Agenda Item	**12**
Report No	**HC/21/21**

HIGHLAND COUNCIL

Committee: **Highland Council**

Date: 9th September 2021

Report Title: **Medium Term Financial Plan- Update**

Report By: Executive Chief Officer- Resources and Finance

1. Purpose/Executive Summary

1.1 This report provides an update on the approach to medium term financial planning for the Council, a key element of good financial management as required by the CIPFA Financial Management Code. The report reiterates the scenarios for the medium-term outlook presented to Council in June with no significant items of change in the intervening period. The central scenario identifies an anticipated annual requirement to deliver £15m of annual revenue budget savings over the medium term.

1.2 The funding of capital and other investment needs to form a key part of that medium-term approach and will be incorporated into future iterations of the medium-term financial plan as the capital strategy and new capital programme develops.

1.3 The report also brings to Members three proposed areas for investment, linked to the document circulated separately on Future Highlands – Health and Prosperity Strategic Partnership Plan.

1.4 The report provides an update of priority schools projects for capital investment, as previously agreed by Council, and highlights opportunities for member engagement sessions in September before further details are brought to Council in the Autumn. The need to prioritise new school provision in Inverness East is outlined and agreement sought to put forward a case for investment as part of the Autumn round of the Scottish Government's Learning Estate Investment Programme.

2. Implications

2.1 Resource - A number of resource implications are outlined throughout this report and can be summarised into two categories.

The investment items detailed in section 7 of this report reflect one off spend and as such require a single source of funding to be found. It is proposed that these items are funded through the Council's non-earmarked general fund reserve. As part of the 2021/22 quarter 1 revenue budget monitoring reported to the Corporate Resources Committee this reserve is forecast to stand at £32.0m at the 2021/22 financial year end. The proposed investments of £5.3m would reduce that reserve to £26.7m, but still above the minimum level of £24.7m agreed by Members as part of the March budget. Part of the residual non-earmarked general fund reserve may be needed in 2021/22 to address the emergent risks described in section 2.5. These risks may reduce the reserve to, or below, the target minimum level.

The financing of the schools capital investment priorities as described in sections 8, 9 and 10 of this report would represent a significant long term financial commitment for the Council. The exact financial impact will depend on any decision taken by Council later in the current year to change its loans fund accounting policy with **Appendix 3** giving illustrative figures of the annual loans charge cost associated with these five school investments. Under either of the options modelled an average annual charge to the Council's revenue budget of £2.4m to £2.5m over the period 2025/26 to 2044/45 would be associated with these schools. Should any external funding be received in relation to any of these projects the overall impact on the revenue budget would reduce. Commitments of this nature will need to be factored into the Council's medium and long term financial planning, with long term financial sustainability the primary concern.

As outlined in section 5 of this report the medium and longer term financial outlook for the Council continues to look challenging with a requirement for significant levels of budget savings to be delivered annually. Both the medium term financial planning scenarios and the funding of capital investment priorities demonstrate significant demands on the Council's revenue budget and reserves over the short, medium and long term.

2.2 Legal – The Council's Financial Regulations require compliance with the CIPFA Financial Management Code which in turn sets the standards of financial management for local authorities. This is explained in greater detail in section 4.

Legislation, regulation and guidance from Scottish and UK Governments continue to evolve in relation to climate change and energy. A national energy strategy update and hydrogen action plan are expected in 2021 and an updated electricity generation policy statement is also expected. The development of proposals for a Green Energy hub would align with any new national requirements.

2.3 Community (Equality, Poverty and Rural) – As outlined in section 7 and **Appendix 2** the creation of a community loans fund would help enable communities to deliver their local aspirations.

2.4 Climate Change / Carbon Clever – The Council also has climate change duties, targets and ambition to meet. The Green Energy Hub can help the Council meet these duties through avoiding carbon emissions arising from landfilling of waste, transporting waste outwith the region, generating electricity for use and electric vehicle charging and with potential to generate hydrogen. The hub could service not only Council operations but also partner and private sector operations contributing to regional carbon reduction.

The schools investment outlined in section 9 of the report would have a significant impact arising during the construction phase but should deliver long term benefits by replacing old, inefficient buildings with new, modern, energy-efficient replacements.

2.5 Risk – As highlighted throughout the report there are many and varied financial risks facing the Council, chiefly arsing from uncertainties over the future. The scenarios outlined in the report illustrate the wide scope of the potential impacts.

More immediate risks relate to the current financial year (2021/22) and the potential recurring impact of any issues arising. One particular concern is around the pay award for 2021/22 which has not yet been agreed but may well exceed the budget provision made in respect of this item. Not only would that create a cost pressure in 2021/22 that would need to be funded from reserves, but it would also create a recurring budget pressure that would widen the budget gap for 2022/23. A number of other financial risks, many relating to the impact of Covid may also impact on reserves in 2021/22 and create structural budget pressures widening the 2022/23 budget gap.

The increasing number of positive tests for Covid 19 highlights the significant ongoing uncertainties in relation to the pandemic. As a result of these changing circumstances the Council has deployed additional resource to support enhanced cleaning in schools and additional welfare support staff. As there is no expectation of additional government funds in the current financial year these unbudgeted costs will need to be managed through the use of reserves or the identification of other mitigating action. These, or other Covid related financial impacts, may perpetuate into the medium term.

Another emergent risk relates to commitments made by the Scottish Government as part of their 'First 100 days' pledge - a number of aspects of which will need to be implemented by local authorities. Many of these commitments will likely have a financial impact and at this stage it is unclear what level of funding the Council will receive. While for some commitments, such as music tuition, Scottish Government has committed to full funding in 2021/22, the actual funding is not as yet known, and there is a risk in relation to service demand and future years funding. For other commitments, such as practical charging and provision of out of school care, the level of funding and financial impact is not as yet known. Clarification is awaited on all funding streams including those relating to areas such as Free School Meals, Early Years, clothing and food grants. Wrap around care is another commitment which could result in additional excessive budgetary pressures owing to the diverse geographic nature, rurality and costs of providing such a service across Highland communities. Initial assessment indicates that in Education alone the additional costs could be a minimum of £2m recurring and potentially considerably more with no commitment of funding being available on a recurring basis to implement these additional commitments.

2.6 Gaelic – Dunvegan Primary School is entirely GME in its ELC provision and has very high and expanding GME take up at primary level. Further opportunities to expand Gaelic education and Gaelic Medium Education will be considered as part of the wider schools investment programme and opportunities to secure external funding will be explored.

3. Recommendations

3.1 Members are asked to:

i. Note the medium term financial planning assumptions as described in section 5;
ii. Agree to provide funding from the Council's general fund non-earmarked reserve for the investment requirements linked to 'Future Highlands - Health and Prosperity Strategic Partnership Plan' as described in section 7 for Green Energy Hub; Visitor Management; and Community Loans Fund;
iii. Agree the scope, budget, phasing and timescale for the 5 capital projects described in section 9 and **Appendix 5** and agree that these are incorporated into the Council's current capital programme;
iv. Agree that the fire-damaged main building at the Park Primary site should be demolished;

v. Agree the priority for a bid to the next phase of the Scottish Government's Learning Estate Investment Programme at section 9.9 and 9.10 and **Appendix 5** should be East Inverness.

4. Background

4.1 As has been reported previously to Members the Chartered Institute of Public Finance and Accountancy (CIPFA) have developed a Financial Management (FM) Code which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Code therefore sets the standards of financial management for local authorities and each local authority must demonstrate that the requirements of the code are being satisfied.

4.2 The Code is structured around six underlying principles all of which contribute to demonstrating long term sustainability- which is the key outcome of the Code:

'While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

The Code exemplifies what it considers to be financial sustainability as follows:

'The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- *financially manage the short, medium and long-term finances of a local authority*
- *manage financial resilience to meet unforeseen demands on services*
- *manage unexpected shocks in their financial circumstances.'*

4.3 The six principles put forward by the Code are Leadership, Accountability, Transparency, Standards, Assurance and Sustainability. The principles manifest themselves across 7 key areas:

1. The responsibilities of the chief finance officer and leadership team
2. Governance and financial management style
3. Long to medium-term financial management
4. The annual budget
5. Stakeholder engagement and business cases
6. Monitoring financial performance
7. External financial reporting

4.4 Whilst this report has a primary focus on item 3 from the above list 'Long to medium-term financial management' there is also relevance to a number of the other sections. Four key standards sit beneath section 3 of the code and therefore need consideration in this context:

- The authority has carried out a credible and transparent financial resilience assessment
- The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
- The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities
- The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

4.5 With regard to all of the above elements the Code is clear that the time horizon for longer term planning must exceed that of any planned government funding settlements and should go as far as the duration of any long term contractual commitments (in particular those relating to capital funding and borrowing). The long to medium-term financial plan should encompass scenario planning around key assumptions, potential changes in demand for services (in particular demographic changes), show clear linkages with the corporate and service plans, build in the financial impacts of any approved capital programme and demonstrate links to the capital strategy. The MTFP should also be dynamic in order that it reflects changing circumstances.

