

PERTH & KINROSS COUNCIL

6 October 2021

CAPITAL BUDGET 2021/22 – 2028/29 UPDATE

**Report by Interim Chief Executive and Head of Finance
(Report No. 21/181)**

PURPOSE OF REPORT

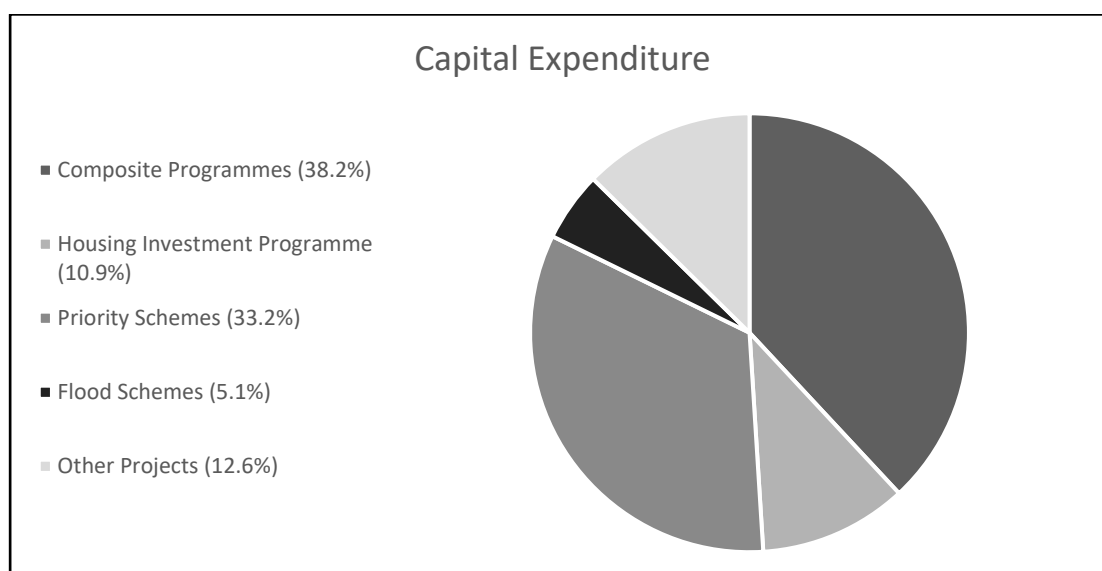
This report provides an update on the Capital Budget approved on 30 September 2020 and sets out two options for progressing the budget in light of significant cost pressures and uncertainty currently being experienced in the construction sector. The report also introduces two additional Capital proposals for consideration.

1. BACKGROUND

- 1.1. On 30 September 2020, the Council approved that the following Capital projects were progressed (Report No. 20/175 refers) along with their identified funding solutions.
 - Perth High School
 - Perth City Hall
 - Blairgowrie Recreation Centre
 - Balhousie / North Muirton Primary School
- 1.2. In addition, the Council instructed officers to identify funding options for the PH20 proposal.
- 1.3. On 16 December 2020, the Council agreed adjustments of £3.3 million to the approved Capital Budget to allow the Perth City Hall project to move to financial close (Report No. 20/256 refers).
- 1.4. On 31 March 2021, the Council agreed to transfer £400,000 from the Investment in Learning Estate budget to the North Muirton / Balhousie School replacement budget to facilitate the tender process (Report No. 21/41 refers).
- 1.5. On 1 September 2021, the Strategic Policy & Resources Committee considered an update on the Composite Capital Budget 2021/29 & Housing Investment Programme 2021/26 (Report No. 21/147 refers). This update included a detailed breakdown of the Capital Budget by project and programme across financial years based upon current estimates. It also reflected the impact of Covid-19 and the virtual shutdown of the construction sector in Scotland upon the planned delivery of the Council's capital programme in the current year.

Capital Budget Overview (Expenditure & Funding)

- 1.6. The Council's approved Gross Capital Budget over the eight-year period 2021/22 -2028/29 totals approximately £640 million. This comprises approximately £570 million of planned General Fund (Non-Housing) expenditure and £70 million on the five-year 2021/22- 2025/26 Housing Investment Programme. The current allocation of this expenditure is summarised in the following chart.

