

PERTH & KINROSS COUNCIL

19 December 2012

**COMPOSITE CAPITAL BUDGET -
ADDITIONAL CAPITAL EXPENDITURE****Report by the Head of Finance****ABSTRACT**

This report seeks approval to progress a number of significant capital infrastructure projects considered to be of a high priority for the Council. The report also seeks approval of the funding options.

1. RECOMMENDATIONS

It is recommended that the Council:

1. Approves the proposed additional capital infrastructure projects detailed in Section 3 of this report for inclusion within the Composite Capital Budget 2012/13 to 2016/17.
2. Instructs the Executive Director (Environment) to continue dialogue with Transport Scotland to secure additional funding towards the A9/A85 Road Junction Improvements (See paragraph 3.1.2)
3. Approves the proposed funding options set out in Section 4 of this report.
4. Approves the revised Prudential and Treasury Management Indicators set out at Section 5 of this report, including changing the Authorised Limit for gross external debt to £381M.

2. BACKGROUND

- 2.1 The Special Meeting of the Council on 9 February 2012 approved the 5 year Capital Budget for 2012/13 to 2016/17 (Report No. 12/53 refers). Since this budget was approved, significant new priorities have arisen following a series of recent events. These include planning decisions, additional grant awards, and the need to progress Section 75 agreements. A number of these projects require an early commitment, which precludes a delay in their consideration.
- 2.2 The projects are anticipated to bring significant economic development benefits to the Perth & Kinross area. These include inward commercial investment offering increased employment opportunities, particularly in the construction sector in the short to medium term as well as sustained employment in the longer term. Some of the proposed projects are also anticipated to increase visitor numbers for cultural attractions.

3. OUTLINE OF PRIORITY CAPITAL PROJECTS**3.1 A9/A85 Road Junction Improvements**

- 3.1.1 The impetus for this project arises following the Almond Valley and Sainsbury supermarket planning decisions. The Almond Valley developer had previously

indicated a willingness to fully fund the road junction improvement scheme, however this has lapsed following the rejection of the development proposals. It is anticipated that further developer contributions will arise from implementation of the Transport Infrastructure Developer Contribution Contributions Policy. Draft Supplementary Guidance for the policy was considered by the Environment & Infrastructure Committee on 7 November 2012 (Report No. 12/506 refers) to progress the consultation process. However, an early decision on the Council's commitment to progress the scheme (subject to funding) is required to allow Sainsbury to enter into a Section 75 agreement with the Council. This will allow the supermarket development to proceed, with a planned opening towards the end of 2014. The junction will also enable housing development at Perth West and the opening up of new industrial land at Inveralmond.

3.1.2 The indicative net capital cost for this project is £15M (after developer contributions). In the longer term, there is also the opportunity for partial recovery of costs in the form of further developer contributions. The Scottish Government may also be willing to assist with funding for this project as part of the A9 dualling upgrade and officers have commenced engagement with the relevant parties to ascertain the funding options available. The projected shortfall in funding for this project is currently in the region of £15M. The Executive Director (Environment) will continue dialogue with Transport Scotland to secure additional funding to reduce the projected shortfall.

3.1.3 It is therefore proposed that the Council support the requirement for this project in principle, until the level of external funding from the Scottish Government and other developer contributions is known.

3.2 Perth Theatre Redevelopment

3.2.1 The cost for the Redevelopment of Perth Theatre is currently estimated at £13.444M. Following the recent Creative Scotland announcement, third party funding pledged for the project now stands at £6M (£3M from The Gannochy Trust; £2M from Creative Scotland; £0.5M from The Heritage and Lottery Fund and £0.5M from individual pledges). The Council has previously committed funding of £3.02M (£1.92M within the current 5 year Capital Budget, £0.6M earmarked within Reserves and £0.5M of expenditure already incurred).

3.2.2 The funding gap has therefore reduced to £4.424M. It is proposed that the Council increase its contribution by up to £4.424M to the new sole member organisation to meet this projected shortfall in funding, pending clarification on any additional third party funding. The Executive Director (Education & Children's Services) will continue to explore all opportunities for attracting further third party funding.

3.2.3 A condition of grant funding by Creative Scotland is that a delivery plan is submitted by the end of December 2012, demonstrating how the funding shortfall is to be met. An early decision on the Council's contribution to meet the shortfall in funding will satisfy this grant requirement and also allow officers to commission the project, which has already been delayed as a result of the funding shortfall.

