at Appendix 2;
- 1.7 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;
- 1.8 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 review of Angus Council's loans fund will be reflected in next year's report..

2 ALIGNMENT TO COUNCIL 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.

3 BACKGROUND

- 3.1 The Provisional Revenue & Capital Budgets 2022/23 - Background Report (report 62/22 refers) set out the background to the preparation of the council's General Fund Capital Budget 2022/23 and 2021/2026 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 66/22).

- 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 for the last decade or so.
- 3.4 Using the updated capital spending intentions as contained in the 2021/2026 Capital Plan (report 65/22 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.

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 Asset Services concluded their initial review in 2020/21 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 recommended 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 would 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. However, while the flexibility to use capital receipts differently and defer loans fund repayments remain available to the Council these can only be used towards COVID-19 costs (rather than other budget pressures) and since the Council has yet to fully spend all of the previous funding provided for COVID-19 (Report 285/21 refers) there is currently no basis for use of these flexibilities in setting the 2022/23 budget. A third fiscal flexibility in relation to service concession payments is still under discussion with Scottish Government but the outcome of those discussions will not be concluded until well after the Council has set its budget. In light of this the fiscal flexibility measures from the Scottish Government have not been considered during 2021/22 and are not part of the 2022/23 capital budget. During 2021/22 a request was made to Link Asset Services to update their Loans Fund report which has now been received and this will be presented to Angus Council on the 10 March 2022. Any impact on the long-term affordability, will be reflected in next year's report.
- 4.4 There was a saving from the corporate loan charges budget (which meets the costs associated with the loans fund advances (repayment of principal, interest and expenses) of £2.0 million within the Change Programme in 2020/21. The deferral of the Loans Fund Review meant a shortfall arising in the 2020/21 revenue budget but this was 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). In 2022/23 the £2.0 million has also been reflected in the loan charges budget (£10.958 million), however it cannot be reflected in this long-term affordability assessment until the Loans Fund Review is fully implemented during 2021/22, hence the loan charges budget of £12.958 million detailed in Appendix 1 of this report.

5 2022/23 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

- 5.1 As noted in the background report (report 62/22 refers) funding allocations have been provided for 2022/23, per Table 1 below, with funding for 2021/22 shown for comparison purposes:

Table 1 – 2022/23 Capital Grant Settlement

	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 Capital Funding	11,489	11,365

- 5.2 Loan charges support grant in 2022/23 has been confirmed in line with expectations at £7.848 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 2021/22, no special repayments are expected to be possible in the next few years but there is a balance of headroom of £1.283 million available to carry forward for use against budget pressures (in the form of Capital Funded from Current Revenue – CFCR) in the following year. The 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 in any year, as the 25-year projections of this affordability assessment confirm that the budget will be required in full in some 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 2021/2026 Capital Plan as detailed in Table 2 below:

Table 2 – Annual Core Capital Allowances

Directorate / Division	£000
Infrastructure <ul style="list-style-type: none"> Property capitalised maintenance Roads capitalised maintenance 	300 4,000
Environmental Services <ul style="list-style-type: none"> Ground maintenance machinery replacement programme General vehicle replacement programme 	100 100
Education & Lifelong Learning <ul style="list-style-type: none"> Information & communication technology (ICT) equipment 	250
Digital Enablement & Information Technology <ul style="list-style-type: none"> IT hardware refresh programme 	170
Economic Development <ul style="list-style-type: none"> Property Portfolio Improvements 	50
Total Additional Annual Core Capital Allowances	4,970

