



Item: 12

Monitoring and Audit Committee: 26 September 2024

Internal Audit – Capital Slippage

Report by Chief Internal Auditor

1. Overview

- 1.1. The internal audit plan 2024/25 included a review of Capital Slippage, this audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The Council has a history of slippage in its Capital Programme which has attracted comment from Audit Scotland and KPMG in recent External Audit reports.
- 1.3. Capital slippage continues to be an ongoing occurrence, and it is important to explore the root causes of slippage to identify any common themes.
- 1.4. The objective of this audit was to review the effectiveness of current systems, processes and procedures associated with the delivery of the Council’s capital programme and projects therein. The review sampled capital projects that have been subject to slippage, in order to identify the respective causes and constraints.
- 1.5. The audit provides Adequate assurance that processes and controls relating to Capital Slippage are well controlled and managed.
- 1.6. The internal audit report, attached as Appendix 1 to this report, includes four medium priority recommendations regarding the Capital Strategy, capital project monitoring, exceptions and project scoring and two low priority recommendations regarding reprofiling and reporting. There are no high priority recommendations made as a result of this audit.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to procedures and controls in place to prevent Capital Slippage, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

Andrew Paterson, Chief Internal Auditor, Extension 2107, email andrew.paterson@orkney.gov.uk.

Implications of Report

- 1. Financial:** None directly related to the recommendations in this report.
- 2. Legal:** None directly related to the recommendations in this report.
- 3. Corporate Governance:** In terms of the Scheme of Administration, consideration of Internal Audit findings and recommendations and to review actions taken on recommendations made, is a referred function of the Monitoring and Audit Committee.
- 4. Human Resources:** None directly related to the recommendations in this report.
- 5. Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit reporting.
- 6. Island Communities Impact:** An Island Communities Impact Assessment is not required in respect of Internal Audit reporting.
- 7. Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our Economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
- 8. Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
- 9. Environmental and Climate Risk:** None directly related to the recommendations in this report.
- 10. Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
- 11. Procurement:** None directly related to the recommendations in this report.
- 12. Health and Safety:** None directly related to the recommendations in this report.
- 13. Property and Assets:** None directly related to the recommendations in this report.
- 14. Information Technology:** None directly related to the recommendations in this report.

15. Cost of Living: None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2024/25.

Appendix

Appendix 1: Internal Audit Report – Capital Slippage.



Internal Audit

Audit Report

Capital Programme Slippage

Draft Issue Date: 16 August 2024

Final Issue Date: 4 September 2024

Distribution List:	Corporate Director – Neighbourhood Services and Infrastructure Corporate Director – Enterprise and Sustainable Regeneration Head of Finance Head of Property, Asset Management and Facilities Service Manager – Corporate Finance Service Manager – Property and Capital Programme Capital Projects and Programme Management Officer
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Audit Opinion

Based on our findings to this review, we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendation is shown at the end of this report.

Executive Summary

As identified in a previous internal audit of Capital Slippage in 2019, it remains the case that in forming our opinion, we have considered that although the Council has had a history of slippage, the cause of this has generally been due to a desire, and in many cases, a statutory need to invest to improve services. This continues to be difficult to fulfil due to limited internal and external capacity along with the added complications arising from the COVID-19 pandemic and Brexit which have both added to the rise in costs associated with capital projects.

The most recent external audit at the time of this report (November 2023) restated the recommendation made in 2021/22 to minimise capital slippage which continued to occur in 2022/23.

The Council Delivery Plan (2023-2028), under section 'Developing our Infrastructure', sets out the action to review the capital programme, resulting in the list of capital projects being considered and prioritised for delivery.

As part of this, there is work underway to develop a new Capital Strategy to support the review of the capital programme and provide a renewed framework of controls designed to maximise the success of capital projects and subsequently minimise capital slippage occurring. This is due to be available at the end of 2024.

Although this audit focused on the reported slippage in 2022-23, outturn reports to be presented to Committee in September 2024 show that there was a net slippage of £27,658,000 in 2023-24 with total slippage of £30,082,000. To address this, eight projects that have not progressed and no contractual commitment exists have been removed from the capital programme following approval by Council in July 2024 as these accounted for £12,472,000 of the 2023-24 slippage.

Overall, the audit findings demonstrate an adequate system of governance and control is in place. However, the Capital Project Appraisal (CPA) process is not consistently being used and as this is a key control, this factor is contributing to slippage occurring within projects amongst other factors.

Some areas of good practice were identified during the audit including:

- Clear Capital Expenditure Monitoring reports which are presented to the Policy and Resources Committee three times per year.
- Annual approval of Slippage and Acceleration by the Council.
- A detailed capital project appraisal and delivery guidance document.
- Guidance, templates and checklists available to support the capital project appraisal process and project management.

The report includes six recommendations which have arisen from the audit. The number and priority of recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Ideagen.

Total	High	Medium	Low
6	0	4	2

The assistance provided by Officers contacted during this audit is gratefully acknowledged.

Introduction

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.

The CIPFA/LASAAC Statement of Recommended Practice sets out the definition of a capital project:

‘Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, should be capitalised, provided the fixed asset yields benefit for a period of more than one year. The main components of capital expenditure are:

- *Acquisition, reclamation, enhancement or laying out of land;*
- *Acquisition, construction and improvement of buildings and civil engineering works;*
- *Acquisition, replacement or renewal of major plant, equipment, machinery, vehicles and vessels.*

For expenditure to be considered improvement or enhancement, and count as capital in nature, it must lengthen substantially the useful life of the asset, increase substantially the open market value of the asset, or increase substantially the extent to which the asset can be used. Under this definition of ‘improvement or enhancement’, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be treated as revenue expenditure.’

General risks associated with capital slippage include:

- Increased costs due to inflation and price increases.
- Loss of funding due to deadlines being missed or grant repayment.
- Reputational damage in terms of public trust and stakeholder relationships.
- Strategic and operational impact on service delivery and other project interdependencies.
- Financial management in terms of complicating financial planning, and resources tied up in delayed projects that could have been used for other potentially beneficial initiatives.
- Legal and compliance issues in terms of contractual penalties and regulatory compliance.
- Inefficient use of resources.

It is important to have effective controls in place to minimise these risks to the Council. Robust project management practices, including regular monitoring and reporting and clear lines of communication and accountability throughout the project life cycle are key.

In 2019, an internal audit of Capital Slippage was conducted to review capital projects that were subject to slippage and identify the respective causes and constraints. The analysis concluded that 80% of slippage was occurring in the planning stages of projects and recommendations were made in respect of:

- Consideration of requirement for client specification documents at CPA Stage 1.
- Full feasibility studies for medium to large projects.
- Evaluation of CPA Stage 2 projects put forward as an exception to the process by a suitable officer working group.
- Timing of construction costs being included in the capital programme (avoiding Year 1 unless there is a certainty that construction will begin then).
- Assessment of capacity within the local construction market when considering the timing of tenders being issued for works.

Capital slippage continues to be an ongoing occurrence and although it is understandable that the COVID-19 pandemic and the effects of Brexit will have had an impact on the delivery of projects, it is important to explore any other root causes of slippage to identify common themes and to review practices against the current process.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Scope

The scope of this audit included the following:

For each capital project that had been subject to capital slippage in excess of £100,000 as at 31 March 2023:

- A review of the causes and constraints of slippage for these projects in order to identify common themes.
- A review of the lessons learned register and post completion reviews for each of these projects.
- Identify the controls in place for monitoring capital slippage and review their operation.
- Make recommendations as to improvements which may be made to minimise future slippage.

