

PERTH AND KINROSS COUNCIL

6 March 2020

CAPITAL UPDATE REPORT 2020/21-2029/30

**Joint Report by the Depute Chief Executive and Head of Finance
(Report No. 20/58)**

PURPOSE OF REPORT

This report provides an update on the estimated resources available for the General Fund (Composite) Capital Programme in 2029/30 and recommends the review, where appropriate, of the existing 10 year Capital Programme for further consideration by Council in June, including specific actions in relation to key strategic projects. The report further recommends the adoption of a Gateway Review approach to the management of the Council's Capital Programme and seeks approval for the development of a long-term Investment Blueprint 2020-2050 for Perth and Kinross.

1. BACKGROUND

- 1.1 The Council approved a ten-year Capital Programme for the period 2019/20 to 2028/29 at its meeting on 20 February 2019 (Report No. 19/47 refers). Revisions to the budget for these years have subsequently been considered by the Strategic Policy & Resources Committee throughout the year.
- 1.2 The Council's approved Capital expenditure currently totals approximately £703 million comprising £633.5 million of expenditure on the General Fund (Composite) Budget over the period 2019/29 and £69.5 million on the recently updated five-year Housing Investment Programme 2020/25 (Report 20/23 refers).
- 1.3 The Composite Budget is ambitious comprising both strategic infrastructure projects and ongoing programmes of asset improvement. It is, however, heavily front-loaded with 80% of planned expenditure and the majority of projects currently targeted for completion by 2023/24. Thereafter, expenditure reduces significantly and is largely focused upon ongoing Capital programmes.
- 1.4 Addressing the sustainability of the Council's Capital investment into future years presents a considerable challenge. At a time of significant constraint on Revenue expenditure the interdependency between the Council's Revenue and Capital Budget, both in terms of capacity to borrow to finance Capital expenditure but also in terms of meeting ongoing operating costs, requires different approaches to the assessment and financing of Capital projects. An increasing focus upon commercialisation – in terms of identifying opportunities for income generation through Capital investment - together with a robust evidence driven review of the business case underlying Capital projects at each stage or "gateway" in their delivery is required to ensure investment is justified and sustainable.

- 1.5 The strategic and national policy context in which the Capital Budget is being developed and delivered is also changing. “Protecting Scotland’s Future: The Government’s Programme for Scotland 2019-2020” published in September saw the Scottish Government underline its commitment to net zero carbon emissions by 2045 through staged targets including emission free city centres (2030) and a move to low carbon heating for all new homes (2024).
- 1.6 More recently, the Infrastructure Commission for Scotland published their “Key Findings Report: A blueprint for Scotland” in January 2020. The report makes a number of recommendations to the Scottish Government around the theme of “making the most of existing assets” on the premise “that most of the underlying infrastructure that will be used in 30-years’ time already exists today and it is, therefore, essential that these assets are most effectively and efficiently utilised, maintained and enhanced to net zero carbon readiness”. The Infrastructure Commission have consequently recommended developing a 30-year blueprint for Scotland’s infrastructure.
- 1.7 The arrangements through which the Scottish Government provide funding support for investment in the School Estate have also been subject to change. The new model developed by the Scottish Futures Trust requires local authorities to borrow to meet all the upfront construction costs. Where Scottish Government support is approved, the equivalent of 50% of the Capital cost of the scheme is provided in the form of Revenue grant funding over a 25-year period to support the ongoing maintenance of the building.
- 1.8 The financial constraints around the Council’s future Capital investment together with the potential local impact of the emerging national policy agenda were the subject of a presentation to Elected Members on 19 February 2020.
- 1.9 In light of the above, this report advises Council of the estimated funding available in “rolling forward” the approved Composite Capital Programme to a new year 10 (2029/30); recommends the review, where appropriate, of the existing 10 year Capital Programme for further consideration by Council in June; identifies proposals to take forward the delivery of key strategic projects and sets out the broader context for developing a long term investment blueprint for Perth and Kinross for the period 2020-50 supported by a gateway review approach to the management of the Capital Budget.