4.6 In March 2021 the Council approved a balanced revenue budget for 2021/22 with agreement on a number of items for the period extending to 2023/24. That medium term financial planning work, which included an estimated residual budget gap of £20.3m over 2022/23 and 2023/24 is extended in section 5 of this report.

5. Medium Term Financial Planning

5.1 This report builds on the medium-term financial planning work provided to the March and June Council meetings and will contribute to meeting the requirements of the CIPFA FM Code on long to medium-term financial planning. A key element of that work is future scenario planning as detailed in the section below. This work looks at some of the key variables and uncertainties for the future and models different scenarios, with section 10 of this report highlighting how capital investment decisions will impact on the MTFP.

5.2 A five-year forward view has been taken with different a variety of different scenarios made for each of the key assumptions. A brief explanation for each of the key assumptions and range of scenarios modelled is provided below:

Change in core revenue funding settlement from Government- In 2021/22 the Council anticipates receiving over £500m in revenue budget funding from the Scottish Government (around 80% of total external funding). Any changes to this funding will therefore have a significant impact on the Council's financial situation. Given wider economic uncertainties and Government's stated priority areas different scenarios used for this funding stream range from 'flat cash' to a 3% annual reduction.

Council tax increases- In 2021/22 the Council expects to generate net Council Tax income of £131m. Council tax rates are determined locally but any future increases may be constrained by Government policy. A range of annual increases from 3 to 6% have been modelled in the expectation that in scenarios with greater reductions in core government funding a higher rate of Council Tax increase may be allowable.

Staff pay increases- Pay costs reflect the biggest single expense that the Council incurs with salary costs in excess of £300m incurred annually. Annual pay awards of 1,2 and 3% have been included in different scenarios- this is intended to reflect the potential balance that may need to be struck between demand and affordability.

General pressures- In all scenarios modelled a sum of £5m has been included for 'general pressures'. This sum is intended to capture other variables such as changing demand for services, the impact of demographic change, inflationary pressures (especially on contracts), legislative change or locally decided new expenditure commitments. If more detail emerges on any particular item in this category it will be factored into the budget gap calculations in its own right.

Loans charges- None of the scenarios included in the current modelling assume any change in the value of the budget currently allocated to loans charges. Capital investment is covered in more detail in sections 8 to 10 of this report and any revenue implications of a new capital programme will need to be factored into future iterations of the MTFP.

5.3 For all of the key variables highlighted above there is a huge amount of uncertainty about future direction. In terms of funding the Council has only received a settlement for 2021/22 with no visibility on settlements beyond that. With regard to pay no agreement has been reached on a pay award for 2021/22 and a long term settlement looks unlikely. When the 2021/22 pay settlement is agreed it may create a budget pressure for 2021/22 that requires to be addressed using reserves, as well as creating a recurring revenue budget pressure that would widen the budget gap for 2022/23. The general pressure figure may be dependant on key external factors such as inflation as well as wider macroeconomic considerations.

5.4 Given the uncertainty referenced above the range of different scenarios modelled over the next 5 year term leads to a total budget gap (and therefore savings requirement) anywhere between £13.9m and £120.4m after already agreed savings of £6.6m are deducted. The table below summarises the different variables and their impact on the budget gap.

Scenario- annual change				**Budget gap**					
Pay increase	**General pressures**	**Core funding change**	**Council Tax increase**	**2022/23 £m***	**2023/24 £m****	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**5 year total £m**
3%	£5m	-3%	3%	20.1	22.4	26.1	25.9	25.8	120.4
2%	£5m	-3%	3%	16.6	18.8	22.3	22.1	21.9	101.7
3%	£5m	-3%	6%	16.2	18.3	21.8	21.6	21.3	99.2
3%	£5m	-1%	3%	10.0	12.5	16.2	16.3	16.3	71.2
2%	£5m	-1.50%	3%	9.0	11.3	15.0	14.9	14.8	64.9
2%	£5m	-1%	5%	3.8	6.1	9.7	9.5	9.4	38.5
1%	£5m	-1%	3%	2.9	5.2	8.8	8.7	8.5	34.0
2%	£5m	0%	3%	1.4	3.8	7.6	7.6	7.6	28.1
3%	£5m	0%	6%	1.0	3.4	7.1	7.1	7.0	25.5
2%	£5m	0%	5%	-1.3	1.1	4.8	4.7	4.6	13.9

* 2022/23 budget gap figures reflect the position after savings of £5.3m approved in March 2021 are deducted
** 2023/24 budget gap figures reflect the position after savings of £1.3m approved in March 2021 are deducted

5.5 The broad range of outcomes identified from the modelling does make it difficult to come up with a meaningful financial plan. Whilst the scenarios identified are all possible knowing which is probable would better help inform detailed planning. The scenario highlighted in yellow in the table above was the 'central' scenario used in the March 2021 MTFP and at present it is felt that this scenario- which has a requirement for an average £14.3m in annual savings- is the central one we should continue to use.

5.6 Further support for the use of the central scenario is provided by the table below which provides details of the savings approved by Council as part of the annual budget processes over the last seven years.

Annual savings requirement- last 7 years (total value of savings approved as part of annual revenue budget process)

21/22	£10.5m
20/21	£16.2m
19/20	£21.4m
18/19	£13.7m
17/18	£16.8m
16/17	£39.9m
15/16	£17.9m
	£136.4m
Average annual saving requirement 2015/16 to 2021/22:	**£19.5m**
Average annual saving requirement 2017/18 to 2021/22:	**£15.7m**

N.B the above figures reflect the amounts of saving required, not the budget gap (i.e. they reflect the position after any Council Tax increases)

5.7 Based on the figures provided in sections 5.5 and 5.6 above it is suggested that Members recognise that the Council will have an ongoing average annual savings requirement of around £15m. It should also be noted, as history demonstrates, that any saving requirement in a single year may vary significantly from that long term average.

5.8 Any medium-term financial planning must also be mindful of the potential impact of significant risk items. Known risks from the Council's risk register include the Covid pandemic and associated recovery, Brexit, financial sustainability and climate change. Allowances for addressing these and other risks may need to be built into future iterations of the medium term financial plan.

5.9 In March the Council agreed to maintain its general fund non-earmarked reserve at a minimum level of £24.7m with any excess funds above that level available for investment. The use of reserves can only be a one off spend and any such spend that has ongoing spending requirements in future years will need to have those funding requirements built into the MTFP which will widen the budget gap.

5.10 Any investment plans that are decided should be mindful of the medium term outlook with priority given to investment proposals which deliver revenue budget savings over the medium and longer term. Reserves could also offer the opportunity as a one-off means of closing the 2022/23 residual budget gap pending the delivery of long term transformational savings.

6. Play Parks Funding

6.1 It was agreed, following a Motion at the June Council meeting, that there would be a report back to this meeting on the outcome of engagement with the Scottish Government in relation to their manifesto commitment on play parks.

6.2 Officers have engaged with the Scottish Government and Cosla and it is now known that the allocation for 21/22 has been confirmed as £5m nationally. The Highland Council's allocation is £234,000 (4.68%) and will be paid as part of the General Capital Grant commencing in September. The allocation criteria for the first phase of funding is 95% on population 0-14 years of age and 5% on rurality. The phasing of the £55m allocation over the remaining years is yet to be determined.

6.3 The Scottish Government has set out their expectations as follows:

- Over the period of the Parliament, it has been agreed that all play parks which have been identified as requiring refurbishment will be refurbished.

- It is recognised that the extent of renewal, and refurbishment will vary across the whole play estate and will be influenced by local plans and investment priorities and engagement with children and young people.
- The expectation is that the whole play estate will be considered and all play parks that have been identified for refurbishment in line with nationally agreed principles and influenced by local plans and investment priorities will be refurbished.
- The Scottish Government, in collaboration with stakeholders, will develop some nationally agreed principles against which spending plans should be developed. Key to this will be the engagement of children and young people as part of the process of agreeing local priorities.

6.4 A strategic review of playparks is already underway and Members and officers are working to identify investment priorities for playparks in each area. This will help inform the basis for the allocation of the £234,000 based on our own plans and priorities, and the nationally agreed principles. Subject to receiving clarity on the principles and Members agreeing our priorities, a report will be presented to Communities and Place Committee in November with options for allocating the £234,000 across Highland. Revenue consequences of Capital expenditure will have to be considered ahead of spend.

7. Future Highlands- Investment requirements

7.1 As described in the previous item on the agenda 'Future Highlands - Health and Prosperity Strategic Partnership Plan' there are a number opportunities for collaboration with public, private and third sector partners over the next ten years. The timeframe for those strategic partnership priorities means they will be a key influencing factor over the Council's medium to long term financial planning - with the MTFP needing to be aligned to the delivery of those strategic priorities. Each of the proposed investments set out below will deliver positive benefits in their own right. However, taken forward in collaboration with partners provides the potential for even greater benefits to accrue.

7.2 In order to support delivery of those partnership priorities Council is asked to approve three investments, totalling £5.3m, to be funded from the Council's general fund non-earmarked reserve.