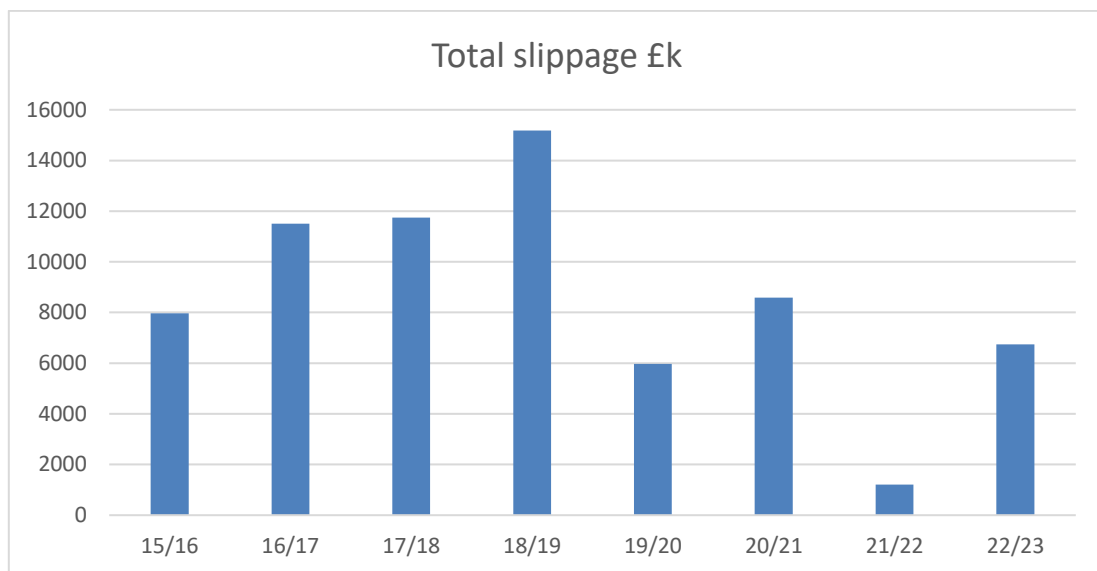
Audit Findings

1.0 Overview of slippage over the last five financial years.

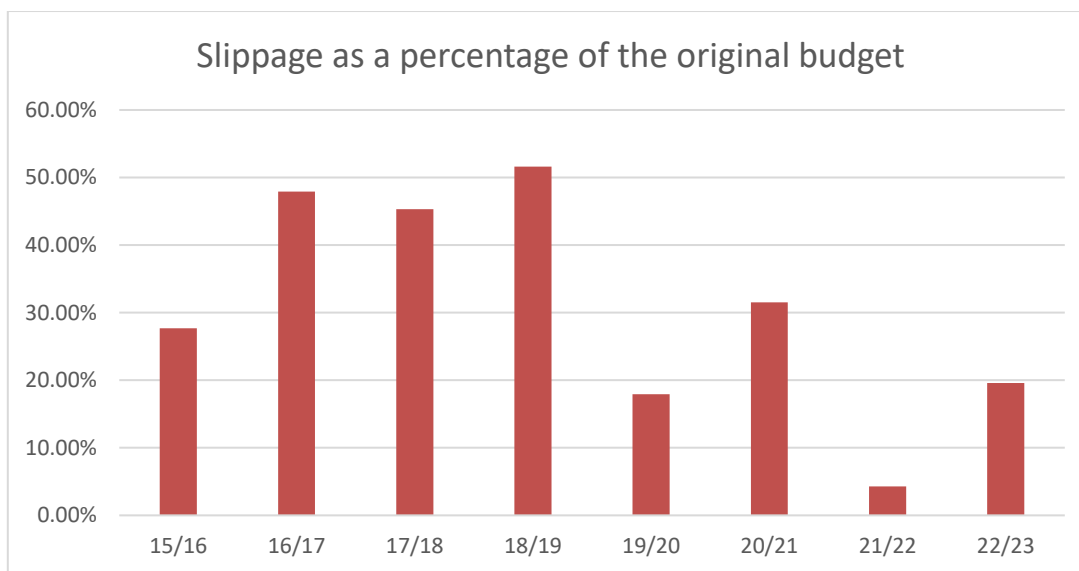
- 1.1 To be able to compare the Council's current capital slippage position with the position in 2019 at the time of the previous audit, some of the same tests have been used to analyse levels of slippage and identify any trends.
- 1.2 An analysis of the value of slippage, i.e. slippage as a percentage of the original budget, number of projects with slippage over £100,000 etc. shows that slippage fell overall during the period of the audit. Falling from £15,187,000 at the 2018/19 financial year end to £6,740,000 at the 2022/23 financial year end. (see table 1 and graph 1 - the previous eight financial years are included in the graphs to illustrate the change over time).
- 1.3 Overall slippage as a percentage of the original budget has also fallen over the same period from 51.6% to 19.60% (see table 1 and graph 2) and presents a more variable picture compared with that of the previous audit, where there was an increasing trend.

<u>Financial Year</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>
Slippage £000	15,187	5,970	8,592	1,204	6,740
Slippage as a percentage of original budget.	51.6%	17.93%	31.55%	4.3%	19.60%

Table 1



Graph 1



Graph 2

- 1.4 As it falls outwith the period of this audit, the capital slippage for 2023-24 has not been included in the table however it is expected to be reported at £30,082,000 which is significantly higher than previous years.
- 1.5 The variable levels of capital slippage within the analysis performed may reflect steps taken to try to improve the capital programme which has been noted in recent Capital Expenditure Monitoring Reports such as trying to improve programme oversight.
- 1.6 More recently, measures have been undertaken to try to reduce the slippage such as removing projects with no contractual commitment from the capital programme and the review of the Capital Strategy and CPA process for future projects.
- 1.7 It is possible, with the right information provided by project managers, to reprofile budgets within the year to reflect slippage and timescales for completion of individual projects. Reprofile provides the flexibility to adapt to new circumstances as well as increasing transparency in how funds are allocated and used, which can lead to better accountability and governance. Re-profiling undertaken during the period covered within the audit is illustrated in Table 2.

	Re-profiling of Capital Programme Budget					
<u>Financial Year</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>Average</u>
Re-Profiled £000	15,784	8,622	Not Undertaken	12,803	10,224	11,858

Table 2

- 1.8 Making use of the project updates from services to inform re-profiling can minimise reported slippage figures within the Slippage and Acceleration reports and therefore this should be undertaken yearly where there is a need to do so.

Recommendation 1

2.0 Overview of the overall capital programme for the previous five years

2.1 The variances between the original budget and actual capital expenditure in the previous five years have also shown a varied picture compared to a consistently high trend identified in the four years previous to 2018/19. The variance has ranged between £15,747,000 to £1,969,000 over the period at an average of £6,875,000. The percentage variance to original budget has also varied, ranging from +4% to -39% at an average of -28% (see table 2).

	Capital Programme, comparison of original budget to expenditure.					
<u>Financial Year</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>5 year Average</u>
Original Budget £000	14,463	26,486	27,167	15,876	39,948	24,788
Actual Expenditure £000	15,083	19,920	16,458	13,907	24,201	17,913
Variance £000	620	-6,566	-10,709	-1,969	-15,747	-6,875
Variance percentage	4%	-25%	-39%	-12%	-39%	-28%

