

Item: 7

Policy and Resources Committee: 24 September 2019.

Capital Slippage and Acceleration.

Report by Head of Finance.

1. Purpose of Report

To consider acceleration in relation to the General Fund and Non-General Fund capital programmes for financial year 2018 to 2019.

2. Recommendations

The Committee is invited to note:

2.1.

That, in January 2019, the Head of Finance re-profiled the capital programme based on estimates at that time, when total expenditure of £15,784,000 was re-profiled into financial year 2019 to 2020 and onwards, leaving a revised budget for financial year 2018 to 2019 of £14,463,000.

2.2.

That the actual budget out-turn for financial year 2018 to 2019 was £15,083,000, being an overspend of £620,000 on the revised budget of £14,463,000, resulting in a net acceleration position at year-end rather than slippage.

2.3.

That the Head of Finance has further re-profiled the existing General Fund and Non-General Fund five-year capital programmes, in order to reflect the net acceleration and current timescales for completion of individual capital projects.

It is recommended:

2.4.

That the sum of £430,000 be accelerated from financial year 2019 to 2020 to financial year 2018 to 2019 in respect of net acceleration on projects contained within General Fund capital programmes.

2.5.

That the sum of £167,000 be accelerated from financial year 2019 to 2020 to financial year 2018 to 2019 in respect of net acceleration on projects contained within Non-General capital programmes.

2.6.

That the revised five-year capital programmes, attached as Appendix 2 to this report, be approved.

3. Re-profiling Exercise

3.1.

One re-profiling exercise was completed during financial year 2018 to 2019, in January 2019, with the annual budget figures reduced by the following amounts:

- General Fund budget for 2018 to 2019 reduced by £7,691,000.
- Non-General Fund budget for 2018 to 2019 reduced by £8,093,000.

3.2.

The amounts shown above have been re-profiled into financial year 2019 to 2020 and onwards.

4. General Fund

4.1.

A total of £102,000 net slippage was recorded on General Fund projects in financial year 2018 to 2019. After allowing for £532,000 of ad-hoc purchases, overspends on completed projects, underspends/overspends on annual programmes of expenditure funded from the current year General Capital Grant or other funding sources and, following consideration of project updates, a total of £430,000 is recommended for acceleration and re-profiling.

4.2.

It is recommended that underspends totalling £285,000 on the Road Asset Replacement Programme should be carried forward into financial year 2019 to 2020, due to delays with delivery of planned works in respect of LED lighting and roads infrastructure during 2018 to 2019.

5. Non-General Fund

A total of £832,000 net acceleration was recorded on Non-General Fund projects in financial year 2018 to 2019. However, following consideration of project updates, a total of £167,000 is recommended for acceleration and re-profiling. The £665,000 not recommended for acceleration represents overspends where the projects are complete and will incur no further expenditure, or have no budget to accelerate, and (under)/overspends on annual programmes of expenditure funded from revenue sources in the current year.

6. Corporate Governance

This report relates to the Council complying with its governance and financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

7. Financial Implications

7.1.

The report is primarily concerned with the financial implications of underspends and overspends on the capital programme and the mechanisms available to ensure that adequate provision is made to meet the Council's commitments.

7.2.

As a whole the 2018 to 2019 capital programme was established on the basis of a programme expenditure limit of £29,453,000, including £16,127,000 of General Fund projects and £13,326,000 of Non-General Fund projects.

7.3.

During financial year 2018 to 2019 further projects were added and/or removed from the capital programme resulting in a revised expenditure limit of £30,247,000.

7.4.

Further delays were identified in delivery of the approved programme of capital works for financial year 2018 to 2019, resulting in a total of £15,784,000 being re-profiled into financial year 2019 to 2020 and beyond.

7.5.

This report does not seek to increase any levels of expenditure; it does however seek to obtain agreement to a revised spend profile for a previously approved programme.

7.6.

In accordance with the Financial Regulations:

7.6.1.

Capital slippage is defined as capital projects which have not progressed in accordance with the provisions made within the approved capital programme.

7.6.2.

Where no contractual commitment exists from previous financial years or will be made in the current year for an approved capital project, the relevant programme provision(s) may be redeployed by the Policy and Resources Committee.

