BORDERS RAILWAY – SCOTTISH BORDERS COUNCIL CONTRIBUTION

Report by Chief Financial Officer

EXECUTIVE COMMITTEE
17 January 2017

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to update the Executive Committee on the current position of the Borders Railway contribution and consider a revised approach to the payment profile of the remaining balance**.

1.2 The development of the Borders Railway resulted in an undertaking between Scottish Borders Council and Transport Scotland for the Council to contribute a share of £30m towards the costs. The total Scottish Borders Council share was agreed at £15.3m at 2012 prices.

1.3 The agreement also allowed £6.8m of costs previously incurred being offset against the £15.3m, leaving a balance of £8.4m to be paid over 30 years from the day the first train ran. The remaining balance is subject to RPI inflation and has an agreed payment profile which can be flexed if required.

1.4 Due to the current low interest rates and the risk from inflation it is proposed the outstanding balance of £7.7m is fully paid now, utilising the Councils borrowing powers and that the funds be subsequently recouped from developer contributions as they are received in future years. For cashflow purposes this would require borrowing to be undertaken, which will be within approved limits and prudential indicators.

1.5 A range of sensitivity options have been modelled against future inflation projections. Payment of the outstanding balance of funds as at 31/3/2016 will mitigate future inflation risk and is estimated to save £4.3m based on assumption of future RPI increasing at 2.5% per annum.

2 RECOMMENDATIONS

2.1 **It is recommended that the Executive Committee:-**

(a) Approve the payment of the remaining liability in a single instalment;

(b) Note the required borrowing for cashflow purposes; and

(c) Authorise the Chief Financial Officer to repay the contributions due to Transport Scotland under the terms of the Borders Railway funding agreement under delegated authority in consultation with the Council Leader and Depute Leader (Finance).

3 BACKGROUND

3.1 Scottish Borders Council during the transition of Authorised Undertaker to Transport Scotland in 2008 agreed to part fund (at December 2012 prices) the implementation of the Borders Railway.

3.2 The funding agreement split the agreed £30m local authority contribution across the 3 Partners. Midlothian Council element was £11.6m, City of Edinburgh £2.9m and Scottish Borders Council £15.3m. The agreement also included a breakdown of "In-kind" contributions which reduced the balance of cash funds due. These were further updated in 2012 during transfer to Network rail. The table below shows the Scottish Borders Council agreed contribution only.

	2008 Agreement £000's	2012 Agreement £000's
Land	917.6	930.3
Parliamentary Costs	1,249.4	1,293.5
Cycle Paths	900.2	827.0
SEB Grant	1,000.0	800.0
Currie Road Bridge	2553.3	3,040.1
Sub Total In Kind	**6,620.4**	**6,890.9**
Balance remaining	8,748.3	8,477.9
Total	**15,368.8**	**15,368.8**

3.3 The remaining balance of £8.5m per the 2012 agreement was agreed to be paid over 30 years from the time the first train ran. The profile of this is shown in Appendix 1. The profile starts with £1m for the first year, then £0.2m per annum until the last year when a payment of £1.7m is due from the Council. The outstanding balance is increased each year by RPI from 1st January 2013. It is anticipated the £8.5m will be fully funded by Developer Contributions.

4 UPDATED POSITION

4.1 The first train ran on 6th September 2015 which triggered the first payment of £1m plus inflation. The payment of £1.143m was fully funded from developer contributions previously received. The payment consisted of £1m agreed contribution plus £0.143m inflation costs.

4.2 The remaining balance, including inflation from 1st January 2013, is currently £7.7m. The annual inflation on the remaining balance (based on 2.5% RPI) is estimated at £0.12m per annum. If the current repayment profile is adhered to the total required to be delivered from developer contributions would be £13.2m. This would increase further if inflation during the next 29 years is higher than 2.5% or the annual payments fall below £0.2m.

4.3 The cost of borrowing is currently very low, with interest rates sitting between 1.5% to 2.5% depending on duration of loan. To reduce the risk of inflation on the balance of funds the Council, could in agreement with Transport Scotland, pay the current remaining balance of £7.7m early. This would require cashflow borrowing which would then be repaid to the loans fund from the developer contributions. Contributions would be collected until the full value of the loan plus interest costs were fully recovered.

4.4 The table below gives a summary of the total

	Per Payment Profile £000's	One off payment £000's	Estimated Saving £000's
Remaining Balance	7,698	7,698	0
Inflation effect	5,508	0	(5,508)
Interest on loan		1,163	1,163
Total costs	**13,206**	**8,861**	**4,345**

4.5 The cost of borrowing would be charged to the loan funds budget and would be £0.381m per annum for the first 10 years and then £0.266m per annum for them remaining 19 years. This will be funded from developer contributions received. The timing however of receipt of these contributions are out with the control of the Council.

