Midlothian Council
21 February 2023
Item 8.8

**Capital Plan Prioritisation – Update Report**

**Report by Kevin Anderson, Executive Director - Place**

**Report for Information**

## 1 Recommendations

Council is recommended to;

1. Note that the Council is required, by the CIPFA 2021 Prudential Code, to have capital plans that are affordable, prudent, sustainable and proportionate to the authority's overall financial capacity;
2. Note that in order to deliver a capital plan in line with the requirements of the Prudential Code, a review of all projects in the General Services Capital Plan has been undertaken;
3. Note the prioritisation process that has been implemented and applied as outlined in this report, in order to reduce the possible levels of Prudential Borrowing within the plan and the associated Loan Charges arising from capital investment between the years 2023/24 to 2027/28.
4. Approve the deletion, pause or deferral of the capital projects and adjustment of block budgets identified in this prioritisation process at Table 16.
5. Note that based on the outcome of this prioritisation process, the Loan Charges as set out in Table 18 of this report are still expected to exceed what was deemed as affordable in the Medium Term Financial Strategy by £1.0m, £3.1m, £3.5m and £3.6m respectively between the years 2024/25 - 2027/28; and
6. Note that the Loan Charges forecasts are significantly higher with the inclusion of any future approvals of planned Learning Estate Strategy projects, as outlined in Table 19 of this report.
7. Agree the prioritisation methodology contained within this report and support a further round of prioritisation within the General Services Capital Plan to achieve the targeted Prudential Borrowing reduction of £71.901m between 2023/24 to 2027/28.

## 2 Purpose of Report/Executive Summary

This report sets out the requirement to reduce the level of Prudential Borrowing required to support the delivery of the approved capital plan. The report sets out the collaborative process that has been taken to review and prioritise the Capital Plan and the outcomes of this process. With a target of £71.901m of Prudential Borrowing reduction, the prioritisation process has removed, or deferred, the requirement to borrow £10.604m against the above target to date.

**Date 10 February 2023**

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## 3 Background/Main Body of Report

3.1 The Council's General Services Capital Plan outlines the levels of approved capital expenditure, and how this capital expenditure will be funded.

3.2 While some capital projects are able to attract external funding from other sources, many of Midlothian Council's capital projects require the expenditure to be funded through Prudential Borrowing, as allowed for under the Prudential Framework. The majority (88%) of the Council's Prudential Borrowing is sourced from the Public Works Loan Board (PWLB), with the remaining 12% sourced from other external lenders.

3.3 Prudential Borrowing, whether from the PWLB or other external lenders, requires repayment of the original principal of the loan plus interest, both of which are charged to the Council's loan charges budget. The costs associated with this are then charged to the Council's annual revenue budget.

3.4 In October 2022, Midlothian Council began a process to allow the Council's General Services capital projects to be reviewed and prioritised. This process is being driven to ensure that the Council's capital plans are affordable, prudent, sustainable and proportionate to the authority's overall financial capacity, as required by the 2021 CIPFA Prudential Code.

3.5 One of the key indicators to assess the Council's capital plans against these requirements is the Ratio of Financing Costs to Net Revenue Stream. This is the ratio of the annual cost of the Council's capital investment (Loan Charges) to the Council's Net Revenue Stream (Scottish Government Revenue Support Grant and Council Tax).

3.6 Through the approved Medium Term Financial Strategy, the Council has incorporated planning assumptions in respect of Loan Charges, to ensure that, as a % of the overall revenue budget, Loan Charges do not exceed 3.00%. This is illustrated in Table 1 below:-

**Table 1: Medium Term Financial Strategy - Loan Charges**

| % | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---|---|---|---|---|---|
| **Loan Charges (£000's per annum)** | 2,957 | 3,739 | 7,250 | 7,500 | 7,750 | 8,000 |
| **Ratio of Loan Charges to Revenue Budget** | 1.25% | 1.49% | 2.86% | 2.92% | 2.95% | 2.98% |

3.7 The borrowing requirements for projects will vary across the period/life of the Capital Plan, due to the existence of sources of external funding for some capital projects. Projected capital expenditure for those projects currently approved by full Council, and the level of borrowing required to deliver these, is set out below.

Figure 1:

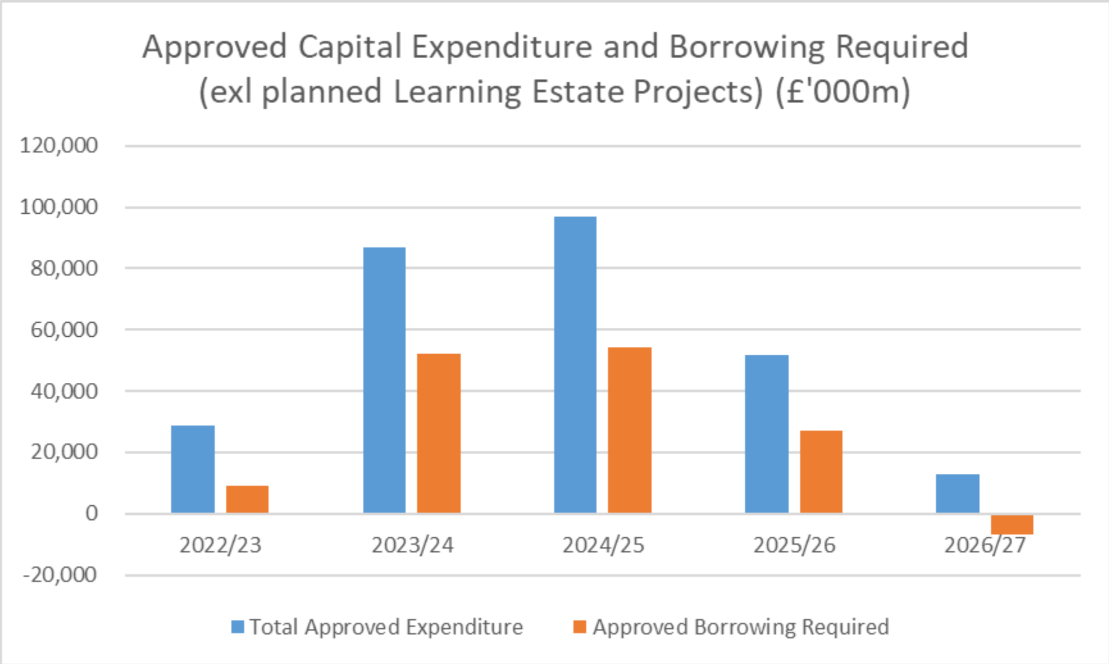
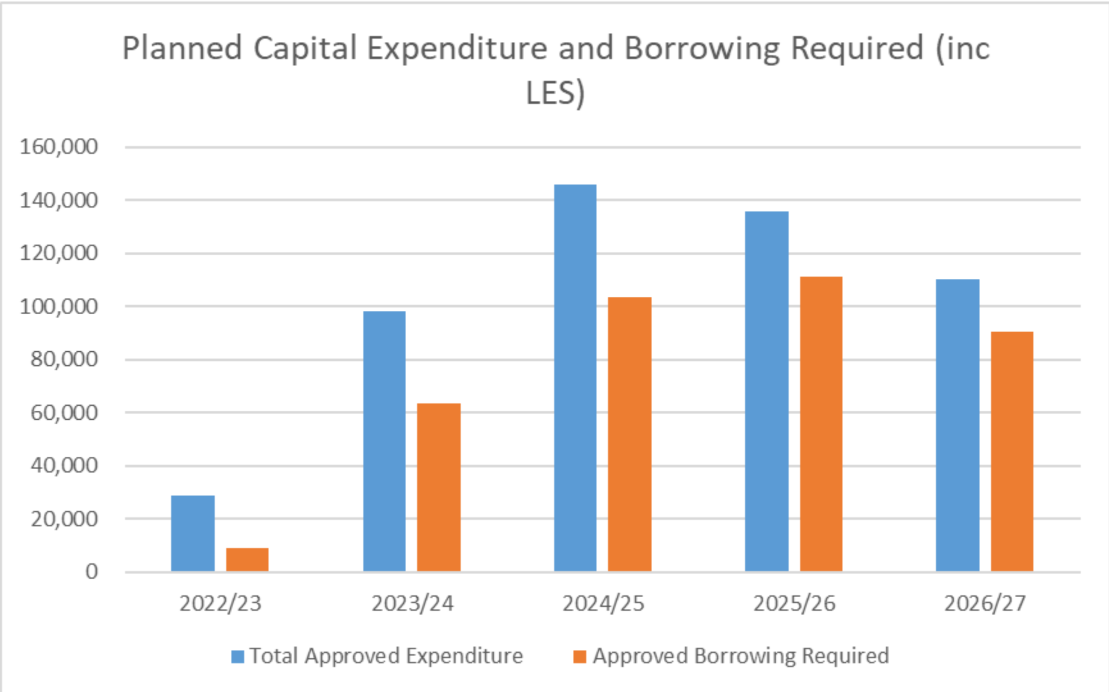