7.3 Strategic Partnership Priority 1- Green Energy Hub

Project development as part of the masterplan for the Longman, Inverness site with an allowance of £2.8m to secure a range of professional expertise covering legal, technical, financial, procurement, insurance, engineering, architectural, ecological requirements as well as public and partner engagement.

This level of detail is required to take the project forward in stages should Members decide to proceed with a green energy hub, developed to provide the long term solution to the Council's residual waste through an energy from waste plant with further benefits arising from combining heat and power output to enable electricity generation, district heating, electric vehicle charging for fleet, the creation of a new, modern and first-class depot servicing a range of operations and scope for hydrogen production. The hub would serve Council operations and with scope for partner operations and be of interest to high energy using business, including other fleet operators.

This project development would be over a four-year period with decision points for Members during that period, initially on planning by year 2. The allowance for this project development does not commit the Council to agreeing this development or the scale of this development on this site, but it provides the route map and information for

Members to be able to make that decision with the costs, benefits and risks transparent.

More information on the case for this development is provided in **Appendix 1**, building on previous Council decisions. In addition, as agreed by the Communities and Place Committee in May 2021, Member briefings will be arranged in September to provide further information and to complement the reports considered by the Communities and Place Committee and the Member Waste Strategy Working Group. The Member Working Group meets on 1st September 2021 to review the options appraisal undertaken. Should any Member not have been able to attend any of the Member briefings, the report of the options appraisal will be available to access on the Members Sharepoint site.

7.4 Strategic Partnership Priority 4 - Visitor Management

The one-off Visitor Management Plan investment of £2.4m agreed by the Council in March 2021 for this year's season has enabled a range of service improvements. This includes: an enhanced waste collection service; 14 new Comfort Schemes to be provided now numbering 50; building improvements to 7 out of 75 Council run public conveniences; operational support for the new Storr toilets; support for a community group running portaloos; car park and other road improvements; work on delivering additional motorhome waste facilities; enhancements to visitor management infrastructure in Aviemore and a pilot public transport scheme in Skye.

The Seasonal Access Rangers have made a significant difference to many Highland communities' perception of the effects of visitors and the Council's involvement in the issue. Engagement with visitors, communities and landowners and the offering of information and advice has been the priority of their work with key outcomes listed below:

- The Rangers submit weekly & monthly reports with user numbers, 'hotspots' have been identified and monitored along with any other sites of concern highlighting issues with informal camping, parking, litter & overflowing bins, fires, outdoor toileting.
- Extensive positive feedback from communities, members, organisations and visitors. To the end of July, on nearly 800 patrols, over 11,000 people spoken to/ advised of Outdoor Access Code, 5500 tents recorded off-site with nearly 2000 toileting sites.
- Reducing the effect of fires on vegetation damage and risk of wildfires. 2276 fires, 71 of which the ranger extinguished as causing risk.
- Reduced the amount of litter and the effect of the litter left. 700 bags of litter removed. Of nearly 12,000 motorhomes observed, 21 cases of black waste on roadside.
- Encouraged responsible parking, moved on many obstructive vehicles in passing places and elsewhere. Over 40,000 vehicles were observed parked with 160 parking warning notices issued
- Worked with communities and landowners to reduce or resolve issues. 35 community councils have been engaged with along with numerous organisations and individuals.
- Maintenance undertaken on several council owned sites.

Given the importance of tourism to the Highland economy and the need for the tourism experience to be positive for visitors and communities, it is proposed to extend the Visitor Management Plan funding into the 2022 season by a one-off investment of £1.5m. This funding will be held in the Council's earmarked reserves for spend during

2022/23. By confirming this investment for 2022/23 now, detailed spending plans which are informed from the experiences in the current year can be developed. Regular reports on progress on projects, spend profile and activity will be reported to the Tourism Committee, Communities and Place Committee and Economy and Infrastructure Committee.

7.5 Strategic Partnership Priority 4 - Community Loans Fund. This proposal looks to create a £1m cash-backed Community Loans Fund which will be open to applications from community companies/enterprises/other community bodies to bid into to access loan funding at market rates to support the delivery of community driven projects. The fund will allow community companies access to funding to deliver sustainable projects which in many cases may help support community asset transfer or local delivery of services which the Council can no longer afford to sustain. In some cases the funding may simply be bridging finance whilst other external funding streams are realised. More detail on the proposal can be seen at **Appendix 2.**

8. Capital Investment and the Medium Term Financial Plan

8.1 Members approved a reprofiled capital programme at the January 2021 Council meeting (delayed from December 2020). This reprofiled programme reflected the programme agreed in March 2018, updated to reflect revised project costs, revised spending profiles and the addition of any subsequently agreed projects.

8.2 Funding for the capital programme comes from core Scottish Government capital grant funding; specific project capital funding (which mainly comprises Scottish Government funding for floods and harbours or developer contributions); capital receipts arising from the disposal of assets; and borrowing.

8.3 Borrowing comprises the largest funding component of the capital programme and this is funded through the loans charges element of the Council's revenue budget. The annual loans charge the Council incurs is made up of two parts, the 'principal' which relates to the repayment of the cost of historic capital investment, and 'interest' which reflects the Council's cost of financing its borrowing.

8.4 Given the need for investment across the Council's asset base, borrowing will need to continue to be a significant part of the funding of capital investment. As such the impact of repaying the borrowing (the 'principal') and associated interest for any planned or intended capital investment will need to be properly considered as part of the MTFP.

8.5 Should the Council wish to add more projects to the capital programme this could be managed either by increasing the loans charges budget (as part of the MTFP), by reviewing the loans fund accounting treatment, or by accessing more external funding for projects.

8.6 A review of the loans fund accounting treatment would not reduce the total principal the Council needs to repay, but instead change the profile of the repayments. A key consideration of such a review would have to be long term affordability, as the new profile would need to include ongoing annual capital investment across the Council's asset base.

8.7 A workshop for Members was held on the 9th August and covered the two main themes of Capital Strategy and Financing Options. The slides from that workshop were circulated to all Members.

8.8 Work to develop a new 5+5 (i.e. five year firm, 5 year indicative) capital programme is currently taking place with the first stage of that process being the identification of investment requirements over the next 10 year period. Presentation of that new capital programme will follow the approval of the capital strategy at the Council meeting in

October. Again, this new capital programme will need to tie in to the MTFP with the financing of it supported by the options arising from the loans fund review.

9. Confirmed Priorities for Schools Capital Investment

9.1 The Council confirmed the following priorities for capital investment at its meeting in June, with the full scope, timescale, associated cost, and funding options to be brought back to today's meeting:

- Beauly Primary School – New School
- Culloden Academy – Extension/Refurbishment
- Dunvegan Primary School – New School
- Park Primary School – New School
- St Clement's School – New School

9.2 **Appendix 5** contains details of the scope, timescale and cost for all these projects. It should be noted that initial briefing and design work, along with some engagement with internal and external stakeholders, has continued since the meeting in June in line with the Council's commitment to deliver these priorities. Design and build contractors have now been selected for all the projects to ensure that early engagement can take place with the Council's internal project teams on some key issues.

9.3 **Appendix 7** also sets out the Communication and Engagement Strategy for the five projects and summarises progress to date, immediate actions required and the approach going forward.

9.4 One of the key factors under consideration as part of the costing of these projects is the financial impact of the current and future pressures on the construction industry, both locally and nationally. The funding framework for all new school build projects is based on the LEIP metric based approach as follows.

- Floor area – based on area metrics per pupil for all types and sizes of school buildings.
- Cost per m2 – based on cost metrics for all school types linked to a base date of Q4 2017.
- Use of the Building Cost Information Service (BCIS) tender price indices to take account of market inflation from 2017 onwards.

9.5 It is the view of officers in Housing & Property that the BCIS indices do not reflect either the current state of the construction market in the Highlands, or the full extent of the inflationary increases that are likely over the next few years. As a result, an increased allowance to cover this risk factor has been included in the budgets for the five projects in **Appendix 5**, and for all potential new projects to be considered as part of the review of the capital programme. Officers will continue to monitor the position and will arrange to discuss this further with colleagues in the Scottish Futures Trust. Also, the early engagement of contractors for the five projects will allow officers to consider potential measures to mitigate the impact, such as in the choice of materials and components.

9.6 The table below shows the overall budget and phasing for each of the 5 projects. Members are asked to approve the budget for each project, noting that once approved the projects will be monitored through the Housing and Property Committee. At present it is anticipated that all the new buildings will be operational by August 2024 with the exception of St Clement's school where a longer timeframe, to August 2025, is expected due to the requirement to complete a statutory consultation.

