

## PERTH AND KINROSS COUNCIL

## Strategic Policy and Resources Committee

30 November 2016

**Composite Capital Budget 2016/23 & Housing Investment Programme 2016/21  
– Monitoring Report Number 2**

Report by the Head of Finance

**PURPOSE OF REPORT**

This report provides a summary position to date for the Composite Capital Programme for 2016/17 to 2022/23 and the Housing Investment Programme 2016/17 to 2020/21, and seeks approval for adjustments to the programmes. The report also includes new proposals for accounting for Loan Charges.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 The meeting of this Committee on 21 September 2016 approved a revised Composite Capital Budget for the six years 2016/17 to 2022/23 (report 16/401 refers), with total approved resources totalling £536,774,000. The Committee also approved a revised five year Housing Investment Programme for the 5 years 2016/17 to 2020/21, with the estimated net expenditure over the 5 years totalling £84,301,000.
- 1.2 This report advises of expenditure to 31 October 2016 and the latest estimated projected outturn for each programme. The Capital Programme Exceptions Report (Appendix 5) provides summary information on the latest position for individual projects reported within Sections 3 and 4 of this report.

**2. COMPOSITE CAPITAL PROGRAMME – CAPITAL RESOURCES**

- 2.1 The current estimated total gross capital resources available over the seven years 2016/17 to 2022/23 amount to £537,141,000. Movements from the revised Composite Capital Budget approved on 21 September 2016 are summarised in the table below, and the constituent elements for each year are summarised at Appendix 1.

Total Composite Capital Resources			
	Approved 21 Sept 2016	Current Estimate	Movement
	£'000	£'000	£'000
2016/17	75,889	70,132	(5,757)
2017/18	94,432	100,405	5,973
2018/19	61,441	61,592	151
2019/20	103,362	103,362	0
2020/21	92,143	92,143	0
2021/22	68,467	68,467	0
2022/23	41,040	41,040	0
<b>Total</b>	<b>536,774</b>	<b>537,141</b>	<b>367</b>

- 2.2 The total increase of £367,000 above is mostly related to movements in Third Party Contributions, Commercial Property Receipts and Receipts Carried-Forward, as detailed below.
- 2.3 Projected **Third Party Contributions** have increased by £361,000 over the seven year budget, mainly due to contributions of £350,000 towards the Creative Exchange project (see Section 3.4.2). There are also other small movements within the Environment Service programme. All movements in Third Party Contributions have been included in Appendices I and II.
- 2.4 There have only been small movements in the estimated timing of **General Fund Property Disposal**. Additionally, receipts estimated at £591,000 on the **Commercial Property Investment Programme** have been re-profiled from 2016/17 to 2017/18, together with the inclusion of an estimate of £308,000 now being included for 2022/23 in relation to the Food & Drink Park, Perth. Together with a small reduction of £3,000 in projected Commercial Property expenditure over the seven-year period, the estimated **receipts carried forward to future years** has, therefore, increased by £311,000. Estimated **Ring-fenced receipts** have also increased by £1,000 in 2016/17, whilst **Housing Receipts** have increased by £5,000. These movements are summarised at Appendix 1.
- 2.5 As a result of a projected underspend in Private Sector Housing Grants (PSHG) of £500,000 in 2016/17 within the Revenue Budget, which is funded by Capital Grant, the amount of **General Capital Grant** available to the Capital Budget has increased by £500,000. There is a corresponding reduction in General Capital Grant in 2017/18 on the assumption that this amount will be re-instated to the PSHG programme.
- 2.6 The projected **Borrowing Requirement** in 2016/17, which is effectively the balancing item for resources, is £48,421,000, which is £5,036,000 lower than the previous Borrowing Requirement approved on 21 September 2016. This is primarily due to rephasing of the projected expenditure within The Environment Service programme (the most significant of which is the Almondbank Flood Prevention Scheme), ICT Infrastructure Replacement Programme expenditure and the increase in Capital Grant, but partly offset by the rephasing of the developer contribution for Oudenarde.
- 2.7 Consequently, the total Borrowing Requirement in the subsequent years 2017/18 to 2021/22 has increased by £5,039,000 to £335,549,000, resulting in an overall increase of only £3,000 across the whole seven year programme. This reflects the small adjustments required to the prudential borrowing projects within the Environment Service as a result of movements in contributions and receipts (see Section 2.3 and 2.4 above), together with a small adjustment on the Environment Service core programme. All movements in the Borrowing Requirement are shown in the Proposed Budget Adjustment column within Appendix 2, and summarised in the table below:

	2016/17	2017/18	2018/19	2019/20	Later Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Increase in Prudential Borrowing due to reduced Third Party Contributions (Section 3.4.8)	10	0	0	0	0	10
Reduction in Prudential Borrowing due to increased Receipts (Section 3.4.8)	(1)	0	0	0	0	(1)
Reduced Expenditure on TACTRAN Programme (Appendix 2)	(1)	0	0	0	0	(1)
Increase in General Fund Housing Receipts (Section 2.4)	(5)	0	0	0	0	(5)
Movements arising from re-phasing of other expenditure and receipts (Appendix 2)	(5,039)	5,203	(199)	35	0	0
<b>Increase/(Decrease) in Borrowing Requirement</b>	<b>(5,036)</b>	<b>5,203</b>	<b>(199)</b>	<b>35</b>	<b>0</b>	<b>3</b>

### 3. COMPOSITE CAPITAL PROGRAMME – EXPENDITURE

- 3.1 Total expenditure (net of grants and contributions) in the current year to 31 October 2016 on the Composite Capital Programme amounts to £27,329,000, which is detailed at Appendix 2 and summarised as follows:

	Net Expenditure to 31 Oct 2016
	£'000
Education and Children's Services	9,116
The Environment Service	16,103
Housing and Community Care	641
Corporate & Democratic Services	469
<b>Total</b>	<b>27,329</b>

- 3.2 In addition, General Capital Grant received to 31 October amounts to £8,302,000 and capital receipts amount to £701,000. The borrowing requirement, after taking account of receipts brought forward and carried forward, totals £17,904,000. A comprehensive monitoring exercise has been carried out, which is detailed at Appendix 2. The most significant features are discussed below.

#### 3.3 Education and Children's Services

- 3.3.1 The Director (Education & Children's Services) has reviewed the current programme. Various projects have recently been completed, with negotiations with the contractor over the final account still to be concluded, whilst other projects are nearing financial close for works to start on site. Therefore, it is proposed that no adjustments are made to these projects at this stage. Once these matters have been concluded, the outcome will be included in future reports to this Committee. The only proposed movement at this stage is to transfer the initial Developer Contribution for Oudenarde from 2016/17 to 2017/18, in line with the terms of the Section 75 agreement and the anticipated house-building at the site.

- 3.3.2 All other projects, including the annual programmes, remain on course for the current year. However, it should be noted that the budget for the Pitlochry High School Upgrade Programme has been moved to the Property Division within Environment Services, as the works fall within the remit of the Head of Property Services.

