Agenda Item	**9**
Report No	**HC/33/21**

HIGHLAND COUNCIL

Committee:	**The Highland Council**
Date:	9th December 2021
Report Title:	**Medium Term Financial Plan- Capital Strategy and Capital Programme to 2036/37**
Report By:	Executive Chief Officer – Resources and Finance

1. Purpose/Executive Summary

1.1 This report provides Members with the latest update on the ongoing work on the Medium Term Financial Plan (MTFP) with a particular focus on the Council's capital programme. Due to the key linkages between capital and revenue spend it is essential when considering the medium to long term financial outlook that capital investment is appropriately considered and factored into the MTFP.

1.2 Much of the Council's capital investment is financed through borrowing which is repaid, along with associated interest costs, through the loans charges element of the Council's budget. Loans charges currently account for around one tenth of the Council's overall revenue budget spend and effectively represent the fourth biggest spend area of the Council after the Education and Learning, Health and Social Care, and Property and Housing services.

1.3 The report also provides a brief update on the wider factors underpinning the medium-term financial outlook, with no significant change since the last report to Council in October. Whilst the average annual budget gap is around £15m, a gap anywhere in the range of £9m to £34m is considered possible for financial year 2022/23 alone, with a potential five-year gap up to £120m. Greater certainty for the gap for 2022/23 may be possible over the coming weeks as details of the local government funding settlement become clear and if pay award negotiations come to a conclusion. It is in the context of this outlook that Members need to consider the affordability of capital investment.

1.4 Focussing specifically on capital, this report and appendices bring to Members the wider strategic context in which capital investments must be considered and the Council's ambition for investments in its assets. **Appendix 1** provides Members with the details of the Council's existing approved commitments to capital investment with £397m of net investment already committed over the period to 2027/28.

1.5 **Appendix 2** provides Members with a supplementary capital programme for approval covering the period up to 2036/37, containing a further £658m of planned capital investment. Given the long-term nature of this 15-year plan it is conceptually split into three parts (i.e. a '5+5+5 programme', 5 years firm, 5 years indicative, 5 years outline).

1.6 The capital strategy and 15-year programme reflect the longest of the Council's long term budget planning and as such need to tie in to the Council's long term strategic aims including the Council's Programme *'Local Voices, Highland Choices'*; Ambitious Highland - Health and Prosperity Strategy 2021-22; and the Future Highlands Strategic Partnership Plan. Section 12 and 13 set out how the investment links to the Council's approved priorities. Taken together with the proposed capital programme, these represent an ambitious and pro-active approach to addressing the challenges and capitalising on the opportunities of delivering to a rich and diverse area like the Highlands and investing in its long term future.

1.7 One very challenging consideration that this report highlights is that the level of capital investment deemed affordable on a sustainable basis over the medium to long term does not meet the Council's ambition for investment across its asset base. The level of capital investment that the Council has been making over recent years and intends to make over the next three years (over £100m in each of those years) cannot be sustained indefinitely without a substantial increase in the loans charges budget. The impact of not being able to sustain that level of investment may result in the overall condition of the Council's assets deteriorating or may lead to the interruption of, or inability to sustain, current service levels. This context leads to the importance of the Council having a strong focus on working with partners to share an asset base in our communities, a strategic plan for transitioning to Net Zero that aims to reduce and sustain our assets, a drive on income generation opportunities and the importance of 'chasing' funding at every opportunity with a team or investment dedicated to funds research and applications, as well as seeking specialist advice to support our own strengths in funds management by both our own officers and Treasury Advisors.

1.8 Any time the Council commits to capital investment funded by borrowing the Council is making a revenue budget commitment for the life of that asset (anywhere up to 60 years from the asset being brought into use). As such it is important to recognise the long-term impact of decisions made today for future Council taxpayers.

2. Recommendations

2.1 Members are asked to:

i) Approve the strategic approach to capital investment as outlined in this report;

ii) Approve the 15-year capital investment programme to the value of **<u>£658.132m</u>** as detailed in **Appendix 2**

iii) Note that this is in addition to the current approved programme of projects which totals £281.762m, giving a combined programme value of **<u>£938.894m</u>**;

iv) Note the projects that currently sit outside the affordability envelope, as set out in **Appendix 5** and endorse the ambition to seek ways in which these can be taken forward via alternative funding sources, including the development of a Capital Asset Partnering Plan;

v) Agree an allocation of £0.450m from the Transformation Fund to commission external finance and asset advisors as well as enhance core staffing to augment the existing finance and Treasury work with the aim of maximising funds management, identifying income generating opportunities, driving through asset rationalisation and chasing funds and grants to support the Council’s strategic capital plan ambitions; and

vi) Note that a report will come to the next meeting of the full Council which will set out enhanced governance arrangements for the Capital Programme, including the role of Council and its strategic committees and this will be reflected in the annual review of the Scheme of Delegation which will be brought to the same meeting.

3. Implications

3.1 Resource implications are as set out throughout this report with an additional £658m of capital investment proposed over the next 15-year period. Spend at this level is estimated to be affordable within the current loans charges budget however the exact timing of project spend may create short term pressure on the revenue budget if too much spend is condensed into the early years of the programme.

3.2 Given the substantial level of spend involved, the nature of capital investment projects, and the long-term nature of the capital plan, a large number of risks need to be considered. Given all these risks, regular review of the capital programme as referenced in section 14, will be required. Any review of the capital programme will need to be considered as part of the Council’s medium-term financial plan. The key risks to the programme are summarised below:

- Inflation will erode the future value of the sums identified in the capital programme and as such projects may not be deliverable in the future within the budget proposed.
- The proposed programme is based on the assumption that general capital grant funding from the Scottish Government will continue at its current levels. There is both upside and downside risk here, increased capital grant funding may allow increased capital spend, whilst reduced funding may necessitate reductions to planned spend.
- The affordability limits set make the assumption that interest rates remain around their current low level and the Council is able to reduce its average cost of borrowing annually over the period of the programme. Should interest rates rise sharply the Council will have to pay higher interest costs - the greater the proportion of the loans charges budget that is spent on interest the less is available to invest in assets.
- Further work needs to be done to understand the wider revenue impact of the proposed projects – particularly where new assets are being delivered such as schools and leisure facilities. This is explored further in section 9.
- Changes in scope of capital projects often lead to increased costs. Whilst the change may be for perfectly valid reasons it does still have an impact on the wider programme. Early definition of project scope, and no or minimal changes in that scope, will help successful delivery of projects within their budget targets.
- It is acknowledged that the level of investment proposed within the programme is unlikely to be sufficient to maintain assets in their current condition. An overall decline in asset condition may impact on the Council’s ability to provide services into the future.
- As a significant element of the Council’s capital investment is financed through the revenue loans charges budget there is a risk that any level of capital spend may prove to be unaffordable if the revenue budget cannot be balanced over the medium-term. Once spent, capital investment creates a revenue budget commitment for the Council for up to 60 years.

3.3 There are no specific legal implications arising directly as a result of this report although it should be noted that there may be contractual implications if the risks that have been identified above materialise, particularly as a consequence of increased costs due to inflation or interest rate rises.

3.4 The Council's capital programme must always balance competing demands for the resources available. This includes community facing projects such as schools, roads and bridges, as well as essential assets to support service delivery and meeting health and safety statutory requirements. As such, it is not possible to address all needs identified within the proposed programme as a Council alone. There are as set out in section 1.7 above and highlighted within this report key strategic approaches that will enable us to bring capital plan investment across our Highland communities working in partnership to share assets, chase funds and income generate. Our communities have also evidenced the capacity and resilience to provide leadership and create opportunities to address needs through the Community Asset Transfer approach developing assets outwith the capital programme with support from other sources.

3.5 Climate Change / Carbon Clever: the Council's capital programme needs to play a pivotal role in addressing the organisation's duty to tackle climate change and achieve net zero. Asset rationalisation; property/housing adaptation; enhanced energy standards; carbon offsetting; green energy; Just Transition; external fund acquisition – all of these activities need to underpin the capital programme. This is not only essential for addressing climate change but also because of the longer-term financial consequences of not taking a pro-active, green first, approach to capital investment. Strong linkages therefore need to be in place with the Council's Net Zero Strategy – which is the subject of another report to this meeting of the Council. At the last full Council meeting, it was agreed as part of the Partnership Strategy that the Council must reduce, re-use, recycle and re-purpose before considering the creation of new assets. Only where none of these options are deliverable or appropriate, should the focus be on building new, and even then these new assets must be as carbon neutral as possible. It must be recognised that this comes at a cost that has to be met up front, whilst the benefits can take many years to accrue. This cost/benefit challenge is considered again in section 13 of this report.

The hydrogen economy is estimated to be worth £25billion to the Scottish economy, and it is expected that the Highlands is likely to be the major producer of hydrogen nationally given the significant renewable energy potential of the region. A range of opportunities to both support and benefit from the emerging hydrogen economy are likely to come forward over the coming weeks and months, and to this end, it will be important that the Council has access to financial resources to provide match funding for potential investment, subject to development and approval of business cases relevant to individual opportunities. If the Council is to be a major player and no longer a bystander on new energy provision, it will be important for reserves to be at a level whereby these opportunities can be maximised.

3.6 Gaelic: As is noted throughout this report, the Council can only hope to achieve its full ambitions for capital investment in Highland by working in partnership with others, and this is equally true for Gaelic expansion. The Council has recently delivered a number of very successful capital projects to enhance and expand Gaelic provision in schools from ELC upwards and this has been assisted by funding from the Scottish Government. In addition to recent investment in schools in Skye and Lochaber, the Council is about to tender for a feasibility study for the expansion of 3-18 Gaelic Medium Education (GME) provision, specifically in Inverness, but with a view to using the study to inform the growth of GME across Highland. The delivery of new GME school capacity in Inverness and elsewhere cannot be met solely from the Council's own borrowing and the small, though very welcome, capital allocation currently provided by the Scottish Government. As our plans develop, close partnership working with the Scottish Government and key government agencies like Bòrd na Gaidhlig, will be critical to success.

4. Medium term financial planning and the requirement for a capital strategy

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

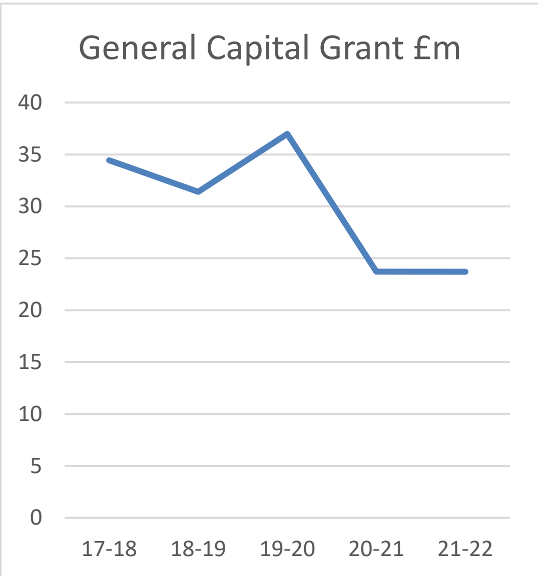
4.4 This report has a primary focus on item 3 from the above list and there is also relevance to a number of the other sections. The key standards underpinning this aspect of the code require that the authority has carried out a credible and transparent financial resilience assessment; that it understands its prospects for financial sustainability in the longer term and has reported this clearly to members; that it complies with the CIPFA Prudential Code for Capital Finance in Local

Authorities; and that it 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.

5. Medium term financial planning context and capital funding

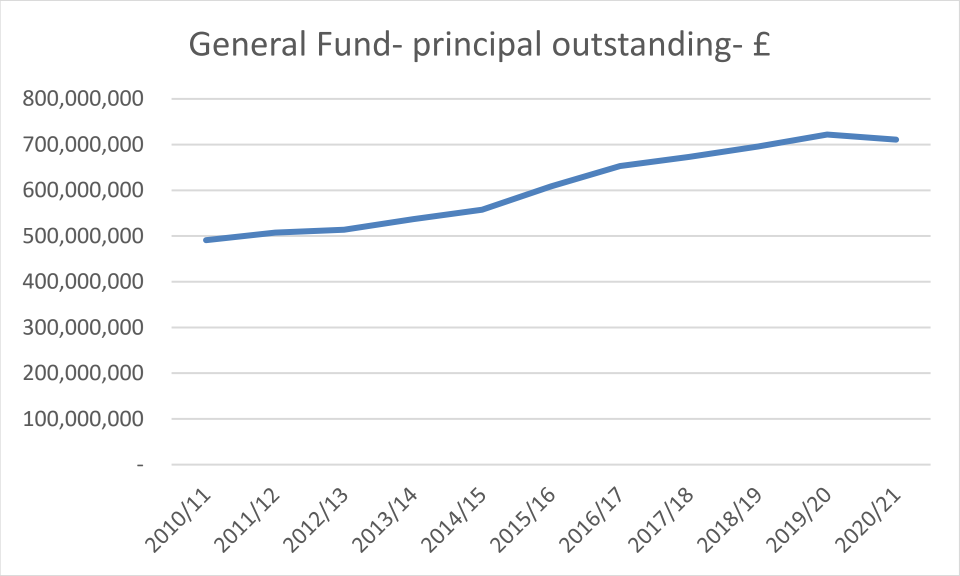
5.1 The most significant elements of funding for the Council's capital programme are the borrowing funded through the Council's revenue budget and the general capital grant received from the Scottish Government. In February of this year the Scottish Government published their Capital Spending Review which suggested an indicative flat cash core capital grant settlement for local authorities over the period to 2025/26. This would represent a real terms reduction when general inflation, pay and material price indices are factored in. Since the UK government budget in November there is some concern about whether the capital funding allocation to Scotland will allow the Scottish Government to sustain this indicative allocation. For context, the chart below shows the actual level of general capital grant received in recent years.



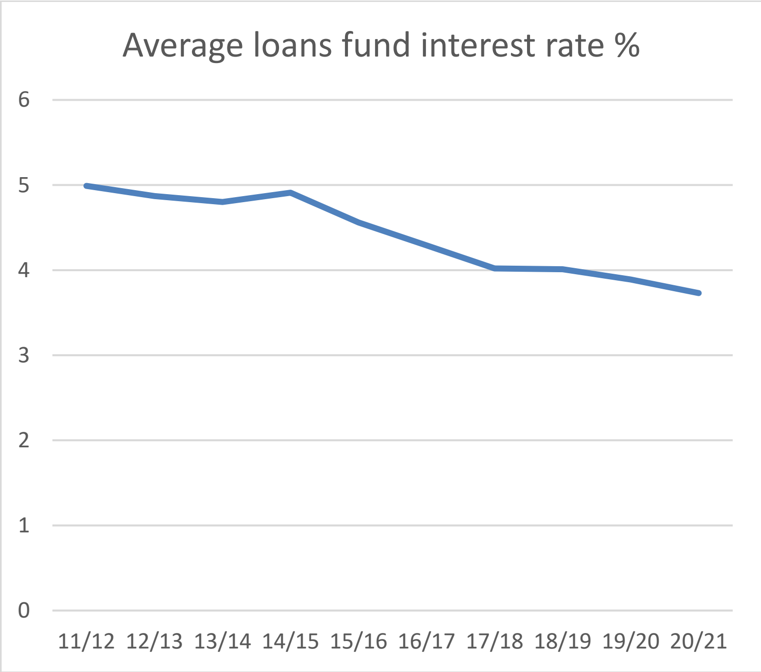
*in relation to the above graph it should be noted that payment of £6.642m of capital grant relating to 2016-17 was deferred into financial year 2019/20.

5.2 The elements of the capital programme funded by borrowing will impact on the Council's revenue budget as that borrowing is repaid through the Council's loans charges budget. Once capital is spent it creates a revenue budget commitment for up to sixty years, comprising the repayment of the capital invested plus associated interest charges. Members are aware that Highland is already the local authority with the highest proportion of its revenue budget that is being used to finance capital investment. Maintaining or increasing that proportion will mean all other areas of the Council's revenue budget will face a higher burden in identifying and delivering savings over the long and medium term. The ability to continue to identify revenue budget savings has become increasingly difficult over recent years.

5.3 The chart below details the level of loans fund principal outstanding at the end of each recent financial year. These figures effectively represent the level of debt the Council has to finance (but does not include the costs of financing the debt) and shows how the level of debt has increased significantly over the last ten-year period.



