AGENDA ITEM NO 6(c)

Report 69/22

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL - 3 MARCH 2022

SETTING OF PRUDENTIAL INDICATORS FOR 2022/23 BUDGET PROCESS

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

The purpose of this report is to advise members of the prudential indicators which the council is required to consider and approve as part of the budget setting process.

1 RECOMMENDATIONS

1.1 It is recommended that the council:

(i) Note the purpose of the Prudential Code and the prudential indicators which require to be set, as outlined in **Appendix 1**.

(ii) Note those prudential indicators set out in sections 7 and 8 of the report which are based on 2020/21 actual and 2021/22 estimated outturn information.

(iii) Approve the prudential indicators and narrative relating to financial years 2022/23 to 2025/26 as set out in sections 7 and 8 (tables 1 to 5) of the report in compliance with the Prudential Code requirements.

(iv) Note that any update required to the prudential indicators resulting from the implementation of the review of Angus Council's loans fund will be brought to Angus Council for approval.

2 ALIGNMENT TO COUNCIL PLAN

2.1 The projects undertaken through the council's capital programme reflect the corporate priorities and contribute as a whole to the achievement of those priorities and the specific targets and objectives within the Council Plan.

3 BACKGROUND

3.1 The 2022/23 capital budget has been prepared by Angus Council under the self-regulating 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. Local authorities are required by regulation to comply with the Prudential Code in terms of meeting their statutory duty under Section 35(1) of the Local Government in Scotland Act 2003 to *"determine and keep under review the maximum amount which it can afford to allocate to capital expenditure"*.

3.2 A requirement of the Prudential Code is the need for local authorities to have in place an annual capital strategy. The purpose of the capital strategy is to demonstrate that an authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy should set out the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.3 This prudential indicators report should therefore not be considered in isolation, but rather in the context of the Council's wider capital strategy (report 66/22 refers).

3.4 Appendix 1 to this report provides a brief description of each indicator and its purpose, whilst the remainder of this report presents the indicators themselves that require to be approved.

4 ACCOUNTING CHANGES WITH THE POTENTIAL TO IMPACT ON THE PRUDENTIAL INDICATORS

COVID-19 Pandemic Fiscal Flexibility Measures

4.1 Both the revenue and capital budgets for 2022/23 have been prepared within the context of the ongoing COVID-19 pandemic. Members may recall from the 2021/22 budget setting process and in particular Report 72/21 that what were termed fiscal flexibilities were being made available to Councils as a means of providing flexibility to deal with the cost implications arising from COVID-19. The flexibilities were suggested as a solution at a time when additional funding for COVID-19 was more limited and were something of a fall back solution in the absence of sufficient additional funding. 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.

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Review of Angus Council Loans Fund - Update

4.2 As detailed in report 68/22 on the long-term affordability of the capital programme, the council's treasury advisor, Link Asset Services, have concluded their review of the loans fund and provided an updated report as requested by finance officers. The application of the review findings and the savings will be subject to a report to Angus Council on the 10 March 2022. If the findings of this impacts on the prudential indicators, an update will be brought to Angus Council in due course.

IFRS 16 – Leasing

4.3 IFRS 16 (International Financial Reporting Standard) is a new standard for lease accounting that was due to come into effect on 1 April 2020 but, due to the COVID-19 pandemic, will now do so from 1 April 2022. This standard will require lessees to recognise leases on their balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments. In order to fully comply with IFRS 16 and ensure the council's 2022/23 year end accounts have been prepared in accordance with the standard, all leases (including service contracts) where the council is the lessee (i.e. leasing an asset from a third party) will require to be identified and measured, both in order to establish an initial starting point and on an ongoing basis.

4.4 Work to prepare for IFRS 16 is underway and will continue throughout the 2022/23 financial year, the outcome of which will be reflected within future prudential indicator reports.

