

PERTH & KINROSS COUNCIL

FINANCE & RESOURCES COMMITTEE

1 FEBRUARY 2023

**COMPOSITE CAPITAL BUDGET 2022/28 & HOUSING INVESTMENT
PROGRAMME 2022/27 – MONITORING REPORT No.3**

**Report by the Head of Finance
(Report No. 23/31)**

PURPOSE OF REPORT

This report provides a summary position to date for the 6-year Composite (General Fund) Capital Budget for 2022/23 to 2027/28 and the 5-year Housing Investment Programme 2022/23 to 2026/27 and seeks approval for adjustments to the budgets.

STRUCTURE OF REPORT

This report is structured over the following sections:

- Section 1: Background
- Section 2: Recommendations
- Section 3: Composite Capital Programme – Gross Capital Resources
- Section 4: Composite Capital Programme – Expenditure
- Section 5: Housing Investment Programme
- Section 6: Summary

1. BACKGROUND / MAIN ISSUES

- 1.1 The Finance & Resources Committee approved an updated six-year gross Composite Capital Budget for 2022/23 to 2027/28 totalling **£687,853,000** and a five-year gross Housing Investment Programme for 2022/23 to 2027/28 totalling **£84,018,000** at its meeting on 30 November 2022 (report 22/298 refers).
- 1.2 This report advises on expenditure to 31 December 2022 and the latest estimate of the projected outturn for each of the years to 2027/28 for the Composite Programme and to 2026/27 for the Housing Investment Programme.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- (i) notes the contents of this report.
 - (ii) approves the proposed adjustments to the six-year Composite Capital Budget 2022/23 to 2027/28 set out in Sections 3 and 4 of this report and summarised in Appendices I and II.
 - (iii) approves the proposed adjustments to the Housing Investment Programme Budget 2022/23 to 2026/27 set out in Section 5 of this report and summarised in Appendix III.

- (iv) notes progress with the delivery of major Capital projects as summarised in Appendix IV.

3. COMPOSITE CAPITAL PROGRAMME – GROSS CAPITAL RESOURCES

- 3.1 The current estimated total gross capital resources (which includes movements in Capital Receipts, Capital Grants, Contributions and borrowing) available over the six years 2022/23 to 2027/28 amount to **£696,021,000**. Movements from the revised Composite Capital Budget approved on 30 November 2022 are summarised in the table below, and the constituent elements for each year are shown in Appendix I.

Total Gross Composite Capital Resources			
	Approved 30 Nov 2022	Current Estimate	Movement
	£'000	£'000	£'000
2022/23	171,528	143,465	(28,063)
2023/24	184,848	190,281	5,433
2024/25	148,122	159,900	11,778
2025/26	82,339	92,330	9,991
2026/27	56,761	65,766	9,005
2027/28	44,255	44,279	24
Total	687,853	696,021	8,168

- 3.2 The overall movement in the total Gross Resources for the 6 years 2022/23 to 2027/28 shown at Section 3.1 above can be summarised as follows:

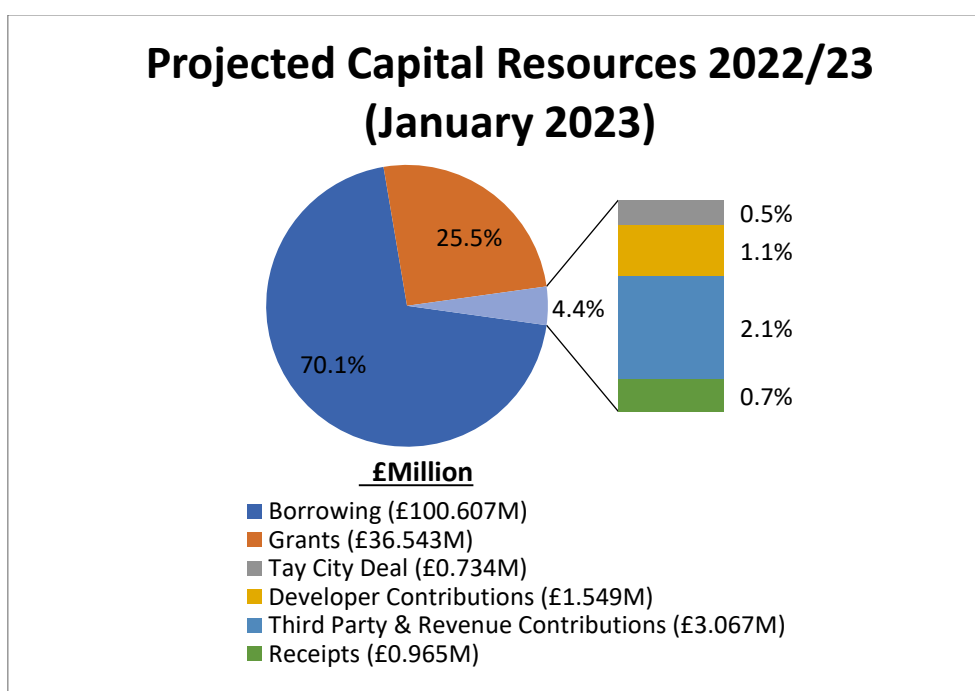
	£'000
Increase in Capital Grants (Section 3.4)	100
Increase in Third Party, Revenue and Developer Contributions (Section 3.5)	371
Increase in Borrowing Requirement (Section 3.7)	7,697
Increase in Gross Capital Resources (Section 3.1)	8,168