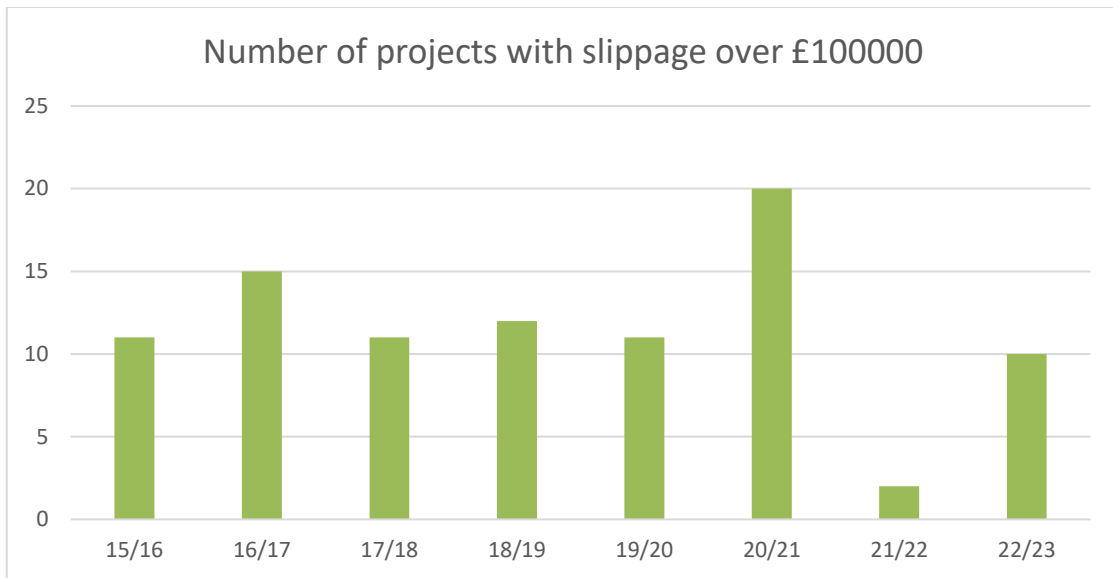
Table 3

3.0 Impact of main projects within overall slippage

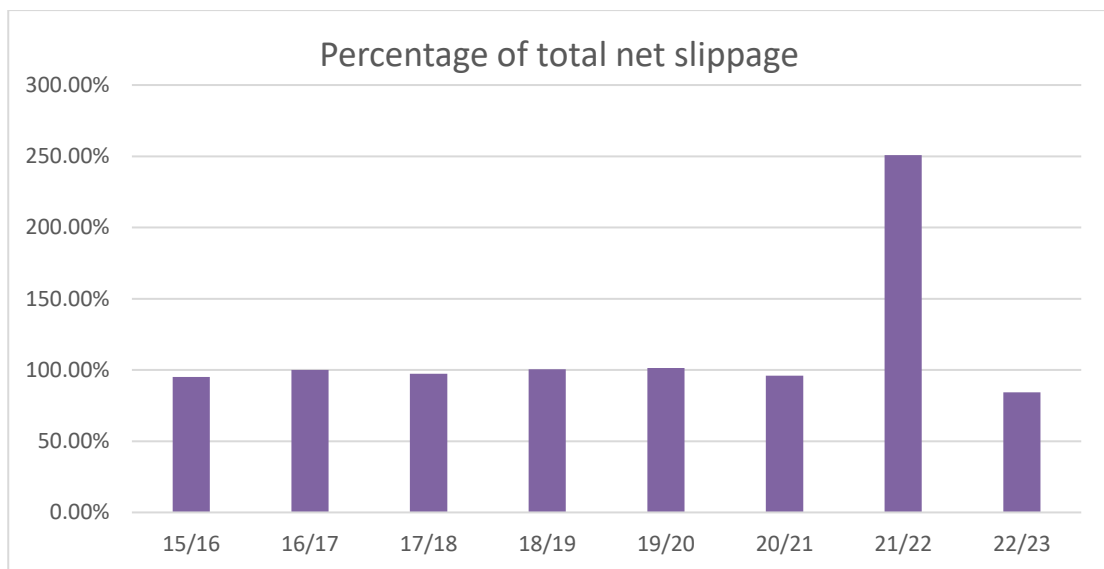
3.1 For the 2022/23 financial year, 10 projects with slippage of over £100,000 formed 84.4% of the overall net slippage total. Net slippage is after deducting acceleration on other projects within the programme. Therefore, a selection of individual projects may equate to over 100% of the overall net slippage total. (see table 4 and graphs 3 & 4)

	<u>Projects where slippage has exceeded £100,000 for a financial year</u>					
<u>Financial Year</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>5 year Average</u>
Number of Projects.	12	11	20	2	10	11
Percentage of total net slippage.	100.50%	101.33%	95.99%	250.75%	84.4%	156.18%

Table 4



Graph 3

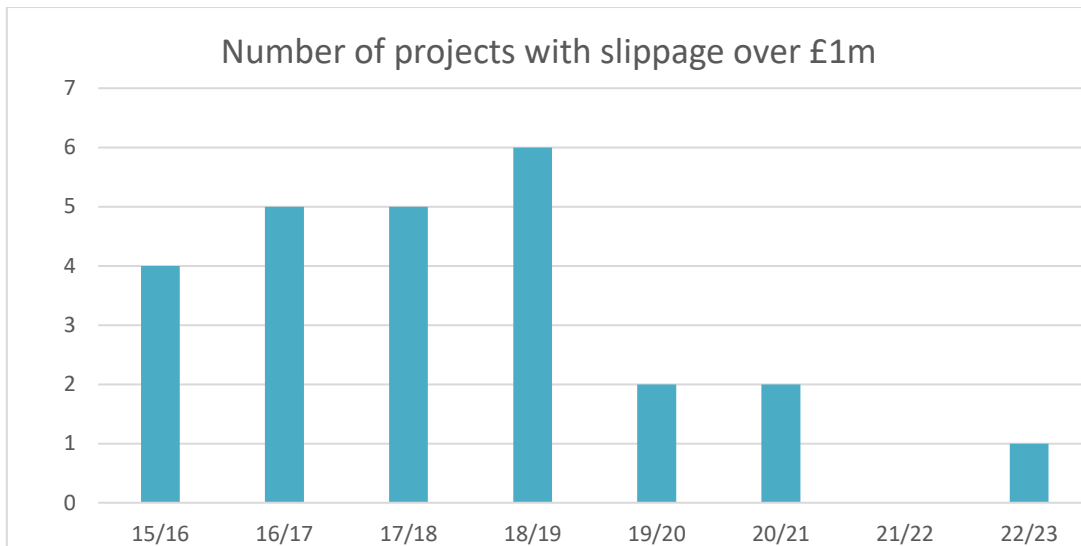


Graph 4

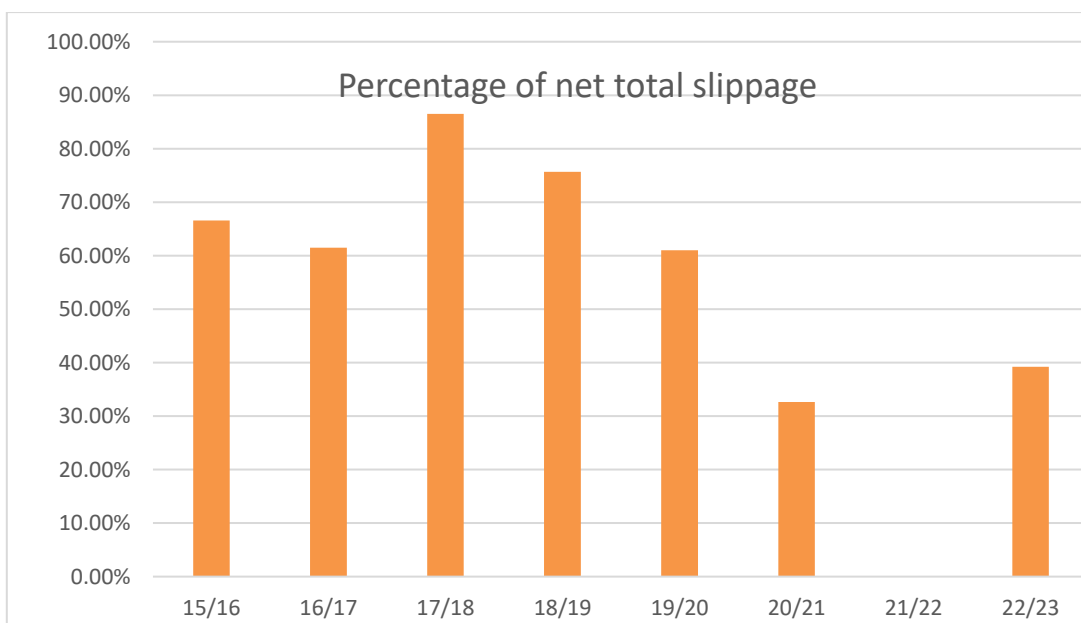
3.2 For the 2022/23 financial year, 1 project had slippage of over £1,000,000 and this formed 39.21% of the overall total slippage. (see table 5 and graphs 5 & 6)

	<u>Projects where slippage has exceeded £1,000,000 for a financial year</u>					
<u>Financial Year</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>5 year average</u>
Number of Projects.	6	2	2	0	1	2.2
Percentage of total slippage.	75.70%	61%	32.63%	0%	39.21%	41.71%

Table 5



Graph 5



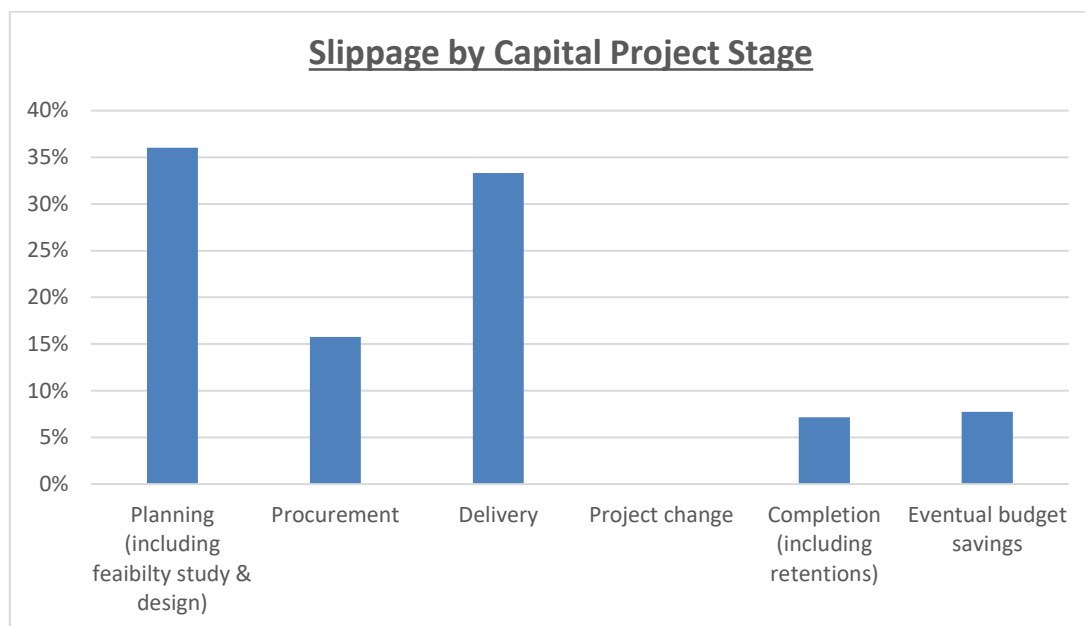
Graph 6

- 3.3 Tables 4 and 5 above therefore demonstrate that avoiding slippage to higher value projects has a significant impact on the monetary value, and proportion of budget being slipped.
- 3.4 There are however several factors that need to be considered for all projects including those of a lower value. All projects will utilise at least some element of capacity within the Council, and it is conceivable that the timely completion of some lower value projects may have a high impact on meeting the Council's objectives.

