

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 2 MARCH 2023

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 2022/2027 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 59/23 refers) and prudential indicators report (report 61/23 refers);
- 1.3 Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2022/2027 Capital Plan is considered to be affordable, prudent and sustainable as required by the Prudential Code;
- 1.4 Approve the updated capital project priority list attached at Appendix 2;
- 1.5 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;
- 1.6 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

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 Budget 2023/24 – Background Report & Setting of the Council Tax (report 54/23 refers) set out the background to the preparation of the council's General Fund Capital Budget 2023/24 and 2022/2027 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 59/23).
- 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, 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 Provisional Revenue & Capital Budget 2023/24 & Setting of the Council Tax (report 54/23 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 2023/24 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

- 4.1 As noted in the Provisional Revenue & Capital Budget 2023/24 - Background & Setting of the Council Tax (report 54/23 refers) funding allocations have been provided for 2023/24, per Table 1 below, with funding for 2022/23 shown for comparison purposes:

Table 1 – 2023/24 Capital Grant Settlement

	2023/24 £m	2022/23 £m
General Capital Grant	10.193	11.093
Additional General Capital Grant	0	0.500
Expansion of Free School Meals	1.876	0.702
Specific Capital Grant - Cycling, Walking & Safer Streets	0.507	0.507
Total Capital Funding	12.576	12.802
Local Government Pay Award	2.518	2.518
Total per Budget Settlement Finance Circular 11/2022	15.094	15.320

- 4.2 Loan charges support grant in 2023/24 has been confirmed in line with expectations at £7.573 million.

5 LOAN CHARGES BUDGET HEADROOM / SPECIAL REPAYMENT STRATEGY

- 5.1 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 should be noted however that the updated long-term affordability assessment is projecting that there will be no scope for special repayments over the next few years from 2023/24 to 2026/27. The use of available headroom will continue to be considered and approval sought as necessary when required.

6 CAPITAL PROJECT PRIORITISATION

- 6.1 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.
- 6.2 As in past years, annual core capital allowances have been added to the 2022/2027 Capital Plan as detailed in Table 2 below:

Table 2 – Annual Core Capital Allowances

Directorate / Division	£m
Infrastructure & Environment	
• Property capitalised maintenance	0.300
• Roads capitalised maintenance	4.000
• Ground maintenance machinery replacement programme	0.100
• General vehicle replacement programme	0.100
• Parks infrastructure repairs	0.075
Education & Lifelong Learning	
• Information & communication technology (ICT) equipment	0.250
Digital Enablement & Information Technology	
• IT hardware refresh programme	0.170

Economic Development	
<ul style="list-style-type: none"> Property portfolio improvements 	0.050
Total Additional Annual Core Capital Allowances	5.045

- 6.3 The PBSG subsequently considered a number of requests for additional allowances / new priority projects and recommended 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
Infrastructure & Environment	
<ul style="list-style-type: none"> Capital maintenance – upgrading of boilers LED lighting upgrades Trauma informed design to locality hubs Window and screen replacement programme General vehicle replacement programme Restenneth landfill capping works Monifieth seafront boardwalk replacement Liff churchyard wall and path works Sleepyhillock cemetery, Montrose - road repairs Western cemetery, Arbroath – road repairs Storm Arwen and Storm Malik clearance Arbroath harbour infrastructure repairs - breakwaters 	0.055 0.100 0.050 1.290 2.045 0.540 0.090 0.039 0.050 0.068 0.050 0.300
Digital Enablement & Information Technology	
<ul style="list-style-type: none"> Migration of core applications to the Cloud Core telephony migration to the Cloud 	0.175 0.070
Total Additional Allowances / New Priority Projects	4.922

- 6.4 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 2022/2027 capital plan.

Table 4 – Net Capital Expenditure

2022/2023 £m	2023/2024 £m	2024/2025 £m	2025/2026 £m	2026/2027 £m
19.046	43.470	46.140	12.503	7.128

- 6.5 The general capital contingency, if all the capital budget proposals are agreed, will be £5.700 million.
- 6.6 To recognise that progress of capital projects is very fluid, the PBSG agreed 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.
- 6.7 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 2022/2027 Capital Plan.