5.4 Much of the overall cost impact of that debt increase has been mitigated by reductions in the cost of borrowing over the period. Given the current uncertainty around the future direction of interest rates it is important the sustainability of such an approach is closely assessed and monitored. The Council's borrowing strategy of having an element of its borrowing on short term loans does mean there is some risk exposure to rising interest rates. Officers will continue the agreed approach in the Treasury Management Strategy Statement of mixing both short and long-term borrowing however it is unlikely that the rate of reduction in the average loans fund interest rate will continue on the same trajectory as in recent years as shown in the chart below.



5.5 The medium-term financial planning reports taken to Council throughout the course of the year have identified an average annual revenue budget gap of £15m that will need to be met by making savings or increasing income. A number of alternative scenarios have also been highlighted which may see a higher or lower savings requirement dependant on wider variables. All of these scenarios were predicated on the Council maintaining its annual loans charges budget at its current cash level and it is this assumption that underpins the capital spending proposals contained in this paper. This assumption therefore means that no revenue budget savings will be able to be realised from around one tenth of the Council's overall budget, thereby placing increased pressure on directorates to identify service savings.

5.6 Should Members wish to increase the level of capital investment financed by borrowing this would require an increase to the loans charges budget, thereby increasing the annual revenue budget gap and heightening the requirement for budget savings. Conversely should a decision be reached to reduce the capital plan it may be possible for some reduction to the loans charges budget to help meet the revenue budget gap.

5.7 It should be noted that the annual loans charge incurred reflects capital expenditure already incurred over previous years, as such a large proportion of future annual loans charges payments have already been determined by historic capital investment. Members are also reminded that the need for capital investment will be ongoing- there will always be a need for investment in the Council's assets. If the loans charges budget is to remain at its current level this will mean that any increased investment in the short term would reduce the scope for investment in the medium- and long-term. Any decision taken on capital investment today must therefore be mindful of the implications of that investment over the long term and how it may affect the Council's ability to invest in capital far into the future.

6. Current capital programme and capital affordability

6.1 In January 2021 Members received a reprofiled version of the capital programme, first approved in March 2018, covering the period up to 2027/28. An updated version of that programme is presented to Members in **Appendix 1** to this report. This updated version incorporates all decisions made to invest in new projects since the January meeting, principally relating to school investments, as well as reflecting the 2020/21 year end spend position and associated budgetary adjustments.

6.2 The current programme sees planned capital investment net of project specific income in excess of £397m over the period from the current year to 2027/28 with the lion's share of that investment taking place over the period to the end of financial year 2024/25. Net capital spend in each year of the current programme can be seen in the table below:

Year	Planned net capital spend £m
2021/22	116.293
2022/23	84.776
2023/24	76.563
2024/25	85.672
2025/26	25.646
2026/27	1.053
2027/28	7.052
Total	**397.055**

Given the significant long term revenue budget implications of funding this level of capital spend the cost impact has been appropriately factored in to all medium- and long-term financial planning scenarios.

6.3 The September MTFP report to Council contained the details of the revenue budget implications associated with financing the approved capital programme along with an assumed additional £25m of annual capital investment financed by borrowing from 2025/26 onwards. The anticipated loans charges impact (i.e. the impact on the Council's revenue budget) associated with the programme can be seen at **Appendix 3.** As can be seen on that appendix the Council will need to spend on average £56.0m each year for the next 20 years, and £54.5m on average each year for the next 60 years in order to pay for the identified level of capital investment.

6.4 Members are aware that changed regulation means the Council can review its loans fund accounting treatment. The concept behind this exercise allows a review of the profiling of the Council's annual loans fund charges - i.e. shifting loans fund principal repayments between years. It should be noted that if principal payments are pushed back into later years than currently scheduled the Council would be liable to incur additional interest charges as a result. As described in the sections below the review work completed has shown the Council has minimal scope to significantly increase the capacity for overall capital investment without increasing the annual loans charges budget over the short, medium or long term.

6.5 The annual loans charges and average costs over 20, 40 and 60 years displayed in **Appendix 3** are based on our current loans fund accounting methodology. Two key conclusions can be drawn from that appendix namely:

- A change in the loans fund accounting treatment will be necessary to smooth the annual charges, trying to get as near to a consistent long-term annual loans charge as possible to enable easier budget planning;
- The average annual charge over 20,40 and 60 years (£56.0m, £53.3m and £54.5m respectively) is lower than the current loans charges budget of £57.5m.

The second point above suggests that in tandem with a changed approach to loans fund accounting some additional capital expenditure could be made either in the short term or spread over the long term to bring the average annual loans charge up to the budget level. An alternative premise would be to use the differential as a revenue budget saving.

6.6 Based on the modelling work referred to above the annual affordable level of capital investment over the medium term within the existing loans charges budget may be considered to comprise:

- The delivery of the current approved capital plan (**Appendix 1)**
- £50m of new capital spend annually from 2025/26 onwards - half funded by loans charges/borrowing, half funded by the assumed level of government general capital grant funding
- Any projects wholly funded by specific external funding streams
- Any projects that are 'revenue budget neutral' (i.e. those that deliver revenue budget savings that can be used to pay for any associated financing costs)
- Around £50m (the exact amount will be subject to the nature of spend) of one-off capital investment (funded by increasing 20/40/60 year average loans fund charge to match existing loans charges budget level as described in paragraph 6.5)

If Members so decide they may choose to make further capital investment funded by making a commitment to increasing loans charges budget (i.e. by making equivalent revenue savings elsewhere). Given the revenue budget context described elsewhere in this report this approach is expensive and high risk, and therefore not recommended.

6.7 It is the scenario outlined in section 6.6 above that has been used as the broad affordability framework for the 15-year capital investment plan that is presented to Members today as part of this report. Subject to the agreement of the plan today a fully detailed assessment of the loans charges impact of the new plan will be completed and incorporated into the Medium Term Financial Plan which will be taken to Council in March.

7. Demand for capital investment

7.1 The Council has an incredibly broad asset base that reflects the vast geography of the Highland Council area and the nature of statutory responsibilities and services the Council is required to provide. The Highland Council area extends to 26,484 sqm - 33 per cent the land area of Scotland and 11.4 per cent of Great Britain. In order to provide those services the Council's asset base currently comprises:

- 6,754km of roads
- 1,700km of footways
- 2,180 bridges and culverts
- 204 schools
- 240 Large Good Vehicles (including refuse collection vehicles, roads maintenance plant, winter fleet)
- 286 items of plant including e.g. trailers, excavators, chippers and lawnmowers
- 1200 property assets, including offices, schools, care homes, libraries, leisure centres, listed buildings, museums, public conveniences and operational depots
- 100 car parks
- 48,800 Lighting columns
- 12,000 Windows PCs

Whilst much of the Council's capital investment is in ensuring those existing assets are fit for purpose there are also demands for the creation of new assets due to changing demographics and population distribution. Other factors driving the need for capital investment relate to changing demand for services, the green agenda, connectivity, the need to meet statutory and regulatory requirements, new government policies and priorities and technological change.

7.2 An important policy driver that influences the Council's strategic approach to capital investment is the Scottish Government's infrastructure investment plan. That plan has a clear vision for future infrastructure- 'to support and enable an inclusive net zero emissions economy'. Three themes within the plan underpin this vision, all of which are highly relevant to any investment made by the Council:

- Enabling net zero emissions and environmental sustainability
- Driving inclusive economic growth
- Building resilient and sustainable places

7.3 As reported previously to Council officers have undertaken an assessment of potential areas requiring capital investment over the period to 2030/31. The potential projects overlay the current programme, identifying new stand-alone projects for consideration, identifying existing approved projects where budget increases are required, as well as identifying a potential level of resource requirement for core ongoing investment in our schools, other properties, roads and bridges, fleet, ICT and other assets (more commonly known as our 'generic' investment budgets). In most cases the generic budgets in the current approved programme only extend up to the end of 2022/23 - agreement to extend these into 2023/24 and beyond will be needed in the near future to allow for this core lifecycle investment to be appropriately planned.

7.4 That work identified a potential investment envelope of over £1.7bn, averaging over £190m annually, which is far in excess of what is considered affordable over that period within the current loans charges budget. Some of the largest elements of that total sum are broken down below, further illustrating the depth and breadth of the Council's asset base and areas of statutory responsibility:

- Burial grounds- £8m
- Core property investment- £100m
- Corran ferry replacement and slipway works- £57m
- Depot investment- £54m
- Energy from waste/green energy- £200m
- Fleet replacement/decarbonisation- £62m
- Flood schemes/studies- £13m
- Harbours investment- £8m
- ICT investment- £26m
- Leisure/cultural facilities (new and existing)- £53m
- Play parks- £13m
- Replacement office accommodation- £26m
- Roads and bridges general investment- £351m
- Schools investment (condition, capacity, suitability)- £558m
- School residence replacement- £15m
- Social care property investment- £10m
- Stromeferry bypass- £103m

The detail of the long list of potential projects was discussed at the Corporate Resources sub-committees on the 12th and 19th November. The long list of projects as presented to that sub-committee is provided at **Appendix 4.**

7.5 In order to match that demand for investment with the affordability parameters referenced in section 6.6 above a large number of projects have to be viewed as unaffordable. For others the size and scope of the project will need to be reduced, or an alternative funding source identified. Other projects will see their budgets stretched or timelines delayed, with a proposed 15 year programme being brought forward as described in more detail in section 16 of this report.

8. Long term sustainability of assets

8.1 The mismatch between the affordability described in section 6.6 and the potential investment envelope described in section 7.4 is stark with the Council only able to afford around one fifth of the identified investment requirement. That difference can be termed the capital investment ambition gap - and equates to £1.3bn of investment the Council cannot afford to make. That underinvestment may lead to a range of unwelcome challenges including the deterioration of the condition of the Council's assets or possible reduction in service provision.

8.2 As part of their Infrastructure Investment Plan the Scottish Government have posited the concept of 'capital maintenance'- boosting spend on asset maintenance alongside future asset creation. Capital maintenance is described as including 'asset enhancement, ensuring asset compliance with regulatory requirements, major equipment and fleet'. Given the size and condition of Highland Council's existing asset base this concept of 'capital maintenance' is one that resonates strongly with Highland's investment needs, however it is this very type of investment that falls outside current affordability limits.

8.3 Given the challenges presented it seems almost inevitable that the Council will not be able to sustain its current asset base over the medium to long term without something significant changing. One of two key factors will need to change in order to address that challenge, namely the amount of funding available for investment will need to increase, or the number of assets requiring to be maintained will need to reduce.

8.4 The Council has keenly recognised the importance of asset rationalisation from a revenue budget perspective and Asset Rationalisation and New Ways of Working forms the second strand of the Improvement and Transformation Programme contained within Ambitious Highland. Asset Rationalisation can also bring benefits from a capital perspective as a smaller asset base should result in a smaller long-term investment need (although some short-term investment may be required to transition to a smaller asset base). There are clear benefits from a climate change perspective as well.

8.5 The extent to which the Council is able to rationalise its assets is constrained by a number of factors including the nature of the assets (e.g. disposing of any element of the roads network may not be possible), wider government policies (e.g. the presumption against the closure of rural schools) and simply by the current service delivery model of all Council activities (it may be difficult to dispose of an asset in current operational use). As such, the concept of asset rationalisation over the medium term will need to be closely linked to the Council's target future operating model and a more accelerated approach required.

8.6 As part of that future operating model an area planning approach will be essential to help ensure that all resources are used as efficiently as possible to deliver the best outcomes for individual communities. This approach will work best when done with partners on which more information is provided in section 13. Community Asset Transfer may well play an important part in supporting this process.

9. Revenue consequences of investment

9.1 A key part of the Council's medium term financial planning will be to ensure that all anticipated revenue impacts of capital investment are appropriately allowed for. Those revenue impacts should be appropriately captured in a business case template for each approved project. The revenue consequences of any capital investment may be either positive or negative- i.e. they may create a saving to the revenue budget or create a pressure on it.

9.2 The cost of financing the capital programme will be separately calculated and incorporated into the MTFP. More detail on the loans charges impact of the 15 year programme included in **Appendix 2** is provided in section 17 of this report.

9.3 In some cases capital projects may generate net additional revenue costs- this is most likely to be the case when new assets are created. A prime example of this type of project would be where a brand new school is created, such as is proposed for the East of Inverness. In this instance the costs of staffing, running and maintaining the new school would need to be factored in to the MTFP.

9.4 Some types of capital investment may support reductions in revenue costs and as such may support budget savings approved by the Council. Projects of this nature are to be encouraged. In particular, projects where revenue savings are generated that outweigh the financing costs of a project should be strongly supported. More information on the approach to these self-financing projects is included in section 11.

9.5 Many projects may have a combination of additional revenue cost implications along with revenue cost savings. The net impact of these changes should be robustly estimated for inclusion in the MTFP and then subsequently reviewed post project completion in order to better understand the real impacts of capital investment.

9.6 As a capital plan reflects long term investment, understanding the long-term benefits of that investment will also be important. Preventative spend should be a key consideration for capital investment as the benefits yielded from preventative spend may come over the long term. Whilst it may be difficult to accurately assess, the whole of life revenue budget impact of a project should be estimated to better understand the true impact of the spend.

9.7 Capital investment must be seen as a key tool in driving revenue budget savings and it is essential to understand all opportunities for savings that capital investment might generate.

10. External funding streams

10.1 Whilst the two main sources of funding for the capital programme are the core capital grant received from government and borrowing there are a number of different funding opportunities open to the Council. Nearly all of these external funding streams are for specific purposes and the majority require some degree of match funding from the Council. Some examples of the types of funding stream are detailed in the paragraph immediately below.

10.2 The vast majority of external funding streams come from specific funding pots held by the Scottish Government to meet particular policy objectives. These include capital specific funds including those for flood schemes, the Rural Tourism Infrastructure Fund, the Local Bridge Maintenance fund, bus partnership funding, leisure fund including SportScotland, and funds for active travel. Other funds are also likely to become available over time as government policy changes. At the present time the Scottish Government funding available for schools investment is revenue funding relating to an outcomes based model linked to building energy usage, the maintenance of building condition, digital outcomes and economic outcomes. This funding model therefore gives limited scope to directly support additional capital spending. Other external sources of funding include the UK Government's Levelling-up Fund, along with developer contributions.

10.3 For all of the funding streams a key consideration for the Council is whether the type of project for which the funding is available is a priority for the Council, and whether the value of the external funding is enough to offset the opportunity cost from the Council providing the match funding. In short, an assessment is required of whether £1m of Council funding matched by £1m of external funding in a non-priority area is as effective a spend as just £1m of Council only spend in a priority area. It should be noted that some of the more significant external funding streams may not be able to be spent on the largest proportion of the Council's assets or be applicable to the Council's priorities for investment.

10.4 The Council will look to be as creative as possible in bidding for all available funding streams and using those bids to support projects in the existing programme (i.e. ones for which the Council has already committed its match funding). If external bids are successful the Council can therefore reduce its own contribution to the project and may choose to reallocate that funding to an alternative project. Any future bids for external funding will need to be assessed on their own individual merit to ensure the

Council can commit to funding any match required. Where match funding is not available within a project currently programmed, the Council will need to decide whether it wishes to reduce or remove investment from another project in order to raise match funding.

10.5 SportScotland has indicated that it will be moving away from its traditional grant application-based facility funding model, to instead work strategically with the Highland Council to support it in achieving its objectives, particularly where projects support inclusion and equality. A number of positive discussions have taken place and most recently the Chief Executive of SportScotland has presented to the Council's November 2021 Education Committee outlining the strategic partnering approach.

This capital strategy therefore includes a clear commitment to continue to work in partnership with SportScotland and take forward a strategic approach to working with SportScotland and High Life Highland to maximise external capital funding including SportScotland investment. The combination of the Council's own capital investment in school and sports & leisure projects, alongside strategic investment from SportScotland, provides the opportunity to enhance the sport and leisure provision within the Highlands, and improve support in relation to accessibility, wellbeing, inclusion and equality.