Figure 2



## Loan Charge Projections

3.8 Line 1 of the table below shows the General Services Capital Plan Target, which is the planning assumption set out in the Medium Term Financial Strategy for loan charges, where loan charges do not exceed 3% of the annual revenue budget.

**Table 2: Loan Charge Forecasts**

| | 2022/23 Estimate £000's | 2023/24 Estimate £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's |
|---|---|---|---|---|---|---|
| **GSCP Target** | 2,957 | 3,739 | 7,250 | 7,500 | 7,750 | 8,000 |
| **GSCP Pre-December Council** | 2,957 | 3,739 | 7,689 | 9,133 | 9,528 | 10,141 |
| **GSCP Post-December Council** | 2,957 | 3,937 | 8,710 | 11,496 | 12,275 | 12,888 |
| **GSCP Post-December Council + Planned Learning Estate Strategy Projects** | 2,957 | 4,108 | 10,040 | 15,109 | 19,358 | 22,296 |

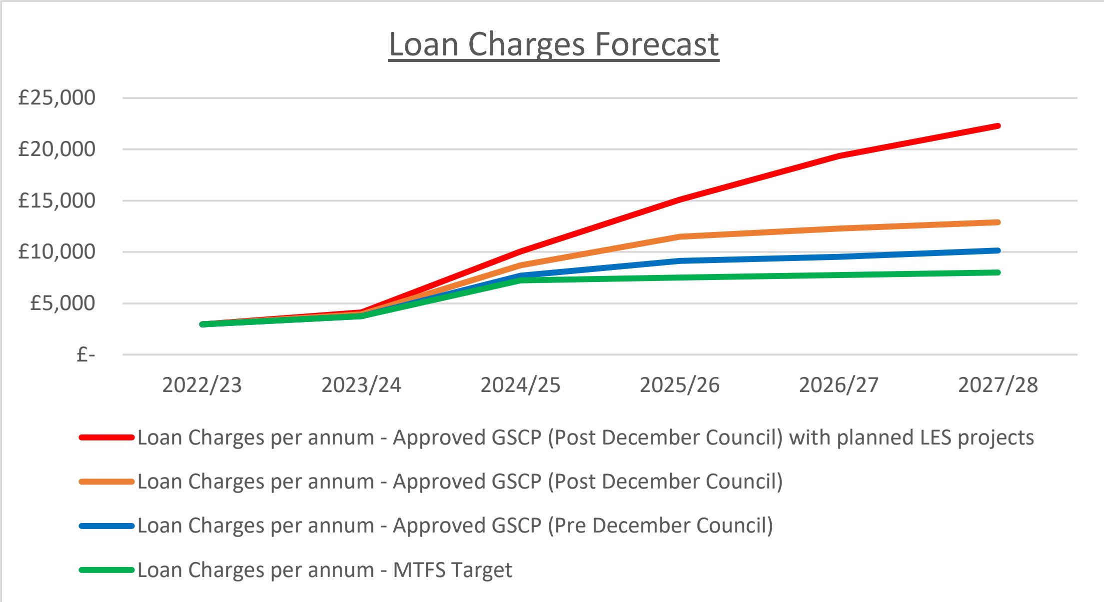
3.9 The second line of the table shows how Midlothian Council was performing against this target prior to the 13 December 2022 Council meeting.

3.10 Line 3 shows the impact the addition of new projects as approved by 13 December 2022 Council (Mayfield Joint Campus and Council Hybrid Meeting Technology) and adjustment to existing project budgets (Destination Hillend and Hawthornden ASN) on loan charges.

3.11 Finally, Line 4 shows the impact of the additional planned Learning Estate Strategy projects within the General Services Capital Plan. Including all of these takes the Council's General Services Loan Charges to the level as outlined in the final row of the table above.

3.12 The forecast change in loan charges is presented in Figure 3 below.

Figure 3




3.13 The Loan Charges outlined in the table above, as a proportion of the Council's overall General Services revenue budget (the Ratio of Financing Costs to Net Revenue Stream) is outlined in Table 4 below:-

| Table 4: Ratio of Financing Costs (Loan Charges) to Net Revenue Stream | | | | | | |
|---|---|---|---|---|---|---|
| | 2022/23 Estimate £000's | 2023/24 Estimate £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's |
| **GSCP Target** | 1.25% | 1.49% | 2.86% | 2.92% | 2.95% | 2.98% |
| **GSCP Pre-December Council** | 1.25% | 1.49% | 3.03% | 3.55% | 3.63% | 3.78% |
| **GSCP Post-December Council** | 1.25% | 1.57% | 3.43% | 4.47% | 4.67% | 4.80% |
| **GSCP Post-December Council + Planned Learning Estate Strategy Projects** | 1.25% | 1.64% | 3.96% | 5.87% | 7.37% | 8.31% |

## Affordability Target

3.14 In order to bring Loan Charges within the Medium Term Financial Strategy affordability targets, an assessment has been carried out of the level of Prudential Borrowing i.e. capital expenditure that is not funded from external sources, that would require to be deferred, paused or deleted from the capital plan over the period 2023/24 to 2025/26.