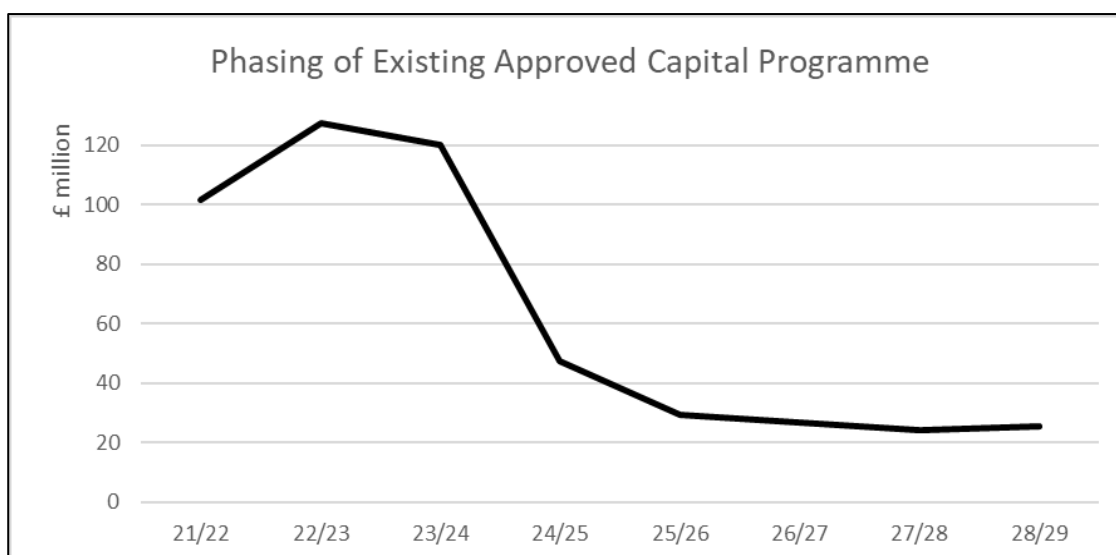


- 1.7. The approved Capital Budget is split between funding for individual projects and programmes of works to enhance the condition of the Council's existing assets and infrastructure. The allocation of funding between projects and programmes is shown in Table 1 below:

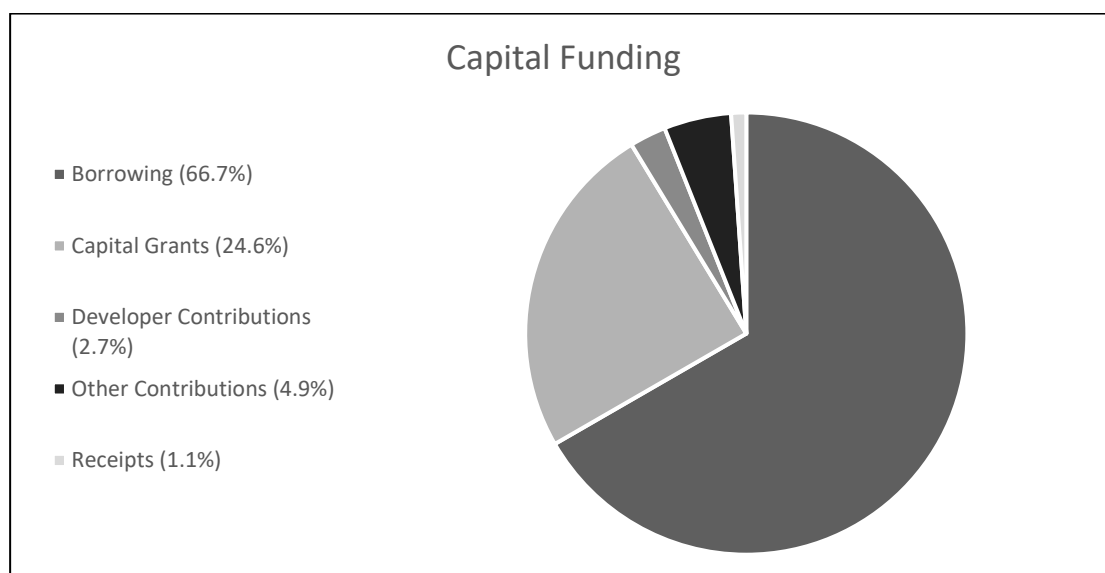
Table 1: Allocation of Gross Capital Budget (2021/22 – 2028/29)

	£M	%
Housing Investment Programme	70.0	11%
Composite Capital Programmes	243.5	38%
Flood Prevention Schemes	32.8	5%
Priority projects, detailed in report of 30/9/20	212.7	33%
Other Approved Projects	80.8	13%
TOTAL	639.8	100%

- 1.8. The current profiling of expenditure within the approved Composite Capital Budget is heavily front loaded in line with the anticipated delivery of projects. The graph below illustrates the profile of the Council's £570 million Gross Composite Capital Budget over the period 2021/22 to 2028/29, assuming all existing projects and programmes are approved and delivered as anticipated. It should, however, be noted that the budget profile is indicative only, as it does not, at this time, reflect the full impact of Covid-19 and current inflationary pressures on expenditure in the current year or the potential consequential impact upon project delivery in future years.