4.0 Analysis of causes of slippage by stage of the capital project

- 4.1 For the purpose of analysis we have categorised 6 general stages to capital projects, these being: Planning; including feasibility study, concept and developed design; Procurement; Delivery; Project Change; Completion (including retentions); and Budget Savings.
- 4.2 We have performed a high-level analysis of the projects in our sample that exceeded £100,000 of slippage in Financial Year 2022/23 to determine at which stage slippage

occurred. Analysis was only carried out to a level that is indicative covering the last five financial years and the results are illustrated below in graph 7.



Graph 7

- 4.3 There is a spread across five different stages with the majority being attributed to the planning stages at 36% of slippage. The delivery stage accounts for 33% and is wholly comprised of slippage in 2022/23 from the New Care Facility project. Procurement accounts for 16%, Completion accounts for 7% and Budget Savings accounts for 8% of the slippage.
- 4.4 An extract of detailed comments made to the Policy and Resources Committee as part of capital expenditure monitoring, where project slippage has exceeded £100,000, is provided at Annex 1. This information was used to identify the stage at which slippage is occurring.
- 4.5 Brief project summaries are detailed in Annex 2. Although there are some common themes arising from analysis into the root cause of slippage, each project presents unique opportunities and challenges and has been managed in different ways.
- 4.6 With knowledge of each project, it is possible to ascertain stage of project and root cause of slippage from the Capital Expenditure Monitoring Reports as well as the Slippage and Acceleration reports however it may be helpful to ask services to include stage of project in the comments provided as well as any cause for slippage to support analysis and potentially identify trends in factors causing slippage.

Recommendation 2

5.0 Common Factors

- 5.1 Our analysis identifies that approximately 36% of slippage is attributable to the initial planning stage of projects. This is the stage in which slippage is most likely to occur.
- 5.2 Overall, common factors we have attributed to slippage are:
 - Re-design following project revisions to meet changing service needs, financial requirements as well as to meet planning conditions.
 - Requirement for additional information to support planning applications.
 - Following due process when objections are received to planning applications.

- Limited capacity within internal teams and the external construction and civil engineering market leading to delays.
- Supply chain issues including difficulty sourcing equipment and contractors due to location.
- Awaiting outcomes of grant funding applications.
- Approvals process with statutory bodies.
- Additional work instructions issued after contract awarded.
- Projects complete but retention payments still due.
- Budget savings due to decision that internal staff would undertake works planned as part of a project rather than the contractor.

6.0 Capital Project Governance

- 6.1 There are different levels of governance in place to support oversight over the Capital Programme. Within the Capital Project Appraisal Guidance Notes document, roles and responsibilities are set out.
- 6.2 Finance are responsible for setting a capital programme that is affordable and monitoring and reporting on financial performance. Finance also have representation on the Capital Programme Team who are responsible for the management and reporting of progress of the Councils capital programme.
- 6.3 The Capital Planning and Asset Management (CPAM) sub-group manage the Council's overall asset management plan and includes capital activity. This group is meant to be a starting point for capital projects. On average, there are six meetings per year. There have been fewer meetings recently as the Capital Project Appraisal process is on hold.
- 6.4 The Capital Programme Board (CPB) consists of the Corporate Leadership Team (CLT) along with other officers as required. The programme board mainly receive reports on progress of the capital programme and scrutinise these to ensure the necessary resources are being deployed to keep individual projects on course as well as review the CPA process to ensure it is delivering the necessary projects. Recommendations from the CPAM group are also put forward for consideration. Specific Capital Programme Board meetings are held quarterly and meetings can be called in-between these times by utilising CLT meetings to raise matters as required.
- 6.5 The Programme Advisory Board (PAB) consists of Elected Members and is a forum to provide informal oversight and opportunity to comment on matters concerning the Capital Programme where necessary and appropriate outwith the formal Committee process.

7.0 Capital Appraisal Process

- 7.1 One of the controls in place to minimise Capital Slippage is the Capital Appraisal and Delivery Process. Guidance notes for this, published in 2018, set out general guidance covering procedures for the Capital Project Appraisal (CPA) process and the management of capital projects. As well as the guidance notes, there are also supporting materials available to support the planning, delivery, monitoring and review stages of each project including a checklist and templates to use. Although from testing, it was concluded that the templates for the CPA reports and the Highlight reports are being used, only two out of six project managers had access to all resources available including the checklist etc.
- 7.2 The Council's Financial Regulations, at section 7.1.1 states that 'All officers and Elected Members shall ensure compliance with the Council's capital project appraisal process'.

- 7.3 There are provisions made at section 7.1.2 for exceptions where ‘in exceptional circumstances, the Head of Finance may, after consultation with the Leader and Deputy Leader and the Chief Executive, approve any capital expenditure he/she considers is in the interest of the Council and which is fully funded’.
- 7.4 We assessed the ten different projects with over £100,000 slippage reported for 2022/23 against the Capital Appraisal and Delivery Process Guidance notes, focusing on key elements of planning, delivery, monitoring and review. The statistical analysis of the results of testing undertaken on the CPA planning process is presented below in Chart 1.
- 7.5 Of the ten projects reviewed, three did not follow a CPA planning process due to either being part of a top sliced asset management programme or falling within the provisions for exceptions at section 7.1.2 of the Financial Regulations and so these have not been included within the statistics regarding the CPA stages. Five of ten were submitted as exceptions through the CPA process and two were not identified as an exception within the CPA2 documents submitted. Findings around exceptions are continued in section 9 of this report.
- 7.6 Please note that some of the projects began before the guidance notes were released and so for the Pre-CPA stage of project, equivalent business cases etc. have been taken into account as they included an initial feasibility study and identified a service need. Also, many projects followed the exception process and joined the process at different stages of development.

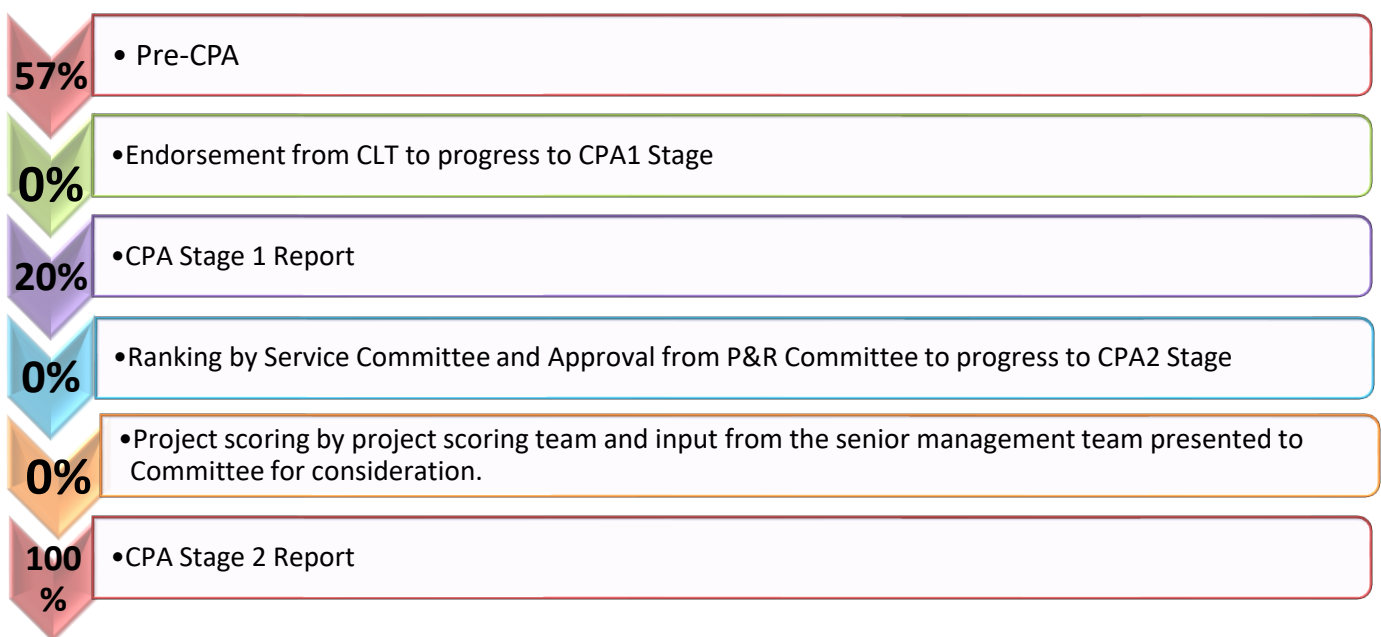


Chart 1- Percentage of Capital Appraisal Process Followed by Projects with Slippage Over £100k.

