Our Ref: AD/SA
If phoning or calling ask for: Ann Davie
e:mail: ann.davie@eastdunbarton.gov.uk

ANN DAVIE
CHIEF EXECUTIVE
EAST DUNBARTONSHIRE COUNCIL
12 Strathkelvin Place
Kirkintilloch
G66 1TJ

Telephone: 0300 1234510

17th October 2024

Mr. John Swinney MSP
First Minister of Scotland
The Scottish Government
St. Andrew's House
Regent Road
Edinburgh
EH1 3DG

Email: Firstminister@gov.scot

Dear First Minister,

I am writing to you as instructed by East Dunbartonshire Council following its consideration of a Report on the severely challenging financial position it faces, in the context of both its Revenue and Capital Budgets.

I have attached links to Appendix 1 and 2 of that Report below, which provide more detail:

Appendix 1
https://eastdunbarton.moderngov.co.uk/documents/s9031/EDC-024-24-AD%20-%20SPPF%20-%20Appendix%201%20-%20Financial%20Planning%20and%20Budget%20Update.pdf

Appendix 2
https://eastdunbarton.moderngov.co.uk/documents/s9033/EDC-024-24-AD%20-%20SPPF%20-%20Appendix%202%20Gen%20Services%20Capital%20Major%20Projects%20Update.pdf

At the meeting on 21 August 2024, Council agreed the following:

"to note the financial implications of constructing a new Balmuildy Primary School and delivering the Milngavie and Bearsden Primary School refurbishment projects, in particular the serious implications for the Council's revenue budget that the required additional borrowing would incur to deliver the projects either individually or collectively;

to instruct officers to pause all further activity in relation to the Balmuildy, Milngavie and Bearsden Primary School projects;

to instruct Officers to provide an update at the September Council with regard to delivering the 3 school projects of Balmuildy, Bearsden and Milngavie as well as the financial viability of delivering the projects of Lenzie Academy and Westerton Primary with an indication of how much extra money would be required;

to instruct the Chief Executive to write to the First Minister on behalf of the Council (copying in the directly elected and list MSPs, and the Chancellor of the Exchequer and local MPs), following Council on 26 September, asking for the Capital Grant required to allow East Dunbartonshire Council to proceed with the 3 projects for the rebuild of Balmuildy Primary and the refurbishment of Bearsden and Milngavie Primaries."

At its meeting on 26 September, Council considered a further report on the Council's financial position which provided an update with regard to delivering the 3 school projects of Balmuildy, Bearsden and Milngavie as well as the financial viability of delivering the projects of Lenzie Academy and Westerton Primary. As instructed, the Report provided an indication of how much additional capital grant would be required.

I have attached below a link to the appropriate Appendix:

Appendix 1
https://eastdunbarton.moderngov.co.uk/documents/s9386/EDC-035-24-AD%20-%20SPPF%20-%20Appendix%201%20-%20Financial%20Planning%20and%20Budget%20Update.pdf

I have also attached an extract of the relevant Section of the Appendix for your ease of reference on the following pages.

As you will see the additional capital grant needed to progress these five school projects is £223.676m. The Council would highlight that these five schools are the only ones within East Dunbartonshire Council that are rated below B for condition – all are C rated (poor). The Council is therefore asking for its Capital Grant to be increased by £223.676m.

