

PERTH AND KINROSS COUNCIL

20 February 2019

COMPOSITE CAPITAL BUDGET 2019 - 2029

Report by Head of Finance (Report No. 19/47)

PURPOSE OF REPORT

This report outlines the proposed budget and funding for the Composite Capital Programme for the ten years from 2019/20 to 2028/29 totalling £619.767 million.

1. BACKGROUND

- 1.1 The Council set a ten year Capital Budget for 2018/19 to 2027/28 at its meeting on 20 June 2018 (Report No. 18/213 refers). Revisions to the budget for these years have subsequently been considered by the Strategic Policy & Resources Committee throughout the year.
- 1.2 This report seeks to set out proposals towards maintaining a ten year rolling budget up to 2028/29, as previously approved in the Medium Term Financial Plan 2019-2024 (Report No. 18/326 refers), to support the Council's strategic financial planning.

2. COMPOSITE CAPITAL RESOURCES 2028/29

- 2.1 In order to develop the Capital Budget it is proposed that the estimated level of Capital resources summarised in the table below are assumed to be available in 2028/29:

Composite Capital Resources	2028/29
	£'000
Composite Borrowing	12,000
General Capital Grant	14,000
Ring-Fenced Capital Grant	200
Developer Contributions	2,100
Capital Receipts	250
Total Resources Available	28,550

- 2.2 The level of new borrowing assumed and included in the programme is consistent with the amount assumed in the Council's approved Medium Term Financial Plan, and has been maintained at £12 million for each year in the current approved budget. Accordingly, this same amount has also been assumed in 2028/29.

- 2.3 The Scottish Government has not issued allocations for Capital Grants beyond 2019/20. Therefore, the above estimates of General and Ring-Fenced Capital Grants are subject to significant uncertainty. The assumed level of grant is reviewed each year when actual allocations become known and the amounts assumed at this stage are consistent with those used in previous years when setting the Capital Budget.
- 2.4 The Provisional Local Government Finance Settlement for 2019/20 issued by the Scottish Government on 17 December 2018 (Finance Circular 8/2018) includes General Capital Grant of £28,441,000 for Perth & Kinross Council. This includes £9,515,000 in respect of the Council's approved flood schemes, leaving £18,926,000 for general allocation. This compares to the previous estimate of £18,798,000 and represents an increase on previous assumptions of £128,000.
- 2.5 The flood element of the grant of £9,515,000 relates to the Council's approved Flood Protection Schemes, of which £9,359,000 has been accelerated from future years by the Scottish Government. As this is effectively a ring-fenced grant, a corresponding adjustment has been made to the amount of grant previously assumed to be received in future years. However, overall, there is an increase in Capital Grant for Flood Protection Schemes of £380,000.
- 2.6 There is also an increase of £5,000 in Specific Ring Fenced Grant for the Cycling Walking & Safer Streets programme in 2019/20. Proposals for allocating all the increased amounts of grant described above are discussed below in Sections 3.3 and 3.6 of the report.
- 2.7 The Medium Term Financial Plan assumes that some projects will be funded by Developer Contributions over the longer term and, therefore, an estimate of Developer Contributions has been included. The amounts estimated to be received from major housing developments, which are ring-fenced for Transport Infrastructure and Educational purposes, will be received by the Council in line with future house build rates. Accordingly, estimates of contributions to be received each year are based on anticipated house building rates and the agreed level of contribution.
- 2.8 A modest estimate of General Fund property disposal receipts each year has been included in the estimated resources and it is proposed that the same provision is included in 2028/29. This will be subject to ongoing review throughout the budget period.
- 2.9 As previously reported, the current Capital Programme has been updated to include the allocation of £10 million of UK Treasury funding, through the Tay Cities Deal, for the redevelopment of Perth City Hall and £40 million of Scottish Government funding for the Cross Tay Link Road (Report No. 19/37 refers). The profile of funding for these projects has yet to be confirmed and is currently assumed to be in line with planned expenditure on their delivery. As further projects develop from the resources being made available through the Tay Cities Deal they will be reported to the Strategic Policy & Resources

Committee for approval and incorporated into the Capital Programme as required.

- 2.10 A summary of all the resources for the proposed ten year Composite Capital Budget is shown at Appendix I.

