

Item: 7

Policy and Resources Committee: 21 September 2021.

Capital Slippage and Acceleration.

Report by Head of Finance.

1. Purpose of Report

To consider slippage in relation to the General Fund and Non-General Fund capital programmes for financial year 2020/21.

2. Recommendations

The Committee is invited to note:

2.1.

Net slippage amounting to £8,551,000 in relation to the approved General Fund and Non-General Fund capital programmes as at 31 March 2021.

2.2.

That the Head of Finance has re-profiled the five-year General Fund and the Non-General Fund capital programmes, in order to reflect the net slippage and current timescales for completion of individual capital projects, with the revised programmes attached as Appendix 2 to the report.

2.3.

That the following projects have all been reprofiled into 2021/22 and beyond due to delays with project commencement or project delivery:

- New Kirkwall Care Facility.
- Alterations to Garden House, Kirkwall.
- Works associated with the expansion of Early, Learning and Childcare provision.

It is recommended:

2.4.

That the sum of £3,459,000 be carried forward from financial year 2020/21 to financial years 2021/22 and onwards in respect of net slippage on projects contained within General Fund capital programme.

2.5.

That the sum of £5,092,000 be carried forward from financial year 2020/21 to financial years 2021/22 and onwards in respect of slippage on projects contained within Non-General Fund capital programme.

2.6.

That the revised five-year General Fund and the Non-General Fund capital programmes, attached as Appendix 2 to the report, be approved.

3. General Fund

3.1.

A total of £4,509,000 net slippage was recorded on General Fund projects in financial year 2020/21. After allowing for 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 £3,459,000 is recommended for carry forward and re-profiling.

3.2.

The total of £3,459,000 includes an underspend of £1,175,000 on the 2020/21 programme of building improvements required for the expansion of the Early Learning and Childcare provision. Although this project is being delivered through the Annual Improvement Programme it is funded by a specific Scottish Government grant, with the works delayed during 2020/21 being added to the annual improvement programme for financial years 2021/22 and 2022/23.

3.3.

In addition to the reprofiling of the Early Learning and Childcare building improvements budget across two financial years due to delays with project completion, it has also been necessary to reprofile the project budgets for the New Care Facility, Kirkwall and the alterations to Garden House, Kirkwall across more than one financial year due to delays with project commencement.

4. Non-General Fund

A total of £6,200,000 net slippage was recorded on Non-General Fund projects in financial year 2020/21. After allowing for £174,000 of house purchases, overspends on completed projects, underspends/overspends on annual programmes of expenditure and, following consideration of project updates, a total of £5,092,000 is recommended for carry forward and re-profiling.

5. 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.

6. Financial Implications

6.1.

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

6.2.

As a whole the 2020/21 capital programme was established on the basis of a programme expenditure limit of £27,234,000, including £19,323,000 of General Fund projects and £7,911,000 of Non-General Fund projects.

6.3.

During financial year 2020/21 further projects were added and/or removed from the capital programme resulting in a revised expenditure limit of £27,167,000.

6.4.

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.

6.5.

In accordance with the Financial Regulations:

6.5.1.

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

6.5.2.

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.

6.5.3.

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.

6.5.4.

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.

6.6.

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:

6.6.1.

Slippage on the capital programme can have a positive impact on the Council's cashflow over the short term. For financial year 2020/21, reprofiling and slippage has resulted in an additional cash balance of £8,551,000 being held by the Council at 31 March 2021. 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 £8,551,000 over 12 months at a return of 0.53% per annum equates to £45,320.

6.6.2.

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 by 17% over the period 2020 to 2025, with material costs increasing by 22% over that period due to difficulties obtaining materials following the COVID-19 pandemic, oil prices and tariffs on imports. The forecast tender prices increase by the end of 2021 is 4% which means a one-year delay on delivery of works totalling £8,551,000 could cost an additional £342,000.

6.6.3.

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 £8,551,000 at an average rate of 2.61% per annum would represent an interest cost of £223,181 per annum.

6.6.4.

In setting a capital programme the Council has to ensure that its investment plans are affordable, prudent and sustainable, having due regard to both the capital and associated revenue implications for each project. This is particularly important now that the level of loan charges support the Council receives from Scottish Government is diminishing, having been replaced with an annual General Capital Grant allocation. This means that local authorities are responsible for financing a greater proportion of their capital investment plans from within existing resources, so any slippage on the existing 5-year approved capital programme will impact on the affordability of the capital programme in the future and may restrict the ability to add new projects to the programme.

6.6.5.

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.

6.7.

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

6.8.

With programme slippage from 2020/21 being carried forward into financial years 2021/22 and onwards to reflect current timescales for completion, individual capital projects have been re-profiled in order to improve budget monitoring and reporting arrangements going forward. The revised capital programmes are attached as Appendix 2 to this report.

7. Legal Aspects

7.1.

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.

7.2.

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.