	21/22	22/23	23/24	24/25	25/26	26/27	Total
Beauly Primary	250	750	4,000	6,500	500	0	**12,000**
Culloden Academy	0	500	4,500	4,500	500	0	**10,000**
Dunvegan Primary	250	750	4,000	6,500	500	0	**12,000**
Park Primary	250	1,750	4,500	6,000	500	0	**13,000**
St Clement's	100	250	1,750	4,500	6,000	400	**13,000**
Total	**850**	**4,000**	**18,750**	**28,000**	**8,000**	**400**	**60,000**

9.7 The further engagement with stakeholders on Park Primary School that is set out in **Appendix 5** will allow the final scope of the project to be established. However, there is an immediate issue with the condition of the main building that was substantially damaged following the second fire in February 2021. It is the view of officers in both Education & Learning and Housing & Property that the building should not be retained as part of any new build on that site. The internal layout of the main building would result in a facility that was less suitable than a completely new school build in terms of providing a learning environment that meets the needs of all learners and is in line with the key principles of the Scottish Government's Learning Estate Strategy. Also, the associated cost of reinstating and upgrading the building would not represent best value in the long term. It is therefore recommended that all remaining building on the site should be demolished and a completely new school building constructed.

9.8 The June Council report also highlighted some of the future investment priorities that will need to be considered as part of the wider review of the Council's capital programme. All avenues for external funding will be explored with a particular focus on which projects should be included in bids to future phases of the Scottish Government's Learning Estate Investment Programme (LEIP). The Council has been successful in previous bids to the LEIP, with the new Tain 3-18 Campus included in Phase 1, and new schools at Broadford Primary and Nairn Academy included in Phase 2.

9.9 Any projects to be included in bids to the LEIP will require to be included in the Council's capital programme. Scottish Government funding will be available through the outcomes-based funding model and released over a 25-year period subject to achieving these outcomes. Following the agreement that has been reached about the 5 priority schools being funded through the Council's capital programme, it is recommended that the next bid to the Autumn 2021 round of the LEIP should support the need for new secondary and primary provision in East Inverness. Further contextual detail is provided in **Appendix 5** and roll pressures are set out in **Appendix 6.**

9.10 The pressure on school places in Inverness has been well trailed through Council – highlighted in the August 2018 Council report on Scottish Government New Schools Investment Programme, and most recently at the last Council in June in the Medium Term Financial Plan report, where it was noted that development in East Inverness would be required by either 2027/28 or 2028/29 to deliver approximately 500 primary school places and approximately 1,000 secondary school places.

10. Funding of Priority Schools Investment

10.1 The priority schools investments detailed in the preceding section will all be supplementary to the current approved capital programme. Whilst a strategy is in place to ensure the revenue budget implications of the current capital programme can be managed within the existing loans charges revenue budget this additional investment will require an alternative approach.

10.2 **Appendix 3** provides two models of the profile of loans fund charges (principal and estimated interest) associated with the five school priority projects, based on the full cost being funded by borrowing. Any external income received, either from insurance monies or Government funding would reduce these profiles. The first profile reflects the Council's current approach to calculating loans fund principal repayments for school buildings, namely writing down 60% of the investment over 60 years and 40% over 20 years. This approach is intended to match the asset life of the building and its components. The second profile reflects writing down the full value of the investment over a 30 year period- this approach may be consistent with a revised method that may emerge from the loans fund review.

10.3 Both profiles would require substantial loans charges, with the most significant impact from financial year 2025/26 onwards. In the years up to and including 2024/25 only interest will be payable, 2025/26 will see the beginning of principal repayments which, in line with the Council's policy, begin in the year following the asset coming into operation. Under the Council's existing loans fund accounting treatment these five new schools would add around £2.4m to the Council's annual loans charges over the period 2025/26 to 2044/45, reducing to around £1.2m for the period from 2045/46 to 2085/86.

10.4 **Appendix 4** overlays the loans charges costs of the five schools priority projects onto the loans charges profile associated with the Council's existing debt and debt required to finance the reprofiled capital programme approved by Council in January 2021. For illustrative purposes a profile is also shown that reflects £25m of additional capital spend financed by borrowing from 2025/26 onwards (i.e. after the conclusion of the currently approved capital programme).

10.5 It is evident from this appendix that the implications of this investment would increase the pressure on the Council's revenue budget in the next few years without a change to the loans fund accounting methodology. Whilst officers remain confident that a revised methodology will enable this pressure to be dealt with by reprofiling it into later years that approach would however constrain the amount of capital investment able to be made in the future. It is intended that a revised approach to the loans fund accounting treatment will be brought to Council in October.

10.6 In addition to the loans fund charges associated with the financing of these schools it will also be important to consider whether the running costs of the schools will change as a result of the investment and ensure any cost increases or decreases are factored in to the medium term financial plan. For any replacement buildings any savings from increased energy efficiency may be more than offset by the increased rateable value of the new properties. Where additional accommodation is provided this will directly result in additional property costs and increased rateable value.

Designation: Executive Chief Officer- Resources and Finance

Date: 24th August 2021

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/78408/9i_medium_term_financial_planning_and_health_and_prosperity_strategy_investment

https://www.highland.gov.uk/download/meetings/id/77862/item_4_revenue_budget_202122_to_202324

https://www.highland.gov.uk/download/meetings/id/78588/3_corporate_revenue_monitoring_report_to_30_june_2021

Appendix 1

Development of a green energy hub as part of the masterplan for the Longman site, Inverness

Members are aware that the Council must, by law, find a long-term solution for its residual municipal waste of approximately 80,000 tonnes per annum that cannot be recycled and cannot be landfilled after 2025. It has deliberated this matter for many years and made a concerted effort to find a solution particularly from 2017 following a redesign review approved by the Council.

The Council also has climate change duties and targets and ambition to meet.

In 2018 a Project Board with project management support was established to undertake work on long term options and enhanced Member scrutiny was enabled through the establishment of a cross-party Member Waste Strategy Working Group with regular reporting to a strategic committee and where appropriate to Council.

The Project Board commissioned four studies which have concluded and been reported through the Member Waste Strategy Working Group and Communities and Place Committee. These have enabled an appraisal of three options of continuing to landfill, to send our residual waste elsewhere in Scotland and/or England or to derive value from our waste and use it to generate electricity for Council, grid and other use.

Based on the evidence gathered through the studies, the preferred option at this time is to derive value from our waste, enabling climate change action and creating a green energy hub that would produce electricity for the grid, for Council use including electric vehicle (EV) charging for our fleet and partner fleet, provide a district heating network to support the development plans for East Inverness including new housing and public buildings as well as high energy using private business, and hydrogen production. The studies show this is feasible at the Longman former landfill site where a waste transfer station is currently being built. It would enable a master plan for the whole site and deliver a range of socio-economic as well as environmental benefits and is one of the five strategic priorities set out in the Highland's Future – Health and prosperity Strategic Plan.

The framework for undertaking the options appraisal was agreed at the Communities and Place Committee in May 2021. It has concluded and been subject to internal peer review from senior officers and external peer review. Further briefings and reports will be provided to Members on the full options appraisal from September, as agreed at the Communities and Place Committee in May 2021.

Based on one of the studies commissioned initial estimates of the cost of an energy from waste combined heat and power plant at this site ranged from £95m to £185m but, this excluded costs associated with the district heating network, grid connections, hydrogen production and new depot with EV charging. A range of funding models could be considered by the Council.

For Members to decide on whether to proceed with this option further detailed costed plans are required. These are all technical in nature and require specialist professional advice. This requires additional resource to supplement Council expertise and would take up to four years to complete; although there would be points during that period for Members to make decisions on whether to proceed to the next stage. The advice required includes legal, technical, financial, procurement, insurance, engineering, architectural, ecological requirements as well as public and partner engagement.

The first stage would be to develop plans and take them through the planning process and this would take up to 2 years. Years 3 and 4 would involve a procurement process for project development.
Studies and other information for the planning approval process include:

- Pre-planning advice, public inquiry preparation and undertaking, and planning application
- Site investigations – ground conditions, composition and contamination, asbestos, gas emissions and remediation, flood levels
- Habitat and ecology and acceptable management of those to enable development
- Environmental impact assessment and landscape and visual impact assessment
- Landscape management plan
- Structural engineering assessments for supporting an EfW on a former landfill site
- Construction traffic management plan
- Drainage impact assessment
- Transport statement
- Operational noise assessment
- Heat viability plan
- Public consultation materials, events and report
- Web page development and maintenance
- District valuer ground rent analysis
- Inverness Design Review Panel
- Development plan for Longman 'green' energy hub
- Communications and marketing resource to support overall engagement with all stakeholders

<u>Further studies and information for tender documents include:</u>

- Waste composition analysis
- Waste pre-treatment derogation from SEPA
- SSE grid connection application
- Insurance company stipulations affecting facility design
- Waste supply agreements
- Renewable energy

<u>Studies for associated developments include:</u>

- District heating network routing, engineering and design
- District heating network customer demand analysis, and developer interest assessment
- Electric vehicle charging infrastructure requirement
- Electric vehicle customer demand analysis

- New depot requirements and relocation impacts ad opportunities
- Hydrogen production infrastructure requirement
- Hydrogen customer demand analysis, and potential developer interest assessment

An allowance to cover costs of up to £2.8m would provide resource for fees and studies.

Current advice is that the development of an energy from waste plant and heat plan can take up to 7 years. This means in the short term the Council will continue to use its own landfill sites in Caithness and near Aviemore while they have capacity and in the medium term the Council is renewing its contracts from 2023 for residual waste to be transported elsewhere in the UK. The procurement of new contracts for the period 2023-27 (with the option to extend for a further 36 months) is currently underway with tender evaluation reported early in 2022. This means that all three options would be pursued at different times.

