

## PERTH AND KINROSS COUNCIL

13 February 2014

## COMPOSITE CAPITAL BUDGET 2020/21

## Report by the Head of Finance

**PURPOSE OF REPORT**

This report outlines the proposed budget for the Composite Capital Programme for the financial year 2020/21.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 The Council set a 7 year Capital Budget for 2013/14 to 2019/20 at its meeting on 14 February 2013 (report 13/54 refers). Revisions to the budget for these 7 years have been considered by the Strategic Policy & Resources Committee throughout the year. This report seeks to set a new seven year rolling budget by including proposals for 2020/21. The Prudential Code requires that the Council determines the level of capital expenditure which is affordable and subsequently sets a capital budget to meet local needs and priorities in the most cost-effective manner. Maintaining a 7 year rolling budget supports the Council's medium term strategic financial planning.

**2. ESTIMATED CAPITAL RESOURCES 2013/14 to 2020/21**

- 2.1 The monitoring reports submitted to the Strategic Policy & Resources Committee throughout 2013/14 incorporate full details of resources and expenditure within the approved 7 year programme to 2019/20. Monitoring Report No.3 submitted to the Strategic Policy & Resources Committee on 12 February 2014 (report 14/48 refers) outlines the latest estimates and budget proposals for these years, and no amendments to these estimates are proposed in this report.
- 2.2 Therefore, this report only considers the budget proposals for the new year 2020/21. These proposals will be consolidated with the approved budget for 2014/15 to 2019/20 to form the new 7 year budget.
- 2.3 The estimated resources available for 2020/21 are detailed below and at Appendix I.
- 2.4 Summary of Resources
- 2.4.1 The estimated resources that are available for the Composite Capital Budget in 2020/21 total £13,133,000. This is analysed in the table below, and described in detail in the following sections.

<b>Composite Capital Resources</b>	<b>2020/21</b>
	£,000
Composite Borrowing (section 2.5.1 to 2.5.2)	0
Prudential Borrowing (section 2.5.3)	2,933
General Capital Grant (section 2.6.1)	10,000
Ring-Fenced Capital Grant (section 2.6.2)	200
Capital Receipts (section 2.7.2)	0
Third Party Contributions (section 2.8.1)	0
<b>Total Resources Available</b>	<b>13,133</b>

2.4.2 As the above estimates are for a period seven years into the future, there is inevitably a significant element of uncertainty. Therefore, all estimated resources will be continuously monitored and updated throughout the period.

## 2.5 Resources Available from Borrowing

2.5.1 A report on the Revenue Budget for 2014/15 is on the agenda for this meeting of the Council. The proposed Capital Financing Costs (“Loan Charges”) Budget, which represents principal, interest and expenses in respect of borrowing to fund the Composite Capital Budget, within that report has been used to determine the level of affordable new borrowing to finance capital expenditure. This includes a proposal to increase the Loan Charges budget by £250,000 per annum from 2015/16. Loan Charges budgets for future years are not considered in the Revenue Budget report. However, for the purpose of developing this Capital Budget, it has been assumed that the Loan Charges budget will continue at the same level as 2015/16. It should be noted, however, that the total estimated Loan Charges each year from 2017/18 exceed the budget provision. It is, therefore, proposed to continue to manage this budget shortfall by use of the Capital Fund, as illustrated at Appendix I.

2.5.2 The previous approved strategy included borrowing of £12,000,000 per annum as part of the longer term borrowing and Capital Fund strategy. However, given the current estimated position on the Capital Fund, no new borrowing would be affordable without significantly increasing the annual Loan Charges Budget. It is therefore proposed that no new borrowing is included in the 2020/21 Capital Budget at this stage. This position reflects the inclusion of significant new borrowing in the Composite Capital Budget by the Council in December 2012 (£19.285M, report 12/586 refers) and June 2013 (£20.92M, report 13/336 refers), relating to major projects, including the Perth Transport Futures Project, new schools projects, Perth Theatre Redevelopment and rural broadband.