3.3 New Secondary School – North Perth

- 3.3.1 The meeting of the Executive Sub-Committee of the Strategic Policy and Resources Committee that took place on 11 July 2012 approved the submission of a bid to the Scottish Government for funding from the Scottish Futures Trust (SFT) for Scotland's Schools for the Future Programme (Report No. 12/299 refers). The Scottish Government has recently confirmed that the Council's bid was successful in obtaining funding for the secondary school element of a new "all through campus" in Perth.
- 3.3.2 The secondary school element of the project is estimated to cost £23M, and will be 2/3 funded by the Scottish Futures Trust (£15.333M). The Council will therefore require to fund the remaining 1/3 (£7.667M) on completion of the project, from its Capital Programme. The nursery (estimated at £2.52M) and primary school (estimated at £7.65M) elements of the project are not anticipated to be required until later years and funding for these elements of the project will be considered in the preparation of future budgets. Additionally, it is anticipated that the primary school will be funded from developer contributions.
- 3.3.3 The Schools for the Future invitation to bid refers to the original expectation that construction of the school would be commenced by 2017/18. It is therefore considered that construction of the new secondary school will require to be completed by the end of March 2018. Phasing of the construction will be developed with the Scottish Futures Trust.
- 3.3.4 An early decision on the Council's commitment is required in order that the Council can formally accept the Schools for the Future award. Details on the actual process for accepting the award are expected shortly.

3.4 New Primary School - Oudenarde

- 3.4.1 The cost of building a new primary school at Oudenarde is estimated at £12.5M, and there is currently provision in the 2013/14 Composite Capital Budget for only £1M. The remainder of the cost of the school is to be funded by developer contributions under a Section 75 agreement. However these potential contributions, totalling £11.5M, will now be received as development of the new village progresses. Therefore, the school construction will require up-front funding by the Council. Current house building rates mean that the developer contributions are likely to be received over a 20 to 30 year period. It is proposed that the shell of the whole new school will initially be constructed, with classroom fitting out anticipated to be undertaken in phases in line with future house construction and the resulting school roll requirements. No expenditure will be incurred by the Council until there is a demand for a school within this area. Therefore, future years phasing of the project will remain subject to review.
- 3.4.2 The Heads of Terms for the Section 75 agreement were included in a report to the Development Management Committee on 28 November 2012 (Report No. 12/531 refers). This includes the provision that £500K of the contribution will be payable by the developer on the implementation of planning consent for the first mainstream house. Thereafter, £100,000 will become payable upon the development of each acre (excluding the first 5 acres). The formal Section 75 Agreement is currently being negotiated with the developer.

3.4.3 An early decision by the Council is required in order that progress with the developer can be made in agreeing the Section 75 agreement.

3.5 Rural Broadband Step Change 2015 Programme

3.5.1 The Rural Broadband Step Change 2015 is a national programme funded by the Scottish Government which aims to support infrastructure funding to provide superfast broadband (defined as access line speed of greater than 24 Mbps) to 75% of premises in rural areas in each local authority. The national programme also aims to provide 100% broadband coverage with a minimum line speed of 2 Mbps to all business and residential premises. A contribution by this Council of £1.2M is proposed which will increase superfast broadband coverage to rural premises across Perth and Kinross to an estimated 80% of premises; help reduce the instances of slow download speeds in rural areas; eliminate broadband “non spots” throughout the area; and help deliver next generation broadband in settlements above 1,000 residents.

3.5.2 Local authority funding options are currently being discussed by Scottish Government officials and COSLA. However it is anticipated that any agreed Council contribution will be deducted from the Scottish Government General Capital Grant allocation in the years that funding was required. Although the proposed expenditure would be met from the Revenue Budget, it is therefore likely to be funded by Capital Grant which would otherwise be available for other capital investment.

3.5.3 An early decision is required to allow the Council to be included in the Invitation to Tender (ITT) as one of the areas where superfast broadband will be provided to more than 75% of all properties. The Scottish Government intends to issue the ITT on 14 December 2012, however it has been confirmed that the ITT will be revised to include the approved Council contribution should funding be agreed at this meeting.

3.6 Summary of Proposed Additional Capital Expenditure

3.6.1 All the new projects described above that are proposed for inclusion in the Composite Capital Budget at present are summarised in the following table:

Proposed New Projects	£'000
Perth Theatre Redevelopment (section 3.2)	4,424
New Secondary School (section 3.3)	7,667
New Primary School - Oudenarde (section 3.4)	11,500
Rural Broadband Step Change 2015 Programme (section 3.5)	1,200
Total Proposed Additional Capital Expenditure	24,791
A9/A85 Road Junction Improvements (section 3.1)	TBC

3.6.2 Councillors were presented with the details under pinning these projects in a presentation that took place on 10 December 2012.

3.6.3 The phasing of all the above expenditure proposals is shown at Appendix I.

4. FUNDING OPTIONS

4.1 Various funding options are available and those considered suitable are described in the remainder of this section. The funding solutions will evolve as further information (e.g. third party contributions) becomes available, and figures used at this stage have been based upon the project information that is available to date.

4.2 Third Party Contributions

4.2.1 There is potential for the A9/A85 Road Junction Improvements scheme to be linked to the dualling of the A9. Discussions are underway to ascertain if the proposed Council scheme may alleviate the need for A9 upgrade works at North Perth and complement existing Scottish Government plans for the A9 dualling scheme. Therefore, engagement with the Scottish Government and Transport Scotland has already commenced to ascertain whether additional funding is available to the Council.

4.2.2 In addition further developer contributions may become available towards funding the proposed Junction improvements. Contributions would also become due for the proposed new primary school in later years depending upon future housing developments.

