

Agenda Item	17
Report No	HC/43/20

THE HIGHLAND COUNCIL

Committee:	Highland Council
Date:	17 December 2020
Report Title:	Highland Council Capital Plan 2018/19 to 2022/23 – update report
Report By:	Executive Chief Officer, Resources and Finance

1. Purpose/Executive Summary

- 1.1 As reported to the previous meeting of the Highland Council, the Council's current 5-year capital plan, with a gross expenditure value of £481.9m, was approved in March 2018. Those projects extending beyond the current capital plan and into the period 2023/24 to 2027/28 require additional gross expenditure of £66.1m.
- 1.2 When deciding the scale of the Council's programme, consideration must be given to affordability within the current loans charge budget and in this regard, the Council has approved general fund commitments of £81.9m since June 2020 as set out in the reports to Council on 25 June, 1 October and 29 October 2020.
- 1.3 As previously reported, and as reflected in the first revised programme that has been shared with Members, work continues to review and update the programme to reflect changing project timescales and costs, the addition of newly approved projects and updated cashflow forecasts.
- 1.4 The Covid-19 pandemic continues to impact on the construction industry with projects facing supply chain issues, additional site measures to ensure the health and safety of the workforce, and delays to project timescales. The combined effect of these factors has resulted in additional costs on live projects where site work was suspended, an increase in recent tender levels, and delays to progress on some projects that are at pre-construction stage. It has also exacerbated some pre-existing conditions in buildings, such as the management of toilet facilities and outdoor space in schools, which have had to be addressed.

2. Recommendations

- 2.1 Members are asked to note:

- i. the reprofiled capital programme and associated loans fund debt charges;
- ii. the provision made for the North Care Facility - subject to Members' decision on the confidential report later on the Council agenda;
- iii. the ongoing work to develop the Council's capital strategy.

3. Implications

3.1 **Resource:** The four funding elements for the Capital Programme are:

- the general capital grant from the Scottish Government;
- specific project capital funding which mainly comprises Scottish Government funding for floods and harbours. Developer contributions also provides funding for capital projects.
- capital receipts arising from the disposal of assets; and
- borrowing, which requires annual repayment through the Council's revenue budget loans fund.

3.2 **Community (Equality, Poverty and Rural):** There are no specific community issues that arise directly as a result of this report, however the Council's capital programme will make a significant contribution to the economic recovery across Highland communities over the coming years.

3.3 **Legal:** While there are no specific legal implications arising directly from reprofiling the capital programme, any future capital programme must comply with the CIPFA Prudential and Treasury Management Code of Practice (2017).

3.4 **Risk:** The delivery of a capital plan in the current environment has an increased level of risk in terms of project cost and delivery timescale. The complete lockdown seen earlier this year has caused delays in expected completion dates of many projects and in many cases there are additional projects costs associated with these delays or new Covid-safe ways of working. Future changes in guidance for the construction sector may also impact on project budget or timescales. Confirmation of Scottish Government funding to support the Learning Estate Improvement Programme is still awaited.

3.5 **Climate Change/Carbon Clever:** It is critical that all of the capital projects highlighted in this report contribute as far as possible to the Council's climate change agenda. The delivery of future projects will be positioned to fit with the Scottish Government's approach to green recovery and the Council's commitment to achieving a carbon neutral Highlands by 2025.

3.6 **Gaelic:** There are no specific Gaelic implications directly arising from this report, however, the Council still retains £4m capital funding received from the Scottish Government for investment in Gaelic medium education specifically in Inverness. On its own, the funding is insufficient to provide any new stand alone provision, so work is underway to look across the Inverness school estate, and engage with Scottish Government officials and partners, to explore what might be possible to provide the best use of this valuable funding.

4. Impact of Covid 19 on the capital programme

- 4.1 The impacts of Covid 19 on the capital programme can be considered under two main categories, firstly the impact on projects already underway, and secondly on projects not yet contractually committed.
- 4.2 The lockdown period brought about by Covid 19 has seen all on-site work on capital projects cease. The impact on external contractors is significant as they have had to demobilise and have had to remobilise their project staff. This process has added time and cost to capital projects and contractors have also seen increased costs from extending equipment contracts or sub-contractors. The cost and availability of construction materials has also been adversely impacted and there has been slight disruption to supply chain operations. Social distancing on construction sites has also been an issue and has added cost and time to capital projects. There are likely to be many other factors that will also affect a project's ability to be delivered on time and on budget and in many cases the risk of additional contract costs will sit with the Council.
- 4.3 Given the above, and combinations of acceleration and slippage of the current approved capital programme has required the reprofiling of all the approved projects in the approved plan. The reprofiling has taken account of increased costs due to the above, inflationary increases due to the passage of time and deliverability of projects within the time frame of the remaining life of the approved capital programme.

5. Affordability and Loans Charges

- 5.1 As set out in paragraph 3.1 above, capital projects are partly funded by borrowing and repaid through the Council's revenues budget as loans charges. These charges reflect the repayment of the principal sum and interest which amounts to £56m for the current financial year.
- 5.2 **Appendix 1** to this report shows the reprofiled capital programme for 2021/22 and 2022/23, the remaining life of the current approved programme, along with any associated contractual committed expenditure in future years. The reprofiled capital programme is the one approved in March 2018 updated to reflect the additional projects approved on 29 October 2020.
- 5.3 An initial impact assessment of the revised capital programme on the loan charges budget is provided below.

Year	£m
2020-21	57.832
2021-22	57.133
2022-23	59.007
2023-24	60.059
2024-25	59.334
2025-26	58.647
2026-27	56.686
2027-28	54.805
2028-29	52.901
2029-30	50.557

- 5.4 The principal reason for the estimated increase, circa £4m, is the decision to invest in the Council's roads infrastructure (£20m) and to complete the roll-out of 1,140 hours provision in Early and Learning Childcare (ELC) (£23m). The Council availed itself of

taking the opportunity to augment Scottish Government funding with required investment in its school estate where ELC spending was required.

- 5.5 The estimated increase for 2020/21 has been recognised in the current year as a result of approving the budget in March 2020 to reflect the approval to invest an additional of £20m in roads infrastructure.
- 5.6 Based on the reprofiling exercise, and assuming projects are delivered in the timeline, there remains a budget pressure of £2m, £1m in 2022/23 and a further £1m in 2023/24. The increased pressure will have to be recognised in the budget processes for the respective years, however the loan charges budget will be revisited as part of this process based on the actual capital expenditure incurred.
- 5.7 Individual project updates are included in **Appendix 2**.
- 5.8 Members should note that a total of £4m was received from Scottish Government by way of grant funding towards a new Gaelic school in Inverness. The £4m Gaelic capital grant is held under “Capital Grants in Advance” and remains unspent. The Council is continuing to work with Scottish Government in delivering Gaelic provision within Inverness.
- 5.9 Included in **Appendix 1** is provision for the North Coast Care Facility with a view to replacing Melvich Care Home and Caladh Sona Care Home in Talmine. A detailed report on this project is provided later on the agenda and will be taken in private due to its confidential commercial nature.
- 5.10 Officers continue to review the following factors with the aim of bringing the revised programme in line with the current affordability limit, ie the loan charges budget:
- Phasing programmed expenditure;
 - Forecast assumptions of future interest rates and total borrowing costs;
 - Transferring roads investment funding to support loans charges;
 - Timing of income from the Learning Estates Income Programme (LEIP); and
 - Adjusting the accounting treatment of historic capital receipts in accordance with the approved 2020/21 budget saving.
- 5.11 While it is anticipated that these factors should enable the revised programme to be delivered, it is important to note that there is very limited capacity for further additionality.

6. Essential Urgent Expenditure

- 6.1 Currently the Head Teacher on Rum is in temporary accommodation and a long term solution is required. Under legislation the Islands (Scotland) Act requires that this investment is necessary. The Act requires that the Council takes mitigating action where a detrimental differential impact has occurred as a consequence of being an island. The lack of available housing on Rum is as a direct result of its island’s status and there is a risk that the Council will be unable to deliver an appropriate level of education for residents’ children as a consequence.
- 6.2 At present the cost of this provision is unknown, however, to allow progress any feasibility costs in identifying what is required can be met from the Education Modular Units line in the current approved programme.

7. Capital Strategy

7.1 Local authorities must have in place a capital strategy. Development of the Council's capital strategy has commenced and will inform future investment decisions. These decisions are complex and inter-related and include:

- Links to the Council's broad Programme of Commitments
- The Council's investment philosophy such as place, low carbon, digital, and partnerships
- Links to the Strategic Asset Management Strategy
- Capital Governance by Members and those delegated to Officers
- Agreed approaches and decision-making relating to projects: prioritisation, scope and management
- The way in which affordability is determined and how that links to medium term financial planning

8. Member Seminar

8.1 The recent seminar for Members, held on 2 December, introduced treasury management and the impact of capital investment on revenue budgets; affordability and sustainability; and continued the ongoing focus of the importance of a capital strategy.

8.2 **Appendix 3** is the presentation given at the seminar.

9. Loans Fund Review

9.1 The Loans Fund Review is a separate exercise that is also underway to examine the Council's overall approach to accounting for the repayment of capital investment. While there are linkages between the Scottish Government's "fiscal flexibilities" and this Review, these flexibilities are a sub-set rather than being a core element of the available options.

9.2 The Council has flexibility to reprofile its debt repayment schedule in order to reduce revenue costs in the early years. This option however will result in much increased costs in later years. Initial revenue savings could be used to:

- Offset revenue budget pressures;
- Finance additional capital investment

9.3 The approach taken must be prudent, affordable over the long term and avoid burdensome constraints for future revenue or capital budgets.

10. Public Works Loan Board (PWLB) Borrowing/Pension Fund Investment

10.1 The Chancellor's Autumn Statement (26 November 2020) included a reversal of the 1% increase to PWLB borrowing rates. Today, 50-year money can be borrowed from the PWLB at 1.7%.

10.2 While the Council may opt for new long-term PWLB borrowing, short term borrowing rates are considerably more affordable, currently at around 0.25%. In the current

climate, an appropriate balance of long-term certainty versus short term costs will be achieved. As the pension fund requires a greater return than this, borrowing from the PWLB is much better option for the Council.

Designation: Executive Chief Officer Resources and Finance

Date: 9 December 2020

Authors: Sheila McKandie, Mike Mitchell

Background Papers:

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CAPITAL PROGRAMME UPDATE- NOVEMBER 2020

SERVICE: GENERAL FUND

Project Description	2018/19 Actual Outturn £000	2019/20 Actual Outturn £000	Actual Net Year to Date £000	2020/21 Estimated Net Outturn £000	Planned Expenditure 2021/22 £000	Planned Expenditure 2022/23 £000	Planned Expenditure 2023/24 £000	Planned Expenditure 2024/25 £000	Planned Expenditure 2025/26 £000	Planned Expenditure 2026/27 £000	Planned Expenditure 2027/28 £000	Gross 2021/22 - 2027/28 £000	Income Total £000	Net Total £000
COMMUNITY AND LEISURE FACILITIES														
Community and Leisure Facilities	227	487	22	355	500	500						1,000		1,000
SCHOOLS														
Secondary School Programme														
Alness Academy	7,639	19,816	3,178	5,083	3,371	103						3,474	-2,101	1,373
Charleston Academy		44	107	456	773	3,090	3,090	258				7,210	-164	7,046
Culloden Academy		37	37	213	1,030	3,090	3,090	258				7,468	-1,001	6,467
Inverness High School	4,797	4,789	791	2,089	258							258		258
Inverness Royal Academy	643	-339	431											
Wick Community Campus	2,021		20											
Tain 3 to 18 Campus			123											
Lochaber Flood Damage			311	1,000										
Covid Costs - Alness, Inverness High & Merkinch				1,500										
Hub Legacy Projects				1,357										
Legacy Projects	84	231	20	220										
Primary School Programme														
Merkinch Primary	4,358	12,091	1,209	980	361	361						721		721
Milton of Leys Primary	-31	15	8	116	1,339	103						1,442	-120	1,322
Smithton Primary	3,096	1,897	35	-755									-734	-734
Ness Castle Primary Phase 1	319	1,062	225	619	4,120	8,240	258					12,618	-2,084	10,534
Ness Castle Primary Phase 2											7,176	7,176		7,176
Strontian Primary	73			43										
Park Fire Reinstatement		34	154	966										
Legacy Projects	1,852	498	159											
School Estate Management														
Early Learning and Childcare		2,172	-23,337	-8,597	22,835							22,835		22,835
Free School Meals	679	626	34	250										
Modular Units	1,519	869	131	275	1,030	1,030	515					2,575		2,575
School Estate Improvement Programme	6,022	3,969	302	4,405	6,454	6,500						12,954		12,954
Scottish Schools for the Future														
LEIP - General				192										
Learning Estate Investment Programme- Tain 3-18	96	112	13	500	1,545	5,665	23,175	12,875	515			43,775		43,775
Learning Estate Investment Programme- Broadford					258	515	1,030	7,210	2,318	258		11,588		11,588
Learning Estate Investment Programme- Nairn Academy					515	1,545	4,120	21,630	10,815	515		39,140		39,140
HEALTH & SOCIAL CARE PROGRAMME														
Adult Services (NHS)	338	480	138	582	2,250	2,250						4,500		4,500
Adult Services- North Coast Care Facility				100	400	1,500	2,750	250				4,900		4,900
Children's Services/Out of Authority	930	442	506	878	750	750						1,500		1,500
ICT														
ICT Transformation	8,686	9,693	-417	1,130	680	680	4,000	4,000	5,000	1,000	1,000	16,360		16,360
ROADS AND BRIDGES														
Structural Road Works														
Road Structural Capital Works	6,926	3,985	271	4,550	13,250	13,250						26,500		26,500
Road Surface Dressing Capital	1,712	911	120	1,500	2,500	2,500						5,000		5,000
Bridges, Retaining Walls & Culverts	87	119	55	344	950	950						1,900		1,900
Area Minor Capital Works														
Timber Extraction	768	667	43	500	500	500						1,000		1,000

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SERVICE: GENERAL FUND

Project Description	2018/19	2019/20	Actual	2020/21	Planned	Planned	Planned	Planned	Planned	Planned	Planned	Gross	Income	Net
	Actual	Actual	Net	Estimated Net	Expenditure	Expenditure	Expenditure	Expenditure	Expenditure	Expenditure	Expenditure	2021/22 -	Total	Total
	Outturn	Outturn	Year to Date	Outturn	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2021/22 -	Total	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	2027/28	£000	£000
Major Road Improvements														
The Inverness West Link	1,229	8,609	1,856	5,258	843							843	-2,056	-1,213
Inshes Roundabout	534	176	23	50	206	206	4,210	2,073				6,695	-1,408	5,287
Development Infrastructure, Dingwall	56	260	15	50	412	337						749		749
B851/B862 South Loch Ness Road Improvements	234	37	61	206	357	212						570		570
Stromeferry Rockface	1,434	706	38	50	1,030	52						1,082		1,082
Kinloch Hourn Landslip	148	710												
Minor Road Improvements														
Crask Junction	48	207	2	5										
Other Minor Schemes	138	27	4	10										
Major Bridge Works														
B863 Invercoe Bridge, Lochaber	12	141	112	200	2,472	3,502	52					6,026		6,026
A862 Muir of Ord Railway Bridge	73	16	2	5										
B9090 White Bridge	2,331	831	12	140	26	170	5	5				206		206
Dulsie Bridge				11	11	11	436					458		458
Newhall Bridge	177	-6												
Acharn Bridge						62	1,097					1,159		1,159
Achnagavin Bridge						37	904					941		941
Naver Bridge			20	100	309	103	3,399	3,090	112			7,013		7,013
Lifeline Bridges														
B8007 Glenmore Bridge - Lifeline Bridges	53	40	9	20	26	758						784		784
A831 Comar Refurbishment - Lifeline Bridges		11		22	34	765	11					811		811
ACTIVE TRAVEL														
Car Parking - Portree	26	198	152	200	200							200		200
Car Parking - Fort Augustus	73	17	4	10	5							5		5
Car Parking - Fort William	26													
Car Parking - Storr		578	-69	-69										
Car Parking - Inverness Lorry Park		14	5	10	150							150		150
Car Parking - Equipment	106	169												
Cycling, Walking & Safer Streets	127	320	112	320	320	320						640	-640	
20mph Zones	41		3	22										
Traffic Management Improvements	1	164	124	130										
Community Links PLUS	110	86	-196	2,895	2,500	1,004						3,504	-3,504	
Bus Priority Rapid Development Fund			2	1,200										
Spaces for People			491	753										
Bus Shelters	15													
LIGHTING														
Structural Lighting Works	3,167	2,893	278	1,500	2,090	1,000						3,090		3,090
FLOOD PREVENTION														
Flood Prevention Schemes														
River Ness Flood Prevention - Tidal Section (Incl Streetscaping)	206	311	7	10										
Smithton / Culloden Flood Alleviation	3,362	2,942	397	700	309	206	52	10				577	1,993	2,570
Major Flood Schemes														
River Enrick FPW / NFMS	131	195	104	250	1,389	1,139	52	31				2,611	-807	1,804
Caol FPW	189	916	328	450	4,114	3,408						7,522	-4,288	3,234
Mill Burn FPS	69	60			62	258	251					571		571
Conon Bridge Flood Defence Improvements	53	62	26	100	618	26						644		644
River Gynack FPS / NFMS	27	30	17	20	52	103	376					530		530

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SERVICE: GENERAL FUND

Project Description	2018/19	2019/20	Actual	2020/21	Planned	Planned	Planned	Planned	Planned	Planned	Planned	Gross	Income	Net
	Actual	Actual	Net	Estimated Net	Expenditure	Expenditure	Expenditure	Expenditure	Expenditure	Expenditure	Expenditure	2021/22 -	Total	Total
	Outturn	Outturn	Year to Date	Outturn	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2027/28	Total	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Inverness Castle				800	1,639	13,113	13,023	4,207				31,982	-22,200	9,782
SELF FUNDING PROJECTS														
Longman Campus Site		32	11	50										
Local Full Fibre Network	1,787		918	1,836										
Bridge Street Acquisition, Inverness	4,193													
27 Harbour Road Acquisition, Inverness			557	557										
LED Programme for Buildings - SALIX Funded		89	624	900										
Solar PV	94	960	312	500										
Whin Park Hydro	49	73	159	250										
HOUSING (NON HRA)														
Private Sector Housing Grants		2,186	559	1,920	1,920	1,920						3,840		3,840
Travelling People Sites	255	125		118	118	118						236		236
CAPITAL PROGRAMME TOTAL	96,201	104,648	-9,909	57,038	132,251	128,423	74,371	57,710	18,760	1,773	8,176	421,463	-95,132	326,331
Less : Project Income					-27,719	-46,807	-15,468	-1,780	-1,114	-1,120	-1,124			
Net Expenditure					104,532	81,616	58,903	55,930	17,646	653	7,052			

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CAPITAL PROGRAMME UPDATE- NOVEMBER 2020

SERVICE: GENERAL FUND

Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
COMMUNITY AND LEISURE FACILITIES		
Community and Leisure Facilities		Agreed priorities being taken forward
SCHOOLS		
Secondary School Programme		
Alness Academy		Phase 1 Complete - School Building Operational
Charleston Academy		Work is underway on preparing a masterplan that will establish a long-term strategy for the redevelopment of the campus. This is being carried out in conjunction with the annual review of the 15-year school roll forecasts that is a key element in assessing future capital investment priorities. This will establish the approach to the initial phase of extension and refurbishment work to be delivered within the capital funding approved in March 2018 and which will be completed during 2023/24 in line with the revised expenditure profile in Appendix 1. The work currently being undertaken will establish how the Phase 1 budget will be allocated between the 2 main elements of the first phase; an extension block mainly comprising new practical classrooms and the refurbishment of the vacated accommodation in the existing main building. A further update will be provided in January to Ward Members and the Parent Council. The refurbishment of the sports facilities has recently been completed.
Culloden Academy		Work is underway on preparing a masterplan that will establish a long-term strategy for the redevelopment of the campus. This is being carried out in conjunction with the annual review of the 15-year school roll forecasts that is a key element in assessing future capital investment priorities. This will establish the approach to the initial phase of extension and refurbishment work to be delivered within the capital funding approved in March 2018 and which will be completed during 2023/24 in line with the revised expenditure profile in Appendix 1. The work currently being undertaken will establish how the Phase 1 budget will be allocated between the main elements of the first phase; demolition of the vacant houses; a new synthetic playing field, pavilion and car parking on the additional land; an extension block mainly comprising new practical classrooms; and the refurbishment of the vacated accommodation in the existing main building. Modular accommodation will be installed as referred to in the Modular Units line below. A further update will be provided in January to Ward Members and the Parent Council.
Inverness High School		Nearing completion
Inverness Royal Academy		
Wick Community Campus		
Tain 3 to 18 Campus		
Lochaber Flood Damage	Final cost to Council to be confirmed	Work ongoing
Covid Costs - Alness, Inverness High & Merkinch		Costs not shown separately as still to be finalised at Alness
Hub Legacy Projects	Final settlement across all 3 projects (IRA, Noss Primary and Wick Campus)	Complete
Legacy Projects		Complete
Primary School Programme		
Merkinch Primary		Phase 1 complete - new school building operational
Milton of Leys Primary		Passivhaus pilot project
Smithton Primary		Complete

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SERVICE: GENERAL FUND

Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
Ness Castle Primary Phase 1	Expenditure profile based on revised phasing requirements; Covid/inflationary pressures due to one year delay in delivery of Phase 1	Construction work to start in early 2021; Phase 1 will have 12 classrooms and nursery accommodation to deliver 1,140 hours of ELC
Ness Castle Primary Phase 2	The revised 5-year capital programme approved in March 2018 identified funding for an extension in Years 6 to 10.	The school has been designed so that it can be extended in the future when required
Strontian Primary		Complete
Park Fire Reinstatement	Final cost to Council to be confirmed	School to return to Park campus in 2021
Legacy Projects		Complete
School Estate Management		
Early Learning and Childcare		Combined investment programme with SEIP; all ELC projects previously reported for further sign off and approved
Free School Meals		Work ongoing
Modular Units		Programme for 2021/22 and 2022/23; Capacity Culloden Academy and Croy Primary; Condition Farr High, Beauly Primary, Daviot Primary, Dunvegan Primary and Strathconon Primary, with others to be assessed
School Estate Improvement Programme		Includes non-ELC projects previously approved in June 2019; Primary Abernethy, Cannich, Cradlehall and Tomnacross Phase 2; Secondary Fortrose, Invergordon, Lochaber, Thurso and Wick; Replacement of synthetic pitch surfaces at Nairn Academy and Mallaig High As highlighted in the report to the meeting of the Corporate Resources Committee on 11th November, work has started on exploring the benefits of the Passivhaus design approach on a pilot programme of smaller scale new build primary schools (i.e. the initial phases of Beauly and Dunvegan and the nursery annexe at Milton of Leys). These projects will now be taken forward in this manner with the target of having all 3 completed by August 2022, and with the necessary additional funding allocated from the School Estate Improvement Programme budget heading.
Scottish Schools for the Future		
LEIP - General		Development of previously approved priorities, including St. Clement's and Inverness schools
Learning Estate Investment Programme- Tain 3-18		Stage 2 design underway; based on an August 2024 opening
Learning Estate Investment Programme- Broadford		Based on an August 2025 opening
Learning Estate Investment Programme- Nairn Academy		Based on an August 2025 opening; synthetic pitch surface requires to be replaced first
HEALTH & SOCIAL CARE PROGRAMME		
Adult Services (NHS)		Agreed priorities being taken forward
Adult Services- North Coast Care Facility		Timescale and funding delivery model to be confirmed
Children's Services/Out of Authority		Agreed priorities being taken forward
ICT		
ICT Transformation		Increased budget required for next 2 years mainly to cover cost of Chromebook repairs and replacements. This is based on the increased size of the estate (nearly 30,000 now) and experience of breakages over the last 2 years. The budget also includes a smaller proportion for repairs to Windows devices and network switches. 2023 onwards covers the refresh of Chromebooks and the start of a rolling refresh for Windows devices. These figures are indicative only at this stage.

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SERVICE: GENERAL FUND

Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
ROADS AND BRIDGES		
Structural Road Works		
Road Structural Capital Works Road Surface Dressing Capital	Approved £20M additional before covid which was ratified again at the full Council October committee, 2020.	Additional £20M to be spent over 2 years with a focus on delivering planned works to improve the condition of the road network. There will be a report taken to ECI committee in January with the proposals for the £20M spend over the next 2 years. For the annual budgets, reports are taken to each Area committee with programme proposals. For timber extraction, a report is provided to ECI committee annually.
Bridges, Retaining Walls & Culverts	As above.	As above.
Area Minor Capital Works		
Timber Extraction	As above.	As above.
Major Road Improvements		
The Inverness West Link		Construction programmed for completion April 2021, retention to be paid in 21/22. Note compensation payment discussions/negotiations are ongoing - and final amounts and associated impact on budget not yet established.
Inshes Roundabout		Options developed - a paper will be taken to the City of Inverness Area Committee in February 2021 to allow public consultation on options. Discussions ongoing with developers over land access and also contributions. It will be necessary to progress construction consents and possibly CPO/Public Inquiry. So design work should progress even if the construction phase slips as the programme is difficult to estimate given these procedures and the level and nature of potential objections.
Development Infrastructure, Dingwall		One significant improvement completed - further traffic modelling underway to refine further proposals. Future work will include more active travel infrastructure improvements as well.
B851/B862 South Loch Ness Road Improvements		B851 Inverarnie Village Improvement Scheme (B861 Junction to Dalvourn section) completed August 2020. Ongoing future works development and planning application/developer negotiations to realise delivery of mitigation works.
Stromeferry Rockface	The works are targeted to assessed high risk rock slopes - the full extent and nature of which only becomes apparent as works progress. Note works planned in 21/22 on upper slopes as part of the additional works approved in 2019. Phase 12 works were delayed due to COVID-19	Works programmed for 20/21 will now be carried out in spring 21
Kinloch Hourn Landslip		Complete.
Minor Road Improvements		
Crask Junction		Works complete. Retention, landscape maintenance and some land costs outstanding.
Other Minor Schemes		
Major Bridge Works		
B863 Invercoe Bridge, Lochaber	Additional budget required to meet anticipated retender costs and retender values	Tender for works returned £1.5million above budget - the plan is to retender next year. The required budget is under review but will likely require increasing to allow scheme to go ahead.

THE HIGHLAND COUNCIL

CAPITAL PROGRAMME UPDATE- NOVEMBER 2020

SERVICE: GENERAL FUND

Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
A862 Muir of Ord Railway Bridge		Complete
B9090 White Bridge		Construction complete, 5 year planting contract in maintenance, land acquisition to be concluded. Repairs to original White Bridge to be carried out in 2022.
Dulsie Bridge		Works delayed to allow further monitoring of bulging wall. Recent results show bridge has not moved recently - current plan is to continue monitoring to ensure no further movement takes place before determining the scope for a repair project in 2023/24.
Newhall Bridge	Underspend on project	Complete
Acharn Bridge		Project not yet started - design to commence in 2022
Achnagavin Bridge		Project not yet started - design to commence in 2022
Naver Bridge		Bridge design contract to be awarded Jan 2021, construction programmed to begin 2023
Lifeline Bridges		
B8007 Glenmore Bridge - Lifeline Bridges		Design underway, issues with land acquisition need to be addressed for scheme to proceed.
A831 Comar Refurbishment - Lifeline Bridges		Preliminary design underway - design to commence 2021
ACTIVE TRAVEL		
Car Parking - Portree		£300K THC, £300K PBCT - PDU to confirm costs outstanding
Car Parking - Fort Augustus		Project paused due to Covid19 - Lovat Estates to Fund - Minor Design Costs from PDU to be funded
Car Parking - Fort William		Complete
Car Parking - Storr		£810K Ph1 & Ph2 less £200k Leader funding - £610K THC capital. PDU & Area Roads team to confirm outstanding costs. Projected within budget and invoicing complete by 31st January 2021.
Car Parking - Inverness Lorry Park		PDU to confirm design/tender stage and timeline
Car Parking - Equipment		Complete - further spend may be necessary but only if funding comes from car park revenue to fund capital.
Cycling, Walking & Safer Streets		Scottish Government grant - unknown amount. Possibly announced in April/ May 2021.
20mph Zones		No current capital allocation.
Traffic Management Improvements		£0.250m of spend is for match funding ERDF real time passenger information in partnership with HITRANS £0.250m and £0.5m ERDF.
Community Links PLUS		Fully funded project with Sustrans grant.
Bus Priority Rapid Development Fund		Fully funded project with Sustrans grant.
Spaces for People		Fully funded project with Sustrans grant.
Bus Shelters		No current capital allocation.
LIGHTING		
Structural Lighting Works		All projects expected to be delivered by end of financial year 2023.
FLOOD PREVENTION		
Flood Prevention Schemes		
River Ness Flood Prevention - Tidal Section (Incl Streetscaping)		Complete

THE HIGHLAND COUNCIL

CAPITAL PROGRAMME UPDATE- NOVEMBER 2020

SERVICE: GENERAL FUND

Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
Smithton / Culloden Flood Alleviation	Scheme 80% funded by Scottish government Grant (received). Note that 80% of underspend would be returned to Scottish Government.	Scheme substantially complete Sept 2020. Ongoing landscaping maintenance for further 3 years.
Major Flood Schemes		
River Enrick FPW / NFMS	Scheme 80% funded by Scottish government Grant (received).	Scheme has been delayed due to additional time required to produce Contract drawings and documents - in part due to Consultant staff on furlough during COVID restrictions. Advanced tree felling contract to be undertaken in Jan/Feb 2021. Main contract to be awarded April/May 2021 with construction taking place June 2021 - Dec 2022.
Caol FPW		Project out to tender - with award planned for early 2021. Note this is behind original programme - due to objections and need for a hearing. Project 80% funded by Scottish Government - with funding already received.
Mill Burn FPS		Options Appraisal carried out and submitted to SEPA Dec 2019 for national prioritisation of flood schemes. Awaiting outcome of prioritisation work and subsequent decision from Scottish Government regarding allocation of grant funding to flood schemes. Should this scheme receive grant funding, then detailed design, ground investigations, consultations and development of a formal Flood Protection Scheme will progress prior to construction.
Conon Bridge Flood Defence Improvements		Investigations and design work continues with construction programmed for next year
River Gynack FPS / NFMS		A hydraulic model has been established to understand the extent of flood risk to Kingussie. Next step is to undertake an options appraisal and then develop detailed design of a preferred option.
River Peffery - FPS / NFMS	Development of study to enable submission of a Preferred Option for national prioritisation has incurred more cost than anticipated.	Options Appraisal carried out and submitted to SEPA Dec 2019 for national prioritisation of flood schemes. Awaiting outcome of prioritisation work and subsequent decision from Scottish Government regarding allocation of grant funding to flood schemes. Should this scheme receive grant funding, then detailed design, ground investigations, consultations and development of a formal Flood Protection Scheme will progress prior to construction (subject to additional THC allocation to budget).
Golspie - FPS / NFMS		Options Appraisal carried out and submitted to SEPA Dec 2019 for national prioritisation of flood schemes. Awaiting outcome of prioritisation work and subsequent decision from Scottish Government regarding allocation of grant funding to flood schemes. Should this scheme receive grant funding, then detailed design, ground investigations, consultations and development of a formal Flood Protection Scheme will progress prior to construction.
River Thurso - FPS	Scheme benefit cost ratio was very low and it is anticipated that the scheme will be ranked very low on national list, therefore unlikely to receive any Scottish Government grant funding. Business case for the scheme is therefore not expected and no further spend would be incurred.	Options Appraisal carried out and submitted to SEPA Dec 2019 for national prioritisation of flood schemes. Awaiting outcome of prioritisation work and subsequent decision from Scottish Government regarding allocation of grant funding to flood schemes. Should this scheme receive grant funding, then detailed design, ground investigations, consultations and development of a formal Flood Protection Scheme will progress prior to construction.
River Nairn & Auldearn Burn FPS		Delivery of a Flood Study for Nairn (including the Auldearn Burn) has been delayed due to resource shortage. No contract has been entered into with a Consultant as yet. If this project is to be delayed further then there would be significant local opposition. Development of an Options Appraisal Study is required by Dec 2025 in order to submit the scheme for future Scottish Government funding.
Kirkhill Watercourse Diversion	Payment of final invoice to cover retention and small amount of project costs for finalisation of as built drawings and H&S File.	Works to provide a diversion for flow at Kirkhill has been completed and has already resulted in flooding being averted on a few occasions.

THE HIGHLAND COUNCIL

CAPITAL PROGRAMME UPDATE- NOVEMBER 2020

SERVICE: GENERAL FUND

Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
Risk Management Plans	Cost of providing planning advice, flood investigation, and development of flood risk strategy requires more funding than allocated.	Ongoing provision of planning advice, flood incident investigations and development of Local Flood Risk Management Plans. Next cycle of Plans (2022-2028) is currently being developed prior to consultation.
Flood Improvement Works Knockbain Burn, Dingwall		Delays to progressing this project in part due to COVID (reallocation of staff resources to manage emergency works). Coarse debris screen currently out to tender and anticipated award Dec 2020 with construction in early 2021. Screen Improvement works currently being designed and anticipated construction in late 2021
Inverness SWMP/ICS		A commitment made by THC in the Local Flood Risk Management Plan. Development of a SWMP, working with Scottish Water, has commenced already and should be completed by 21/22. The solutions developed will identify who is responsible to undertake further studies or works and will allow a grant bid to be submitted to fund the detailed design and construction stage.
Newtonmore SWMP		A commitment made by THC in the Local Flood Risk Management Plan. Development of a SWMP, working with Scottish Water, has commenced already and should be completed by 21/22. The solutions developed will identify who is responsible to undertake further studies or works and will allow a grant bid to be submitted to fund the detailed design and construction stage.
Dingwall SWMP		A commitment made by THC in the Local Flood Risk Management Plan. Development of a SWMP, working with Scottish Water, has commenced already and should be completed by 21/22. The solutions developed will identify who is responsible to undertake further studies or works and will allow a grant bid to be submitted to fund the detailed design and construction stage.
Halkirk SWMP		A commitment made by THC in the Local Flood Risk Management Plan. Development of a SWMP, working with Scottish Water, has commenced already and should be completed by 21/22. The solutions developed will identify who is responsible to undertake further studies or works and will allow a grant bid to be submitted to fund the detailed design and construction stage.
Fort William SWMP		A commitment made by THC in the Local Flood Risk Management Plan. Development of a SWMP, working with Scottish Water, has commenced already and should be completed by 21/22. The solutions developed will identify who is responsible to undertake further studies or works and will allow a grant bid to be submitted to fund the detailed design and construction stage.
Corpach SWMP		A commitment made by THC in the Local Flood Risk Management Plan. Development of a SWMP, working with Scottish Water, has commenced already and should be completed by 21/22. The solutions developed will identify who is responsible to undertake further studies or works and will allow a grant bid to be submitted to fund the detailed design and construction stage.
WASTE MANAGEMENT		
Landfill Extensions		
Landfill Restorations		
Landfill Restoration Programme		Due to legislation surrounding the ban on landfilling - it will be required to fully restore the two operational landfill sites at Granish and Seater.
Waste Management Strategy		

THE HIGHLAND COUNCIL

CAPITAL PROGRAMME UPDATE- NOVEMBER 2020

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Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
Residual Waste Management Facility - Longman Project	Cost of development assessed on tender design. Notwithstanding the optimisation of the design and value engineering, additional foundation and piling costs due to construction on a landfill site, and also sophisticated fire suppression measures - as advised by insurance needs has added significantly to the costs.	Tenders received (quality and price) - tender analysis to be completed before Christmas.
Plant, Infrastructure & Banks -inc Aviemore & Fort William		Tenders invited for Aviemore. Works ongoing to establish preferred option at Fort William, due to site availability and lack of sufficient space at existing Carrs Corner Depot.
FERRIES AND HARBOURS		
Uig Ferry Terminal and Link Span	Cost of the infrastructure project has increased significantly following tender return, review of risk profile and risk ownership. Funding approval is awaited from Transport Scotland with 80% Transport Scotland grant funded and 20% Highland Council funded with costs recovered through increased harbour dues to cover loan charges.	Approval for the revised procurement strategy and funding is awaited from Transport Scotland. Tenders for the revised works scope contract and revised risk profile to be issued in December 2020.
Harbours General Structural Works		Ongoing health and safety to piers and harbours infrastructure.
Sconser Ferry Terminal		Complete.
Corran Ferry (as agreed at HC 29-10-20)	To be confirmed following conclusion of option appraisals.	Corran Ferry has annual costs and will require refit costs in the future. A provisional allocation of £250k per year is suggested.
COMMUNITY WORKS		
Burials and Cremations		
Burial Ground Extension - General		<p>The general project code is used for preparation and works towards extensions. Number of sites progressing:</p> <ul style="list-style-type: none"> - Daviot - Work continues to develop the land purchased some years ago for new extension by installing a roadway, paths, foundations and fencing. - Chapelhill, Tain - trial pits complete, layout plans agreed, moving forward to planning stage. - Morar Beoraid - Legal establishing ownership of adjacent land. - Broadford Strath - Landowners being approached regarding possible purchase for extension. - Broadford Ashaig - Discussions ongoing with local Grazing committee re: land close to current burial ground. - Kishorn - Land ownership established. Intended to develop a small extension for future use. - Tomnacross - Surveyor making contact to establish if Landowner is minded to sell land for extension. - Dunvegan - several parcels of land have been identified as possible sites for new extension. Local Amenities team meeting with surveyor to determine the best to take forward for trial digs. - Canisbay- Land for extension purchased some years ago. Planning granted but has lapsed. New planning application being submitted.
Burial Ground Portree		Next phase of burial ground to be developed in 2021-2023
Burial Ground Nairn		Original development complete.
Burial Ground Fodderty		Original development complete.

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Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
Burial Ground Kilmorack		Surveyors in discussions with landowner for permission to carry out test digs required by SEPA
Burial Ground Glen Nevis		Numerous site looked at but all unsuitable due to rock, peat or water. Meeting has taken place with further landowner and a possible site has been identified across the river from the existing burial ground. Lanowner has given permission to carry out test digs.
Burial Ground Dores		Extension layout plans being submitted by PDU for planning. SEPA have limited the number of interment to 10 per year, due to the geology of the site.
Burial Ground Kilvean		Additional paths and strip foundations are being installed to increase the capacity of the next two areas for extending. This work is ongoing and will be complete by March 2021.
Burial Ground Tain		Investigations are ongoing regarding the possible purchase of another piece of land adjacent to the existing extension for future development.
Burial Ground Alness		Numerous sites looked at and found to be unsuitable for various reasons. Two sites identified and landowner has given permission for trial digs to take place. Trial digs scheduled for the 1st week in December.
Burial Ground Dornoch		Varioius sites have been suggested and to date have been unsuitable. A new site at Trentham has been put forward by the landowner and is being evaluated. If suitable trial pits will be carried out as soon as possible.
Inverness Crematorium		
War Memorials		<ul style="list-style-type: none"> - Laggan, Newtonmore - require some structural work but this type of work cannot be carried out in winter, local community, stakeholders to be involved. - Invergordon - work required to replace metal railings and gates. local community, stakeholders to be involved.
LEISURE FACILITIES		
Parks and Play Areas - Development		
Inshes Park (Phases 1 to 3)		Works are progressed in line with income received from developer contributions.
Torvean Golf Course		Works complete.
Play Areas		No current capital allocation.
STRATEGIC ASSET MANAGEMENT		
Health & Safety		There is no allocated budget for this line, spend is being met from the other Property lines.
Engineering Compliance		Boiler replacement programme and ventilation upgrade works to continue across various school sites through Yrs. 20/21, 21/22 & 22/23. Electrical upgrade works to schools and offices are being scoped to be carried out during Yrs. 21/22 & 22/23.
Catering & FM Compliance		Cashless catering hardware to be installed by March 21 with full system installation by August 21. CCFM equipment to be purchased by March 21. New kitchen canopy installation works to be carried out in Yrs. 21/22 & 22/23.
Property Structures and Fabric		Re-roofing projects delayed due to Covid and will be carried out in Yrs. 21/22 and 22/23.
Property Security		Security upgrade works to schools continuing through Yrs. 20/21, 21/22 & 22/23.
Property Surveys (as agreed at HC 29-10-20)		Property surveys will be carried out in Yrs. 21/22 and 22/23.
Water Management		Statutory water safety works continuing through Yrs. 20/21, 21/22 & 22/23.
Fire Safety	Additional Budget of £594K requested for 2022/23	Fire safety improvement works continuing through Yrs. 20/21, 21/22, 22/23 as per Fire Risk Assessments.

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Asbestos Removal		Asbestos removal works delayed due to Covid and will be carried out through Yrs. 21/22 & 22/23.
Energy Management		Smart Cities project progressing through Yrs. 20/21 & 21/22. LED lighting continuing through Yrs. 20/21, 21/22 & 22/23. Boiler plant and control upgrades continuing through Yrs. 20/21, 21/22 & 22/23.
Rose Street Car Park Solar PVs		Project delayed due to Covid, however progressing well in partnership with HITRANS and Transport Scotland.
Depots - Health & Safety	Additional budget required for 21/22 £500k and 22/23 £600k	Additional budget required for Health & Safety works in Yrs. 21/22 & 22/23.
Office Rationalisation		Works to support office rationalisation programmed for Yrs. 21/22 & 22/23.
VEHICLES & PLANT		
Vehicle & Plant Purchases		Additional 93k due to delay in shipping of x2 hotbox from 19/20. Remaining vehicles (roads) will be delivered by end of Dec costing 568k to be paid. All waste vehicles have been paid.
PLANNING & DEVELOPMENT		
Town & Countryside Regeneration		
Storr Car Park		Committed. Now part of the wider Storr visitor services enhancement programme.
Nairn High Street		Pedestrian crossing on High Street complete. Lighting works at Court House complete.
Fairy Pools (Glen Brittle)		Complete.
Inverness Townscape Heritage		Part of the overall Inverness heritage project.
Dell of Spey		Committed/Ongoing. Lighting design still to be procured. Works delayed due to Covid, proceeding next financial year. Project with lighting team.
Approaching Inverness		Complete.
City Gateways		Complete.
Visitor Management		
Wester Ross Visitor Hubs		
Pictish Trail		Council contribution to project complete.
Storr Visitor Management		Committed. Grant obligation. This relates to the woodland at Storr.
Misc Assets, Bridges & Structures		
Assets, Bridges & Structures		PDU undertaking a review of miscellaneous assets. Also essential capital works have been identified through professional structural surveys.
Ellen Wood Footpath, Carrbridge		Complete.
Green Networks, Core Paths & Long Distance Routes		
Green Infrastructure		Funds committed to other green infrastructure projects.
Long Distance Routes		
Ardersier Path		Project halted due to Covid.
Service Point Improvements Future Years		
Other Grant Funded Schemes		
Vacant & Derelict Land Fund and Regeneration Fund		Carried forward, schemes under development.
Town Centre Fund		Areas are pulling together various projects.
Carbon Clever		This budget is available for "greening" the Council.
Inverness Rail Station		Project progressing in Partnership with HITRANS and Network Rail.

THE HIGHLAND COUNCIL

CAPITAL PROGRAMME UPDATE- NOVEMBER 2020

SERVICE: GENERAL FUND

Project Description	EXPLANATION OF ANY COST VARIANCES	GENERAL UPDATE ON PROJECT DELIVERY (suitable for inclusion in Council report)
City Deal Projects		Schemes/projects progressing.
Electric Vehicle Infrastructure		Project fully funded by SG grant and is currently rolling out across the Highland Area.
Destination Development		
Smart City - Digital Projects		Schemes/projects progressing.
Capital Discretionary Fund		
CAPITAL CONTRIBUTIONS		
Inverness Justice Centre		Complete.
Inverness Castle		As part of the Inverness Highland City Region deal to develop Inverness Castle and Castle Hill as an international quality cultural visitor centre. Majority funded by Scottish Government and with a proposed bid for additional Heritage Lottery funding. Enabling works are underway with a view to letting main contract for the castle project next financial year.
SELF FUNDING PROJECTS		
Longman Campus Site		Purchase of site complete and cleared of debris.
Local Full Fibre Network		Project is for rolling out full fibre network in the Highland Area and is ongoing.
Bridge Street Acquisition, Inverness		Complete.
27 Harbour Road Acquisition, Inverness		Complete.
LED Programme for Buildings - SALIX Funded		Schemes/projects progressing.
Solar PV		Project ongoing and nearing completion.
Whin Park Hydro		Project ongoing and nearing completion.
HOUSING (NON HRA)		
Private Sector Housing Grants		Scheme in conjunction with the NHS to assist Owner Occupiers and Private Renters with a Repairing Responsibility with Adapting and Repairing their homes.
Travelling People Sites		Annual allocation for improvement works on all sites.



Highland Council Treasury Management Training



2nd December 2020

Presented by:
Alan George, Regional Director
David Chefneux, Director

Objectives for Today

- Gain an appreciation of what Treasury Management involves
- Gain an understanding of how Treasury Management is undertaken
- Understand the role of Officers and Members in Treasury Management decisions
- Understand the risks and opportunities in Treasury Management and how they should be managed
- Gain a broad appreciation of the impact of COVID-19 pandemic on the economic outlook and treasury management activities of the Council

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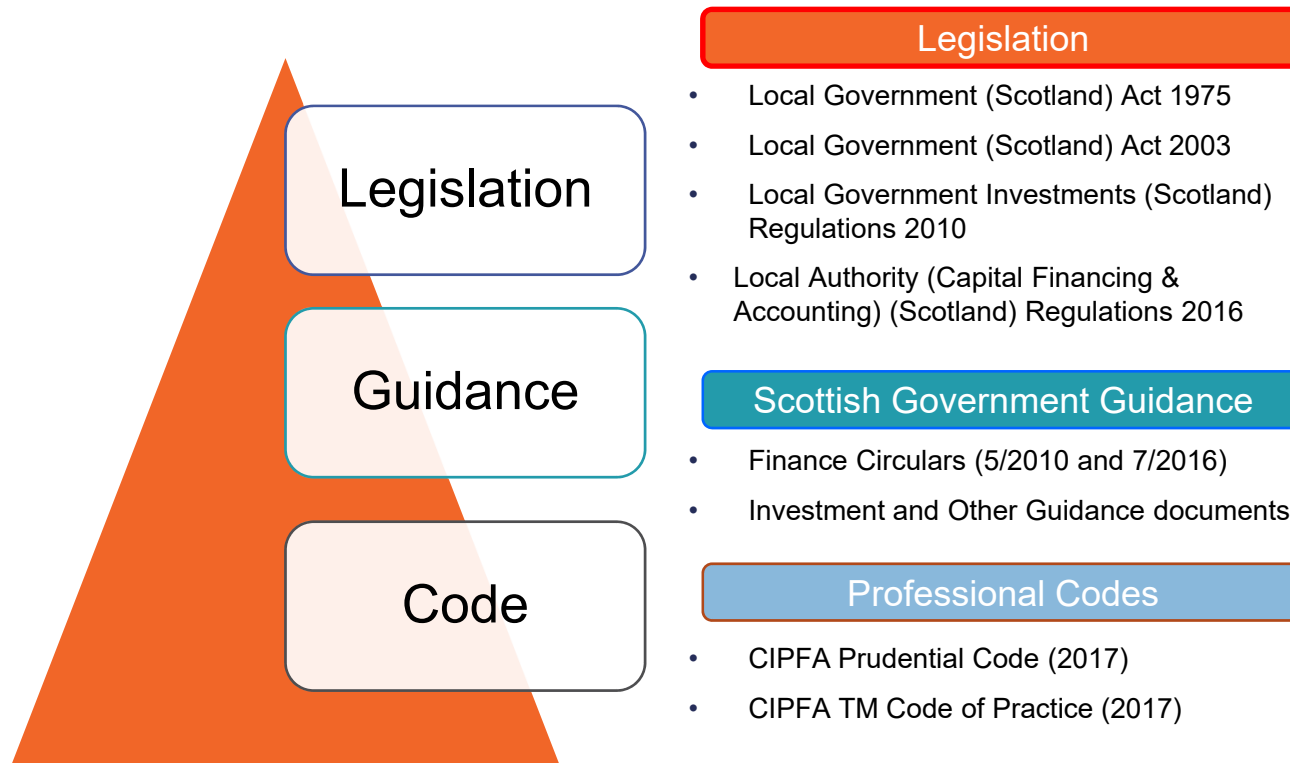
● Treasury Management Framework Overview

CIPFA Treasury Management Code of Practice

Treasury management is defined as:-

- The management of the organisation's:-
 - ✓ Borrowing
 - ✓ Investments
 - ✓ Cash flows
 - ✓ Its banking
 - ✓ Money market and capital market transactions
- The **effective control of the risks** associated with those activities
- The **pursuit of optimum performance** consistent with those risks

Legal and Regulatory Framework



CIPFA Prudential Code – updated 2017

- Capital plans are affordable
- Borrowing and liabilities are prudent and sustainable
- Under Code, individual authorities responsible for deciding level of **affordable** borrowing
- Provides a framework for integrating:-
 - Capital strategy plans
 - Medium-term financial planning
 - Treasury management strategy
- CIPFA Prudential Code and Treasury Management Code updated to primarily reflect need for a Capital Strategy and move towards commercialism agenda

Scottish Government Investment Regulations

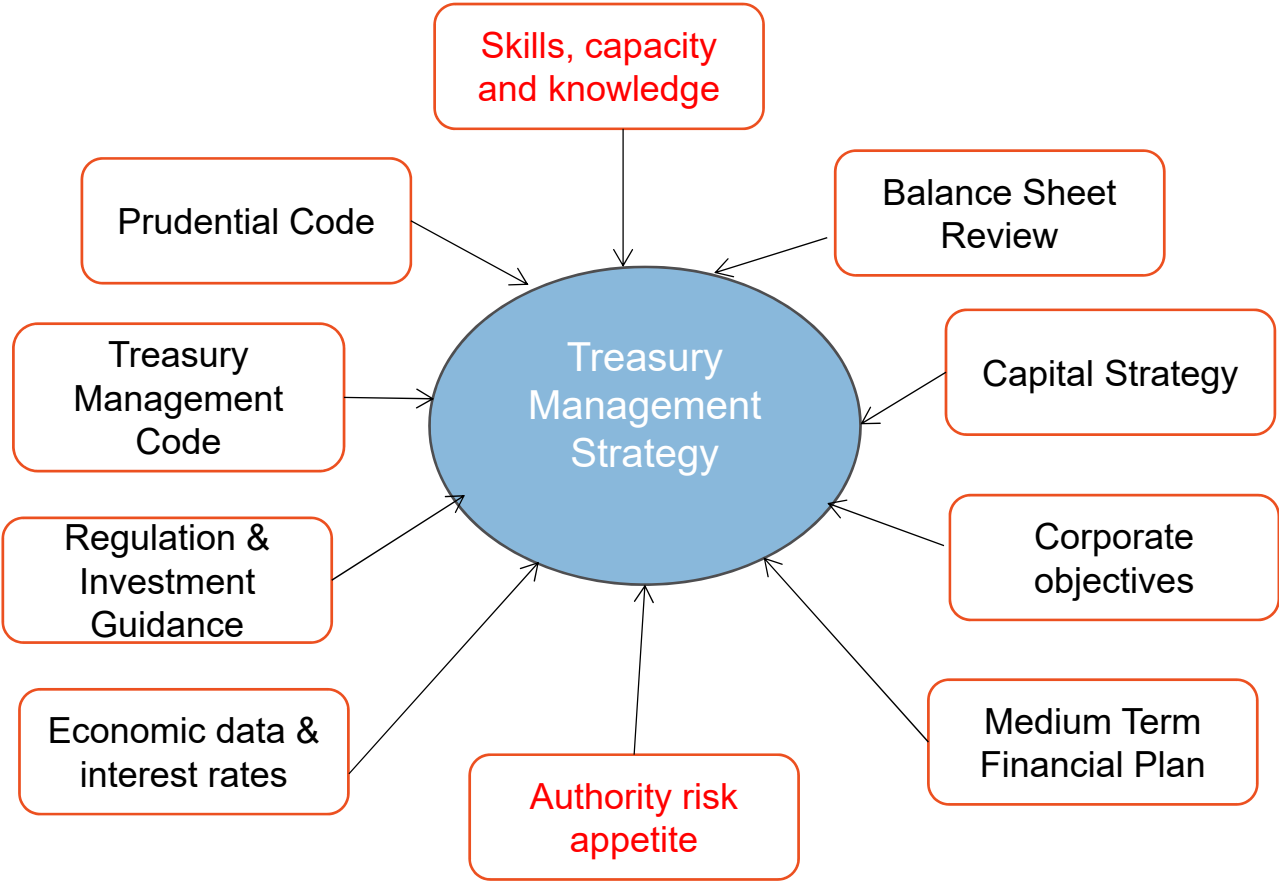
CIPFA Prudential Code is clear that:-

“local authorities must not borrow more than, or in advance of, needs purely in order to profit from the investment of the extra sums borrowed”.

Paragraph 61 – CIPFA Prudential Code

Borrowing may be taken early, but Prudential Code identifies the requirement to demonstrate that, over the medium term, borrowing will only be for a capital purpose

Treasury Management – Key Drivers



Delegation of responsibility for Treasury Management

Council

for approving and monitoring the
Treasury Management Policies
and Strategies

The Responsible Officer (s95)

for the execution &
administration of Treasury
Management decisions in
accordance with the agreed
Policies and Strategies

Two main areas of the Treasury Strategy

CAPITAL

- Capital expenditure plans
- Prudential Indicators
- Loans Fund Repayments Statement & Policy

TREASURY

- Economic outlook & prospect for interest rates
- Current treasury position
- Strategy for borrowing & debt rescheduling
- External debt indicators
- Annual Investment Strategy
- Policy on external advisors

TMP 1 – Treasury Risk Management

- Credit and counterparty risk
- Liquidity risk
- Interest rate risk
- Inflation risk
- Exchange rate risk
- Refinancing risk
- Legal & regulatory risk
- Fraud, error, corruption and contingency management
- Price Risk

- Reputational Risk?



● Economic Outlook

Key Economic Indicators Comparison

	UK	EZ	US
Bank Rate	0.10%	0%	0%-0.25%
GDP	15.5%q/q (-9.6%y/y)	12.6%q/q (4.4%y/y)	33.1% annual rate
Inflation	0.0%m/m (0.7%y/y)	0.2%m/m (-0.3%y/y)	1.2% annual rate
Unemployment Rate	4.8%	8.1%	6.9%

Scottish Government Financial Flexibilities

- Additional package of financial support worth up to £750m
- Use of capital receipts in 2020-21 and 2021-22 to finance Covid expenditure (revenue)
- PPP/Service Concession arrangement flexibilities to allow “debt to be repaid” over the life of the asset rather than the contract period. Releases funds to meet revenue Covid related revenue cost pressures
- Loans Fund Repayment Holiday for either 2020-21 or 2021-22, providing a one-off saving to the revenue budget
- Lost income scheme - £90m nationally

UK Interest Rate Forecast

Bank Rate															
	NOW	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-
5yr PWLB Rate															
	NOW	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	0.84%	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	1.00%	1.00%	1.00%	1.00%
Capital Economics	0.84%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	-	-	-	-	-
10yr PWLB Rate															
	NOW	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	1.14%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.30%	1.30%	1.20%	1.30%	1.30%	1.30%
Capital Economics	1.14%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	-	-	-	-	-
25yr PWLB Rate															
	NOW	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	1.68%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%
Capital Economics	1.68%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	-	-	-	-	-
50yr PWLB Rate															
	NOW	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	1.51%	1.30%	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%
Capital Economics	1.51%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	-	-	-	-	-

PWLB Borrowing Rate Trends



What does all this mean for Highland Council?



Capital Financing and the Balance Sheet

Balance Sheet Review - Indebtedness

2018/19 (£'000)		2019/20 (£'000)	Change (£'000)
	Capital Financing Requirement (CFR)		
2,680,594	Property, Plant & Equipment	2,872,077	
8,558	Heritage Assets	7,058	
611	Assets Held for Sale	1,627	
20,664	Capital Long-term Debtors	21,510	
(554,682)	Revaluation Reserve	(684,885)	
(1,023,223)	Capital Adjustment Account	(1,041,866)	
1,132,522	CFR (as per Prudential Code)	1,175,521	42,999
19,053	Debt held on behalf of other LAs	18,034	
(154,811)	PFI Liability	(148,823)	
996,764	Underlying Borrowing Requirement	1,044,732	47,968
	External Borrowing		
(239,574)	Short-Term	(215,370)	
(729,237)	Long-Term	(822,486)	
(968,811)	TOTAL External Borrowing (Principal)	(1,037,856)	(69,045)
27,953	Internal Borrowing	6,876	(21,077)
(39,912)	TOTAL Working Capital (Surplus)	(18,192)	21,720

Like a household mortgage

£2,902m value of house

£685m market factors increase

£2,217m you paid

£1,042m mortgage payments

£1,175m mortgage to pay

Balance Sheet Review – Reserves & Balances

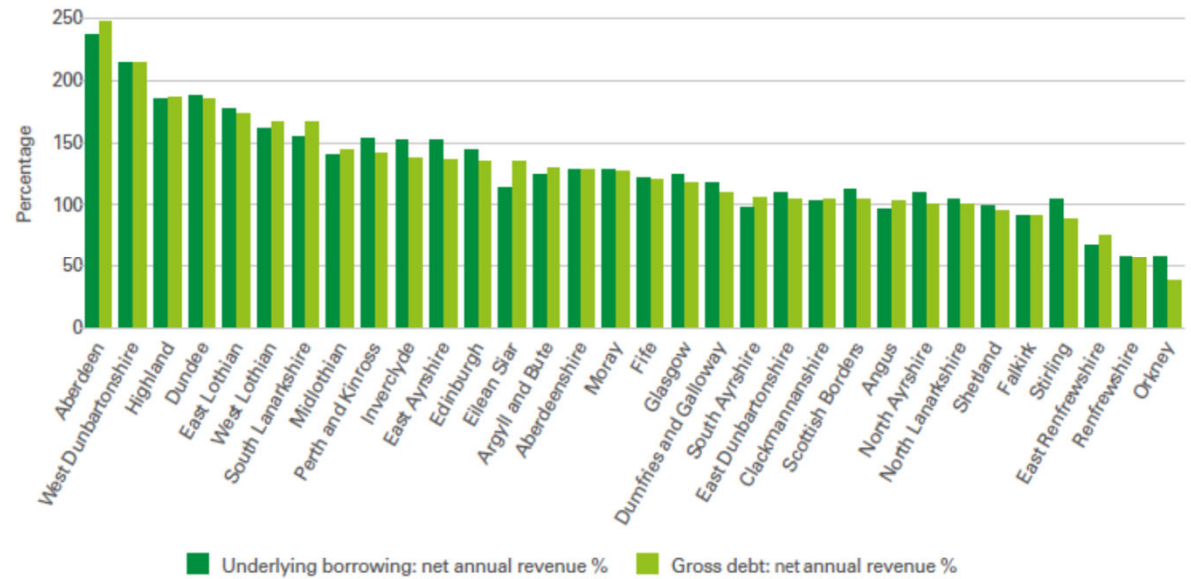
2018/19 (£'000)		2019/20 (£'000)	Change (£'000)
	Reserves / Balances		
(7,925)	General Fund Balance	(15,451)	
(7,328)	Housing Revenue Account Balance	(7,328)	
(41,261)	Earmarked reserves / other balances	(46,200)	
(1,407)	Capital Receipts Reserve	(1,407)	
(801)	Provisions	(726)	
(8,549)	Capital Grants Unapplied	(5,197)	
(67,271)	Amount Available for Investment	(76,309)	(9,038)
	Investments		
15,000	Short-Term	-	
820	Long-Term	398	
63,410	Cash & Cash Equivalent	87,227	
79,230	TOTAL Investments	87,625	8,395
11,959	Surplus Monies	11,316	(643)

Accounts Commission/Audit Scotland – Dec 2019

Exhibit 10

Underlying borrowing and gross debt as a proportion of net annual revenue

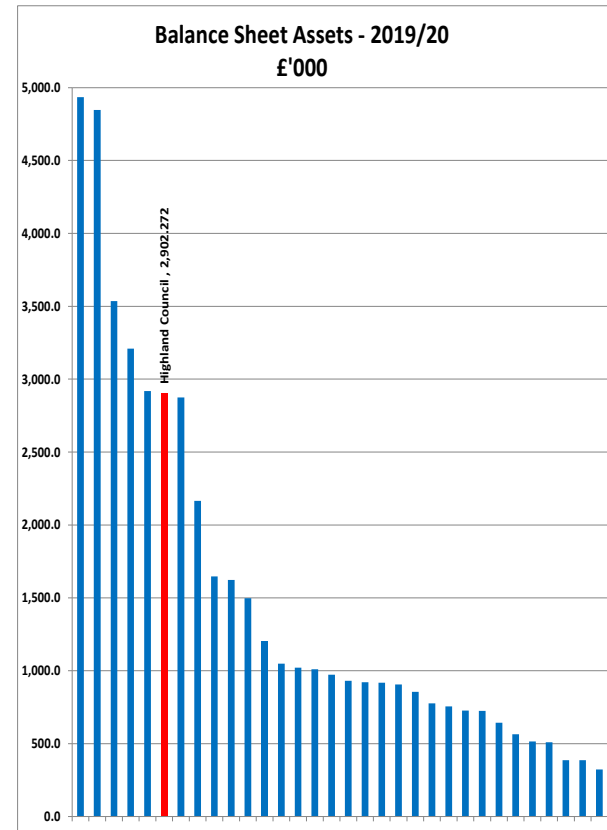
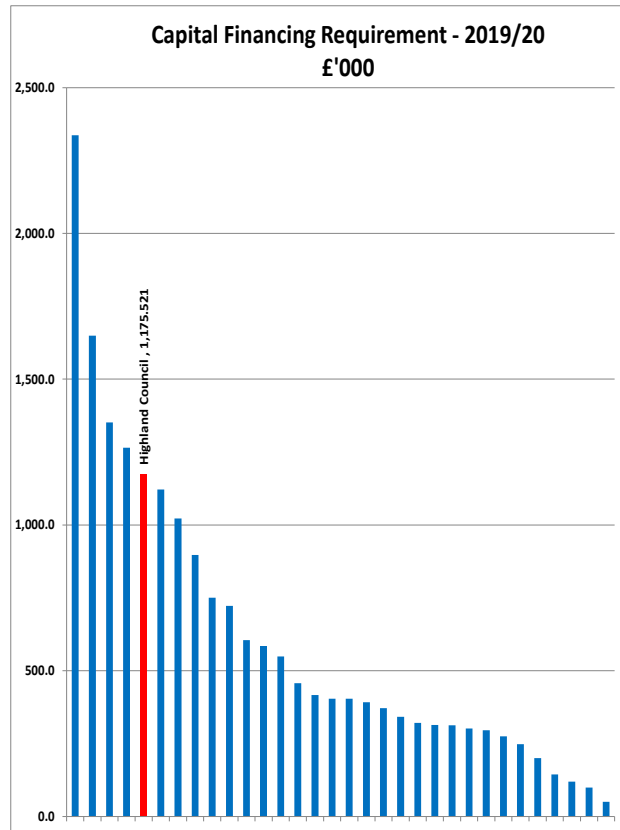
The underlying borrowing position of councils varies from 58 per cent to 237 per cent of net annual revenue.



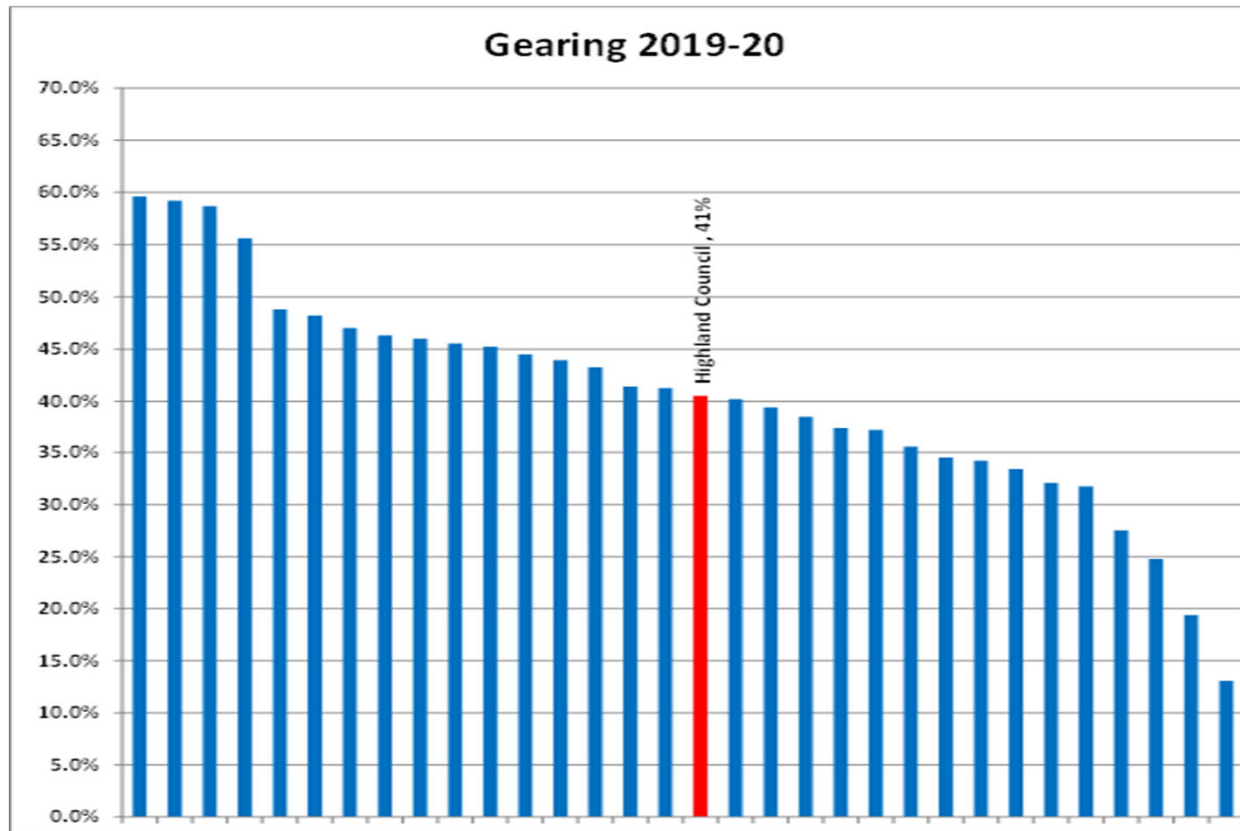
Source: Audited financial statements 2018/19



Highland Council – Comparative position



Highland Council – Gearing Ratio



What does all this mean for Highland Council?



Capital Strategy and how are you to Finance

Capital Strategy Requirements

Overview

- To think more strategically about purpose and expected outcome of capital investment
- Stretch out Capital Strategy to 20 – 30 years
- Stretch out capital investment plan over a 10-year period and plan realistically for its delivery
- Compare different schemes by measuring **financial and non-financial impacts**
- Identifying optimum and affordable level of investment
- Provides strong base for decision making and Medium-term Resource Strategy

Capital planning – why is it so difficult?

- Linking with corporate priorities e.g. Strategic Plan, Local Development Plan, growth targets
- Obtaining good information and data on emerging capital investment ideas
- Identification of revenue return and affordability
- Capacity to deliver
- Capital scheme comparison and prioritisation

Highland Council - Capital Expenditure

	<u>Actual</u> <u>19/20</u>	<u>Est.</u> <u>20/21</u>	<u>Est.</u> <u>21/22</u>	<u>Est.</u> <u>22/23</u>	<u>Total</u>
General Fund	£104m	£ 96m	£69m	£ 67m	£336m
Hsg Revenue	<u>£ 42m</u>	<u>£ 51m</u>	<u>£42m</u>	<u>£ 43m</u>	£178m
	£146m	£147m	£112m	£110m	£514m

An average spend across 4 years of c£128m

Capital spend over current and next 2 years £369m

How are you going to finance the programme?

Highland Council Debt Financing

Borrowing Requirement			
<u>General Fund</u> (inc JB)	<u>Hsg Revenue</u>	<u>Total</u>	<u>Year</u>
£906m	£288m	£1045m	(19/20)
£898m	£278m	£1034m	(20/21)
£856m	£318m	£1038m	(21/22)
£832m	£335m	£1038m	(22/23)

Decrease in borrowing to 2023/24 = £7m despite spending £304m!!

Highland Council Dec-20	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)
HRA	287,809	277,600	317,800	335,200
GF ex PPP	738,889	739,200	703,800	687,700
Debt held Joint Boards	18,034	17,100	16,100	15,300
Underlying Borrowing Requirement (UBR)	1,044,732	1,033,900	1,037,700	1,038,200
External Borrowing c/fwd	(968,811)	(1,037,856)	(1,003,986)	(1,004,658)
Loan Maturities (inc temp)	50,755	215,370	57,328	31,753
New Loans Taken/To be taken	(119,800)	(181,500)	(58,000)	(36,000)
External Borrowing	(1,037,856)	(1,003,986)	(1,004,658)	(1,008,905)
Under / (Over) Borrowing	6,876	29,914	33,042	29,295
<i>Underborrowing as a % of UBR</i>	<i>1%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>
General Fund Balance	15,451	15,451	15,451	15,451
Housing Revenue Account Balance	7,328	7,328	7,328	7,328
Earmarked reserves	53,530	49,530	45,530	41,530
Amount Available for Investment	76,309	72,309	68,309	64,309
External Investments	87,625	60,587	53,459	53,206
(Surplus Monies) / Internal Investments	(11,316)	11,722	14,850	11,103
Working Capital Surplus	18,192	18,192	18,192	18,192

Debt Financing

External borrowing 31/3/2020 = £1038m

Borrowing requirement to 2022/23:

- New borrowing for capital spend = -£ 7m
- Maturing loans to 23/24 = £304m
- Internal Borrowing 31/3/2020 = £ 7m
- Total possible borrowing requirement = £304m !!

But from forward balance sheet expectation is that borrowing will **fall by £25m** over the forecast period to **£1013m!!**

Revenue Impact of Capital Financing

Indicator 5 – Ratio of financing costs to net revenue stream

These indicators show the capital financing costs (interest charges, the provision for the repayment of debt and the financing of PPP/NPD outstanding capital investment liability) as a percentage of government grant (revenue), Council Tax, Rents and other income. This allows the authority to track how much of its annual income is needed to pay for its capital investment plans and outstanding funding liabilities compared to its day to day running costs.

	2018/19 Actual	2019/20 Original Estimate	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund including PPP/NPD	13.3%	13.3%	13.0%	13.2%	13.2%	13.2%
Housing Revenue Account	34.1%	36.5%	36.2%	38.0%	41.3%	40.6%

Revised Profile of General Fund Capital Expenditure

First draft of revised General Fund programme has the following expenditure profile. This is being reviewed by officers to ensure estimates are robust and delivery in these timescales is feasible

Year	£m	Previous £m
2020/21	44.099	£96
2021/22	129.800	£69
2022/3	110.768	£67
2023/24	73.754	
2024/25	63.926	
2025/26	25.714	
2026/27	12.705	
2027/28	11.955	
post 2027/28	5.015	

Debt Budget

An initial assessment of the impact of the revised capital programme on the loans charges budget has been made:

Year	£m
2020-21	57.196
2021-22	57.870
2022-23	59.385
2023-24	60.073
2024-25	59.512
2025-26	58.708
2026-27	56.936
2027-28	55.221
2028-29	53.478
2029-30	51.252

Loans Fund Repayments/Review

- Each Council can determine the period over which loans fund advances are repaid and the amount of repayment in each financial year
- Key principle is that loans fund advances are repaid in a “*prudent*” manner and are “*reasonably commensurate with the period of benefits provided to the community from capital expenditure*”
- This provides an element of flexibility, but ultimately, the annual charges to taxpayers should equate in simple terms to the life of the asset(s) owned by the Council
- Prudence can work both ways, in terms of charging too little or too much!
- Solution is to find a balance that is prudent and compliant with the above



● Debt Management

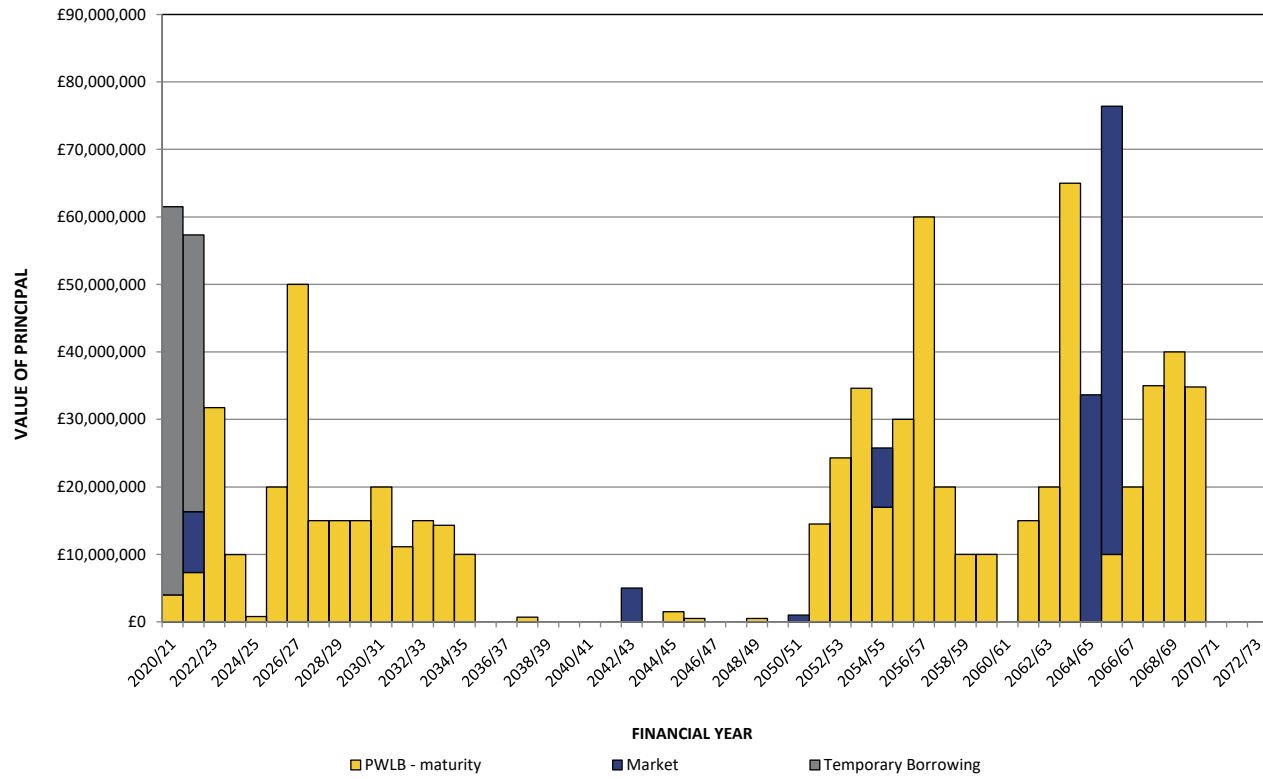
External Borrowing Considerations

- How much needs to be borrowed?
- Which type of borrowing (Internal / PWLB / market / temporary)
- How long to borrow for?
- What is your view on interest rates?
- Benchmark rate for borrowing?
- Fixed or variable rate borrowing?
- Loans fund repayments
- 3 year ahead time frame under the Prudential Code

Current Debt Portfolio – November 2020

EXTERNAL DEBT			
	Principal Outstanding	Average Rate	Average Life
Total PWLB (fixed)	£702,679,932	4.204%	29.00 yr
Total MARKET (fixed)	£78,316,000	4.759%	44.94 yr
Total Variable Debt	£143,990,000	1.733%	9.88 yr
Total External Debt	£924,985,932	3.866%	27.37 yr

Debt Maturity Profile



New Long Term Loans Taken 18/19 to 19/20

PWLB MATURITY				
Start Date	Maturity Date	Coupon	Current Principal Balance	Years to maturity
		1.918%	£169,800,000	44 yrs
05/04/2018	30/09/2067	2.270%	£25,000,000	47.50
31/05/2018	31/03/2067	2.250%	£10,000,000	47.00
25/03/2019	30/09/2028	1.900%	£7,500,000	8.50
28/03/2019	30/09/2028	1.820%	£7,500,000	8.50
30/05/2019	31/03/2069	2.190%	£5,000,000	49.00
04/06/2019	30/09/2061	2.180%	£5,000,000	41.50
18/06/2019	31/03/2069	2.110%	£5,000,000	49.00
04/07/2019	31/03/2062	2.100%	£10,000,000	42.00
08/07/2019	31/03/2069	2.010%	£5,000,000	49.00
09/07/2019	30/09/2068	2.030%	£5,000,000	48.50
08/08/2019	31/03/2069	1.940%	£20,000,000	49.00
09/08/2019	31/03/2066	1.840%	£10,000,000	46.00
19/08/2019	31/03/2068	1.740%	£10,000,000	48.00
05/09/2019	31/03/2067	1.580%	£10,000,000	47.00
11/03/2020	30/09/2069	2.070%	£5,000,000	49.50
24/03/2020	30/09/2069	1.480%	£29,800,000	49.50

Maturing Loans 2021 - 2022

PWLB MATURITY			
Start Date	Maturity Date	Coupon	Current Principal Balance
			£41,181,480
04/04/1986	31/03/2021	9.125%	£3,000,000
07/09/1989	31/03/2021	9.375%	£400,000
05/03/2015	31/03/2021	2.310%	£600,000
25/03/1993	30/09/2021	9.375%	£1,000,000
26/03/2015	30/09/2021	2.090%	£1,300,000
28/05/2015	30/09/2021	2.360%	£1,300,000
08/07/2015	30/09/2021	2.460%	£928,000
17/08/2015	31/03/2022	2.470%	£700,000
14/09/2015	31/03/2022	2.360%	£750,000
08/12/2015	31/03/2022	2.310%	£1,350,000
18/10/1982	30/09/2022	10.500%	£1,053,480
24/06/1997	30/09/2022	7.125%	£13,800,000
14/07/2011	30/09/2022	4.350%	£15,000,000

Average Rate on maturing loans - 5.61%

PWLB Changes

- Capital Plans for next 3 years submitted through the [DELTA](#) system
- An assurance from the statutory finance officer that the local authority is not borrowing in advance of need (assumed to be for commercial spend, rather than the Prudential Code definition), and does not intend to buy investment assets primarily for yield.
- Cannot borrow for 'speculative purposes' from private lenders and then subsequently refinance from PWLB!!
- Auditors role and HMT ultimate sanction!!
- PWLB **Standard Rate** is gilt plus 100 basis points (G+100bps)
- PWLB **Certainty Rate** is gilt plus 80 basis points (G+80bps)

These new terms applied to all loans arranged from **9am on 26 November 2020**.



● Investment Strategy

Why do you have investments?

What are the resources that back the investments?

- Provisions – cash put aside for a liability of uncertain timing or amount
- Grants and Contributions – cash received and yet to be spent
- Capital receipts – cash received and yet to be spent
- Earmarked reserves – cash put aside for specific purpose
- Balances – general cash not yet allocated
- Working Capital – debtors / creditors

Borrowing activity may impact upon the position as it will reduce / increase cash balances (and therefore investments)

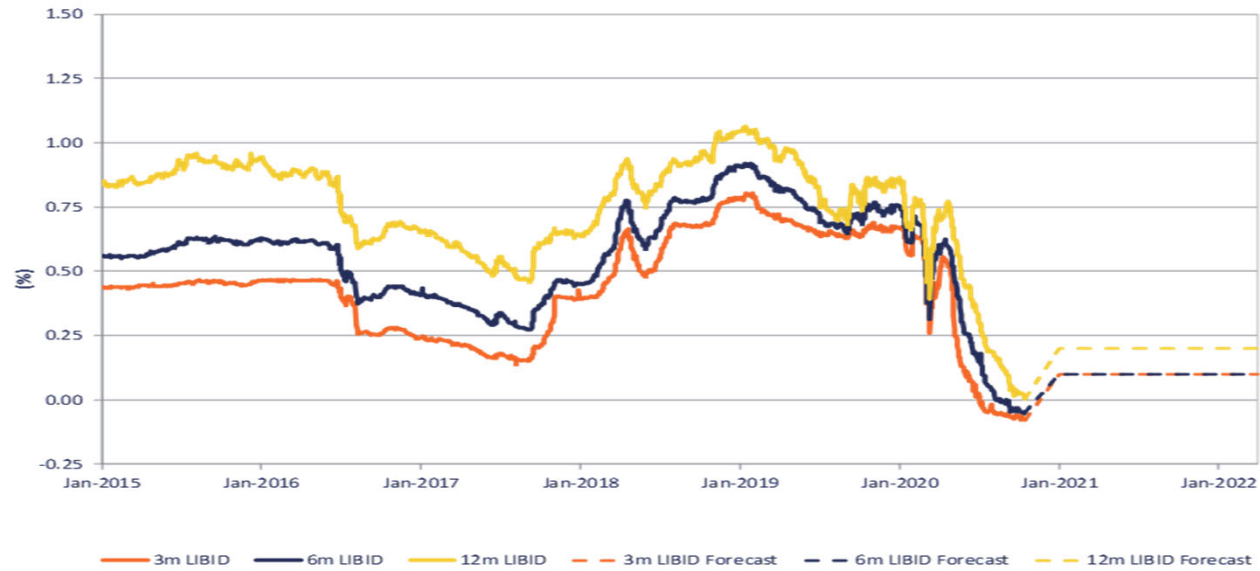
Investment Instruments

- The UK's Debt Management Office (DMO)
 - Fixed deposits up to 6 months
 - Risk versus reward trade off : exceptional credit quality versus low rate
- Other Local Authorities
- Part-Nationalised Banks
- UK Government Gilts / Treasury Bills
- **Banks** and Building Societies
- **Money Market Funds (MMFs)**
- Property Funds

Current Investment Portfolio – November 2020

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Clydesdale Bank	9,100,000	0.10%		Call	BBB+	0.000%
MMF Northern Trust	20,000,000	0.01%		MMF	AAA	0.000%
MMF Insight	7,200,000	0.01%		MMF	AAA	0.000%
MMF Aberdeen Standard Investments	20,000,000	0.06%		MMF	AAA	0.000%
MMF BlackRock	20,000,000	0.01%		MMF	AAA	0.000%
Santander UK Plc	20,000,000	0.10%		Call95	A	0.014%
Total Investments	£96,300,000	0.05%				0.003%

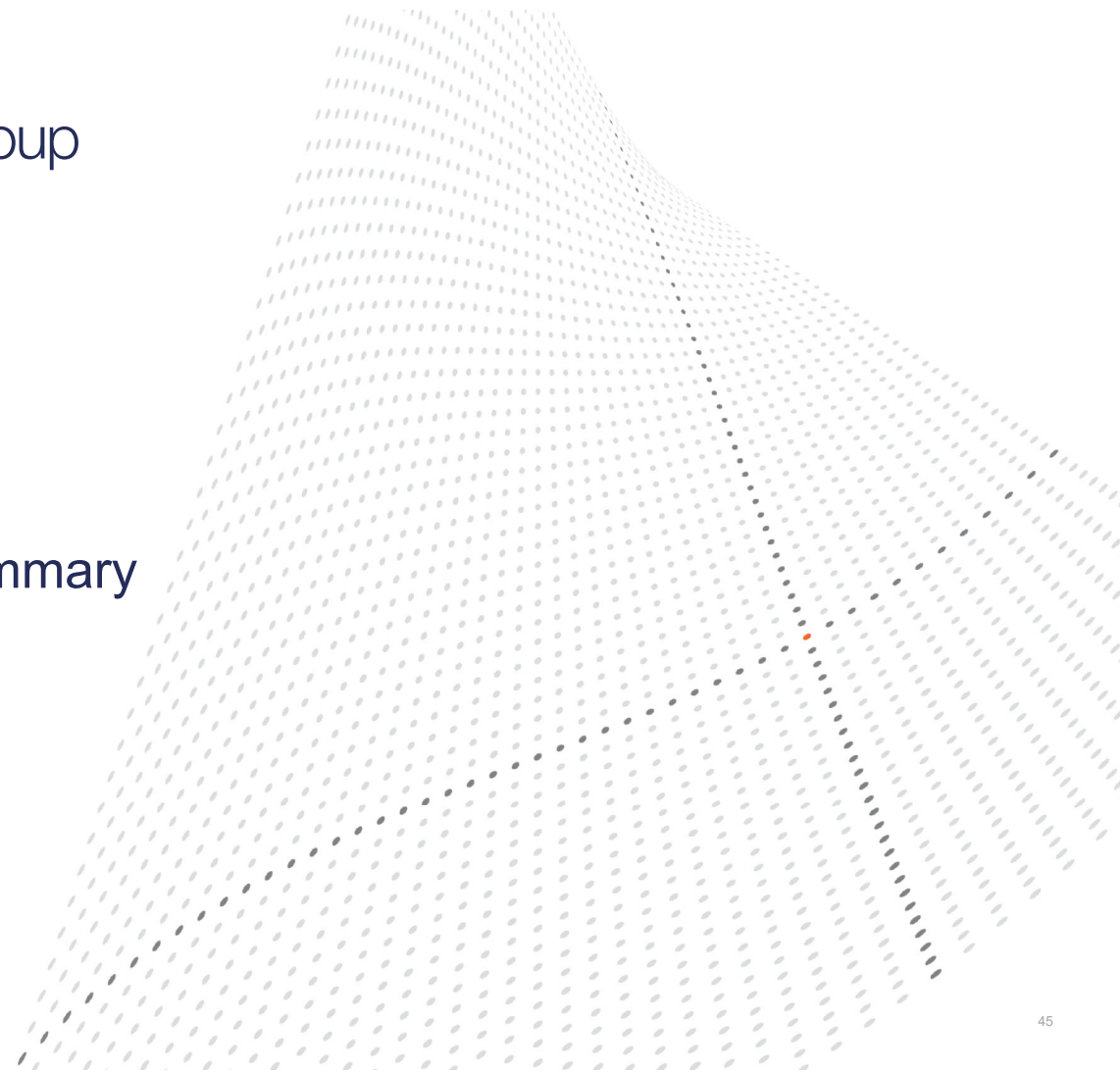
UK Interest Rate Outlook



Link Group Interest Rate View															
	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
3 Month LIBID	-0.08%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
6 Month LIBID	-0.06%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
12 Month LIBID	0.01%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%



● Summary



What does all this mean for Treasury Management?

- Significant uncertainty over direction of UK economy – Brexit/Covid-19
- Financial markets do not like uncertainty – can lead to market volatility
- **Borrowing is still cheap at current levels – but affordable and sustainable?**
- Costs of carry remains a key consideration due to interest rate differential
- Limited movement expected in UK Bank Rate over next couple of years
- Investment Rates/Bank Rate could potentially turn negative next year.
- Counterparty risks in the financial markets have lessened, but not completely

Questions?

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