10.6 There are certain projects in the long list of projects as described in section 7 of this report that are of such magnitude that the Council will not be able to deliver them unless a comprehensive external funding package is identified – urgent work needs to get underway to explore options for this which is why recommendation v) has been included in this report. The specific projects that fall into this category are the Longman Energy From Waste Plant (at an estimated cost of £200m); the Stromeferry Bypass (at an estimated cost of £103m); the Corran Ferry replacement and slipway works (at an estimated cost of £57m). Maintaining the current enhanced level of roads expenditure, delivering enhanced sports and leisure facilities, and accelerating the Council's investment in Climate Change action would also all fall into this category. At the present time no partnership funding or agreement is in place and, as can be seen from Appendix 5, these key projects will be taken forward to discussion with Scottish Government with any updates reported to future Council meeting. If these projects are to go ahead any element that cannot be funded from external sources would need to be met by the Council, either by reducing or removing other projects, or by accepting the increased loans charges requirement and making equivalent revenue budget savings.

10.7 It is clear that external funding, inward investment, commercial innovation and partner participation will be key to delivering the Council's ambitions for capital investment. It is critical that a strategic approach to drive these aspects is implemented with pace and urgency. As such it is recommended that an allocation of £0.450m is made from the Transformation Fund to commission external finance and asset advisors as well as enhance core staffing to augment the existing finance and treasury work with the aim of maximising funds management, identifying income generating opportunities, driving through asset rationalisation and chasing funds and grants. An update report to this effect will be brought to a subsequent meeting of the Council.

11. Commercial income and self-funding projects

11.1 As the Council seeks to develop its commercial approach all potential capital projects will need to be assessed in terms of what potential income could be generated as a result of the investment in an asset or what cost savings could be realised. Such an approach may require creative thought about new ways of working and providing services or using assets in a different way.

11.2 The Council has previously acknowledged the general principal that any project that generates income or cost savings in excess of the combined operational and borrowing costs associated with the project should be approved as a matter of course. All such projects would need to be supported by a robust business case. Any projects of this nature will be brought to Council or the relevant strategic committee for formal approval prior to project progression.

11.3 As Members are aware one project for which a business case is under development is the potential creation of an Energy from Waste (EfW) plant. A project of this nature is highly commercial due to the significant potential costs, cost savings it may generate (from not landfilling waste) and income it may generate (from the sale of power and heat generated). A key concern for the EfW project is also the level of uncertainty regarding the Scottish Government’s position on the approval of future plants. Clarity will be sought through COSLA and interaction with Ministers and reported back to committee.

11.4 No allowance can be made in the proposed 15-year capital programme until that greater clarity is provided; a business case is fully developed; and the optimum delivery model identified, as the level of funding contribution, if any, remains highly uncertain. In the case that such a plant requires a subsidy (i.e. the operational and financing costs outweigh savings and income) a capital contribution from the Council may be required. If that is the case the Council would need to undertake a review of the entire capital programme given the potential level of investment required.

12. Strategic Context and Ambition

12.1 As a result of changes to CIPFA’s Prudential Code, capital strategies must be in place for all local authorities. The Council’s treasury advisers Link Group have provided assistance in preparing the strategy for Highland Council. **Appendix 6** outlines the shared work to define the capital strategy context and the Council’s ambition.

12.2 The capital strategy and 15 year programme reflect the longest of the Council’s long term budget planning and as such need to tie in to the Council’s key strategic documents including the Council’s Programme *‘Local Voices, Highland Choices’;* Ambitious Highland, Health and Prosperity Strategy 2021-22; and the Future Highlands Strategic Partnership Plan. The next two sections set out how the investment links to the Council’s approved priorities.

12.3 "Local Voices, Highland Choices" is the Council’s programme for 2017 to 2022. It sets out a number of goals based on five themes: a Council that Champions the Highlands, A Place to Live, A Place to Thrive, A Place to Prosper, a Welcoming Place, and a Your Highland Council. This has been updated at various points since 2017 and underpins the Council’s Corporate Plan which in turn requires to be supported by the Council’s capital priorities in order to deliver against the Council’s key goals and objectives which are reviewed annually.

12.4 A Council that Champions the Highlands: Engaging with both Scottish and UK Governments has been an essential part of leveraging in additional capital resources either through applications for competitive funding or match funding. This has enabled a range of projects to be rolled out and supported by the capital programme including flood prevention schemes, Smart City Digital, UK Levelling Up, City Region Deal. However, as set out in earlier in this report the scale of challenge in terms of the Council's ambition for the Highlands means that success in attracting external funding – from the Scottish and UK Governments and from private investors – is more important than ever.

12.5 A Place to Live: For the Highlands to become an even better place to live we need attractive and sustainable communities and, working with others, we need to attract more people to make the Highlands their home, encourage our younger residents to stay here and our older citizens to be supported in their communities to live independent and productive lives for as long as possible. In addition to committing investment in culture, community and leisure assets, the Council's commitment to protecting the Highlands' unique environment and delivering net zero is a critical part of this Programme commitment.

The Council remains firmly committed to doing all it can to eliminate its carbon emissions and this is evidenced across a number of lines in the proposed 15-year capital programme. The Council has introduced a range of strategies and plans to support its commitment to sustainability and climate change action. There are a number of proposals in the list of projects that support the further development of these approaches. For example, it is proposed that the Council invests a further £1.25m into the Salix Recycling Fund (RF). A key consideration for all property-related projects is whether refurbishment or replacement provides the most efficacious option as the carbon emissions from the demolition and rebuild of a property may be far greater than those associated with a refurbished building. The Council does however need to consider for all of its projects whether it is prepared to pay a 'green premium' i.e. whether the additional cost of reducing an asset's environmental impact is the best use of scarce financial resources.

It is anticipated that a range of external funding streams will become available over the coming years to support the move to net zero. The Council will actively look to bid into any such funding streams, particularly if accessing those schemes negates the impact of the aforementioned green premium. As with all other external funding streams the Council will need to look within its current approved programme if any match funding is required. The Council will also continue its existing relationship with Salix, a provider of interest-free loans that can be used to support energy efficiency projects. But this in itself is unlikely to be enough. Local government will be the main delivery vehicle for achieving the Scottish Government's ambitions for net zero by 2045, and COSLA is currently lobbying for substantial additional funds to be made available if the most environmentally sustainable investment decisions are to override the financial imperative.

12.6 A Place to Thrive: Ensuring our children are able to learn in a modern environment is a key priority for the Council. The Council has continued with the programme of refurbishment and renovation of Highland schools, and where possible is providing new school buildings. It is proposed that the Council continue to invest in this as one of its top priorities and spend over £240m over the next 15 years, (detailed at section 16.5).

Whilst not funded through the Council's General Fund, the delivery of social housing through the Strategic Housing Investment Plan is a crucial part of ensuring the Highlands is the best place to live and thrive. The Council must ensure that future social rented and affordable housing policy and delivery programmes strike the optimum balance. This means that the right housing, of the right type and sizes, flexible to meet current and future needs, and of the appropriate mix of tenures, is delivered, in the right places.

In line with the Future Highlands Health and Prosperity Strategic Partnership Plan which was approved at Council on 9 September 2021 future housing capital investment should focus on:

- Delivery of green, energy efficiency housing as part of the Council's approach to net zero emissions;
- Providing affordable and midmarket rent housing to sustain Highland communities and encourage economic and population growth;
- Working with the NHS and other partners to provide housing and new housing models which meets the changing needs of occupants.

Current resource planning assumptions for Council house building involve £67m borrowing to support an overall new build investment programme of £158m over the 5 years to 2026/7 to provide an additional 2,500 houses. The Council also needs to borrow to fund capital investment in existing Council housing and the current assumptions are that £88.6m will be borrowed over the 5 years to 2026/7. Taken together total HRA borrowing over 2022/2027 is currently projected to be £156m. All of this borrowing will be HRA debt, with loan charges met through Council House rent income.

12.7 A Place to Prosper: Another key priority for the Council is delivering much needed investment in our roads network. Paragraph 16.7 provides the detail of the increased investment achieved in recent years. However, whilst the Council's ambition is to maintain this higher level of investment, over and above the proposals in the 15 year plan, this is not affordable without a recognition of the particular infrastructure challenges of the Highlands and the need for the Council's annual capital allocation to be substantially increased; or the identification of other forms of external funding; or a combination of the two.

The capital proposals also include investing in repairs to bridges, walls and culverts across Highland; and support to continue to roll out active travel schemes.

12.8 A Welcoming Place: The Health and Prosperity Strategy for Highland has committed significant extra funds for Visitor Management with £1.5million approved in March 2021 and Council is investing in projects to support visitor management such as the Wester Ross Visitor Hubs and Storr Visitor management. The Council is also undertaking a number of projects to develop a range of green networks, Core Paths &

Long-Distance Routes. The wide range of investment included in the proposed programme will all contribute to making the Highlands a better place to invest in, work, and stay as well as a welcome place to visit.

12.9 Your Highland Council: The Council currently operates and maintains a significant and diverse property portfolio comprising of in excess of 1200 assets, including offices, schools, care homes, libraries, leisure centres, listed buildings, museums, public conveniences and operational depots. Many of these buildings assets are old and require significant investment due to the variations in quality and condition, and are increasingly becoming unfit for purpose. They are in many cases expensive to operate on a day-to-day basis and will be very challenging to decarbonise from within existing resource allocations.

The corporate landlord strategy will make better use of the Council's estate, rationalising our property footprint in order to deliver operational efficiencies while investing in those buildings and assets that remain. The proposed programme provides the funding needed to ensure our assets are fit for purpose; safe for our staff and clients to use; and support the Council's net zero requirements.

The proposed programme also supports the delivery of an ICT and digital strategy appropriate to a modern and ambitious organisation, focused on high performance and financial sustainability and efficiency; and investment in the Council's fleet of 240 Large Good Vehicles, 48 cars, 79 EV/hybrid vehicles, and 82 minibuses. The Council is currently developing a fleet decarbonisation strategy which will provide a roadmap on the transition of the fleet to low and zero emission vehicles no later than 2030 whilst highlighting key opportunities as well as gaps in respect of funding this transition.

12.10 In 2019 the Council included a strengthened commitment to Climate Change action in its Programme and this is woven through the whole of the proposed capital programme as can be seen from the many references in the earlier section. One of the areas of new build/construction (as opposed to retrofit and rationalisation) is in terms of school construction. The project budgets in the current and proposed capital programme are based on the recently uplifted metric from the Scottish Government relating to increased building energy efficiency. For schools funded through the LEIP model energy efficiency and usage is a key determinant to receiving the outcomes-based funding.

12.11 One of the most useful ways to reduce the climate impact of the Council's capital programme will be to follow the Scottish Government's investment hierarchy as included in their infrastructure investment plan:

- Determine future need
- Maximise use of existing assets
- Repurpose and co-locate
- Replace or new build

The plan states '*In practice, the hierarchy means that each step would need to be considered, in turn, before deciding the right new approach. For example, something new might only be built if there is still a demonstrable service need for a facility, and an existing asset can't be re-purposed. In future, a higher proportion of investment is likely to be directed towards the initial steps in the hierarchy than in previous years. As part of that we will be addressing backlogs by working towards doubling investment in maintenance and asset enhancement over the next 5 years.*'

12.12 Bringing the Scottish Government's investment hierarchy to a more local Highland based approach will also require consideration of the following factors:

- The need to recognise that the world has changed – the emerging and future corporate footprint needs to reflect this irreversible change
- Where disposal is not an option, the Council needs to apply innovative transformation to make maximum use of available space
- In collaboration with public and private partners, the Council must identify opportunities for co-location and re-purposed provision
- Some property assets will need to be restored back to an appropriate standard to ensure they are fit for long-term use.

13. Inward investment and partnership working

13.1 In order to maximise what can be delivered through its capital investment the Council recognises the importance of working with a wide range of partners. As has been referenced in various sections of this report, and particularly 10.6, the key partnership is likely to be that with the Scottish Government. It will be essential for the Scottish Government to provide their expertise and funding in order to meet shared priorities to deliver improved outcomes for the people and communities of the Highlands.

13.2 The delivery of the City Region Deal is also of critical importance from a capital perspective – the Deal still has 5 years to run, and efforts continue to look beyond the end of that period and investigate any new opportunities with both Scottish and UK Governments. The role of UK Government funding, through the Levelling Up Fund and the future Shared Prosperity Fund will also need close monitoring and pro-active management.

13.3 In September of this year, Members agreed to support the creation of a 'Future Highlands - Health and Prosperity Strategic Partnership Plan', an ambitious collaborative approach to progressing 5 Strategic Partnership Priorities (SPPs) around the interconnected themes of green energy; social care reform; people; place; and shared investment opportunities. Working with a range of key local public sector partners including NHS Highland, Police Scotland, Highlife Highland, Scottish Fire and Rescue Service, Highlands and Islands Enterprise, UHI and college providers will be central to the delivery of this plan. The investment of capital funds will undoubtedly be needed to successfully deliver the plan and as such any capital investment made by the Council should be considered through the lens of Future Highlands.

13.4 Themes four (Place based planning and investment in communities) and five (Investment- financial investment and asset strategy) of Future Highlands are likely to be those that most require capital investment. A strategic approach to collaborative asset management will provide further opportunities to share premises and for co-location opportunities to reduce the overall footprint and provide fit for purpose, sustainable and energy efficient public sector buildings for the future. With regards to place based planning the Fort William 2040 project and the Skye and Raasay

Investment Plan are examples of supporting a cross-sector, collaborative approach to places in Highland. Rolling out similar partnership initiatives and also building on existing arrangements (e.g. Cairngorms National Park Plan) will enable local solutions to local circumstances and support the levering of inward investment and improvement opportunities. Listening, empowering and working with local communities will also be a critical element of this approach.

13.5 Working with a wider range of public sector partners from outside the Highland region will also bring benefits in maximizing the return from capital investment. Officers continue to actively engage with Hub North, the Scottish Futures Trust, Northern Infrastructure Commission and through those engagements are working with other local authorities from across Scotland.

13.6 The Council will continue to work with SportScotland, High Life Highland and other partners to support sports development projects based on mutual interest and shared benefits. The immediate focus of discussions will be to look at synergy with existing, emerging or future schools development projects. Any investment will be based on the preparation of robust business cases that demonstrate value for money and a robust basis for future revenue maintenance costs.

13.7 Whilst working with external partners is vitally important it is also essential that the Council continues to engage internally. Cross service working will be essential for the future delivery of services and so all investment in assets has to support future service delivery requirements and not just reflect current operational practices.

14. Programme review and revision

14.1 Given the long-term nature of the proposed capital programme and the heightened risk environment (particularly rising construction cost inflation) it is quite feasible that any project budgets agreed this year may no longer be appropriate in future years. As such the capital programme will always need to remain flexible with project budgets being accelerated, added, increased, slipped, reduced or removed as circumstances dictate.

14.2 The proposed 15-year programme is intended to support the delivery of the Council's current programme. If Council priorities change or service delivery models change then the Council will need to review the capital programme. It is therefore intended that the capital programme will be a rolling programme, updated periodically to ensure it remains reflective of the Council's wider aspirations. The revenue budget impacts of any changes to the capital programme will also need to be factored in to the MTFP.

14.3 As referenced throughout this report it is essential that Council approves any changes to the programme with full awareness of the long-term revenue budget implications of any decisions taken. It is particularly important to understand that increasing overall capital spend from the level contained in the proposed 15-year programme is highly likely to create a revenue budget pressure on the loans charges budget unless the projects added have their own funding streams.

14.4 The Council's capital strategy will incorporate an action plan for improvement and regular refresh. In order to add value, the capital strategy needs to be treated as a live approach, a position that will need to be flexible and adaptable to change, to take account of an uncertain future full of challenges but also capitalise on significant opportunities.

15. Programme governance

15.1 Given the size of the capital programme it is essential that there are appropriate governance structures in place to oversee the programme delivery. That programme governance will need to focus on all aspects of the capital cycle, from project inception all the way through to project completion. The key factors that the governance arrangements will need to support are in relation to project cost, timescale, scope and quality.

15.2 Appropriate governance arrangements will need to be in place at both an officer and a Member level to ensure that both of those groups can appropriately support, monitor and challenge the delivery of the capital programme. A report will be brought to a future meeting of the Council providing a clear articulation of all matters relating to the governance of the capital programme, including the role of Council and its strategic committees and this will be reflected in the annual review of the Scheme of Delegation which will be brought to the same meeting.

15.3 It is recognised that improvements in the quality of the formal reporting on capital projects to Members can be made and work will be undertaken to ensure sufficient and appropriate detail is reported to Members. Clarity on the roles of the various strategic committees in relation to capital programme monitoring will also be provided.

15.4 As part of the programme governance arrangements Members will be provided with a clear explanation of the process for allocating generic budgets. As is the current process decisions on the allocation of generic budgets will be made through the relevant service committee.

15.5 Increased clarity will also be provided on how any overspent projects will be dealt with. This will help understand the factors leading to the project overspend along with an explanation of how that overspend will be funded.

16. 15-year capital programme

16.1 As referenced in section 6 of this report the Council has an existing capital programme with committed spend up to and including financial year 2027-28. That programme does not however cover all of the investment requirements in the short term, nor does it set a sufficiently long enough outlook for the capital spending intentions. A 15-year capital programme, as can be seen in **Appendix 2**, is therefore presented to Members today for approval. The spend proposed in this programme is additional to the existing approved programme.

16.2 The 15-year programme provided can be considered in three distinct sections:

- Years 1 to 5- firm commitment with, in many cases, planning and/or spend to begin imminently
- Years 6 to 10- indicative programme, projects in this stage are seen as likely to be essential in this period, although subject to review and alteration as circumstances change
- Years 11 to 15- outline programme, to give shape to the long-term direction of travel and an illustration of ongoing need for investment across the Council’s asset base

16.3 The table below provides a high-level summary of the projects in **Appendix 2**, broken down by key spend area and 5-year groupings. As is evident from the table by far the largest elements of the proposed programme reflect investment in roads, schools and health and safety investment (capital maintenance).

	Proposed net spend £000			
	Years 1-5 (2022/23 to 2026/27)	**Years 6 - 10 (2027/28 to 2031/32)**	**Years 11-15 (2032/33 to 2036/37)**	**Total**
Accommodation	7,830	5,500	0	**13,330**
Coast and Flooding	1,787	3,942	850	**6,579**
Community Assets	4,293	1,700	1,700	**7,692**
Culture, Community and Leisure	5,419	2,046	2,145	**9,610**
Fleet	10,200	11,500	11,500	**33,200**
H&S- Property	35,874	42,501	42,501	**120,876**
H&SC	2,084	1,980	1,980	**6,044**
Harbours	6,525	1,125	1,125	**8,775**
ICT	4,815	13,264	14,850	**32,930**
Infrastructure	2,351	683	644	**3,678**
Match Funding	10,781	4,125	4,125	**19,031**
Roads and Bridges	46,334	55,274	53,160	**154,768**
Schools- generic	14,850	36,420	78,400	**129,670**
Specific schools	45,600	66,350	0	**111,950**
	198,744	**246,410**	**212,979**	**658,132**

16.4 As referenced above this new proposed programme is additional to the existing approved programme. As can be seen from the table below the combined effect of both programmes will result in £939m of net investment in the Council's asset base over the next 15 years. The table below provides the annual spending levels within the 15-year period whilst section 17 of this report summarises the revenue budget impact of this spend.

Year	**Net spend £000**
2022/23	101,616
2023/24	116,205
2024/25	131,375
2025/26	61,448
2026/27	61,809
2027/28	83,307
2028/29	46,378
2029/30	44,974
2030/31	43,931
2031/32	34,872
2032/33	40,740
2033/34	51,137

2034/35	47,590
2035/36	40,922
2036/37	32,590
	938,894

16.5 Some highlights of the combined programme include:

- New, improved or refurbished education provision in Charleston, Culloden, Ness Castle, Beauly, Dunvegan, Park, St Clements, Tain, Broadford, Nairn, East Inverness, Black Isle, Seaforth, Easter Ross, and Inverness Gaelic Medium;
- Over £190m of investment in Highland's roads and bridges infrastructure;
- £50m of investment in ICT supporting service delivery and digital transformation
- Over £16m of Council investment in flood schemes which will result in substantial further government funding to complete schemes in Golspie, the river Peffery, the river Thurso
- Over £10m of investment in culture, community and leisure assets with the potential to bring in additional match funding from partners,
- Funding set aside to lever in substantial additional external funding for the redevelopment of Eden Court, active travel schemes, energy efficiency investment, and match funding for levelling up fund and city-region deal investment.
- Ongoing investment in bus shelters, car parks, CCTV, radio masts, weather stations, harbours, burial grounds, war memorials, mechanical street sweepers, public conveniences, and waste infrastructure
- Investment in accommodation to support remote school teaching staff and the replacement of the Plockton school residence,
- Over £128m of 'capital maintenance' investment across our property assets to ensure safety and regulatory compliance.

16.6 As outlined in section 7 of this report a long list of over £1.7bn of capital investment need was identified for the period to 2030/31 and projects from that long list have been removed, reduced or rephased in order to meet affordability constraints. Whilst £939m of capital spend over the next 15 years reflects a significant investment in the Council's asset base it still falls substantially short of the desired level of investment. Some consequences of the proposed programme and lower than optimal level of investment may include the following challenges:

- Impact upon asset condition and suitability, potentially across all asset categories
- The potential need to re-purpose and/or rationalise assets if they are no longer fit for purpose
- Need to consider replacing depots within a partnering strategy; linking to income generation; or to Net Zero targeted funding opportunities
- Phasing of project delivery may be challenging - approved projects will need to be substituted by new projects should unexpected challenges arise eg significant storm damage to an existing asset
- Reliance on match funding of Flood schemes
- Nothing provided for the equivalent of a capital discretionary fund to provide funding to support community activity
- No specific match funding for Rural Tourism Infrastructure Fund, Bus Partnership Fund or sports/leisure funding with a risk that no proposed budgets will be a suitable match. This may mean we cannot access certain external funding streams.

- The impact of inflation will erode future purchasing power meaning future years' budgets will deliver less per pound of spend
- Chromebook provision will need future year refresh funding beyond the forthcoming refresh cycle requiring an alternative funding model to be identified
- Specific project demand post-2031 has not been factored in due to stretching programme from 10 to 15 years to make it affordable.

16.7 The original capital budget for road maintenance had an annual base allocation of £4.5million. In 2016 the Council awarded an additional £24million for road maintenance improvements. This was awarded on the basis that it would be spent over a 9-year period giving, in round terms, an additional £2.7million per annum. The combination of the base allocation of £4.5million and this additional £2.7million brought the current capital budget to £7.2M per annum.

16.8 In early 2020 the Council awarded an additional £20million capital allocation for road maintenance with the requirement that it be spent over two years. The global Covid19 pandemic during 2020/21 brought significant challenges to the Council and consequently many previously planned maintenance works had to be postponed or cancelled. As a result of this it was necessary to reprofile the additional £20million over years 2021/22 and 2022/23 with each year being allocated £10million. This brought the current total for 2021/22 and 2022/23 to £17.2million per annum.

16.9 In June 2021, as part of the Health and Prosperity Strategy, the Council agreed to invest a further £5.5million into roads infrastructure. The additional funding is to supplement the activities outlined above, as well as addressing some of the issues around modernising the Council's plant and equipment and ensuring staffing resource to support the spend. The scale of the challenge is significant. The levels of funding required over the next 15 years are not affordable alongside all the other calls on the capital budget and so the Council must also continue to make the case for additional capital funding to support road improvements.

Table of summary roads investment budgets:

	Core	One-off funded by Council Tax increase	One-off funded by reserves	Total
2019/20	£7.2m			£7.2m
2020/21	£7.2m			£7.2m
2021/22	£7.2m	£10.0m	£2.5m	£19.7m
2022/23	£7.2m	£10.0m	£3.0m	£20.2m
2023/24	£8.8m			£8.8m

16.10 The Council remains committed to addressing roads condition issues and ensuring sufficient resources are available to address the situation. The budget for 2022/23 is £20.2m, however the average annual target spend the Council wishes to achieve is £26m in order to at least maintain the 'steady state' roads condition. The Council will endeavour to achieve this through a range of different approaches including income generation; attracting inward investment; the Redesign project on roads; by reviewing the reserves situation; and the council tax options as part of the budget setting exercise for 2023/24.

16.11 A programme of the proposed level, particularly with substantial levels of spend in the early part of the programme, may present some challenges in delivery in the timescales suggested. Such challenges may be due to the availability of external contractors or the availability of internal project management resources. As referenced below a significant level of over-programming has been built into the early part of the programme and as such some slippage in the delivery of the programme will help match annual affordability levels.

17. Cost of programme- revenue impact

17.1 The proposed 15-year programme as described in section 16 has an overall net cost of £658.1m. The affordability criteria assessed for the new programme are described in section 6.6 with a 15-year affordability limit estimated at £650m. The table below illustrates how the proposed programme matches that affordability envelope.

	Years 1-5 (2022/23 to 2026/27)	Years 6 - 10 (2027/28 to 2031/32)	Years 11-15 (2032/33 to 2036/37)	**Total £000**
Programme cost	198,744	246,410	212,979	**658,132**
Affordability limit	150,000	250,000	250,000	**650,000**
Over/(Under)	**48,744**	**-3,590**	**-37,021**	**8,132**

17.2 As the table above clearly demonstrates the proposed programme is heavily front-loaded with over-programming in the firm part of the programme offset by under-programming in the indicative and outline years. This planned spend profile will therefore require a significant amount of natural slippage, or additional funding support, to meet the long-term affordability parameters. Whilst that expectation is not unrealistic the delivery of the programme will require careful management and if the overall revenue budget impact of the delivery cannot be contained then deliberate choices on project slippage, or agreement to fund additional loans charges costs will be required.

17.3 It is important to recognise however that significantly exceeding the affordability limit over the 15-year life of the proposed programme is likely to place real constraints on the ability to support any capital investment funded by borrowing in the subsequent years as well as requiring an increase in the loans charges budget.

17.4 Annual capital investment at the level of the first three years of the existing and combined programme (average annual investment of £116m) is not sustainable in the long term. If Members wish to increase spend from year 4 of the programme onwards that will require additional external funding to be realised or a substantial increase in the loans charges budget into the future.

17.5 Whilst the proposed programme has been based on the broad affordability parameters outlined, if approved today a detailed financial modelling of the associated revenue costs will be undertaken for inclusion in the MTFP to be taken to the Council's budget meeting in March. This financial modelling will incorporate both the financing costs of the programme along with any operational costs or savings arising as a result of the investment.

18. Medium Term Financial outlook update

18.1 There is no significant update to the medium-term financial outlook that was reported to Council in October. That report reiterated the anticipated average annual requirement to find revenue budget savings of £15m but recognised that in individual years the actual requirement may be substantially higher or lower depending on prevailing circumstances.

18.2 For financial year 2022/23 a budget gap anywhere in the region of £9m to £35.4m is forecast and over the medium term up to and including financial year 2026/27 a budget gap and associated requirement for savings anywhere up to £120.4m is considered possible.

18.3 The short- and medium-term budget gaps are based on a number of key variables and since the October report there has been no significant update to help clarify where any variable is likely to land. The key variables are pay related items (including the pay award and remodelling of the pay and grade structure, covering lower spinal column points, to fully consolidate the Scottish Living Wage), general pressures (including inflationary and Covid impacts), the government funding settlement and any decisions made around increases to Council Tax.

18.4 The UK Government announced its autumn budget in late October. Whilst decisions on funding allocations to Scottish local authorities rest solely with the Scottish Government the Scottish Parliament Information Centre (SPICE) analysis of the Budget highlighted that the total (unadjusted) Scottish block grant will increase from £36.7 billion (excluding Covid funding) in 2021/22 to £41.8 billion by 2024/25. This increase is very much front loaded, with a big real-terms increase in 2022/23 followed by two years of the Scottish Budget declining slightly in real terms. It should be noted that the Treasury-published block grant figures are notoriously difficult to translate into Scottish Budget terms, as a significant number of other factors are involved, nevertheless they do provide some guidance as to future funding prospects.

18.5 The Scottish Government has scheduled its 2022/23 budget announcement for the same day as this Council meeting, the 9th December. It is expected that the budget will be a one-year budget only, with the possibility of increased forward visibility for future years coming as part of a spending review in the spring of 2022. It will not be until the new calendar year that we have full visibility and understanding of the detail that sits behind the budget and the exact resultant impact on the financial settlement for Highland.

Designation: Executive Chief Officer- Resources and Finance

Date: 26th November 2021

Author: Edward Foster, Head of Corporate Finance; Kate Lackie, Executive Chief Officer- Performance and Governance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/78893/9_medium_term_financial_plan_-_update_revised

https://www.highland.gov.uk/download/meetings/id/78705/12_medium_term_financial_plan_-_update https://www.highland.gov.uk/download/meetings/id/78704/11_future_highlands_-_health_and_prosperity_strategic_partnership_plan

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

THE HIGHLAND COUNCIL **Appendix 1**

UPDATED CAPITAL PROGRAMME- OCTOBER 2021

SERVICE: GENERAL FUND

Project Description	Planned Expenditure 2021/22	Planned Expenditure 2022/23	Planned Expenditure 2023/24	Planned Expenditure 2024/25	Planned Expenditure 2025/26	Planned Expenditure 2026/27	Planned Expenditure 2027/28	Net 2021/22 - 2027/28
	£000	£000	£000	£000	£000	£000	£000	£000
COMMUNITY AND LEISURE FACILITIES								
Community and Leisure Facilities	678	500						1,178
SCHOOLS								
Secondary School Programme								
Alness Academy	2,553	-107						2,446
Charleston Academy	727	3,050	3,042	238	-20	-16	-20	7,001
Culloden Academy - additional budget approved HC 9/9/21 *(see note below)	2,766	2,690	6,384	6,397	266	-244	-244	18,015
Inverness High School	258							258
Lochaber Flood Damage	-710							-710
Primary School Programme								
Merkinch Primary	286	361						647
Milton of Leys Primary		63	-40					23
Smithton Primary		-62	-118	-123	-123	-123	-123	-672
Ness Castle Primary Phase 1	4,041	7,858	-7	-264	-264	-264	-264	10,837
Ness Castle Primary Phase 2							7,176	7,176
Park Fire Reinstatement	514							514
School Estate Management								
Modular Units		1,030	515					1,545
School Estate Improvement Programme / Early Learning and Childcare	32,153	6,500						38,653
Beauly Primary School - approved HC 9/9/21	250	750	4,000	6,500	500			12,000
Dunvegan Primary School - approved HC 9/9/21	250	750	4,000	6,500	500			12,000
Park Primary School - approved HC 9/9/21	250	1,750	4,500	6,000	500			13,000
St Clements School - approved HC 9/9/21	100	250	1,750	4,500	6,000	400		13,000
LEIP - General								
Learning Estate Investment Programme- Tain 3-18	1,470	5,665	23,175	12,875	515			43,700
Learning Estate Investment Programme- Broadford	258	515	1,030	7,210	2,318	258		11,588
Learning Estate Investment Programme- Nairn Academy	515	1,545	4,120	21,630	10,815	515		39,140
HEALTH & SOCIAL CARE PROGRAMME								
Adult Services (NHS)	2,757	2,250						5,007
Adult Services- North Coast Care Facility	400	1,500	2,750	250				4,900
Children's Services/Out of Authority	80	750						830
ICT								
ICT Transformation	1,258	680	4,000	4,000	5,000	1,000	1,000	16,938
ROADS AND BRIDGES								
Structural Road Works								
Road Structural Capital Works	5,787	4,250						10,037
Road Surface Dressing Capital	2,540	1,500						4,040
Bridges, Retaining Walls & Culverts	1,081	950						2,031
Roads capital additional approved (March 2020)	10,000	10,000						20,000
Area Minor Capital Works								
Timber Extraction	499	500						999
Major Road Improvements								
The Inverness West Link	694	-271	-271	-255	-271	-271	-271	-916
Inshes Roundabout	51	4	4,008	1,871	-202	-202	-202	5,328
Development Infrastructure, Dingwall	485	337						822
B851/B862 South Loch Ness Road Improvements - road improvement match funding	190	212						402
Stromeferry Rockface	1,015	52						1,067
Major Bridge Works								
B863 Invercoe Bridge, Lochaber	2,515	3,502	52					6,069
A862 Muir of Ord Railway Bridge - legacy	2							2
B9090 White Bridge	84	170	5	5				264
Dulsie Bridge	22	11	436					469
Acharn Bridge		62	1,097					1,159
Achnagavin Bridge		37	904					941
Naver Bridge	362	103	3,399	3,090	112			7,066
Lifeline Bridges								
B8007 Glenmore Bridge - Lifeline Bridges	20	758						778
A831 Comar Refurbishment - Lifeline Bridges	56	765	11					833
ACTIVE TRAVEL								
Car Parking - Portree	-44							-44
Car Parking - Fort Augustus	10							10
Car Parking - Inverness Lorry Park	145							145
Car Parking - Equipment								
Cycling, Walking & Safer Streets	-28							-28
20mph Zones - legacy	19							19
Traffic Management Improvements	-43							-43
Inverness City Active Travel Network - grant funded								
Bus Priority Rapid Development Fund - grant funded								
Spaces for People - grant funded	-8							-8
LIGHTING								
Structural Lighting Works	2,807	1,000						3,807
FLOOD PREVENTION								
Flood Prevention Schemes								
Smithton / Culloden Flood Alleviation	2,723	46	-9	10				2,771
River Enrick FPW / NFMS	727	992	52	31				1,802
Caol FPW	2,936	214						3,150
Major Flood Schemes								
Mill Burn FPS	62	258	251					571
Conon Bridge Flood Defence Improvements	665	26						691
River Gynack FPS / NFMS	54	103	376					533
Golspie - FPS / NFMS	40	72	39					151
River Nairn & Auldearn Burn FPS	143	211	211					565
Risk Management Plans	96	155						251
Flood Improvement Works Knockbain Burn, Dingwall	239							239
Surface Water Management Plans	84	76	20					180
WASTE MANAGEMENT								
Landfill Extensions								
Landfill Restorations								
Landfill Restoration Programme	623	400	1,100	1,000				3,123

Waste Management Strategy								
Residual Waste Management Facility - Longman Project	9,262	2,575	206					12,043
Plant, Infrastructure & Banks -inc Aviemore & Fort William	2,091	1,339						3,430
FERRIES AND HARBOURS								
Uig Ferry Terminal and Link Span	230							230
Harbours General Structural Works	661	250						911
Corran Ferry (as agreed at HC 29-10-20)	300							300
COMMUNITY WORKS								
Burials and Cremations								
Burial Ground Portree	153	361						514
Burial Ground Kilmorack	41	113						154
Burial Ground Glen Nevis	141	386						527
Burial Ground Dores	100	206						306
Burial Ground Kilvean	50							50
Burial Ground Alness	181	309						490
Burial Ground Dornoch	127	206						333
War Memorials	12							12
LEISURE FACILITIES								
Parks and Play Areas - Development								
Inshes Park (Phases 1 to 3)	204							204
STRATEGIC ASSET MANAGEMENT								
Health & Safety - relates to lines below								
Engineering Compliance	1,065	1,077						2,142
Catering & FM Comp[liance	703	365						1,068
Property Structures and Fabric	2,449	2,218						4,667
Property Security	305	406						711
Property Surveys		450						450
Water Management	346	232						578
Fire Safety	-81	1,000						919
Asbestos Removal	100	110						210
Energy Management	1,302	1,491						2,793
Rose Street Car Park Solar PVs - grant funded	13							13
Depots - Health & Safety	586	600						1,186
Office Rationalisation	815	886						1,701
VEHICLES & PLANT								
Vehicle & Plant Purchases	3,106	2,600						5,706
PLANNING & DEVELOPMENT								
Town & Countryside Regeneration - covers lines 184 to 202	234	301						535
Storr Car Park	-297							-297
Nairn High Street	56							56
Dell of Spey		106						106
Visitor Management								
Wester Ross Visitor Hubs	89							89
Storr Visitor Management	93							93
Misc Assets, Bridges & Structures								
Assets, Bridges & Structures	57	111						168
Green Networks, Core Paths & Long Distance Routes								
Green Infrastructure	101							101
Long Distance Routes	16							16
Ardersier Path	26							26
Inverness City Gateways	66							66
Other Grant Funded Schemes								
Vacant & Derelict Land Fund and Regeneration Fund - grant funded								
Town Centre Fund - grant funded								
Carbon Clever	103							103
Inverness Rail Station	52	258						310
City Deal Projects - grant funded								
Electric Vehicle Infrastructure - grant funded								
Smart City - Digital Projects	250							250
Capital Discretionary Fund	512							512
CAPITAL CONTRIBUTIONS								
Inverness Castle	800		5,575	4,207				10,582
SELF FUNDING PROJECTS								
Longman Campus Site	34							34
Local Full Fibre Network - grant funded								
LED Programme for Buildings - SALIX Funded								
Solar PV	-312							-312
Whin Park Hydro	-15							-15
HOUSING (NON HRA)								
Private Sector Housing Grants	2,423	1,920						4,343
Travelling People Sites	236	118						354
CAPITAL PROGRAMME TOTAL	**116,293**	**84,776**	**76,563**	**85,672**	**25,646**	**1,053**	**7,052**	**397,055**

*The budget for Culloden Academy reflects a gross total project budget of £19.2m as approved by the Highland Council on the 9th September. The figure shown in the table above is net of anticipated developer contributions of £1.001m. In addition project costs of £0.184m have been incurred in prior years in relation to this project.

Proposed Capital Projects (Net Amounts) Appendix 2

Category	Service	Project Name	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's	2028/29 £000's	2029/30 £000's	2030/31 £000's	2031/32 £000's	2032/33 £000's	2033/34 £000's	2034/35 £000's	2035/36 £000's	2036/37 £000's	Total £000's
Accommodation	E&L	Plockton Residence			500	1,000	5,000	5,000	500	-	-							12,000
Accommodation	E&L	Remote schools - Housing Accommodation	250	500	250	-	-	-	-	-	-							1,000
Accommodation	E&L	Residential Properties	83	165	83	-	-	-	-	-	-							330
Coast and Flooding	IE&E	Coast Protection	36	36	36	36	54	54	54	54	54	54	54	54	54	54	54	744
Coast and Flooding	IE&E	Coastal Flood Protection Studies	-	-	-	-	69	202	-	-	-							271
Coast and Flooding	IE&E	Flood Risk Managment Act	-	83	83	83	83	83	83	83	83	83	83	83	83	83	83	1,155
Coast and Flooding	IE&E	Golspie Coast Flood Protection Scheme	-	-	-	72	72	196	196	-	-							536
Coast and Flooding	IE&E	River Peffery Flood Protection Scheme	-	-	129	129	495	495	-	-	-							1,248
Coast and Flooding	IE&E	River Thurso Flood Protection Scheme	-	-	-	-	143	143	930	930	-							2,146
Coast and Flooding	IE&E	Surface Water Management Plan	17	33	33	33	33	33	33	33	33	33	33	33	33	33	33	479
Community Assets	C&P	Burial Ground extensions & new sites	-	1,118	1,085	475	300	300	300	300	300	300	300	300	300	300	300	5,978
Community Assets	C&P	Household Waste Recycling Centre office/welfare facilities	20	20	20	20	20	-	-	-	-							100
Community Assets	C&P	Household Wheeled Bin Replacements - Green bins	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	450
Community Assets	C&P	Mechanical street sweepers	147	147	56													350
Community Assets	C&P	Memorial safety & war memorials	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	149
Community Assets	C&P	Public Convenience Visitor Management Upgrades	333	333		-	-	-	-	-	-							666
Culture, Community and Leisure	E&L	Broadford Library & Service Point	-	-	500	500	-	-	-	-	-							1,000
Culture, Community and Leisure	E&L	Community & Leisure Facilities – HLH Properties – Life Cycle Investment	-	248	264	281	297	314	330	347	363	363	363	363	363	363	363	4,620
Culture, Community and Leisure	E&L	Community & Leisure Facilities – Other Properties – Life Cycle Investment	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	990
Culture, Community and Leisure	E&L	Inverness Leisure Centre & Aquadome – Life Cycle Investment	125	1,000	1,500	375	-	-	-	-	-							3,000
Fleet	C&P	Fleet Replacement Programme - Large Goods Vehicles	1,000	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	33,200
H&S- Property	H&P	Annual Programmes of Planned Improvement Works to the Councils Property Estate	1,875	2,020	2,020	2,021	2,020	2,021	2,020	2,021	2,021	2,021	2,021	2,021	2,021	2,021	2,021	29,889
H&S- Property	H&P	Depots - Essential Health & Safety Works		505	505	505	505	505	505	505	505	505	505	505	505	505	505	7,093
H&S- Property	H&P	Programme of Asbestos Removal/Compliance Works to the Councils Property Estate		155	155	155	155	155	155	155	155	155	155	155	155	155	155	2,182
H&S- Property	H&P	Programme of Energy Improvement Works to the Councils Property Estate		1,204	1,204	1,205	1,204	1,205	1,205	1,205	1,205	1,205	1,205	1,205	1,205	1,205	1,205	16,914
H&S- Property	H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		874	874	874	874	874	874	874	874	874	874	874	874	874	874	12,276
H&S- Property	H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		311	311	311	311	311	311	311	311	311	311	311	311	311	311	4,365
H&S- Property	H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		350	350	350	350	350	350	350	350	350	350	350	350	350	350	4,911
H&S- Property	H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		389	389	389	389	389	389	389	389	389	389	389	389	389	389	5,456
H&S- Property	H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		194	194	194	194	194	194	194	194	194	194	194	194	194	194	2,728
H&S- Property	H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		1,797	1,797	1,798	1,797	1,798	1,797	1,798	1,797	1,797	1,797	1,797	1,797	1,797	1,797	25,240
H&S- Property	H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		699	699	699	699	699	699	699	699	699	699	699	699	699	699	9,821
H&SC	H&SC	Adult Social Care	-	330	330	330	330	330	330	330	330	330	330	330	330	330	330	4,620
H&SC	H&SC	Carefirst Management Information System Replacement	250	125	125	-	-	-	-	-	-							500
H&SC	H&SC	Childrens Services	-	66	66	66	66	66	66	66	66	66	66	66	66	66	66	924
Harbours	IE&E	Harbours - Kinlochbervie	-	1,800	-	-	-	-	-	-	-							1,800
Harbours	IE&E	Harbours - Lochinver	-	1,800	-	-	-	-	-	-	-							1,800
Harbours	IE&E	Harbours Health and Safety Works	225	225	225	225	225	225	225	225	225	225	225	225	225	225	225	3,375
Harbours	IE&E	Portree Harbour	1,800	-	-	-	-	-	-	-	-							1,800
ICT	TRANS	ICT- Chromebooks (adjustments to current approved)	6,101	- 763	- 670	- 813												3,855
ICT	TRANS	ICT- Core (adjustments to current approved)		-	-	- 639	1,599	765	2,433	3,447	3,519	3,100	3,100	2,700	2,950	3,150	2,950	29,075
Infrastructure	IE&E	Bus shelters	20	20	20	20	25	25	25	25	25	25	25	25	25	25	25	351
Infrastructure	IE&E	Car Parks Structural	238	33	33	33	17	17	17	17	17	17	17	17	17	17	17	518
Infrastructure	IE&E	Countryside Site Enhancement	-	-	83	-	-	-	-	-	-							83
Infrastructure	C&P	Inverness Crematorium	20	-	-	-	600	-	-	-	-							620
Infrastructure	IE&E	Public Space CCTV Modernisation	135	100	-	-	-	-	-	-	-							235
Infrastructure	IE&E	Radio Mast Structural Capital	40	40	40	20	-	20	-	20	-							178
Infrastructure	IE&E	Safe Routes to School	66	66	66	66	66	-	-	-	-							330
Infrastructure	C&P	Skye, Portree waste transfer station access road improvement	50	-	-	-	-	-	-	-	-							50
Infrastructure	IE&E	Weather Stations	87	87	87	87	87	87	87	87	87	87	87	87	87	87	87	1,312
Match Funding	IE&E	Active Travel Transformation (Highland)	660	660	660	660	660	825	825	825	825	825	825	825	825	825	825	11,550
Match Funding	E&L	Eden Court Highlands Theatre Redevelopment	827	1,404	-	-	-	-	-	-	-							2,231
Match Funding	IE&E	NC500 Levelling Up Fund Bid Match Funding	1,000	1,000	2,000	-	-	-	-	-	-							4,000
Match Funding		SALIX	625	625	-	-	-	-	-	-	-							1,250

Roads and Bridges	IE&E- roads + bridges	A890 Stromeferry Bypass Rock Face Stabilisation	-	165	33	330	33	165	33	330	33	165	33	330	33	165	33	1,881
Roads and Bridges	IE&E- roads + bridges	Bridges, Walls and Culverts	-	330	330	330	330	330	330	330	330	330	330	330	330	330	330	4,620
Roads and Bridges	IE&E- roads + bridges	Highland wide 20mph zones	-	165	165	-	-	-	-	-	-							330
Roads and Bridges	IE&E- roads + bridges	Lighting Structural Capital	-	330	330	330	363	363	363	363	363	363	363	363	363	363	363	4,983
Roads and Bridges	IE&E- roads + bridges	Major Bridges	-	281	806	2,102	2,274	1,951	1,522	1,737	772	1,000	1,000	1,000	1,000	1,000	1,000	17,444
Roads and Bridges	IE&E- roads + bridges	Minor Roads and Junctions	330	330	330	330	330	-	-	-	-							1,650
Roads and Bridges	IE&E- roads + bridges	Restoration of roads from - Timber Extraction	-	165	165	165	165	165	165	165	165	165	165	165	165	165	165	2,310
Roads and Bridges	IE&E- roads + bridges	Road Signs and Markings	91	91	91	91	91	91	91	91	91	91	91	91	91	91	91	1,361
Roads and Bridges	IE&E- roads + bridges	Road Structural Capital Works	-	6,204	6,204	6,204	6,204	6,204	6,204	6,204	6,204	6,204	6,204	6,204	6,204	6,204	6,204	86,856
Roads and Bridges	IE&E- roads + bridges	Road Surface Dressing Capital	-	2,076	2,076	2,076	2,076	2,076	2,076	2,076	2,076	2,076	2,076	2,076	2,076	2,076	2,076	29,060
Roads and Bridges	IE&E- roads + bridges	Vehicle Restraint Systems (VRS) - Crash Barriers	285	285	285	285	285	285	285	285	285	285	285	285	285	285	285	4,272
Schools- generic	E&L- schools	Major schools works, years 7-15 (to cover various projects including Black Isle, Seaforth, Easter Ross, Inverness Gaelic Medium)							500	4,500	5,000	2,000	8,500	19,000	15,500	8,500	500	64,000
Schools- generic	E&L- schools	School Estate Improvement Programme	-	3,465	3,630	3,795	3,960	4,290	4,620	4,950	5,280	5,280	5,280	5,280	5,280	5,280	5,280	65,670
Specific schools	E&L- schools	Broadford Primary - New School (additional to current approved)	-	750	750	-	-	-	-	-	-							1,500
Specific schools	E&L- schools	Charleston Academy - Extension/Refurbishment (additional to current approved)			8,000	300	-	-	-	-	-							8,300
Specific schools	E&L- schools	East Inverness - New Secondary School	-	-	1,000	3,000	15,000	30,000	10,000	1,000	-							60,000
Specific schools	E&L- schools	Nairn Academy (additional to current approved)	-	1,500	1,500	-	-	-	-	-	-							3,000
Specific schools	E&L- schools	Ness Castle - New Primary School Phase 2 (additional to current approved)	-	-	-	-			600	250	-							850
Specific schools	E&L- schools	Stratton, Inverness - New Primary School	-	-	500	2,500	8,500	10,000	500	-	-							22,000
Specific schools	E&L- schools	Tain 3-18 Campus (additional to current approved)	-	1,300	1,000	-	-	-	-	-	-							2,300
Specific schools	E&L- schools	Tornagrain - New Primary School	-	-				250	1,750	5,000	6,500	500						14,000
			16,840	**39,642**	**45,702**	**35,802**	**60,757**	**76,255**	**46,378**	**44,974**	**43,931**	**34,872**	**40,740**	**51,137**	**47,590**	**40,922**	**32,590**	**658,132**

