

PERTH & KINROSS COUNCIL

1 March 2023

STRATEGIC INVESTMENT & CAPITAL BUDGET UPDATE 2023/24 – 2027/28

Report by the Chief Executive & Head of Finance
(Report No 23/73)

1. PURPOSE

- 1.1 The purpose of this report is to provide Council with an overview of the strategic context for the Council's Capital investment and, where appropriate, managed disinvestment. The report also sets out information on development of the Council's corporate asset management strategy and the Investment Blueprint to inform future capital investment over the longer term.
- 1.2 The report provides an update on the Composite (General Fund) Capital Budget and the affordability of the current programme. It updates Council on the implications of the 2023/24 local government settlement for Capital expenditure; recommends that Council set a 5 Year Capital Delivery Plan for the period 2023/24 – 2027/28 pending further work on asset management planning and sets out officer recommendations on specific projects.

2. RECOMMENDATIONS

- 2.1 The Council is requested to:
 - (a) note the contents of the report:
 - (b) approve the development of the new Corporate Asset Management Plan for submission to Council in December 2023.
 - (c) approve the development of a long-term Investment Plan, based on plans to manage all our assets, and revised Capital funding strategy beyond 2027/28 for consideration in setting the Capital Budget in February / March next year.
 - (d) approve **Appendix 1** to the report as the basis for updating the Composite (General Fund) Capital Delivery Plan for the 5-year period 2023/24 - 2027/28.
 - (e) approve pausing the delivery of the new Blairgowrie Recreation Centre on the grounds of overall capital programme affordability, pending further review of the investment needs of the Blairgowrie community. The

existing budget provision for the project of £26.7 million will be retained pending the outcome of the review.

- (f) approve pausing the development and delivery of the PH2O project, on the grounds of overall capital programme affordability. The existing budget provision for the project of £90 million will be retained pending the outcome of the review.
- (g) approve funding of £10 million towards the cost of delivering enabling works for Phase 1 of the Perth Eco Innovation Park to be met from the balance of investment capacity as set out in paragraph 5.5 of the report and remit officers with reflecting the remaining cost of the enabling works as part of the development of an updated Capital funding strategy for consideration in 2024.
- (h) approve funding of £4.4 million for the repair of the Garry Viaduct for inclusion as part of the Council's Structures programme, to be met from the balance of investment capacity as set out in paragraph 5.5 of the report.
- (i) approve additional funding of £442,000 in 2023/24 for the MOSAIC system, to be met from the balance of investment capacity as set out in paragraph 5.5 of the report.
- (j) approve additional funding of £698,000 to meet annual SEEMIS licensing costs up to 2027/28 to be met from the balance of investment capacity as set out in paragraph 5.5 of the report

3. STRUCTURE OF THE REPORT

The structure of this report is set out as follows:

- 4 – Strategic Context: Strategic Investment Planning and Asset Management**
- 5 – Budget Update and Affordability**
- 6 – General Fund Capital Resources & Updated Capital Delivery Plan 2023/24 to 2027/28**
- 7 – Blairgowrie Recreation Centre**
- 8 – PH2O**
- 9 – Perth Eco Innovation Park**
- 10 – Further Recommendations**
- 11 – Summary**

4. STRATEGIC CONTEXT: STRATEGIC INVESTMENT PLANNING AND ASSET MANAGEMENT

- 4.1 The new Corporate Plan 2022 – 27, (Report 22/311 refers), approved by Council in December 2022, sets our vision for **“a Perth and Kinross where everyone can live life well, free from poverty and inequality”**. It sets out our priorities, corporate outcomes which are aligned with the Council’s values and designed to address or mitigate the impact of the many challenges the Council and the communities across Perth and Kinross are facing now and in the coming years.
- 4.2 The 7 key priorities set out within the plan are aimed to address, or mitigate the challenges, focus the Council’s work and resources where it is needed most, and support the delivery of the Council’s vision through:
- Tackling poverty
 - Tackling climate change and supporting sustainable places
 - Developing a resilient, stronger, and greener local economy
 - Enabling our children and young people to achieve their full potential
 - Protecting and caring for our most vulnerable people
 - Supporting and promoting physical and mental wellbeing
 - Placing Communities at the heart of how we work
- 4.3 The Council's Capital investment enables service delivery. The investment decisions the Council makes on its property; roads and infrastructure; greenspace; fleet and digital assets must be aligned with and support the delivery of the Council’s key priorities.
- 4.4 In October 2021, the Council approved a Strategic Capital Investment Planning Framework (Report 21/180 refers) aimed at facilitating a cohesive and flexible approach to investment planning and resourcing based upon:
- Investment Blueprint
 - 30 Year Investment Plan
 - Medium Term Financial Plan
 - 6 Year Funded Capital Delivery Programme

The Medium-Term Financial Plan 2023-2029, which outlines the broad direction of travel for the Council’s financial management, was approved by Council on 28 September 2022 (Report 22/249 refers) and the current 6

Year Funded Capital Delivery Programme 2022/23-2027/28 was approved by Council on 23 February 2022 (Report 22/36 refers).

4.5 The Investment Blueprint aims to set out the strategic rationale; key risks; challenges and fundamental principles underlying the Council's Capital investment in the long term. The five principles previously agreed by Council are that investment decisions must:

- mitigate against the impact of climate change
- promote inclusive economic growth and a vibrant economy
- promote equality and fairness
- support the delivery of sustainable public services through effective management of our assets
- promote and enhance digital inclusion

Although these principles were approved prior to the adoption of the new Corporate Plan, they remain aligned with the Council's strategic priorities.

4.6 The Council has also previously approved the adoption of the HM Treasury 5 case business model (Green book) for the development of all business cases supporting capital investment and the subsequent gateway review of projects as they progress to completion.

4.7 The 5 case model places a strong emphasis on evidence based and driven decision making. This includes assessing the ongoing strategic or business need for investment; an economic assessment of the options for meeting this need; the commercial options around procurement; the financial implications and the proposed governance and management arrangements for the delivery of the required investment.