3 CAPITAL BUDGET PROPOSALS 2019/20 TO 2028/29

- 3.1 When the Council set its ten year Capital Budget on 20 June 2018 (Report No. 18/213 refers), due to the limited capital resources available, it was decided to allocate resources to ongoing rolling programmes in order that they can continue into future years. Therefore, it is proposed to continue this practice by “top-slicing” resources for various ongoing annual programmes, including structural maintenance, footways, and various other infrastructure programmes, including expenditure previously transferred from the Revenue Budget.
- 3.2 In addition, it is proposed that the amount to be top-sliced for these programmes remains at broadly the same level as those applied in June 2018. However, some programmes have been rounded down in order to match the allocations with available resources. The list of all ongoing rolling programmes are summarised in the table below.

Proposed Top-Sliced Resources	2028/29
	£'000
Structural Maintenance	9,800
Footways	435
Bridges & Parapets	740
Road Safety	100
Traffic signals	100
Investment in the Learning Estate	4,500
Schools Audio-Visual Equipment	425
ICT Infrastructure	2,312
Property Capital Improvements	1,900
Property Compliance works	600
Property DDA Works	150
Community Greenspace	275
Play Parks	135
Cemetery Extensions	75
IT Replacements (HE)	120
OT Replacements	250
Software Licences (Housing)	70
Council Contact Centre	40
Total - Top-Sliced Programmes	22,027

- 3.3 The Cycling Walking Safer Streets programme is funded by a ring fenced Scottish Government grant and it is, therefore, proposed that this programme

is assumed to continue in 2028/29 at the assumed level of grant of £200,000. In addition, it is proposed to increase the 2019/20 Cycling Walking & Safer Street programme by £5,000 in line with the increased ring-fenced grant allocated by the Scottish Government within the 2019/20 settlement, as outlined at Section 2.6 above.

- 3.4 After allowing for the proposed top-slicing of resources for ongoing programmes set out above and ring-fenced grant funding, the estimated remaining resources available for distribution in 2028/29, including the additional grant in 2019/20 outlined at Section 2.4, totals £6,451,000.
- 3.5 The Medium Term Financial Plan remitted the Executive Officer Team with reviewing the current Capital programme and bringing forward recommendations for consideration by Council in setting the 2028/29 Capital budget (Report No. 18/326 refers). The following recommendations for inclusion in the Composite Capital Budget are made by the Executive Officer Team based upon an assessment of the strategic and operational risks presented to the Council should the issues identified not be addressed.

Flood Protection Schemes (£47,000)

- 3.6 The Local Government Finance Settlement 2019/20 issued by the Scottish Government on 17 December 2018 includes Capital grant for the approved Flood Protection Schemes at Comrie, Milnathort, South Kinross and Scone. The total amount Perth and Kinross Council is estimated to receive has increased by £380,000. However, Scottish Government Flood Grant only accounts for 80% of the costs of the schemes. On current estimates, taking account of prior year settlements and costs, the Council requires an additional £427,000 overall for all of its planned Flood Scheme expenditure in the years 2019/20 to 2022/23. As £380,000 is included within the 2019/20 settlement, this leaves a further £47,000 for the Council to fund. Therefore, it is proposed that £47,000 is allocated to the Flood Schemes in line with the projected expenditure for each scheme over the years 2019/20 to 2022/23.

Comrie Flood Protection Scheme (£200,000)

- 3.7 In addition to the above, experience from the recent completion of significant projects highlights that the cost of acquiring land and the settlement of land compensation events has been higher than previously anticipated. Consequently, the provisions for land purchase and compensation within the Comrie Flood Protection scheme have been reviewed and it is considered necessary to increase the estimated budget by £1,000,000. As 80% of these eligible costs are grant-funded by the Scottish Government, it is proposed to allocate an additional £200,000 to the Comrie Flood Protection Scheme, representing the Council's 20% share of the anticipated increase in costs. Therefore, the proposed budget shown at Appendix II includes an additional £1,000,000 of expenditure on the scheme, together with an assumed increase in Capital Grant of £800,000.