### 3.4 The Environment Service

- 3.4.1 The Director (Environment) has reviewed the current programme and proposes various budget adjustments, the most significant of which are described below.
- 3.4.2 There is a reduction of £11,000 in contributions and expenditure on Unadopted Roads, with a further £124,000 of expenditure proposed to move to 2017/18. Additionally, a contribution of £7,000 from TACTRAN for Cycling Walking & Safer Streets has been allocated to the Council in 2016/17. There has also been an additional contribution of £25,000 received in respect of the works at Mill Street, Perth, and it is proposed to increase the budget for the works accordingly in 2016/17. In addition, third party funding totalling £350,000 from the European Regional Development Fund (£250,000) and Scottish Cities Alliances (£100,000) has been allocated to the Council for the Creative Exchange project, which is anticipated to be received in 2018/19. It is, therefore, proposed to increase the budget for the project by this amount in 2018/19.
- 3.4.3 It is proposed to rephase the A9/A85 Road Junctions Improvement budget in line with movements in the anticipated expenditure profile. Accordingly, it is proposed that £657,000 is moved into 2017/18, with £427,000 moving from 2016/17, and £230,000 from 2018/19. It is also proposed to bring forward £26,000 of the A977 Upgrades budget from 2017/18 to the current year to cover fees in progressing the works.
- 3.4.4 Following the commencement of works on site in relation to the Almondbank Flood Prevention Scheme, the contingency element of the budget has been reprofiled following a value engineering exercise. It is, therefore, proposed that £2,537,000 of the current year budget is moved to 2017/18, with a further £10,000 moved to 2018/19.
- 3.4.5 Following a review of the 2016/17 Community Greenspace programme, it is proposed that the budget for Alyth Environmental Improvements is moved to 2017/18. This is as a result of delays in detailed proposals being developed and in securing external funding following the recent flooding and remedial works undertaken. There have also been small movements in third party contributions and the related expenditure between years within the Community Greenspace Programme.
- 3.4.6 Within the Waste Strategy programme, it is proposed that works at Blairgowrie Transfer Station are undertaken this year and it is, therefore, proposed to accelerate £134,000 of the budget into 2016/17 from 2017/18.

- 3.4.7 Some of the works within the Property Division programme are required to be undertaken during school holidays. Accordingly, due to the amount of work being undertaken, some of these have been programmed in the next financial year, resulting in an overall proposed movement of £211,000 from 2016/17 to 2017/18. Within the Commercial Property Investment programme, it is proposed to transfer £280,000 from 2016/17 to 2017/18 in respect of the Food & Drink Park, Perth as a result of redesign work on the small business units contract. There has also been a reduction of £3,000 in proposed expenditure following the re-allocation of development costs to individual programmes between 2017/18 and 2019/20.
- 3.4.8 Within the Prudential Borrowing programme, it is proposed that the two Energy Conservation & Carbon Reduction budgets (totalling £240,000) are amalgamated and moved to 2017/18 whilst specific proposals are developed. Within the Fleet Replacement Programme, there is a reduction of £10,000 in the anticipated grant to be received for electric vehicles. This, therefore, increases the Borrowing Requirement by this amount. However, this is partially offset by a small increase of £1,000 in receipts under the Recycling Container & Skip Disposal programme. It is also proposed to bring forward £80,000 to 2016/17 in respect of the Perth Harbour Dredging, to cover survey and design costs to be incurred in the current year.
- 3.4.9 All the above proposed adjustments, together with other minor movements, have been reflected in Appendices 1 and 2.

### 3.5 Housing and Community Care – Community Care

- 3.5.1 The Director (Housing & Social Work) has reviewed the current programme, and it is proposed to transfer the Housing with Care budget of £345,000 and the Developing Supported Tenancies budget of £229,000 from 2016/17 to 2017/18 to reflect the current expenditure programme of work whilst negotiations with RSL's are ongoing. It is also proposed to transfer £38,000 from 2016/17 to 2017/18 for the Council Contact Centre in line with revised system installation dates. These proposed adjustments have been reflected in Appendices I and II.

### 3.6 Corporate and Democratic Services

- 3.6.1 The ICT Infrastructure budget has been reviewed, and it is proposed to transfer £746,000 from the current year into next year. The main reasons for this is that the handing over of the 2 High Street, Perth computer room to the technical teams was delayed, which had a knock on effect on other replacement activities the teams had planned for 2016/17. Additionally, the decision around future provisioning of the Council's Wide Area Network was deferred, resulting in the funding for replacement of network lines being moved into future years.