4.2.3 As noted at Section 3.4 above, the proposed new primary school at Oudenarde will be funded in the longer term by developer contributions. It is estimated on current house building rates, that these contributions would be received over a period of 20 to 30 years as the new village development progresses. As the contributions are received, they will be applied to reduce the level of borrowing undertaken by the Council on this project. However, an initial £0.5M is anticipated under the Heads of Terms of the Section 75 agreement once planning consent is implemented, and therefore this has been included within the available resources. Further contributions of £100,000 per annum have been assumed from 2017/18 at this stage. However there is uncertainty surrounding the house build rates and the timing of the contributions. It is estimated that total contributions will eventually amount to £11.5M.

4.2.4 Negotiations on further third party funding are also continuing in respect of the Perth Theatre project.

4.3 Local Government Funding Settlements

4.3.1 There is a possibility that additional Scottish Government funding may become available through “Budget Consequentials” as a consequence of the UK Autumn Budget statement. It is anticipated that the use of such funds, should they become available, will be targeted to those local authorities having projects that are ‘shovel ready’ but which lack the required funding. This source of funding could be used towards the A9/A85 Road Junction.

4.3.2 Capital Monitoring Report No.1 approved by the Strategic Policy & Resources Committee on 19 September 2012 (Report No. 12/391 refers) identified additional General Capital Grant allocations totalling £1,744,000 for the years

2012/13 to 2014/15. These additional sums related to previous “Barnett Consequentials”, and have not yet been allocated by the Council to fund specific projects. It is therefore proposed that this additional grant is applied towards the funding required for the proposed capital expenditure in this report.

- 4.3.3 In addition, Finance Circular No. 5/2012 issued by the Scottish Government on 27 November 2012 included updated Capital Grant Funding for 2012/13 to 2014/15. This included the redistribution of Capital Grants in relation to Police authorities from 2013/14 which were previously paid to individual Councils. As a result of this redistribution a further £62,000 is available for allocation by the Council over the years 2013/14 to 2016/17. It is therefore proposed that this amount is also applied towards the funding of the proposed capital expenditure, giving a total of £1,806,000 additional Capital Grant for this purpose.

4.4 Contribution from Headroom/Reserves

- 4.4.1 A review of the current Medium Term Financial Plan and Revenue Budget monitoring shows that £3M of resources can be applied to funding the proposed capital projects in this report. It is currently anticipated that this contribution would comprise of £2M from Reserves and £1M from headroom in 2013/14. However the exact make up of this contribution will be recommended in the reports on the Revenue Budget 2013/14 & 2014/15 and Reserves Strategy to the special meeting of the Council on 14 February 2013. This will, also, reduce the budget options available when setting the 2013/14 and 2014/15 Revenue Budget and the Reserves Strategy.

4.5 Summary of Available Resources 2013/14 to 2017/18

- 4.5.1 All the available resources described above are summarised in the table below:

Proposed Funding	£'000
Initial Third Party Contributions (section 4.2.3)	700
Local Government Funding Settlements (section 4.3.3)	1,806
Use of Reserves/Headroom (section 4.4.1)	3,000
Total Proposed Additional Funding	5,506

- 4.5.2 The available funding in the table above compares with the proposed additional capital expenditure of £24.791M outlined in section 3.6.1. This therefore leaves a shortfall of funding of £19.285M. It is proposed that this amount is funded by additional borrowing in the first instance, however it is anticipated that an element of this will eventually be recouped from third party contributions.
- 4.5.3 The subsequent increase in loan charges as a result of this additional borrowing can be contained within current Revenue Budgets in the medium-term by utilising the Capital Fund and revising the current Treasury Strategy (see 4.6 below).