4.8 The Council is progressing its commitment to engage with the communities and citizens it serves in shaping future service delivery. This engagement will help inform and support the evidence base for future Capital investment. Examples include:

- The current "Big Conversation" with communities around place
- The work of the Perth & Kinross Climate Commission
- The work of the Anti-Poverty Taskforce
- Previous and current engagement on the Perth & Kinross Offer

4.9 Also supporting the evidence base for Capital expenditure is the investment required to deliver the outcomes set out within key Council strategies and plans, notably:

- Transformation and Change Strategy 2022/23 -2027/28 (Report 22/142 refers)
- Economic Wellbeing Plan (Report 21/37 refers)

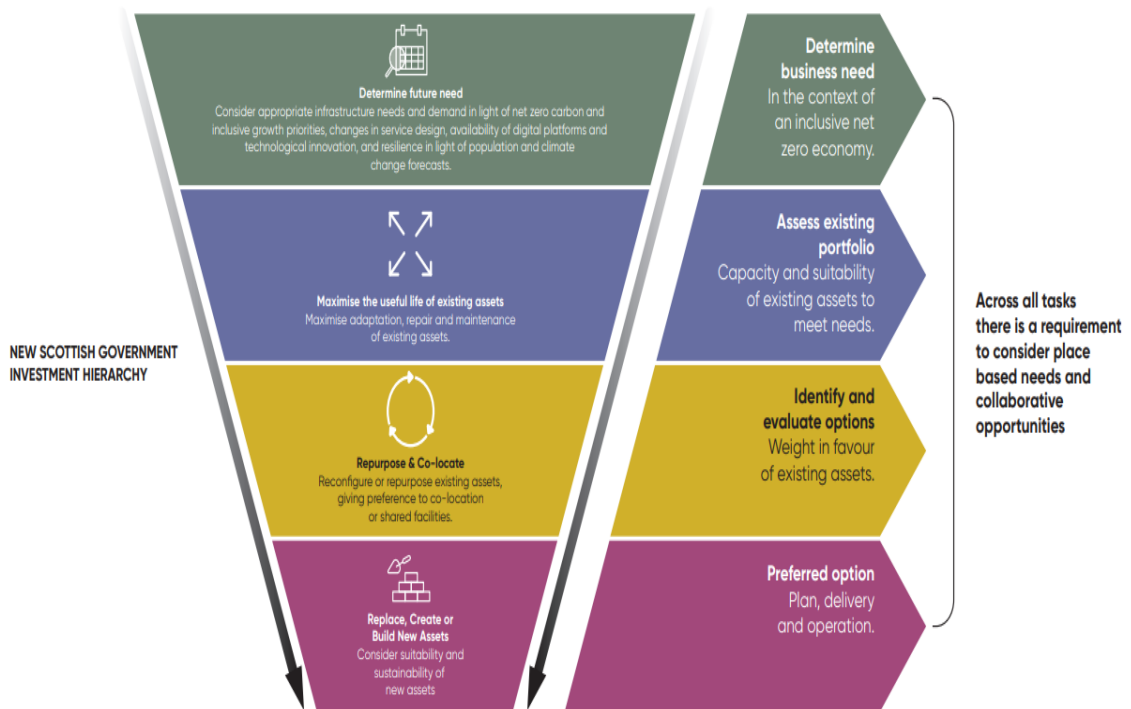
- Climate Change Strategy & Action Plan (Report 21/245 refers)
- Draft Strategic Priorities for Culture and Physical Activity / Sport 2023-2028 (Report 22/309 refers)
- Digital Perth and Kinross - Digital Strategy 2023-27 (Report 23/34 refers)

The three key themes of building sustainable places; enabling the transition to net zero and driving inclusive economic growth underpin the vision for Scotland's infrastructure set out in the Scottish Government's Infrastructure Investment Plan for Scotland:

Figure 1:
Three infrastructure themes



- 4.10 Key to establishing an evidence base to inform future Capital investment is the current condition of the Council's existing assets and infrastructure. The Council uses a range of measures to assess asset condition including national survey work on the roads network commissioned through the Society of Chief Officers of Transportation (SCOTS); assessment by Scottish Government agencies such as the Housing condition survey and our own internal assessment and inspection of assets including our property estate; greenspace; bridges & structures; fleet and digital infrastructure.
- 4.11 The importance of reinvestment in and maximising the useful life of existing assets is recognised in the Scottish Government Investment Hierarchy set out below, with the replacement or creation of new assets identified as the last option to be considered.

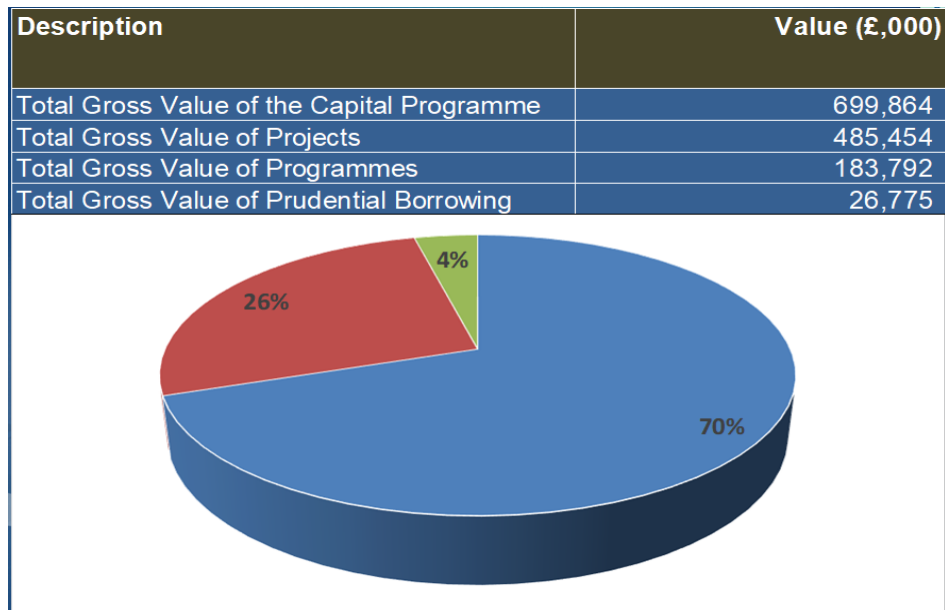


4.12 The Council’s investment in maintaining and enhancing its existing assets and infrastructure is reflected in expenditure on the programmes of works; including the bridges & structural maintenance; property improvement; school estate; greenspace and IT programmes.

Based upon the Capital monitoring report to the Finance & Resources Committee on 1 February, the near £700 million of gross budgeted expenditure on the Council’s Capital programme over the period 2022/23 – 2027/28 is currently heavily weighted towards investment in new projects (70%) as set out in the chart below.