#### 4. HOUSING INVESTMENT PROGRAMME

- 4.1 The current estimated expenditure, net of contributions, over the six years 2016/17 to 2020/21 amounts to £84,335,000. Movements from the previous estimates approved on 21 September 2016 are as follows, and are also included in Appendix 3:

	<b>Approved 21 Sept 2016</b>	<b>Current Estimate</b>	<b>Movement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2016/17</b>	22,327	22,932	605
<b>2017/18</b>	16,969	16,715	(254)
<b>2018/19</b>	12,970	12,670	(300)
<b>2019/20</b>	9,210	9,193	(17)
<b>2020/21</b>	22,825	22,825	0
<b>Total</b>	<b>84,301</b>	<b>84,335</b>	<b>34</b>

- 4.2 Expenditure (net of contributions) in 2016/17 to 31 October 2016 amounts to £9,999,000 and receipts amount to £891,000, therefore giving borrowing of £9,108,000 for the year to date.
- 4.3 The Director (Housing & Social Work) proposes to make several adjustments to the programme which is detailed at Appendix 3. The most significant of the proposed adjustments are described below.
- 4.4 Some of the demolition works relating to Lock Ups and Garage Sites had previously been included within the New Build projects for Nimmo Avenue and Cairns Crescent, Perth. However, the demolition works were tendered as part of the overall contract for the Lock Up and Garages programme. It is therefore proposed that £53,000 and £34,000 is transferred from the New Build projects respectively, to the Lock Up and Garages budget. It is also proposed to transfer £34,000 to the budget for Nimmo Avenue in 2016/17 from the Future Developments Budget, with a further £100,000 proposed to be transferred to the budget for Cairns Crescent in 2017/18. Additionally, it is proposed to increase the budget for Cairns Crescent in 2016/17 by a further £34,000 in line with updated cost estimates for the works. The overall impact of these proposed adjustments is to increase the Borrowing Requirement by £34,000.
- 4.5 The Scottish Government has allocated a further £490,000 to the Council House Buy-Backs programme in 2016/17, and it is therefore, proposed to increase the expenditure budget by this amount. In addition, it is also proposed to accelerate £354,000 from 2017/18, giving an overall increase in expenditure of £844,000 in Council House Buy Backs in the current year.

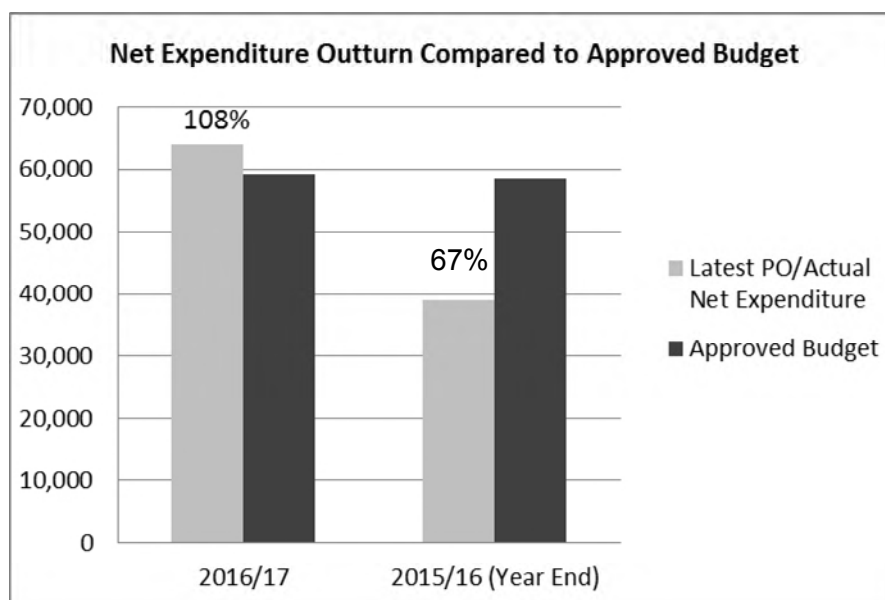
- 4.6 It is also proposed to increase the Environmental Improvements budget in 2016/17 by £300,000 by bringing forwards a corresponding amount from 2018/19. This reflects the progress made to date on the planned programme of work, and has allowed for additional work to be accelerated into the current year. There are also small proposed budget movements to increase the Sheltered Housing (£8,000) and Upgrade & Replacement of Lifts (£9,000) budgets in the current year by bringing forward these amounts from the 2019/20 budgets.
- 4.7 There has also been an increase in capital receipts under the Right to Buy programme, with receipts now anticipated to be at least £1M in the current year. In advance of the deadline in July 2016 a large number of applications were received by the Council before the scheme ceased. Due to the large number of applications received, some applications are still being concluded, and it is, therefore, anticipated that receipts will increase further by the end of the year.
- 4.8 As a result of all the proposed adjustments, the total Housing Investment Programme borrowing requirement over the five year period to 31 March 2021 has reduced by £516,000, in respect of the proposed adjustments in Section 4.4 and 4.7 above.