- 7.7 When looking at the projects within the sample in more detail against requirements set out in the Capital Appraisal and Delivery Guidance notes, various key elements of the requirements were not followed consistently by projects including:

For projects with a Stage 2 CPA-

- Planned project timelines within CPA2s (explaining how the proposed timescale for the project is considered both reasonable and deliverable for each stage in the CPA process and key stages)- **14% of projects compliant.**
- Detailed estimate of capital costs and associated revenue budget implications within CPA2s along with attached supporting work papers- **14% of projects compliant.**

For all projects reviewed in the sample-

- Developed project delivery plans including supporting Gantt charts to improve project planning and delivery- **30% of projects compliant.**
- Developed client specification or brief for the project- **70% of projects compliant.**
- Progress highlight reports (where at least one was submitted)- **60% of projects compliant.**
- Up-To-Date Project Risk Register- **0% of projects compliant.**
- Lessons Learned Register- **0% of projects compliant.**
- Project Review- **0% of projects compliant.**

7.8 To support a consistent approach to planning, delivering, monitoring and reviewing capital projects, training should be offered to all project managers on the new Capital Strategy and supporting Capital Project Appraisal and Delivery Guidance.

7.9 In addition, an updated process should be used by project managers to ensure that key elements of the capital project process are considered and followed, including project review even in cases where the project has been removed from the capital programme. This process will be more than just a checklist and will be used to ensure that projects are developed to the level of detail required before being submitted for Committee approval. It can also be used to monitor and report progress alongside highlight reports as part of project assurance given to the Capital Programme Board.

7.10 All training and supporting materials should be made available on the intranet for all OIC staff and any new project managers to access.

Recommendation 3

8.0 Project Delivery and Monitoring

8.1 The first step of project delivery is reporting and monitoring progress (as set out in the CPA Guidance Notes). The requirement is that accurate progress information is provided to the Capital Programme Team, on a monthly basis, by the Project Manager.

8.2 Highlight report templates were developed to facilitate this and to provide Senior Management with a summary of project performance in terms of budget and programme as well as a mechanism for escalating any potential variations, issues or risks.

8.3 From examining a sample of 22 recent Highlight Reports, it was found that 77% of reports submitted were incomplete or had inaccurate information and it was established that in general, they have not been consistently received on a monthly basis.

8.4 Information from project managers, such as is contained in Highlight Reports, is used to support an overview of all projects within the capital programme and therefore supports scrutiny and decision making. An up-to-date overview of projects ongoing within the Capital Programme is important to enable budgets and schedules to be set in a way that is achievable.

8.5 A system of monitoring should be implemented to ensure that highlight reports are submitted timeously and contain complete and accurate information about the stage of the project and the financial information required from all project managers.

8.6 Information from highlight reports should be enough to populate an overview of the capital programme, which should be used to support oversight and decision-making on prioritisation.

Recommendation 4

9.0 Exceptions to the Capital Appraisal Process

- 9.1 As stated in section 7 of this audit report, there is provision made for exceptions in the Financial Regulations as well as in the current Capital Appraisal Guidance Notes.
- 9.2 Projects being submitted as exceptions to the capital programme has become the norm. Many of the capital projects being submitted as exceptions in recent years either fell under the provisions within the Financial Regulations or had a rationale included within the CPA 2 report to explain the reasoning behind the need to 'fast track' a project.
- 9.3 Our findings support the September 2023 Capital Expenditure Outturn Report (23-24) which, on the subject of exceptions, states that; 'it is considered that the steady stream of exception Capital Project Appraisals that are being fast tracked through the process at present appears to be having an adverse impact in terms of increasing the workload of the delivery teams whilst at the same time preventing improvements in working practices and process from becoming embedded. In some cases, these exceptions, which have become the new "norm", are actually contributing to the level of recurring slippage within the capital programme.'
- 9.4 Despite most projects in the sample having been exceptions due to an urgent need, or to maximise use of funding available within a limited timescale, we estimate that the average period between the CPA2 being recommended for approval at the Policy and Resources Committee and awarding of the procurement contract, to be around 2 years and 10 months.
- 9.5 The average period for construction projects within the selection reaching the procurement contract award milestone is estimated to be 3 years and 5 months. The shortest period to reaching contract award stage for construction projects within our selection was 3 months.
- 9.6 The Council's guidance notes state at section 3.8 *"Projects should normally only be prioritised for addition to the capital programme for Year 3 and beyond. This is on the basis that the capital programme is typically fully committed over the short term, and as a result there is often limited capacity to include additional projects in Years 1 and 2. In any case, this period is typically needed to allow an appropriate lead-in time to plan adequately for the delivery of the individual capital project"*.
- The guidance further states at 3.9 *"Traditionally, Years 1 and 2 of the capital programme are considered to represent set or firm commitments to give clarity to both officers and contractors dealing with the detailed planning and delivery of contractual commitments, etc. By contrast, Years 3 to 5 commitments are still considered to be provisional in nature, recognising the need for some flexibility within the capital programme, to allow for changes in Council priorities, variations in timescales, etc. as project planning details are refined."*
- 9.7 The following recommendation was made as part of the previous capital slippage audit undertaken in 2019: 'It is recommended that year 1 of the project's estimated capital costs are limited to costs already incurred in bringing the project to Stage 2 CPA standard (stage 3 developed design as Per RIBA Plan of Work 2013 or equivalent for civil engineering projects) or design, planning and procurement costs. In other words, construction / improvement costs should not be forecasted to be expended before year 2 of the rolling capital programme unless this expenditure has already been committed to, or there is alternative robust evidence as to why this should be estimated.'
- 9.8 From our estimates of the timescale between addition to the capital programme and contract being awarded, the lead in times allowed for projects within the sample are not long enough.

- 9.9 Another recommendation from the 2019 audit on Capital Slippage was ‘to consider whether a suitable Officer body, such as SMT, evaluate Stage 2 CPAs to be submitted via the exceptions route’ and it was agreed that CPAM would recommend reports to SMT for scrutiny
- 9.10 On reviewing minutes from the Capital Programme Board as well as the Capital Planning and Asset Management meetings, there are many examples of Stage 2 CPAs being assessed and reviewed before being put forward to Committee for approval. This includes two occasions where there is an exception to the CPA process.
- 9.11 Whilst there are justifiable circumstances for exceptions to the CPA process that call for a ‘fast track’ route to approval and addition to the capital programme, it is important that there is a process to assess these for impact on the wider programme as well as to assess capacity to deliver within internal teams and available external contractors. Although there are circumstances where an exception will be appropriate, minimum elements of project appraisal and delivery should be followed and this should be made clear as part of the new strategy and guidance being drafted.

Recommendation 5

10.0 Prioritisation and Project Scoring

- 10.1 For normal circumstances the prioritisation and project scoring process is set out in the Capital Appraisal and Delivery Guidance Notes (2018):
- Stage 1 CPA reports are submitted to the relevant Service Committees to be ranked in order of priority. This recommendation is then submitted to the Policy and Resources Committee to approve as part of a short list of projects to be worked up to a detailed CPA2 level.
 - All completed Stage 2 CPAs should be submitted to the Head of Finance. A project scoring team will then meet to score the submitted appraisals in accordance with the approved scoring system.
 - Following completion of the scoring process, a report on the outcome will be prepared by the Head of Finance for the Senior Management Team for their consideration and comment. All this will be included in a report for the next meeting of the Policy and Resources Committee on the outcome of the process and recommendations for inclusion in the capital programme.
- 10.2 The prioritisation and project scoring process has not taken place since 2014 and was not undertaken for any of the projects in the sample.
- 10.3 Consideration should be given to reinstating a system of prioritisation and project scoring such as is detailed above as a mechanism to ensure that resource requirements as well as impact on other projects is considered at a level with oversight over the whole programme.