Budgeted expenditure on projects reflects the scale and complexity of the Council’s major investment in:

- Cross Tay Link Road (£150.5 million gross, £110.5m net) which is currently under construction
- Perth Museum (£27.2 million) which is scheduled to open in 2024.
- Perth High School Replacement (£80.2 million) which is now in progress on site
- PH2O (£90 million) allocation for the replacement of Perth Leisure Pool and Dewars Rinks.
- Blairgowrie Recreation Centre (£26.7 million) – see Section 7 and Appendix 2 to the report.



Expenditure on Prudential Borrowing largely relates to investment in the Council's vehicle fleet and street light column replacement.

- 4.13 The current assessed condition of the Council's existing assets is summarised, at a high level, in the following table. This assessment has previously been presented to political Budget Review Groups:

| Asset Category | Condition Trend |
|--|--------------------------------------|
| Community Greenspace | Steady but tending towards declining |
| Vehicle Fleet | Steady |
| Information, Communications & Technology | Steady |
| Property | Declining |
| Traffic and Road Safety | Declining |
| Roads | Steady but tending towards declining |
| Structures (Bridges, viaducts etc) | Declining |
| Street Lighting | Steady |
| Flood Protection Infrastructure | Steady |

- 4.14 Assessments are also undertaken of the use of individual assets and their suitability or fit with intended purpose. This can change over time as standards and expectations alter and is of relevance in relation to the Council's property assets.

- 4.15 The assessed condition of the Council's existing assets indicates a significant requirement for future investment if these assets are to be retained and the higher cost of replacement avoided.
- 4.16 In line with statutory requirements; the Council's strategic commitment to tackle Climate Change and the approved investment principles set out in paragraph 4.5 above - the future fitness for purpose of the Council's assets, particularly its fleet and property assets - will require to reviewed.
- 4.17 As the Council transitions towards reducing its carbon footprint and ultimately to net zero, in line with government targets, investment in assets such as electric and hydrogen powered vehicles and energy conservation; conversion to low carbon heating and other mitigating measures in respect of the Council's property estate will all place an increasing emphasis on investment in the Council's existing assets.
- 4.18 In a period of significant financial pressure on Council expenditure, there requires to be a focus on retaining only those assets which are both best placed to serve the needs of our communities, and which are cost effective to operate. This is particularly the case in respect of the Council's property estate, including its school estate.
- 4.19 The Financial Strategy (Report 22/141 refers) approved by Council in June 2022, includes as a key principle, the commitment to "collaborate with our public partners to reduce the overall public estate and dispose of assets which no longer best support the delivery of our strategic objectives." Given the substantial costs of both operating and investing in the property estate, the Council will require to consider a further programme of property rationalisation and managed disinvestment in the property estate.
- 4.20 In November, the Learning & Families Committee remitted the Executive Director (Education & Children's Services) to plan a review of the school estate in line with the principles of the approved Investment Blueprint and Financial Strategy; and bring an update on that work back to the Committee in August 2023 (Report 22/263 refers). It is now proposed that this review is incorporated into the work on developing the Council's Corporate Asset Management Plan as set out in paragraph 4.21 below.
- 4.21 Council officers will bring forward a Corporate Asset Management Plan for consideration by Council in December 2023. The Corporate Asset Management Plan will include the asset management plans and investment need across all of the Council's individual asset streams (property; community greenspace; roads & structures; fleet vehicles and digital).
- 4.22 The Corporate Asset Management Plan will provide an evidenced based approach for informing future investment and managed disinvestment decisions. This will then be used to help formulate both a delivery plan for addressing this need and the underpinning strategy for funding the Council's

General Fund Capital investment within the resources available and overall levels of affordability

- 4.23 The resultant 30 Year Investment Plan will be subject to discussion with elected members in late 2023 / early 2024 in advance of the Council setting the Capital budget and the funded delivery plan.

RECOMMENDATION

- 4.24 it is recommended that Council**

(b) Approve the development of the new Corporate Asset Management Plan for submission to Council in December 2023.

5. BUDGET UPDATE AND AFFORDABILITY

- 5.1 On 23 February 2022, Council approved a 6 Year Composite (General Fnd) Capital Delivery Plan for the period 2022/23 -2027/28 (Report 22/36 refers).
- 5.2 In approving the 6 Year Delivery Plan, the Council approved a long-term Capital funding strategy based upon incremental growth of £450,000 per annum in the Council's budget for borrowing costs (loan charges) combined with the managed use, over time, of the Council's Capital Fund. Council approved addressing the £450,000 additional annual Revenue implications of this strategy through the ring-fencing of growth in the Council Tax base.
- 5.3 The long-term Capital funding strategy provided the Council with approximately £190 million of investment capacity. In setting the 6 Year Capital Delivery Programme, the Council allocated £118.7 million of this capacity as follows:

Capital Expenditure approved in February 2022 £ million £ million

Inflation on Existing Projects / Programmes

| | | |
|-----------------------------------|------------|------|
| Perth High School | 10.4 | |
| Blairstown Recreation Centre | 2.7 | |
| New Primary School at Bertha Park | 9.6 | |
| Schools Audio Visual Programme | 0.5 | |
| Flood Protection Schemes | <u>0.2</u> | 23.4 |

New Projects approved February 2022

| | | |
|--|--|------|
| PH2O | | 90.0 |
| Technology Enabled Care | | 6.0 |
| Funding from unallocated Capital Grant | | -0.7 |

Net Capital Expenditure Approved February 2022 118.7

5.4 Progress with the approved Composite Capital Delivery Plan and the Housing Investment Programme has been reported to each meeting of the Finance & Resources Committee during the current financial year and to Council on 21 December 2022 (Report 22/310 refers).

5.5 Since setting the Capital budget in February 2022, additional expenditure of £45.7 million has been approved at the meetings noted below, to be met from the Capital funding strategy as set out below, leaving a balance of £25.6 million.

| | £ million | £ million |
|---|---------------|--------------------|
| Investment capacity per approved Capital Funding Strategy | | 190.0 |
| LESS: | | |
| Approved by Council on 23 February 2022 (Report 22/36) | | (118.7) |
| <i>Approved by Finance & Resources 7 September 2022 (Report 22/209)</i> | | |
| Cross Tay Link Road - additional funding | (32.5) | |
| Perth Museum - additional funding | (0.7) | |
| <i>Approved by Finance & Resources 30 November 2022 (Report 22/298)</i> | | |
| Harris Academy Extension - additional funding | (1.0) | |
| <i>Approved by Council 21 December 2022 (Report 22/312)</i> | | |
| Perth High School replacement - additional funding | <u>(11.5)</u> | (45.7) |
| Balance of investment capacity under funding strategy | | <u><u>25.6</u></u> |

Impact of Construction Inflation

- 5.6 In common with all public and private sector organisations, the Council has experienced a significant increase in the cost of Capital investment. Over the period October 2021 to December 2022, the Council has approved circa. £200 million of additional Capital expenditure.