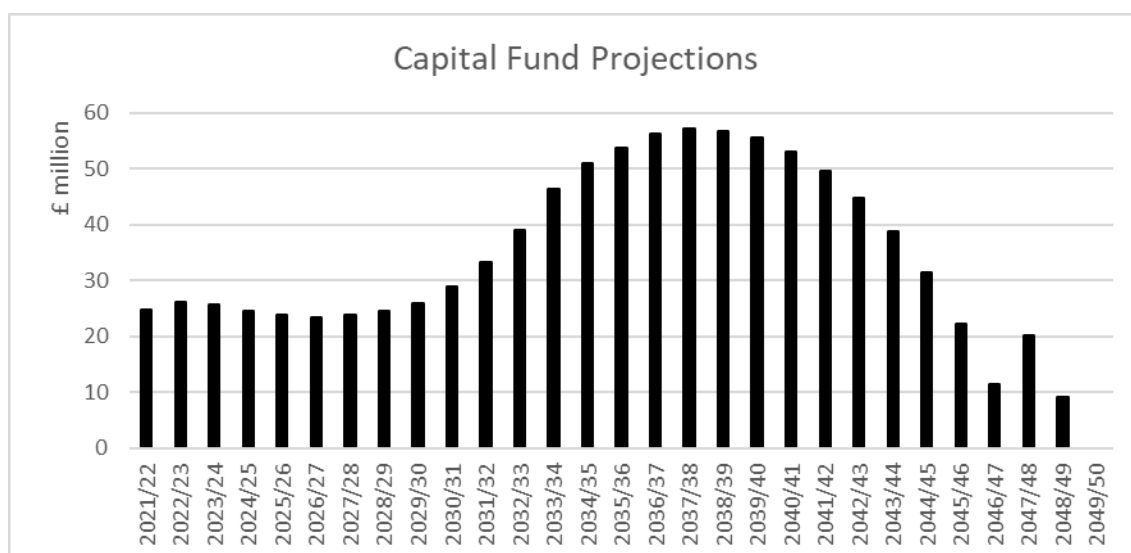


- 1.9. The Capital Budget is funded by borrowing, grants, external contributions and receipts which is set out in the following graph.



- 1.10. The Capital Budget is largely reliant on the Council undertaking long-term borrowing to take forward the totality of the programme. This borrowing is managed through the Council's Loans Fund with the annual budgeted revenue cost included in the Loan Charges Budget, which currently amounts to around £13 million per annum.
- 1.11. Despite the Council incurring significant Capital expenditure in recent years, the Loan Charges budget has remained relatively static. To support Capital expenditure, the Council has an approved policy of treating in-year movements in loan charges as either a contribution to, or from, the Council's Capital Fund which is regularly reported to either Council or the Strategic Policy & Resources Committee.

- 1.12. The Council operates a Capital Fund in accordance with the Local Government (Scotland) Act 1975. The Fund can be used to meet the principal element of loan repayments or to defray Capital expenditure.
- 1.13. As at 31 March 2021, the balance on the Capital Fund was **£27.944 million** and, using current assumptions / approved budgets, is projected to peak at around **£57 million** in 2037/38. This is set out in the following graph.



- 1.14 These current projections of the Capital Fund show that it can be applied to support Loan Charges until 2048/49, at which time an additional recurring expenditure pressure of approximately £10 million per annum emerges which will require to be financed. This position will be kept under review. However, given the level of uncertainties and unknowns over this time period, it is considered that no immediate action is required in order to address the projected Loan Charge budget deficit in subsequent years.
- 1.15 For financial planning purposes, and to build in some capacity to manage those factors which could influence the future balance on the Capital Fund such as movements in interest rates, phasing of capital expenditure and potential variations in capital grant funding, it is assumed that up to £50 million of capital expenditure capacity can be funded by applying the Capital Fund over a number of years.

2. STRATEGIC CAPITAL BUDGET OVERVIEW

- 2.1 Strategic capital investments are often generational in their impact, creating, for example, the infrastructure to support our communities for decades to come.
- 2.2 Funding such investments represents a long-term commitment of public money and therefore must comply with the Council's duty to meet Best Value Capital investment decisions should also support the delivery of the Council's strategic objectives and deliver better outcomes across Perth and Kinross.

- 2.3 In addition, if approved, the principles included in the Investment Blueprint which forms part of the Investment Blueprint report (considered earlier on the agenda for this Council meeting) (Report No. 21/180 refers) will support better informed decision making and alignment with the Council's strategic objectives taking account of the key challenges facing the Council.
- 2.4 A number of strategic financial pressures have been identified as having a material impact on the development of future years Capital Budgets and these are set out in more detail below.

Economic Wellbeing Plan

- 2.5 On 31 March 2021, the Council approved the Economic Wellbeing Plan (Report No. 21/37 refers). This Plan was co-produced with enterprise support network organisations to assist economic recovery as a result of the impact of Covid-19.
- 2.6 The overall cost of delivering the Economic Wellbeing Plan to 2024 is estimated to be in the region of £490 million (with further Capital expenditure beyond 2024). The Capital expenditure identified in the Plan is already largely secured through the Council's current budget, the Tay Cities Deal and other sources with the principal exception being the Perth Eco Innovation Park. Currently approximately **£20 million** of the Plan remains unfunded (£15 million of Capital and £5 million of Revenue).
- 2.7 Following approval of the Economic Wellbeing Plan, the Fraser of Allander Institute prepared an Economic Outlook for the Scottish Cities Alliance in May 2021. This supports the officer assessment, which was included in the elected member briefings in August / September 2021 that, without intervention, the local economy in Perth and Kinross faces significant economic challenges. It also highlights:
- the real and longer-term impact of Covid-19 is not yet known
 - that technological change is integral to growth
 - major investment is required to transition to a net zero carbon economy through more rapid technological change with a knowledge economy focus
 - the demographic challenges arising from a well-documented ageing population
 - inequalities have widened requiring a focus on inclusive growth which tackles both inequalities in outcomes but also in opportunities.
- 2.8 Going forward, the Council may wish to consider additional investment proposals over the short to medium term which will help address the economic challenges identified and support sustainable and inclusive economic growth.