APPENDIX 2

Future Highlands- Investment Bid

PROPOSAL TITLE:	Community Loans Fund
SERVICE/SPONSOR:	C&P, I&E, R&F

BACKGROUND INFORMATION
Summary of the proposed investment, including why this is justified in relation to specific organisational priorities (Savings, Council Programme/Corporate Plan, Recovery Action Plan, Transformation)

This proposal looks to create a £1m cash-backed Community Loans Fund which will be open to applications from community companies/enterprises/other community bodies to bid into to access loan funding at market rates to support the delivery of community driven projects. These are development bids therefore the loans are likely to be larger which should be a consideration in considering the sum to set aside for this.

This fund will allow community companies access to funding to deliver sustainable projects which in many cases may help support community asset transfer or local delivery of services which the Council can no longer afford to sustain.

This cross cutting approach with colleagues from the C&P, I&E and R&F services would allow subject matter experts from across the Council (including loans/economic development experts from I&E/HOIL) to collaborate to deliver a transformational approach to the support for local, area-based community activity.

OBJECTIVES
What are the aims/objectives of the opportunity (Objectives to be Specific; Measurable; Achievable; Realistic; Time)

Why do this?
We are aware that there is a lack of post acquisition development funding for groups who have taken on land or assets. This was highlighted by the Community Ownership Support Service and the Land Commission in a recent seminar on community ownership. This would also support orgniasations to take on assets from the Council as part of the Council asset rationalisation process.
Many community bodies would not qualify for business loans and therefore sources of development funding are limited.

What is the focus for these loans?
Development projects which lead to income generation – there has to an income stream as part of the business plan in order to pay back the loan.

E.g. A Community Interest Company seeking loan support to refurbish a car park which is under their ownership. This would improve parking for the Town. They would repay this through income generated from charing for the car park.

E.g. A group wishing to re-develop an asset but their grant from a national body has not yet come through (bridging finance)

E.g. A group wishing to take on a Council asset which requires improvement prior to potential income generation.

How would this be delivered?
This would be a fund for community development groups to apply to. Core criteria would be developed to support the application process which would include the requirement for any

proposal to be development focused with a return on investment. This would enable the loan to be repaid.

Any application would be accompanied by a business plan setting out the intentions of the community body.

The skill set and experience for assessing bids of this nature is within the Development and Regeneration Team and additional resource would be required to support this. A part time post would be proposed at £25k and therefore any investment would require this sum to be set aside.

It is proposed to prioritise community projects that wish to take on Council assets that help the Council to divest of assets or to take on services.

What's the payback period?
This is likely to vary from agreement to agreement and should be based upon the organisations business plan. It could vary from between 2-10 years but it is proposed this would be linked to the organisation starting to generate money.

What interest rate is being considered and why not 'free'?
If interest is not applied then it could be considered a grant and there is also no incentive on the group to pay this back within the defined timescales. In terms of the level of interest we would need to use a 'market rate' considering the potential of state aid issues when setting that level of interest.

BENEFITS
What are the anticipated benefits, including Financial (Income/Savings/Cost Avoidance), and non-cashable such as External/Internal Customer Satisfaction, Performance Improvements, delivery of Local/National Outcomes etc

Support the Council to divest of asset and enable community bodies to take on and deliver on objectives.

Wider community benefit in relation to strong, resilient and sustainable communities.

TIMESCALES
*What are the timescales (best known at this stage will suffice) for delivering the **OBJECTIVES** and realising the **BENEFITS**?*
e.g. 21/22 £savings, 22/23 £savings, 21/22 and 22/23 £cost avoidance

This would be an ongoing fund to be delivered over a number of years.

BUDGET & RESOURCES (COSTS)
What is the Resource requirement – this should include type of resource, FTE (where applicable), and for what duration – types of resource will include the following:

- ✓ **Project Resource** - e.g. Business Change, Programme/Project Management, Lean, Finance, Audit, etc.
- ✓ **Subject Matter Expertise** – specific to the scope of work and the objectives to be delivered
- ✓ **External Resource** – e.g. non-Council specialist roles such as Third Sector, other public sector organisations, consultancy
- ✓ **ICT, Property & Plant** – are there any anticipated requirements?

Please complete the table below, including total funding being requested

TYPE OF RESOURCE	FTE (if appropriate)	DURATION	FUNDING REQUIRED £
Earmarked fund	0.5 fte admin	Ongoing	£1M
		TOTAL FUNDING REQUIRED	£1M

Is this proposal likely to require ongoing spend in future years? **YES/NO** (if yes please provide details)

RISKS
*Initial view on what the main risks are in terms of delivery of the **OBJECTIVES** and realising the **BENEFITS** and what can be done to mitigate against these risks*

There is a potential for groups to struggle to pay back loans. This would be mitigated through a robust assessment process based upon a business plan which would be core to any application.

APPENDIX 3

	60 years @ 60% and 20 years @ 40%						all at 30 years					
	Culloden Total Loans Charges £	Beauly Total Loans Charges £	Dunvegan Total Loans Charges £	Park Total Loans Charges £	St Clement's Total Loans Charges £	TOTAL £	Culloden Total Loans Charges £	Beauly Total Loans Charges £	Dunvegan Total Loans Charges £	Park Total Loans Charges £	St Clement's Total Loans Charges £	TOTAL £
2021-22	-	2,500	2,500	2,500	1,000	8,500	-	2,500	2,500	2,500	1,000	8,500
2022-23	5,000	12,500	12,500	22,500	4,500	57,000	5,000	12,500	12,500	22,500	4,500	57,000
2023-24	55,000	60,000	60,000	85,000	24,500	284,500	55,000	60,000	60,000	85,000	24,500	284,500
2024-25	145,000	165,000	165,000	190,000	87,000	752,000	145,000	165,000	165,000	190,000	87,000	752,000
2025-26	353,515	395,053	395,053	463,572	192,000	1,799,194	373,051	450,536	450,536	489,278	192,000	1,955,401
2026-27	368,393	442,777	442,777	478,782	463,572	2,196,303	389,036	466,769	466,769	505,636	489,278	2,317,489
2027-28	371,275	446,237	446,237	482,527	478,782	2,225,060	392,272	470,651	470,651	509,841	505,636	2,349,050
2028-29	374,264	449,825	449,825	486,411	482,527	2,242,853	395,627	474,676	474,676	514,201	509,841	2,369,021
2029-30	377,363	453,546	453,546	490,439	486,411	2,261,305	399,106	478,851	478,851	518,723	514,201	2,389,731
2030-31	380,576	457,405	457,405	494,615	490,439	2,280,440	402,713	483,179	483,179	523,412	518,723	2,411,207
2031-32	383,909	461,406	461,406	498,946	494,615	2,300,282	406,455	487,668	487,668	528,275	523,412	2,433,478
2032-33	387,365	465,555	465,555	503,437	498,946	2,320,859	410,334	492,323	492,323	533,317	528,275	2,456,573
2033-34	390,949	469,858	469,858	508,095	503,437	2,342,197	414,358	497,150	497,150	538,546	533,317	2,480,522
2034-35	394,666	474,320	474,320	512,924	508,095	2,364,325	418,530	502,156	502,156	543,969	538,546	2,505,357
2035-36	398,520	478,947	478,947	517,933	512,924	2,387,271	422,856	507,347	507,347	549,592	543,969	2,531,112
2036-37	402,516	483,745	483,745	523,127	517,933	2,411,067	427,343	512,730	512,730	555,424	549,592	2,557,819
2037-38	406,661	488,721	488,721	528,513	523,127	2,435,742	431,996	518,312	518,312	561,471	555,424	2,585,514
2038-39	410,958	493,881	493,881	534,098	528,513	2,461,331	436,820	524,101	524,101	567,741	561,471	2,614,234
2039-40	415,415	499,232	499,232	539,890	534,098	2,487,867	441,824	530,104	530,104	574,244	567,741	2,644,017
2040-41	420,037	504,781	504,781	545,896	539,890	2,515,384	447,012	536,329	536,329	580,988	574,244	2,674,902
2041-42	424,830	510,535	510,535	552,124	545,896	2,543,920	452,392	542,784	542,784	587,980	580,988	2,706,929
2042-43	429,800	516,502	516,502	558,583	552,124	2,573,511	457,972	549,479	549,479	595,232	587,980	2,740,142
2043-44	434,954	522,690	522,690	565,281	558,583	2,604,198	463,758	556,421	556,421	602,752	595,232	2,774,583
2044-45	440,298	529,107	529,107	572,226	565,281	2,636,019	469,757	563,619	563,619	610,550	602,752	2,810,298
2045-46	161,636	194,817	194,817	210,115	572,226	1,333,611	475,979	571,084	571,084	618,637	610,550	2,847,336
2046-47	162,609	195,990	195,990	211,381	210,115	976,085	482,432	578,826	578,826	627,023	618,637	2,885,743
2047-48	163,619	197,207	197,207	212,693	211,381	982,106	489,122	586,854	586,854	635,719	627,023	2,925,572
2048-49	164,666	198,468	198,468	214,054	212,693	988,349	496,061	595,178	595,178	644,737	635,719	2,966,874
2049-50	165,751	199,777	199,777	215,465	214,054	994,823	503,256	603,811	603,811	654,089	644,737	3,009,704
2050-51	166,877	201,134	201,134	216,928	215,465	1,001,536	510,717	612,763	612,763	663,786	654,089	3,054,119
2051-52	168,044	202,541	202,541	218,445	216,928	1,008,498	518,455	622,047	622,047	673,843	663,786	3,100,178
2052-53	169,255	204,000	204,000	220,019	218,445	1,015,718	526,479	631,674	631,674	684,271	673,843	3,147,940