4.6 Revised Treasury Strategy & Use of the Capital Fund to Fund Borrowing Costs

- 4.6.1 The approved strategy for the Capital Fund is that any underspend in capital financing costs ("loan charges") compared to the approved budget is transferred to the Capital Fund. This has resulted in the accumulation of the Capital Fund balance, which is estimated to be £12.8M by March 2013, peaking at approximately £22.5M in 2018/19. In future years, as annual loan charges increase, any excess loan charges (principal repayments) over budget are met from the Capital Fund to ensure that the actual loan charges met from the Revenue Budget do not exceed the budgeted amount. This reduces the Capital Fund balance in future years.
- 4.6.2 The current Treasury Strategy has assumed new external borrowing in each financial year to fund existing capital programmes and to replace maturing debt. The Council's external borrowing could alternatively be reduced by utilising the Council's investments to fund capital expenditure, at a time when investment returns are extremely low. The consequent savings in annual loan charges will increase the balance on the Capital Fund in the short to medium term, which in turn could be used to partially accommodate the increase in annual loan charges associated with increased new borrowing in the longer term.
- 4.6.3 It is therefore proposed that the Council does not undertake any further external borrowing during 2012/13 and 2013/14. The impact on the Capital Fund for each year is illustrated at Appendix II.
- 4.6.4 The impact of the proposed additional capital expenditure on the Loans Fund and Capital Fund has also been modelled, and is shown at Appendix III. This highlights that, based on current forecasts, the increased borrowing requirement and loan charges as a result of the new expenditure can be contained until 2024/25. Beyond this, the Loan Charges Budget will need to be reviewed to ensure it matches the estimated annual charges at that time. The extent of this will be dependant on several factors, including prevailing interest rates, rate of developer contributions and future Capital Budget strategies. However, on current assumptions, estimates show that the Loan Charges Budget will need to be increased by £2.174M in 2025/26, and by around a further £3.211M thereafter.
- 4.6.5 The impact on the funding strategy of adding the new A9/A85 junction, as well as the primary and nursery schools to the all through school in later years, can also be illustrated. This brings forward the loan charge deficit by 2 years to 2023/24, and is shown at Appendix IV.
- 4.6.6 As a consequence of the proposed strategy there is a risk that the Council will need to undertake increased amounts of new external borrowing in the future when interest rates may have increased. However, there remains a high level of uncertainty in the financial markets, and current forecasts are that interest rates will only increase gradually over time. This borrowing strategy will, however, continue to be monitored and reviewed to take account of interest rates.
- 4.6.7 It should also be noted that the estimated loan charges do not take account of any future contributions that may arise, other than the developer contributions for

Oudenarde Primary School. Therefore, any other contributions to the above schemes which may be received in future will reduce the annual Loan Charges from those shown within Appendices II, III and IV. This will have the effect of prolonging the strategy of using the Capital Fund to meet the increased Loan Charges in future years.

- 4.6.8 It is therefore proposed that any future developer contributions and grants from future housing developments are applied to reduce the borrowing outstanding on the proposed projects within this report.

4.7 Recurring Revenue Implications

- 4.7.1 In addition to the increased annual loan charges described in Section 4.6 above, many of the projects described in this report give rise to significant ongoing revenue costs, which will require to be contained within the Council's overall Revenue Budget.

5. PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

- 5.1 The fundamental means of monitoring and controlling adherence to the Council's capital and treasury plans and ensuring that they remain affordable, sustainable and prudent is the determination and monitoring of Prudential & Treasury Management Indicators. These Indicators are set annually and relate to, and are consistent with the Council's approved Capital Budget and Treasury Management Strategy. Accordingly, the Prudential Indicators have been reviewed to incorporate the proposals set out in this report, and it is proposed to revise the Prudential & Treasury Management Indicators for the five year period as shown at Appendix V.
- 5.2 The revised Prudential Indicators include revised levels for the Council's estimated capital expenditure, borrowing requirements and loan charges as a proportion of the Council's Revenue Budget. However, of particular importance is the change to the Council's Authorised Limit for gross external debt, which can only be amended by the Council. It is proposed that the Authorised Limit for gross external debt is reduced from £449M to £381M as detailed at Indicator No.6 within Appendix V. The reduction in the limit reflects the strategy of reducing the current level of investments and deferring new external borrowing. The figure also takes account of when the borrowing requirement is at its peak over the five year period and is applied in each year (to allow flexibility). The Operational Boundary for each year is also shown within Appendix V.
- 5.3 The Council also operates under several other limits designed to safeguard the Council's money, covering interest rate exposures, volatility and debt maturity. Further policies, particularly in respect of investments, are designed to minimise the risks to which the Council is exposed. The approved policy and current limits are fully described within Treasury Management Policy 4 (*Approved Instruments, Methods & Techniques*). All the proposed Indicators comply with the CIPFA Code of Practice for Treasury Management in the Public Services.

6. CONSULTATION

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

7. COUNCIL CORPORATE PLAN OBJECTIVES 2009-2012

7.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, informs decisions at a corporate and service level and shape resources allocation. They are as follows:-

- (i) A Safe, Secure and Welcoming Environment
- (ii) Healthy, Caring Communities
- (iii) A Prosperous, Sustainable and Inclusive Economy
- (iv) Educated, Responsible and Informed Citizens
- (v) Confident, Active and Inclusive Communities

7.2 The Chief Executive's Service provides a range of functions for internal and front-line customers alike. Those functions support the work of the whole Council by assisting them in the delivery of the Council's Corporate Objectives. As a consequence, this report does not specifically relate to one of the objectives, but assists with the delivery of all five.

8. EQUALITIES IMPACT ASSESSMENT

8.1 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.

9. STRATEGIC ENVIRONMENTAL ASSESSMENT

9.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies, including policies (PPS). The matters presented in this report was 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.

10. CONCLUSION

10.1 This report describes additional capital infrastructure projects which have emerged as priorities in light of changing circumstances, totalling £24.791M. The report also identifies a strategy to fund the proposed additional expenditure, and sets out various further funding options that can be explored to mitigate the increased loan charges in the long term. There will also be other significant ongoing revenue implications

10.2 The Council's approved Prudential and Treasury Management Indicators have also been revised. In particular, it is proposed to change the Council's Authorised Limit for gross external debt to £381M.

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Note: 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.