8. Contact Officers

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9. Appendices

Appendix 1: Capital Slippage and Acceleration 2020/21.

Appendix 2: Revised Capital Programmes.

	1 Apr 2020 - 31 March 2021				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	250	221	29	0	Project complete with no budget remaining
Arcadia Park	11	29	(18)	(18)	Project complete but further residual costs could still be incurred.
Town Centre Fund	0	218	(218)	(218)	Grant funded project - with approval from SG to carry forward unspent grant
Operational Environmental Services					
Burial Grounds - Mainland Extensions	55	236	(181)	(181)	Project on-going
Burial Grounds - Mainland Major Improvements	2	62	(60)	(60)	Project on-going
Burial Grounds - Island Extensions	5	84	(79)	(79)	Project on-going
Burial Grounds - Island Major Improvements	1	86	(85)	(85)	Project on-going
Roads					
Cycling, Walking & Safer Routes / 20 mph scheme	64	113	(49)	(49)	Grant funded project - with approval from SG to carry forward unspent element of their grant
Roads Asset Replacement Programme	912	950	(38)	0	Annual programme - no carry forward of unspent budget
Kirkwall Places and Spaces	47	179	(132)	(132)	Project on-going - Watergate works
Transportation					
Electric vehicle charging infrastructure	167	27	140	0	Grant funded project
Golden Mariana Replacement	222	452	(230)	(230)	Boat has been delivered and work on-going to make it suitable for route
Social Care					
Replacement facilities St Peter's house	41	924	(883)	0	Project complete - no requirement to slip underspend into 21/22
New Care Facility, Kirkwall	36	50	(14)	(14)	Project on-going
Other Housing					
Housing Loans	365	500	(135)	0	Annual programme - no carry forward of unspent budget
Education					
Extension to St Andrew's School	94	79	15	15	Project on-going
Leisure & Cultural					
Refurb. improve Scapa Flow Visitor Centre and Museum	1,002	1,186	(184)	(184)	Project on-going
St Magnus Cathedral Doors	24	160	(136)	(136)	Project on-going
Central Administration and Asset Replacement					
IT replacement programme	488	462	26	26	Annual programme - additional costs incurred in 20/21, due to acceleration of works from 21/22 plan
Plant & Vehicle Replacement	886	1,356	(470)	(404)	19. Funding to cover the additional costs has been set aside in the Repairs and Renewals Fund.
Alterations to Garden House, Kirkwall	20	40	(20)	(20)	Project on-going
Disaster recovery and business continuity suite	0	260	(260)	(260)	Revised project now on-going
Scottish Water Vesting	3	0	3	0	Project on-going with possible refund of costs from Scottish Water
Replacement Audio Casting	0	15	(15)	(15)	Project on-going
Replacement Telephone System	0	240	(240)	(240)	Project on-going
Corporate Property Improvements					
Corporate Improvement Programme	1,793	3,068	(1,275)	(1,175)	Annual programme - carry forward of grant funded ELC budget only
	6,488	10,997	(4,509)	(3,459)	

	1 Apr 2020 - 31 March 2021				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					
House Purchases	174	0	174	0	One-off purchases approved under delegated powers
Carness	1,784	2,661	(877)	(877)	Project on-going
Moar Road	4	260	(256)	(256)	Approved project but with minimal costs to date due to tendering issues.
Repeater Road	108	346	(238)	(238)	Project on-going
McDonald Park	164	305	(141)	(141)	Project on-going
Coplands Road, Garson	120	800	(680)	(680)	Project on-going
Design and Build	5	1,620	(1,615)	(1,615)	Approved project but with minimal costs to date due to tendering issues.
Scapa Flow Oil Port					
Pilot Vessel	67	326	(259)	0	Project complete - no requirement to slip underspend into 21/22
Replacement Tugs	6,276	6,908	(632)	(632)	Project complete but retention still due
Minor Improvements	182	300	(118)	0	Annual programme - no carry forward of unspent budget
Miscellaneous Piers					
Minor Improvements	17	805	(788)	0	Annual programme - no carry forward or acceleration
Gill Pier Refurbishment	2	0	2	0	Project complete
Low Carbon Transport and Active Travel Hub	322	441	(119)	(119)	Project on-going
Hatston Pier Road Reconstruction	0	295	(295)	(295)	Project on-going
Hatston Terminal Passenger Walkway	297	492	(195)	(195)	Project on-going
Stromness Terminal Passenger Walkway	448	492	(44)	(44)	Project on-going
Corporate Property Improvements					
SRF Property Maintenance	0	119	(119)	0	Annual programme - no carry forward of unspent budget
	9,970	16,170	(6,200)	(5,092)	
Totals for financial year 2020/21	16,458	27,167	(10,709)	(8,551)	

