

ANGUS COUNCIL

SPECIAL ANGUS COUNCIL – 27 FEBRUARY 2025

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 2024/29 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

- 3.1 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 64/25 refers) and prudential indicators report (report 66/25 refers);
- (iii) Note that based on the assumptions made and the affordability assessment undertaken, the Council's 2024/2029 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) Agree to delegate authority to the Director of Finance to use any headroom within the loan charges budget of up to £1 million to make special debt repayments should the Director consider it opportune and best value to do so as outlined in Section 6 of this report;
- (vi) 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;
- (vii) 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 2025/26 – Background Report & Setting of the Council Tax (report 58/25 refers) set out the background to the preparation of the council's General Fund Capital Budget 2025/26 and 2024/2029 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 64/25).
- 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 – Background Report & Setting of the Council Tax 2025/26 (report 58/25 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 2025/26 LOCAL GOVERNMENT FINANCE SETTLEMENT – CAPITAL FUNDING

- 5.1 As noted in Report 58/25 funding allocations have been provided for 2025/26, per Table 1 below, with funding for 2024/25 shown for comparison purposes:

Table 1 – 2025/26 Capital Grant Settlement

	2025/26 £m	2024/25 £m
General Capital Grant (including new Climate Emergency funding in 2025/26 of £0.931m)	11.427	9.542
Additional Funding in 2024/25		
Community Bus Fund	0.000	0.642
Free School Meals Expansion	0.000	0.056
Total General Capital Funding	11.427	10.240
Specific Capital Grant – Cycling, Walking & Safer Streets	0.500	0.503
Total per Budget Settlement Finance Circular	11.927	10.743

- 5.2 Loan charges support grant in 2025/26 has been confirmed in line with expectations at £7.300 million.

6 LOAN CHARGES BUDGET HEADROOM / SPECIAL REPAYMENT STRATEGY

- 6.1 The primary purpose of the long term affordability assessment is to consider whether the loan charges arising from planned capital expenditure over the 25 year assessment period are affordable. Appendix 1 shows the main components of the calculation and the bottom-line impact in Part 3 of Appendix 1 shows whether there is projected to be Budget Headroom or a Budget Issue based on having an annual loan charges budget provision of £10.5 million for 25 years.
- 6.2 Appendix 1 shows there is projected to be some budget headroom for the next several years with the scale of that increasing to £1.974m in financial year 2027/28 and £3.775m in financial year 2030/31. That headroom position does however reverse and become a significant budget issue from financial year 2043/44 onwards so the position needs to continue to be actively managed.
- 6.3 The projected budget headroom/issue position assumes that the Council will receive the full expected funding for Monifieth High School under the new Learning Estate Investment Programme (LEIP) funding model but that won't be fully confirmed until the school is completed and requires the Council to meet certain targets on an ongoing basis and thus carries an element of risk (see also paragraph 8.2 below).
- 6.4 The council has in previous 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 – special debt repayments reduce the ongoing cost of past borrowing. The updated long term affordability assessment undertaken and summarised in Appendix 1 shows that (on the basis of current plans and assumptions) there would be scope to consider special debt repayments over the next few years. Members are therefore asked to delegate authority to the Director of Finance to use any headroom within the loan charges budget of up to £1 million to make special debt repayments should the Director consider it opportune and best value to do so as part of the Annual Accounts

process. Decisions made under delegated authority to make special debt repayments would be reported to members for information as part of the Council's Annual Accounts process. Should special repayments of more than £1 million be proposed this would require the prior approval of elected members.

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. were increased in 2024/25 to address issues with construction inflation which severely eroded the spending power of those core allowances. It also provided additional financial resources to address severe weather events which are becoming more prevalent. As in the past, annual allowances for core maintenance, etc. have been added to the 2024/2029 Capital Plan and remain at the same levels as applied in the 2024/25 budget as detailed in Table 2 below.

Table 2 – Annual Core Capital Allowances

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

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
Education & Lifelong Learning <ul style="list-style-type: none"> Requirement to retrofit fire suppression systems in school kitchens due to use of deep fat fryers 	0.143
Infrastructure & Environment <ul style="list-style-type: none"> Arbroath New Cemetery development costs to ensure long term burial provision in Arbroath area Replacement of Fuel Pump Facilities at operational depots Roads & Transport Replacement of Dock Gates and Slipway Cradles at Arbroath Harbour Uplift of Core Roads Maintenance Budget 	1.575 0.111 1.600 7.450
Total Additional New Priority Projects	10.879

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 2024/2029 capital plan.