7.6.3.

Where a contractual commitment does exist, an appropriate provision shall be made in the capital programme for the following financial year to permit the completion of the project.

7.6.4.

Where slippage in capital projects is identified, the Chief Executive and Executive Directors are responsible for informing the Head of Finance and for reporting delays and revised timescales to the Policy and Resources Committee.

7.7.

Aside from the delay in delivery of the Council's agreed capital project priorities there are both positive and negative financial consequences of slippage on the capital programme:

7.7.1.

Slippage on the capital programme can have a positive impact on the Council's cashflow over the short term. For financial year 2018 for 2019, reprofiling minus acceleration has resulted in an additional net cash balance of £15,187,000 being held by the Council at 31 March 2019 based on the recommended acceleration figure of £597,000, plus the previously reprofiled budget of £15,784,000. The Council has to hold sufficient liquid resources to meet contractual commitments when they fall due for payment. The approximate interest earned on short term cash balances of £15,187,000 over 12 months at a return of 0.85% per annum equates to £129,090.

7.7.2.

The effect of delaying delivery of the capital programme can also have an adverse impact on cashflow and budgets as the cost of the works themselves can increase due to the effects of inflation. The Building Costs Information Service currently forecasts that the cost of construction works across the United Kingdom will increase on average by 4% per annum going forward. Based on £15,187,000, a one-year delay could cost £607,480.

7.7.3.

While the level of development undertaken for the detailed Stage 2 Capital Project Appraisals, together with the capacity of the in-house team to deliver the capital programme are relevant factors, the Council also has to ensure that it has in place the finances necessary to deliver on its approved capital programme. With a volatile financial market, it may be beneficial to establish these financial arrangements in advance of need if favourable terms are available. There is a cost for this borrowing and if there is slippage on the capital programme the cost is incurred for longer. The cost of borrowing the capital programme slippage and reprofiling total of £15,187,000 at an average rate of 3.7% per annum would represent an interest cost of £561,919 per annum.

7.7.4.

In managing the financing of the capital programme as a whole, the above cost pressures are offset to a degree where projects are either delivered for less than the approved budget, or where planned projects are removed from the approved capital programme due to a lack of progress and/or changing Council priorities.

7.8.

Appendix 1 to this report details the net acceleration on both the General Fund and Non-General Fund Capital Programmes.

7.9.

With programme acceleration from 2019 to 2020 being carried back into financial years 2018 to 2019 in respect of both the General Fund and Non-General Fund, the revised capital programmes are attached as Appendix 2 to this report.

8. Legal Aspects

8.1.

Section 95 of the Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of its financial affairs, and as part of that to secure economy, efficiency and effectiveness in its use of resources.

8.2.

Sections 35(1) and (2) of the Local Government in Scotland Act 2003 require the Council to determine and keep under review the maximum amount which it can afford to allocate to capital expenditure. In so doing, the Council must comply with regulations made by Scottish Ministers.

9. Contact Officers

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10. Appendices

Appendix 1: Capital Slippage and Acceleration 2018 to 2019.

Appendix 2: Revised Capital Programmes.