Including the £45.7 million of additional expenditure approved since February 2022, inflation and contingencies on the cost of delivering approved projects accounts for £89.9 million (45%) of this total.

Affordability

- 5.7 As reported to the Finance & Resources Committee in November and Council in December 2022, the current 6 Year Composite Capital Budget, as it is currently specified is **no longer affordable in its entirety** due to the forecast impact of construction inflation.

As summarised below, the forecast impact of inflation on major Capital projects together with the programmes of works exceeds the capacity remaining within the approved Capital funding strategy to deliver them. The estimated funding shortfall of c. £34 million is likely understated as inflation projections have only been included for major projects subject to consideration within the report.

| | £ million | £ million |
|--|---------------|----------------------|
| Balance of investment capacity under funding strategy | | 25.6 |
| Forecast inflation on major projects | | |
| Blairgowrie Recreation Centre (revised forecast £36m) | (9.3) | |
| PH20 (revised forecast £110m+) | (20.0) | |
| Forecast inflation on Capital programmes | | |
| 10% compound inflation on programmes of works | <u>(30.0)</u> | (59.3) |
| Potential funding shortfall (minimum) | | <u>(33.7)</u> |
| Recurring Capital Budget from 2028/29 onwards (per annum) | | <u><u>24.0</u></u> |

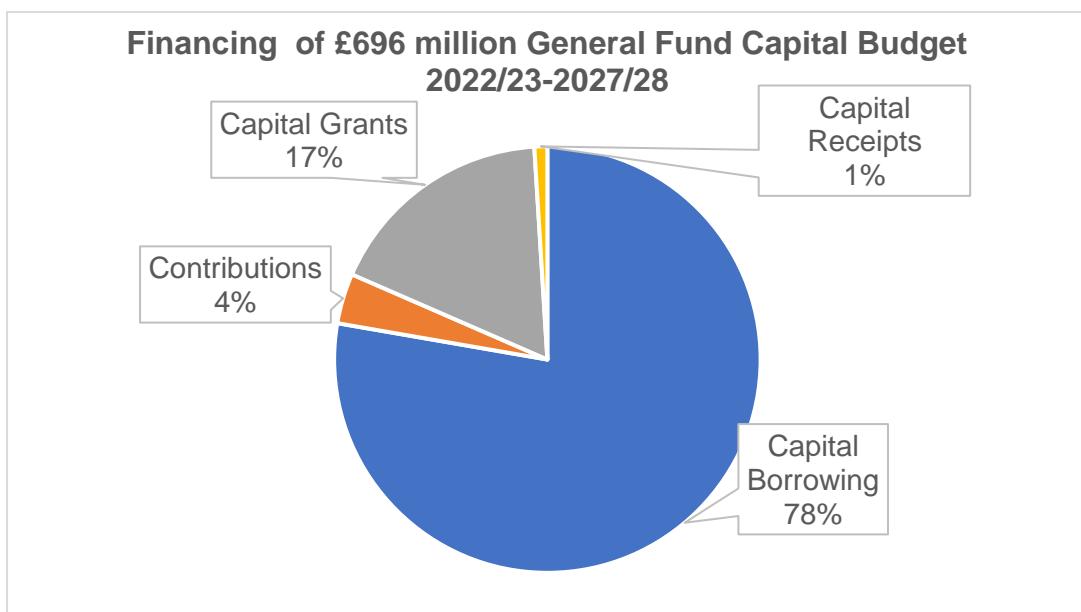
- 5.8 There is inherent uncertainty around forecasts of future inflation. The revised estimate for Blairgowrie Recreation Centre of £36 million is, however, current and is reflected in the Final Business Case attached to this report. The

updated forecast for PH2O is more uncertain but reflects current cost trends and the complexity of the proposed project – section 7 of this report.

- 5.9 Given there is likely to be inflationary pressures on other Capital projects and programmes not reflected in the table, the potential funding shortfall over the current Capital Delivery programme should reasonably be viewed as a minimum.
- 5.10 The Council's long term Capital funding is based upon an assumed £12 million of Scottish Government Capital Grant funding each year matched by £12 million of additional Council borrowing, giving a recurring Capital budget from 2028/29 onwards of £24 million each year.
- 5.11 Given the condition of the Council's various asset portfolios; the financial implications of addressing net zero requirements in developing projects; the expected demands on the Council's future Capital budget and the impact of inflation, the Council's future Capital budget is now significantly underfunded, even with a focus on investing in existing assets.

Impact of Increased Borrowing Costs

- 5.12 The level of capital investment which can be met from the current funding strategy is also determined by the cost of borrowing. The Council's Capital expenditure is predominantly financed through long-term borrowing from the Public Works Loans Board (PWLB) as illustrated below:



Source: Appendix I, Capital Monitoring Report No 3 (Report 23/31 refers)

- 5.13 At the time the Capital Budget was last set in February 2022, the interest rates on PWLB borrowing were forecast to be in the range of 2%-3% over the medium to longer term. As Council will be aware, the impact of inflation and uncertainty in the financial markets has led to a marked increase in borrowing costs and this applies equally to Council borrowing. This is particularly significant for the delivery of the Capital Budget given that much of the Council's borrowing requirement will be over the next few years when rates are expected to be most volatile.
- 5.14 In December 2022, the Council approved adopting an updated scenario for long-term borrowing costs. This assumes that the average or consolidated interest rate on Council borrowing (including both historic and future borrowing) will be in excess of 3% over the longer term (Report 22/310 refers).
- 5.15 As the Council's Capital financing is supported by the managed use of the Capital Fund, increased borrowing costs will also accelerate the period over which the Capital Fund is run down. The funding strategy approved in February 2022 projected that the Capital Fund would be fully applied by 2045/46, at which point the Council would require to address a recurring deficit in its borrowing costs.
- 5.16 Dependent upon assumptions on the Council's future consolidated interest rate, the Council's Capital Fund may potentially be fully applied somewhere between the early 2030s and early 2040s. Small movements in the modelling assumptions can have a significant impact on the sustainability of the Capital Fund. Forecasts on the Capital Fund will be reviewed in developing an updated Capital funding strategy for consideration by Council.
- 5.17 In the separate Revenue Budget & Change Plan 2023/24 -2025/26 report to this meeting of the Council, it is proposed to increase the Council's Loans Charges Budget by £600,000 per annum from 2023/24 onwards. This adjustment is intended to provide some resilience against the impact of forecast higher borrowing costs over the medium term, rather than increasing the Council's immediate investment capacity.
- 5.18 As set out in section 4 above, work on corporate asset management planning and the development of the initial 30 Year Investment Plan will be undertaken over the calendar year. This work is intended to provide a strong evidence base for future Capital investment and dis-investment based on addressing need.

