

General Services Capital Plan – Proposed Strategy

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to:

- Propose a strategy to restrict the level of borrowing used to support the General Services Capital Plan, thereby maintaining debt outstanding at a maximum of current levels and as a consequence reducing the loan charges to revenue;
- Propose a level of annual investment for the replacement or upgrading of current assets;
- Consider new projects that have been identified for approval;
- Identify areas which are still being developed and will require to be considered at a later date; and prioritise within the available annual investment limits.

2 Level of Borrowing

The level of debt outstanding is budgeted to increase from £103.255 million at 31st March 2013 to £114 million at 31st March 2014. The resultant loan charges borne by the revenue account are projected to increase from £7.620 million in 2012/13 to a budget of £8.227 million in 2014/15. This level of increase, results in an increasing pressure on the revenue budget which is unsustainable in the current climate of austerity.

It is proposed that going forward the level of outstanding debt is capped at £114 million, which is the anticipated level at 31st March 2014. Thereafter the annual borrowing would be restricted to no more than the level of debt repayments within any year.

The one exception to this would be the borrowing already approved for the replacement of Newbattle High School, the £7.276 million required in 2016/17 should be in addition to the above proposal.

Table 1 below illustrates the debt repayments and the proposed borrowing level over the life of the plan.

Table 1 – Proposed Borrowing Levels

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Debt Outstanding at 1 st April	114,000	114,000	114,000	121,276
Debt Repayments	4,307	4,206	4,148	4,385
Capped GSCP Borrowing	4,307	4,206	11,424	4,385
Debt Outstanding at 31 st March	114,000	114,000	121,276	121,276

There may be instances when projects are required to be forward funded by the Council for infrastructure that will ultimately be funded by developer contribution due to be collected in later years and result in temporary increases to these limits.

3 Approved Expenditure

The approved project for the construction of Newbattle High School requires to be re-phased to reflect the most recent timings, it is now likely that the capital injection of £15.322 million will be required in 2016/17 rather than 2015/16 as was initially programmed. This re-phasing has been reflected in the proposed capped borrowing levels detailed in table 1. The difference between the capital injection of £15.322 million and the required borrowing of £7.276 million is the use of £6 million from the capital fund and £2.046 million of funding available from developer contributions.

4 Annual Investment / Capital Expenditure

The Capital Plan allows for investment to be made under three categories:

- Upgrading of an existing asset;
- Replacement of an existing asset;
- The construction / purchase of a new asset (growth).

The General Service Capital Plan approved by Council on 17th December 2013 already allows for investment of £41.135 million for the period 2014/15 to 2017/18. In addition to this approved investment, work is ongoing to identify projects which are required for the upgrading or replacement of existing Council assets to maintain service delivery.

Progress has been made in developing asset management plans for each asset area e.g. vehicles, roads, property etc., the objective being to use these individual asset plans as the basis to establish the required upgrades or replacements which will eventually result in projects within the General Services Capital Plan. Some of these plans have been developed to a greater degree than others.

While there is an asset management system for the Council's property portfolio, the information has not been fully populated onto the system and is not yet in a usable format to fully inform the investment priorities. As a result the property upgrades proposed are a more subjective view of the most urgent property upgrade requirements.

Appendix 1 summarises the essential projects that have been identified to date along with a suggested level of investment to work within, and include:

- Road upgrades for 2014/15 to 2017/18. It is suggested that an annual budget of £1million is allocated for road and footpath upgrades. This budget, along with the annual ring fenced cycling, walking and safer streets budget should incorporate any road safety issues that require to be addressed.

It is proposed that the Head of Commercial Services be delegated authority to identify how the budget will be utilised in

conjunction with the Head of Finance and Integrated Service Support.

- Property Upgrades for 2014/15 to 2017/18. Again it is suggested that an annual budget of £1million is allocated for the upgrading of the current property portfolio.

It is proposed that the Head of Property and Facilities Management be delegated authority to identify how the budget will be utilised in conjunction with the Head of Finance and Integrated Service Support

- The vehicle replacement programme has approval to 2015/16 and is included in the General Services Capital Plan.

The plant replacement programme for the period 2014/15 to 2015/16 has been identified as £0.252 million and £0.348 million respectively. Similar to the vehicle replacement programme, the replacement year of each item of plant has been determined using the estimated life of the item. It should be noted that each item will be assessed prior to replacement to establish whether the replacement is still required, whether it is required at that time or whether it could be delayed to a later year.

Beyond 2015/16, it is proposed to introduce a budget of £1million per annum to cover all vehicle and plant replacements, although this will need to be flexible between years to cover the peaks and troughs of the replacement programme.

The budget from 2016/17 should be delegated to the Business Manager – Travel Team to determine the detail of what vehicles and plant will be replaced in each year, this will be done in conjunction with the Head of Commercial Services and the Head of Finance and Integrated Service Support ;

- Street lighting is currently being reviewed, with an audit to identify the current lighting column stock that would be suitable to adapt to LED lanterns planned in the Spring of 2014. Once the audit is complete the remainder of the annual replacement programme can be updated to accommodate the outcome and the remainder of the lighting columns unsuitable for adaption to be replaced as part of the ongoing replacement programme.

For the purposes of the overall street lighting budget, it is proposed to continue with the £1 million annual budget. This budget will require to accommodate both the LED lantern only replacements and the full column and lantern replacements. The annual budget from 2014/15 onwards should be capped at £1 million and delegated to the Lighting Manager to determine the detail in conjunction with the Head of Commercial Services and the Head of Finance and Integrated Service Support.

In addition to the annual replacement programmes of work, there are additional projects that have been identified as an immediate priority that require consideration, these are identified below:

- An extension is required at St Andrews primary school to increase the nursery provision, create an additional primary one

class and a further upper school class. This will create a full single stream school and will remove the need to restrict the intake of pupils. It is estimated that this will cost £0.864 million, to date developer contribution totalling £0.281 million have been collected to part fund these works, although further developer contributions will be agreed and collected as they become due. The remaining £0.583 million will require to be funded by borrowing in 2014/15.

Due to the timescales and the nature of the works involved it will be necessary to hire temporary units for use during the period of works. The cost of this is estimated to be in the region of £0.060 million for an 18 month hire period, this would be a revenue cost;

- An extension is also required to the nursery provision at Cornbank primary school at the estimated cost of £0.230 million. The extension would allow all the children feeding into primary one to be accommodated within the school nursery;
- A reconfiguration of the existing accommodation is required at Newtongrange primary school that would increase the nursery capacity and create an open plan infant area. This reconfiguration would convert Newtongrange primary to a full two stream school and going forward would be able to accommodate all the catchment area pupils. It is estimated that this work will cost approximately £0.210 million which would be fully funded by the developer contributions that have been collected to date;
- Remediation of the site at the Emily Bing at a cost of £0.013 million in 2014/15. The area concerned is currently fenced off for public safety following an inspection of an area of underground burning and is monitored on a daily basis to ensure the area remains secure. The Coal Authority has been contacted and this budget would be sufficient to complete their proposal to remediate the site.

5 Areas under Development

In addition to the projects identified in section 4, there are other assets that will require investment over the life of the plan, these include:

- The Education ICT replacement programme for 2014/15 is currently being developed and will be reported to the Digital Strategy Group for consideration. Historically this replacement programme has required an annual capital budget of between £0.300 million and £0.500 million;
- The Corporate ICT replacement programme is being reviewed following the required changes to maintain compliance with the public sector network code of connection. The likely shortfall to the replacement programme due to the move between PC's to laptops is likely to be approximately £0.200 million over the life of the plan.

The replacement programme has a further shortfall due to recent price increases on the national contract of 10%. The licence requirements are still being considered to determine which method is the most cost effective for the Council, if the licences are purchased upfront rather than annually then there is likely to be a further £0.500 million shortfall in the capital plan, but this would reduce the annual revenue cost of the licences;

- The CCTV strategy and resultant replacement programme is under consideration, and indicative costs of the required capital investment are in the region of £0.450million. Revenue costs are still to be determined and are dependent on the level of monitoring in relation to the CCTV network. There would also be an ongoing revenue maintenance requirement.

6 Report Implications

6.1 Resource

Table 2 below details the current level of approved borrowing included in the capital plan adjusted for the re-profiling of Newbattle HS, the total proposed capped borrowing and the available capital financing.

Table 2 – Total Available Finance

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Unutilised General Capital Grant	1,031	560	0	3,990
Borrowing (Adjusted for Re-phasing of Newbattle HS)	0	0	3,775	0
Proposed Capped Borrowing	4,307	4,206	11,424	4,385
Available Finance	5,338	4,766	7,649	8,375

If the level of proposed investment as suggested in section 4 of the report is approved, the level of finance available to fund other capital investments yet to be identified and any other emergency projects that arise during the life of the plan would be reduced to the levels detailed in table 3.

Table 3 – Remaining Available Finance

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Available Finance	5,338	4,766	7,649	8,375
Proposed Investment (appendix 1)	3,078	2,348	4,000	4,000
Remaining Available Finance	2,260	2,418	3,649	4,375
Estimate of Areas Under Development	925	1,225	1,000	1,000

Table 4 shows the impact of the current budgeted borrowing on the revenue budget against the impact of the proposed capped level of borrowing as suggested in section 2.

Table 4 – Impact on Loan Charges

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Loan Charges in Revenue Budget	8,227	8,887	9,412
Loan Charges Proposed Borrowing	8,071	7,932	8,185
Reduction	156	955	1,227

Overall, by adopting the suggested cap on the level of borrowing the impact on the loans fund charges made to the revenue budget would be reduced by £1.227 million in 2016/17. This reduction is reflected in the Financial Strategy report also on today's agenda.

6.2 Risk

The inherent risk in the Capital Plan is that projects will cost more than estimated thus resulting in additional borrowing. The monitoring procedures ensure that significant variations are reported at an early stage so that remedial action can be taken to mitigate this risk.

There is also a risk that the wrong projects are prioritised, however there is an additional risk that the revenue budget cannot afford the level of borrowing currently reflected.

6.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

6.4 Impact on Performance and Outcome

There are no issues arising directly from this report.

6.5 Adopting a Preventative Approach

There are no issues arising directly from this report

6.6 Involving Communities and Other Stakeholders

No external consultation has taken place on this report.

6.7 Ensuring Equalities

There are no equalities issues arising directly from this report.

6.8 Supporting Sustainable Development

There are no sustainability issues arising directly from this report.

6.9 IT Issues

There are no IT implications arising from this report

7 Recommendations

Council is asked to:

- a) Note the level of outstanding debt and the growing pressure on the revenue budget of increasing loan charges;
- b) Approve the proposal to cap the borrowing at the maximum level of the debt repayments, thereby maintaining the current level of debt outstanding;
- c) Approve the additional borrowing required for Newbattle High School as being a variation to the proposed strategy;
- d) Approve the requirement to temporarily increase borrowing to forward fund projects that will ultimately be funded by developer contributions;
- e) Note the reduction in debt charges on the revenue budget of introducing the cap;
- f) Approve the suggested block budgets for each of the identified areas included in appendix 1;
- g) Delegate the authority to the appropriate Head of Service to work in conjunction with the Head of Finance and Integrated Service Support to determine the project detail for each year's block budget;
- h) Approve the new capital projects identified:
 - 1) St Andrews Primary School extension, including a supplementary revenue estimate of £0.060 million for the temporary units;
 - 2) Cornbank Nursery School extension;
 - 3) Newtongrange primary School reconfiguration;
 - 4) Remediation of the Emily Bing site.
- i) Note the ongoing work required to ascertain the full extent of the property investment priorities;
- j) Note the projects in section 5 which are still under development and will be brought forward for consideration.

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Background Papers:

Appendix 1 – Identified Projects