- 3.3 There is only small movements in the estimated Property receipts, including an increase of £113,000 in estimated receipts on the Commercial property Programme. With no updated proposals for expenditure within the Commercial Investment Programme at this stage, this increase in receipts is therefore carried-forward to future years and has no overall impact on the current level of resources.
- 3.4 The Provisional Local Government Finance Circular issued on 20 December 2022, includes an increase of £100,000 in the Council's General Capital Grant in 2022/23 relating to the allocation for flood studies. The Council has already included this expenditure as part of its Revenue Budget so while the level of gross Capital resources increases by £100,000, there is no requirement for corresponding Capital expenditure and the grant can be applied to reducing the level of borrowing for the current programme.
- 3.5 There is an increase in Third Party Contributions of £371,000 for Structural Maintenance (Section 4.3.3), relating to Roads Bonds for the purpose of bringing roads up to an adoptable standard.

- 3.6 The projected Borrowing Requirement in 2022/23, which is effectively the balancing item for resources, is **£100,607,000**. This is £28,095,000 lower than the Borrowing Requirement approved on 30 November 2022, and mainly reflects the revised phasing for the new Perth High School included within this report following the approval of the project by Council on 21 December 2022 (report 22/312 refers).
- 3.7 The total Borrowing Requirement in the subsequent years 2023/24 to 2027/28 has increased by **£35,792,000 to £440,423,000**, resulting in an increase of **£7,697,000** across the whole 6-year programme. The movement in borrowing is summarised as follows:

	2022/23	2023/24	2024/25	Later Years	Total
	£'000	£'000	£'000	£'000	£'000
Increase in General Capital Grant (Section 3.4)	(100)	0	0	0	(100)
Increase/(Decrease) in expenditure for the Perth High School Replacement (Section 4.2.2)	(24,776)	14,617	6,559	15,100	11,500
(Decrease)/Increase in Communities Prudential Borrowing (Section 4.3.8)	(1,348)	(2,977)	223	399	(3,703)
Movements arising from re-phasing of other expenditure and receipts (Appendix II)	(1,871)	(6,368)	4,919	3,320	0
(Decrease)/Increase in Borrowing Requirement	(28,095)	5,272	11,701	18,819	7,697

- 3.8 The chart below shows the Capital Resources required to fund the 2022/23 Composite Capital Programme following the proposed budget adjustments detailed in this report.



4. COMPOSITE CAPITAL PROGRAMME – EXPENDITURE

4.1 Total Expenditure and Proposed Budget Adjustments to the Current Programme

- 4.1.1 Total expenditure (net of grants and contributions) to 31 December 2022 on the Composite Capital Programme amounts to **£55,332,000**, which is detailed in Appendix II and summarised as follows:

	Net Expenditure to 31 Dec 2022
	£'000
Education & Children's Services	13,485
Communities	37,211
Health and Social Care	278
Corporate & Democratic Services	4,358
Total	55,332

- 4.1.2 A comprehensive monitoring exercise has been carried out, which is detailed in Appendix II. The most significant features are discussed below.