Climate Change

- 2.9 On 19 June 2019, Council passed a Motion that committed it to leading by example in accelerating the transformational change required to address the Climate Emergency, which had been declared by both the UK and Scottish Parliaments earlier that year.
- 2.10 On 18 December 2019, the Council approved an Interim Climate Emergency Report and Action Plan (Report No. 19/362 refers).
- 2.11 On 30 August 2021, the Council agreed to the establishment of a Climate Change Commission (Report No. 21/142 refers) which will provide scrutiny and oversight to Perth and Kinross's Climate Change Plan, which is currently scheduled to be considered by Council on 15 November 2021.
- 2.12 Legislation has been introduced by the Scottish Government that will aim to ensure Scotland reaches net zero greenhouse gas emissions by 2045. There are also a range of challenging intermediate targets and a further possibility that these targets will be accelerated by legislation.
- 2.13 As the Council strives to decarbonise, this will undoubtedly mean significant additional investment will be required. However, it must also be noted that there are major, current and proposed, national funding sources available and the Council must ensure it is in a position to fully capitalise on these.

Construction Sector Issues

- 2.14 Currently, there are significant inflationary pressures on the construction sector. These pressures are a result of the significant increase in demand for materials and labour following periods of lockdown. Furthermore, Covid-19 is having an impact on manufacturers' capacity to respond to increased demand while logistical constraints are further compounding the situation. These factors are also contributing to significant inflationary pressures on the raw materials and labour resources required across the construction sector.
- 2.15 Uncertainty is also being encountered in the supply chain whereby materials that previously were available on demand are now subject to delays of many weeks / months.
- 2.16 It is anticipated that the issues facing the construction sector identified above will lead to material shortages impacting on the deliverability of Capital projects and increased tender costs. Currently, inflationary increases in the range of 10% to 20% are being anticipated.
- 2.17 Based on an approved Capital Programme of £570 million, this could result in additional costs of between approximately **£60 million** and **£120 million**.

3. UPDATE ON CAPITAL PROJECTS APPROVED IN SEPTEMBER 2020

- 3.1 The significant uncertainty over tender prices, as set out above, means that it is extremely difficult to predict the outcome of final tenders. Given that some projects are not at the stage of being tendered, at this time there is no further update on the potential tender costs of Perth High School and Blairgowrie Recreation Centre. The indicative costs identified in September 2020 reflect both increases in specification and the move to Passivhaus standards which will deliver low-carbon, energy efficient buildings, compliant with the net zero public sector building standard. These indicative costs remain in place and are set out in Table 2 below.

Table 2: Update on Previously Approved Capital Projects

	Current Budget (£m)	Sept 2020 Estimate (£m)	Additional Funding Required (£m)
Perth High School Replacement	50.0	58.3	8.3
Blairgowrie Recreation Centre	15.1	24.0	8.9
TOTAL			17.2

- 3.2 At this time, it is not proposed to increase the budget for these projects. With the market volatility described earlier in the report, there remains a significant risk that the cost estimates for these projects may increase and that the Council is required to apply further resources or revisit specifications to take these projects forward. If this is the case, this will be considered in future updates to the Capital Budget. The impact of trends in the construction market upon the delivery of the Council's Capital Budget will remain under review.
- 3.3 The North Muirton / Balhousie Replacement Primary School project is due to reach financial close later in 2021. The latest cost estimate has, however, increased to £19.9 million, an increase of **£3.5 million** on the current approved budget, reflecting the market volatility currently being experienced.
- 3.4 On 30 September 2020, Council instructed officers to "identify possible funding solutions to enable the PH20 project to be considered as part of the 2021/22 budget process" (Report No. 20/175 refers).
- 3.5 Considerable work has been undertaken to take this project forward including the development of a Strategic Outline Case, which was shared with elected members following a briefing session in September 2021.
- 3.6 Given the complexity of the project and the proposal to build to low carbon standards, exact, detailed costings for the PH20 project are not yet available. However, for financial modelling purposes the figure of **£70 million** has been used.

4. IMMEDIATE CAPITAL BUDGET PROPOSALS

- 4.1 Two proposals have emerged since the Capital Budget was last considered by Council in full in September 2020. The financial implications of these are set out in Table 3 with further explanatory narrative below.

Table 3: Immediate Capital Budget Proposals

	£m
Invergowrie Pupils / Harris Academy	4.2
Information Technology/Digital Capacity	15.9
TOTAL	20.1

Invergowrie Pupils / Harris Academy

- 4.2 Dundee City Council has advised that Harris Academy is now at capacity and unable to accommodate pupils from Invergowrie Primary School from August 2023. Invergowrie Primary School is currently within the catchment area for Perth High School, but Invergowrie catchment pupils are awarded entitled status to attend Harris Academy by Dundee City Council and almost all pupils opt to attend Harris Academy from S1 onwards. The pupils from Invergowrie Primary School would only be entitled to attend Perth High School as their catchment school if their entitled status were to change. Pupils from Invergowrie are within the statutory walking distance to Harris Academy, therefore there are currently limited transport costs for Perth & Kinross Council. Transport will require to be provided to pupils attending Perth High School from the Invergowrie Primary School catchment area.
- 4.3 It has been proposed, as an alternative to transporting pupils, that Perth & Kinross Council provide Capital funding in the region of **£4.2 million** to fund an extension to Harris Academy. This would increase capacity and allow Invergowrie pupils to continue to attend Harris Academy. Dundee City Council has confirmed that they will meet the additional revenue costs of the additional classrooms (teachers, property costs, supplies & services etc.). As with the Council's own Capital projects, this initial cost estimate may require to be reviewed as the project progresses.
- 4.4 The cost of transporting pupils to Perth High School is estimated at £120,000 per annum. Over 50 years, the cost of transport is estimated to be £13.7 million (assuming 3% inflation) compared to borrowing of £8.3 million of the extension over the same time period. Furthermore, there will be benefits to the young people of Invergowrie Primary School who will not be required to undertake the journey from Invergowrie to Perth High School which would lengthen the school day for pupils requiring a 55-minute journey by bus each way. There will also be environmental benefits with less buses required to provide transport.
- 4.5 Dundee City Council will make a final decision on their statutory consultation in late October. If Perth & Kinross Council does not approve the funding of an extension for Harris Academy, it is likely that Dundee City Council will revise