Yours sincerely

Ann Davie

ANN DAVIE
CHIEF EXECUTIVE

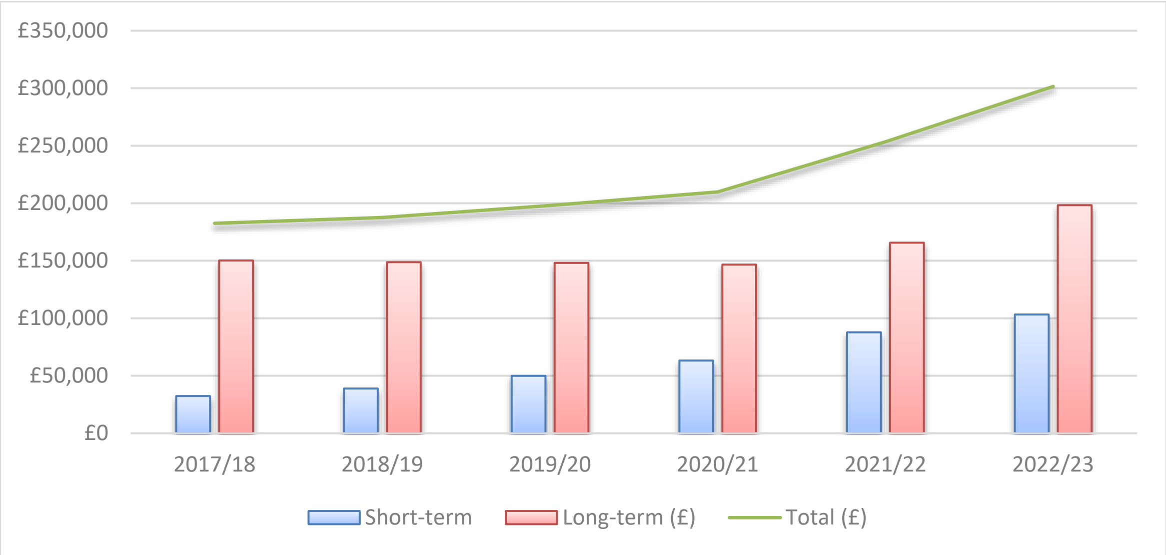
cc: Chancellor of the Exchequer
Susan Murray MP; Katrina Laidlaw Murray MP
Rona Mackay MSP; Marie McNair MSP; Neil Bibby MSP; Jamie Greene MSP; Paul O'Kane MSP; Russell Findlay MSP; Katy Clark MSP; Pam Gosal MSP and Ross Greer MSP

Extract: Appendix 1

2 FINANCIAL RISKS

2.1 Financial prudence is required within all areas of the Council including the capital programme. The consequential impact on revenue is a key consideration as borrowing to funding the Capital Programme requires to be repaid. This is especially important where the capital grant settlement has reduced, and interest rates increased (See **Chart 1**). The result of reduced funding and an ambitious Capital Programme has resulted in greater recourse to borrowing at a higher cost. Continuation of this is financially unsustainable with this informing the option and views of the Council's Section 95 Officer in providing advice to Council at its last meeting.

Chart 1 – Increase in Borrowing to Support the Council's Capital Programme



2.2 Through the analysis above Members are aware of the increasing debt burden within the Council and the cost that this will levy in future years. The Strategy sets out that Council is required to make payments to cover interest on its loans as well as reducing the principal loan outstanding. Taken together these represent the Council's commitment to debt charges which are evaluated on an annual basis as part of the Budget and included in Revenue Monitoring Reports on a cyclical basis. For 2024/25 the Debt Charges Budget is £18.191m which has increased significantly from prior years resulting from the capital programme requiring increased borrowing as set out above.

2.3 Debt charges budget have fluctuated significantly in recent years. This is as a result of the application of a number 'fiscal flexibilities' including a principal repayment holiday and matching debt to the asset life previously applied. However, no other fiscal flexibilities are planned with Scottish Government issuing revised loans fund accounting guidance and debt charges now increasing year on year.

2.4 The Council's commitment to debt continues to be monitored with prudential rules including that which requires debt charges to reflect the level of borrowing required to complete the planned capital programme for that year in full.

2.5 At the last Council meeting Elected Members considered the Treasury Management Strategy required to deliver the current capital programme. The Strategy sets out that the Council does not borrow for individual assets; rather it borrows to finance its Capital Financing Requirement. However, in order to provide the information requested of Council, Officers have estimated the level of build costs, funding and consequential interest costs as if the asset was funded separately.

2.6 Summarising the information previously provided[1];

- Borrowing required to the deliver Balmuildy Primary School is £29.066m. With interest this equates to £56.116m adding ongoing annual revenue pressures of £1.603m through debt charges.
- Borrowing required to the deliver Bearsden Primary School is £25.324m. With interest this equates to £48.834m with ongoing annual revenue pressures of £1.395m required through debt charges.
- Borrowing required to the deliver Milngavie Primary School is £28.674m. With interest this equated to £54.774m with ongoing annual revenue pressures of £1.565m required through debt charges.
- The development of Westerton Primary School, being a similar build to Balmuildy Primary School is estimated to cost approximately the same at £29.066m, however this remains an indicative figure at this stage. With no other recourse to funding and borrowing for this in full would equate to ongoing annual revenue pressures of £1.603m at a total cost of £56.116m

2.7 The Learning Estate Investment Programme (LEIP) provides funding to develop a new Lenzie Academy. Indicative Funding provided to support the development equates to £52.897m however, this is estimated on full delivery against an outcomes-based model. The model specifies a number of criteria that require to be met by the building once in operation to receive this funding with reductions applied where this is not achieved.