4.2 Education and Children's Services

- 4.2.1 The Executive Director (Education & Children's Services) has reviewed the programme for their Service with the following movements to report at this time.
- 4.2.2 A full business case for the Perth High School Replacement project was considered by the Council on 21 December 2022 (Report 22/312 refers). The Council approved that the budget for the Perth High School Replacement be increased by £11.5M to £80.2M in order that the project could reach financial close. Following this increase in the budget, work has been undertaken to rephrase the budget accordingly. The proposed revised budgets for each year are detailed in Appendix II.
- 4.2.3 Within the Investment in the Learning Estate there have been increased upgrades to school furniture and blinds completed in the current financial year. It is proposed to accelerate £180,000 from next year to the current financial year to cover these costs. It is also proposed to transfer £600,000 from the Early Learning & Childcare (ELC) budget in the current financial year to the Investment in the Learning Estate budget to allow works scheduled to be undertaken in the school holidays in 2024/25.
- 4.2.4 Within Technology Upgrades, due to the level of works forecast to be undertaken before the year end, it is proposed to move £100,000 from the current year to next financial year.
- 4.2.5 The refurbishment work at Perth Academy is progressing well and it is proposed that £350,000 of the budget is accelerated from next year to the current year to cover the works which are now due for completion this year. The upgrade program within Perth Grammar School is currently focused on audio visual and Wi-Fi upgrades which requires works taking place within

classrooms. Due to the limited access to classrooms during term time, works that can be undertaken by the end of the financial year are less than anticipated and it is, therefore, proposed that £200,000 of the budget is moved from the current financial year to next year to allow the works to take place in the school holidays.

4.2.6 All the above proposed adjustments have been reflected in Appendix II.

4.3 Communities

4.3.1 The Executive Director (Communities) has reviewed the programme for their Service and proposes various budget adjustments, the most significant of which are described below.

4.3.2 Within Asset Management – Roads & Lighting, additional expenditure of £371,000 will be incurred to bring a road to an adoptable standard. While this increases the gross Capital expenditure of the Council as reflected in section 3 above, there is no net impact on the Capital budget as the works are funded by a matching third party contribution.

4.3.3 Within Asset Management – Bridges, works within the Bridge Refurbishment Programme face slight delays due to current staff capacity, with recruitment for an engineering post ongoing. The budgets for each year have been reviewed and it is proposed that they are rephased with reductions of £151,000 in the current year; £194,000 next year and £575,000 in 2024/25; to be offset with increases of £250,000 in 2025/26; £555,000 in 2026/27 and £115,000 in 2027/28.

Comrie Flood Protection Scheme

4.3.4 It had previously been reported to this Committee (Report 22/298 refers) that the consultants working on the detailed design of the Comrie Flood Protection Scheme were approximately three months behind schedule. The Executive Director (Communities) has provided the following position statement and update on progress with the scheme:

- The advance works for the Comrie Flood Protection Scheme were substantially completed by the end of 2022, except for outstanding erosion protection work at Field of Refuge and some minor public utility works. The delivery of these works has helped to mitigate the risks to the main construction works that will follow.
- Work on the erosion protection works at the Field of Refuge were paused in October 2022 due to the environmental (fisheries) restrictions around working within the Water of Ruchill. The Contractor (Balfour Beatty) has left site but will return to complete this work once these restrictions are lifted in May. We are also planning to commence further site clearance works prior to this, in preparation for the main works.
- The conclusion of the detailed design for the main works continues to take longer than anticipated. A further meeting has been held with our

consulting engineers, Sweco. They have just provided an updated programme which indicates that they now plan to complete the detailed design at the end of March 2023.

- It is therefore likely that the main construction works will commence in Summer 2023, following on from the outstanding erosion protection work.

Accordingly, work to be completed in the current year and next year has been reduced and it is proposed that the budget for the current year and next year are reduced by £622,000 and £3,833,000 respectively, with an increase of £4,455,000 in 2024/25.

