

**SCOTTISH BORDERS COUNCIL**

**12 February 2015**

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**1 PURPOSE AND SUMMARY**

- 1.1 **The purpose of this report is to advise Council of the estimated capital resources for 2015/16 to 2024/25 and provide additional information to supplement the Administration's 10 year Draft Capital Plan.**
- 1.2 The total capital funding available for the future capital plan is estimated at £352.1m.
- 1.3 The report outlines the process supporting the compilation of the draft 10 year Capital Financial Plan, comprising a long term 7 year Strategic Plan plus the traditional 3 year Operational Plan. This Plan has been developed in an affordable and sustainable way per the principles agreed by the Administration Budget Working Group.
- 1.4 The Administration's Draft 10 year Capital Plan in comparison to the current approved Capital Financial Plan shows a £105.1m increase over the 10 year planning period. Of this increase £31.4 is assumed to be funded from additional borrowing, £21.7m from the General Capital Grant from Scottish Government, £30.3m from specific or external grants, £18m from the Plant and Vehicle Fund, and £1.8m from additional Developer Contributions.

**2 RECOMMENDATIONS**

- 2.1 **It is recommended that Scottish Borders Council:**
- (a) **Note the estimated Capital Resources for 2015/16 to 2024/25 and the requirement to adhere to the prudential code for capital borrowing; and**
  - (b) **Proceed to consider the Administration's 10 year Draft Capital Plan for 2015/16 to 2024/25**

### 3 BACKGROUND

- 3.1 The Council in setting its Capital Plan the must adhere to The Prudential Code of Capital Finance (the Code) in Local Authorities as published by CIPFA. The Code was established to both give Local Authorities an element of flexibility but also to ensure they do not over borrow beyond levels that are sustainable over the longer term. The Code requires Council to set a Capital Annual Treasury Management Strategy (the Strategy) which includes how it will finance its Capital plans in an affordable and sustainable way. The Strategy is approved each year along with the Revenue and Capital Plans.
- 3.2 Using these principles an estimate of the funds available for the future 10 year Capital Plan are shown in the table below totalling £352.1m (including the Plant & Vehicle Fund). This compares to the current approved Capital Plan which totals £247.0m as at November Executive.

	<b>Operational £m</b>	<b>Strategic £m</b>	<b>Total £m</b>	<b><i>Movement V current approved plan over 10 years to 2024/25</i></b>
CFCR	1.6	0.0	<b>1.6</b>	<b>1.0</b>
Specific Grant from Scottish Government	41.6	51.1	<b>92.7</b>	<b>25.4</b>
Other Grants and Contributions	7.4	4.4	<b>11.8</b>	<b>5.9</b>
Developer Contributions	0.3	2.7	<b>3.0</b>	<b>2.1</b>
Capital Fund/Capital Receipts	5.8	2.0	<b>7.8</b>	<b>(0.4)</b>
Plant & Vehicle Fund	6.0	14.0	<b>20.0</b>	<b>18.0</b>
General Grant from Scottish Government	39.2	84.0	<b>123.2</b>	<b>21.7</b>
Borrowing	33.1	58.9	<b>92.0</b>	<b>31.4</b>
<b>Total Available Funding</b>	<b>135.0</b>	<b>217.1</b>	<b>352.1</b>	<b>105.1</b>

- 3.3 The borrowing requirements associated with the proposals are anticipated to be fully financed by a loans charges revenue budget of:

	£m
2015/16	20.7
2016/17	20.7
2017/18	19.9
2018/19	19.9
2019/20	19.9

## **4 PRIORITISATION PROCESS**

- 4.1 All projects submitted for consideration for inclusion in the Draft 10 year Capital Plan have been subject to assessment of the Project Business Cases (PBC) through a peer review process and discussion at the Capital Programme Board and Corporate Management Team. Due to the number of significant, additional large value capital projects linked to the key strategic and political priorities of the Council that have arisen during the process the prioritisation approach did not involve scoring as in previous years due to the fact that this would not have changed the capital investment priorities presented.

