

**ANGUS COUNCIL**

**SPECIAL ANGUS COUNCIL – 29 FEBRUARY 2024**

**LONG TERM AFFORDABILITY OF THE GENERAL FUND CAPITAL PLAN**

**REPORT BY THE DIRECTOR OF FINANCE**

**1. ABSTRACT**

- 1.1 This report summarises the outcome from an assessment of the long-term affordability of the 2023/28 Capital Plan carried out as part of the council's longer-term financial management strategy.

**2. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES**

- 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. RECOMMENDATIONS**

It is recommended that Council:

- (i) Note the contents of this report for its interest and in particular the key assumptions underpinning the affordability assessment;
- (ii) Note that the outcomes from the affordability assessment undertaken have been taken into account where appropriate in the separate capital strategy report (report 67/24 refers) and prudential indicators report (report 69/24 refers);
- (iii) Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2023/2028 Capital Plan is considered to be affordable, prudent and sustainable as required by the Prudential Code;
- (iv) Approve the updated capital project priority list attached at Appendix 2;
- (v) 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;
- (vi) 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.

**4. BACKGROUND**

- 4.1 The Provisional Revenue & Capital Budget 2024/25 – Background Report & Setting of the Council Tax (report 63/24 refers) set out the background to the preparation of the council's General Fund Capital Budget 2024/25 and 2023/2028 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 67/24).
- 4.2 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.

- 4.3 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 and borrowing decisions. The council has therefore adopted a 25-year planning model for the last decade or so.
- 4.4 Using the updated capital spending intentions as contained in the Provisional Revenue & Capital Budget 2024/25 & Setting of the Council Tax (report 63/24 refers), this report advises members of the updated long-term affordability position.
- 4.5 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.
- 4.6 This report has been prepared on a basis which recognises that the council will likely 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.

## 5. 2024/25 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

- 5.1 As noted in the Provisional Revenue & Capital Budget 2024/25 - Background & Setting of the Council Tax (report 63/24 refers) funding allocations have been provided for 2024/25, per Table 1 below, with funding for 2023/24 shown for comparison purposes:

**Table 1 – 2024/25 Capital Grant Settlement**

	<b>2024/25 £m</b>	2023/24 £m
General Capital Grant	<b>8.873</b>	9.823
Specific Capital Grant – Arbroath Floods	<b>0.000</b>	0.518
Specific Capital Grant – Cycling, Walking & Safer Streets	<b>0.503</b>	0.507
<b>Total Capital Funding</b>	<b>9.376</b>	<b>10.848</b>
Local Government Pay Award	<b>0.000</b>	2.509
<b>Total per Budget Settlement Finance Circular</b>	<b>9.376</b>	<b>13.357</b>

- 5.2 Loan charges support grant in 2024/25 has been confirmed in line with expectations at £7.300 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 should be noted however that the updated long-term affordability assessment is projecting that there will be limited scope for special repayments over the next few years from 2024/25 to 2027/28. The use of any headroom which becomes available will continue to be considered and approval sought when required.

## 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 The annual allowances for core maintenance, etc. had not been increased for at least 5 years whilst construction inflation has risen by 27.7% over the same period. Inflation has therefore severely eroded the spending power of those core allowances and with severe weather events becoming more prevalent these allowances will be increased as detailed in Table 2 below. The additional cost of the increase amounts to £1.255m for each year of the capital plan and £5.020m over the life of the 2023/2028 Capital Plan.

**Table 2 – Annual Core Capital Allowances**

Directorate / Division	New Annual Allowance £m	Current Annual Allowance £m
Infrastructure & Environment <ul style="list-style-type: none"> <li>Property capitalised maintenance</li> <li>Roads capitalised maintenance</li> <li>Ground maintenance machinery replacement programme</li> <li>General vehicle replacement programme</li> <li>Parks infrastructure repairs</li> </ul>	0.400 5.000 0.125 0.125 0.100	0.300 4.000 0.100 0.100 0.075
Education & Lifelong Learning <ul style="list-style-type: none"> <li>Information &amp; communication technology (ICT) equipment</li> </ul>	0.300	0.250
Digital Enablement & Information Technology <ul style="list-style-type: none"> <li>IT hardware refresh programme</li> </ul>	0.200	0.170
Economic Development <ul style="list-style-type: none"> <li>Property portfolio improvements</li> </ul>	0.050	0.050
<b>Total Additional Annual Core Capital Allowances</b>	<b>6.300</b>	<b>5.045</b>

- 7.3 The PBSG subsequently considered a number of requests for new priority projects and recommended that the projects detailed in Table 3 (below) should be added to the Capital Plan:

**Table 3 – New Priority Projects**

Directorate / Division	Net Cost £m
Vibrant Communities & Sustainable Growth <ul style="list-style-type: none"> <li>Roads Adoption at Orchardbank Business Park - undertake roads maintenance to bring roads up to an adoptable standard</li> </ul>	0.160
Infrastructure & Environment <ul style="list-style-type: none"> <li>Street Light Replacement – replace columns beyond expected life</li> <li>General Vehicle Replacement Programme – rising cost of vehicles</li> <li>Western Cemetery Replacement – identify new burial sites to maintain long-term provision</li> </ul>	1.000 0.170 1.000
Digital Enablement & Information Technology <ul style="list-style-type: none"> <li>Digitalisation / Automation of Processes and Use of Emerging Technology</li> <li>Data Foundation and Data Architecture – to support new digital and data strategies</li> </ul>	0.300 0.200
<b>Total Additional New Priority Projects</b>	<b>2.830</b>

- 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 2023/2028 capital plan.