2.8 This therefore remains a significant risk which is assumed entirely by the Council. The model also means that the Council must finance the entire cost pending completion and successful operation against the funding criteria. This means that any failure of the building, over the 27 years of the LEIP funding, to meet in operation the criteria it was designed to would be borne by the Council. A number of other Councils have previously assessed this risk as being too great. On that basis, it would be prudent to assume that the full LEIP funding will not be received by the Council.

[1] SPPF Report EDC/024/24/AD – Appendix 2

2.9 The LEIP funding model provides revenue funding for a suite of outcomes rather than a capital contribution to offset the need to borrow. As stated above, the Council is required to borrow to fund the build costs of the school. This is currently estimated to be £101m which would be wholly funded by borrowing (See **Table 1** below). The maximum contribution receivable via LEIP funding may, subject to the best-case scenario, approximate to 50% of the build costs. This does not cover the cost of borrowing for the build costs which is estimated to add another, approximate, £100m to the total costs repayable by the Council. In overall terms and, including interest, the maximum contribution via LEIP funding approximates to 25%, again assuming that the building meets the necessary criteria.

2.10 The timing of the revenue contributions to support the ongoing running of the school will align to the assessment of outcomes sometime after the build has been completed. The Council's debt charges will require to be increased in the intervening period by £5.565m per annum against the revenue budget to cover the full build costs. Following the assessment of outcomes, the receipt of full funding, subject to the caveats above, would generate additional income of, on average and based on full achievement of outcome, £2.116m per annum to support the running costs.

2.11 A summary of the total costs of each of the projects, the borrowing required and the consequential impact of each is set out in **Table 1** below. The summary also provides financial context for each of these decisions, both singularly and cumulatively, assuming that, in the absence of any additional funding, increases in Council Tax will be required to ensure that the Council can set a balanced budget.

Table 1 – Analysis of Capital Options and Required Council Tax Increases

	Build Cost & Borrowing Required (£m)	Annual Repayment (£m)	Total Cost Plus Interest (£m)	Revenue Funding (£m)	Annual Revenue Cost (£m)	Increase in Council Tax Required (%)	Cumulative Increase (c) (%)
Balmuildy Primary	29.066	1.603	56.116	0	1.603	2.2	2.2
Bearsden Primary	25.324	1.395	48.834	0	1.395	1.9	4.1
Milngavie Primary	28.685	1.565	54.774	0	1.565	2.2	6.3
Westerton Primary (a)	29.066	1.603	56.116	0	1.603	2.2	8.5
Lenzie Academy (a)	101.000	5.565	197.767	2.034 (b)	3.531	4.9	13.4
Total	**223.676**	**11.731**	**413.607**	**2.034**	**9.697**	**13.4**	**13.4**

(a) Estimated at this stage and caveated accordingly.
(b) Subject to future assessment and compliance and caveated accordingly.
(c) The increase in Council Tax does not include any increase required to meet the funding gap for revenue costs.

2.12 Officers have estimated that each 1% increase in Council Tax will generate £0.725m of additional income. This is marginally higher than previously used due to the ongoing increase in the use of Direct Debits, active pursuit of recovery and as a result of from the recent re-banding exercise by the Valuation Joint Board.