2.5.3 The total budget also includes projects funded from “Prudential Borrowing”, whereby the costs of additional borrowing are met directly from Service’s Revenue Budgets rather than the corporate Capital Financing Costs Revenue Budget. Historically, these resources have been used mainly to fund spend-to-save schemes or projects in areas where Services have made other compensating savings. For 2020/21, the proposed Prudential Borrowing

schemes identified relate to the annual Vehicle Replacement programme (£3,000,000), less an allowance for vehicle disposals (£300,000), and for Waste Recycling Wheeled Bins (£127,000), Litter Bins (£50,000) and Other Recycling Containers (£56,000). The total Prudential Borrowing included in the proposed budget, therefore, amounts to £2,933,000.

## 2.6 General Capital Grants

2.6.1 The Scottish Government has not issued grant allocations beyond 2014/15. Therefore, for planning purposes, an amount of £10,000,000 of General Capital Grant has been assumed in the proposed 2020/21 Capital Budget, which is in line with estimates for previous year's budgets. However, actual future grant allocations remain uncertain beyond 2014/15, and these may need to be reviewed over the course of the 7 year budget.

2.6.2 The Cycling Walking & Safer Streets (CWSS) grant continues to be the only ring fenced grant, and the Council has received allocations of £158,000 in 2013/14 and £232,000 in 2014/15, with an estimated amount of £202,000 in 2015/16. Subsequent allocations have been estimated at £200,000 and included for planning purposes in each year up to 2019/20 on the assumption that these grants will continue in these years. It is therefore proposed that the amount assumed in 2020/21 at this stage continues at the level of £200,000.

2.6.3 There remains uncertainty over the actual level of resources to be received in each year. This is particularly the case when making planning assumptions for resources so far in advance and there remains a risk that the level of assumed resources will need to be revised in future years.

## 2.7 Property Disposals and Other Capital Receipts

2.7.1 Capital resources available each year are enhanced by the proceeds of any property disposals and other miscellaneous capital receipts.

2.7.2 A modest estimate of £250,000 of General Fund property disposal receipts each year had been included in previous years. However, given the continuing difficult economic conditions affecting the property market and the reduction in suitable property for disposal, it is proposed that no provision is included for property disposal receipts at this stage. Additionally, it has been assumed that there will be no other additional receipts on the Commercial Property Investment (CPI) programme or the Investment In Learning (IIL) programme beyond those already included in the 7 year period to 2019/20. However, both these programmes will be subject to ongoing review throughout the budget period.

2.7.3 The Council has a policy of purchasing Fleet Vehicles (as opposed to leasing) and therefore each year a number of vehicles will reach their optimum date for replacement and be disposed of. This reduces the level of Prudential Borrowing required for new vehicles in that year. Therefore, disposal proceeds in 2020/21 have been assumed at £300,000, as shown at Section 2.5.3 above. Actual purchase requirements and disposals will be subject to an ongoing review.

2.7.4 There are no other Capital Receipts included in the estimated resources.

## 2.8 Contributions

2.8.1 Any third party or revenue contributions which may be received would be applied to increase the expenditure on the specific projects to which they relate. However, at this stage, no new projects proposed to be funded in 2020/21 are assumed to include any such contributions.

## 2.9 Resources Carried-Forward

2.9.1 The Council's policy in respect of capital receipts in the Commercial Property Investment (CPI) programme is that they are "ring-fenced" for reinvestment in the same area of activity. This means that any receipts raised in a particular financial year that have not been re-invested in the programme are carried-forward to fund future years' investment programmes.

2.9.2 It is currently estimated that £858,000 of Commercial Property receipts will be carried-forward at the end of the current 7 year budget to 2020/21. This amount, together with further receipts raised, will be used towards funding subsequent expenditure on the CPI programme, as future priorities become known. However, at this stage, there are no proposals for expenditure and receipts beyond 2019/20.