3.15 This assessment indicated that, prior to 13 December 2022 Council, Prudential Borrowing equating to £34.050 million would need to be deferred, paused or deleted from the capital plan in order to bring Loan Charges within the MTFS affordability target, with this equating to £30.000 million in 2024/25 and £4.050 million in 2025/26.

3.16 Following decisions at the meeting of Council on 13 December 2022, relating to approvals in respect of new projects (Mayfield Joint Campus and Hawthornden ASN) and adjustment to existing project budgets (Destination Hillend), that affordability target – and the level of Prudential Borrowing that needs to be deferred, paused, or deleted, has increased due to the addition of these new capital projects and currently sits at £71.901m.

3.17 This is phased as follows:-

£9.698 million in 2023/24
£46.104 million in 2024/25
£16.099 million in 2025/26
£71.901 million total

3.18 With the inclusion of planned Learning Estate Strategy projects, the level of prudential borrowing that needs to be deferred, paused, or deleted increases from £71.901m to £246.159m.

**Prioritisation**

3.19 Officers across Directorates have been engaged in a process that seeks to prioritise capital projects. Steps taken to date are set out below:

- Collation of the General Services Capital Plan, with all planned capital investments in the next four years clearly set out, aligned where possible to each programme board that oversees that expenditure, namely Children, Young People and Partnerships Estate; Asset Management; Transport, Energy & Infrastructure; and Regeneration and Development; in addition to 'other' expenditure that currently sits outwith these boards.
- In total there is an approved programme of capital expenditure of **£272m**. Once the costs associated with the delivery of the approved Learning Estate Strategy, including 'in principal' projects, are taken into account, this increases to **£511m.**
- Total available external funding, such as known and anticipated developer contributions and external grant funding from the Scottish Government and other external funding bodies, equates to **£135m**, rising to **£199m** once funding for planned Learning Estate Strategy projects is taken into account.
- This results in a **total borrowing requirement** of **£137m**. This rises to a total borrowing requirement of **£312m (a further increase in borrowing of £174m)** once expenditure and funding associated with delivering the planned Learning Estate Strategy projects is applied.

- It should be noted that these costs exclude other projects which are still in the feasibility stage, such as the replacement of Stobhill Depot, the regeneration of Dalkeith Town Centre or any budget other than that already approved for the A701 Relief Road.

Figure 5

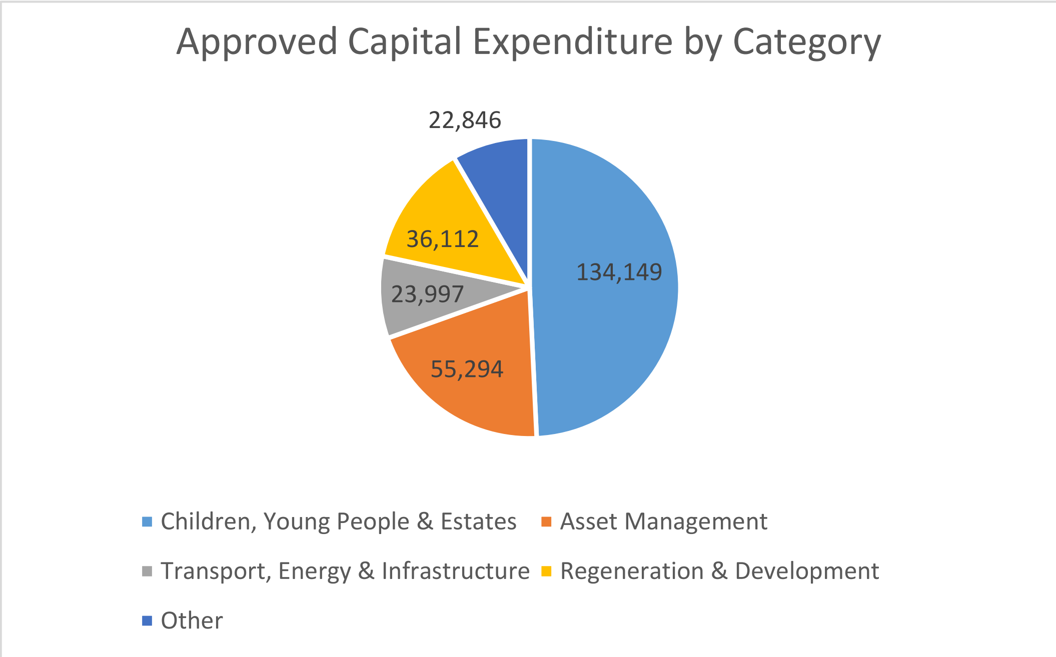
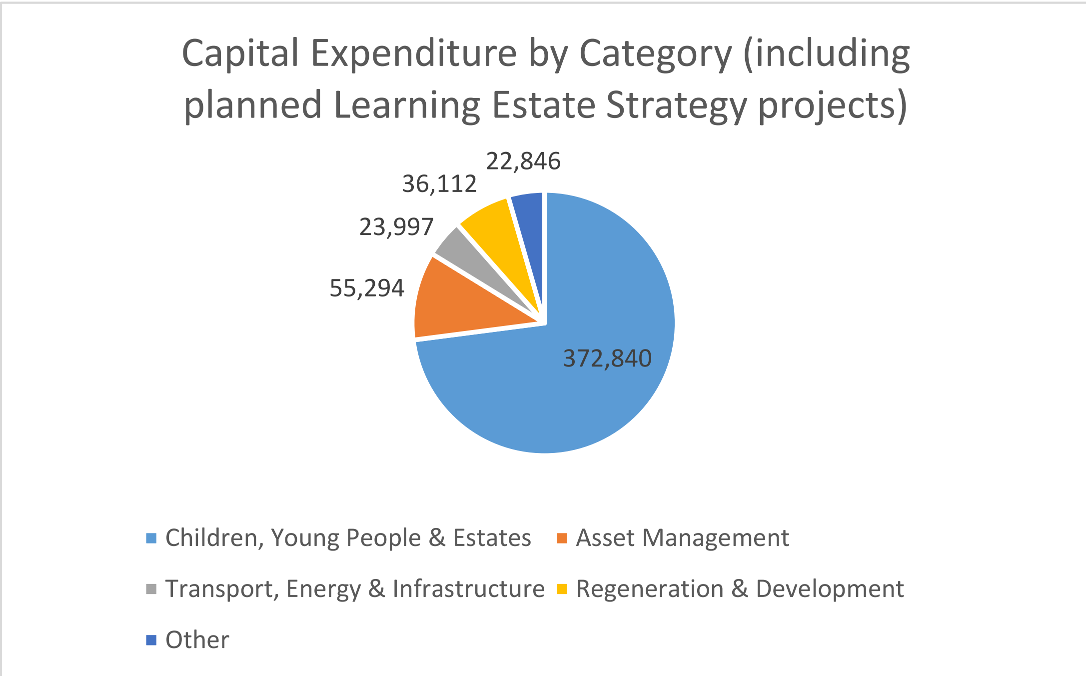



Figure 6



3.20 Following this process, projects were then assessed for their ability to be deleted, paused or deferred.

3.21 A target for each Programme Board was put in place to articulate the scale of the challenge. The internal governance of the capital programme is through these Programme Boards, which oversee specific tranches of the capital plan.