**Table 4 – Net Capital Expenditure**

2023/2024 £m	2024/2025 £m	2025/2026 £m	2026/2027 £m	2027/2028 £m
26.210	56.824	27.321	11.319	7.965

- 7.5 The general capital contingency, if all the capital budget proposals are agreed, will be £5.312 million.
- 7.6 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 means budgeting for a level of expenditure 12.5% higher than is considered affordable in the knowledge some planned spending will be incurred later than being budgeted for. 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 2023/2028 Capital Plan.

## **8. SIGNIFICANT CAPITAL PROJECTS**

### **Monifieth Learning Campus**

- 8.1 This is the most significant project within the 2023/2028 Capital Plan, at a revised estimated gross capital cost of £66.5 million. After allowing for anticipated developer's contributions, early years funding and contributions from the capital contingency and general fund reserves, the estimated net cost is £57.6 million. This project has again dominated the affordability calculations for the 2023/2028 Capital Plan and continues to do so.
- 8.2 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 revenue costs arising from the project. The council received an offer of grant in November 2023 from the Learning Estate Investment Programme (LEIP) for up to £47,597,573, payable over 25 years, commencing in financial 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 and completion of the facility no later than August 2025. 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.

## **9. AFFORDABILITY ASSESSMENT - ASSUMPTIONS**

- 9.1 Starting with an update of the 2023/24 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. 2023/24 to 2048/49) 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.
- 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.
- 9.3 Given the unexpected cut to capital grant funding for 2024/25 and the huge pressures on the Council's revenue budget, finance officers have reviewed the assumptions in the long-term affordability assessment and in particular the interest rates which are being assumed. The Council's current strategy of deferring new borrowing until interest rates fall means the interest cost (and rate) payable on our total borrowing will fall in the short term and this reduces the cost of loan charges and allows more new borrowing in the current 5 year capital budget period than would otherwise be considered affordable.
- 9.4 The revisions to the long-term affordability assessment mean that headroom for new borrowing of £9.5 million can be made available for the 2024/25 capital budget process despite the cut in capital grant.
- 9.5 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, 2024/25 & 2025/26 is evident, relating in the main to the Monifieth Learning Campus project.
- 10.3 Section 3 of Appendix 1, highlights that over the period of the capital plan (ie. up to and including 2027/28) the budget headroom is £3.885 million. There is budget headroom of £1.008 million in 2023/24 which will be reported as a saving in the 2023/24 Revenue Budget Outturn report.

10.4 Beyond 2027/28, Appendix 1 also highlights that there is projected to be headroom until 2043/44 onwards in terms of the comparison of estimated loan charges against projected future budget levels. This indicates potential scope for higher levels of spending and borrowing into future years depending on whether other assumptions made in the calculations prove to be what happens in practice. Over the 25 year period a cumulative budget headroom of £32.312 million is evident. This is considered to be a good position from which to consider additional spending in future budgets especially once the very large commitment towards Monifieth Learning Campus has worked its way through.

## **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 faces, 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 Monifieth Learning Campus project 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 2028/29 onwards is now projected to be £12.750 million per annum until 2033/34 and £13.0 million thereafter. These levels of funding are unlikely to be sufficient and the headroom shown in Appendix 1 provides some flexibility to increase them in future.

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 Monifieth Learning Campus), 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.

### Future Years Spend

11.6 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:

- 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 2028/29 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 2028/29 to 2033/34), 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**

	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m
Arrats Mill – Implementation of Closure Plan	0.030	0.030	0.030	0.030	0.019	-
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)	6.670	9.195	12.720	12.720	12.731	12.750
<b>Total Net Expenditure</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>
<b>Estimated Funding:</b>						
General Capital Grant	9.500	9.500	9.500	9.500	9.500	9.500
Corporate Capital Receipts	0.100	0.100	0.100	0.100	0.100	0.100
Borrowing	3.150	3.150	3.150	3.150	3.150	3.150
<b>Total Funding</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>	<b>12.750</b>

- 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 of a significant value into the capital plan over the next few years is likely to be limited. In this regard it is therefore critical that the council is agreed that those projects included in the 2023/2028 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. RISK MANAGEMENT**

- 14.1 The following risks from the Corporate Risk Register are relevant to this report

- Financial Sustainability

**15. ENVIRONMENTAL IMPLICATIONS**

15.1 There are no direct environmental implications arising from the recommendations in this report.

**16. EQUALITY IMPACT ASSESSMENT, HUMAN RIGHTS AND FAIRER SCOTLAND DUTY**

16.1 An Equality Impact Assessment is not required for this specific report as there is no impact on people and it is a technical report concerning accounting policy.

**NOTE:** The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, were relied upon in the preparation of this report :

Finance Circular 8/23 issued by the Scottish Government

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List of Appendices:

Appendix 1 Affordability Analysis: 25 Year Projection

Appendix 2 Capital Project Priority List: 2023/24 – 2027/28

Appendix 3 Affordability Assessment Key Assumptions