## 5. RENEWAL & REPAIR FUND

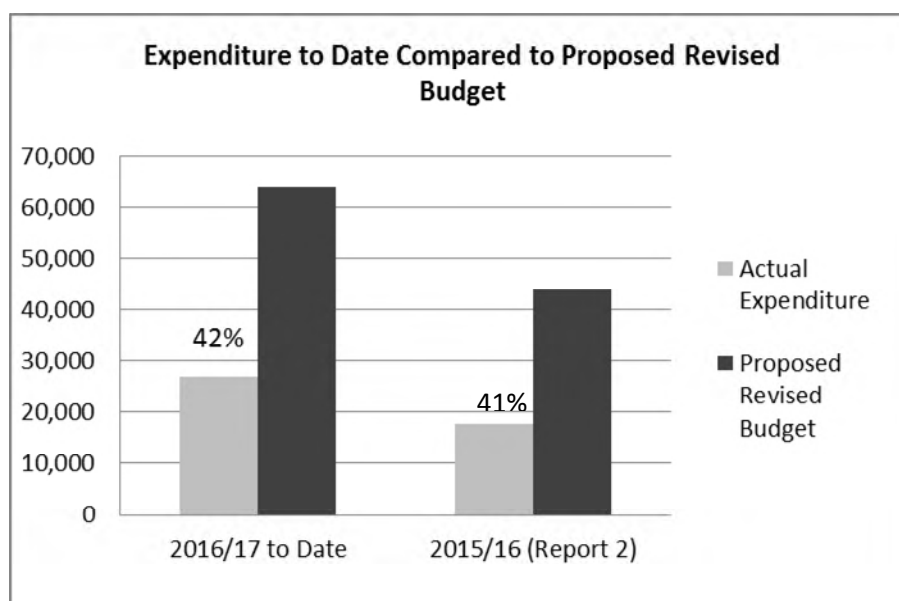
- 5.1 Detailed at Appendix 4 is the 2016/17 proposed revised budget and the projected outturn for the Renewal & Repair Fund. There have been no further movements from the estimates in the last report to this Committee.

## 6. BUDGET OVERVIEW

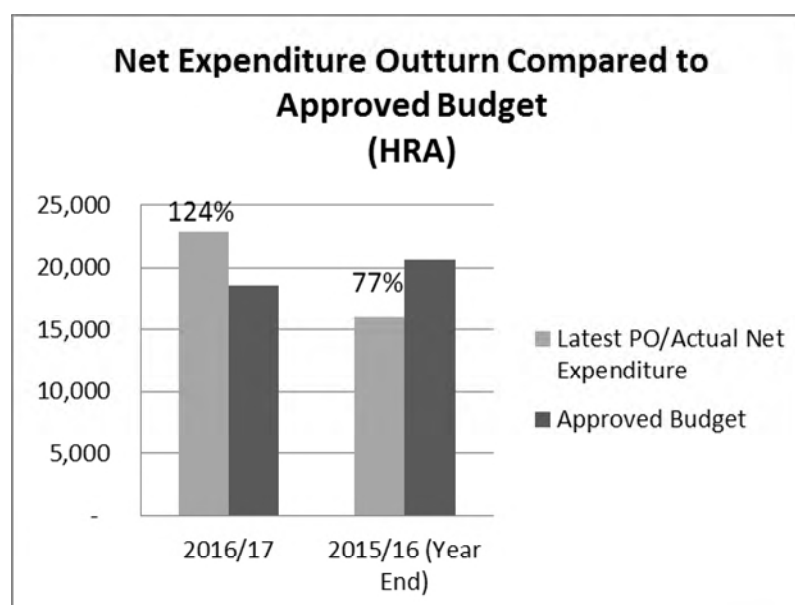
- 6.1 The Composite Capital Budgets approved by the Council on 22 June 2016 have been reviewed and updated to reflect the latest monitoring.
- 6.2 The latest projected net expenditure outturn for the Composite Capital Programme represents 108% of the original 2016/17 budget approved by the Council on 22 June 2016:



- 6.3 This difference is a result of the approved budget adjustments included within the last report to this Committee on 21 September (£8,358,000 increase, including balances brought forward from 2015/16), the most significant of which related to Perth Theatre and Almondbank Flood Prevention Scheme, but offset by the reduced estimated expenditure of £4,777,000 in this current report, primarily due to revised projections for the Almondbank Flood Prevention Scheme and the ICT Infrastructure Replacement programme.
- 6.4 Fluctuations in the net expenditure outturn and the subsequent impact upon the Council's Borrowing Requirement will continue to be managed through the Council's Treasury function. Net expenditure to 31 October 2016 on the programme represents 42% of the proposed revised 2016/17 budget:

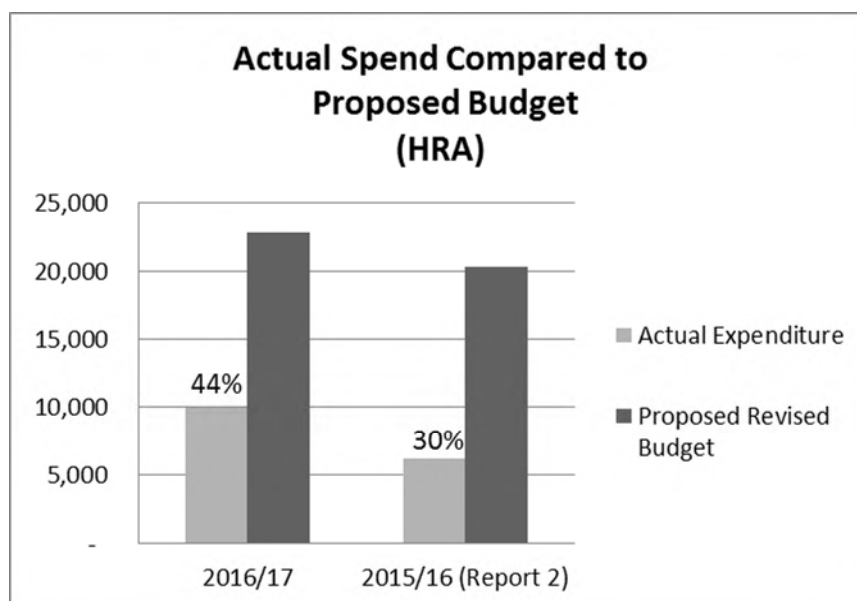


- 6.5 The latest projected gross expenditure outturn for the Housing Investment Programme represents 124% of the 2016/17 budget approved by the Housing & Health Committee on 27 January 2016 (report 16/28 refers). The increase is primarily due to movements in projections detailed in the previous reports to this Committee, including the acceleration of Central Heating and Rewiring and Council House Buy-Backs.





- 6.6 Gross expenditure at 31 October 2016 on the Housing Investment Programme represents 44% of the proposed revised 2016/17 budget:



- 6.7 Proposed movements on the Housing Investment Programme are detailed at Section 4. The plans remain on course with a reduction in borrowing of £516,000 over the 5-year period. The Loan Charges as a result of this reduced borrowing are within the Housing Revenue Account budget provision.