5 BASE INFORMATION & RISK ISSUES

5.1 The council is advised that the prudential indicators shown in sections 7 and 8 below have been determined based on the budget proposals contained in the Provisional Revenue Budget Volume 2022/23 (report 64/22) and the 2021/2026 Capital Plan and 2022/23 Provisional Capital Budget Volume (report 65/22). The 2021/2026 Capital Plan covers the five financial years 2021/22 to 2025/26. A number of the indicators presented in this report are calculated for six financial years in total – the 2020/21 actual year end position, latest estimates for 2021/22 and estimates for the 4 years 2022/23 to 2025/26. **The indicators which the council is being asked to formally approve are those relating to financial years 2022/23, 2023/24, 2024/25 and 2025/26, as detailed in tables 1 to 5 of this report**.

5.2 In particular members are asked to note that proposals which would alter the capital financing costs allowance in the 2022/23 Provisional Revenue Budget, the currently estimated capital financing cost levels for 2023/24 to 2025/26 or the proposed capital budgets for 2022/23 to 2025/26 could impact on the prudential indicators to be set.

5.3 The council will be aware that in setting any budget there is a degree of uncertainty and risk involved. The prudential indicators set out in this report are based on the best information available from the Council's intended and projected budgets. Specific comment on any particular risks to be borne in mind is provided where relevant under each of the indicators.

5.4 The prudential indicators for the Housing Revenue Account (HRA) have been reported and considered separately as part of the rent setting process (report 32/22 refers). Members are asked to note however that for some of the treasury management indicators it is not possible to distinguish between General Fund and the Housing Revenue Account and that some of these indicators also include debt relating to the former Tayside Police. Whilst Angus Council is no longer liable for any costs associated with the police debt it continues to manage this debt on behalf of Police Scotland.

6 PRUDENTIAL INDICATORS - INTRODUCTION

6.1 It is important to view the indicators in sections 7 and 8 of this report as a comprehensive and inter-related package which is intended to demonstrate that the council's capital investment plans are prudent, affordable and sustainable. It is emphasised that it is for the council to set its own prudential indicators and in this sense there is no right or wrong answer to be reached for each indicator. The council goes beyond best practice in setting prudential indicators by undertaking a long-term affordability review (over 25 years) of its capital expenditure each year (report 68/22 refers in this regard).

Treasury Management

6.2 The CIPFA Treasury Management in the Public Services Code of Practice (2017 Edition) requires a number of treasury management related indicators to be set and these are reflected in the council's treasury management strategy which will be presented to Angus Council for approval on 10 March 2022.

Monitoring Against Indicators

6.3 The Prudential Code requires performance against forward looking indicators to be monitored with any significant deviations from expectations to be reported to members. This monitoring happens throughout the year as part of ongoing capital and treasury management monitoring and reporting processes. No significant deviations have required to be reported in the past year.

Private Finance, Scottish Futures Trust and Finance Lease Projects

6.4 A number of indicators are impacted by specific International Financial Reporting Standards relating to Public Private Partnerships (PPP) / Private Finance Initiatives (PFI), East Central Territory Hub and finance lease related projects. These standards brought about a change in the accounting treatment of such projects (namely the A92 Dual Carriageway, Beech Hill House, Forfar / Carnoustie Schools, Forfar Community Campus, Arbroath Schools and the finance lease for the Residual Waste Facility in Dundee). Notwithstanding that they have been carried out with private finance with unitary charges paid from the revenue budget, in line with the latest version of the Prudential Code (2017 Edition), they are considered capital in nature and therefore are taken into account for indicators which have a capital connection.

7 PRUDENTIAL INDICATORS FOR PRUDENCE

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

	Actual 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000
Net Expenditure	n/a	21,121	27,111	39,074	35,659	10,270
Add: General Contingency	n/a	0	188	941	941	1,693
Remove: Oversubscription	n/a	0	(3,581)	(3,581)	(3,581)	(3,581)
Add: Receipts / Contributions Netted Off within Capital Plan	n/a	7,489	9,443	10,943	9,361	5,473
Gross Capital Expenditure	22,736	28,610	33,161	47,377	42,380	13,855

7.2 The above figures show some significant movements between years on a net capital expenditure basis, whilst the rise in gross expenditure is more gradual - the main cause of this is the value of the capital projects which are undertaken in any particular year and how they are funded. In 2021/22, there were a large number of early years related projects undertaken by Education & Lifelong Learning which were funded by specific grant from the Scottish Government which has been netted off within the capital plan. Arbroath Flood Strategy is perhaps the most significant single project in 2021/22 and then in both 2023/24 and 2024/25 expenditure associated with the replacement of Monifieth High School reaches its peak.