5.19 It would normally be the case that the Council would roll forward the Capital Delivery Plan by one year to 2028/29. As set out above in Sections 4 and 5 of the report, it is not proposed to do this at this time as:

- Further work requires to be undertaken on the Council's asset management planning to review and prioritise the Council's investment need over the medium and longer term, with an anticipated focus on investment in existing assets.
- The existing approved Capital funding strategy is now insufficient to support the delivery of the entire Capital programme as currently specified due to the impact of construction inflation.
- Recent increases in borrowing costs, which are anticipated to remain higher than previously forecast, at least in the medium term, will further increase the Revenue cost of Capital investment.
- Core funding assumptions beyond 2027/28 are insufficient to meet the cost of the current Capital programmes of works
- The Council, therefore, requires to review its Capital funding strategy to support its identified investment need over the next 12 months.

RECOMMENDATION

5.20 It is, therefore, proposed that Council approves updating the current Capital Delivery Plan for the five-year period 2023/24- 2027/28 in advance of a new long-term Investment Plan; Capital Delivery Plan and Capital funding strategy, linked to a new Corporate Asset Management Plan, being approved in February / March 2024.

5.21 It is recommended that Council:

- (c) Approve the development of a long-term Investment Plan and revised Capital funding strategy beyond 2027/28 for consideration in setting the Capital Budget in February / March next year.**

6. GENERAL FUND CAPITAL RESOURCES AND UPDATED CAPITAL DELIVERY PLAN FOR 2023/24 -2027/28

Local Government Finance Circular 11/2022

- 6.1 Local Government Finance Circular 11/2022 details provisional Scottish Government Revenue and Capital grant funding allocations for each local authority. No funding information is provided beyond financial year 2023/24.
- 6.2 Scottish Government Capital grant funding in 2023/24 is £826.641 million comprising £687.537 million of General Capital Grant and £139.104 million of Specific Capital Grants. Included within the General Capital Grant allocation is £33.6 million for flood protection schemes.
- 6.3 Perth & Kinross Council's provisional Scottish Government Capital Grant funding in 2023/24 is £24.041 million. After adjusting for Capital Grant funding for 2023/24 received in the current year and resources reflected in the Revenue Budget, the total amount of Scottish Government Capital Grant funding for 2023/24 shown in Appendix 1 to the report is £22.832 million, comprising £22.160m of General Grant and £672,000 of Specific Grant.

2023/24 Scottish Government Capital Grant Funding

| | General Grant £'000 | Specific Grant £'000 | Total £'000 |
|---|------------------------|-------------------------|----------------|
| General Capital Grant (exc Flood Schemes) | 19,103 | | 19,103 |
| General Capital Grant allocation for Flood Schemes | | | |
| Comrie | 1,776 | | 1,776 |
| Milnathort | 1,272 | | 1,272 |
| South Kinross | 1,076 | | 1,076 |
| Scone | 142 | | 142 |
| Specific Capital Grant: Cycling, Walking & Safer Streets | | 672 | 672 |
| Grant Funding per Circular 11/2022 | 23,369 | 672 | 24,041 |
| <i>Grant Funding for 2023/24 received in 2022/23</i> | | | |
| Play Parks | 291 | | 291 |
| Coastal Change Adaptation | 100 | | 100 |
| <i>LESS: Resources reflected in the Revenue Budget</i> | <i>-1,600</i> | | <i>-1,600</i> |
| Scottish Capital Grant Funding in 2023/24 (Appendix 1) | 22,160 | 672 | 22,832 |

- 6.4 Finance Circular 11/2022 also includes updates to Capital Grant funding in the current financial year with the Council receiving £913,000 of the £30 million national allocation for implementing Free School Meals: £176,000 for the Nature Restoration Fund and £100,00 for Flood Schemes.

- 6.5 Including all adjustments, the Council's estimated General Fund, **Gross Capital Resources for the 5-year period 2023/24 -2027/28** total **£565.131million**. Individual budget lines in Appendix 1 are shown net of Specific Capital Grants; ring-fenced receipts; Tay Cities Deal and Transport Scotland funding and third party contributions. This position will be updated at the end of the financial year for resources carried forward from 2022/23.
- 6.6 **Appendix 1** to the report details the 5 Year Composite (General Fund) Capital Delivery Plan 2023/24 – 2027/28 based upon estimated Gross resources over the period. The position has been updated since the Finance & Resources Committee on 1 February 2023 for a net £12.575 million increase in resources.
- 6.7 **Appendix 1 does not include any proposed allocation of the £25.6 million remaining investment capacity under the approved Capital funding strategy detailed in paragraph 5.5.**

RECOMMENDATION

- 6.8 **It is recommended that Council:**
- (d) **Approve Appendix 1 to the report as the basis for updating the Composite (General Fund) Capital Delivery Plan for the 5-year period 2023/24 - 2027/28.**

7. BLAIRGOWRIE RECREATION CENTRE

- 7.1 The Final Business Case for the Blairgowrie Recreation Centre is attached at **Appendix 2** to the report for consideration by Council.
- 7.2 The current Blairgowrie Recreation Centre is the main indoor sports facility serving the Blairgowrie and surrounding Eastern Perthshire community and Blairgowrie High PE department. Although there have been no major upgrades to Blairgowrie Recreation Centre since it was built in 1982, it continues to meet the needs of curriculum delivery.
- 7.3 Both Blairgowrie High School and the existing Blairgowrie Recreation Centre are currently rates as B "Satisfactory" for condition and C "Poor" for suitability.
- 7.4 In June 2016, the Council approved a Capital budget allocation of £17.2 million to provide for the replacement of Blairgowrie Recreation Centre (Report 16/277 refers). This represented the estimated cost, at that time, of replacing the centre on a like for like basis in accordance with prevailing building standards.