7 SIGNIFICANT CAPITAL PROJECTS

Replacement of Monifieth High School (Angus Schools For The Future)

- 7.1 At an estimated gross capital cost of £56.0 million (reducing to some £53.1 million once anticipated developer's contributions and early years funding is taken into account in the 2022/2027 capital budget) which is spread over financial years 2021/22 to 2026/27, the replacement of Monifieth High School has again dominated the affordability calculations for the 2022/2027 Capital Plan and continues to do so.
- 7.2 No grant funding from the Scottish Government will be available to finance the capital construction 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.

8 AFFORDABILITY ASSESSMENT - ASSUMPTIONS

8.1 Starting with an update of the 2022/23 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. 2022/23 to 2047/48) 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);
- estimated levels of capital expenditure;
- estimated levels of capital grants;
- estimated levels of capital receipts and other contributions; and
- estimated levels of borrowing.

8.2 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.

9 AFFORDABILITY ASSESSMENT - OVERALL SUMMARY POSITION

9.1 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.

9.2 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.

9.3 Section 3 of Appendix 1, highlights that over the period of the capital plan (ie. up to and including 2026/27) the budget headroom/issue row is zero as the Capital Financing Costs budget has been increased to address any issues in each of the years. There is budget headroom of £0.306 million in 2022/23 which will be reported as a saving in the 2022/23 Revenue Budget Outturn report.

9.4 Beyond 2026/27, 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. Over the 25 year period a cumulative budget issue of £3.170 million is evident. This is considered to be a manageable position over such a lengthy period.

9.5 These projected budget issues in some of the future years will require to be managed over the period by a combination of: review of levels of new borrowing on an ongoing basis; and balancing out the budget issues with the budget headroom.

9.6 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 specific 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.

10 CAPITAL FUNDING PROSPECTS AND IMPLICATIONS FOR FUTURE CAPITAL SPENDING

Funding Prospects

10.1 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.

- 10.2 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.
- 10.3 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 faces, as well as recognising the revenue budget and capital investment pressures the council will face.

Implications

- 10.4 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 2027/28 onwards is now projected to be £14.0 million per annum up to 2034/35 and £14.5 million thereafter. 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 review of levels of new borrowing on an ongoing basis and, where possible, balancing out the budget issues with any available budget headroom.
- 10.5 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 2027/28 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

- 10.6 Section 5 of the priority list attached at Appendix 2 details those priority projects which have an element of 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
 - Roads Infrastructure Capital Maintenance

These projects must have first call on the resources available from 2027/28 onwards as works will have already commenced in the year(s) prior to this.

- 10.7 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 2027/28 to 2032/33), 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

	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m
Estimated Net Expenditure:						
Replacement of Monifieth High School	0.045	-	-	-	-	-
Arrats Mill – Implementation of Closure Plan	0.029	0.029	0.029	0.029	0.029	0.024
Flood Risk Management Duties	2.800	3.525	-	-	-	-
Roads Infrastructure Capital Maintenance	3.250	-	-	-	-	-
Other Priority Capital Projects (specific projects to be confirmed in future budgets)	7.876	10.446	13.971	13.971	13.971	13.976
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

- 10.8 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.

11 OVERALL CONCLUSIONS FROM AFFORDABILITY ASSESSMENT

- 11.1 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.
- 11.2 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.
- 11.3 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 2022/2027 Capital Plan are regarded as top priority even if further new projects come forward.

12 FINANCIAL IMPLICATIONS

- 12.1 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.

13 EQUALITY IMPACT ASSESSMENT

- 13.1 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.

REPORT AUTHOR: Darren OShea, Team Leader (Finance)
EMAIL DETAILS: Finance@angus.gov.uk

List of Appendices:

- Appendix 1 Affordability Analysis: 25 Year Projection
- Appendix 2 Capital Project Priority List: 2022/23 – 2026/27
- Appendix 3 Affordability Assessment Key Assumptions