Recommendation 6

11.0 Illustration of the Impact of COVID-19 and Brexit on Supply Chain

- 11.1 Many projects have been affected by COVID-19 and Brexit in one way or another and this has been a factor contributing to capital slippage. In order to illustrate an example of this, comparisons were made to assess the effect of COVID-19, Brexit and the resulting supply-chain issues associated with sourcing vehicles and plant for the Council that could be affecting slippage.

- 11.2 Focusing on the Plant and Vehicle replacement programme that fell within our sample of projects with slippage of over £100,000. In 2018/19, the average lead time for higher cost vehicles was 4.8 months with the longest lead time being 9 months and the shortest being 3 months.
- 11.3 In 2022/23, the average lead time for higher cost vehicles was 5.9 months with the longest lead time being 21 months and the shortest being 1 month.
- 11.4 As well as the increase overall in lead times of 23%, there is more unpredictability in the market given the disparity between shortest and longest lead times.
- 11.5 Through discussion with the Service Manager (Fleet) as well as reviewing the delivery plan for the programme, this programme is now actively managed after a long period with no Service Manager in post. Within the programme delivery plan, certain items are accelerated where possible to avoid slippage and other items with longer lead times anticipated are delayed to subsequent years of the plan which spans over five years.
- 11.6 Having an overview of all vehicles and items of plant requiring replacement over a number of years and prioritising these based on a scoring system as well as an assessment of capacity to deliver, should ensure that slippage is minimised in future years.

12.0 Conclusions

- 12.1 Through this audit, we analysed capital slippage figures covering the period following the previous audit which has revealed that although there have been efforts to try to put in place measures to minimise slippage, there is still a need to review the controls in place and develop systems to ensure these are operating. On reviewing the impact of the five previous recommendations made, our testing revealed that although follow up was undertaken by internal audit, these have not been fully implemented on an ongoing basis.
- 12.2 There are many circumstances under which projects can experience slippage that are outwith the control of project teams and some of these have been highlighted within the report as common factors. However, it is evident that the Capital Appraisal and Delivery Guidance Notes are not being consistently applied, meaning that in some cases, important elements of best practice in project management are not being followed. These would include project timescales and delivery plans, cash flow forecasts supported by workpapers, having risk registers in place, assessment of impact on other projects as well as delivery capacity (internal and external), reporting processes and project review.
- 12.3 Governance structures are in place to provide oversight and scrutiny to projects and there are many experienced project teams in place who, although often working at stretched capacity, are striving to deliver quality projects. Communication between project teams and the governance bodies in place is an essential control that will support informed decision making and scrutiny over the capital programme which will help towards minimising future slippage.
- 12.4 The new Capital Strategy is under development and as part of this, is going out to consultation with stakeholders involved in the capital programme. We have set out six recommendations in this report taking this into consideration with the purpose of reducing the amount of annual Capital Slippage within the Council.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 Making use of the project updates from services to inform re-profiling can minimise reported slippage figures within the Slippage and Acceleration reports and therefore this should be undertaken yearly where there is a need to do so.	Low	Agreed, where resources allow re-profiling of capital project forecasts will be undertaken annually.	Service Manager Corporate Finance	31 March 2025
2 With knowledge of each project, it is possible to ascertain stage of project and root cause of slippage from the Capital Expenditure Monitoring Reports as well as the Slippage and Acceleration reports however it may be helpful to ask services to include the stage of project in the comments provided as well as any cause for slippage to support analysis and potentially identify trends in factors causing slippage.	Low	Agreed. Will look at where this may be appropriate to report, i.e. in the Highlight report or Capital Monitoring reports	Service Manager Corporate Finance & Capital Projects and Programme Manager	31 March 2025
3a To support a consistent approach to planning, delivering, monitoring and reviewing capital projects, training should be offered to all project managers on the new Capital Strategy and supporting Capital Project Appraisal and Delivery Guidance. All training and supporting materials should be made available on the intranet for all OIC staff and any new project managers to access.	Medium	Agreed. Capital Strategy and updated CPA guidance will be shared with all relevant personnel. Will seek to deliver training that will be recorded and will be available, together with updated documentation, on the OIC intranet	Service Manager Corporate Finance & Service Manager Property & Capital Programme Capital Projects and Programme Manager	31 March 2025 30 June 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>3b In addition, an updated process should be used by project managers to ensure that that key elements of the capital project process are considered and followed, including project review even in cases where the project has been removed from the capital programme. This process will be more than just a checklist and will be used to ensure that projects are developed to the level of detail required before being submitted for Committee approval. It can also be used to monitor and report progress alongside highlight reports as part of project assurance given to the Capital Programme Board.</p>		<p>Agreed. Will consider a practical and effective checklist or similar process to ensure project elements are considered and followed. This will be more than simple checklist as there is not a “one size fits all” for the scale and range of projects on the Capital Programme e.g. fabricating a new tug boat compared to building a new school. The revised CPA procedure document will have a new format that details (bullet points) the Stage Purpose, Stage Activities (what to undertake), Stage Document (what to be complete) and Stage Steps (what to do). This is not to say that a traditional ‘checklist’ won’t be developed in the future, but the priority will be implementing the new process, new templates (per Stage) and new requirements (Risk Register, etc.).</p> <p>Consideration will be given to CPA documentation being signed off by the relevant corporate director before submission as a control to ensure process is followed.</p>	Capital Projects and Programme Manager	30 November 2024
<p>4 A system of monitoring should be implemented to ensure that highlight reports are submitted timeously and contain complete</p>	Medium	<p>Agreed. Capital Project Monitoring is currently being reviewed. Explore opportunity to utilise</p>	Service Manager Corporate Finance &	31 March 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>and accurate information about the stage of the project and the financial information required from all project managers.</p> <p>Information from highlight reports should be enough to populate an overview of the capital programme, which should be used to support oversight and decision-making on prioritisation.</p>		<p>financial system to aid Highlight reporting. Have to balance level of reporting vs delivery. As per (2) also important to recognise payments usually happen after completion of works, so tracking actual progress is vital.</p> <p>A system of monitoring is in place at the moment, and compliance with this will need active monitoring and will form part of the revised CPA process with a new Highlight Report template also being developed.</p>	Capital Projects and Programme Manager	
<p>5 Whilst there are justifiable circumstances for exceptions to the CPA process that call for a 'fast track' route to approval and addition to the capital programme, it is important that there is a process to assess these for impact on the wider programme as well as to assess capacity to deliver within internal teams and available external contractors. Although there are circumstances where an exception will be appropriate, minimum elements of project appraisal and delivery should be followed and this should be made clear as part of the new strategy and guidance being drafted.</p>	Medium	<p>Agreed. On approval of Capital Strategy and revised CPA process this recommendation will be actioned.</p> <p>Also important to ensure timelines set as criteria for funding aligns with the CPA process. Noting that projects must have funding in-place before commencement.</p> <p>The revised CPA process is looking to move away from the "one size fits all" approach, so the level of documentation, detail and governance will differ between a £500k project and a £5m project. However, a lack of planning or not following proper governance is not a route to 'fast-track' a project.</p>	Service Manager Corporate Finance & Service Manager Property & Capital Programme	31 March 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
		Exceptions to the process will only be where exceptional circumstances apply		
6 Consideration should be given to reinstating a system of prioritisation and project scoring such as is detailed above as a mechanism to ensure that resource requirements as well as impact on other projects is considered at level with oversight over the whole programme.	Medium	<p>Agreed where there is funding available for multiple projects. The capital programme and associated 'head room' is declining. A practical 'scoring' system is only possible where budget exists and multiple projects are chasing limited funds. In recent years 'exceptions' have unfortunately been the rule.</p> <p>Once Capital Strategy and CPA process have been approved there may be an opportunity to receive Service submissions for scoring, however, given funding levels an annual process is unlikely.</p> <p>The revised CPA process will include evaluations based on the 'Five Case Model' where five aspects ('cases) will be evaluated and re-evaluated: 1. strategic case; 2. economic case; 3. commercial case; 4. financial case & 5. management case</p>	Service Manager Corporate Finance & Service Manager Property & Capital Programme	31 March 2025

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

Annex 1

Capital Programme Slippage – Notes

Notes extracted from Capital Monitoring reports, previously included in analysis presented to the Policy and Resources Committee are summarised below.

New Care Facility, Kirkwall (Abbreviated)

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000			14	9	2472

[Sep 23] Works on-site are progressing with an anticipated completion date October 2024, which is beyond the original completion date of June 2024 due to additional works forming the new entrance and haul road off Glaitness Road, along with delays with the new water main and street lighting at the entrance.

[Sep 22] Following conclusion of the construction procurement exercise the contractor has now started on-site and has completed the access haul road, site set-up and has commenced on the foundation works.