- 4.3.5 Additionally, within the Flood Protection Schemes, due to the recent flood events across the region, resources have been diverted to deal with the impacts of the severe weather events. This has resulted in a delay to the flood protection schemes at Milnathort and South Kinross with both schemes moving by one year. It is proposed that the majority of the budget for the Milnathort Scheme is moved from 2023/24 to 2024/25; and that the majority of the budget for the South Kinross Scheme is moved from 2024/25 to 2025/26.
- 4.3.6 Following confirmation that the new Perth Museum will house objects that are currently held within Perth Museum and Art Gallery (PMAG), it has been determined that PMAG would be renamed Perth Art Gallery and that works would be undertaken to convert areas to be more suitable for the increased display of artwork. Works to facilitate this transition have begun and it is, therefore, proposed that £100,000 is accelerated from next year into the current year to meet the costs of altering the exhibition spaces.
- 4.3.7 Within Community Greenspace, Play Areas – Improvement Implementation Strategy, due to the current staff resource capacity there is a minor delay to the implementation of schemes that have been prepared in various locations. Work on the ground is not expected to commence in the current year and so it is proposed that £248,000 of the budget is slipped from the current year to next year in line with the anticipated works.
- 4.3.8 Within Prudential Borrowing, a comprehensive review has been undertaken of the Vehicle Replacement Programme and Disposals and the vehicles that will be replaced through the remainder of this year and next year. This has resulted in a reduction in the overall programme of £3,703,000 with vehicles lasting longer than expected mainly due to a reduction in mileage, as well as delays in the supply of new vehicles due to the shortage of chips. Consequently, it is proposed that an adjustment is made to the Purchase and Disposal receipts as set out in Appendix II.
- 4.3.9 On 19 January 2023, the Council was informed by the Department for Levelling Up, Housing & Communities that the application for £10 million of round two levelling up grant funding for the Eco-Innovation Park has been unsuccessful. The Council is currently awaiting feedback on its application.
- 4.3.10 All the above proposed adjustments, together with other small movements, have been reflected in Appendices I & II.

4.4 Corporate & Democratic Services

- 4.4.1 The Chief Operating Officer has reviewed the programme for their Service and proposes the following adjustments described below.

Property Services

- 4.4.2 Within DDA Adaptation & Alteration Works, lift works require rescheduling due to difficulties in sourcing components and materials with these unlikely to be received this financial year. It is, therefore, proposed that £200,000 is moved from the current year to next year.
- 4.4.3 Within Property Compliance Works it is proposed that £221,000 is accelerated from next year to the current year in part to cover new gas pipework required at Blairgowrie High School.
- 4.4.4 Previously within Capital Improvement Projects, £600,000 was accelerated from 2027/28 to the current year to fund energy efficiency measures. Although works have progressed, it is anticipated that £400,000 of this accelerated funding will not be utilised in the current year and it is, therefore, proposed that this budget be moved into next year. Also, within Capital Improvement projects, following the carrying out of scheduled works at Blairgowrie High School and The Community School of Auchterarder, structural improvements have been identified which are due to take place this year. It is proposed that £400,000 for these works is brought forward from next year to the current year.
- 4.4.5 Upgrades to Pitlochry High School have been paused for a couple of months to allow electrical compliance works to be carried out. This has resulted in a reduction in the level of upgrade works which can be completed this year and it is proposed that £90,000 is moved from the current year to next year to finalise this project.
- 4.4.6 Energy Efficiency Works which are being fully funded by the Salix reserve are no longer taking place in the current year, and it is therefore proposed that both the budget and the reserve contribution of £99,000 are moved from the current year to next year.

Information Systems & Technology

- 4.4.7 Within the ICT Infrastructure & Replacement and Upgrade programme there has been a change to planned contracting periods in order to bring security enhancements in line with the Microsoft licensing renewal later in 2023. As such, it is proposed that £447,000 is rephased from the current year to next year in line with expected spend. Also, within this budget, a review has been undertaken of the anticipated expenditure and licensing requirements in future years, and this has resulted in updated budget profiles. Therefore, it is proposed to decrease the revised budget in 2023/24 by £1,854,000, giving a net movement of £1,407,000. with this being rephased across the following 5 years of the current programme.

- 4.4.8 Within the Supporting Digital programme, it is proposed to move £137,000 from the current year into next year in line with the current projection of works that will be concluded before the end of the year.
- 4.4.9 All the above proposed adjustments, together with other small movements have been reflected in Appendices I & II.

Major Capital Projects

- 4.4.10 Appendix IV to the report shows progress on the delivery of major Capital projects within the approved Capital programme. The appendix summarises budgeted expenditure and the current projected outturn on these projects; their anticipated completion date; current status and any significant changes since the last monitoring report. This appendix will be kept updated and it is proposed to report on an exceptions basis where there are significant changes in the status of major Capital projects, for example in terms of forecast cost, scope or anticipated completion date.
- 4.4.11 In this regard, the Executive Director (Communities) has provided a position statement and update on progress with the delivery of the Comrie Flood Protection Scheme which is set out in section 4.3 of the report.