3.22 **This assessment is based on achievement of a target reduction in borrowing of £71.901m** i.e. excluding any further reduction in borrowing that would be required to offset the inclusion of the planned Learning Estate Strategy projects (**with associated total borrowing requirement of £174.258m**).

3.23 Initially, a target for each programme board based on a value that was proportionate to the overall value of these approved programmes was set. The results of this and the limitations of this approach is set out below.

Table 7

| **EXPENDITURE PER PROGRAMME BOARD** | **Total Capital Budget** | **% of GSCP** | **% of £70.763m** | **£m per annum** |
|---|---|---|---|---|
| Children, Young People & Estates | 134,149 | 49% | -35,409 | -11,803 |
| Asset Management | 55,294 | 20% | -14,595 | -4,865 |
| Transport, Energy & Infrastructure | 23,997 | 9% | -6,334 | -2,111 |
| Regeneration & Development | 36,112 | 13% | -9,532 | -3,177 |
| Other | 22,846 | 8% | -6,030 | -2,010 |
| **Total Approved Expenditure** | **272,398** | **100%** | **-71,901** | **-23,967** |

3.24 In general terms therefore, a saving of £23.967m needs to be found per annum with, if a proportionate approach is to be taken, the majority of this needing to come from the learning estate capital programme.

**Parameters on Prioritisation**

3.25 In relation to the Children, Young People and Partnerships Estates Board, many of these projects have external funding in place or have statutory drivers requiring delivery, for example to ensure sufficient school places are available to all children in a catchment area. This is reflected in the prioritisation of projects as presented in the updated

Learning Estate Strategy, as approved by Council in December 2022. These priorities are as follows:

**Priority 1. LEIP (Learning Estate Investment Plan) funded projects**

3.26 LEIP projects are part funded by the Scottish Government with a stated delivery timeframe. Due to the impact of the pandemic, some flexibility has been built into the timeframes. The Scottish Government has provided LEIP funding to support the delivery of:

- A replacement Beeslack CHS (Estimated completion 2026/27)
- A new Mayfield Primary Campus which incorporates Mayfield PS, St Luke’s RCPS and Mayfield Nursery (Estimated Completion 2025)
- A refurbishment and extension of Penicuik HS (Estimated completion (2027/28)

3.27 Further delays to LEIP funded projects could result in the reallocation of this funding.

**Priority 2. School Capacity Breaches**

3.28 Capacity is forecast to be exceeded in the following schools if investment projects are not progressed, resulting in insufficient pupil places to fulfil the Council’s statutory responsibilities.

- Kings Park PS breaches August 2023
- Rosewell PS breaches August 2024
- Roslin PS breaches August 2024
- Woodburn PS breaches August 2024
- Bilston PS breaches August 2026
- Mauricewood PS breaches August 2027

**Priority 3. Projects in Planning**

3.29 The Learning Estate Strategy update highlights the following projects for continued monitoring and for plans to be progressed in conjunction with Place Directorate colleagues.

- HS12 PS Bonnyrigg
- Gorebridge HS
- Shawfair Schools’ solution
- Hawthornden PS extension and ASN works
- Newtongrange PS refurbishment
- Redheugh PS Gorebridge
- Lasswade PS refurbishment and extension

3.30 These priority drivers are taken into account when reviewing the learning estate prioritisation.

**External Funding**

3.31 There are also parameters regarding other developments in receipt of external funding.

3.32 The **A701 Improvement Programme** (£21.030 million expenditure budget) has a significant funding gap emerging and Midlothian Council were recently unsuccessful in a Levelling Up Fund 2 application to address this. This project has committed external funding from the Government's City Deal (£10.515 million), a proportion of already-received and forecast developer contributions (£2.822 million) along with the approved utilisation of the Council's Capital Fund (£7.694 million).

3.33 However, the Council's committed funding for the A701 Relief Road project from the Capital Fund (£7.694 million) could be utilised/diverted to fund other projects within the General Services Capital Plan subject to further assessment of how this would risk the delivery of the overall project, the wider development it is to enable along the transport corridor and external funding requirements.

3.34 This programme is currently completing a design and costing phase. Once complete, a report will be brought to Council setting out how this project can be delivered that will consider its impact on the Council's capital plan.

3.35 Other projects not considered for deferral or deletion as they are fully funded are:

- The FCC Zero Waste Heat Offtake Facility which is contractually committed.
- Orbital Bus Route STAG report and Cycling, Walking and Safer Routes, which are fully funded by external grants and therefore do not require borrowing.
- Place Based Investment Fund, which is fully funded by the Scottish Government.
- Shawfair Town Centre Land Purchase, which is fully funded through the back-to-back arrangements with Shawfair LLP.

**Spend to Save or Earn**

3.36 In addition, there are projects in the capital plan which, through capital investment, aim to deliver either reduced revenue costs or surpluses to the revenue budget. Their deletion from the capital plan would result in an overall negative impact on the revenue budget, taking into account any reduced Loan Charges that would result.

3.37 The updated Outline Business Case (OBC) for Destination Hillend was approved by Midlothian Council in December 2022. Within the OBC, Table 9 showed the impact the project would have on the Council's revenue budget as below.

Extract Destination Hillend Outline Business Case: Impact of Preferred Option on Council's Revenue Budget

| **Financial Year** | **2022/23 £000's** | **2023/24 £000's** | **2024/25 £000's** | **2025/26 £000's** | **2026/27 £000's** | **2027/28 £000's** | **2028/29 £000's** | **2028/29 + £000's** |
|---|---|---|---|---|---|---|---|---|
| Preferred Option | 95 | 68 | 126 | (1,098) | (973) | (1,000) | (1,016) | (1,029) |

3.38 This table shows the impact on the Council's revenue budget **after** all costs associated with the construction and operation of Destination Hillend are taken into account. Once operational, the project is forecast to cover its own borrowing costs and generate a **surplus of £1.0m per annum from 2025/26.**

3.39 A sensitivity analysis was carried out as part of the OBC. This showed a worst case scenario of 15% reduction in footfall would still yield a positive net contribution of just under £0.596m to the revenue budget (see table below).