## **3. BUDGET SETTING PROCESS**

3.1 Budgets for 2014/15 to 2019/20 have already been approved, therefore the current Capital Budget process has primarily focussed on setting a new budget for 2020/21. Given the limited resources available for distribution, it was agreed by the Executive Officer Team (EOT) that no consideration be given to new projects. Therefore, only annual rolling programmes would be considered for 2020/21.

3.2 It is recommended that the practice of "top-slicing" resources for Structural Maintenance (£6,800,000) and Footways (£435,000), as in previous years, be continued in 2020/21. No increase in the amount to be top-sliced to take account of inflation is proposed, to reflect the constrained level of resources likely to be available in 2020/21 and to ensure that efficiencies are sought within these programmes.

3.3 Additionally, the Capital/Revenue transfers implemented in 2013 resulted in some expenditure which was previously in the Revenue Budget being permanently transferred to the Capital Budget. This relates mostly to PC Replacement, other IT expenditure and Occupational Therapy Equipment, and amounts to £852,000 per annum. It is recommended that these amounts are also top-sliced in 2020/21.

- 3.4 After top-slicing all the amounts above, the estimated resources remaining available for distribution total £1,913,000. In previous capital budget setting processes, Modernising Primaries and Secondaries Programmes consistently scored highly, and received an annual allocation. Similarly, IST Infrastructure also scored highly and will require continuing investment. It is therefore recommended that the remaining resources are allocated to these three programmes, pro-rata to previous average allocations.
- 3.5 The results of the above process is shown at Appendix II, which constitutes the proposed budget for each Service in 2020/21.
- 3.6 Full Business Cases are also being prepared for all proposed new projects (subject to de-minimis levels) due to commence in the forthcoming financial year (2014/15), and each Service's proposals will be submitted to the appropriate Committee for endorsement.
- 3.7 It is proposed that the current approved Prudential Indicators are updated to include 2020/21 Capital Expenditure and Borrowing Requirements once the Capital Budget has been approved, and that these will be submitted to the Council at its meeting on 26 February 2014 as part of the annual Treasury and Investment Strategy Report. Current calculations show that the plans outlined in this report remain prudent, affordable and sustainable.

#### **4. CONCLUSION AND RECOMMENDATIONS**

- 4.1 The Capital Budget process has been updated to continue the 7 year rolling budget period. In light of the constrained resources available in the year, no consideration has been given to the inclusion of new projects, and the budget proposals only include for the continuation of some annual programmes.
- 4.2 When planning so far in advance, there will always be an element of uncertainty, and therefore it is anticipated that some of the estimates used in developing the budget will need to be revised in future.
- 4.3 It is recommended that the Council approves the Gross Capital Budget of £13,133,000 for 2020/21 attached at Appendix II and III to this report.

##### **Author(s)**

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##### **Approved**

<b>Name</b>	<b>Designation</b>	<b>Date</b>
<b>John Symon</b>	<b>Head of Finance</b>	<b>31 January 2014</b>

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## ANNEX

### 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

#### 1. Strategic Implications

##### 1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.1.2 This report relates to all of these objectives.

#### 2. Resource Implications

##### 2.1. Financial

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

## 2.2. Workforce

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

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

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

## 3. Assessments

### 3.1. Equality Impact Assessment

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

### 3.2. Strategic Environmental Assessment

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

3.2.2. The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

### 3.3. Sustainability

3.3.1. Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2. The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.