2. COMPOSITE CAPITAL RESOURCES IN 2029/30

- 2.1 In order to develop the Capital Budget it is proposed that the estimated level of Capital resources summarised in the table below are assumed to be available in 2029/30:

Composite Capital Resources	2029/30
	£'000
New Borrowing	12,000
General Capital Grant	14,000
Ring-Fenced Capital Grant	200
Developer Contributions	2,100
Capital Receipts	250
Total Resources Available	28,550

- 2.2 The level of new borrowing assumed and included in the programme is consistent with the amount assumed in the Council's approved Medium Term Financial Plan and has been maintained at £12,000,000 for each year in the current approved budget. Accordingly, this same amount has been assumed in 2029/30.
- 2.3 The Provisional Local Government Finance Settlement issued by the Scottish Government on 6 February 2020 (Finance Circular 1/2020) includes total Capital Grant Funding for Perth & Kinross Council in 2020/21 of £16.018 million. This includes "ring-fenced" Specific Grant Funding for Early Year's Expansion of £3.8 million and for Cycling Walking & Safer Streets of £0.248 million. There are also adjustments to reflect timing differences in relation to the receipt of funding for Flood Protection Schemes. The resource assumptions for 2029/30 assume the continuation of ring-fenced funding for Cycling, Walking & Safer Streets schemes.
- 2.4 In broad terms, excluding ring-fenced resources, the level of General Capital Grant funding provisionally allocated to the Council for 2020/21 is 22% lower than previously assumed. It is proposed that this reduction in Capital Grant be funded by an equivalent increase in borrowing rather than seeking specific reductions in expenditure on the current approved programme. Looking forward, it is not proposed to revise future years estimates at this stage although the position will be kept under review.
- 2.5 The Medium Term Financial Plan assumes that some projects will be funded by Developer Contributions over the longer term and, therefore, an estimate of Developer Contributions has been included. The amounts estimated to be received from major housing developments, which are ring-fenced for Transport Infrastructure and Educational purposes, will be received by the Council in line with future house build rates. Accordingly, estimates of contributions to be received each year are based on anticipated house building rates and the agreed level of contribution
- 2.6 A prudent estimate of General Fund property disposal receipts each year has been included in the estimated resources and it is proposed that the same provision is included in 2029/30. This will be subject to ongoing review throughout the budget period.

3. MAINTAINING THE COUNCIL'S EXISTING INFRASTRUCTURE & ASSETS

- 3.1 The Composite Capital Budget for 2019/20 to 2020/29, includes provision for annual programmes to maintain and improve the Council's existing infrastructure; property; greenspace and digital assets. This is consistent with the Infrastructure Commission for Scotland's Key Findings Report.
- 3.2 The table below illustrates that maintaining the Council's existing investment in its asset base could potentially absorb all the available Capital resources in 2029/30.

Resources for Programmes	2029/30
	£'000
Structural Maintenance	12,000
Cycling, Walking & Safer Streets	200
Footways	500
Bridges & Parapets	900
Road Safety	150
Traffic signals	150
Investment in the School Estate	6,000
Schools Audio-Visual Equipment	550
ICT Infrastructure	3,000
Property Capital Improvements	2,100
Property Compliance works	800
Property Disability Discrimination Act Works	200
Community Greenspace	350
Play Parks	180
Cemetery Extensions	100
IT Replacements (HE)	150
Occupational Therapy Replacements	320
Software Licences (Housing)	100
Council Contact Centre	50
Capital Blueprint Development	250
Existing Programme: Flood Schemes	500
Total	28,550

- 3.3 The level of future investment in Capital programmes will require to be considered by Council in June.