Extract from Destination Hillend Outline Business Case

Sensitivity Analysis on Overall Footfall

| | **Scope Adjusted Base Case £000's** | **Scope Adjusted Base Case Footfall -5% £000's** | **Scope Adjusted Base Case with Footfall -10% £000's** | **Scope Adjusted Base Case with Footfall -15% £000's** |
|---|---|---|---|---|
| Capital Costs | 31,103 | 31,103 | 31,103 | 31,103 |
| Lifecycle Costs | 3,367 | 3,367 | 3,367 | 3,367 |
| Total Capital costs over the life of the assets | 34,470 | 34,470 | 34,470 | 34,470 |
| Operating Costs | 967 | 960 | 954 | 947 |
| Revenue Income | (3,221) | (3,071) | (2,920) | (2,769) |
| Loan Charges | 1,226 | 1,226 | 1,226 | 1,226 |
| **General Fund Impact** | **(1,028)** | **(885)** | **(740)** | **(596)** |

3.40 Therefore, whilst the deletion or deferral of Destination Hillend would result in a saving in borrowing (and operating) costs, this is more than offset through the loss of income the project is expected to generate (i.e. the loss of a net contribution of £1.0 million per annum to the Council's revenue budget from 2025/26). The deletion of the project therefore does not serve the aims of the prioritisation review, which is to reduce the level of prudential borrowing required to deliver the capital programme, as the project covers its own borrowing costs. Its deletion or deferral would result in a **net loss** to the revenue budget of £1.0m per annum from 2025/26 that would have to be compensated for elsewhere.

3.41 Other examples where there may be negative revenue impacts from deletion or deferral of capital investment are street lighting, which is aimed at reducing the Council's energy bill, and fleet replacements, where newer more efficient vehicles will present some revenue savings.

### Affordable Housing

3.42 The Affordable Housing programme is a form of capital investment undertaken by Midlothian Council. However, it is not funded by the General Services Capital Plan, but through the Housing Revenue Account.

3.43 The current approved Housing Revenue Account Capital Plan provides for investment of £177.069 million over the period 2023/24 – 2025/26, of which £110.644 million is earmarked for completion of Phase 2 – Phase 4 of the New Social Housing Programme.

3.44 Subject to the approval of the proposed Rent Setting Strategy, a proposed 4.8% rent increase per annum for 2023/24 – 2025/26 and the longer term assumption of 4.1% to 2031/32 will continue to support our current investment in new social housing and in existing stock as well as provide additional investment of £77.640 million for a further phase of New Social Housing and £140 million for Energy Efficiency Standard for Social Housing (EESSH) works for completion over the period 2023/24-2031/32.

3.45 This additional investment would fund approximately 300 new homes and contribute towards reducing emissions in our current housing stock. The resultant Housing Revenue Account Revenue Budget and Capital Plan 2023/24 – 2025/26 of the proposed rent increase is presented to February Council for approval in a separate finance report.

3.46 Housing generates rent which supports further investment in housing. There is a growing need to create affordable homes in Midlothian to meet the rising level of need evidenced by the housing waiting list. There is also an obligation to deliver 25% affordable homes on all new residential developments in Midlothian, as set out in the Midlothian Local Development Plan. Therefore, there are no current proposals to reduce the level of investment in affordable housing as this would not have an impact on the borrowing requirement related to the General Services Capital Plan.

### Prioritisation Methodology

3.47 Bearing these parameters in mind, a methodology was developed in order to assess whether projects should be put forward to the prioritisation process or not and then what additional factors should be considered that would make a project a priority.

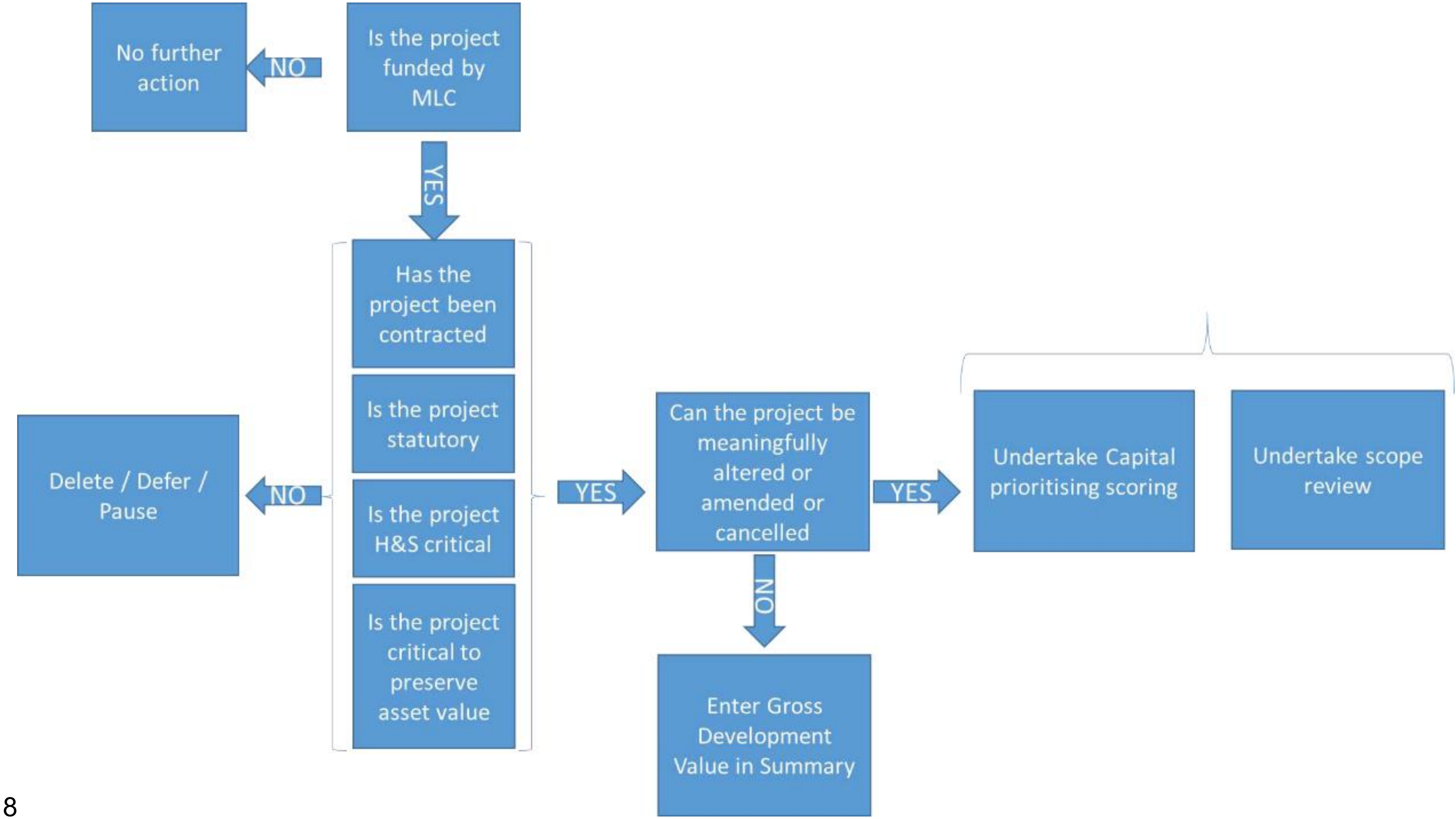

No further action
NO
Is the project funded by MLC
YES
Has the project been contracted
Is the project statutory
Is the project H&S critical
Is the project critical to preserve asset value
Delete / Defer / Pause
NO
YES
Can the project be meaningfully altered or amended or cancelled
YES
NO
Undertake Capital prioritising scoring
Undertake scope review
Enter Gross Development Value in Summary

Figure 8

3.48 This methodology has been further developed. Projects under contract are not taken forward for prioritisation given the contractual commitment and the exit costs (financial and reputational) associated with this. In addition, the availability of external funding sources for projects, such as government grants and developer contributions, was integrated into the methodology.

3.49 For the Learning Estate programme, in addition to recording whether a project has a statutory requirement, the nature of these statutory drivers were recorded under four key categories:

- Capacity
- Condition
- Suitability; and
- Additional Support Needs requirements.

3.50 Finally, where it is not possible to delete, defer or pause projects in their entirety, it may be possible to change the scope of the project. This has also been recorded for individual projects in the capital programme.

3.51 Having categorised each project in this way, work is now underway to reach the conclusions of this process and put projects forward for:

- Deletion, deferral or delay; or
- Scope review

3.52 The review of project scopes will be conducted through each project's existing governance structures, for example by a project or programme board. This is to ensure that where there are statutory drivers for a project, these are still met, therefore not jeopardising the delivery of legislative outcomes of the capital investment.

**Outcomes**

Children, Young People and Estates

3.53 The learning estate represents the largest segment of the capital plan. Reviewing these projects with colleagues in Children, Young People, Families and Partnerships, the following emerged regarding priorities, which links to the priorities set out in the Learning Estate Strategy. Projects from the updated Learning Estate Strategy were included in this process, although they do not form part of the approved Capital Plan as yet.

Table 9

| | Contract | | Statutory Drivers | | | | Timing | External Funding | Notes | Capacity for Scope Adjustment |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Capacity (spaces/ breach) | Suitability (core accom/DDA) | ASN capacity/ suitability | Condition | | | | |
| Beeslack (LES Priority 1) | N | Y | x | x | x | x | 2026 | LEIP 1 & DevCon | | **Yes (through Project Board)** |
| Mayfield (LES Priority 1) | N | Y | | x | x | x | 2025 | LEIP 2 | | **No / v limited** |
| Penicuik HS (LES Priority 1) | N | Y | | x | | x | 2027/8 | LEIP2 | External funding key driver as well as condition. Need to accelerate delivery to meet funding requirements. | **Yes (brief to be prepared)** |
| Kings Park PS Masterplan (LES Priority 2) | N | Y | x | x | | x | | | LEIP3 bid submitted. TU required to address capacity issues. | **Yes (potential to address breach through TU and condition seperately)** |
| Rosewell PS (LES Priority 2) | N | Y | x | x | | x | | Part DevCon (£3.8m) | LEIP3 bid submitted. TU required to address capacity issues. | **No / v limited** |
| Roslin Expansion PS (LES Priority 2) | N | Y | x | | | | 2024 | DevCon (£2.5m) | Growth in Roslin - breech in 2024. 2 class TU in 2023. | **No/limited** |
| Woodburn Primary extension (LES Priority 2) | Y | Y | x | x | | | 2024 | DevCon (£6m for KP and WB) | Extension w gym hall & dining hall | **No (scope already revised)** |
| Bilston Expansion (LES Priority 2) | N | Y | x | | | | 2026 | DevCon | Breach | **Yes (brief to be prepared)** |
| Mauricewood (LES Priority 2) | N | Y | x | x | | x | 2027 | DevCon | Capacity breach due to Auchedinny housing | **Yes (brief to be prepared)** |
| Newtongrange PS | N | Y | | x | | x | | £1.3m DevCon | Can't extend, not DDA compliant. | **Yes** |
| Shawfair | N | Y | x | | | | 2026 | DevCon (approx 70%) | | **Yes (brief being developed)** |
| Dalkeith High School Breach | N | Y | x | | | | 2024 | DevCon (circa £0.5m) | To address short term capacity issues due to delay in Shawfair | **No/limited** |
| Gorebridge HS | N | N | x | | | | | | Monitoring for future / emerging requirement. | **Yes (brief to be prepared)** |
| St David's PS | N | N | | x | | x | | | 1960's building - £5.2m in capital plan | **Yes (brief to be prepared)** |

3.54 Following this prioritisation process, the following projects were suggested for deletion or deferral from the approved capital plan.

Table 10

| Children, Young People & Estates Programme Board | Budget | Funding | Net | Decision | Saving £000's |
|---|---|---|---|---|---|
| Project | £,000 | £,000 | £,000 | | |
| Kings Park PS upgrade to existing building | 11,931 | -2,351 | 9,580 | | |
| St Davids Primary - 4 class & EY extension | 5,281 | -2,367 | 2,914 | DEFER | 2,914 |
| Mauricewood Refurbishment & Extend | 9,923 | -6,700 | 3,223 | | |
| Rosewell Primary School - New 2 Stream | 7,647 | -3,824 | 3,824 | | |
| Newtongrange refurb & expansion to 2 stream | 2,581 | -1,291 | 1,291 | | |
| Bonnyrigg Primary - Modular Unit | 562 | - | 562 | DELETE | 562 |
| Tynewater Primary School | 10 | - | 10 | DELETE | 10 |
| Lasswade High - ASU | 1,333 | - | 1,333 | | |
| ASN Provision - Social Complex Needs | 250 | - | 250 | | |
| New Learning Estate Furniture & IT Equipment | 50 | - | 50 | DELETE | 50 |
| **Total CYPE Programme Board** | **39,568** | **-16,532** | **23,037** | | **3,536** |
| **Target** | | | | | **35,409** |

Asset Management Programme Board

3.55 Reviewing projects under the Asset Management strand of the capital plan, the following projects are to be deleted. These are either projects that were incorporated in the initial iteration of the Council's Capital Strategy in 2018, and have been rephased/carried forward since and are either no longer required or where funding has been found from another source (e.g. Scottish Government Capital Grant funding for Play Park Renewal) to deliver.

Table 11

| Asset Management Programme Board | Budget | Funding | Net (£000's) |
|---|---|---|---|
| Birkenside Grass Pitch Drainage | 12 | - | 12 |
| Open Spaces - Midlothian Wide Play Areas | 338 | - | 338 |
| Property - King's Park Tennis Courts Resurfacing | 82 | - | 82 |
| Property - Penicuik Centre Flooring, Cardio & Equipment | 200 | - | 200 |
| Property - Lasswade Centre Flooring | 212 | - | 212 |
| Property - Gorebridge Leisure Centre | 115 | - | 115 |
| Property - Loanhead Centre | 145 | - | 145 |
| Total Asset Management Programme Board Saving | **1,104** | **-** | **1,104** |

3.56 In addition, block budgets have been reduced in consultation with the Chief Officer, Place and service leads.

Table 12

| **Reduction in Block Budgets** | **2023/24 – 2026/27 Forecast Spend £'000** | **2023/24 – 2026/27 Adjusted Budget £'000** | **Saving (£000's)** |
|---|---|---|---|
| Digital: All Strands inc. Business Apps | 9,714 | 7,854 | 3,353 |
| Digital: Equipped for Learning | 5,000 | 5,000 | |
| Street Lighting Upgrades | 4,362 | 4,236 | 126 |
| Footway & Footpath Network Upgrades | 2,787 | 2,000 | 787 |
| Road Upgrades | 6,000 | 6,000 | |
| Accelerated Roads Residential Streets | 1,669 | 1,669 | |
| Vehicle & Plant Replacement Programme | 6,476 | 6,000 | 476 |
| Property Upgrades (£850k pa) | 4,895 | 4,895 | |
| **Total Budget/Saving to Block Budget** | **40,903** | **39,514** | **4,742** |
| **Saving through delete/pause/defer** | | | **1,104** |
| **Total Saving** | | | **5,846** |
| **Target** | | | **14,595** |

3.57 The following were the conclusions of the prioritisation process with relation to Transport, Energy & Infrastructure and Regeneration & Development projects.

Table 13

| **Transport, Energy & Infrastructure Programme Board** | Budget | Funding | Net (£000's) |
|---|---|---|---|
| None suitable however report required on priorities within A701 Programme once design and costings complete. | - | - | - |
| **Target** | | | **6,334** |

Table 14

| **Regeneration & Development Programme Board** | **Budget** | **Funding** | **Net (£000's)** |
|---|---|---|---|
| Stobhill Depot Upgrade | 568 | - | 568 |
| **Target** | | | **9,532** |

3.58 An allowance has been made in the Capital Plan for the upgrade of the Stobhill Depot for many years. This has never been utilised, as there have also been longstanding plans to relocate and redevelop the depot as this is not a facility considered fit for purpose.

3.59 Should the business case for the redevelopment of Stobhill Depot be approved by Midlothian Council, this allowance will no longer be required. However, at present the business case for the depot is under development and there is likely to be a borrowing requirement to address a funding shortfall. Should the proposals for the redevelopment not proceed, Midlothian Council may wish to make another capital allocation in order to improve the built fabric at the Stobhill Depot.

Other Projects

3.60 It is proposed that the following projects be deleted from the capital plan as the project expenditure budgets for these have not been utilised, are no longer required or are being funding through a different route.

Table 15

| **Other** | Budget | Funding | Net (£000's) |
|---|---|---|---|
| Newbattle Digital Centre of Excellence | 232 | - | 232 |
| City Deal - Digital | 240 | - | 240 |
| New Recycling Facility - Penicuik | 243 | - | 243 |
| Borders Rail - Economic Development Projects | 125 | - | 125 |
| Assistive Technology | 197 | - | 197 |
| Total Others | **1,037** | **-** | **1,037** |
| **Target** | | | **6,030** |

## Recommendation

3.61 In summary, it is recommended that following the first round of this prioritisation process, the following projects be deleted, paused or deferred from the Capital Plan by Midlothian Council. It is also proposed that the Asset Management block budgets are adjusted as summarised in Table 16 below.

Table 16

| Reduction in Block Budgets | 2023/24 – 2026/27 Forecast Spend £'000 | 2023/24 – 2026/27 Adjusted Budget £'000 | Saving (£000's) |
|---|---|---|---|
| **Adjusted Block Budgets - Asset Management** | | | |
| Digital: All Strands inc. Business Apps | 9,714 | 6,744 | 2,970 |
| Street Lighting Upgrades | 4,362 | 4,236 | 126 |
| Footway & Footpath Network Upgrades | 2,787 | 2,000 | 787 |
| Vehicle & Plant Replacement Programme | 6,476 | 6,000 | 476 |
| **Block Budget Savings** | | | **4,359** |
| | | | |
| **Projects to Delete / Pause / Defer** | | | |
| **Children Young People & Estates** | | | |
| St David's Primary - 4 class & EY extension | 2,914 | - | 2,914 |
| Bonnyrigg Primary - Modular Unit | 562 | - | 562 |
| Tynewater Primary School | 10 | - | 10 |
| New Learning Estate Furniture & IT Equipment | 50 | - | 50 |
| **Savings** | | | **3,536** |
| **Asset Management** | | | |
| Birkenside Grass Pitch Drainage | 12 | - | 12 |
| Open Spaces - Midlothian Wide Play Areas | 338 | - | 338 |
| King's Park Tennis Courts Resurfacing | 82 | - | 82 |
| Penicuik Centre Flooring, Cardio & Equipment | 200 | - | 200 |
| Lasswade Centre Flooring | 212 | - | 212 |
| Gorebridge Leisure Centre | 115 | - | 115 |
| Loanhead Centre | 145 | - | 145 |
| **Saving** | | | **1,104** |
| **Regeneration & Development** | | | |
| Stobhill Depot Upgrade | 568 | - | **568** |