## **4. Consultation**

### **4.1 Internal**

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

## **2. BACKGROUND PAPERS**

- 2.1 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 I – Loans and Capital Fund Estimates

Appendix II – Composite Capital Budget - Estimated Resources 2020/21

Appendix III – Composite Capital Budget Proposals 2020/21



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

**LOANS FUND - Updated Projections**

(£'000)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	
Loans Fund Budget	12,722	13,446	16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,246	16,246	16,246	16,246	16,246	16,246	16,246	16,246	16,246	
Estimated General Fund Loan Charges*	12,748	12,744	13,359	14,881	16,580	17,902	19,346	20,094	20,582	21,681	22,550	23,093	23,332	22,970	22,950	23,193	23,534	23,747	
Transfer To/(From) the Capital Fund	(26)	702	2,928	1,406	(293)	(1,615)	(3,059)	(3,807)	(4,295)	(5,435)	(6,304)	(5,389)	(1,230)	(1,230)	(1,230)	(1,230)	(1,230)	(1,230)	
Loans Fund Budget Surplus/(Deficit)	0	0	0	0	0	0	0	0	0	0	0	(1,458)	(5,856)	(5,494)	(5,474)	(5,717)	(6,058)	(6,271)	
* based on applying Statutory Guidance																			
Estimated CLF Interest Rate	3.38%	3.03%	2.69%	2.55%	2.66%	2.90%	3.15%	3.35%	3.47%	3.60%	3.77%	3.88%	3.89%	3.94%	4.00%	4.04%	4.20%	4.26%	
New Composite Borrowing Included	24,969	29,070	40,741	33,883	8,259	11,228	10,570	0	17,900	17,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	
(estimates for HRA and Prudential Borrowing have also been included in overall Loans Fund assumptions in all years)																			

**Notes:**

- 1 New borrowing estimates are per latest Capital Monitoring to 2019/20 on the Core General Fund Programme
- 2 No new borrowing assumed in 2020/21, with **£12M** new borrowing assumed from 2021/22 on the Core General Fund Programme.
- 3 **£6M** provision for Oudenarde assumed each year in 2021/22 and 2022/23, with **£100K** of contributions assumed each year from 2021/22.
- 4 Includes the additional borrowing approved in June 2013 for A9/A85 Road Junction Improvements (£20.92M net)

**CAPITAL FUND - Updated Projections**

(£'000)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Balance b/f	12,799	15,836	18,890	21,562	22,885	22,742	21,556	19,175	16,281	13,098	8,935	3,999	0	0	0	0	0	0
Contribution from General Fund	3,023	2,319	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Under/(Over)spend - Loans Fund	(26)	702	2,928	1,406	(293)	(1,615)	(3,059)	(3,807)	(4,295)	(5,435)	(6,304)	(5,389)	(1,230)	(1,230)	(1,230)	(1,230)	(1,230)	(1,230)
General Fund IORB Surplus/(Deficit)	19	13	(275)	(145)	(30)	145	355	530	705	880	1,055	1,230	1,230	1,230	1,230	1,230	1,230	1,230
IORB on Capital Fund balances	21	20	19	62	180	284	323	383	407	393	313	160	0	0	0	0	0	0
Balance c/f	15,836	18,890	21,562	22,885	22,742	21,556	19,175	16,281	13,098	8,935	3,999	0	0	0	0	0	0	0

**IORB to General Fund**

£'000	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General Fund IORB per Budget*	94	73	345	345	345	345	345	345	345	345	345	345	345	345	345	345	345	345
Latest Estimated IORB**	113	86	70	200	315	490	700	875	1,050	1,225	1,400	1,575	1,575	1,575	1,575	1,575	1,575	1,575
<b>Additional IORB</b>	<b>19</b>	<b>13</b>	<b>(275)</b>	<b>(145)</b>	<b>(30)</b>	<b>145</b>	<b>355</b>	<b>530</b>	<b>705</b>	<b>880</b>	<b>1,055</b>	<b>1,230</b>	<b>1,230</b>	<b>1,230</b>	<b>1,230</b>	<b>1,230</b>	<b>1,230</b>	<b>1,230</b>

\* IORB Budget for 2013/14 and future years subject to confirmation/Committee approval