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Capital Budget 12-17 Report.doc

Date - 12 December 2012

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Proposed Expenditure & Funding to be Approved

<u>Project Expenditure</u>	<u>£'000</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>Later Yrs</u>
Perth Theatre Redevelopment	4,424	1,000	3,424	0	0	0	0
New Secondary School & Site Selection (net of SFT)	7,667	0	0	0	7,667	0	0
Oudenarde Primary School	11,500	0	5,000	5,000	1,000	0	500
Rural Broadband	1,200	400	400	400	0	0	0
Total Expenditure	<u>24,791</u>	<u>1,400</u>	<u>8,824</u>	<u>5,400</u>	<u>8,667</u>	<u>0</u>	<u>500</u>

<u>Funding</u>	<u>£'000</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>Later Yrs</u>
Additional Capital Grant	1,806	799	1,024	42	-59	0	0
Use of Reserves/Headroom	3,000	101	2,899	0	0	0	0
Developer Contributions (Oudenarde)	700	500	0	0	0	100	100
Total Available Funding	<u>5,506</u>	<u>1,400</u>	<u>3,923</u>	<u>42</u>	<u>-59</u>	<u>100</u>	<u>100</u>

∞
 Balance - Appendix III funded from borrowing (Capital Fund)

<u>19,285</u>	<u>0</u>	<u>4,901</u>	<u>5,358</u>	<u>8,726</u>	<u>-100</u>	<u>400</u>
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Additional Projects (funding Decisions to be Deferred)

	<u>£'000</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>Later Yrs</u>
A9/A85 Road Junction Improvement	15,000	5,000	5,000	5,000	0	0	0
New All Through School - Primary	7,650	0	0	0	0	0	7,650
New All Through School - Nursery	2,520	0	0	0	0	0	2,520
	<u>25,170</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>10,170</u>
Balance - Appendix IV funded from borrowing (Capital Fund)	<u>44,455</u>	<u>5,000</u>	<u>9,901</u>	<u>10,358</u>	<u>8,726</u>	<u>-100</u>	<u>10,570</u>

Other Project

CTLR (not included in report)	90,000	0	0	0	0	0	90,000
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**PERTH AND KINROSS COUNCIL
LOANS AND CAPITAL FUND ESTIMATES**

**APPENDIX II
CURRENT PROJECTIONS**

LOANS FUND - Updated Projections

(£'000)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Loans Fund Budget	13,140	15,851	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996
Estimated General Fund Loan Charges*	13,138	12,863	13,757	14,526	15,028	15,934	16,938	18,084	18,923	19,598	20,279	20,734	20,874	21,491	21,817	21,985
Transfer To/(From) the Capital Fund	2	2,988	2,239	1,470	968	62	(942)	(2,088)	(2,927)	(3,602)	(4,283)	(4,738)	(4,878)	(5,495)	(5,821)	(5,989)
Loans Fund Budget Surplus/(Deficit)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

* based on applying Statutory Guidance

Estimated CLF Interest Rate	3.47%	3.07%	2.79%	2.85%	2.89%	3.06%	3.26%	3.45%	3.64%	3.75%	3.84%	3.92%	3.94%	3.95%	4.00%	4.03%
New Composite Borrowing Included	26,246	42,833	22,745	8,642	11,108	6,757	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000

(estimates for HRA and Prudential Borrowing have also been included in overall Loans Fund assumptions in all years)

Notes:

- 1 New borrowing estimates are per latest Capital Monitoring to 2015/16 on the Core General Fund Programme
- 2 A further **£14M** new borrowing had been assumed from 2016/17 on the Core General Fund Programme, however this has subsequently been reduced by **£2M** per annum due to Loans Fund and Capital Fund pressures
- 3 New borrowing for 2017/18 is reduced by claw-back of Almondbank Flood Prevention which had been brought forward into 2016/17.
- 4 **The above projections are based on Capital Monitoring Report per SP&R on 21 November 2012.**

CAPITAL FUND - Updated Projections

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(£'000)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Balance b/f	10,372	12,786	15,643	17,781	19,565	21,191	22,188	22,567	22,287	21,406	20,065	17,990	15,377	12,519	8,931	4,872
Contribution from General Fund	2,381	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Under/(Over)spend - Loans Fund	2	2,988	2,239	1,470	968	62	(942)	(2,088)	(2,927)	(3,602)	(4,283)	(4,738)	(4,878)	(5,495)	(5,821)	(5,989)
General Fund IORB Surplus/(Deficit)	17	(144)	(182)	100	315	405	655	905	1,155	1,405	1,405	1,405	1,405	1,405	1,405	1,405
IORB on Capital Fund balances	14	13	81	214	342	530	666	903	891	856	803	720	615	501	357	195
Balance c/f	12,786	15,643	17,781	19,565	21,191	22,188	22,567	22,287	21,406	20,065	17,990	15,377	12,519	8,931	4,872	483