2053-54	170,510	205,513	205,513	221,651	220,019	1,023,205	534,799	641,657	641,657	695,086	684,271	3,197,470
2054-55	171,812	207,082	207,082	223,343	221,651	1,030,968	543,428	652,009	652,009	706,300	695,086	3,248,833
2055-56	173,162	208,709	208,709	225,098	223,343	1,039,019	0	- 0	- 0	0	706,300	706,300
2056-57	174,561	210,396	210,396	226,917	225,098	1,047,368	0	- 0	- 0	0	0	0
2057-58	176,013	212,145	212,145	228,805	226,917	1,056,026	0	- 0	- 0	0	0	0
2058-59	177,518	213,960	213,960	230,761	228,805	1,065,004	0	- 0	- 0	0	0	0
2059-60	179,080	215,841	215,841	232,791	230,761	1,074,314	0	- 0	- 0	0	0	0
2060-61	180,698	217,793	217,793	234,895	232,791	1,083,969	0	- 0	- 0	0	0	0
2061-62	182,377	219,816	219,816	237,077	234,895	1,093,981	0	- 0	- 0	0	0	0
2062-63	184,118	221,914	221,914	239,340	237,077	1,104,364	0	- 0	- 0	0	0	0
2063-64	185,923	224,090	224,090	241,687	239,340	1,115,130	0	- 0	- 0	0	0	0
2064-65	187,795	226,346	226,346	244,120	241,687	1,126,295	0	- 0	- 0	0	0	0
2065-66	189,737	228,686	228,686	246,644	244,120	1,137,873	0	- 0	- 0	0	0	0
2066-67	191,750	231,112	231,112	249,261	246,644	1,149,880	0	- 0	- 0	0	0	0
2067-68	193,837	233,629	233,629	251,975	249,261	1,162,330	0	- 0	- 0	0	0	0
2068-69	196,002	236,238	236,238	254,789	251,975	1,175,242	0	- 0	- 0	0	0	0
2069-70	198,247	238,944	238,944	257,707	254,789	1,188,631	0	- 0	- 0	0	0	0
2070-71	200,575	241,750	241,750	260,734	257,707	1,202,515	0	- 0	- 0	0	0	0
2071-72	202,989	244,659	244,659	263,872	260,734	1,216,914	0	- 0	- 0	0	0	0
2072-73	205,493	247,677	247,677	267,126	263,872	1,231,845	0	- 0	- 0	0	0	0
2073-74	208,089	250,806	250,806	270,501	267,126	1,247,328	0	- 0	- 0	0	0	0
2074-75	210,781	254,051	254,051	274,001	270,501	1,263,384	0	- 0	- 0	0	0	0
2075-76	213,573	257,416	257,416	277,630	274,001	1,280,035	0	- 0	- 0	0	0	0
2076-77	216,468	260,905	260,905	281,393	277,630	1,297,301	0	- 0	- 0	0	0	0
2077-78	219,470	264,524	264,524	285,296	281,393	1,315,206	0	- 0	- 0	0	0	0
2078-79	222,584	268,276	268,276	289,343	285,296	1,333,774	0	- 0	- 0	0	0	0
2079-80	225,812	272,167	272,167	293,540	289,343	1,353,029	0	- 0	- 0	0	0	0
2080-81	229,160	276,202	276,202	297,892	293,540	1,372,996	0	- 0	- 0	0	0	0
2081-82	232,632	280,387	280,387	302,405	297,892	1,393,702	0	- 0	- 0	0	0	0
2082-83	236,232	284,726	284,726	307,085	302,405	1,415,174	0	- 0	- 0	0	0	0
2083-84	239,966	289,226	289,226	311,938	307,085	1,437,441	0	- 0	- 0	0	0	0
2084-85	243,837	293,893	293,893	316,971	311,938	1,460,531	0	- 0	- 0	0	0	0
2085-86	0	- 0	- 0	- 0	316,971	316,971	0	- 0	- 0	0	0	0
2086-87	0	- 0	- 0	- 0	- 0	- 0	0	- 0	- 0	0	0	0
2087-88	-	-	-	-	-	-	-	-	-	-	-	-
2088-89	-	-	-	-	-	-	-	-	-	-	-	-
Total	15,914,521	19,116,936	19,116,936	20,723,104	20,732,104	95,603,601	13,738,939	16,481,090	16,481,090	17,894,665	17,903,665	82,499,449

APPENDIX 4

	Janaury 2021 capital programme TOTAL LOANS CHARGES £	5 New schools TOTAL LOANS CHARGES £	January 2021 capital programme plus 5 new schools TOTAL LOANS CHARGES £	Janaury 2021 capital programme plus £25m annually from 25/26 onwards TOTAL LOANS CHARGES £	January 2021 capital programme plus 5 new schools plus £25m annually from 25/26 TOTAL LOANS CHARGES £
2021-22	57,883,190	8,500	57,891,690	57,883,190	57,891,690
2022-23	60,084,477	57,000	60,141,477	60,084,477	60,141,477
2023-24	60,331,655	284,500	60,616,155	60,331,655	60,616,155
2024-25	59,430,753	752,000	60,182,753	59,430,753	60,182,753
2025-26	57,606,350	1,799,194	59,405,544	58,031,350	59,830,544
2026-27	55,703,644	2,196,303	57,899,946	57,264,695	59,460,997
2027-28	53,879,427	2,225,060	56,104,487	56,567,216	58,792,275
2028-29	52,402,786	2,242,853	54,645,640	56,214,281	58,457,134
2029-30	50,767,474	2,261,305	53,028,779	55,702,313	57,963,618
2030-31	49,465,420	2,280,440	51,745,860	55,523,231	57,803,671
2031-32	47,925,505	2,300,282	50,225,787	55,105,901	57,406,184
2032-33	46,022,083	2,320,859	48,342,942	54,324,668	56,645,527
2033-34	44,568,512	2,342,197	46,910,709	53,992,874	56,335,072
2034-35	42,475,528	2,364,325	44,839,853	53,021,242	55,385,567
2035-36	39,597,056	2,387,271	41,984,327	51,263,684	53,650,955
2036-37	36,121,946	2,411,067	38,533,013	48,909,035	51,320,102
2037-38	33,869,571	2,435,742	36,305,313	47,776,652	50,212,394
2038-39	32,395,676	2,461,331	34,857,008	47,422,266	49,883,597
2039-40	30,354,951	2,487,867	32,842,818	46,500,549	48,988,416
2040-41	29,345,640	2,515,384	31,861,024	46,609,731	49,125,115
2041-42	26,960,016	2,543,920	29,503,936	45,342,066	47,885,986
2042-43	26,270,108	2,573,511	28,843,620	45,769,567	48,343,078
2043-44	25,684,818	2,604,198	28,289,016	46,301,116	48,905,314
2044-45	25,035,580	2,636,019	27,671,599	46,768,130	49,404,149
2045-46	24,285,715	1,333,611	25,619,326	47,133,908	48,467,520
2046-47	23,562,073	976,085	24,538,159	47,525,283	48,501,369
2047-48	22,596,985	982,106	23,579,091	47,674,563	48,656,669
2048-49	21,665,191	988,349	22,653,540	47,856,468	48,844,817
2049-50	20,787,940	994,823	21,782,763	48,092,224	49,087,047
2050-51	20,510,856	1,001,536	21,512,392	48,927,433	49,928,969
2051-52	18,769,575	1,008,498	19,778,073	48,297,707	49,306,205