[Mar 22] Tenders were received in January 2022; however, the costs are in excess of the budget. A savings exercise is underway which is the subject of a separate report to Policy and Resources Committee on 1 March 2022

[Nov 21] Design work continues to be developed with the contract documents being produced. Tender documents expected to be issued in Autumn with a start on site expected in early 2022.

[Sep 19] Design work is ongoing, however there is an issue with the planning application due to Scottish Water constraints on the foul sewer connection. Discussions are ongoing between OIC and Scottish Water to find a solution but at this stage this could affect the outcome of this project

[Feb 19] The Planning application for the New Care Facility and the Soulisquoy infrastructure has been submitted and works are continuing on the technical design for the home with procurement of the Contractor due in summer 2019 with final completion in due 2021.

[Feb 18 & Sep 18] The Soulisquoy Infrastructure activities delayed the Planning application submission for the new Care Facility; however, the Planning Application Notice (PAN) has now been submitted with a public exhibition event held at the St. Magnus Centre, Kirkwall on 23 January 2018. The programme has been revised to reflect the current position with final completion in 2021 still the target.

Integrated Waste Facility

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000					500

[Nov 22, Feb & Sep 23] -The Council is still waiting on the outcome of the grant funding application to the Recycling Improvement Fund to cover the costs of this project. As a result, it is likely to be delayed by a year.

Cursiter Quarry Expansion

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000					575

[Sep 23] - Expansion works for phase 2 are complete with the exception of the overburden strip, restoration works within the existing quarry and planting works.

[Nov 22] New screening mounds complete, topsoiled and seeded. Approx. 15,000 cu.m overburden stripped to clear approx. 6,000sq.m ready for extraction. Walling and fencing progressing to programme.

[Sep 22] Project is for the enabling works associated with the expansion of Cursiter Quarry. Site works commenced on May 2022 with all earthworks expected to be completed in October 2022 and all works, excluding planting, expected to be completed in January 2023.

[Feb 22] Project is for the enabling works associated with the expansion of Cursiter Quarry. Invitation to tender notices issued January 2022 - no spend expected this financial year.

Coastal Change Adaptation

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000					160

[Sep 23] LIDAR survey work completed over period 12-15 June 2023. Data is now being processed to be issued in line with contract dates (data handover by 29 September 2023). Note General Capital grant award of £160k under Coastal Change Adaptation Fund for 2022/23 moved to 23/24, as approved by Scottish Government.

[Feb 23] Tenders for LiDAR returned on 7 December 2022 currently being assessed. Financial checks to be confirmed.

[Nov 22] - Tender for LiDAR surveys this financial year achieved low interest ie. one tender only which was overbudget. To be retendered to commence Spring 2023 with more generous timescales to reduce contractor risk. Funding by General Capital Grant has been confirmed as being suitable to move to 2023/24 by Scottish Government.

School Kitchen Improvements

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000					239

[Sep 23] Funding was received in 2022/23 from the Scottish Governments in relation to Free School Meals Expansion, to fund upgrades to school kitchens. The Design work is now complete and tender documents have been issued. Works are due to commence shortly with a completion of May 2024.

Plant and Vehicle Replacement Programme

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000			404		357

[Sep 23] Programme of works approved and monitored by Asset Management Sub-committee-carry forward of £357K budget due to delivery delays due to COVID-19 agreed by Head of Finance. Budget figure includes General Fund and Non-General Fund purchases.

Alterations to Garden House

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000		176	20	97	521

[Sep 23] -Following decision of Scottish Ministers not to confirm stopping up order, revised car parking and access arrangements approved. Planning application submitted to vary condition to allow occupation of development, which attracted objections. Planning permission subsequently granted by Planning Committee in August 2023. Construction tender documentation to be released.

[Feb 23] -Design development has been delayed due to limited resources with D&I and competing priorities. This has been further complicated with the need to revise the design to suit carparking requirements to meet the Road Authority and Planning Requirements. Planning approval was obtained September 2020 and as part of the conditions the stopping up order is to be issued by the planning authority. Unfortunately, the stopping up order has not been upheld by the reporter. Therefore, further work is ongoing to see if a solution can be developed to meet the parking requirements for the project and the need to retain public access on Scapa Crescent. Procurement will follow on once an acceptable solution has been agreed which is anticipated to be in spring 2023. Works are expected to commence on site in Summer 2023 with a completion a year later.

[Nov 21] It is likely that construction costs will increase due to increased cost of materials and issues with the supply chain. A report will be submitted to the Policy and Resources Committee regarding the additional costs.

[Sep 21] Contract Documents nearing completion, however tender documents will not be released until the issues around the stopping up of Scapa Crescent are completed. It is expected this process will be completed in December 2021, which will allow documents to be released early in the New Year and allow for a spring start on site.

[Dec 20 & Feb 21] Planning permission was obtained in August 2020. Design works have been progressing with contract documents preparation now underway, the planned start on site expected mid-2021. In general, the resources needed to deliver all major projects on the 2018-2023 capital programme has been reviewed at the capital programme board and a commitment made to strengthen the delivery teams to ensure the approved projects within the 2018-2023 programme are delivered. This is also in the context of recent capital slippage and project/programme management audits (Internal) and recommendations from the planning review (i.e. planning agent requirement). Equally given the state of the construction and civil engineering market (capacity and COVID-19 supply chain constraints) the timing of release of work to seek the best price is also an ongoing issue to factor in.

[Sep 20] Planning permission was obtained on 19 August 2020. Design works and contract document preparation are progressing well, with a planned start on site expected in the New Year.

[Feb 20] Design works are progressing with a planning application submitted to take account of existing landscaping and parking requirements. Additional information required to be submitted to meet planning requirements. Tender documentation delayed due to competing priorities within Development and Infrastructure. Progress on this project has been affected by resource issues within Development and Infrastructure over the current financial year. This has been raised with the Senior Management Team as part of the capital programme development and it has been

agreed that the resource levels in the property team will be reviewed to ensure delivery of the project.

[Nov 19] Design works are progressing with a planning application submitted to take account of existing landscaping and parking requirements. Tender documentation about to commence in December 2019. Tender documents will be issued to contractors early 2020 with construction work commencing in early Spring 2020.

[Sep 2019] Design works are progressing with tender documentation about to commence in due course. It is envisaged that tender documents will be issued to contractors late 2019 with construction work commencing in early 2020.

[Feb 2019] Design works have commenced with a site-visit from an appointed architect planned at the end of January.

[Sep 2018] Original project was to extend the Kirkwall Travel Centre to provide new premises for VAO, however, a revised Capital Project Appraisal (CPA) was submitted and approved at the June P&R Committee changing the location to Garden House with work due to commence once the facilities are vacated by NHSO.

Moar Drive

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000			256		663

[Sep 23] Planning approval award in May 2023 with pre-commencement conditions. These pre-commencement conditions are currently being progressed with a commencement on-site planned for August 2023

[Feb 23] Project restarted in May 2022. The Design and Build Contract was accepted on 20 July 2022. Design work commenced in August with the contractor submitting the planning application in December 2022. Objections to the planning application have been received therefore the application will go to the next available planning committee. Unfortunately, this will result in a delay to the construction of this project.

[Nov 22] The Design and Build Contract was accepted in July 2022 and the Contractor has been developing the designs to allow submissions of statutory approvals which would then allow works to commence on site. The Contractor has not yet submitted any applications for the statutory approvals and this is being reviewed to find out the implications to the construction programme. The current completion date for the project is June 2023.

[Sep 22] The project was re-tendered in May 2022 with tenders received in excess of original budget. The project budget has been realigned following confirmation of additional funding from the Scottish Government, and approval by the Section 95 officer in consultation with the Chair and Vice Chair of ELH. The re-tendered construction contract was accepted on 20 July 2022, with design work due to start in August 2022 and will take approx. 12 weeks, followed by a construction period of 30 weeks with a programmed completion in June 2023.

[Mar 22] Project to be retendered. It is likely that a revised budget will be required for this project.

[Feb, Sep & Nov 21] The project was tendered and the tenders expired before discussions with the Scottish Government around the funding requirements for the project could be completed. Officers are reviewing how best to proceed with the project taking cognisance of the other projects currently under development.

[Dec 20] Unfortunately, the tenders expired in October/November and funding models are being investigated. These approvals are outstanding, and the delays have arisen due to post-tender dialogues with the Scottish Government over the overall funding package being below the level required to enable building to be affordable for the Housing Revenue Account. The outcome of these dialogues with the Scottish Government is being expedited, but in the meantime no expenditure is expected this financial year.

Replacement Tug No 3

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000					531

[Nov 22, Feb & Sep 23] Replacement Tug No 3 has been delivered, with a retention payment due in one year.

[Sep 22] Main tenders received and evaluated, awaiting final procurement checks before awarding contract.