Appendix 3

	October 2021 capital programme plus £25m annually from 25/26 TOTAL LOANS CHARGES £
2021-22	57,891,690
2022-23	60,141,477
2023-24	60,616,155
2024-25	60,182,753
2025-26	59,830,544
2026-27	59,460,997
2027-28	58,792,275
2028-29	58,457,134
2029-30	57,963,618
2030-31	57,803,671
2031-32	57,406,184
2032-33	56,645,527
2033-34	56,335,072
2034-35	55,385,567
2035-36	53,650,955
2036-37	51,320,102
2037-38	50,212,394
2038-39	49,883,597
2039-40	48,988,416
2040-41	49,125,115
2041-42	47,885,986
2042-43	48,343,078
2043-44	48,905,314
2044-45	49,404,149
2045-46	48,467,520
2046-47	48,501,369
2047-48	48,656,669
2048-49	48,844,817
2049-50	49,087,047
2050-51	49,928,969
2051-52	49,306,205
2052-53	49,328,996
2053-54	50,289,372
2054-55	50,920,624
2055-56	52,085,507
2056-57	52,888,998
2057-58	53,758,664
2058-59	54,841,667
2059-60	55,267,536
2060-61	56,210,973
2061-62	57,138,027
2062-63	58,039,564
2063-64	58,468,499
2064-65	59,030,559
2065-66	59,861,848
2066-67	59,590,741
2067-68	58,597,687
2068-69	58,461,275
2069-70	58,234,889
2070-71	57,764,730
2071-72	57,199,048
2072-73	56,563,787
2073-74	56,191,672
2074-75	55,716,915
2075-76	55,512,716
2076-77	54,636,529
2077-78	54,053,804
2078-79	53,762,136
2079-80	52,737,911
2080-81	52,438,788
2081-82	49,817,553
2082-83	48,753,577
2083-84	48,316,501
2084-85	48,236,112
2085-86	46,102,371
2086-87	44,940,507
Total	3,553,184,448

Average annual loans charge 2021-22 to 2040-41
56,004,662

Average annual loans charge 2021-22 to 2060-61
53,325,418

Average annual loans charge 2021-22 to 2080-81
54,450,297

Long list of potential Capital Projects (Net Amounts) **Appendix 4**

Service	Project Name	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's	2028/29 £000's	2029/30 £000's	2030/31 £000's	No Year Specified £000's	Total £000's
C&P	Household Waste Recycling Centre office/welfare facilities	40	40	40	40	40	-	-	-	-	-	200
C&P	Household Wheeled Bin Replacements - Green bins	120	120	120	120	120	120	120	120	120	-	1,080
C&P	Inverness Crematorium	20	-	-	-	600	-	-	-	-	-	620
C&P	Play Park Equipment - Annual Programe of Replacing/Refurbishing	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	-	13,230
C&P	Public Convenience Visitor Management Upgrades	1,332	-	-	-	-	-	-	-	-	-	1,332
C&P	Skye, Portree waste transfer station access road improvement	50	-	-	-	-	-	-	-	-	-	50
C&P	Burial Ground extensions & new sites		2,235	2,170	950	260	695	890	280	450	-	7,930
C&P	Fleet Replacement Programme - Large Goods Vehicles	2,000	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600	-	38,800
C&P	Memorial safety & war memorials	30	30	30	30	30	30	30	30	30	-	270
C&P	Recycling Improvement Projects	833	1,548	582	4,187	-	-	-	-	-	-	7,150
C&P	Wick Town Centre Public Toilets	-	-	-	-	-	-	-	-	-	-	-
C&P	Community Asset Transfer (CAT) Capital Support Fund	-	-	-	-	-	-	-	-	-	-	-
C&P	Energy from Waste Combined Heat and Power Facility and Green Energy Hub		-	-	-	-	-	-	-	-	200,000	200,000
C&P	Transitioning fleet to Carbon Neutral - Dual Fuel - Diesel/Hydrogen	390	520	520	390	-	-	-	-	-	-	1,820
C&P	Transitioning Fleet to Carbon Neutral - Electric Charging Provision	2,725	2,725	2,725	2,725	2,725	2,725	2,725	2,725	-	-	21,800
E&L	Eden Court Highlands Theatre Redevelopment	827	1,404	-	-	-	-	-	-	-	-	2,231
E&L	Broadford Library & Service Point	-	-	500	500	-	-	-	-	-	-	1,000
E&L	Plockton Residence	500	1,500	5,000	7,500	500	-	-	-	-	-	15,000
E&L	Rum Primary - Housing Accommodation	250	500	250	-	-	-	-	-	-	-	1,000
E&L	Residential Properties	250	500	250	-	-	-	-	-	-	-	1,000
E&L	School Estate - Free School Meals	500	2,000	2,000	500	-	-	-	-	-	-	5,000
E&L	Community & Leisure Facilities – Other Properties – Life Cycle Investment	200	200	200	200	200	200	200	200	200	-	1,800
E&L	Inverness Leisure Centre & Aquadome – Life Cycle Investment	250	2,000	3,000	750	-	-	-	-	-	-	6,000
E&L	Community & Leisure Facilities – HLH Properties – Life Cycle Investment		750	800	850	900	950	1,000	1,050	1,100	-	7,400
E&L	Provision of a new Visitor Centre in Glen Nevis	-	-	4,000	4,000	3,841					-	11,841
E&L	Dingwall Leisure Centre Expansion and new wetside changing village.	-	-	2,000	1,885						-	3,885
E&L	Fort William creation of a 4 court Sports Hall	-	2,000	1,835							-	3,835
E&L	Inverness Leisure New Studio	378									-	378
E&L	Highland Regional Sports facility - Tennis and Athletics - Combined	-	2,000	2,500							-	4,500
E&L	Inverness Leisure - Internal upstairs reconfiguration and expansion of fitness suite (Phase 5)	-313	671	655							-	1,014
E&L	Lochbroom LC - Provision of exercise studio	-	-	-	500	500					-	1,000
E&L	Nairn LC - Provision of exercise studio	-	-	835							-	835
E&L	Thurso - Strategic sports project with Sport Scotland	-	-	2,000	-	-	-	-	-	-	-	2,000
E&L	East Inverness - New Sports Facility	-	-	-	-	2,000	2,000	800				4,800
E&L	Highland Folk Museum - provision of residential education facilities	-450	1,425	-	-	-	-	-	-	-	-	975
E&L	Tain Swimming Pool	500	3,500	3,500	500	-	-	-	-	-	-	8,000
E&L- schools	East Inverness - New Secondary School	-	-	1,000	3,000	15,000	30,000	10,000	1,000	-	-	60,000
E&L- schools	Inverness High - Extension/Refurbishment	-	-	500	2,000	8,500	8,500	500	-	-	-	20,000
E&L- schools	Stratton, Inverness - New Primary School	-	-	500	2,500	8,500	10,000	500	-	-	-	22,000
E&L- schools	Tornagrain - New Primary School	-	-	250	1,750	5,000	6,500	500	-	-	-	14,000
E&L- schools	Charleston Academy - Extension/Refurbishment (additional to current approved)	1,250	1,410	1,910	500	-	-	-	-	-	-	5,070
E&L- schools	Ness Castle - New Primary School Phase 2	-	-	-	-	250	3,750	3,750	250	-	-	8,000
E&L- schools	Tain 3-18 Campus (additional to current approved)		1,300	1,000		-	-	-	-	-	-	2,300
E&L- schools	Broadford Primary - New School (additional to current approved)		750	750			-	-	-	-	-	1,500
E&L- schools	Nairn Academy (additional to current approved)		1,500	1,500			-	-	-	-	-	3,000
E&L- schools	School Estate Improvement Programme		10,500	11,000	11,500	12,000	13,000	14,000	15,000	16,000	-	103,000

E&L- schools	Fortrose Academy	-	-	500	2,000	7,500	7,500	500	-	-	-	18,000
E&L- schools	Tarradale Primary	-	-	-	-	500	2,000	7,500	7,500	500	-	18,000
E&L- schools	Alness Primary Schools	-	-	-	500	1,500	8,000	17,000	8,000	1,000	-	36,000
E&L- schools	Dingwall Primary	-	500	4,500	4,500	500	-	-	-	-	-	10,000
E&L- schools	Inverness Gaelic Medium Provision	-	-	-	500	2,000	7,000	15,000	7,000	500	-	32,000
E&L- schools	New Primary Schools - Years 6-10	-	-	-	1,000	3,000	15,000	30,000	10,000	1,000	-	60,000
E&L- schools	New Secondary Schools - Years 6-10	-	-	-	1,000	4,000	18,000	45,000	40,000	12,000	-	120,000
E&L- schools	Inverness Secondary Schools	-	-	-	-	-	-	-	-	-	25,000	25,000
H&P	Dingwall Town Hall Remedial Work and Refurbishment	1,200	400	150	-	-	-	-	-	-	-	1,750
H&P	Cromarty Courthouse Refurbishment Works	500	-	-	-	-	-	-	-	-	-	500
H&P	Annual Programmes of Planned Improvement Works to the Councils Property Estate	2,500	2,600	2,730	2,867	3,010	3,160	3,318	3,484	3,658	-	27,328
H&P	Programme of Statutory Fire Regulation Works to the Councils Property Estate		500	525	551	579	608	638	670	704	-	4,775
H&P	Programme of Statutory Water Safety Works to the Councils Property Estate		250	263	276	289	304	319	335	352	-	2,387
H&P	Programme of Engineering Services Upgrade Works to the Councils Property Estate		1,125	1,181	1,240	1,302	1,367	1,436	1,508	1,583	-	10,743
H&P	Programme of Asbestos Removal/Compliance Works to the Councils Property Estate		200	210	221	232	243	255	268	281	-	1,910
H&P	Programme of Structure and Fabric Improvement works to the Councils Property Estate		2,313	2,429	2,550	2,678	2,811	2,952	3,100	3,255	-	22,087
H&P	Programme of Energy Improvement Works to the Councils Property Estate		1,550	1,628	1,709	1,794	1,884	1,978	2,077	2,181	-	14,801
H&P	Programme to enable the Rationalisation of the Councils General Fund Estate		900	945	992	1,042	1,094	1,149	1,206	1,266	-	8,594
H&P	Programme of equipment upgrade and works for the Catering, Cleaning & FM Service across the Councils Property Estate		400	420	441	463	486	511	536	563	-	3,820
H&P	Programme of Security Improvements (CCTV & Intruder Alarms) to the Councils Estate		450	473	496	521	547	574	603	633	-	4,297
H&P	Depots - Essential Health & Safety Works		650	683	717	752	790	830	871	915	-	6,207
H&P	SALIX	-	-	-	-	-	-	-	-	-	1,250	1,250
H&P	Provision of New Multi Agency HQ Office Accommodation	-	-	500	10,000	14,000	1,000	-	-	-	-	25,500
H&P	Provision of New Modern Depots across the Highland Estate	-	5,000	5,250	5,513	5,788	6,078	6,381	6,700	7,036	-	47,746
H&SC	Carefirst Management Information System Replacement	-	-	-	-	-	-	-	-	-	500	500
H&SC	Adult Social Care		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	-	8,000
H&SC	Childrens Services		200	200	200	200	200	200	200	200	-	1,600
IE&E	Bus shelters	60	60	60	60	75	75	75	75	75	-	615
IE&E	Car Parks Structural	720	100	100	100	50	50	50	50	50	-	1,270
IE&E	Public Space CCTV Modernisation	135	100	-	-	-	-	-	-	-	-	235
IE&E	Coast Protection	110	110	110	110	165	165	165	165	165	-	1,265
IE&E	Coastal Flood Protection Studies	-	-	-	-	210	612	-	-	-	-	822
IE&E	Harbours Health and Safety Works	300	300	300	300	300	300	300	300	300	-	2,700
IE&E	Portree Harbour	1,800	-	-	-	-	-	-	-	-	-	1,800
IE&E	Radio Mast Structural Capital	120	120	120	60	-	60	-	60	-	-	540
IE&E	Safe Routes to School	200	200	200	200	200	-	-	-	-	-	1,000
IE&E	Surface Water Management Plan	50	100	100	100	100	100	100	100	100	-	850
IE&E	Weather Stations	265	265	265	265	265	265	265	265	265	-	2,385
IE&E	Harbours - Kinlochbervie	-	1,800	-	-	-	-	-	-	-	-	1,800
IE&E	Harbours - Lochinver	-	1,800	-	-	-	-	-	-	-	-	1,800
IE&E	Countryside Site Enhancement				-	-	-	-	-	-	250	250
IE&E	Flood Risk Managment Act		250	250	250	250	250	250	250	250	-	2,000
IE&E	Golspie Coast Flood Protection Scheme	-	-	-	360	360	980	980	-	-	- 2,144	536
IE&E	Active Travel Transformation (Highland)	2,000	2,000	2,000	2,000	2,000	2,500	2,500	2,500	2,500		20,000
IE&E	Corran Ferry Project Boat and Slipway Improvements	57,000	-	-	-	-	-	-	-	-	- 75	56,925
IE&E	Inverness Transport Interchange	100	1,100	1,600	500	-	-	-	-	-	-	3,300
IE&E	Park & Ride sites	908	2,517	2,517	-	-	-	-	-	-	-	5,942
IE&E	River Peffery Flood Protection Scheme	-	-	645	645	2,475	2,475	-	-	-	- 4,992	1,248
IE&E	River Thurso Flood Protection Scheme	-	-	-	-	715	715	4,650	4,650	-	- 8,584	2,146

IE&E	Skye Park & Ride	356	670	1,650	1,100	-	-	-	-	-	-	3,776
IE&E	NC500 Levelleing Up Fund Bid Match Funding	1,000	1,000	2,000	-	-	-	-	-	-	-	4,000
IE&E	Dingwall bus stances	210	-	-	-	-	-	-	-	-	-	210
IE&E	A890 Stromeferry Bypass Options	500	1,500	1,500	30,000	60,000	5,000	4,434	-	-	-	102,934
IE&E	Alton Burn Flood Protection Study	-	-	-	-	-	-	-	105	306	-	411
IE&E	Aultbea Flood Protection Study	-	-	-	-	-	-	105	306	-	-	411
IE&E	Aviemore Burn Flood Protection Study	-	306	-	-	-	-	-	-	-	-	306
IE&E	River Coiltie Flood Protection Study	-	-	79	256	77	-	-	-	-	-	411
IE&E	River Gynack Flood Protection Study	230	-	-	-	-	-	-	-	-	-	230
IE&E	River Laroch Flood Protection Study	-	-	-	-	-	-	52	206	153	-	411
IE&E	River Nairn Flood Protection Study	210	612	-	-	-	-	-	-	-	-	822
IE&E	Shovel ready Discretionary Match Funding	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	-	9,000
IE&E	Dornoch Burn Flood Protection Study	-	-	-	-	-	-	105	306	-	-	411
IE&E	Eil Burn Flood Protection Study	-	-	-	-	-	-	52	206	153	-	411
IE&E	Glencoe Flood Protection Study	-	-	-	-	-	-	-	105	306	-	411
IE&E	Nethy Bridge Flood Protection Study	-	40	233	344	-	-	-	-	-	-	617
IE&E	Newmill Flood Protection Study	-	-	-	-	-	-	-	105	306	-	411
IE&E	Streetscaping	-	-	-	-	-	-	-	-	-	1,000	1,000
IE&E	Town/Village Regeneration	-	-	-	-	-	-	-	-	-	1,000	1,000
IE&E	Ussie Burn Flood Protection Study	-	105	306	-	-	-	-	-	-	-	411
IE&E	Speyside Way - Improvements & diversion	20	10	30	40	-	-	-	-	-	-	100
IE&E	South Kessock Flood Options Appraisal Study	-	26	155	230	-	-	-	-	-	-	411
IE&E- roads + bridges	Major Bridges	-	852	2,441	6,371	6,890	5,912	4,613	5,263	2,338	-	34,680
IE&E- roads + bridges	Minor Roads and Junctions	1,000	1,000	1,000	1,000	1,000	-	-	-	-	-	5,000
IE&E- roads + bridges	Road Signs and Markings	275	275	275	275	275	275	275	275	275	-	2,475
IE&E- roads + bridges	Vehicle Restraint Systems (VRS) - Crash Barriers	864	863	863	863	863	863	863	863	863	-	7,768
IE&E- roads + bridges	Highland wide 20mph zones		500	500	-	-	-	-	-	-	-	1,000
IE&E- roads + bridges	A890 Stromeferry Bypass Rock Face Stabilisation		500	100	1,000	100	500	100	1,000	100	-	3,400
IE&E- roads + bridges	Bridges, Walls and Culverts		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	-	8,000
IE&E- roads + bridges	Road Structural Capital Works		18,800	18,800	18,800	18,800	18,800	18,800	18,800	18,800	-	150,400
IE&E- roads + bridges	Road Surface Dressing Capital		6,290	6,290	6,290	6,290	6,290	6,290	6,290	6,290	-	50,320
IE&E- roads + bridges	Lighting Structural Capital		1,000	1,000	1,000	1,100	1,100	1,100	1,100	1,100	-	8,500
IE&E- roads + bridges	Restoration of roads from - Timber Extraction		500	500	500	500	500	500	500	500	-	4,000
IE&E- roads + bridges	Inverness Retail Park relief lane	200	1,116	1,000	-	-	-	-	-	-	-	2,316
IE&E- roads + bridges	B851 B862 South Loch Ness Improvements		500	500	500	-	-	-	-	-	-	1,500
IE&E- roads + bridges	Kinnairdie Link Road	500	2,000	2,000	2,000	2,000	500	-	-	-	-	9,000
IE&E- roads + bridges	Major Road Improvements (incl. Caol Link Road)	2,000	6,000	6,000	6,000	6,000	6,000	6,000	12,500	12,500	-	63,000
TRANS	ICT Capital Programme (additional to current approved)	4,334	348	247	251	2,928	2,649	4,374	5,446	5,578	-	26,155
		93,818	**122,871**	**141,313**	**174,988**	**235,674**	**222,549**	**236,624**	**185,574**	**117,869**	**213,205**	**1,744,486**

Work is ongoing to attract inward investment and should additional partnership funding become available to enable additional investment the following projects will be prioritised.

