

CAPITAL PROGRAMME FUNDING REPORT

1. INTRODUCTION

- 1.1 This report follows up on an action in relation to the Capital budget agreed at the Council's budget meeting in February that stated "due to the scale of risk to capital programme funding in future years, request that officers provide an overview report to the Policy and Resources Committee in May 2020".

2. RECOMMENDATION

- 2.1 It is recommended that the Business Continuity Committee:
- a) Note that there is a risk as to the funding of the capital programme in future years.
 - b) Agree that a decision on how to address the funding gap is deferred until there is confirmation as to whether a funding announcement will be made in the Spring and further note that this decision would also allow officers time to estimate the impact of COVID-19 on the current capital programme.

3. DETAIL

- 3.1 The annual General Capital Grant awarded for 2020-21 was £2.601m less than in 2019-20 falling from £12.262m to £9.661m. This drop in capital funding was not expected by either our Council or other Councils who saw a similar proportionate decrease. This level of funding was significantly less than the estimates for 2020-21 and the two future years in the capital programme 2021-22 and 2022-23. It is unknown as to whether this reduction will be for one year only or continue into future years.
- 3.2 When estimating the funding for future years, an average of the last four years settlements was used and this gave an estimated capital grant of £12.278m in 2021-22 and 2022-23. Consideration was given to reducing the futures years capital grant to the 2020-21 level, however, this would have given an increased budget gap in the capital programme and it is hoped that this drop in capital funding was one-off in nature and the level of capital funding will be restored in the future.
- 3.3 Should the capital grant remain constant for 2021-22 and 2022-23 at £9.661m, then based on the current programme there would be a budget gap totalling £5.234m, £2.617m each of the two years. This position creates a significant risk to the current capital programme.
- 3.4 The Scottish Government gave a commitment to provide Council's with a three year funding allocation for 2020-21 to 2022-23, however, the Finance Order

only provided information for one year, 2020-21. Prior to the provisional settlement being announced the Scottish Government had advised that only one year figures would be announced for capital but the remaining two years would be announced in the Spring of 2020, expected to be June 2020. This is still the expectation, however, due to the COVID-19 pandemic it is possible that the future year allocations will not be announced. If this is the case, then the Council will need to plan how to deal with the current capital plan, should the future years allocations be less than current estimates.

- 3.5 There are a number of options the Council could consider to fund this gap however this will not be an easy decision as all of the options have consequences. It is recommended that any decision is deferred until after there is confirmation as to whether an announcement will be made on future years capital funding within the next few months. COVID-19 may also have an impact on other areas of funding the capital programme such as capital receipts from property sales and could also affect previous cost estimates of projects should prices rise due to delays, therefore this would also allow officers time to estimate the impact of COVID-19 on the current capital programme.

4. CONCLUSION

- 4.1 Estimated funding of the capital programme for 2021-22 and 2022-23 has been based on an average over the last four years. There is a risk that the actual settlement could be significantly less and therefore consideration should be given as to how the capital programme will be funded should this be the case.
- 4.2 Discussions are still ongoing with the Scottish Government around a multi-year settlement which could be announced during 2020-21 and it is therefore recommended that a decision on how to address the funding gap is deferred until there is confirmation as to whether a funding announcement will be made soon. This would also allow officers time to estimate the impact of COVID-19 on the current capital programme.

5. IMPLICATIONS

- 5.1 Policy – None
- 5.2 Financial – The report outlines the impact of a continued reduction in capital funding from the Scottish Government.
- 5.3 Legal -None
- 5.4 HR - None
- 5.5 Fairer Scotland Duty - None
- 5.5.1 Equalities – None
- 5.5.2 Socio-Economic Duty – None
- 5.5.3 Islands Duty - None
- 5.6 Risk – None
- 5.7 Customer Service - None

**Policy Lead for Strategic Finance and Capital Regeneration Projects:
Councillor Gary Mulvaney**

**Kirsty Flanagan
Section 95 Officer
27 April 2020**

For further information please contact:
Anne Macdougall, Finance Manager 01586-555269