IORB to General Fund

£'000	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
General Fund IORB per Budget*	70	200	345	345	345	345	345	345	345	345	345	345	345	345	345	345
Latest Estimated IORB**	87	56	163	445	660	750	1,000	1,250	1,500	1,750	1,750	1,750	1,750	1,750	1,750	1,750
Additional IORB	17	(144)	(182)	100	315	405	655	905	1,155	1,405	1,405	1,405	1,405	1,405	1,405	1,405

* IORB Budget for 2012/13 and future years subject to confirmation/Committee approval

* It is assumed that additional IORB will be transferred to the Capital Fund as in previous years, but is subject to Committee approval

**PERTH AND KINROSS COUNCIL
LOANS AND CAPITAL FUND ESTIMATES**

**APPENDIX III
PROPOSED EXPENDITURE
DECEMBER 2012**

LOANS FUND - Updated Projections

(£'000)	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
Loans Fund Budget	13,140	15,851	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996
Estimated General Fund Loan Charges*	13,138	12,863	13,829	14,823	15,630	16,813	17,828	18,985	19,836	20,517	21,214	21,694	21,836	22,455	22,786	22,958
Transfer To/(From) the Capital Fund	2	2,988	2,167	1,173	366	(817)	(1,832)	(2,989)	(3,840)	(4,521)	(5,218)	(5,698)	(5,840)	(4,285)	(1,405)	(1,405)
Loans Fund Budget Surplus/(Deficit)	0	0	0	0	0	0	0	0	0	0	0	0	0	(2,174)	(5,385)	(5,557)
* based on applying Statutory Guidance																
Estimated CLF Interest Rate	3.47%	3.07%	2.80%	2.86%	2.92%	3.09%	3.27%	3.45%	3.63%	3.73%	3.82%	3.90%	3.92%	3.93%	3.97%	4.00%
New Composite Borrowing Included	26,246	42,833	27,646	14,000	19,834	6,657	11,900	11,900	11,900	11,900	12,400	11,900	11,900	11,900	11,900	11,900
(estimates for HRA and Prudential Borrowing have also been included in overall Loans Fund assumptions in all years)																

Notes:

- 1 New borrowing estimates are per latest Capital Monitoring to 2015/16 on the Core General Fund Programme
- 2 A further **£14M** new borrowing had been assumed from 2016/17 on the Core General Fund Programme, however this has subsequently been reduced by **£2M** per annum due to Loans Fund and Capital Fund pressures
- 3 New borrowing for 2017/18 is reduced by claw-back of Almondbank Flood Prevention which had been brought forward into 2016/17.
- 4 Includes proposed additional capital expenditure per Council Meeting December 2012 (**£19.285M net**)

CAPITAL FUND - Updated Projections

(£'000)	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
Balance b/f	10,372	12,786	15,643	17,709	19,195	20,212	20,306	19,737	18,442	16,495	14,040	10,789	6,927	2,769	0	0
Contribution from General Fund	2,381	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Under/(Over)spend - Loans Fund	2	2,988	2,167	1,173	366	(817)	(1,832)	(2,989)	(3,840)	(4,521)	(5,218)	(5,698)	(5,840)	(4,285)	(1,405)	(1,405)
General Fund IORB Surplus/(Deficit)	17	(144)	(182)	100	315	405	655	905	1,155	1,405	1,405	1,405	1,405	1,405	1,405	1,405
IORB on Capital Fund balances	14	13	81	213	336	505	609	789	738	660	562	432	277	111	0	0
Balance c/f	12,786	15,643	17,709	19,195	20,212	20,306	19,737	18,442	16,495	14,040	10,789	6,927	2,769	0	0	0

IORB to General Fund

£'000	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
General Fund IORB per Budget*	70	200	345	345	345	345	345	345	345	345	345	345	345	345	345	345
Latest Estimated IORB**	87	56	163	445	660	750	1,000	1,250	1,500	1,750	1,750	1,750	1,750	1,750	1,750	1,750
Additional IORB	17	(144)	(182)	100	315	405	655	905	1,155	1,405	1,405	1,405	1,405	1,405	1,405	1,405

- * IORB Budget for 2012/13 and future years subject to confirmation/Committee approval
- * It is assumed that additional IORB will be transferred to the Capital Fund as in previous years, but is subject to Committee approval

**PERTH AND KINROSS COUNCIL
LOANS AND CAPITAL FUND ESTIMATES**

**APPENDIX IV
ADDITIONAL EXPENDITURE
DECEMBER 2012**

LOANS FUND - Updated Projections

(£'000)	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
Loans Fund Budget	13,140	15,851	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996	15,996
Estimated General Fund Loan Charges*	13,138	12,882	14,063	15,338	16,298	17,493	18,522	19,691	20,554	21,245	22,158	23,057	23,209	23,839	24,183	24,369
Transfer To/(From) the Capital Fund	2	2,969	1,933	658	(302)	(1,497)	(2,526)	(3,695)	(4,558)	(5,249)	(6,162)	(5,657)	(1,405)	(1,405)	(1,405)	(1,405)
Loans Fund Budget Surplus/(Deficit)	0	0	0	0	0	0	0	0	0	0	0	(1,404)	(5,808)	(6,438)	(6,782)	(6,968)