## 7. CHANGES TO LOANS FUND ACCOUNTING

- 7.1 The Scottish Government issued the Local Authority (Capital Financing and Accounting)(Scotland) Regulations 2016 in July 2016. These make several changes to the accounting requirements within the Loans Fund in respect of capital expenditure (advances), debt repayments and interest. The new regulations simplify and clarify the accounting requirements and include some new provisions which could impact the way Loan Charges are accounted for by the Council.
- 7.2 The Regulations include specific guidance on how internal debt repayments are to be accounted for, i.e. the repayment (amortisation) of capital expenditure (advances). The Regulations include four different approaches for repayment methodologies and the method(s) selected by an authority must be prudent and applied consistently. The four options are:
- Statutory Method – relates to all loans fund advances (capital expenditure funded by borrowing) incurred before 1 April 2016, with the repayment of these advances to remain as per existing schedules.
  - Depreciation Method – repayments to be calculated in the same way as depreciation within Capital Charges.
  - Asset Life Method – repayments to be based on the life of the asset being funded as capital expenditure. Such repayments can either be calculated on a straight-line basis, or on an annuity basis where the benefits from the asset increase over time.

- Funding Method – repayments to be linked to future income streams from the asset being funded.

To take account of forward plans that authorities may have made (including the revenue consequences of capital expenditure) a transition period is available so that the statutory method can continue to be applied to new capital advances incurred up to 31 March 2021.

- 7.3 It is proposed that this Council adopt the Statutory Method for all capital advances outstanding as at 1 April 2016, as well as for new advances incurred up to and including 2020/21. This reflects the fact that the impact of Loan Charges have already been factored into medium term plans on this basis. For new advances incurred after this date, it is proposed that there will be an assumption that the annual repayments will be calculated using the straight line asset life method, unless specific circumstances dictate that a different method shall be applied.
- 7.4 The Regulations also allow the annual repayments of capital advances to be deferred until the asset being funded becomes operational. This would allow a capital project which straddles two or more financial years to incur no debt repayments until after the project has been completed. It is proposed that this be implemented from 1 April 2016 for all new capital advances and that future Loan Charges are calculated on this basis. This would reduce the Loan Charges in earlier years for projects which are still under construction. The impact of this proposed change will be factored into the Revenue Budget to be considered by the Council in February 2017.
- 7.5 Whilst the Regulations permit various other changes in the way the Loans Fund operates and the methodology for calculating Loan Charges, it is proposed that all other existing policies remain unchanged.

## **8. RECOMMENDATIONS**

- 8.1 It is recommended that the Committee:
- (i) Notes the contents of this report.
  - (ii) Approves the proposed budget adjustments to the seven year Composite Capital Budget 2016/17 to 2022/23 set out in Sections 2, and 3 to this report and summarised at Appendices 1 and 2.
  - (iii) Approves the proposed budget adjustments to the Housing Investment Programme Budget 2016/17 to 2020/21 set out in Section 4 to this report and summarised at Appendix 3.
  - (iv) Approves the revised accounting policies for the Loans Fund as detailed at Section 7 of this report.

**Author(s)**

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**Approved**

<b>Name</b>	<b>Designation</b>	<b>Date</b>
John Symon	Head of Finance	16 November 2016

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 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.

1.1.2 This report relates to all of these objectives.

### 2. Resource Implications

#### 2.1 Financial

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

## 2.2 Workforce

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

## 2.3 Asset Management (land, property, IT)

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

## 3. **Assessments**

### 3.1 Equality Impact Assessment

- 3.1.1 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.
- 3.1.2 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.

### 3.2 Strategic Environmental Assessment

- 3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.2.2 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.

### 3.3 Sustainability

- 3.3.1 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.
- 3.3.2 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**

### **4.1 Internal**

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

## **5. BACKGROUND PAPERS**

- 5.1 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.

## **6. APPENDICES**

Appendix 1 – Composite Capital Programme – Estimated Capital Resources 2016/17 to 2022/23

Appendix 2 – Composite Capital Programme – Summary of Capital Resources and Expenditure 2016/17 to 2022/23

Appendix 3 – Housing Investment Programme – Summary of Capital Resources and Expenditure 2016/17 to 2020/21

Appendix 4 – Renewal & Repair Fund Budget 2016/17

Appendix 5 – Capital Programme Exceptions Report 2016/17