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

**PERTH AND KINROSS COUNCIL  
COMPOSITE CAPITAL BUDGET  
ESTIMATED RESOURCES 2020/21**

**APPENDIX II**

**CAPITAL RESOURCES & EXPENDITURE 2015/16 to 2020/21**

The Capital Budget assumes the following level of new borrowing and expenditure on the Composite Programme:

(£'000)	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<b>2020/21</b>
Composite Capital Borrowing	39,938	34,369	7,423	11,836	11,313	<b>0</b>
Prudential Borrowing	4,393	3,328	3,464	4,064	4,014	<b>2,933</b>
General Fund Property Disposal Receipts	1,475	205	203	250	250	<b>0</b>
Commercial Property Receipts	1,690	90	836	0	0	<b>0</b>
General Capital Grant	11,185	10,193	10,852	10,852	10,852	<b>10,000</b>
Ring Fenced Capital Grants CWSS	202	200	200	200	200	<b>200</b>
Third Party & Revenue Contributions	7,410	3,300	0	0	500	<b>0</b>
<b>Gross capital Resources/Expenditure</b>	<b>66,293</b>	<b>51,685</b>	<b>22,978</b>	<b>27,202</b>	<b>27,129</b>	<b>13,133</b>

Note:

1. 2015/16 to 2019/20 per approved Capital Budget (SP&R 12 February 2014)
2. 2020/21 excludes Contributions and Commercial Property proposals at this stage

**Resources for Distribution**

Total Available Resources

Less CWSS Ring-Fenced Grant

Less Prudential Borrowing Schemes

Less Commitments

**Available for General Programme**

Less Top Sliced Projects:

Structural Maintenance

Footways

Ex Revenue Budget Projects

**Available for Distribution**

<u>2020/21</u> £'000
13,133
(200)
(2,933)
0
<b>10,000</b>
(6,800)
(435)
(852)
<b>1,913</b>

**PERTH AND KINROSS COUNCIL** **APPENDIX III**  
**COMPOSITE CAPITAL BUDGET PROPOSALS 2020/21**

		Previous Average Allocations		Proposed Allocation 2020/21	
		£'000	£'000	£'000	£'000
TES	Structural Maintenance	6,800		6,800	
TES	Footways	435		435	
			<u>7,235</u>		<u>7,235</u>
TES	PC Replacement & IT Upgrades	200		200	
ECS	PC Replacement Programme	332		332	
HCC	PC Replacement & IT Upgrades	70		70	
HCC	Occupational Therapy Equipment	250		250	
			<u>852</u>		<u>852</u>
<b>Sub-total (Former Revenue Budget Programmes)</b>			<u><b>8,087</b></u>		<u><b>8,087</b></u>
ECS	Modernising Secondaries	665		305	
ECS	Modernising Primaries	2,840		1,301	
			<u>3,505</u>		<u>1,606</u>
IST	IT Infrastructure	670	<u>670</u>	307	<u>307</u>
<b>Sub-total (Capital Programmes)</b>			<u><b>4,175</b></u>		<u><b>1,913</b></u>
<b>TOTAL PROPOSED ALLOCATION</b>			<u><b>12,262</b></u>		<u><b>10,000</b></u>
<b><u>Proposed Prudential Borrowing Schemes</u></b>					
TES	Fleet Vehicle Replacement Programme			3,000	
TES	Fleet Vehicle Disposals			(300)	
TES	Wheeled Bin Replacement Programme			127	
TES	Litter Bin Replacement Programme			50	
TES	Other Recycling Container Replacement Programme			56	
					<u><b>2,933</b></u>
<b><u>Proposed Ring-Fenced Grant Expenditure</u></b>					
TES	Cycling Walking & Safer Streets (CWSS)			200	<u><b>200</b></u>
<b>TOTAL PROPOSED COMPOSITE CAPITAL BUDGET 2020/21</b>					<u><b>13,133</b></u>

**Summary of Proposed Allocation per Service**

	£'000
The Environment Service	10,568
Education & Childrens Service	1,938
- IST	307
Housing & Community Care	320
	<u>13,133</u>