Perth Bridges (£5,204,000)

- 3.8 The Queen's Bridge and Old Perth Bridge both form part of the major transport network into the centre of Perth from outlying communities. Load capacity assessments were recently undertaken to determine their ongoing ability to continue to support traffic into Perth. These assessments highlighted that both bridges required improvement works to ensure that they can continue to meet future road and pedestrian traffic on the road network. Subsequent evaluation of the works required indicates that the bridges require estimated investment totalling £5,204,000, of which £2,575,000 is for the Old Perth Bridge and £2,629,000 is for the Queens Bridge. These works are currently anticipated to be undertaken over the period 2019/20 to 2021/22.

Creative Exchange (£1,000,000)

- 3.9 The previously approved project to convert the former St. Johns Primary School building in Perth into a creative employment hub for new artistic crafts commenced in November 2018, with a total budget of £4,285,000. At the time of developing the project, it had been assumed that up to £1,000,000 of funding would come from the Tay Cities Deal. As this project was not ultimately included within the Heads of Terms agreement between the UK and Scottish Governments on the Tay Cities Deal, it is now proposed to meet the shortfall in funding from the estimated Capital Budget resources in 2028/29, with the budget rephased into 2019/20 in line with the anticipated delivery of the project.
- 3.10 The recommendations from the Executive Officer Team for additional and new expenditure with regard to the 2028/29 Capital Programme are summarised in the table below:

	£'000
Composite Capital Resources Available (Section 2.1)	28,550
Additional Capital Grant 2019/20 (Section 2.4)	128
Total Available Resources for Allocation	28,678
Expenditure Proposals:	
Top-sliced expenditure (Section 3.2)	22,027
Ring-Fenced Capital Grant (Section 3.3)	200
Flood Protection Schemes (Section 3.6)	47
Comrie Flood Protection Scheme (Section 3.7)	200
Perth Bridges (Section 3.8)	5,204
Creative Exchange (Section 3.9)	1,000
Total Executive Officer Team Expenditure Proposals	28,678

Prudential Borrowing Programme

- 3.11 It is proposed that various annual replacement programmes, relating to Fleet Vehicles, Commercial and Domestic Wheeled Bins, Other Waste Containers, Litter Bins, Street Lighting LED & Column Replacements and Energy Efficiency continue to be funded by Prudential Borrowing. These projects either generate sufficient revenue savings to offset the associated investment costs or have their investment costs met through other revenue sources.
- 3.12 All the projects outlined above are included in the proposed Composite Capital Budget for 2019/20 to 2028/29 shown at Appendix II. This includes continuation of the Street Lighting LED & Column Replacements from 2021/22.
- 3.13 The Council's proposed total gross investment on the Composite Capital Programme in the ten years to 2028/29 amounts to £619.767 million. Many of the new resources in 2028/29 in the proposed Composite Capital programme are being applied in earlier years, resulting in an acceleration of the borrowing requirement over the 10-year budget. This is partly mitigated by the acceleration of the payment of Capital Grant in respect of the flood schemes in 2019/20. This position will be managed by the continuation of the Capital Fund strategy over the medium to long term.

Affordability: Loans Fund and Capital Fund Projections.

- 3.14 All local authorities are required to manage their internal treasury activities (Capital Borrowing and Repayments) through a statutory Loans Fund. The Council has also previously established and built up a Capital Fund to assist in supporting its Capital expenditure.
- 3.15 Updated Loans Fund and Capital Fund projections, based on the proposed Composite Capital Budget, are shown at Appendix III to this report. This reflects the proposed £5 million reduction in the Council's borrowing cost or "Loan Charges" budget included within the separate Revenue Budget Report No 2 (Report No. 19/46 refers) to this meeting of the Council. The projections also assume that interest rates will rise steadily over the period covered by the Capital Budget. These indicate that, on current Loan Charge estimates and proposed Capital Budget provision, the Council's borrowing costs can be managed in the medium to long term.
- 3.16 The projections on the affordability of the Capital Budget in Appendix III will be kept under continuous review and updated in accordance with the Council's future Capital expenditure plans and in light of any changes in underlying assumptions. They will also be reviewed in the context of the "risks" to the Capital Programme set out in section 4 below.
- 3.17 Prudential Indicators, based on the Capital Budget approved at this meeting, will be included in the Treasury & Investment Strategy report to be considered by the Council at its next meeting on 27 February 2019.