Priority Future Projects	Est Cost
Corran Ferry - Replacement Ferry	£57M
Stromferry bypass	£103M
Additional Roads Investment - to ensure we are investing in our roads infrastructure to at least maintain a steady state.	Total investment of at least £26M per annum
Energy from Waste - consultancy work progressing subject to governement guidance. Legislative changes mean that we must find a replacement to Landfill	£200M

APPENDIX 6

The Highland Council

Draft Capital Strategy context and ambition

Lisa Quinn – Link Group – Associate Director

LINK Group

The Highland Council
Capital Strategy context and ambition
Lisa Quinn – Associate Director

Capital Strategy context and ambition

Capital strategy approach

- Unique to Highland Council and its area – taking account of truly unique challenges
- Recognising geography of Highland area – long term aim to centre on communities and needs of distinct places
- Longer term strategic planning stretching 20-30 years – will take some time to achieve but must be an ambition
- Capital investment plan stretching over 10-year period – taking a practical 15-year approach
- Leading at a strategic level – informed by harsh climate, climate change commitment and economic realities
- Partnership and collaboration seen as essential – making strides with relationships with local authority and other public partners
- Providing a strong base for decisions and making a case to Government where realistic – evidence of need is vital

Capital strategy ambition

View on current position

- We have undertaken a whole organisation approach to the development of the Highland Council capital strategy in line with good practice guidance
- The development of the capital strategy is being strongly led from both a Member and Senior Management Team perspective, underpinned by working towards our carbon neutral ambition
- Reports to March, June and September Council have set out a phased approach to the identification of the Council’s capital investment requirement
- The no-stone –unturned approach that has been adopted is extremely challenging and results in an unaffordable capital investment requirement of up to £2bn
- It is not an option to have no additional capital investment, given the required investment in the existing and continuing asset base
- The Council must ensure that investment in the current asset base at least meets statutory and regulatory requirements
- The Council’s strained revenue position does not provide much flexibility for additional investment, particularly for the development of new assets, with a £15m annual saving requirement over the medium term
- The Council will have to take difficult decisions on its existing asset base, given climate change, Covid-19 recovery, Brexit and other major challenges have changed the expected future
- Where we may have looked to further external funding opportunities in the past it has become clear that these have become very limited and will certainly not address the funding gap in a meaningful manner
- There needs to be focus on return on investment and prevention to ensure continuing financial resilience and to address stored up pressures in front line service delivery

Government influences

Influence	Details
UK Government – extension of Levelling up Fund (February 2021)	‘The new UK Levelling Up Fund is just one way the UK Government is investing in Scottish jobs and Scotland’s future prosperity. We are driving a package of measures to level up opportunity across all parts of the UK, including City and Region Growth Deals, Freeports, the Union Connectivity Review, and preparing for a new UK Shared Prosperity Fund.’
Scottish Government Update to the Climate Change Plan (December 2020)	The update incorporates a number of priorities, including: ➢ Recognising the role that both public and private investment must play in delivering the transition to net zero. ➢ Commitment to increase the number of good, green jobs, and to enable people to access these jobs through training and reskilling. ➢ Commitment to delivering a place-based approach.
Scottish Government Medium Term Financial Strategy (January 2021)	‘Investment in infrastructure is key to Scotland’s economic recovery from COVID-19, and also in supporting public services, delivering our transition to net zero, and meeting the needs of people and communities across Scotland.’
Infrastructure Investment Plan for Scotland (February 2021)	The Infrastructure Investment Plan focuses on three core strategic themes for guiding investment decisions in Scotland: ➢ enabling the transition to net zero emissions and environmental sustainability ➢ driving inclusive economic growth ➢ building resilient and sustainable places
Scottish Government 100 day commitment (May 2021)	There are a number of commitments that impact on Highland Council, including: ➢ establishing a cross-party steering group on COVID recovery to bring people together in pursuit of the strongest possible recovery ➢ investing £45 million through local partnerships to provide training and employer recruitment incentives ➢ funding councils to increase teacher numbers by 1,000 and classroom assistants by 500 - as part of a commitment to 3,500 additional teachers and classroom assistants over the Parliamentary term

Partner influences

Influence	Details
Scottish Futures Trust	➢We are collaborating with Scottish Futures trust on our 5 + 5-year capital planning approach, which is a key aspect of our partner and collaboration approach to capital investment ➢We have been particularly focusing on our approach to infrastructure investment and our links with the work to support the delivery of the Infrastructure Investment Plan for Scotland
Hub North Scotland	➢Alongside Scottish Futures Trust, we are also collaborating with North Hub Scotland, focusing on current regional projects and also plans for future investment ➢They are particularly supporting the methodology for developing our 5 + 5-year capital investment plan, which is a key aspect of the emerging capital strategy
HITRANS	➢We are currently looking at a refresh of the Council's Transport Strategy and our partnership with HITRANS will be a key aspect of the emerging Transport Strategy ➢There is a need to strengthen the relationship with HITRANS, given that our focus has necessarily had to be on other priority areas of investment – however, it is recognised that the Highland transport infrastructure will need to adapt to meet the current climate and economic challenges
Bluelight and Health services	➢We have recognised the urgency and importance of collaborating with our public sector partners, particularly related to our property, fleet and technology asset base ➢Our drive for co-location and re-purposing of our continuing property asset base means that collaboration will be vital
Future Highlands partners	➢ Discussions with a number of key partners including NHS Highland; Police Scotland; Highlife Highland; Scottish Fire and Rescue Service; Highlands and Islands Enterprise; all of whom support working on a strategic approach focused on a number of jointly identified priority areas.
Internal partners	➢ It is also very important to think about the role of internal partners when developing the capital strategy, a prime example being schools ➢ We will review the necessarily independent role that they undertake and consider how engagement needs to be tailored to their needs

Internal influences

Influence	Details
Corporate Plan (March 2019)	The corporate Plan sets out a vision for an Ambitious, Sustainable and Connected Highland. It incorporates six Strategic, Statutory and Operational Priorities: 1. A Council that Champions the Highlands 2. A place to live 3. A place to thrive 4. A place to prosper 5. A welcoming place 6. Your Highland Council
Ambitious Highland – Health and Prosperity Strategy (March 2021)	This set up the strategic planning approach for Highland Council for this latest cycle of reporting. It incorporates three main strands: ➢ Strand 1 – An Investment Strategy for Health and Prosperity Phase 1 – March 2021 agree initiatives and initial tranche of investment of £9.81m Phase 2 – June 2021 Budget review, update on Phase 1 and options for further investment if appropriate Phase 3 – September / October 2021 Budget review, update on investment initiatives and further options if appropriate ➢ Strand 2 – Recovery, Improvement and Transformation Fund ➢ Strand 3 – Key themes for delivering the Budget
Future Highlands Strategy (September 2021)	The Council approved the development of a Future Highlands Strategy at its meeting in September 2021. Following further engagement with partners, the draft Future Highlands Strategy will be reported to Council in October, alongside the Capital Strategy. There are five Strategic Partnership Priorities: 1. The Green Energy Hub for Scotland 2. Health – Care Innovation 3. People – Living Healthy, Thriving and Inclusive lives 4. Place – Place-based Planning and Investment in Communities 5. Investment – Financial Investment and Asset Strategy

Highland Council Organisational Framework

The Highland Council Organisational Framework is represented in the following diagram. We will need to determine where the Capital Strategy fits within this framework. The Capital Strategy is not simply a financial strategy, it is a whole organisation approach. It articulates the Highland Council longer term strategic planning approach and the 10-year capital investment plan, which is aimed at delivering the Council's planned outcomes.

HIGHLAND COUNCIL ORGANISATIONAL FRAMEWORK

<table>
<tr><td colspan="3">AMBITIOUS</td><td colspan="3">SUSTAINABLE</td><td colspan="3">CONNECTED</td><td rowspan="4">Vision and Values and Behaviours</td></tr>
<tr><td colspan="3">We will be high performing and forward thinking, embracing change and challenge</td><td colspan="3">We will be efficient, resourceful and adaptable to deliver for our communities and the environment</td><td colspan="3">We will work together with communities, staff and partners for the best outcomes for Highland.</td></tr>
<tr><td>Forward Thinking</td><td>Can Do</td><td>High Performing</td><td>Efficient</td><td>Resourceful Flexible</td><td>Affordable Transparent</td><td>Engaging</td><td>Listening</td><td>Working Together</td></tr>
<tr><td>B</td><td>E</td><td>H</td><td>A</td><td>V</td><td>I</td><td>O</td><td>U</td><td>R</td></tr>
<tr><td colspan="3">Council Programme</td><td colspan="3">Corporate Plan</td><td colspan="3">Highland Outcome Improvement Plan</td><td>Strategic Context</td></tr>
<tr><td colspan="3">Corporate Performance Framework</td><td colspan="3">Governance and Assurance</td><td colspan="3">Partnerships</td><td rowspan="2">Strategic Approaches / Drivers</td></tr>
<tr><td colspan="3">Transformation and Improvement Strategy</td><td colspan="3">Budget/Change Strategy</td><td colspan="3">Place Based Strategy</td></tr>
<tr><td colspan="2">Leadership and Culture</td><td colspan="2">Communications and Engagement Strategy</td><td colspan="3">Workforce Planning Strategy</td><td colspan="2">Digital Strategy</td><td>Strategic Enablers</td></tr>
<tr><td colspan="9">Service and Operational Plans
Employee Development Plans</td><td>Delivery</td></tr>
</table>

Current key areas of investment

The Council has undertaken a comprehensive approach to identifying the capital investment requirement. This has resulted in a potential requirement of up to £2bn. This is not an affordable position and the Council will be applying a realistic prioritisation methodology as the 15-year capital investment plan is developed and the capital programme is reported to Council for decision in March 2022.

In this direction of travel view of the capital strategy, the main areas of potential investment have been set out and described under the following headings, being the context that we have worked in:

- Local Development Plan and Regional Spatial Strategy
- Building our Future Highland
- Housing Strategy
- Schools investment
- Future Highlands Strategy
- Other potential investment

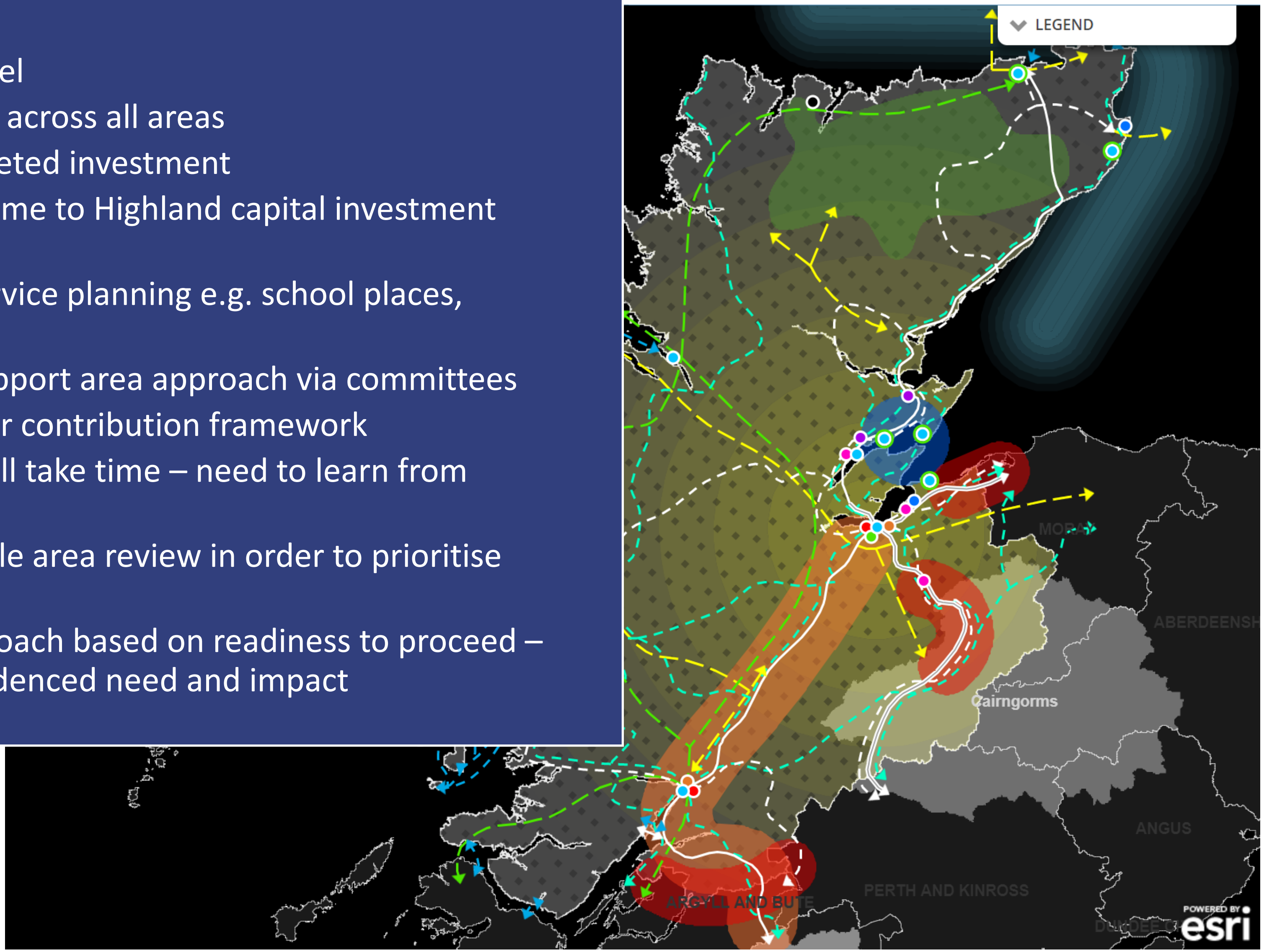
These areas of potential investment are being considered on a phased basis in line with Ambitious Highland – Health & Prosperity Strategy. The June, September and October Council reports have focused on different elements of investment, building up to an overall position, as part of the development of the Council's capital strategy.

The first iteration of the Council's capital strategy cannot provide the complete picture. The capital strategy will incorporate an action plan for improvement and continual refresh. In order to add value, the capital strategy needs to be treated as a live approach, a position that will need to be flexible and adaptable to change, to take account of a volatile and uncertain future.