## **5 DRAFT CAPITAL PLAN 2015/16 – 2024/25**

- 5.1 The Administration's 10 year Capital Financial Plan, being presented to Council today, contains the proposed allocations. The Plan presented does not include any budget changes between years agreed by Executive Committee since August 2014. The changes approved since this time will be incorporated into the budgets for the first monitoring report 2015/16.
- 5.2 The proposals are being presented aligned to the new Corporate Transformation programme based on 4 main themes.
- Making Best use of our people
  - Working with our partners
  - Looking After the Borders and
  - Business Process Transformation

## **6 FUNDING ASSUMPTIONS**

### **6.1 Capital Fund/Capital Receipts**

- (a) Capital Fund/Capital Receipts are funds generated from the disposal of capital assets. These funds are held in the Capital Fund and be used to either finance new capital expenditure or repay loans. The estimate of capital receipts is reviewed on a regular basis to determine assets available for disposal and their likely disposal value and timing.
- (b) The proposed Capital Plan is predicated on £7.8m (net reduction of £0.35m versus current Capital Plan) of capital receipts being generated over a 10 year period.
- (c) The assumptions made concerning the deliverability of these receipts and the profile and amounts up will be subject to continual review.

### **6.2 Capital Financed from Current Revenue**

- (a) Capital Financed from Current Revenue (CFCR) allows the authority to supplement its capital plan using available revenue sources.
- (b) The current and proposed Capital Plan assumes a £0.45m contribution from Reserves in 2015/16 towards the Selkirk Synthetic pitch project, and the use of the Landfill Provision (£0.9m) created in 2014/15 to fund some of the Easter Langlee Cell work.

### **6.3 Developer Contributions**

- (a) Developer Contributions are contributions made by private developers for specific items. Legal agreements are in place detail the use in terms of

both location and type of asset. The economic downturn has seen the number of contributions drop and developers pushing back as late as possible the payment of these. Due to the uncertainty of timing on payment of these it is not prudent to include large sums of developer contributions being received at the same time as the assets are being constructed. This means the Council is required to either use the General Capital Grant or Borrowing fund up front for an indefinite period until the contributions are received.

- (b) The proposed Capital Plan includes an assumed £3m of developer contributions, of which £2m as related to specific funding for the proposed new Peebles Bridge.
- (c) The assumption around Peebles Bridge contributions is subject to a timing risk as the proposed Capital Plan assumes that these will be received in line with the construction of the bridge; however, an element of the contributions may require the bridge to be built first in order to fully release them as they will be related to development progress.

#### 6.4 **General Capital Grant**

- (a) A General Capital Grant is issued to each Local Authority in Scotland. The current Grant letter issued to Scottish Borders Council on 7 July 2014 gives use a provision grant of £15.2m (excluding specific grants) for 2015/16. This grant however has been temporarily increased above historic levels due to previous re-phasing by Scottish Ministers. The 2015/16 figure is therefore inflated due to the Scottish Government decisions in prior years which had rephrased and delayed elements of the General Capital Grant to the current year.
- (b) A review of future funding assumptions has led to a more a prudent annual estimate of £12m capital grant being provided per annum from 2016/17. This will however still result in an additional £21.7m of resources in the proposed 10 year Capital Plan versus the current Capital Plan.
- (b) Although indicative grant figures have not been provided for future years, therefore the assumptions in (a) above have been made for planning purposes. There is a risk that grant assumptions for future years are over / under estimated.

#### 6.5 **Scottish Government – Specific Grants**

- (a) These are grants issued to Local Authorities for specific projects or areas of expenditure. These include Cycling, Walking and Safer Routes to School (CWSRS), Flood and Schools such as Duns Primary School and Kelso High School.
- (b) As part of negotiations between COSLA and the Scottish Government additional funding has been allocated to support the capital expenditure required to deliver the Early Years Childcare and Learning aspects of the Children and Young People's Act. The Council's allocation is £1.6m
- (c) Additional Specific Grant Funding has been added to the previously approved budget for Selkirk Flood Protection resulting in an increase of £3.4m in the estimated expenditure in the draft Capital Plan.

- (d) There is a significant element of unconfirmed funding (£49.2m) within the £91.7m assumed in the proposed Capital Plan.
- (e) The key projects that are unconfirmed are Hawick Flood Scheme (£27.3m) and the Galashiels School Review (£21.9m). In addition the funding for Cycling, Walking and Safer Routes to School is only confirmed for 2015/16 and no confirmation has been received for future years although the plan assumes this grant will continue at current levels.