4.6 If this option was undertaken there would be some additional technical adjustments through the annual accounts. A debt liability would be created on the balance sheet which would be written off over a number of years. The loan would also be reflected on the balance sheet.

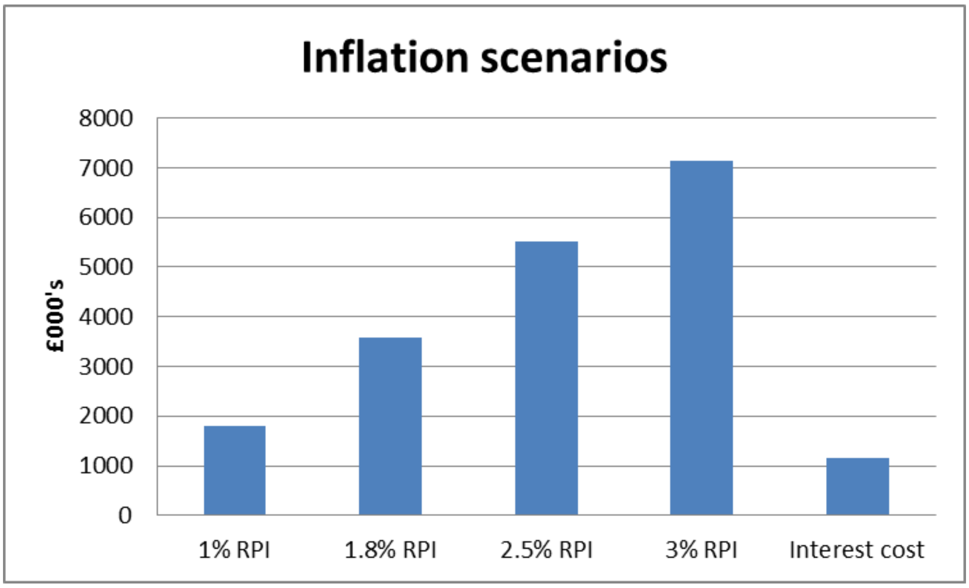
5 IMPLICATIONS

5.1 Financial

The additional borrowing for cash flow purposes per section 4 will increase the loans funds costs. The proposal will however save the Council an estimated £5.5m in future inflation costs, assuming a future inflation rate over the long term of 2.5%. The developer contributions will continue to be collected until the total costs of debt, including finance costs, are recovered.

5.2 Risk and Mitigations

(a) The current payment profile and remaining balance is currently subject to RPI inflation. Inflation, although currently very low due to the prevailing economic environment has begun to increase recently driven partially to the fall in Sterling against foreign exchange markets and there is a risk that RPI could increase beyond 2.5% during the remaining 29 year period thus increasing the value. The option to fully pay the outstanding balance eliminates this risk. The table on page 5 models the possible costs resulting from various inflation scenarios ranging from 1%, when the net saving is just under £2m, to 3% when the net saving is just over £7m over the remaining 29 year period against the cost of the single payment option.



(b) The current agreement with Transport Scotland allows the Council to flex the payments in accordance with the developer contribution received. This allows the Council to pay additional contributions to reduce the outstanding balance or to pay less. If however the Council reduces the payments, below the currently assumed £0.2m minimum contributions per annum, this will incur additional inflation. The option to pay the outstanding balance in full eliminates this risk.

(c) The repayment of the borrowing and interest charges will be funded by Developer Contributions. The timing of receipts of developer contributions is out with the control of the Council. There is a risk the receipt of these will not follow the profile of the loans charges and may cause a future pressure in the loans fund budget. At an assumed future inflation risk of 2.5% the Council will need to collect £381k per annum to break even over the first 10 years. This risk will be mitigated by monitoring and the active pursuit of all developer contributions.

(d) The proposal is subject to confirmation from Civil servants that the assessment that consent to borrow would not be required is correct.

5.3 **Equalities**

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.4 **Acting Sustainably**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.5 **Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

5.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 **Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration of Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 Corporate Management Team has reviewed this proposal. The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit & Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and any comments have been incorporated into the final report.

Approved by

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital and Investment Manager, 01835 825249

Background Papers:
Previous Minute Reference:
Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Capital and Investment Team also give information on other language translations as well as providing additional copies.

Contact us at: Capital and Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk