

REPORT TO ABERDEENSHIRE COUNCIL – 14 FEBRUARY 2019

CAPITAL PLAN 2019 - 2034

1 Recommendations

It is recommended that the Council: -

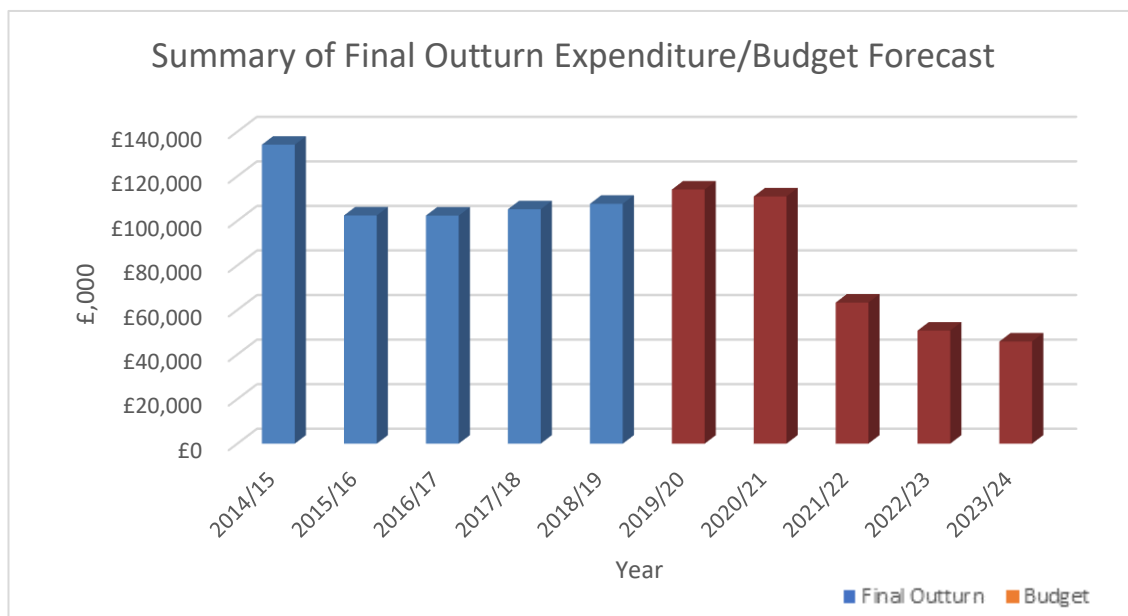
- 1.1 Agree the 15 Year Capital Plan set out in Appendix 1;
- 1.2 Agree the funding of the Capital Plan;
- 1.3 Note the financial implications on the Revenue Budget
- 1.4 Agree that workplans and business cases are prepared for the priorities set out in section 2.8 and reported back to Policy Committees.

2. Discussion

- 2.1 Aberdeenshire Council's Capital Plan is reported to the Council as part of the Medium-Term Financial Strategy (MTFS) to reinforce the integral link across the elements of the MTFS. The purpose of this report is to agree the 15 Year Capital Plan with the associated funding and impact on the Council's Revenue budget.
- 2.2 The Council's Capital Plan is, like other elements of the MTFS, a financial representation of the Council's priorities. The Capital Plan covers a period of 15 years from 2019/20 to 2033/34 and is set out in Appendix 1. Investment of some £785 million is planned in Aberdeenshire over the period of the Plan.
- 2.3 Capital expenditure is money invested by the Council on buildings, land, roads, bridges and equipment by either acquiring new assets or extending the life of a fixed asset.
- 2.4 The **projects** in the Capital Plan are generally for a new defined asset being constructed e.g. a new Community Campus. The **rolling programme** lines in the Capital Plan provide an annual sum of expenditure for a continuing activity such as Roads Reconstruction and Planned Building Maintenance. The **workstream programmes** e.g. Depot Strategy and Early Years differ from the project and rolling programme lines in that they are a programme of individual projects of varying sizes related to that workstream, but only for a defined period and for a defined sum in the Plan.
- 2.5 These activities are required to enable the asset base to be maintained and developed in line with statutory functions, Council priorities and an agreed scope and standard of service provision.

- 2.6 The nature and scale of the Capital Plan is such that timelines and costs for projects within programmes can vary. However, there are developed processes for managing and monitoring both at an individual project and programme level; with the specific aim to deliver within expected parameters.
- 2.7 This has led to increased confidence throughout the Council to undertake significant capital projects within Aberdeenshire which in turn improves the local infrastructure and economy with benefits to the Community. This is illustrated with the summary of final outturn expenditure/ budget forecast in the table below.

Table 1- Expenditure



The above chart illustrates the expenditure in recent years and future levels of investment; it is evident that expenditure on the plan will reduce significantly from 2020/21 onwards.

- 2.8 The Revenue Budget 2019-24 report stated that the Scottish Government has announced a one-year Settlement for 2019/20. One of the consequences of single year Settlements is the impact on the level of certainty about borrowing decisions. The implications of borrowing decisions are set out more under the Financing section of this report.
- 2.9 The Capital Plan is a strategic plan and by its nature, a series of connected years rather than just individual financial years. As mentioned, the Plan is also connected to the Revenue Budget and Reserves as these are key sources of funding the Plan. Therefore, a review of future years' projects is undertaken by the Capital Plan Group on a regular basis and reported through Committees.

2.10 The following Table illustrates the stages involved with capital planning.

Table 2 - Capital Planning



2.11 There are currently a number of projects that require to be developed further through a business case. The projects stem from the Council's priorities but are either new in terms of being included within the Capital Plan or are existing projects that require to be updated. The projects are:

- **Council priority: Encourage active lifestyles and promote well-being with a focus on obesity and mental health.**
Culture & Sport Business Unit: in order to support the decision by Council and the Communities Committee to deliver an innovative and flexible approach to cultural and sporting activities across Aberdeenshire, investment in the assets and activities of the Business Unit will be required. Officers are therefore investigating what is necessary, by when and how this can be included within the business case being developed for the Culture & Sport Business Unit. It is expected that capital investment will be required and therefore a line is included meantime within the Capital Plan.
- **Council Priority: Have the right mix of housing across all of Aberdeenshire.**
Affordable Housing: it is proposed that this is developed through an integrated business case setting out the intentions of the Council to deliver affordable housing over a defined period of time with clear financing sources identified including the Capital Plan and planned use of reserves. As set out in the report on Council Reserves, it is proposed to consolidate two reserves into one: Second Homes Council Tax Reserve and the reserve for Affordable Housing. Capital investment will be required to deliver on existing commitments on Affordable Housing and therefore a line is included within the Capital Plan.

- **Council Priority: Support the delivery of the Health & Social Care Strategic Plan**

Peterhead Care & Support Village: there is an existing project within the Capital Plan, however, the project specification requires to be updated to reflect the current delivery model most suitable to deliver the appropriate model of care. Therefore, £250,000 has been included in next year, with the balance of the existing budget in the following year. This financial amount and profile is subject to change as the preferred model of care and specification is developed and costed.

- 2.12 The Council's Capital Plan extends to a period of 15 years and this assists with the planning, budgeting and delivery of projects and programmes. In the forthcoming financial year, Inverurie Community Campus will become operational. Furthermore work will commence to refurbish and extend Viewmount, Stonehaven and the Stonehaven Flooding Scheme. Significant works are also scheduled for the rollout of the 1140 hours programme. In addition there will continue to be delivery of rolling programmes including investment in roads infrastructure, buildings and bridges. This approach recognises the need to strike the balance of investment in new infrastructure whilst maintaining exiting assets.
- 2.13 As the workplans and the associated business cases are developed and finalised for each of these projects, they will be reported to and considered by the respective policy committees, acknowledging that if additional funding is required compared to the approved Capital Plan, reports will be brought to Council for consideration and approval.
- 2.14 The Capital Plan will be subject to an element of change as the current financial year concludes at the end of March 2019. Some of the projects and programme lines in the Capital Plan will carry forward expenditure due to alterations in spending profiles. Such variations are only in terms of timing and not in terms of new projects, affordability or additional funding being required.
- 2.15 In recent years the practice of including Optimism Bias as a separate line within the Capital Plan has been adopted when setting and managing the Plan. This is an acknowledgement of the scale and nature of the capital plan ie recognising the risks around projects and programmes. As the respective financial year has progressed there have been significant movements recorded against Optimism Bias, in effect reducing the amount to zero as the year moves to a conclusion. The inclusion of Optimism Bias is a recognised project management tool supported by the HM Treasury guidance on managing project costs.
- 2.16 HM Treasury guidance states that project appraisers have the tendency to be over optimistic. Explicit adjustments should therefore be made to the estimates of a project's costs, benefits and duration, which should be based on data from past or similar projects and adjusted for the unique characteristics of the project in hand: hence the inclusion or need for Optimism Bias. As mentioned above, the continual improvement in project management reinforces that the next iteration of the Capital Plan should continue to include Optimism Bias but that it is contained within each project line and not a stand-alone line.

3. Financing

- 3.1 Financing the Capital Plan is a critical element for two main reasons.
- 3.2 Firstly, the certainty of securing funds to support the delivery of the Council's priorities through the Capital Plan is significant and the availability of, or access to, funds should not be underestimated. A Local Authority has a number of sources of funds which it can access which is unlike private sector businesses. The predominant source of funds for Aberdeenshire Council is the Public Works Loans Board (PWLB). The PWLB is a statutory body that can issue loans to local authorities from the National Loans Fund as part of a policy framework set by HM Treasury. The PWLB interest rates are set by HM Treasury and move on a daily basis. Loans to local authorities are secured on the revenues of the authority rather than specific assets that are held.
- 3.3 Secondly, the management of the debt or financing is important as this links back to the revenue budget. The activity of strategic financing links borrowing decisions to funding decisions to affordability i.e. the revenue budget, capital plan and reserves are interrelated through the MTFs and financial implications are managed by strategic financing decisions.
- 3.4 The cost of borrowing is a material inclusion in the council's revenue budget and therefore this budget line (Capital Financing Charges) is subject to the same scrutiny as all other budgets. The proposal within today's MTFs reports is that no borrowing will be undertaken during the financial year 2019/20. The financial impact of this is to reduce the original Capital Financing Charges budget by £3.996 million, down to £30.340 million, or the current year's budget.
- 3.5 The proposal not to borrow is a budget decision which has been made based on evidence and acknowledgement of risk in order to assist in balancing the revenue budget. The budget decision is based on three factors:
- **Cash flow:** during this financial year 18% of the Capital plan was spent after 5 months, 30% after 6 months and 56% after 9 months, therefore the use of the Council's cash balances which average over £49 million per day is an acceptable source of funding given the spend profile of the Capital Plan and acknowledging all other financial commitments the Council has to meet day to day.
 - **Debt Maturity:** when existing debt matures it must be repaid and this is factored into the cash flow management. Cash flow is forecast and managed on a daily basis to ensure that sufficient cash is available to meet all expenditure commitments. In 2019/20 there are £22.2 million of loans due to mature and this has been factored into the budget assumptions stated above.
 - **Interest rates:** the Council can borrow on a fixed basis for a long-term period (one year or more) or on a temporary basis (for less than one year). During this financial year long term borrowing rates have ranged from 1.28% to 2.79%. Temporary rates are currently within the range of 0.6% - 0.9%.

- 3.6 To mitigate the budget decision and risk of not borrowing, the experienced treasury officers within Finance will continue to work within the Council's approved Treasury Strategy and manage the Council's cash flow position with advice taken when required from the Council's external advisors.
- 3.7 At present the funding line within Appendix 1 states that some £66.587 million is required from Cash and Borrowing. This represents the actual total cash required to be managed during the year through the Cash Flow model influenced by the three factors set out in paragraph 3.5.
- 3.8 For 2019/20 the Local Government Settlement states that Aberdeenshire Council will receive £47.964 million of Capital Grants which includes £10 million for Early Years Expansion. No allowance has been made within the Settlement for the agreed financing of the Inverurie Community Campus through the Scottish Futures Trust (SFT). The agreed financing requires Aberdeenshire Council to pass across grant funding to the SFT in return for the SFT funding all borrowing costs. Aberdeenshire Council then decides when to replace the level of Capital Grant in order to support the Capital Plan. As a result of the adjustment the net General Capital Grant for 2019/20 amounts to £16.838m. The base budget for General Capital Grant in years 2020-2034 is set at a prudent level to take into account the fact that the Settlement is determined on a one-year basis and can change year on year. This will be reviewed in line with the MTFs when setting the capital budget for 2020/21.

4. Consultation

- 4.1 The Monitoring Officer within Business Services has been consulted in the preparation of this report and her comments have been included in the report.

5. Scheme of Governance

- 5.1 The Council is able to consider and take a decision on this item in terms of section A.8.1 as it relates to the approval of the Capital Plan.

6. Implications and Risk

- 6.1 The Capital Plan for 2019-34 is shown in Appendix 1.
- 6.2 The Capital Plan for 2019/20 has been reprofiled to reflect the Council Priorities and the realistic delivery of projects whilst realising savings with borrowing costs. Some projects have therefore been reprofiled by reinstating budgets into future years of the Plan. This exercise is reflected in the Capital Plan in Appendix 1. It is proposed that officers continue work to review future years of the Capital Plan at the same time as balancing future years of the Revenue Budget.
- 6.3 For information, the ratio of capital financing costs to the total revenue streams (Revenue Support grant, Business rates and Council Tax) available to the Council are shown in Table 3. For 2019/20 the costs are budgeted at £30.340 million. On a provisional basis the revenue costs of borrowing to fund the Capital Plan from year 2 to 5 have been included within the 5-year

Revenue Budget report. This demonstrates the proportion of revenue funds that will be required to deliver the Capital Plan as proposed.

Table 3: Capital Financing costs as a % Total Revenue Streams

	Capital Expenditure (£000s)	Total Revenue Streams (£000s)	Capital Financing Charges (£000s)	Capital Financing as a % of Revenue Streams
2019/20	114,109	565,602	30,340	5.36%
2020/21	110,945	565,602	34,706	6.14%
2021/22	63,305	565,602	34,800	6.15%
2022/23	50,740	565,602	35,459	6.27%
2023/24	45,863	565,602	35,459	6.27%

- 6.4 All services have been consulted via the Capital Plan Group and have contributed to the Capital Plan shown in Appendix 1.
- 6.5 An equality impact assessment has been carried out as part of the development of the MTFS. The assessment is available on Arcadia.
- 6.6 There are no staffing implications that arise from this report.
- 6.7 The following Risks have been identified as relevant to this matter:

Aberdeenshire Corporate Risks: ([link to Corporate Risk Register](#))

ACORP001 – Budget Pressures – Budget setting process, Budget Management at Various Levels
ACORP006 – Reputational Management

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Report prepared by Alan Wood
05 February 2019

	2019/20	2020/21	2021/22	2022/23	2023/24	2024-2029	2029-2034	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
SUMMARY								
TOTAL PLANNED EXPENDITURE								
Business Services	29,025	42,348	28,918	14,977	14,977	76,117	74,885	281,247
Communities	4,409	8,620	893	893	893	4,465	4,465	24,638
Education & Children's Services	20,741	22,306	4,664	5,588	5,111	93,673	19,990	172,073
Infrastructure Services	59,934	37,671	28,830	29,282	24,882	113,346	110,205	404,150
	114,109	110,945	63,305	50,740	45,863	287,601	209,545	882,108
FINANCING								
Scottish Government								
- General Capital Grant	16,838	22,800	22,800	22,800	22,800	114,000	114,000	336,038
- Specific Grant - Cycling and Walking	428	0	0	0	0	0	0	428
- 1140 Hours Capital Funding	10,868	15,650	0	0	0	0	0	26,518
- Kintore Station - Scottish Stations Fund	7,000	330	0	0	0	0	0	7,330
Other Grants								
- Kintore Station - Nestrans Contribution	2,009	2,244	1,245	1,634	0	3,679	299	11,110
Internal Financing	2,077	630	0	0	0	0	0	2,707
- Cash & Borrowing	66,587	63,562	31,291	14,478	18,012	142,929	74,056	410,915
- Capital From Current Revenue	2,389	1,104	1,264	2,188	1,711	5,673	2,990	17,319
Sales	5,913	4,625	6,705	9,640	3,340	21,320	18,200	69,743
	114,109	110,945	63,305	50,740	45,863	287,601	209,545	882,108

	2019/20	2020/21	2021/22	2022/23	2023/24	2024-2029	2029-2034	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
DETAIL								
BUSINESS SERVICES								
Development of Industrial Portfolio & Factory Units	4,500	5,103	1,000	1,000	1,000	5,000	5,000	22,603
Cleaning (previously named Public Toilets)	220	455	120	120	120	600	600	2,235
Information Communications Technology	1,650	1,450	1,450	1,450	1,450	7,250	7,250	21,950
Depots	5,476	11,246	500	500	500	2,881	2,500	23,603
Health and Safety - Council Wide Objectives	1,000	579	450	450	450	2,250	2,250	7,429
Planned Maintenance - Council Wide Objectives	4,500	4,624	4,500	4,500	4,500	22,500	22,500	67,624
Carbon Reduction - Council Wide Objectives	800	900	600	600	600	3,000	3,000	9,500
Buchan House - Police Office Extension	1,467	0	0	0	0	0	0	1,467
New Council Office	1,200	10,000	13,941	0	0	0	0	25,141
Workspace	820	1,634	0	0	0	851	0	3,305
Saltoun Square Fraserburgh	1,035	0	0	0	0	0	0	1,035
Revenue Budget Projects Funded by Borrowing	6,357	6,357	6,357	6,357	6,357	31,785	31,785	95,355
Business Services Total	29,025	42,348	28,918	14,977	14,977	76,117	74,885	281,247
COMMUNITIES								
Learning Disabilities - Adaptation Centres	125	90	70	70	70	350	350	1,125
Social Work - Minor Works	50	96	73	73	73	365	365	1,095
Disabled/Elderly Hsg Adaptations	924	750	750	750	750	3,750	3,750	11,424
Peterhead Care and Support Village	250	7,684	0	0	0	0	0	7,934
Culture & Sport Business Unit	60	0	0	0	0	0	0	60
Affordable Housing	3,000	0	0	0	0	0	0	3,000
Communities Total	4,409	8,620	893	893	893	4,465	4,465	24,638
EDUCATION & CHILDRENS SERVICES								
ECS Enhancements	4,000	3,304	2,850	2,850	2,850	14,250	14,250	44,354
Improved Disabled Access (Education)	400	400	400	400	400	2,000	2,000	6,000
PFI Lifecycle Maintenance (CFCR)	2,389	1,104	1,264	2,188	1,711	5,673	2,990	17,319
Support for Learners	150	150	150	150	150	750	750	2,250
School Meals P1-P3	236	0	0	0	0	0	0	236
1140 Hours Projects	10,868	15,650	0	0	0	0	0	26,518
Children & Young Peoples Bill	733	500	0	0	0	0	0	1,233
Portlethen/Hillside PS Causeymouth Road Upgrading	200	0	0	0	0	0	0	200
Inverurie Community Campus	1,765	1,198	0	0	0	0	0	2,963
Peterhead Community Campus	0	0	0	0	0	71,000	0	71,000
Education & Children's Services Total	20,741	22,306	4,664	5,588	5,111	93,673	19,990	172,073

	2019/20	2020/21	2021/22	2022/23	2023/24	2024-2029	2029-2034	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
INFRASTRUCTURE SERVICES								
Access/Environment Projects	50	50	50	50	50	250	250	750
Harbours, Coast & Flooding	2,150	2,259	1,688	2,500	400	5,000	5,000	18,997
Bridges & Structures	1,750	1,501	1,700	1,700	1,700	8,500	8,500	25,351
Cycling and Walking	628	411	250	250	250	1,250	1,250	4,289
Drainage	1,200	2,200	1,700	1,700	0	0	0	6,800
Nestrans Contribution	650	2,479	1,172	1,172	1,172	5,860	5,860	18,365
Quarries	475	260	260	260	260	1,300	1,300	4,115
Roads Resurfacing/Reconstruction	11,750	11,750	11,750	11,750	11,750	43,750	43,750	146,250
Safety Initiatives	295	859	500	500	500	2,500	2,500	7,654
Street Lighting	1,334	1,589	1,400	1,400	1,400	7,000	7,000	21,123
Landfill, HWRC	2,000	1,229	866	500	500	3,286	1,045	9,426
Parks & Open Spaces	200	1,150	740	740	740	3,700	3,700	10,970
Public Transport	4,500	1,808	854	760	760	3,800	3,800	16,282
Vehicles	4,500	5,775	5,000	5,000	5,000	25,000	25,000	75,275
Burial Grounds	335	370	250	250	250	1,250	1,250	3,955
Stonehaven Flooding Scheme	13,054	2,271	0	0	0	0	0	15,325
Aberdeen Western Peripheral Route (Funded from Nestrans)	22	0	0	0	0	0	0	22
Storm Frank Works Funded By Grant - Bridges and Flooding	110	0	0	0	0	0	0	110
Kintore Station	11,821	960	0	0	0	0	0	12,781
Greenbanks Travellers Site	360	0	0	0	0	0	0	360
CITY REGION DEAL								
Aberdeen Harbour Expansion (City Region Deal)	2,000	0	0	0	0	0	0	2,000
Strategic Transport Appraisal (City Region Deal)	50	50	150	150	150	300	0	850
Digital Infrastructure (City Region Deal)	700	700	500	600	0	600	0	3,100
Infrastructure Services Total	59,934	37,671	28,830	29,282	24,882	113,346	110,205	404,150
Total Expenditure								
	114,109	110,945	63,305	50,740	45,863	287,601	209,545	882,108