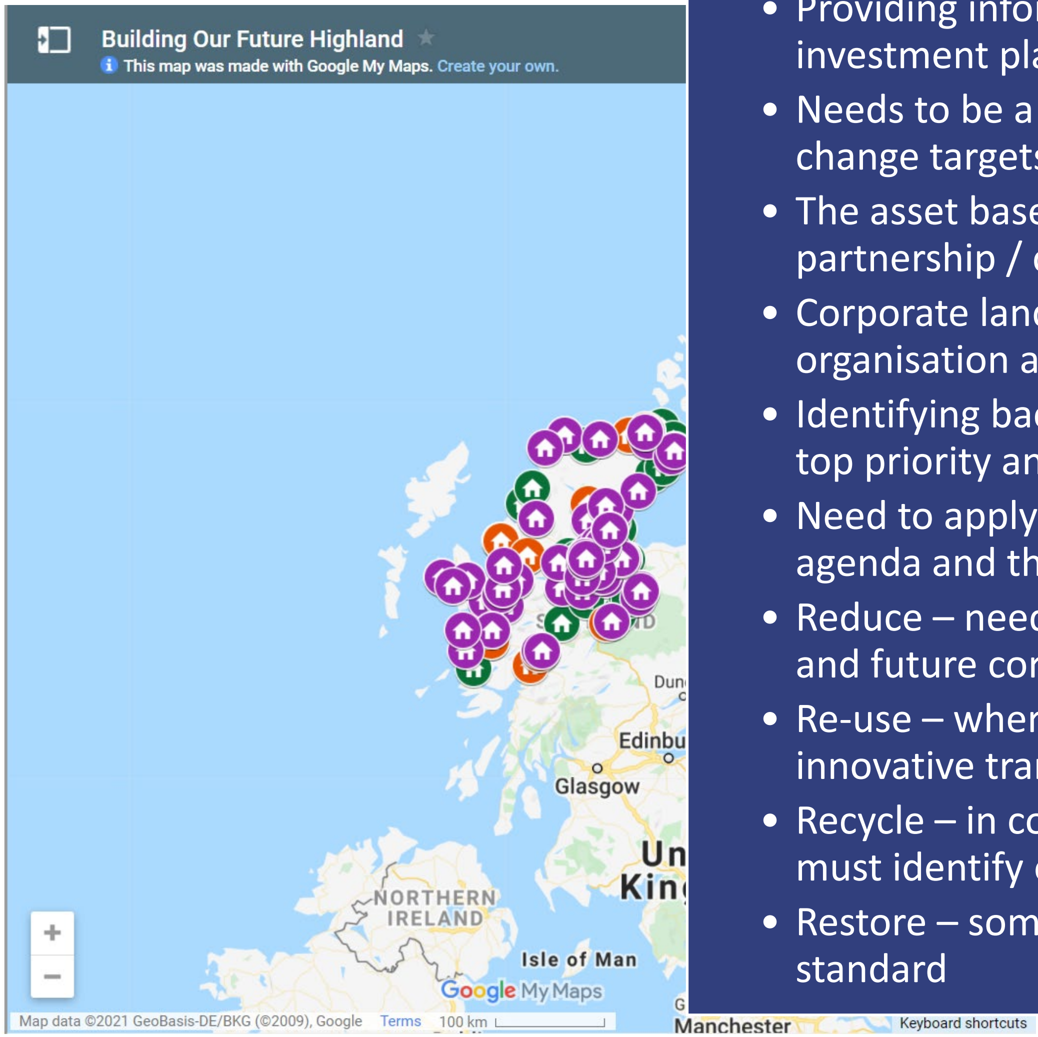
Local Development Plan & Regional Spatial Strategy

Current ambition

- Planning at a strategic level
- Informs evidence of need across all areas
- Informs priorities for targeted investment
- Need to link LDP programme to Highland capital investment requirement
- Need stronger links to service planning e.g. school places, housing development
- Can better inform and support area approach via committees
- Plan to improve developer contribution framework
- Effective area planning will take time – need to learn from Inverness approach
- Need to undertake a whole area review in order to prioritise area investment
- Cannot take an area approach based on readiness to proceed – needs to be based on evidenced need and impact



Building Our Future Highland



Current position

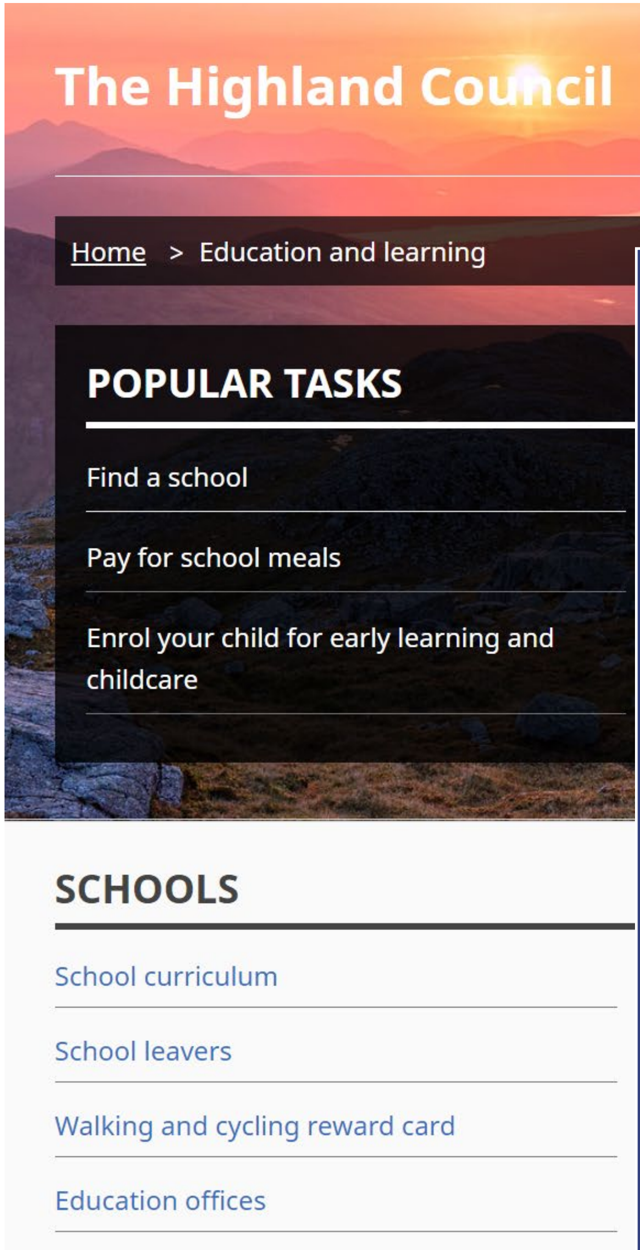
- Providing information to communities and stakeholders on the capital investment plan for housing and property
- Needs to be a committed low carbon focus to meet the ambitious climate change targets set by the Council
- The asset base needs to be considered alongside service provision and partnership / collaboration opportunities
- Corporate landlord methodology is being applied to ensure that a whole organisation approach is adopted
- Identifying backlog investment and opportunities for rationalisation is a top priority and needs to be accelerated
- Need to apply a reduce, re-use, recycle approach in line with the green agenda and the identified housing need
- Reduce – need to recognise that the world has changed – the emerging and future corporate footprint needs to reflect this irreversible change
- Re-use – where disposal is not an option, the Council needs to apply innovative transformation to make maximum use of available space
- Recycle – in collaboration with public and private partners, the Council must identify opportunities for co-location and re-purposed provision
- Restore – some property assets will need to be restored back to a decent standard

Housing Strategy

Current position

- Housing Strategy needs to be a key element of capital strategy and not seen as a separate strand of capital investment requirement
- Capital strategy should reflect Council's strategic housing role and landlord role
- 30-year HRA Business Plan is already planning over longer term and can sit alongside the emerging longer term view for GF
- SHIP should be part of 10-year capital investment plan, to fully consider capacity to deliver across all elements of planned investment
- HRA ringfence does not prevent the Council from taking a whole organisation approach to capital strategy
- HRA investment and borrowing decisions need to be made alongside GF decisions
- A good standard of housing provision, both social and private, will be key to community wellbeing and prevention of future unaffordable front line service provision

Schools investment



Current position

- Report annually to Scottish Government – therefore analysis and data for school estate is strong
- Geography and school provision is unique to Highland
- Seeking to be more strategic – now working on School Estate Strategy
- Need to plan ahead, but only 18-month certainty – makes it difficult to think long term
- Rationalisation is extremely challenging – aim for estate of 200 schools but do not underestimate stakeholder concern
- Net zero needs to be a key feature of any school investment
- Need strong links with Local Development Plan and Regional Spatial Strategy
- Significant investment put forward as part of current capital investment planning – revenue implication is potentially £2.4m to £2.5m over period 2025/26 to 2044/45
- Some external funding opportunities, such as Learning Estate Investment Programme, and collaboration with Scottish Futures Trust

Future Highlands Strategy

Current position

- Number of opportunities for collaboration with public, private and third sector partners over the next ten years
- Timeframe for those priorities means they will be a key influencing factor over the Council's medium to long term financial planning
- Taken forward in collaboration with partners provides the potential for even greater benefits to accrue
- MTFP report to Council in September set out proposals for upfront investment of £5.3m from earmarked reserves
- Strategic Partnership Priority 1 – Green Energy Hub – project development as part of Longman, Inverness site – £2.8m to secure professional expertise and public / partner engagement
- Strategic Partnership Priority 4 – one-off Visitor Management Plan investment of £2.4m and a £1m cash-backed Community Loans Fund
- The Future Highlands Strategy initiatives will potentially lead to a significant capital investment commitment, particularly for Green Energy Hub, although all funding options would need to be reviewed
- Progress on this front will be a key aspect of the developing Capital Strategy

Other potential investment

Other areas of investment identified to date:

- **Inverness and Highland City Region Deal:** need to articulate the planned investment in the emerging capital strategy and link to wider planned investment, particularly in the areas targeted in the Deal
- **Roads infrastructure investment:** requirement for ongoing annual investment in roads, bridges and other associated infrastructure
- **Waste strategy:** outcome of waste review may require significant levels of capital investment, potentially including an energy from waste combined heat and power plant and depot relocation
- **ICT refresh:** ongoing requirement for investment in our ICT estate including Chromebook refresh
- **Digital transformation:** Likely need for capital investment in software/infrastructure as part of the Council’s transformation
- **Fleet:** Ongoing requirement for fleet replacement with wider considerations around decarbonisation
- **Corran Ferry replacement:** Existing vessel reaching the end of its useful life
- **Transport Strategy** - Highland Transport Strategy is now being addressed – strategic need to accelerate partnership with HITRANS
- **Burial Ground Extensions**
- **Other health and safety needs**

Capital investment plan

Options	Details
Longer term approach to capital investment requirement	➢Work to develop a new 5+5+5 (i.e. five year firm, 5 year indicative, 5 year ambition) capital investment plan – first stage is identification of investment requirements over next 10 year period ➢Presentation of new capital investment plan will follow approval of this capital strategy and will need to tie in to MTFP with financing of it supported by options arising from loans fund review
Available resources	➢Core Scottish Government capital grant ➢Specific capital funding (mainly comprising SG funding for floods, harbours and developer contributions) ➢Capital receipts from disposable assets ➢Borrowing – largest funding component
Affordability gap	➢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, on average £15m annually ➢Existing Loans Fund revenue commitment and proposed new investment, particularly in schools, will add further strain to the revenue position resulting in greater requirement for savings across all services ➢Revenue risk is also significant, key factors being pay award, impact of Covid recovery and Scottish Government 100 day commitments, some of which may have to fall back on reserves
Capacity to deliver	➢The Council will need to examine its capacity to deliver the capital investment plan over the planned period, as part of the emerging capital strategy ➢The capacity to deliver covers a number of areas, such as external support, in-house staff resource, procurement and programme support
Collaboration with partners	➢Collaboration potential across the public sector for all new built infrastructure, co-location in current buildings and in re-purposing buildings across partners – potential for shared fleet development, maintenance, EV charging and use.

Capital investment ambition gap

Options	Details
Capital investment ambition gap	➢When the Council’s identified capital investment requirement is based on strong evidence of need, the likely outcome is that there will be a capital investment ambition gap ➢This is not describing a ‘nice to have’ investment ambition gap, this is a realistic view of the significant challenges and investment backlogs that the Council faces ➢The capital strategy will need to examine the options available, limited as they may be, for addressing the capital investment ambition gap ➢To have a strong view of all options, the Council will need to ensure that it has a complete view of its forward balance sheet position on an ongoing basis - this is needed to support the borrowing strategy
Balance sheet forward planning	➢The Council’s commitment to a 5+5+5-year capital investment plan will strengthen the capital financing requirement in the longer term forward balance sheet position ➢The Council’s reserves strategy has also been strengthened to maximise the opportunity to enable and inform potential future capital investment ➢The general reserve level has been safeguarded from a risk perspective, although this will need constant review and management as part of the MTFP ➢The planned application of earmarked reserves and strong delivery against this planned application will provide greater certainty in the balance sheet projection ➢It is recognised that reserves cannot be used to plug gaps in funding or applied to ongoing revenue costs ➢The aim of the council’s approach to the forward capital financing requirement and reserves position from a balance sheet perspective is to provide a strong base for the borrowing strategy ➢The 5+5+5-year capital investment plan should provide a more deliverable and realistic profile that will contribute to minimising annual slippage in planned capital spend ➢Borrowing decisions therefore become more strategic and longer term focused, which is essential when making decisions that will impact on the local population for many years to come

Capital strategy borrowing

Current position:

- **Borrowing is funded via loans charges element of Council's revenue budget**
- **Made up of two parts: 'principal' relates to historic capital investment and 'interest' reflects cost of financing borrowing**
- **Given need for investment across asset base, borrowing will need to continue to be a significant part of funding of capital investment**
- **Impact of loans charges for any planned or intended capital investment will need to be properly considered as part of the MTFP**
- **If more projects are added to capital programme could be managed either by increasing loans charges budget, by reviewing loans fund accounting treatment, or by accessing more external funding for projects**
- **A review of loans fund accounting treatment would not reduce total principal to repay, but instead change profile of repayments**
- **Key consideration of such a review would have to be long term affordability, as new profile would need to include ongoing annual capital investment across asset base**

Capital strategy risk

Options	Details
Articulation of risk appetite	➢Although the Council is not focused on investment for commercial return, it is still necessary to examine and define the Council's risk appetite as part of the emerging capital strategy ➢The defined risk appetite needs to have a longer term focus, which is challenging when considering the short to medium term nature of the democratic cycle and the lack of longer term approach from Government
Alignment with risk management framework	➢Any examination of risk in the emerging capital strategy will need to align with the Council's risk management framework ➢This will ensure that any risk assessment follows the corporate approach and can successfully link to individual business case, proposal and project risk assessments
Risk assessment	The Council will need to undertake a high level risk assessment as part of developing the capital strategy, to include risks such as: ➢continuing and potentially worsening revenue position, outside of the control of the Council ➢potential further reduction in external capital funding from Government and other external funding opportunities ➢lack of focus to date on link of capital investment to revenue impact, both negative and positive, and benefits, outputs and outcomes ➢negative impact of investment in potentially obsolete technology and solutions, particularly when looking at green initiatives ➢financial impact of the current and future pressures on the construction industry, both locally and nationally

Capital planning process

Options	Details
Whole-organisation and whole partnership buy-in	➢We have made a strong start with improving our governance and assurance by establishing the Strategic Asset Management Group and collaborating with Scottish Futures Trust and Hub North Scotland on our 5+5+5-year capital investment plan ➢It is important to make sure that all internal stakeholders in the capital planning process have been part of its development – this helps significantly with making the process practical and accessible, with compliance no longer being an issue ➢In the current environment, it is important for the capital planning process to be flexible for all types of proposals, whether related to rolling programmes or new proposals, including partner projects – urgency should not require a different process, there should be a clear route in such circumstances
Capital investment proposals	➢The Council has developed a capital proposal template that provides a comprehensive approach to the submission of capital investment proposals ➢Importantly, the template enables the proposed capital investment to be mapped to the Corporate Plan priorities and the associated benefits – this will enable the 5+5+5-year capital investment plan to be represented in terms of intended outcomes as well as financially ➢When considering associated financial benefits it is important to cover both return on investment and potential increase in service costs – return on investment can be savings, cost reduction, income stream and funding stream – increase in service costs can be a consequence of new assets, such as services associated with new housing
Capital investment prioritisation	➢The methodology for prioritising is going to play an important part in achieving a deliverable capital investment plan ➢Proposed investment that comes forward without the wider consideration of capital financing requirement adds risk to the position, in terms of backlogs elsewhere and further pressure on the revenue position