

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL - 2 MARCH 2023

SETTING OF PRUDENTIAL INDICATORS FOR 2023/24 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 2021/22 actual and 2022/23 estimated outturn information.
- (iii) Approve the prudential indicators and narrative relating to financial years 2023/24 to 2026/27 as set out in sections 7 and 8 (tables 1 to 6) of the report in compliance with the Prudential Code requirements.

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 2023/24 capital budget has been prepared by Angus Council under the self-regulating Prudential Code for Capital Finance in Local Authorities (2021 Edition). CIPFA published the revised Prudential Code in December 2021 which is mandatory from the 2023/24 financial year. 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 59/23 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

Review of Angus Council Loans Fund - Update

- 4.1 The outcome of the review was reported to, and the recommendations therein were approved by Angus Council on 10 March 2022. Full details of the review can be found in report [104/22](#). The amended Loans Fund principal repayments policy has been applied when calculating the prudential indicators in sections 7 and 8 of this report.

Service Concession Arrangements

- 4.2 The Local Government Finance Circular 10/2022 permits the option for Scottish councils to apply additional flexibility to the accounting treatment for service concession arrangements in place before 1st April 2022. Angus Council has four service concession arrangements in place. Report 55/23 on this agenda proposes amendments to the Council's accounting policy in relation to service concession arrangements.

The impact of applying the new accounting policy is that debt in relation to PPP/PFI assets can be repaid over their useful lives rather than the contract term which produces significant savings in the near to mid-term. However, it also will lead to a higher capital financing requirement and the prudential indicators in sections 7 and 8 of this report reflect the impact of this change in accounting policy.

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 following several delays it will finally come into effect across the UK on 1 April 2024. 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 2024/25 Annual 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.

Work to prepare for IFRS 16 is underway and will continue throughout the 2023/24 financial year and the outcome 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 each Directorate's 2023/24 Revenue & Capital Budget Reports. The 2022/2027 Capital Plan covers the five financial years 2022/23 to 2026/27. A number of the indicators presented in this report are calculated for six financial years in total (the 2021/22 actual year end position, latest projected outturns for 2022/23 and estimates for the 4 years 2023/24 to 2026/27). **The indicators which the council is being asked to formally approve are those relating to financial years 2023/24, 2024/25, 2025/26 and 2026/27, as detailed in tables 1 to 6 of this report.**
- 5.2 In particular members are asked to note that proposals which change the capital financing costs budget in the 2023/24 Provisional Revenue Budget, the estimated capital financing cost levels for 2024/25 to 2026/27 or the proposed capital budgets for 2023/24 to 2026/27 could impact on the prudential indicators detailed below.
- 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 39/23 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 60/23 refers in this regard).

Treasury Management

6.2 The CIPFA Treasury Management in the Public Services Code of Practice (2021 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 16 March 2023.

Monitoring Against Indicators

6.3 The Prudential Code requires performance against forward looking indicators to be monitored at least quarterly, 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 (2021 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 2021/22 £million	Estimate 2022/23 £million	Estimate 2023/24 £million	Estimate 2024/25 £million	Estimate 2025/26 £million	Estimate 2026/27 £million
Net Expenditure	n/a	19.046	43.470	46.140	12.503	7.128
Add: General Contingency	n/a	0.000	1.425	1.425	1.425	1.425
Remove: Oversubscription	n/a	0.000	(3.529)	(3.529)	(3.529)	(3.529)
Add: Receipts / Contributions Netted Off within Capital Plan	n/a	5.613	16.235	16.919	3.712	0.000
Gross Capital Expenditure	22.848	24.659	57.601	60.955	14.111	5.024

7.2 The above figures show some significant movements between years on both net and gross capital expenditure. The main increase in estimated expenditure happens in 2023/24 & 2024/25 and this reflects the main construction phase of the Monifieth High School replacement project.

7.3 Table 2 – Actual / Estimated Capital Financing Requirement

Actual as at 31/03/22 £million	Estimate as at 31/03/23 £million	Estimate as at 31/03/24 £million	Estimate as at 31/03/25 £million	Estimate as at 31/03/26 £million	Estimate as at 31/03/27 £million
264.315	278.931	300.560	324.979	315.115	299.514

7.4 The capital financing requirement includes the impact of the application of the loans fund review and service concession flexibility as noted at paragraphs 4.1 and 4.2 respectively.

7.5 The rise in the capital financing requirement in 2023/24 and 2024/25 reflects when most 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 new borrowing incurred.

EXTERNAL DEBT

7.6 Table 3 – Authorised Limits

Commitment	2022/23 £million	2023/24 £million	2024/25 £million	2025/26 £million	2026/27 £million
Borrowing	220.000	235.000	255.000	255.000	255.000
Finance Lease Liabilities	38.000	36.000	34.000	32.000	30.000
PPP / PFI / Hubco Liabilities (Note 1)	134.000	133.000	131.000	129.000	128.000
Total – Authorised Limit for External Debt	392.000	404.000	420.000	416.000	413.000

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	2022/23 £million	2023/24 £million	2024/25 £million	2025/26 £million	2026/27 £million
Borrowing	205.000	220.000	240.000	240.000	240.000
Finance Lease Liabilities	38.000	36.000	34.000	32.000	30.000
PPP / PFI / Hubco Liabilities	134.000	133.000	131.000	129.000	128.000
Total – Operational Boundary for External Debt	377.000	389.000	405.000	401.000	398.000

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. The PPP / PFI / Hubco Liabilities element of this indicator has also been increased to reflect the impact of applying the new accounting policy relating to service concessions.

7.9 Actual External Debt

Angus Council's actual external debt as at 31 March 2022 was £297.329 million, comprising of:

<u>Liability</u>	<u>£million</u>
Borrowing	143.091
Finance Leases	39.966
PPP / PFI Liability	114.272
Total	<u>297.329</u>

7.10 Gross Debt and the Capital Financing Requirement

Analysis undertaken shows that the council will have no difficulty in meeting this requirement in 2023/24, nor are any difficulties envisaged for the current or future years. This view takes into consideration current commitments, existing plans and the proposals in the Provisional Revenue & Capital Budget 2023/24 – Background Report & Setting of the Council Tax 2023/24 (report 54/23 refers).

8 PRUDENTIAL INDICATORS FOR AFFORDABILITY

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

Actual 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
8.6%	8.9%	8.3%	8.6%	8.8%	8.8%

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 only expected to fluctuate marginally between 2021/22 and 2026/27. There is a rise in between 2023/24 and 2024/25 which reflects the additional borrowing required for the Monifieth High School replacement project. The financing costs for future years are provided for in report 60/23 on the long-term affordability of the General Fund Capital Plan and as such form part of the consideration of the Council forward planning to address its funding challenges.

8.3 Table 6 – Actual / Estimated Net Income from Commercial Investments to Net Revenue Stream

Actual 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
0.02%	0.02%	0.02%	0.02%	0.02%	0.02%

8.4 This is a new prudential indicator required by the updated Prudential Code. The income from commercial investments relates to holdings in 10% Fixed Rate Unsecured Loans with Hub East Central (Angus Schools) Limited and Hub East Central (Forfar) Limited of £155,500 and £364,200 respectively. The annual income received on these investments is not significant (around £50,000) and the prudential indicator is shown for completeness.

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 60/23 concerning the long-term affordability of the General Fund capital plan which confirms the Director of Finance's view that the Council's capital spending plans are affordable, prudent and sustainable.

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 screening has been undertaken and a full EIA is not required as there is no impact on people, and it is a technical report concerning accounting policy.

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