4. RISKS

- 4.1 There are a number of potential risks to the deliverability and affordability of the Capital Programme which may require to be considered and addressed over the course of the proposed Capital Programme. Examples of these risks include:

Construction Inflation

- 4.2 The Capital Programme assumes a constant level of new external borrowing each year (£12 million) over the 10 year period of the budget. This will require to be addressed over time to ensure that there is sufficient spending capacity within the budget to mitigate against the likely impact of construction inflation.
- 4.3 As the proposed programme is front-weighted, with many of the most significant projects due to be completed over the next 5 years, there is also the risk that Brexit may have a more immediate impact upon the availability (and hence cost) of both specialist construction labour and materials.

Complexity and Scale

- 4.4 The proposed Capital Programme encompasses the most significant and potentially complex Capital projects undertaken by Perth & Kinross Council to date. There are examples of major civil engineering projects such as the Cross Tay Link Road and Comrie Flood Protection Scheme; significant new build projects such as the replacement of Perth High School and the redevelopment of heritage assets such as Perth City Hall. There are also significant programmes of works such as the enabling works to the school estate required to deliver the Scottish Government's Early Learning and Childcare initiative.
- 4.5 Contingency provisions have been built into the estimated delivery costs of the most substantial and complex of the Council's schemes in accordance with best practice. There requires to be, however, recognition that the scale and complexity of delivering major projects may necessitate future adjustments to the Council's Capital budget.

5 RENEWAL & REPAIR FUND

- 5.1 At its meeting on 12 September 2018, the Strategic Policy & Resources Committee approved the transfer of the remaining balance of £20,000 in the Renewal & Repair Fund as at 31 March 2018 to the Revenue Budget to fund expenditure on the Integrated Human Resources & Payroll system in 2018/19 (Report No. 18/285 refers). However, it is anticipated that the expenditure will now be incurred in 2019/20. Therefore, it is proposed to transfer the £20,000 back to the Renewal & Repair Fund in 2018/19 to meet this expenditure in 2019/20.

6. CONCLUSION AND RECOMMENDATIONS

- 6.1 This report outlines the estimated resources available for the Composite Capital Budget and makes proposals for the years 2019/20 to 2028/29.

The Council is requested to:

1. Approve the indicative available resources for 2028/29 outlined in Section 2.
2. Approve the expenditure proposals outlined in Section 3 and included in the proposed Composite Capital Budget at Appendix I and II for 2019/20 to 2028/29 totalling £619.767 million.
3. Note the Loans Fund and Capital Fund projections on the affordability of the proposed Capital Programme 2019/20 to 2028/29 at Appendix III, subject to any change in underlying assumptions.
4. Note the Risks to the deliverability and affordability of the Capital Programme outlined in Section 4.
5. Approve the transfer of £20,000 to the Renewal & Repair Fund in 2018/19 as outlined in Section 5.

Author(s)

Name	Designation	Contact Details
John Jennings	Senior Accountant	CHXFinance@pkc.gov.uk

Approved

Name	Designation	Date
Stewart MacKenzie	Head of Finance	12 February 2019
Jim Valentine	Depute Chief Executive (Chief Operating Officer)	12 February 2019

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	
Corporate Plan	Yes
Resource Implications	
Financial	
Workforce	
Asset Management (land, property, IST)	
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	
Legal and Governance	
Risk	
Consultation	
Internal	
External	
Communication	
Communications Plan	

1. Strategic Implications

Corporate Plan

- 1.1 The Council's Corporate Plan 2018-2023 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.2 This report relates to all of these objectives.

2. Resource Implications

Financial

- 2.1 There are no direct financial implications arising from this report other than those reported within the body of the main report.

Workforce

- 2.2 There are no direct workforce implications arising from this report other than those reported within the body of the main report.

3. Assessments

Equality Impact Assessment

- 3.1 The information presented in this report was considered under the Corporate Equalities Assessment Framework and the determination was made that the items summarised in this report do not require further assessment as they do not have a direct impact on people's wellbeing.

Strategic Environmental Assessment

- 3.2 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

The matters presented in this report were considered under the Act and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

4. Consultation

The Chief Executive and the Executive Directors have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix I – Composite Capital Budget Estimated Resources 2019/20 to 2028/29

Appendix II – Proposed Composite Capital Budget 2019/20 to 2028/29.

Appendix III – Loans Fund and Capital Fund Projections