	1 Apr 2018 - 31 March 2019				Comment
	Actual Spend £000's	Revised Budget £000's	Over/(Under) Spend £000's	(Slippage)/ Acceleration £000's	
General Fund Capital Programme					
Planning					
Stones of Stenness Car Park	6	40	(34)	(34)	Project on-going
Arcadia Park	110	110	0	0	No (slippage)/acceleration
Operational Environmental Services					
Burial Grounds - Mainland Extensions	34	49	(15)	(15)	Project on-going
Burial Grounds - Mainland Major Improvements	6	2	4	4	Project on-going
Burial Grounds - Island Extensions	281	325	(44)	(44)	Project on-going
Burial Grounds - Island Major Improvements	2	2	0	0	Project on-going
Roads					
Cycling, Walking & Safer Routes / 20 mph scheme	34	30	4	0	Grant funded project
Roads Asset Replacement Programme	935	1,378	(443)	(285)	Slippage agreed on LED lighting and roads infrastructure works
Replacement of Tar Plant at Cusiter Quarry	55	90	(35)	0	Project complete
Kirkwall flood prevention scheme	190	188	2	0	Project complete
Kirkwall Places and Spaces	394	211	183	183	Project on-going
Transportation					
Electric vehicle charging infrastructure	27	119	(92)	0	Budget in-line with grant awarded for 18/19 - no carry forward
Airfields Infrastructure	12	0	12	0	Project complete
Resurfacing of Westray runway	68	114	(46)	(46)	Final retention to be paid in 19/20
Resurfacing of North Ronaldsay runway	145	182	(37)	(37)	Final retention to be paid in 19/20
Resurfacing of Eday runway	191	115	76	76	Final retention to be paid in 19/20
Social Care					
Replacement facilities St Peter's house	3,858	3,600	258	258	Project on-going
New Care Facility, Kirkwall	158	115	43	43	Work to commence the project is on-going
Other Housing					
Housing Loans	281	500	(219)	0	Annual programme - no carry forward of unspent budget
Education					
Evie School	108	0	108	0	Project complete
Extension to St Andrew's School	85	74	11	11	Project due to commence in 19/20
Leisure & Cultural					
Refurb. improve Scapa Flow Visitor Centre and Museum	62	48	14	14	Project due to commence in 19/20
Central Administration and Asset Replacement					
IT replacement programme	301	420	(119)	0	Annual programme - no carry forward of unspent budget
Plant & Vehicle Replacement	1,057	1,200	(143)	0	Annual programme - no carry forward of unspent budget
Alterations to Garden House, Kirkwall	334	32	302	302	Project on-going
Disaster recovery and business continuity suite	0	0	0	0	No (slippage)/acceleration
Upgrade of PARIS system	13	26	(13)	0	Project complete
Scottish Water Vesting	7	0	7	0	Project on-going with possible refund of costs from Scottish Water
Corporate Property Improvements					
Corporate Improvement Programme	1,741	1,737	4	0	Annual programme - no carry forward of unspent budget
	10,495	10,707	(212)	430	

	1 Apr 2018 - 31 March 2019				Comment
	Actual Spend £000's	Revised Budget £000's	Over/(Under) Spend £000's	(Slippage)/Acceleration £000's	
Non-General Fund Capital Programme					
Housing Revenue Account					
Carness	220	250	(30)	(30)	Project on-going
Scapa Flow Oil Port					
Pilot Vessel	769	900	(131)	(131)	Project on-going with delivery of new vessel due
Replacement Tugs	645	100	545	545	Project on-going
Minor Improvements	162	150	12	0	Annual programme - no carry forward of unspent budget
Miscellaneous Piers					
Minor Improvements	636	300	336	0	Annual programme - no carry forward or acceleration
Gill Pier Refurbishment	1,615	1,629	(14)	(14)	Final retention to be paid in 19/20
Low Carbon Transport and Active Travel Hub	9	100	(91)	(91)	Project on-going
Hatston Pier Road Reconstruction	61	173	(112)	(112)	Project on-going
Orkney College					
Plant & Vehicles	35	35	0	0	No (slippage)/acceleration
Corporate Property Improvements					
SRF Property Maintenance	74	119	(45)	0	Annual programme - no carry forward of unspent budget
Investment Properties buy /sell	362	0	362	0	Annual programme - no carry forward or acceleration
	4,588	3,756	832	167	