- 7.5 Engagement with the Blairgowrie community was undertaken through a user reference group facilitated by Council officers and the scope for the project was developed through a consultation process undertaken by PMR sports and Sports & Leisure Consultants.
- 7.6 The Council's commitment to tackling climate change and the legislative responsibilities now placed upon Scottish local authorities to achieve net-zero have led to the Council adopting Passivhaus low carbon building standards as the optimum model. The Perth Riverside Primary School and the replacement Perth High School are both designed to Passivhaus standards. The Blairgowrie Recreation Centre has similarly been designed to Passivhaus standards which represent the current highest standards in sustainable construction and low energy design.
- 7.7 The proposed scope of the new Blairgowrie Recreation Centre has also changed significantly since the original proposal of a direct replacement for the existing facility. The new Blairgowrie Recreation Centre has now been designed to comprise:
- a 6 lane 25m pool
 - a 4-court hall
 - a 2-court hall/ gymnasium
 - dance studio and fitness suite
 - accessible changing facilities
 - all weather pitch
- 7.8 The Gross Internal Floor Area (GIFA) of the redesigned Blairgowrie Recreation Centre will be approximately 78% greater than the existing facility. The revised footprint for the facility has, however, been designed so as not to impact upon the operation of Blairgowrie High School.
- 7.9 Both the significant increase in scope of the project and the adoption of Passivhaus design and build standards has led to a series of revised cost estimates for the proposed project. In October 2020 the cost estimate for the project was increased to £24m (Report 20/175 refers), which was updated in setting the budget in February 2022 to £26.7 million (Report 22/36 refers).
- 7.10 The current cost estimate for Blairgowrie Recreation Centre is £36 million. The movement in estimated costs reflects completion of detailed design work and the tendering of works packages in a climate of significant inflation in construction costs. Officers are currently evaluating the offer from Hubco and the appointed contractor BAM in terms of compliance with the Council's specification.
- 7.11 The opening date of the new facility is still to be confirmed but, subject to a final decision of Council, is anticipated to be in 2025. This would be impacted by the proposal to pause and review this project.

7.12 The annual current and indicative net revenue operating costs (energy; cleaning; lifecycle maintenance and LAL contract fee) for both the existing and the proposed new facility are set out section 4.4 of the Full Business Case and summarised in the table below:

| Current and Indicative Net Revenue Operating Costs for Blairgowrie Recreation Centre (per Full Business Case, Appendix 2) | 2022/23 Existing Blairgowrie Recreation Centre £'000 | 2024/25 Existing Blairgowrie Recreation Centre £'000 | 2024/25 New Blairgowrie Recreation Centre £'000 |
|---|--|--|---|
| Current net operating costs | 336 | | |
| Indicative net operating costs** | | 496 | 595 |
| Additional revenue pressure in comparison to 2022/23** | | 160 | 259 |

***Indicative only and potential issues are referenced in paragraph 7.13 below*

The costing above largely reflects the assumed impact of future energy inflation on the cost of operating the current facility. In comparison, while a new facility built to Passivhaus standards will have far greater energy efficiency, this is forecast to be offset by additional operating costs in relation to the increased size (78%); complexity and broader range of facilities provided.

7.13 Operating costs for the proposed new facility must be considered indicative at this time as assumptions have required to be made on energy; maintenance; usage and income. In addition, the following issues will require to be confirmed:

Blairgowrie Recreation Centre is currently occupied and operated on behalf of the Council by Live Active Leisure and attracts 100% charitable Non-Domestic Rates (NDR) relief through this contractual arrangement. It is assumed in the Full Business Case that this will continue and that a new Blairgowrie Recreation Centre will also be exempt from paying rates. The total amount of NDR relief the Council can award is, however, a “fixed pot” limited to the total level of NDR relief in November 2017 uprated for annual changes in rate poundage and periodic revaluations. Any future change in non-domestic rates relief due to the limits of this “fixed pot” would create a significant additional cost pressure, particularly given the increased size and rateable value of the proposed new Blairgowrie Recreation Centre.

Further work requires to be undertaken in developing an operating model for the proposed new facility and the indicative LAL contract fee included within the Final Business Case makes no provision for increased opening hours and / or for the provision of an expanded range of activities.

The indicative costing assumes a 15% increase in use and income in the first year of operation with further growth thereafter. In addition, there are also assumptions on a review of fees from 2024/25 onwards. The extent to which actual demand and / or pricing varies from these assumptions will impact on the net cost of operation.

- 7.14 The proposed new Blairgowrie Recreation Centre would represent a significant investment in expanding the sport and recreation offer to the Blairgowrie and surrounding Eastern Perthshire community based upon a building designed and constructed to the highest current standards in terms of sustainability and energy efficiency.
- 7.15 The revised cost of delivering the new facility is, however, significant and has increased by £9.3 million or approximately 34% from the estimated cost reflected within the Capital Budget in February 2022.
- 7.16 Revenue cost pressures from operating the new facility will depend upon the operating model adopted; opening hours; the leisure offer as well as demand and pricing. These factors can be modelled but actual experience may vary. Based upon indicative costing and modelling, the additional revenue cost of operating the facility as shown within the attached Final Business Case is approximately £259,000 per annum more (at assumed 2024/25 prices) than the current operating costs for the existing facility.

This excludes any costs (operating contract; energy etc) from an extension to the existing opening hours to promote increased community access or any risk around future non - domestic rates relief. No provision is currently included within the Provisional Revenue Budget for additional costs in respect of the operation of a new Blairgowrie Recreation Centre so this would represent a Revenue pressure which would require to be addressed.

- 7.17 The Council is currently undertaking an extensive consultation exercise with local communities around the issue of Place through the "Big Conversation". It is anticipated that the need for further investment in other Council owned assets in Blairgowrie will be identified through this consultation. In this context, the assessed suitability rating of Poor for the adjacent Blairgowrie High School is expected to feature in community feedback. The completion of this consultation exercise over the coming months will provide a stronger evidence base for future investment in Blairgowrie and other communities.

RECOMMENDATION

- 7.18 Given the significant financial pressures on the Council's Revenue and Capital Budgets, the officer recommendation is to pause the delivery of the new Blairgowrie Recreation Centre on the grounds of the affordability of the overall capital programme. The project could then be considered in the context of the feedback from the Big Conversation on place as part of a wider consideration of the Capital investment needs of the Blairgowrie community.

7.19 To date, the Council has incurred £1.9 million in developing the project with total costs up to the time of Financial Close estimated at approximately £3.03 million. Should the project be significantly reviewed or even cancelled at a later stage, these costs would require to be met from the provision for the facility within the Capital Budget.