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

Actual as at 31/03/21 £000	Estimate as at 31/03/22 £000	Estimate as at 31/03/23 £000	Estimate as at 31/03/24 £000	Estimate as at 31/03/25 £000	Estimate as at 31/03/26 £000
232,641	258,239	252,051	261,154	268,365	252,049

7.4 The significant increase in capital financing requirement between 2020/21 and 2021/22 reflects the capital cost of the second phase of the Residual Waste Treatment Facility partnership with Dundee City Council (this was originally expected to be operational during 2020/21, but came on stream in 2021/22). The rise in the capital financing requirement in 2023/24 and 2024/25 reflects when the majority of the building works to replace Monifieth High School will take place. Where there is a reduction in the capital financing requirement between years there is an expectation that the level of debt repaid will exceed the borrowing incurred.

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

EXTERNAL DEBT

7.6 **Table 3 – Authorised Limits**

Commitment	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Borrowing	220,000	220,000	235,000	255,000	255,000
Finance Lease Liabilities	36,000	34,000	32,000	30,000	28,000
PPP / PFI / Hubco Liabilities (Note 1)	114,000	111,000	106,000	102,000	97,000
Total – Authorised Limit for External Debt	370,000	365,000	373,000	387,000	380,000

Note 1: Hubco is the Council's partner in the delivery of the Forfar Community Campus and Arbroath Primary Schools projects.

7.7 **Table 4 – Operational Boundary**

Commitment	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Borrowing	205,000	205,000	220,000	240,000	240,000
Finance Lease Liabilities	36,000	34,000	32,000	30,000	28,000
PPP / PFI / Hubco Liabilities	114,000	111,000	106,000	102,000	97,000
Total – Operational Boundary for External Debt	355,000	350,000	358,000	372,000	365,000

7.8 The increase in both the authorised limit and operational boundary in 2023/24 and 2024/25 is to allow for the peak in expenditure in both years brought about by the replacement of Monifieth High School.

7.9 **Actual External Debt**

Angus Council's actual external debt as at 31 March 2021 was £260.965 million, comprising of:

Liability	£000
Borrowing	141,095
Finance Leases	1,379
PPP / PFI Liability	118,491
Total	260,965

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

Analysis undertaken shows that the Council will have no difficulty in meeting this requirement in 2022/23, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans and the proposals in the revenue and capital budgets (reports 64/22 and 65/22 refer).

8 PRUDENTIAL INDICATORS FOR AFFORDABILITY

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

Actual 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26
9.6%	10.8%	10.3%	10.7%	11.0%	11.4%

8.2 It may be noted from the above table that the level of financing costs expressed as a percentage to net revenue stream is anticipated to increase between 2020/21 and 2025/26. In simple terms, this means that the percentage of the Council's income which will be utilised to fund capital expenditure financing costs is rising but this assumes no increase in revenue income applies in 2023/24 to 2025/26. The financing costs for future years are provided for in report 68/22 on the long-term affordability of the 2021/2026 Capital Budget and as such form part of the consideration of the Council forward planning to address its funding challenges.

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

9 PRUDENTIAL INDICATORS – CONCLUSION

9.1 The prudential indicators laid out in sections 7 and 8 above are considered to provide the council with a robust framework and reflect a capital investment strategy which is prudent, affordable and sustainable. Members of the council are asked to consider the indicators both individually and collectively and decide whether they consider the proposals to be prudent, affordable and sustainable.

9.2 In this regard, reference should also be made to report 68/22 concerning the long-term affordability of the General Fund capital plan.

10 FINANCIAL IMPLICATIONS

10.1 There are no specific financial implications associated with this report which have not been explained in the main body of the report.

11 EQUALITY IMPACT ASSESSMENT

11.1 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.

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:**Appendix 1 – Purpose and Description of the Prudential Indicators**