	Total Budget £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
General Fund Summary						
A Other Housing	2,500	500	500	500	500	500
B Community Social Services	22,378	4,016	7,967	8,806	1,371	218
C Education	3,067	85	1,498	1,243	228	13
D Cultural and Recreational Services	3,185	62	1,386	1,600	100	37
E Roads	6,626	1,795	1,954	977	950	950
F Transportation Services	641	523	118	0	0	0
G Environmental services	1,318	323	595	300	100	0
H Planning & Protective Services	442	116	326	0	0	0
J Administration Services	18,729	3,717	5,053	3,976	3,012	2,971
Expenditure Total	58,886	11,137	19,397	17,402	6,261	4,689
Other Housing						
Housing Loans	2,500	500	500	500	500	500
A	2,500	500	500	500	500	500
Social Care						
Replacement facilities St Peter's house	7,722	3,858	3,744	120	0	0
New Care Facility, Kirkwall	14,656	158	4,223	8,686	1,371	218
B	22,378	4,016	7,967	8,806	1,371	218
Education						
Extension to St Andrew's School	3,067	85	1,498	1,243	228	13
C	3,067	85	1,498	1,243	228	13
Leisure and Cultural						
Refurb. improve Scapa Flow Visitor Centre and Museum	3,185	62	1,386	1,600	100	37
D	3,185	62	1,386	1,600	100	37
Roads						
Cycling, Walking & Safer Routes / 20 mph scheme	67	30	37	0	0	0
Roads Asset Replacement Programme	5,305	1,093	1,362	950	950	950
Replacement of Tar Plant at Cusiter Quarry	90	90	0	0	0	0
Kirkwall flood prevention scheme	188	188	0	0	0	0
Kirkwall Places and Spaces	976	394	555	27	0	0
E	6,626	1,795	1,954	977	950	950
Transportation						
Electric vehicle charging infrastructure	165	119	46	0	0	0
Airfields Infrastructure	0	0	0	0	0	0
Resurfacing of Westray runway	114	68	46	0	0	0
Resurfacing of North Ronaldsay runway	171	145	26	0	0	0
Resurfacing of Eday runway	191	191	0	0	0	0
F	641	523	118	0	0	0
Central Administration and Asset Replacement						
General Capital Grant	0	0	0	0	0	0
IT replacement programme	2,100	420	420	420	420	420
Plant & Vehicle Replacement	6,000	1,200	1,200	1,200	1,200	1,200
Alterations to Garden House, Kirkwall	980	334	265	368	13	0
Disaster recovery and business continuity suite	420	0	420	0	0	0
Upgrade of PARIS system	26	26	0	0	0	0
J	9,526	1,980	2,305	1,988	1,633	1,620

	Total Budget £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Corporate Property						
J Corporate Improvement Programme	9,203	1,737	2,748	1,988	1,379	1,351
	9,203	1,737	2,748	1,988	1,379	1,351
Planning						
Stones of Stenness Car Park	191	6	185	0	0	0
Arcadia Park	251	110	141	0	0	0
H	442	116	326	0	0	0
Operational Environmental Services						
Burial Grounds - Mainland Extensions	749	34	315	300	100	0
Burial Grounds - Mainland Major Improvements	68	6	62	0	0	0
Burial Grounds - Island Extensions	413	281	132	0	0	0
Burial Grounds - Island Major Improvements	88	2	86	0	0	0
G	1,318	323	595	300	100	0
Non General Fund Summary						
K Housing Revenue Account	4,249	220	2,530	1,415	84	0
L Orkney College	35	35	0	0	0	0
M Scapa Flow Oil Port	16,106	1,564	9,577	4,665	150	150
N Miscellaneous Piers and Harbours	4,328	1,985	1,443	300	300	300
O Strategic Reserve Fund	595	119	119	119	119	119
Expenditure Total	25,313	3,923	13,669	6,499	653	569
Housing Revenue Account						
K Carness	4,249	220	2,530	1,415	84	0
	4,249	220	2,530	1,415	84	0
L Plant & Vehicles	35	35	0	0	0	0
	35	35	0	0	0	0
Scapa Flow Oil Port						
M Pilot Vessel	2,236	769	1,467	0	0	0
Replacement Tugs	13,120	645	7,960	4,515	0	0
Minor Improvements	750	150	150	150	150	150
M	16,106	1,564	9,577	4,665	150	150
Miscellaneous Piers						
Minor Improvements	1,500	300	300	300	300	300
Gill Pier Refurbishment	1,629	1,615	14	0	0	0
Low Carbon Transport & Active Travel Hub	839	9	830	0	0	0
Hatston Pier Road Reconstruction	360	61	299	0	0	0
N	4,328	1,985	1,443	300	300	300
Strategic Reserve Fund						
O SRF Property Maintenance	595	119	119	119	119	119
	595	119	119	119	119	119