2052-53	17,674,355	1,015,718	18,690,072	48,313,278	49,328,996
2053-54	17,517,240	1,023,205	18,540,445	49,266,168	50,289,372
2054-55	17,031,538	1,030,968	18,062,506	49,889,656	50,920,624
2055-56	17,080,021	1,039,019	18,119,040	51,046,488	52,085,507
2056-57	16,767,682	1,047,368	17,815,050	51,841,630	52,888,998
2057-58	16,522,107	1,056,026	17,578,133	52,702,638	53,758,664
2058-59	16,490,475	1,065,004	17,555,479	53,776,663	54,841,667
2059-60	15,802,333	1,074,314	16,876,648	54,193,221	55,267,536
2060-61	15,632,406	1,083,969	16,716,375	55,127,004	56,210,973
2061-62	15,446,759	1,093,981	16,540,741	56,044,046	57,138,027
2062-63	15,236,281	1,104,364	16,340,645	56,935,200	58,039,564
2063-64	14,553,907	1,115,130	15,669,038	57,353,369	58,468,499
2064-65	14,005,387	1,126,295	15,131,682	57,904,264	59,030,559
2065-66	13,726,846	1,137,873	14,864,720	58,723,975	59,861,848
2066-67	13,460,084	1,149,880	14,609,964	58,440,862	59,590,741
2067-68	12,462,720	1,162,330	13,625,051	57,435,356	58,597,687
2068-69	12,313,397	1,175,242	13,488,639	57,286,033	58,461,275
2069-70	12,073,622	1,188,631	13,262,253	57,046,258	58,234,889
2070-71	11,589,578	1,202,515	12,792,094	56,562,214	57,764,730
2071-72	11,009,498	1,216,914	12,226,412	55,982,134	57,199,048
2072-73	10,359,306	1,231,845	11,591,151	55,331,942	56,563,787
2073-74	9,971,708	1,247,328	11,219,036	54,944,344	56,191,672
2074-75	9,480,895	1,263,384	10,744,279	54,453,531	55,716,915
2075-76	9,260,045	1,280,035	10,540,080	54,232,681	55,512,716
2076-77	8,366,592	1,297,301	9,663,893	53,339,228	54,636,529
2077-78	7,765,962	1,315,206	9,081,168	52,738,598	54,053,804
2078-79	7,455,726	1,333,774	8,789,500	52,428,362	53,762,136
2079-80	6,412,246	1,353,029	7,765,275	51,384,882	52,737,911
2080-81	6,093,155	1,372,996	7,466,152	51,065,791	52,438,788
2081-82	3,451,215	1,393,702	4,844,917	48,423,851	49,817,553
2082-83	2,365,767	1,415,174	3,780,941	47,338,403	48,753,577
2083-84	1,906,424	1,437,441	3,343,865	46,879,060	48,316,501
2084-85	1,802,945	1,460,531	3,263,476	46,775,581	48,236,112
2085-86	812,764	316,971	1,129,735	45,785,400	46,102,371
2086-87		- 0	- 0	44,940,507	44,940,507
Total	1,578,261,491	95,603,601	1,673,865,091	3,457,580,848	3,553,184,448

Check Line

Appendix 5: Education Capital Priorities – Project Details

1. Beauly Primary School – New School

- **Scope:** This will be a new school building based on a standard single-stream design to replace the existing accommodation, although one of the existing buildings may be retained and converted to a nursery. Based on the current school roll forecasts, 6 classrooms will be required initially along with nursery accommodation. The building will be designed so that additional classroom bays can be easily added if required in the future.
- **Total Project Cost:** £12m.
- **Timescale**: We are working to deliver this project within 3 years (by August 2024).
- **Other Factors:** A separate advanced works package will be required for demolition of one of the buildings and the installation of temporary modular units.

2. Culloden Academy – Extension/Refurbishment

- **Scope**: An extension block as the initial phase of a development masterplan to eventually replace the entire school building in a phased manner. The Phase 1 extension will comprise classrooms for Science, Art, and Drama, with the vacated areas in the main building refurbished for use as either classroom accommodation for other subjects, or converted for use as dining, social or other ancillary space. The additional accommodation, the modular classroom units currently being installed, and a new synthetic playing field, will provide the additional capacity to meet the forecast demand until at least 2028/29. A new road junction off Barn Church Road on to the recently acquired additional land area will also be constructed.
- **Previously Approved Funding: £9.2m.** The original budget of £7.5m was approved in 2018 and was increased to £7.7m in January 2021 as part of the re-profiled capital programme. Separate additional funding for the modular accommodation was also approved in January (the cost of this is now known to be approximately £1.5m). This funding allocation would have had to cover the cost of the refurbishment of the toilets and other improvements to the main building, with the remaining funding only sufficient to meet the capacity pressures within the timescale of the current 5-year capital programme (i.e., up to 2022/23). This would have meant that the school would be at around 100% occupancy on completion of the capital project, with insufficient capacity to accommodate further roll increases beyond 2023.
- **Additional Funding Required: £10m.** This additional funding will allow a larger Phase 1 extension and refurbishment project to be delivered, bringing the total capital investment to £19.2m. The additional funding allocation will now ensure that there is sufficient capacity through to 2028/29 and will be related to the delivery of new secondary provision for Inverness East as part of the long-term strategy being developed through the review of the capital programme (see Section 6 below).
- **Timescale:** The new extension will be ready for August 2024, with refurbishment of vacated spaces in the main building continuing thereafter.
- **Other Factors**: A separate package of advanced works is underway to provide additional modular accommodation, refurbish the pupil toilets in the main building and other associated works. Other improvements will be required for the start of the 2022/23 and 2023/24 school sessions to address the anticipated pressure on certain individual subjects.

3. **Dunvegan Primary School – New School**

- **Scope:** This will be a new school building (for both English and Gaelic Mediums) based on a standard single-stream design to replace the existing accommodation. Based on the current school roll forecasts, 4 classrooms will be required initially along with nursery accommodation. The building will be designed so that additional classroom bays can be easily added if required in the future.
- **Total Project Cost:** £12m.
- **Timescale:** We are working to deliver this project within 3 years (by August 2024).
- **Other Factors:** A design masterplan has been developed for the school campus and adjoining land following a Place-Based approach. Adjacent land will be developed for housing by Lochalsh and Skye Housing Association. An area has also been reserved for a community playing field.

4. **Park Primary School – New School**

- **Scope**: This will be a new school building to replace all the existing buildings on the Park site. The current year group sizes vary significantly from year to year, so detailed analysis of the factors influencing the school roll forecasts will be required to determine the number of classrooms to be provided initially. Some flexibility may therefore be required, but the building will be designed so that additional accommodation can be easily added if required in the future.
- **Total Project Cost**: £13m.
- **Timescale:** We are working to deliver this project within 3 years (by August 2024).
- **Other Factors**: It is the view of Officers in both Education and Learning and Housing and Property that any existing buildings at Park should not be retained as part of a new build on this site. If the fire-damaged main building were to be retained as part of the proposed new school accommodation, the internal layout would be compromised in terms of providing a learning environment that meets both the needs of pupils and the Scottish Government's Learning Estate Strategy. Also, the costs associated with reinstating and upgrading the existing building are not considered to represent best value in terms of delivering a new school and the longer-term maintenance costs and ongoing investment that would be required. Consideration will be given to the potential for co-location of other local Council services.

5. **St Clement's School – New School**

- **Scope**: A new school building on a new site in Dingwall to replace the existing accommodation.
- **Total Project Cost**: £13m.
- **Timescale**: A minimum of 3 years once a suitable new site has been identified and acquired. A statutory consultation to relocate the school will be required when the site has been secured.
- **Other Factors**: As reported to the meeting of the Education Committee in May, work to assess potential sites for a new campus is ongoing, including consultation with Planning and other agencies. Challenges exist in confirming a suitable site within Dingwall. The site at Ferry Road is unlikely to comply with SEPA guidance and requirements in relation to flood risk events, and in relation to overcoming road access constraints. An alternative site at Dochcarty Brae may be suitable subject to addressing similar constraints, and pre-application advice from

Planning is due to be received later this month. The assessment of other potential sites in Dingwall has been extended to all those currently designated for housing development, and an update will be provided to parents and Members once this exercise has been concluded.

6. Inverness East Schools

The Inverness East Development Brief adopted in June 2018 is the long-term development framework for the expansion of the city. On completion of the development proposals contained within it, the area will comprise a network of up to 3,000 houses, employment land, community facilities and parks. Development is progressing well on the Stratton site, providing much needed housing of all types for the city. The new town at Tornagrain is also gathering pace and is expected to provide nearly 5,000 homes together with new shops and a range of other facilities over the next 30 to 40 years. Since the first residents moved in during 2017, demand has been relatively high with around 170 homes built and further phases underway.

This ongoing housing development will lead to a requirement within the lifetime of the refreshed capital programme for additional secondary and primary school provision. The works outlined in section 2 above in relation to Culloden Academy will address existing school roll pressures until 2028/29. However, based on current projections the school may start to exceed capacity again from 2028/29 onwards. The detail of the pressures faced and the underlying school roll pressures in Inverness are included in **Appendix 6.**

The following sites are reserved in the Inner Moray Firth Local Development Plan for new school provision.

- A new secondary school at Ashton Central.
- New primary schools at Stratton, Tornagrain and Ashton West.

Work is underway as part of the review of the Council's capital programme to develop a long-term strategy that best meets the need for significant investment in additional school provision in these areas. This will also establish the timing of the new school builds that are required. It is proposed that this new provision will form a bid to the Scottish Government for Phase 3 of the Learning Estate Investment Programme.

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7. Design and Risk Considerations

Design and Size Implications: There are several factors that influence this topic. For example, where reference to a single stream primary school is made above, the baseline for design of the school is in around a standard 8-classroom school (i.e., 4 classrooms for P1-3 and 4 for P4-7) with additional provision for nursery accommodation as individual circumstances may dictate. Construction cost estimates are linked to Gross Internal Floor Area (GIFA) and the Learning Estate Investment Programme (LEIP) cost metrics. The exact number of classes provided is clearly linked to school roll forecasts and so can vary from this baseline.