7.20 It is recommended that Council:

(e) Approve pausing the delivery of the new Blairgowrie Recreation Centre on the grounds of overall capital programme affordability, pending further review of the investment needs of the Blairgowrie community. The existing budget provision for the project of £26.7 million will be retained pending the outcome of the review.

8. PH2O

8.1 In February 2023, the Council approved funding of £90 million for the creation of a combined leisure facility on the current site of the Dewars Centre and Perth Leisure Pool. In outline, the proposed facility includes:

- Large leisure water
- 25m traditional pool with movable floor
- 12.5 x 8.5m teaching pool with movable floor
- Gym/group fitness facilities (3 studios)
- Bowling – 6 lanes
- Ice – 8 lanes
- Health spa; family play area; flexible conference facilities and a café.

8.2 The “PH2O” project is envisaged as an ambitious and significant investment in sport and leisure in Perth city based upon a Passivhaus design to ensure a building meeting the highest standards in sustainable construction and energy efficiency. A project Board has been established, supported by Council officers, comprising elected members and board members of Live Active Leisure (LAL), to oversee the development of the project.

8.3 Whilst due diligence was undertaken in arriving at an original cost estimate for the PH2O project, the inflation impacting upon the Council’s overall Capital programme has resulted in a revised cost estimate for the PH2O project of £110 million. This reflects both the scale and complexity of the proposed facility.

8.4 The operating model for the proposed PH2O facility is also impacted by the global rise in energy and maintenance costs. Although the vision is to deliver a highly energy efficient building, the inherent nature of the facility – which requires both maintaining large volumes of leisure water at an acceptable temperature and maintaining ice in an appropriate condition, will inevitably mean that the facility will be a high energy user. A number of both public and

private swimming facilities have recently been temporarily closed in light of substantial increases in operating costs.

RECOMMENDATION

- 8.5 As elected members will be aware, the Council's ALEOs operate sports; arts and cultural facilities owned by the Council both in Perth City and across Perth and Kinross. Many of these facilities require investment, as do the facilities owned and operated by LAL. Given the significant financial pressures on the Council's budget, it is important to reconsider how best to target the Council's investment in its overall sports; arts and leisure offer for the benefit of the wider community.
- 8.6 To date, the Council has incurred approximately £273,000 in developing the PH20 project. Pending the outcome of the wider review, these costs may require to be met from within the existing Capital budget
- 8.7 The current policy requirement to meet net zero levels in development projects is resulting in significant additional costs being introduced to projects such as PH20. At a time when there are challenges in balancing the financial and sustainability requirements placed upon the Council, it will be necessary to consider how we maintain both of these Council commitments within the development of this project and the Council's wider Corporate Asset Management Plan.
- 8.8 It is recommended that Council**
- (f) Approve pausing the development and delivery of the PH20 project, on the grounds of overall capital programme affordability. The existing budget provision for the project of £90 million will be retained pending the outcome of the review.**

9. PERTH ECO INNOVATION PARK

- 9.1 The project which is the subject of 'Perth Eco-Innovation Park' Outline Business Case (attached at **Appendix 3** to the report) concerns phase 1 of a larger project and will provide the critical enabling infrastructure and site preparation works to unlock the full 240-hectare site at Perth West. The unlocking of Perth West will drive the ambition of the Council and stakeholders for Perth City to become one of Europe's most sustainable small cities through its focus on a net zero, high value and innovation driven economy. The Eco-Innovation Park will contribute to the diversification of Perth's economy, which is over-reliant on generally lower skilled hospitality, retail and tourism jobs; as well as improving the city's productivity and competitiveness and supporting a Just Transition to net zero.
- 9.2 The Perth Eco Innovation Park forms part of the Economic Wellbeing Plan approved by Council in March 2021 (Report 21/37 refers) and is included within the current Capital Delivery Plan. The project objectives are:

- By 2026, to deliver the enabling infrastructure to unlock 11 hectares development-ready employment land, establishing the first phase of the planned 25+ hectare Eco-Innovation Park, alongside residential development, community facilities, mobility hubs and amenity features.
 - By 2035, to attract new and grow existing businesses, capture sustainable mobility and smart energy opportunities to create high value jobs in the clean growth sector (1,000 jobs).
 - To be a catalyst to drive business and place innovation establishing Perth as a city-scale 'living lab' and support the transition to a data and technology driven, net-zero economy. The Project will integrate with the Perth Innovation Highway Tay Cities Deal funded project, a 5-mile innovation corridor, which will connect Perth Eco-Innovation Park to the city centre in a sustainable way with physical and intelligent digital, energy and transport infrastructure.
- 9.3 Phase 1 of the project relates to the enabling infrastructure (A9 underpass and local road improvement works) to allow vehicular access to the site. The estimated cost for Phase 1 is currently £32.8 million, based upon a projected £25.2 million cost for works and a 30% contingency in line with HM Treasury Green Book methodology to provide for delivery uncertainties. Details of the cost estimates are set out in section 4.1 of the Outline Business Case attached at Appendix 3. It is acknowledged that completing the enabling works by 2026 represents a challenging timescale for delivery.
- 9.4 Over the long-term, it is forecast that the enabling works will be financed through developer contributions on housing of £20 million; from the sale of serviced employment land estimated at £5.1 million and from £5 million of funding from the Tay Cities Deal for the Innovation Highway which forms part of the overall project. Members will be aware that the Council's recent application for £10 million of Levelling Up grant support towards the cost of enabling works was unsuccessful and the Council is awaiting feedback on its application.
- 9.5 Members will recognise that the Council operates in a competitive market in presenting economic development opportunities to potential investors. The Head of Planning & Development has advised that there is no realistic prospect of investors meeting infrastructure costs nor, indeed, of any commitment to investment in advance of a confirmed project. Given the importance of the overall long-term project to the Perth and Kinross economy and local employability, the delivery of the Phase 1 enabling work is considered a strategic priority.
- 9.6 The Council is, therefore, requested to approve allocating £10 million from the balance of investment capacity set out in paragraph 5.5 as a statement of the Council's commitment to the project and to enable planning, design and preliminary works to begin. Officers will bring forward proposals to fund

the remaining cost of the enabling works as part of the development of an updated Capital funding strategy for consideration in 2024.