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 £000
Communities <ul style="list-style-type: none"> Reconfigure the vacant former media centre in Brechin to enable re-let Upgrade and Extension to Forfar Waste Depot staff welfare facilities Parks Infrastructure Repairs/Renewals to Roads, Paths, Walls & Fencing (for future budget cycles it is proposed that a core capital allowance (per table 2 above) of £0.075 million p.a. will be built into the capital plan) The Splash – Boundary Fencing Replacement 	75 250 300 70
Infrastructure <ul style="list-style-type: none"> Window and Screen Replacement Programme Agile programme phase 2 Roads infrastructure Capital Maintenance Arbroath Places For Everyone 	750 147 7,750 1,191
Education & Lifelong Learning <ul style="list-style-type: none"> Universal Free School Meals Expansion Upgrade toilet facilities at Arbroath Academy, Websters High School & Montrose Academy 	*nil 300
Digital Enablement & Information Technology <ul style="list-style-type: none"> Cyber Security Zero Trust Architecture Corporate Infrastructure Renewal Programme Network Infrastructure Renewal Programme 	200 75 120
Angus Health & Social Care Partnership <ul style="list-style-type: none"> Seaton Grove Improvements 	100
Total Additional Allowances / New Priority Projects	14,286

* this is a new project which is expected to be fully funded from specific government grant funding.

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 2021/2026 capital plan.

Table 4 – Net Capital Expenditure

2021/2022 £000	2022/2023 £000	2023/2024 £000	2024/2025 £000	2025/2026 £000
21,121	27,111	39,074	35,659	10,270

- 7.5 The general capital contingency if all the capital budget proposals are agreed will be £3.764 million.
- 7.6 To recognise that progress of capital projects is very fluid, it was agreed by the PBSG that, the capital project priority list should 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.
- 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 12.5% on the basis of the 2021/2026 Capital Plan.

8 SIGNIFICANT CAPITAL PROJECTS

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 is taken into account in the 2021/2026 capital budget) and spread over financial years 2021/22 to 2025/26, the replacement of Monifieth High School has again dominated the affordability calculations for the 2021/2026 Capital Plan and continues to do so.
- 8.2 No grant funding from the Scottish Government will be available to finance the capital cost of the school, however revenue grant funding will be provided to support the project. The council received notification in August 2021 from the Learning Estate Investment Programme (LEIP) that it should anticipate this funding to total £40.4m, payable over 25 years, commencing in financial year 2025/26, on the basis that the school is open to pupils during academic year 2025/26. 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.

Roads Infrastructure Capitalised Maintenance

- 8.3 An additional provision of £7.750 million, allocated over the years 2022/23 to 2025/26 has been made in the Capital Plan for Roads Infrastructure capital maintenance, with a further £3.250 million included for later years, a total of £11.0 million. Committing to this spend has impacted on the number of new projects that can be taken forward.

9 AFFORDABILITY ASSESSMENT - ASSUMPTIONS

- 9.1 Starting with an update of the 2021/22 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. 2021/22 to 2046/47) 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 2025/26), only a small amount of budget headroom of £0.343 million is evident over the five year period, the headroom available in the first 3 years of £1.032 million will be required to support the headroom issue of £0.724 million in 2024/25.
- 10.4 Beyond 2025/26, 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 the funding for core (existing) local government services 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 up to 2032/33 and £14.5 million thereafter, 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 2025/26 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 – Initial Provision for Design, Land, Utilities and Works
- Roads Infrastructure Capital Maintenance

These projects must have first call on the resources available from 2026/27 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 2026/27 to 2031/32), 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

	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000
Estimated Net Expenditure:						
Replacement of Monifieth High School	750	-	-	-	-	-
Arrats Mill – Implementation of Closure Plan	29	29	29	29	29	29
Flood Risk Management Duties	2,800	-	-	-	-	-
Route Action Plan – Montrose to A90 Road Link – Initial Provision for Design, Land, Utilities and Works	3,639	-	-	-	-	-
Roads Infrastructure Capital Maintenance	3,250	-	-	-	-	-
Other Priority Capital Projects (specific projects to be confirmed in future budgets)	3,782	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	100	100	100	100	100	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 2021/2026 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.

14 EQUALITY IMPACT ASSESSMENT

14.1 An Equality Impact Assessment is not required.

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: Gillian Woodcock, Manager (Finance)

EMAIL DETAILS: Finance@angus.gov.uk

List of Appendices:

- Appendix 1 Affordability Analysis: 25 Year Projection
- Appendix 2 Capital Project Priority List: 2021/22 – 2025/26
- Appendix 3 Affordability Assessment Key Assumptions