Table 4 – Net Capital Expenditure

2024/2025 £m	2025/2026 £m	2026/2027 £m	2027/2028 £m	2028/2029 £m
40.439	44.596	19.421	11.316	9.359

- 7.5 The general capital contingency provision is £5.292m. There are currently two commitments against the contingency for Agile Angus / Estates Review Programme (£0.354m) and Additional resources to fund the Private Sector Housing Grant (PBSG) programme (£0.100m) leaving an uncommitted capital contingency total of £4.838m.
- 7.6 To recognise that the progress of capital projects can be impacted by factors beyond the Council's direct control, 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 with the expectation that some planned spending will likely 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 2024/2029 Capital Plan.

8. SIGNIFICANT CAPITAL PROJECTS

Monifieth Learning Campus

- 8.1 This remains the most significant project within the 2024/2029 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 £58.1 million. This project has again dominated the affordability calculations for the 2024/2029 Capital Plan and will continue 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.

9. AFFORDABILITY ASSESSMENT - ASSUMPTIONS

- 9.1 Starting with an update of the 2024/25 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. 2024/25 to 2049/50) 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 increase to capital grant funding for 2025/26, finance officers have reviewed the assumptions in the long-term affordability assessment and in particular the general capital grant projections and 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 is lower 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 was previously considered affordable.
- 9.4 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. A projected peak in new borrowing in 2024/25 & 2025/26 is evident, relating in the main to the Monifieth Learning Campus project.
- 10.2 Section 3 of Appendix 1, highlights that over the period of the capital plan (i.e. up to and including 2028/29) the budget headroom is £4.494 million. There is budget headroom of £0.230 million in 2024/25 which will be reported as a saving in the 2024/25 Revenue Budget Outturn report.
- 10.3 Beyond 2028/29, Appendix 1 also highlights that there is projected to be sizeable headroom until 2042/43 in terms of the comparison of estimated loan charges against projected future budget levels assuming the calculations prove to be what happens in practice. Over the 25 year period (2025/26 to 2049/50) a cumulative budget headroom of £13.479 million is evident. This is considered to be a good position especially once the very large commitment towards Monifieth Learning Campus has worked its way through. The sizeable headroom on the Loan Charges budget from 2027/28 onwards will provide the potential to either increase capital spend, apply special debt repayments or to take further revenue savings on the Loan Charges budget or possibly a combination of all three options. It must be noted that the principal repayment profile is stacked towards later years following the Loans Fund Review and there is expected to be a sizeable funding gap of £28.125m over the last 7 years of the analysis.

11. CAPITAL FUNDING PROSPECTS AND IMPLICATIONS FOR FUTURE CAPITAL SPENDING

Funding Prospects

- 11.1 The anticipated funding for 2025/26 was better than expected but significant real terms reductions in the funding for core (existing) local government services have been experienced over recent years. There is no definitive information available relating to anticipated capital funding for 2026/27 onwards at this point in time, however it has been indicated by the Scottish Government that capital funding on a national level is likely to reduce only marginally over the next few years in cash and real terms. This expectation has formed the basis of certain 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 assumptions.
- 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 having more modest levels of capital expenditure in future years. Capital expenditure from 2029/30 onwards is now projected to be £13.500 million per annum until 2033/34 and £14.500 million thereafter. These levels of funding may not be sufficient to meet the essential investment needs of the Council at that time 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 in 2024/25 and 2025/26 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 this year and next 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 2029/30 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 2029/30 to 2034/35), 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

	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m	2034/35 £m
Arrats Mill – Implementation of Closure Plan	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)	7.420	9.945	13.470	13.481	13.500	14.500
Total Net Expenditure	13.500	13.500	13.500	13.500	13.500	14.500
Estimated Funding:						
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	3.900	3.900	3.900	3.900	3.900	4.900
Total Funding	13.500	13.500	13.500	13.500	13.500	14.500

- 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 2024/2029 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.

17. CHILDRENS RIGHTS AND WELLBEING IMPACT ASSESSMENT

17.1 A Children's Rights and Wellbeing Impact Assessment has been undertaken and a full assessment is not required as the "General Principles" do not apply to this proposal.

18. CONSULTATION

18.1 The Chief Executive and Acting Director of Legal, Governance and Change have been consulted on this report.

NOTE: Finance Circular 10/24 issued by the Scottish Government in December 2024 has been relied on in the preparation of this report.

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List of Appendices:

Appendix 1 Affordability Analysis: 25 Year Projection
Appendix 2 Capital Project Priority List: 2025/26 – 2028/29
Appendix 3 Affordability Assessment Key Assumptions