## 6.6 Other Grants and Contributions

- (a) Many projects and programs are successful in bringing in matched funding from external sources such as Sports Scotland, Historic Scotland, Lottery and European funds. These funds come with specific conditions and are usually time limited.
- (b) The majority of the £11.8m funding assumed in the proposed Capital Plan is unconfirmed (£10.1 m) and subject to further business case and grant application processes. This unconfirmed funding includes:

Sir Walter Scott Court House Project	£2m
Supported Care Housing Berwickshire	£2.5m
Central Borders Business Park	£1m
Tapestry Building	£2.5m
Synthetic Pitches	£1.7m

## 6.7 Plant & Vehicle Fund

- (a) This Fund was established by the Council in 2004 to ensure funds were in place for the continual replacement of its fleet. The Fund is used to purchase the vehicles and then reimbursed by the department revenue budgets over the life of the vehicle.
- (b) The expenditure and funding have been included at £2m p.a. (in line with the current estimate for 2014/15), however due to the profile of vehicle replacement this may change to reflect the requirements in year. This however will not impact on the capital financing costs due to the existence of the Plant & Vehicle Fund.

## 6.8 Borrowing

- (a) The balance of the funds required for the Capital Plan is secured by borrowing. Local Authorities are able to borrow to fund Capital expenditure or if given specific consent by Scottish Government. When determining the borrowing requirement the Council must follow the Prudential Code which requires Councils to ensure is acting prudentially and Sustainably. The cost of borrowing is charged to revenue via the Loans Charges Budgets.
- (b) This proposed revenue budget to support capital through loans charges is set out in paragraph 3.3 above and the proposed Financial Strategy states that the borrowing will be constrained within this available budget. Decisions to increase capital borrowing will require permanent adjustments, funded by savings elsewhere to be made to the loans charges budget in order to repay additional capital borrowing.
- (c) The proposed Capital Plan includes a total of £92m borrowing an increase of £31m over the 10 years. Based on the proposed profile of

expenditure, it is estimated that this is deliverable within the estimated revenue resources. There is however a risk if interest rates rise more than expected and/or the management of the council's cash flow cash flow requires additional borrowing which would result in additional charges, especially due to the significant funding requirement in the earlier years of the 10 year Draft Capital Plan. This will require regular monitoring to ensure that the borrowing levels are sustainable and affordable.

6.9 The following table summarises the total funding resources for the proposed Capital Plan:

	<b>Operational £m</b>	<b>Strategic £m</b>	<b>Total £m</b>
CFCR	1.6	0.0	<b>1.6</b>
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## 7 **IMPLICATIONS**

### 7.1 **Financial**

There are revenue implications of some of the proposed projects within the Capital Plan, and these are captured as part of the Revenue Financial Plan.

### 7.2 **Risk and Mitigations**

- (a) The key risks associated with the projects and associated funding have been identified within the narrative in the in Administration's Draft Capital Financial Plan.
- (b) Several major projects have not been included in the proposals which are linked to substantial developer contributions which are linked to the timing of major housing developments in Newtown St Boswells and Reston. These projects relate to increasing the school provision and it is anticipated that the cost of this provision will exceed the contributions received. Once there is greater clarity around this these projects will be incorporated into the Capital Plan proposals.

### 7.3 **Equalities**

Equalities Impact Assessments have been carried out in relation to the draft Capital Plan a separate report outlining the key points of these assessments incorporated into a separate report being presented to Council.

### 7.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with this report although there may be within individual projects and these will be identified and addressed as appropriate as part of their specific governance arrangements.

**7.5 Carbon Management**

There are no direct carbon emissions impacts as a result of this monitoring report however there may be within individual projects and these will be identified and addressed as appropriate as part of their specific governance arrangements.

**7.6 Rural Proofing**

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

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

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

**8 CONSULTATION**

8.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and their comments have been incorporated into the final report.

8.2 The proposals have been discussed and supported by the Administration Budget Working Group and communicated to the wider stakeholder groups as part of the Budget Communication Strategy.

**Approved by**

**David Robertson**  
**Chief Financial Officer**

**Signature .....**

**Author(s)**

Name	Designation and Contact Number
Kirsty Robb	Treasury and Capital Manager, 01835 825249
Lynn Mirley	Corporate Finance Manager, 01835 825016

**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. Treasury & Capital Team can also give information on other language translations as well as providing additional copies.

Contact us at

Treasury & Capital Team, Council HQ, [treasuryteam@scotborders.gov.uk](mailto:treasuryteam@scotborders.gov.uk), 01835 825249