4 REVIEW OF THE CURRENT CAPITAL PROGRAMME AND RECOMMENDATIONS ON KEY STRATEGIC CAPITAL PROJECTS

- 4.1 The challenges of ensuring the sustainability of the Council's Capital Budget and aligning the budget with a developing national policy landscape necessitate both a review of the current Capital Programme and the development of a long-term strategic blueprint to inform and direct future investment.
- 4.2 To support the review of the existing Capital Budget, an analysis of the Programme has previously been circulated to Elected Members together with officer commentary.
- 4.3 It is recommended that the review of the existing Capital Budget should not generally extend to reviewing projects which are legally committed; which attract significant levels of third-party funding or where failure to progress may place the Council in breach of its statutory responsibilities.

- 4.4 It is recommended that officers continue to work with and support elected member budget review groups in advance of further consideration of the Capital Budget by Council in June.
- 4.5 Specific proposals are, however, set out in relation to the following key strategic Capital projects due to their scale; importance to local communities and impact upon service users.

4.6 **Perth Leisure Vision “PH2O”**

The Council has previously approved funding for the development of a design and business operating model for the Perth Leisure Vision “PH2O” project and this work is ongoing. Given the scale and complexity of the project, it is recommended that officers are remitted with bringing forward a commercial income stream to contribute to the financial viability of the Perth Leisure Vision “PH2O” project by June 2020.

4.7 **Blairgowrie Recreation Centre**

The Head of Property Services has been remitted with undertaking a design review of the Blairgowrie Recreation Centre project. This project is included within the existing Capital Programme and is being progressed. The cost estimates for project delivery are, however, currently being reviewed and will be refined in consultation with a user reference group. It is, therefore, recommended that officers seek an alternative funding source from within the existing uncommitted Capital Programme to ensure delivery of the Blairgowrie project remains on schedule and addresses budget pressures. This solution will be brought forward for consideration by June 2020.

5. ADOPTING A GATEWAY REVIEW APPROACH TO THE MANAGEMENT OF THE CAPITAL BUDGET

- 5.1 In line with best practice, and to ensure we maximise positive outcomes for our communities, we have a duty to ensure the ongoing relevance and validity of the investment proposals within our Capital programme. Both United Kingdom and Scottish Governments recognise the value of Gateway Reviews within a programme and project management environment and have encouraged their use. The adoption of Gateway Reviews is also part of the arrangements for projects funded through the Tay Cities Deal.
- 5.2 A Gateway Review process can be defined as a series of points on the timeline of an investment proposal at which that proposal is subject to objective challenge and scrutiny, to ensure it continues to represent the best value for delivering a stated and measurable outcome.
- 5.3 The Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2018 noted that:

‘Capital programme management is an area which is evolving and would benefit from further development by implementing gateway reviews and a lessons learned evaluation, and we recognise management’s challenges in implementing these effectively.’

- 5.4 Perth and Kinross Council has operated an informal Gateway Review process through the scrutiny and assessment of outline business cases and the ongoing monitoring of capital projects.
- 5.5 It is proposed that Perth and Kinross Council adopt the Office of Government Commerce (OGC) Gateway Review framework ([Link](#)). This provides a close match to the Council's current informal process and will allow us to undertake formal Gateway Reviews of the Capital programme which are scaleable, proportionate and adaptable.
- 5.6 This approach will provide the Council with assurance that all investment proposals are subject to regular challenge and scrutiny to ensure they continue to represent best value for the delivery of specified strategic outcomes.

6. DEVELOPING AN INVESTMENT BLUEPRINT FOR THE FUTURE 2020-2050

- 6.1 We are a hugely ambitious and aspirational council dedicated to delivering services which have positive outcomes on the lives of our citizens and communities: this is reflected in the scale of the Council's 10 year capital investment programme.
- 6.2 Our society and environment have, and continue to become, increasingly complex, technical and interdependent. Such a dynamic landscape brings with it challenges but also opportunities: allowing us to consider more innovative and effective ways of delivering services.
- 6.3 To identify and develop these opportunities, and ensure we continue the best value delivery of our strategic objectives, requires an agile approach to service design and delivery, and to investment decision making.
- 6.4 Our current approach to strategic investment, articulated in the 10 year capital programme does not have the flexibility to allow for this agile approach. Investment proposals tend to develop in isolation and acquire a permanence, with a focus on project outputs.
- 6.5 To address this, and better assist us in making strategic investment decisions, including the school estate review, it is proposed that a 30 year investment blueprint (2020 – 2050) is developed in line with the recommendations of the Infrastructure Commission's Key Findings report. This will consider all identified strategic drivers (social, economic, environmental, technical etc.) and how these are likely to drive our investment decisions. It will be flexible and allow for the incorporation of additional strategic drivers as they are identified.
- 6.6 Through its flexible strategic approach the blueprint will support the development of the Perth and Kinross Offer. It will also provide a framework to develop inclusive growth and a vibrant economy, support our focus on climate change, delivery on the National Performance Framework, Infrastructure Commission and any other national policy initiatives.

- 6.7 The capital programme will continue. It will be developed as an investment delivery plan from the blueprint and will be a flexible 5 year programme which will be managed in line with the principles of Gateway Reviews outlined in Section 5 above.
- 6.8 The adoption of a 30 year investment blueprint will demonstrate the Council's ongoing commitment to securing the best outcomes for all its citizens, be in accordance with best practice in strategic investment thinking and place Perth and Kinross Council as a sector leading authority.

7. CONCLUSION AND RECOMMENDATIONS

- 7.1 This report provides Council with an update on the Composite Capital Budget 2020/21 to 2029/30 and summarises the challenges in ensuring that the future Capital Programme remains both sustainable and aligned to a developing national policy landscape. Recommendations are made to support Elected Members in further consideration of the Capital Budget in June; to strengthen the Council's Capital management and governance arrangements and to bring forward a long-term Investment Blueprint for the period 2020-2050 to inform and guide future Capital decision making and set out our ambition and aspiration for Perth and Kinross.
- 7.2 The Council is requested to:
- 7.2.1 Note the contents of the report
- 7.2.2 Note the estimated Composite Capital Resources in 2029/30 of £28.550 million as set out in section 2 of the report.
- 7.2.3 Approve the review of the Council's existing Capital Programme for further consideration by Elected Members in June as set out in the recommendations in section 4 of the report.
- 7.2.4 Approve the recommendations in respect of the Perth Leisure Vision "PH2O" project and the Blairgowrie Recreation Centre project as set out in paragraphs 4.6 and 4.7 of the report.
- 7.2.5 Approve the development of a long-term Investment Blueprint for the Future covering the period 2020-2050 as set out in section 5 of the report for consideration by Council in 2021.
- 7.2.6 Approve the strengthening of the Council's governance and management arrangements for Capital expenditure through the adoption of a gateway review approach as outlined in section 6 of the report.

Author(s)

Name	Designation	Contact Details
Stewart MacKenzie	Head of Finance	chxfinance@pkc.gov.uk
Norman Ballantine	Capital Programme Manager	

Approved

Name	Designation	Date
Stewart MacKenzie	Head of Finance	28 February 2020
Jim Valentine	Depute Chief Executive (Chief Operating Officer)	28 February 2020

If you or someone you know would like a copy of this document in another language or format, (on occasion, only a summary of the document will be provided in translation), this can be arranged by contacting the Customer Service Centre on 01738 475000.

You can also send us a text message on 07824 498145.

All Council Services can offer a telephone translation facility.

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 2018-2023 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

- 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 The information presented in this report was considered under the Corporate Equalities Assessment Framework and the determination was made that the items summarised in this report do not require further assessment as they do not have a direct impact on people's wellbeing.

Strategic Environmental Assessment

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

The matters presented in this report were considered under the Act and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

4. Consultation

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

2. BACKGROUND PAPERS

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