	Total					
	Budget	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000
General Fund Summary						
Other Housing	2,500	500	500	500	500	500
Community Social Services	12,619	960	589	6,000	5,070	0
Education	3,972	94	3,025	780	73	0
Cultural and Recreational Services	4,511	1,026	3,324	161	0	0
Roads	5,189	1,061	1,278	950	950	950
Transportation Services	479	249	230	0	0	0
Environmental services	683	63	620	0	0	0
Planning & Protective Services	468	232	236	0	0	0
Administration Services	16,827	3,353	4,418	3,114	2,971	2,971
Expenditure Total	47,248	7,538	14,220	11,505	9,564	4,421
OH1 Housing Loans	2,500	500	500	500	500	500
	2,500	500	500	500	500	500
SC9 Replacement facilities St Peter's house	924	924	0	0	0	0
SC10 New Care Facility, Kirkwall	11,695	36	589	6,000	5,070	0
	12,619	960	589	6,000	5,070	0
ED12 Extension to St Andrew's School	3,972	94	3,025	780	73	0
	3,972	94	3,025	780	73	0
LC9 Refurb. improve Scapa Flow Visitor Centre and Museum	3,587	1,002	2,424	161	0	0
LC12 St Magnus Cathedral Doors	256	24	232	0	0	0
LC13 Papdale East Play Park	668	0	668	0	0	0
	4,511	1,026	3,324	161	0	0
RD5 Cycling, Walking & Safer Routes / 20 mph scheme	260	64	196	0	0	0
RD6 Roads Asset Replacement Programme	4,750	950	950	950	950	950
RD23 Kirkwall Places and Spaces	179	47	132	0	0	0
	5,189	1,061	1,278	950	950	950
TR8 Electric vehicle charging infrastructure	27	27	0	0	0	0
TR10 Golden Mariana replacement	452	222	230	0	0	0
	479	249	230	0	0	0
CA2 IT replacement programme	2,142	488	394	420	420	420
CA4 Plant & Vehicle Replacement	6,156	952	1,604	1,200	1,200	1,200
CA12 Alterations to Garden House, Kirkwall	557	20	100	437	0	0
CA13 Disaster recovery and business continuity suite	260	0	260	0	0	0
CA16 Replacement audio-casting equipment	15	0	15	0	0	0
CA17 Replacement telephone system	240	0	240	0	0	0
	9,370	1,460	2,613	2,057	1,620	1,620
# Corporate Improvement Programme	7,457	1,893	1,805	1,057	1,351	1,351
	7,457	1,893	1,805	1,057	1,351	1,351
PL6 Stones of Stenness Car Park	221	221	0	0	0	0
PL7 Arcadia Park	29	11	18	0	0	0
PL8 Town Centre Fund	218	0	218	0	0	0
	468	232	236	0	0	0
OES2 Burial Grounds - Mainland Extensions	451	55	396	0	0	0
OES3 Burial Grounds - Mainland Major Improvements	62	2	60	0	0	0
OES4 Burial Grounds - Island Extensions	84	5	79	0	0	0
OES5 Burial Grounds - Island Major Improvements	86	1	85	0	0	0
	683	63	620	0	0	0
Non-General Fund Summary						
Housing Revenue Account	11,215	2,185	6,956	1,993	81	0
Orkney College	0	0	0	0	0	0
Scapa Flow Oil Port	15,634	6,902	4,052	4,205	325	150
Miscellaneous Piers and Harbours	4,045	1,872	1,273	300	300	300
Strategic Reserve Fund	595	119	119	119	119	119
Expenditure Total	31,489	11,078	12,400	6,617	825	569
HRA17 Carness	2,745	1,784	961	0	0	0
HRA18 Moar Road	602	4	598	0	0	0
HRA19 Repeater Road	364	108	256	0	0	0
HRA20 McDonald Park	318	164	154	0	0	0
HRA21 Garson	1,100	120	980	0	0	0
HRA22 Design and Build	3,400	5	3,395	0	0	0
HRA23 Heating upgrade	322	0	322	0	0	0

	Total					
	Budget	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000
HRA24 Carness Phase 2	2,364	0	290	1,993	81	0
	11,215	2,185	6,956	1,993	81	0
SF5 Pilot Vessel	326	326	0	0	0	0
SF6 Replacement Tugs	6,908	6,276	632	0	0	0
SF7 Minor Improvements	835	300	85	150	150	150
SF8 Replacement Tug No 3	7,565	0	3,335	4,055	175	0
	15,634	6,902	4,052	4,205	325	150
MP1 Minor Improvements	2,325	805	620	300	300	300
MP13 Low Carbon Transport and Active Travel Hub	441	322	119	0	0	0
MP14 Hatston Pier Road Reconstruction	295	0	295	0	0	0
MP15 Hatston Terminal Passenger Walkway	492	297	195	0	0	0
MP16 Stromness Terminal Passenger Walkway	492	448	44	0	0	0
	4,045	1,872	1,273	300	300	300
SRF1 SRF Property Maintenance	595	119	119	119	119	119
	595	119	119	119	119	119