9.7 It is recommended that Council:

- (g) Approve funding of £10 million towards the cost of delivering enabling works for Phase 1 of the Perth Eco Innovation Park to be met from the balance of investment capacity as set out in paragraph 5.5 of the report and remit officers with reflecting the remaining cost of the enabling works as part of the development of an updated Capital funding strategy for consideration in 2024.**

10 FURTHER RECOMMENDATIONS

- 10.1 The Executive Leadership Team has undertaken an early assessment of asset conditions and priorities across the Council's current asset portfolios which has highlighted several immediate investment requirements. From this assessment, the following projects have been identified as priorities and are recommended for inclusion within the 5 Year Composite (General Fund) Capital Delivery Plan 2023/24 – 2027/28.

GARRY VIADUCT

- 10.2 The Garry Viaduct is a three-span structure supporting the B8019 over the Garry River and Highland Railway line in the Killiecrankie Gorge. The structure was constructed in 1969 and the original bearings supporting the deck (road) are still in place and are now suffering from significant corrosion.
- 10.3 The B8019 provides road access from Pitlochry to Loch Tummel and serves both local communities and the tourism economy in the Pitlochry area. As the viaduct carries the road over a main railway line, any failure of the structure and subsequent unplanned closure would likely result in both significant disruption to local road traffic and, potentially, network rail operations.
- 10.4 The Strategic Business Case for investment is attached at **Appendix 4** to the report with the cost for the repair works currently estimated at £4.4 million phased for design and delivery over the next five years
- 10.5 It is recommended that Council**
- (h) Approve funding of £4.4 million for the repair of the Garry Viaduct for inclusion as part of the Council's Structures programme, to be met from the balance of investment capacity as set out in paragraph 5.5 of the report.**

MOSAIC

10.6 MOSAIC is the Council's replacement adult care software system which is integral to supporting client care: client record management and the efficient charging for residential services. The Council's investment in MOSAIC includes the cost of project support staff implementing the system. Due to delays in procurement, there is a requirement to extend the contracts of the project team to ensure that this key system can be appropriately supported during its implementation phase. The cost of the contract extensions is £442,000.

10.7 It is recommended that Council:

- (i) Approve additional funding of £442,000 in 2023/24 for the MOSAIC system, to be met from the balance of investment capacity as set out in paragraph 5.5 of the report.**

SEEMIS

10.8 SEEMIS is the Council's school management information system and is integral to the operation of the Council's schools. The Council has previously agreed that annual licensing costs for SEEMIS will be transferred from the Revenue to the Capital budget in line with the treatment of costs for other corporate systems. Provision is required in the Capital Delivery Plan of £698,000 to meet SEEMIS licensing costs over the 5-year period 2023/24-2027/28 (£98,000 for part year costs in 2023/24, £150,000 per annum thereafter).

10.9 It is recommended that Council:

- (j) Approve additional funding of £698,000 to meet annual SEEMIS licensing costs up to 2027/28 to be met from the balance of investment capacity as set out in paragraph 5.5 of the report**

11. SUMMARY

11.1 This report seeks to provide Council with an update on work being progressed to inform and provide a robust evidence base for future Capital investment; on the affordability of the current Capital programme and on the Capital grant funding provided within the 2023/24 local government settlement.

11.2 The report confirms that the Capital Budget approved by Council in February 2022, is now unaffordable in its entirety, due to the impact of construction inflation combined with the emerging issue of higher than anticipated borrowing costs.

11.3 In response, it is recommended that the Council updates the Composite (General Fund) Capital Delivery Plan for the 5 Year period 2023/24 – 2027/28

at this meeting of the Council and looks to set a future budget for 2027/28 and beyond on a more sustainable basis in February / March next year.

- 11.4 In light of pressures on the Council’s budget and issues of affordability, the report makes recommendations to Council on specific projects. These recommendations also reflect proposed additional investment where this is considered strategic or urgent and important.
- 11.5 Under the existing Capital funding strategy approved by Council in February 2022, there is a forecast balance of investment capacity of £25.6 million. The recommendations contained within this report, if approved in their entirety, would allocate £15.6 million of this balance as follows:

| | <i>Para</i> | £ million | £ million |
|---|-------------|-----------|---------------|
| Balance of Investment Capacity | 5.5 | | 25.6 |
| Recommendations in report | | | |
| Contribution toward enabling works for Perth Eco Innovation Park | 9.7 | (10.0) | |
| Garry Viaduct repairs | 10.5 | (4.4) | |
| Funding for implementation of MOSAIC system | 10.7 | (0.4) | |
| Funding for SEEMIS licensing | 10.9 | (0.7) | <u>(15.5)</u> |
| Investment Capacity (updated) | | | <u>10.1</u> |

- 11.6 Subject to approval of the recommendations on the Blairgowrie Recreation Centre and PH2O projects, there is no proposed reallocation of the budgets for these projects pending completion of the proposed review work.

Author(s)

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|---|------------------------------------|--|
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| Business Case Leads | | |
| Blairgowrie Recreation Centre Greg Boland | Head of ECS Business and Resources | |
| Perth Eco Innovation Park David Littlejohn | Head of Planning & Development | |
| Garry Viaduct Barbara Renton | Executive Director (Communities) | |

Approved

| Name | Designation | Date |
|--------------------------|-------------------------|------------------|
| Stewart MacKenzie | Head of Finance | 22 February 2022 |
| Karen Donaldson | Chief Operating Officer | 22 February 2022 |
| Thomas Glen | Chief Executive | 22 February 2022 |

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

The undernoted table should be completed for all reports. Where the answer is 'yes', the relevant section(s) should also be completed

| Strategic Implications | Yes / None |
|--|-------------------|
| Community Plan / Single Outcome Agreement | None |
| Corporate Plan | Yes |
| Resource Implications | |
| Financial | Yes |
| Workforce | None |
| Asset Management (land, property, IST) | None |
| 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:

- Tackling poverty
- Tackling climate change and supporting sustainable places
- Growing a sustainable and inclusive local economy
- Enabling our children and young people to achieve their full potential
- Protecting and caring for our most vulnerable people
- Supporting and promoting physical and mental wellbeing
- Placing communities at the heart of how we work

1.2 This report relates to all objectives.

2. Resource Implications

Financial

- 1.1 There are no direct financial 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 2008, the Council has a general duty to demonstrate its commitment to sustainability and the community, and the environmental and economic impact 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 Executive Leadership Team has been consulted in the preparation of this report.

2. 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.

3. APPENDICES

Appendix 1 – Composite (General Fund) 5 Year Capital Delivery Plan
2023/24-2027/28

Appendix 2 – Final Business Case: Blairgowrie Recreation Centre

Appendix 3 – Outline Business Case: Perth Eco Innovation Park

Appendix 4 – Strategic Business Case: Garry Viaduct