2.13 Summarising the information presented in **Table 1** the Council should note that:

- All five projects would require to be funded by borrowing with no other capital contribution secured and the general capital grants fully applied per the prior agreement of Council when setting the 30 Year Capital Plan in March 2024.
- The level of borrowing required is approximately **30 times**[2] more than the annual allocation provided by the Scottish Government. This figure may be higher should the general capital grant allocation continue to reduce in both real and cash terms over recent years.
- In total, and accounting for interest over the life of the debt, the total payments required to be made by the Council would be £431.464m which is **59 times** the current annual capital grant from the Scottish Government.
- Borrowing £232.795m of external funds would increase the total Capital Finance Requirement (which would be financed from borrowing) from an estimated £454.532m[3] to £667.637m, **an increase of 47%.**
- Net debt for all Scottish Councils increased by £1bn in 2022/23[4]. This equated to an increase of 5.8% which was exceptional with the prior three years averaging 1.7% per annum. Providing a sense of scale as to the above plans, to implement those projects in in full would equate to **22% of all debt incurred in Scottish Councils** in a single year.
- The projected additional annual repayment on this debt is estimated to be £11.731m increasing annual debt charges by **57% from £18.192m[5] to £29.923m**. Such increases are at a time when the Council is subject to severe revenue pressures, and this would add to the Council's financial gap and require to be funded through service reductions elsewhere. Additional revenue may be forthcoming via the LEIP funding model however this is at risk, again assuming that the building meets the necessary criteria.

[2] Based on Grant of £7.033m per Local Government Settlement (link) Annex I Cell C14.
[3] Per the Treasury Management Report to Council on the 21 August – Agenda Item 13, Pg 266, Table 3
[4] Source: Audit Scotland's Financial Bulletin 2022/23, (link) Exhibit 13.
[5] Per the Technical Note TN-158-24 General Fund Revenue Monitoring at Period 4 Appendix 1 'Debt Charges'

- In addition, the existing annual allocation of capital funding is does not cover the required capital expenditure already planned to be funded by borrowing. **Any additions resulting from Table 1 will be in addition to the proposals already agreed and borrowing already provided for.**

- The Council's **debt charges as a proportion of net expenditure could increase from 8.8% to 14.2%** (estimated on an equivalent basis). Such commitments would be at a time where Councils should be considering capping overall debt payments to ensure ongoing financial sustainability at less than 10%, and as low as 7% in some cases.
- To fund each primary school, the Council **would require to increase Council Tax by at least 1.9% and up to an estimated 2.2%** for Westerton Primary School. To deliver all four primary schools would require the Council to increase Council Tax by 8.5%.
- In **addition, the delivery of Lenzie Academy would require Council Tax to increase by 4.9%**. This does not account for LEIP income and the extent to which additional revenue costs could generated a saving. As noted previously this funding remains subject to performance outcomes and cannot be estimated with certainty.
- **The required increase in Council Tax to deliver all projects is 13.4% however there is the potential for this to be higher** should economic events occur, or interest rates remain high. All calculations are based on the current loans fund pool rate at the time of writing however this will increase should borrowing be required whilst current rates (5.2% to 5.38%[6]).
- Whilst not specifically asked for Members will also be aware that a Report on the Catherine Street Junction was also considered in August with a request for Officers to review the costs and report back separately on this agenda. With a revised cost of £0.945m and without any further recourse to funding, annual debt charges would increase by £0.052m with a total repayment of £1.822m being required. This increase to debt charges places a further revenue pressure.
- This increase Council Tax that would be required to finance the Capital Programme is **<u>in addition to any other current options being considered to set Council Tax with reference to supporting the existing financial gap of circa £35m over two years. This may require Council to separately consider options in excess of 10% and in addition to the above.</u>**

2.14 Members will be aware that the latest Local Government Benchmarking Framework (LGBF) Annual Report was issued via Technical Note in March 2024 (TN-036-24). The Report now includes analysis of financial sustainability indicators including those relating to debt.

[6] Per TN-158-24 Para 18 last Bullet Point

2.15 Any decisions in relation to the above projects will impact these indicators and the Council should anticipate that, at the levels specified above, the Council will be an outlier in terms of its debt and in scope for further scrutiny. Such scrutiny will fall within the heading of financial sustainability.

2.16 Also considered within the LGBF Annual Report and the Treasury Management strategy is the impact on the Housing Revenue Account and its Capital Programme.

Affordability within the current programme is equally tested, perhaps more so, with debt charges already proportionately higher than those within the Council. Additional costs will need to be borne by tenants through rents and these are likely to be significant should Housing plans be sustained at current levels. There is a commitment to review the housing business plan to ensure that this remains affordable.

2.17 Audit Scotland, the Accounts Commission and the Scottish Government's pre-budget engagement process all indicate an increasing focus on decisions around capital programmes and debt. Similar to the above, any decisions in relation to the above have the potential to be included in such deliberations.