* based on applying Statutory Guidance

Estimated CLF Interest Rate	3.47%	3.04%	2.79%	2.88%	2.94%	3.10%	3.27%	3.44%	3.62%	3.72%	3.82%	3.89%	3.90%	3.91%	3.96%	3.99%
New Composite Borrowing Included	26,246	47,833	32,646	19,000	19,834	6,657	11,900	11,900	11,900	11,900	22,570	11,900	11,900	11,900	11,900	11,900

(estimates for HRA and Prudential Borrowing have also been included in overall Loans Fund assumptions in all years)

Notes:

- 1 New borrowing estimates are per latest Capital Monitoring to 2015/16 on the Core General Fund Programme
- 2 A further **£14M** new borrowing had been assumed from 2016/17 on the Core General Fund Programme, however this has subsequently been reduced by **£2M** per annum due to Loans Fund and Capital Fund pressures
- 3 New borrowing for 2017/18 is reduced by claw-back of Almondbank Flood Prevention which had been brought forward into 2016/17.
- 4 Includes proposed capital expenditure per Council Meeting December 2012, plus additional projects (£44.455M)

CAPITAL FUND - Updated Projections

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(£'000)	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
Balance b/f	10,372	12,786	15,624	17,455	18,422	18,757	18,133	16,807	14,688	11,873	8,505	4,088	0	0	0	0
Contribution from General Fund	2,381	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Under/(Over)spend - Loans Fund	2	2,969	1,933	658	(302)	(1,497)	(2,526)	(3,695)	(4,558)	(5,249)	(6,162)	(5,657)	(1,405)	(1,405)	(1,405)	(1,405)
General Fund IORB Surplus/(Deficit)	17	(144)	(182)	100	315	405	655	905	1,155	1,405	1,405	1,405	1,405	1,405	1,405	1,405
IORB on Capital Fund balances	14	13	80	210	322	469	544	672	588	475	340	164	0	0	0	0
Balance c/f	12,786	15,624	17,455	18,422	18,757	18,133	16,807	14,688	11,873	8,505	4,088	0	0	0	0	0

IORB to General Fund

£'000	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
General Fund IORB per Budget*	70	200	345	345	345	345	345	345	345	345	345	345	345	345	345	345
Latest Estimated IORB**	87	56	163	445	660	750	1,000	1,250	1,500	1,750	1,750	1,750	1,750	1,750	1,750	1,750
Additional IORB	17	(144)	(182)	100	315	405	655	905	1,155	1,405	1,405	1,405	1,405	1,405	1,405	1,405

* IORB Budget for 2012/13 and future years subject to confirmation/Committee approval

* It is assumed that additional IORB will be transferred to the Capital Fund as in previous years, but is subject to Committee approval

PERTH AND KINROSS COUNCIL
PRUDENTIAL AND TREASURY INDICATOR LIMITS
2012/13 to 2016/17
(Revised December 2012)

APPENDIX V

1 FINANCING COSTS:NET REVENUE STREAM

The ratio of Capital Financing Costs, including PPP Unitary Charges, to the Council's net revenue stream shall not exceed the following limits, which are based on historical levels, and allow some headroom for movement in interest rates etc.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
Prudential Limit - General Fund	12.50%	12.50%	12.50%	12.50%	12.50%
Estimated Ratio of Financing Costs to Revenue	7.97%	7.82%	8.12%	8.51%	8.85%
Prudential Limit - HRA	25.00%	25.00%	25.00%	25.00%	25.00%
Estimated Ratio of Financing Costs to Revenue	17.41%	17.07%	17.58%	18.22%	18.90%

2 INCREMENTAL COUNCIL TAX/HOUSING RENT FROM TOTAL CAPITAL & REVENUE PLANS

Estimated incremental Council Tax resulting from the totality of the Council's capital and revenue plans

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
Estimated Incremental Council Tax (£)	0.00	0.00	0.00	0.00	0.00

Estimated incremental Housing Rent resulting from the totality of the Council's HRA capital and revenue plans:

Estimated incremental weekly rent (£)	0.00	1.15	1.17	1.19	1.22
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Note:

There are no significant variations beyond the 5 year period to be taken into account.

3 GROSS & NET BORROWING AND CAPITAL FINANCING REQUIREMENT

Gross external borrowing must not exceed the total capital financing requirement, to ensure that over the medium term, borrowing is only undertaken for capital purposes. The estimated total Gross borrowing and Capital Financing Requirement at the end of each of the years is shown below. Net external borrowing (after deduction of investments) is also shown.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	£	£	£	£	£
Estimated Gross External Borrowing	334,722,000	317,638,000	329,393,000	338,025,000	355,990,000
Estimated Capital Financing Requirement	381,381,000	423,287,000	446,253,000	454,984,000	462,950,000
Estimated Net External Borrowing	294,722,000	297,638,000	311,393,000	322,025,000	340,990,000

4 ESTIMATES OF CAPITAL EXPENDITURE

The total estimated Capital Expenditure contained within the Council's Budgets for each year is as follows:

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	£	£	£	£	£
<u>Estimate of Total Capital Expenditure:</u>					
Composite Programme	41,062,000	71,833,000	57,271,000	32,827,000	37,421,000
PPP Expenditure Programme	0	0	0	0	0
HRA	12,226,000	15,095,000	12,736,000	12,096,000	9,437,000
Total Estimated Capital Expenditure	<u>53,288,000</u>	<u>86,928,000</u>	<u>70,007,000</u>	<u>44,923,000</u>	<u>46,858,000</u>

PERTH AND KINROSS COUNCIL
PRUDENTIAL AND TREASURY INDICATOR LIMITS
2012/13 to 2016/17
(Revised December 2012)

APPENDIX V

5 ESTIMATE OF CAPITAL FINANCING REQUIREMENT OF YEAR

The estimate of the Capital Financing Requirement (ie new borrowing requirement for Capital Expenditure) for each year based on these plans is as follows:

<u>Estimate of Capital Financing Requirement</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	£	£	£	£	£
Composite Programme	27,803,000	46,039,000	31,481,000	19,518,000	23,017,000
PPP Programme	0	0	0	0	0
HRA	7,960,000	11,065,000	8,210,000	7,379,000	4,423,000
Estimated Capital Financing Requirement	<u>35,763,000</u>	<u>57,104,000</u>	<u>39,691,000</u>	<u>26,897,000</u>	<u>27,440,000</u>

The total Capital Financing Requirement (ie including all prior years outstanding capital expenditure to be financed by borrowing) is shown above under indicator number 3.

6 EXTERNAL DEBT (GROSS)

The estimated maximum total external debt (gross of investments) based on the Council's plans for each of the years is as follows:

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	£	£	£	£	£
(i) <u>Operational Boundary</u>					
External Borrowing	202,122,000	188,845,000	204,588,000	217,353,000	238,137,000
Other Long Term Liabilities	132,878,000	129,155,000	125,412,000	121,647,000	117,863,000
Total Operational Boundary	<u>335,000,000</u>	<u>318,000,000</u>	<u>330,000,000</u>	<u>339,000,000</u>	<u>356,000,000</u>

The Operational Boundary estimates the most likely level of borrowing based on the Council's plans. It is therefore likely that throughout the year the actual level of borrowing may be above or below the Operational Boundary due to uneven cashflows.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	£	£	£	£	£
(ii) <u>Authorised Limit</u>					
External Borrowing	243,000,000	247,000,000	251,000,000	254,000,000	258,000,000
Other Long Term Liabilities	138,000,000	134,000,000	130,000,000	127,000,000	123,000,000
Total Authorised Limit	<u>381,000,000</u>	<u>381,000,000</u>	<u>381,000,000</u>	<u>381,000,000</u>	<u>381,000,000</u>

The Authorised Limit for total external debt (gross of investments) is as shown above which allows some headroom over the Operational Boundary above in the event of exceptional cashflows, eg when debt restructuring, or in the event of unforeseen circumstances.

7 ADOPTION OF THE CIPFA CODE OF PRACTICE FOR TREASURY MANAGEMENT

The Council has fully adopted and complies with the CIPFA Code of Practice for Treasury Management in the Public Services (revised 2011).

PERTH AND KINROSS COUNCIL
PRUDENTIAL AND TREASURY INDICATOR LIMITS
2012/13 to 2016/17
(Revised December 2012)

APPENDIX V

8 INTEREST RATE EXPOSURES

The upper limits for the Council's exposure to changes in interest rates, for both fixed and variable rate debt is as shown below. This reflects the proportion of the Council's total debt which will be at each type of interest rate. The following limits have been set to give maximum flexibility during periods when interest rates are either forecast to rise or fall, thereby allowing the Council to review its borrowing strategy accordingly.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
Estimated Fixed Rate Debt/Gross Debt	88.1%	87.5%	88.0%	88.3%	87.5%
Upper limit on Fixed Interest Rate Debt	100%	100%	100%	100%	100%
Estimated Variable Rate Debt/Gross Debt	0.0%	6.2%	6.6%	6.9%	8.3%
Upper limit on Variable Interest Rate Debt	35%	35%	35%	35%	35%

9 MATURITY STRUCTURE

The lower and upper limit for the proportion of the Council's total fixed rate debt which matures in each of the time bandings below, and is therefore subject to refinancing at the prevailing market rates, is as follows:

Fixed Rate Borrowing maturity structure:

	Lower Limit	Upper Limit	Estimated
Under 12 months	0%	35%	3.8%
over 12 months and < 24 months	0%	35%	5.5%
over 2 years and < 5 years	0%	50%	16.3%
over 5 years and < 10 years	0%	75%	19.9%
over 10 years	10%	95%	54.5%

10 PRINCIPAL SUMS INVESTED LONGER THAN 364 DAYS

The upper limit for the Council's investments invested for a period longer than 364 days is as follows:

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	£	£	£	£	£
Sums invested for longer than 364 days	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000