the catchment area and admission criteria for Harris Academy which will remove the entitlement for Invergowrie pupils from Perth and Kinross to attend. Perth and Kinross pupils from Invergowrie Primary School catchment area will then only be entitled to attend Perth High School as their catchment school from August 2023.

Investment in Information Technology/Digital Capacity

- 4.6 The events of the last 18 months have further reinforced how essential it is for the Council to continue to invest in Information Technology and digital skills. The Council's investment in online services, mobile working and data and analytics has been funded from the capital budget, paying for systems, licensing and staffing costs. This is the first opportunity for elected members to make the investment in long term capital provision which reflects the Council's ongoing reliance on IT capacity, digital skills and MS products.
- 4.7 Microsoft licensing is a rolling programme which delivers core resources to underpin current delivery of front-line services, learning and teaching and ICT infrastructure, as well as enabling future business improvements. Budgetary provision beyond 2024/25 does not yet fully reflect our move to a MS 365 licensing environment.
- 4.8 Budgetary provision for IT staff programmers and developers is available until March 2022. Continuing investment in these IT and digital skills is essential for the development and maintenance of our Mobile Working and Online Services platforms and more widely to support our digital developments across the Council. This coincides with a time of significant change in the use and demand for digital services across the Council. It will also support the Council's developing approach to hybrid working.
- 4.9 Investment in digital, data and Microsoft Licenses will enable fit for purpose ICT infrastructure to support the delivery of new ways of working and provide flexibility and innovation to support smarter working. It will also provide a step change in our ability to use data to inform decision making and target service delivery to better deliver outcomes for citizens and customers (both internal and external). It will also drive service improvements through process redesign. The estimated budget shortfall in the current approved budget amounts to **£15.9 million** for the period through to 2028/29. It is therefore proposed to increase the budget by this amount to provide certainty over the medium term.

5. OPTIONS FOR TAKING FORWARD THE CAPITAL BUDGET

- 5.1 Since the Council last approved the Capital Budget on 30 September 2020 (Report No 20/175 refers), there have been significant developments including more understanding of the impact of Covid-19 and pressures in the construction sector. As a result, officers have developed two options to take forward the Capital Budget which have been shared with elected members through a series of briefings.

- 5.2 The first option is that the Council takes forward the decisions of September 2020 as well as the immediate pressures identified above (Option A). The second option is that the Council only deals with the immediate issues identified by officers above and takes time to ensure that the Capital Budget remains fit for purpose (Option B). The remainder of this section sets out the risks and benefits in relation to each option as well as the financial implications.
- 5.3 Both these options may result in additional expenditure pressures which would compound the existing structural deficit on the Revenue Budget that officers are working to resolve.

Option A: September 2020 Decisions and Immediate Pressures

- 5.4 This option would require the Council to identify **£110.8 million** of additional Capital resources to take forward the projects listed in the table below. Both the cost estimates for and funding required to deliver these projects is subject to review and may require to be increased as projects progress to detailed design, tender and delivery.

Table 4: Summary of Option A

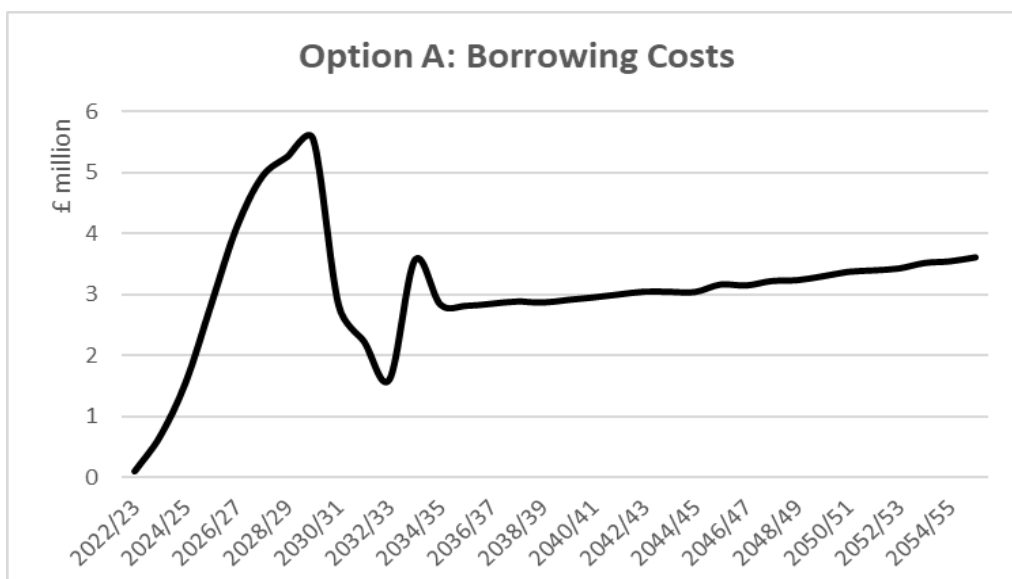
	£'m
Perth High School Replacement (para. 3.1)	8.3
Blairgowrie Recreation Centre (para. 3.1)	8.9
North Muirton / Balhousie Primary School (para. 3.3)	3.5
PH2O Proposal (para. 3.6)	70.0
Invergowrie Pupils / Harris Academy (para. 4.3)	4.2
Investment in Information Technology/Digital Capacity (para. 4.7)	15.9
TOTAL	110.8