Cost Estimates: Paragraphs 8.4 and 8.5 in the report outline the funding framework adopted for all new school build projects based on the LEIP metric based approach, as well as the cost risk associated with the pressures facing the construction industry, both locally and nationally. This approach seeks to ensure that we achieve best value on all our new build projects and that any contingency or risk allowances are only allocated for specific items if required. Appropriate allowances are included in project budgets to cover all potential abnormal costs (such as ground conditions, asbestos removal, and infrastructure upgrades) based on the information available at that time.

As a result, the costs stated within this report are valid at the date of this report only. Costs are subject to fluctuation and revision over time. Project costs could potentially increase from the date of this report to the point of actual construction.

In particular, the longer the passage of time from now to the actual date of commencing construction, the higher the risk of further cost increases due to continuing inflationary effects. Key factors that influence the final cost of construction include:

- Finalising of the proposed design, e.g., RIBA stage 2 onwards
- Any site abnormalities/ground condition issues
- Any construction related delays once on site, including any snagging, design changes, scope change/specification change requests, or value engineering changes
- Changes in LEIP cost metrics via SFT; by way of an example these were recently increased by 12% to meet the requirements of the funding-based outcomes, mainly in relation to the energy targets,
- General impact of RPI/CPI inflation measures but also BCIS, which consists of three principal measures:
    - **Tender Prices Indices** – These measure the movement in prices agreed between clients and contractors at ‘commit to construct’ normally when the tender is accepted. These indices are typically used for adjusting estimates and budgets to different dates.
    - **Output Price Indices** – These measure the average price of construction projects currently on site, i.e., the movement in prices paid by clients when the work is carried out. They normally reflect accepted tender prices in previous periods.
    - **Resource Cost Indices** - These measure the movement in the cost of labour, material, and plant to a contractor. These are generally the factory gate prices for materials and plant and nationally agreed wage awards and statutory employment costs for labour. These indices are typically used for understanding inflationary pressures when preparing estimates and budgets and in inflation adjustment clauses in contracts.

SCHOOL ROLL FORECASTS (PUBLISHED FEBRUARY 2021)

School	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	Planning Capacity
Charleston Academy	766	797	835	855	862	896	890	893	919	918	932	937	958	970	973	841
Culloden Academy	1,126	1,180	1,242	1,281	1,319	1,356	1,372	1,399	1,416	1,440	1,467	1,499	1,555	1,604	1,663	964
Inverness High	547	553	574	575	578	574	572	568	561	556	554	555	560	563	563	677
Inverness Royal Academy	1,322	1,344	1,378	1,413	1,462	1,480	1,507	1,524	1,566	1,540	1,546	1,560	1,579	1,600	1,618	1,452
Millburn Academy	1,218	1,251	1,274	1,278	1,284	1,289	1,276	1,287	1,281	1,277	1,279	1,281	1,301	1,311	1,335	1,195
Totals	**4,979**	**5,125**	**5,303**	**5,402**	**5,505**	**5,595**	**5,617**	**5,671**	**5,743**	**5,731**	**5,778**	**5,832**	**5,953**	**6,048**	**6,152**	**5,129**

OCCUPANCY LEVELS

School	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
Charleston Academy	91%	95%	99%	102%	102%	107%	106%	106%	109%	109%	111%	111%	114%	115%	116%
Culloden Academy	117%	122%	129%	133%	137%	141%	142%	145%	147%	149%	152%	155%	161%	166%	173%
Inverness High	81%	82%	85%	85%	85%	85%	84%	84%	83%	82%	82%	82%	83%	83%	83%
Inverness Royal Academy	91%	93%	95%	97%	101%	102%	104%	105%	108%	106%	106%	107%	109%	110%	111%
Millburn Academy	102%	105%	107%	107%	107%	108%	107%	108%	107%	107%	107%	107%	109%	110%	112%
Overall	**97%**	**100%**	**103%**	**105%**	**107%**	**109%**	**110%**	**111%**	**112%**	**112%**	**113%**	**114%**	**116%**	**118%**	**120%**

CAPACITY SHORTFALL/SURPLUS

School	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
Charleston Academy	75	44	6	-14	-21	-55	-49	-52	-78	-77	-91	-96	-117	-129	-132
Culloden Academy	-162	-216	-278	-317	-355	-392	-408	-435	-452	-476	-503	-535	-591	-640	-699
Inverness High	130	124	103	102	99	103	105	109	116	121	123	122	117	114	114
Inverness Royal Academy	130	108	74	39	-10	-28	-55	-72	-114	-88	-94	-108	-127	-148	-166
Millburn Academy	-23	-56	-79	-83	-89	-94	-81	-92	-86	-82	-84	-86	-106	-116	-140
Totals	**150**	**4**	**-174**	**-273**	**-376**	**-466**	**-488**	**-542**	**-614**	**-602**	**-649**	**-703**	**-824**	**-919**	**-1,023**

APPENDIX 7

1. Schools Estate Projects – Communication and Engagement Strategy.

1.1 Following the adoption at Full Council on 24 June 2021, of the recommendations in Report HC/14/21, *Medium Term Financial Planning and Health and Prosperity Strategy Investment*, the Council is committed to providing opportunities for communities to engage with and help shape proposals which will affect the lives of parents and children.

1.2 Each project will have a Stakeholder Group comprising parents, staff, local elected members, representatives of local community councils, and any other community partners that may be affected by the proposal. Each Stakeholder Group will have standard Terms of Reference and will meet regularly, as agreed by each Group, to ensure they can meaningfully contribute and provide input to all options around the future of the school.

1.3 A strategy will also be developed for consulting with pupils, bespoke to each school and taking into account the age of the children and their ability to contribute to discussions. Certain technical issues for example, are likely to be little interest to the children.

1.4 Some of the proposals, e.g. St. Clement's Special School, may require Statutory Consultation. The process is for this is laid down in law, and the informal consultations described above will be supplementary to the Statutory Consultation process. Below is a brief outline of the initial steps taken in relation to the communication and engagement in relation to the five Schools Capital Projects outlined in the 24 June 2021 Council Report.

2. **Beauly Primary School**

2.1 An initial briefing session between Members and Officers took place on 3 August 2021 at which a wide range of issues in relation to the project were explored. A further meeting between Members, Parents and Officers took place on 23 August 2021, where outline initial draft plans were shared and the creation of a Stakeholder Group to oversee the project was also taken forward.

3. **Culloden Academy**

3.1 The Stakeholder Group was established in February 2021 and has met regularly since then. Stakeholders have been kept updated on progress to establish the long-term strategy for the redevelopment of the Culloden Academy campus and the eventual replacement of all the existing buildings. The masterplan is based on a new school building to be constructed in a phased manner that takes account of the expansion required due to the significant increase in pupil numbers that is forecast to continue in the coming years.

There has also been extensive discussion regarding the additional funding required for the first phase of the extension and refurbishment programme, culminating in the report to the Council meeting in June where this was confirmed as one of several priorities for capital investment. There has been regular engagement with the Chair of the Stakeholder Group since then and a further meeting of the Group is being arranged for mid-September 2021.

4. Dunvegan Primary School

4.1 There have been several meetings regarding plans for Dunvegan Primary School over the last 18 months. The initial Masterplan Meetings were formalised into a Stakeholder Group at meetings on 26.4.21 and 14.6.21 where terms of reference were agreed. The Stakeholder Group discussions have been very successful. This has progressed further project discussions including around possible designs, project updates, PAN (Proposal of Application Notice) and transition. Two public consultation events took place at Dunvegan Primary School during the summer term on 19 May 2021 and 23 June 2021 to share initial thoughts and to engage further community discussions. Consultation feedback will inform further developments during the new school session.

5. Park Primary School

5.1 There has been ongoing engagement with Park Primary School stakeholders since the first fire at the School. This will continue and the first step following Park Primary School's inclusion in the Capital Programme on 24 June 2021, was a briefing session for Members from Officers at the Cromarty Firth Ward Business Meeting on 9 August 2021. Following on from this, another briefing meeting was arranged between Local Members and Council Officers on 24 August 2021, to discuss the interim accommodation challenges, to further examine the options relating to the future for Park Primary School and to discuss the establishment of a Stakeholder Group for the project. A meeting to update the Park Primary School Parent Council will be arranged thereafter.

6. St Clement's Special School

6.1 Engagement between Officers, Parents and Members took place prior to the Schools Summer break; and prior to the agreement on 24 June 2021, to include a new build St Clement's Special School in the Capital Programme. This agreement was warmly welcomed by Pupils, Parents, Staff and Local Members. An update meeting between Members and Officers took place on Monday 16 August 2021; and a further briefing meeting for Members was scheduled for Thursday 26 August 2021.

The Parent Council was advised on 17 August 2021, that a meeting with them will be arranged as soon as possible thereafter. At that meeting, we expect to be in a clearer position to talk through progress on site options, the possibility of a Statutory Consultation; and to take forward the establishment of a Stakeholder Group for the project.