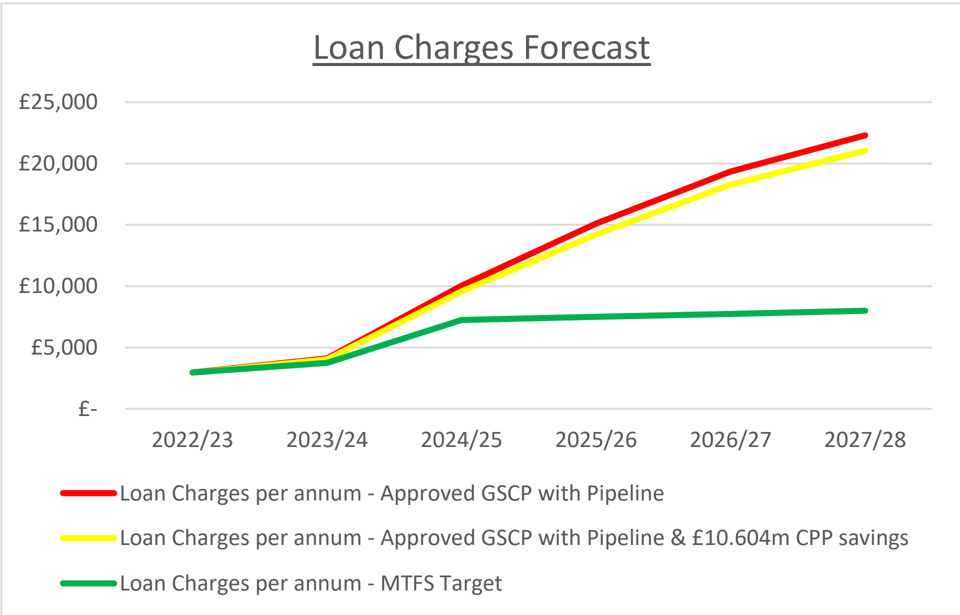
| | | | |
|---|---|---|---|
| **Other** | | | |
| Newbattle Digital Centre of Excellence | 232 | - | 232 |
| City Deal - Digital | 240 | - | 240 |
| New Recycling Facility - Penicuik | 243 | - | 243 |
| Borders Rail - Economic Development Projects | 125 | - | 125 |
| Assistive Technology | 197 | - | 197 |
| **Savings** | | | **1,037** |
| **Total Capital Plan Savings** | | | **£10,604** |
| **Target** | | | **£71,901** |

3.62 This prioritisation process has deferred, paused or deleted £10.604m from the approved capital plan, against a target of £71.901m.

**Impact of Proposed Reduction**

3.63 Figure 17 below shows the marginal impact this reduction has compared to the target reduction in capital expenditure.

**Figure 17**



**Impact of Climate Change Strategy on Capital Projects**

3.64 The Midlothian Climate Change Strategy (2020) states in its action plan that the Council is committed to “Adopting the passivhaus design standard for all new housing and non residential buildings”.

3.65 The adoption of the passivhaus standard within the affordable housing programme has resulted in an uplift in costs on the projects where it is implemented. The cost differential varies depending on the site, however an allowance of 8-12% uplift is generally made by cost consultants to reflect both the additional time and complexity required at the design stage and the costs associated with ensuring the development achieves its certificate post completion.

3.66 The adoption of a passivhaus standard on larger and more complex developments such as schools will also come with an associated cost. Again, this will vary depending on the nature of the project. For LEIP funded projects, there is a requirement to build schools that will deliver Band A energy efficiency standards, which comprises an operational energy target of 67kwH/sqm. This is results in an approximate 12% uplift in costs. The additional cost associated with achieving passivhaus certification, in order to achieve an operational energy target of 15kwH/sqm is an additional 3%, taking the uplift in costs above the baseline of meeting building standards to approximately 15% increase in costs for a school project. Achieving a passivhaus standard does eliminate the performance gap, and has been adopted by several local authorities in Scotland to ensure outcomes based funding linked to the achievement of LEIP Band A energy efficiency is achieved post occupancy.

3.67 Like spend to save initiatives such as moving to LED street lighting, there are also revenue benefits associated with savings in relation to energy costs, that may outweigh the upfront capital costs. Potential revenue savings of £3.64/kWh/sqm can be achieved by moving a school from LEIP Band A to Passivhaus standard. The assessment of these savings over the life time of the asset should form part of a whole life costing exercise for capital projects to establish the relative costs and benefits of adopting a passivhaus approach.

3.68 Furthermore, there are benefits in terms of the quality of the building and the internal environment being created for a building’s users as well as savings in carbon emissions.

3.69 The delivery of buildings to a passivhaus standard will result in higher upfront capital costs that may put budgets under pressure for individual projects. However, it is necessary to understand revenue savings over the lifetime of a project and the role the standard may play in securing outcomes based LEIP funding while reducing exposure to energy market volatility.

## 4 Report Implications (Resource, Digital and Risk)

### 4.1 Resource

Based on the first round of the prioritisation process, the affordability target for Loan Charges, as set in the Medium Term Financial Strategy, will not be met.

Loan Charges over the period 2022/23 to 2025/26 would be as follows:-

| Table 18: Loan Charge Forecasts excluding planned Learning Estate Strategy Projects | 2022/23 Estimate £000's | 2023/24 Estimate £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's |
|---|---|---|---|---|---|---|
| GSCP Target | 2,957 | 3,739 | 7,250 | 7,500 | 7,750 | 8,000 |
| GSCP exc. Planned LES Development Projects | 2,957 | 3,937 | 8,710 | 11,496 | 12,275 | 12,888 |
| GSCP exc. Planned LES Development Projects with £10.604m CPP Saving | 2,953 | 3,861 | 8,229 | 10,588 | 11,211 | 11,649 |

| Table 19: Loan Charge Forecasts including planned Learning Estate Strategy Projects | 2022/23 Estimate £000's | 2023/24 Estimate £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's |
|---|---|---|---|---|---|---|
| GSCP Target | 2,957 | 3,739 | 7,250 | 7,500 | 7,750 | 8,000 |
| GSCP with planned LES Development Projects | 2,957 | 4,108 | 10,040 | 15,109 | 19,358 | 22,296 |
| GSCP with planned LES Development Projects and CPP £10.604m savings | 2,953 | 4,032 | 9,558 | 14,202 | 18,294 | 21,057 |

### 4.2 Digital

There are no resource implications of this report at this point in time.

### 4.3 Risk

The purpose of this report is to update Midlothian Council on measures taken to address emerging financial risks associated with the need to meet identified affordability targets in the General Services Capital Plan.

### 4.4 Ensuring Equalities (if required a separate IIA must be completed)

An IIA is not required at this stage.

### 4.4 Additional Report Implications (See Appendix A)

See Appendix A

## Appendices

**Appendix A – Additional Report Implications**
**Appendix B – Background information/Links**

## APPENDIX A – Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

Actively managing priorities within the GSCP will ensure that capital investment required to ensure Midlothian Council's priorities as set out in the Single Midlothian Plan are achieved in a financial sustainable way.

### A.2 Key Drivers for Change

Key drivers addressed in this report:

- [ ] Holistic Working
- [ ] Hub and Spoke
- [ ] Modern
- [x] Sustainable
- [ ] Transformational
- [x] Preventative
- [ ] Asset-based
- [ ] Continuous Improvement
- [ ] One size fits one
- [ ] None of the above

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- [ ] One Council Working with you, for you
- [x] Preventative and Sustainable
- [x] Efficient and Modern
- [ ] Innovative and Ambitious
- [ ] None of the above

### A.4 Delivering Best Value

Not applicable

### A.5 Involving Communities and Other Stakeholders

Not applicable

### A.6 Impact on Performance and Outcomes

Not applicable

### A.7 Adopting a Preventative Approach

Not applicable

### A.8 Supporting Sustainable Development

Not applicable

## APPENDIX B

**Background Papers/Resource Links** (insert applicable papers/links)