- 5.5 To provide an indication of the financial impact of Option A, the following phasing of Capital expenditure has been assumed –

Table 5: Phasing of Option A Capital Expenditure

22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	Total £m
8.7	17.1	30.6	35.7	12.6	3.0	3.1	110.8

- 5.6 The borrowing costs of Option A are set out in the following graph. The graph reflects the phasing of expenditure along with the type of asset being financed i.e. IT expenditure is financed over a shorter period (5 years). The cost of borrowing peaks at £5.5 million per annum in 2029/30 and settles at around £3 million per annum from 2034/35 until the loans are repaid.



5.7 Option A fully complies with the direction set by Council at the meeting of 30 September 2020 (Report No 20/175 refers). It deals with the projects identified last year (at September 2020 prices and therefore inflationary costs are not fully reflected), as well as the immediate (time critical) pressures that have emerged since then.

5.8 However, Option A makes no additional provision for the strategic financial pressures facing the Council over the medium term in relation to climate change, economic regeneration and potential construction inflation across the existing approved Capital Budget. In addition, it does not recognise new and emerging community needs and priorities in light of Covid-19 and which may be identified through the Perth and Kinross Offer.

Option B: Focus on Immediate Pressures Only

5.9 This option would require the Council to identify **£23.6 million** of additional Capital resources to take forward the projects listed in Table 6 below.

Table 6: Summary of Option B

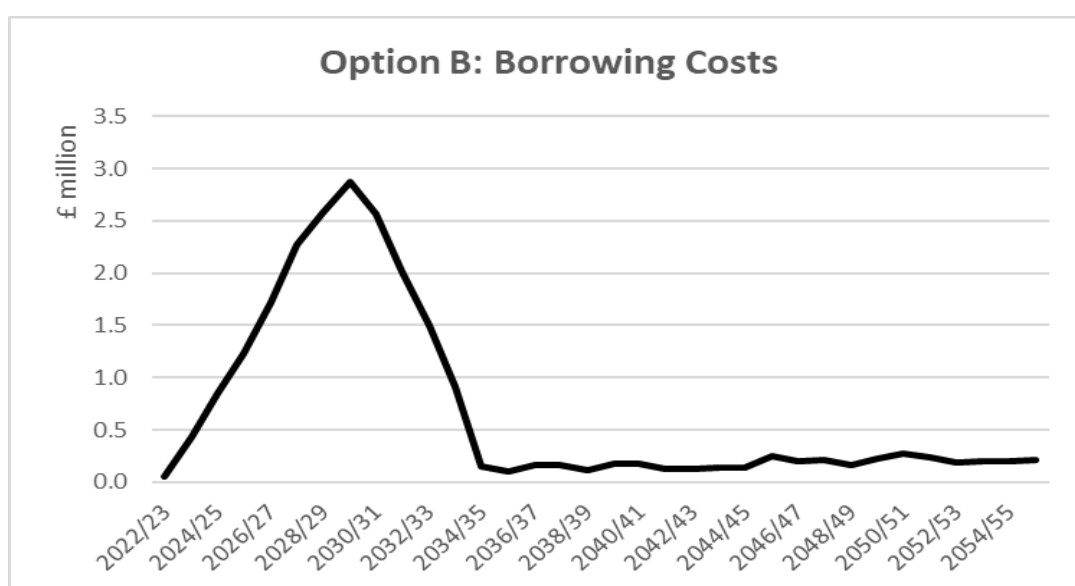
	£'m
North Muirton / Balhousie Primary School (para.3.3)	3.5
Invergowrie Pupils / Harris Academy (para 4.3)	4.2
Investment in Information Technology/Digital Capacity (para. 4.7)	15.9
TOTAL	23.6

- 5.10 To provide an indication of the financial impact of Option B, the following phasing of Capital expenditure has been assumed –

Table 7: Phasing of Option B Capital Expenditure

22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	Total £m
3.7	7.1	1.7	2.4	2.6	3.0	3.1	23.6

- 5.11 The borrowing costs of Option B are set out in the following graph. Consistent with Option A, the graph reflects the phasing of expenditure along with the type of asset being financed. The cost of borrowing peaks at £2.9 million in 2029/30 and settles at around £160,000 from 2034/35 until the loans are repaid.



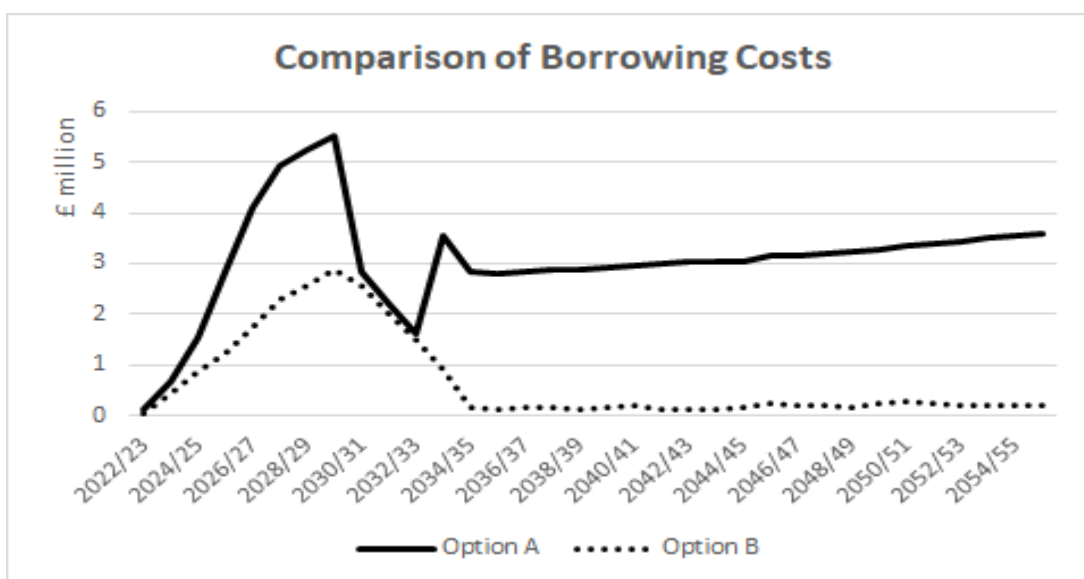
- 5.12 This option would only seek approval from Council on those Capital expenditure proposals that are considered by officers to require an immediate decision. In particular, the decision on whether to fund the extension of Harris Academy is likely to be a key factor in Dundee City Council's own consideration of the catchment area and admission criteria for Harris Academy later in October. It will also ensure that the Council has the resources to continue its digital approach.
- 5.13 It would provide a strategic approach to capital investment planning, supporting the development of a longer-term vision alongside a short term funded delivery programme.
- 5.14 It would also allow the Council to apply the principles of the Investment Blueprint, if agreed, enabling better alignment of planned investment with the needs of communities; addressing the key challenges facing the Council and our communities and responding to:

- mitigate 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

5.15 Option B takes account of the significant change in circumstances since September 2020 including the degree of uncertainty and volatility in the construction market. The proposed approach is consistent with Scottish Government guidance on which advises taking steps to review the feasibility and commercial viability of projects in development. It also addresses the immediate investment decisions the Council must take and enables the Council to consider priorities in respect of economic recovery, climate change and emerging community needs which may be identified through the Perth and Kinross Offer. Furthermore, it reinforces a shift in the change in culture to use a strategic planning approach to capital investment decisions. Finally, it provides the opportunity to fully realign the Revenue and Capital Budgets to ensure that the full impact of decisions are understood.

5.16 There will always be inherent risks in making long term financial commitments in respect of Capital projects. However, given the strategic financial pressures identified within this report including market volatility, uncertainty over supplies of material and labour, climate change and the impact of Covid-19, the level of uncertainty and risk is significant. Therefore, it is proposed that the Option B is taken forward, and that, for now, the Council funds the immediate pressures as set out in Table 3.

5.17 There is a significant difference in the annual borrowing costs between Option A and Option B which is set out in the following graph.



5.18 **ACTION: The Council is asked to approve Option B.**

6. FUNDING OPTIONS

- 6.1 As remitted by Council in September 2020, officers have sought to identify funding options to meet both existing and emerging pressures on the Council's Capital Budget. This work has been impacted by the pandemic, notably in respect of the development of potential commercial solutions which may prove more challenging to bring forward in light of the current economic situation but may become available again as economies recover.
- 6.2 The following options are, therefore, based upon the Council funding additional borrowing to develop and deliver Capital projects. These options should be considered as a package of measures and will be required to a greater or lesser extent dependent upon the level of capital expenditure approved by the Council. The options have been the subject of a separate briefing to elected members on 6 September 2021 and are summarised below:
- review of the existing Capital Budget
 - application of the Council's Capital Fund
 - savings target from operational buildings
 - additional Revenue Support for Borrowing

Review of the Existing Capital Budget

- 6.3 The Council has in place an approved Capital Budget through to 2028/29. These projects were incorporated in the Capital Budget prior to the emergence of the Covid-19 global pandemic. It is proposed that a review of the existing Capital Budget be undertaken which would, subject to approval of the Strategic Capital Investment Framework and Investment Blueprint, be informed by the principles set out within the Blueprint. The aim of the review would be to ensure that the Council's Capital projects and programmes continue to align with the Council's strategic priorities and remain relevant and fit for purpose. Any proposals to adjust the approved Capital Budget would be subject to elected member approval.

Application of the Council's Capital Fund

- 6.4 The use of the Capital Fund could be accelerated to support increased Capital expenditure. The actual impact on the Capital Fund will clearly be dependent on the extent to which it is applied.
- 6.5 As set out above, it has been assumed that up to £50 million of additional Capital expenditure may be supported through the accelerated use of the Capital Fund over time to meet additional borrowing costs. Compared to the current projection on the Capital Fund set out in paragraph 1.13 above, this would accelerate the point at which the Capital Fund is fully utilised from 2049/50 to 2044/45. This would lead to a recurring expenditure pressure on loan charges from 2044/45 of £10 million rising to £19 million in 2055/56. In order to address this, the Loan Charges Budget would need to be increased over time.

Savings Target from Operational Buildings

- 6.6 Additional resources may become available over the next few years from a review of operational buildings. The level of resources will be dependent upon future decisions of the Council and the outcome of negotiations with Council landlords.
- 6.7 For financial modelling purposes, it has been assumed that a recurring revenue savings target of approximately £1.5 million on operational buildings could potentially be achieved from 2025/26 which would provide additional borrowing capacity of approximately £35 million.

Additional Revenue Support for Borrowing

- 6.8 The strategic challenges facing the Council's Capital Budget outlined in section 2 of the report will require the Council to review and likely increase its future support for Capital investment. The Capital Budget is largely funded through borrowing which, in turn, commits the Council to long term Revenue costs. The Prudential Code, which governs local authority borrowing, requires the Council to assess its borrowing in terms of long-term affordability. Given the current range of pressures on Revenue expenditure, the Council will require to keep under review the balance between funding service delivery and financing Capital investment as part of its strategic financial planning.
- 6.9 The Council could, therefore, choose to augment the Loan Charges budget to support Capital expenditure. Based on current recurring borrowing costs of around £40,000 per year (over a 50-year period) for £1 million of capital investment, Table 8 illustrates the indicative borrowing supported by different levels of increase in the Council's Loan Charges budget:

Table 8: Illustrative Borrowing Costs

Annual Increase in Loan Charges	Additional Borrowing Capacity
£100,000	£2.5 million
£150,000	£3.75 million
£250,000	£6.25 million
£500,000	£12.5 million

- 6.10 As the projects under consideration within this report will, in general, not be delivered for a number of years, the Council could adopt an incremental approach to increasing its Loan Charges budget and borrowing capacity over a period of time. This would allow the Council to build up its investment capacity in advance of requiring to incur the expenditure. One potential approach to this would be to link increase in the Loans Charge budget to assumptions on growth in the Council Tax base and the number of Band D equivalent properties. This would require further modelling in light of the impact of the pandemic on house completions. However, an incremental increase in the Loans Charge budget of between £250,000 - £500,000 per annum may be deliverable over the medium term through this approach.

- 6.11 It is proposed that the Council's Capital Fund is utilised to support the immediate Capital Budget pressures of **£23.6 million** identified above through to 2028/29. It is further proposed that other funding options are developed to support the Capital Budget in the longer term.
- 6.12 **ACTION: The Council is asked to approve the use of the Capital Fund to manage the immediate Capital pressures identified in Option B of £23.6 million.**

7. NEXT STEPS

- 7.1 It is proposed that officers develop a programme of wider scale elected member / officer engagement, following consultation with Group Leaders. This would include a review of the existing Capital programme leading to the development of a 30 Year Investment Plan using the Investment Blueprint principles previously approved by Council.
- 7.2 The output from this exercise will feed into the Capital Budget that will be considered by the Council in February / March 2022. This would also realign the setting of Revenue and Capital Budgets to ensure that decisions taken in either are reflected in both Budgets.
- 7.3 **ACTION: The Council is asked to approve the setting of the Capital Budget in February / March 2022.**

8. CONCLUSION AND RECOMMENDATIONS

- 8.1. Delivery of the approved Capital Budget will be challenging over the short to medium term in terms of its scale and funding requirements. There is also significant uncertainty in terms of cost and supply of raw materials and labour.
- 8.2. Option B provides the opportunity to review the existing Capital programme to ensure it remains aligned to the Council's strategic objectives continues to deliver best value and delivers better outcomes across Perth and Kinross. This option recognises the current challenges in the delivery of projects and allows time for elected members with support from officers to reassess the Council's overall investment requirements in light of actions which will tackle a range of priorities such as tackling climate change, supporting economic recovery and boosting economic growth in the longer term, the Perth and Kinross Offer, Tay Cities Deal and smarter working. It will also allow the Council to realign Revenue and Capital Budget setting to ensure the implications of Capital Budget decisions are reflected in the Revenue Budget and are sustainable and affordable.
- 8.3. The Council is requested to approve:
- i) Adjustments to the Capital Budget based on Option B which focusses upon addressing the immediate Capital pressures identified by officers in section 4 of the report.

- ii) The use of the Capital Fund to manage the immediate Capital pressures of £23.6 million.
- iii) Setting the Capital Budget in February / March 2022.

Author(s)

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Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	30 September 2021
Karen Donaldson	Chief Operating Officer	30 September 2021

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

- 1.2 This report relates to all these objectives.

2. Resource Implications

Financial

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

Workforce

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

Asset Management (land, property, IT)

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

3. Assessments

Equality Impact Assessment

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

Strategic Environmental Assessment

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

Sustainability

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

4. Consultation

Internal

- 4.1 The Executive Officer Team have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

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

3. APPENDICES

None