5. HOUSING INVESTMENT PROGRAMME

- 5.1 The current estimated expenditure, net of contributions, for the Housing Investment Programme over the 5 years 2022/23 to 2026/27 amounts to **£84,018,000**. Movements from the previous estimates approved by this Committee on 30 November 2022 are summarised in the table below and detailed in Appendix III.

	Approved 30 Nov 2022	Current Estimate	Movement
	£'000	£'000	£'000
2022/23	18,965	18,990	25
2023/24	16,457	16,457	0
2024/25	13,858	13,858	0
2025/26	18,694	18,669	(25)
2026/27	16,044	16,044	0
Total	84,018	84,018	0

5.2 Total Expenditure to 31 December 2022 (Housing Investment Programme)

Net expenditure for 2022/23 to 31 December 2022 amounts to £8,174,000 and receipts amount to £9,000. This therefore means that the borrowing requirement for the year to date is £8,165,000.

- 5.3 It is proposed to transfer £25,000 to support the conversion of the former driving test centre at 111 Rannoch Road Perth from the SHQS Future Developments Budget in 2025/26. This is to cover additional costs associated with installing air source heat pumps, upgrading the electrical fuse box, as well as additional garden landscaping.

- 5.4 Miscellaneous Receipts have increased by £5,000 to £9,000. Consequently, the Borrowing Requirement has reduced by £5,000, giving a revised overall total for the 5-year programme of £67,338,000.

6. SUMMARY

- 6.1 The projected net expenditure outturn in 2022/23 for the Composite Capital Budget is **£117,566,000** and represents **85%** of the 2022/23 budget as approved on 20 April 2022 (£138,276,000). The revised budget is based on the latest projection of expenditure and all budget adjustments outlined within this report.
- 6.2 Net expenditure to 31 December 2022 on the Composite Capital Budget is **£55,332,000** and represents 47% of the proposed revised budget for 2022/23 of **£117,566,000**. However, actual expenditure to 31 December 2022 shown above does not include accrued expenditure or provision for works certified as completed by that date. All such expenditure is accounted for when preparing the final outturn as at 31 March 2023.
- 6.3 The projected net expenditure outturn in 2022/23 for the Housing Investment Programme is **£18,990,000** and represents **106%** of the 2022/23 budget approved on 20 April 2022 (£17,963,000).
- 6.4 Net expenditure to 31 December 2022 on the Housing Investment Programme is **£8,174,000**, subject to the same caveat outlined above for the Composite Programme, which represents **43%** of the proposed revised budget for 2022/23 of **£18,990,000**.
- 6.5 A summary of the major capital projects included with the Council's Composite Capital Budget and Housing Investment Programme and their current status is included at Appendix IV.
- 6.6 As previously outlined in the last monitoring report to this Committee, and in the Revenue & Capital Update at the Council meeting on 21 December 2022, the delivery of all the approved projects and programmes within the current 6-year Capital Budget is no longer expected to be affordable under the current funding strategy due to the impact of contract inflation alone. This position will likely be compounded by the impact of anticipated higher borrowing costs over the next few years. This will be subject to ongoing discussion with elected member Budget Review Groups as part of their consideration of the Capital Budget on 1 March 2023.

Author(s)

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Approved

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

Corporate Plan

- 1.1 The Council's Corporate Plan 2022 – 2027 lays out seven 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) Tackling Poverty
- (ii) Tackling climate change and supporting sustainable places
- (iii) Growing a sustainable and inclusive local economy
- (iv) Enabling our children and young people to achieve their full potential
- (v) Protecting and caring for our most vulnerable people
- (vi) Supporting and promoting physical and mental wellbeing
- (vii) Placing communities at the heart of how we work

- 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.

Asset Management (land, property, IT)

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

3. Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.6 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

Internal

- 4.1 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 Programme - Estimated Capital Resources 2022/23 to 2027/28
- Appendix II – Composite Capital Programme - Summary of Capital Resources and Expenditure 2022/23 to 2027/28
- Appendix III – HRA Capital Investment Programme – Summary of Capital Resources and Expenditure 2022/23 to 2026/27
- Appendix IV – Significant Capital Projects Progress Update