[Mar 22] Consultancy contract placed and outline design specification finalised. Unlikely to incur any contract spend in 2021/22.

[Nov 21] Delay in placing consultancy contract, however once this is completed tender documents will be issued. Depending on tender submissions, there may remain a payment due in this financial year.

Kirkwall Pier Water Break Tank System

Financial Year	18/19	19/20	20/21	21/22	22/23
Slippage £000					165

[Nov 22, Feb & Sep 23] - Outline design and specification by external contractor complete, tender package for design and construction of break tanks in development, expected to be issued before end of calendar year.

[Sep 22] Design Brief issued to Engineering Services with the design & build specification to be developed. Procurement of D&B contractor programmed for Autumn 2022.

[Mar 22] Initial work commenced, majority of expenditure forecast for 2022/23.

Capital Programme Slippage – Project Summaries

New Care Facility

A health needs assessment was undertaken in 2008 and identified the need for an additional 40 residential care home places in Kirkwall in addition to a further eight care home places in Stromness. Proposals considered included refurbishment of the existing residential care home (St Rognvald House) approved in July 2013 by the Council. In March 2015, the Council resolved to reconsider construction of a new residential care home, as a direct replacement for St Rognvald House.

In October 2016, the project was approved for inclusion in the capital programme. Concerns regarding ongoing financial pressures affecting capital programme funds, national policy changes affecting the reliability of the Care Home Bed Numbers Assessment/Health Needs Analysis, workforce availability and lack of revenue funding led to a decision to revisit the capacity of the proposed facility and in June 2020, the Council received a report recommending the replacement of St Rognvald House with a 'future-proofed' 40-bed residential care facility (with scope to build additional bed spaces in blocks of 10, should the need arise).

Following a wider stakeholder engagement process, at an Integration Joint Board meeting in December 2020, the proposed replacement 40-bed care home was endorsed.

Construction tenders received were well in excess of budget estimates and therefore capital costs related to the project were reviewed and presented in a report to the Policy and Resources Committee in February 2021.

In March 2022, a report recommended that the capital programme budget be increased following receipt of tenders for the construction and a value engineering exercise to identify savings.

The contract for construction was awarded in March 2022. Issues with weather, labour and material shortages as well as additional work instructions created delays in the construction programme reported in November 2022. The current anticipated completion date is May 2025.

Kirkwall Pier Water Break Tank

The Kirkwall Pier Water Break Tank project arose from a requirement to comply with the requirements of the Water Supply (Water Fittings) Byelaws 2014 and it was agreed that due to the urgency of the project, it would progress to a full CPA Stage 2 report approved at P & R in November 2021 as an exception. An external consultant performed the feasibility study in July 2021 and also designed the brief, providing costings to support the proposal.

The design and specification of external contractors were completed in November 2022 and a tender package for design and construction of break tanks in development were expected to be issued before the end of that year.

Approval was required from Scottish Water and then the tender documents were issued on 1st May 2023. There was one late bid and so the project was retendered and awarded on 9th August 2023.

There was then a long lead time for sourcing the pump required for the project and although at present, the civil works are complete, there are still elements outstanding.

Cursiter Quarry Expansion

In March 2015, the Council approved a business plan for the quarrying service, which indicated that expansion of Cursiter Quarry was necessary to secure the long-term future of the site as a quarrying operation and in July 2015, it was agreed that the necessary plots of adjacent land to facilitate the expansion would be acquired.

In June 2021, a planning application for the quarry expansion was granted following an appeal to Scottish Ministers. Development was planned in two stages- the first stage at the beginning of the expansion and the second 8-10 years later.

Due to concerns regarding the rapidly diminishing rock reserves within the quarry, the proposed extension was added to the Capital Programme for 2022/23 onwards as an exception to the Capital Project Appraisal process with the approval of the Stage 2 Capital Appraisal in November 2021.

The first phase of the project was completed in April 2023 with remaining works being undertaken by internal quarry staff on site.

Integrated Waste Facility

The Integrated Waste Facility project came about due to concerns about the lifespan of existing waste treatment and transfer facilities and in recognition of the changing legislative landscape regarding the management of waste and recyclable materials. The intended purpose was to enable more efficient collection of a greater range of recyclable materials, thus increase the recycling rate and provide resilience with regards to future legislative changes.

Feasibility studies were carried out in 2015 – 2017, resulting in a Stage 1 Capital Project Appraisal submitted to the Development and Infrastructure Committee in September 2018. Following this, work was undertaken to further investigate the solutions recommended in the Stage 1 CPA. This then culminated in a Stage 2 Capital Project Appraisal which was approved by Committee in November 2021.

The components of the proposed waste facility, as approved through the Stage 2 CPA were:

- In Vessel Composter for organic (food and garden) waste.
- Mechanical pre-treatment (shredding) for residual waste.
- Sorting facility for mixed dry recyclable materials.

In addition, a Household Waste Recycling Centre and a re-use 'one stop shop' (with a view to work in partnership with a third sector partner) was also part of the proposed facility.

Support to cover the majority of the expected capital costs was sought from the Scottish Government Recycling Improvement Fund. Following an expression of interest, the Council was invited to submit a Stage 2 application to the fund in September 2021. In 2022, the Council were informed that they were unsuccessful in gaining the funding.

Officers subsequently reviewed the scope of the Integrated Waste Facility and in April 2024, external cost consultants reviewed the pricing schedule and updated costs in accordance with current prices. The revised project budget rose from £17.2m to £26.8m and therefore the Policy and Resource Committee recommended that the project be removed from the Capital Programme, due to unaffordability. This was subsequently approved by Council in July 2024.

Coastal Change Adaptation

The Coastal Change Adaptation project is part of the wider Local Flood Risk Management Plan 2022-2028. This element of the project involved LiDAR (airborne laser) surveys of the vulnerable parts of the Orkney coastline which provided 3D point cloud data and aerial photography that will be used to produce a Digital Terrain Model (DTM).

In March 2022, the Council were awarded £160,000 General Capital Grant from the Scottish Government which was to be used within the 2022/23 financial year for coastal adaptation planning. The funding was allocated for the procurement of LiDAR surveys and preparation of a DTM.

Tenders put out in 2022 for the LiDAR surveys achieved one tender which was overbudget. The project was retendered to commence in Spring 2023 with a more generous timescale to reduce contractor risk.

The work was completed in June 2023 and the data processed and handed over to the Council on 27 November 2023.

Plant and Vehicle Replacement Programme

The Plant and Vehicle Replacement Programme is an annual top-sliced capital asset management programme.

Items of plant and vehicles are prioritised for replacement depending on a scoring system and added to the rolling five-year programme accordingly.

School Kitchen Improvements

The School Kitchen Improvements project arose as part of a Scottish Government initiative to expand entitlement for universal free school meals in primary schools to Primary 4 and 5 classes. Scottish Government funding was available to replace old kitchen equipment to enable the initiative to be feasible in Orkney.

A bid was submitted for the funding and an award was made in September 2022 with an expectation that the funds would be spent by March 2023.

Procurement was undertaken to source various items of kitchen equipment and a meal ordering system. Due to a lack of tender response for some elements, logistical challenges and long lead times, the funding had to be transferred to the 2023/24 budget.

Alterations to Garden House

In June 2018 a Revised Stage 2 CPA for the redevelopment of Garden House was put to the P&R Committee. Estimated cost was £980k, excluding costs to bring the property to a lettable condition. These costs were later identified in February 2020 as £55k.

No formal CPA documents relating to Garden House had been produced prior to this, because the original intention in October 2014 had been to extend the Kirkwall Travel Centre to accommodate the proposed tenants- VAO.

The Garden House Strategic Programme document of August 2019 anticipated 4 months to get planning in place. The planning application was submitted in October 2019, and conditional permission was granted in September 2020. A Stopping Up Order was issued in October 2021. Following an appeal, Scottish Government denied the request to stop up the road (Part of the required planning conditions) in December 2022. This necessitated revisions to the scheme.

Delay meant that the original budget for costs was projected to increase due to the age of the original budget. The tenders were issued in October 2023 and in February 2024 was awarded for £1.624m although a change in direction of Voluntary Action Orkney's accommodation strategy meant that the contract did not go ahead. The project has now been removed from the programme as there is no contractual commitment.

Moar Drive

In Feb 2020 a Stage 2 CPA for the construction of 4 1-bedroomed houses at Moar Drive was put to the P&R Committee. In May 2020, tenders came back overbudget, so the contract was not awarded.

The process went into abeyance until Feb 2022 whilst the Scottish Government grant funding position was discussed. In the meantime, cost forecasts predicted an increase in cost for delivery of the project.

In April 2022, a tendering process started and in July 2022, a contract was awarded for the work.

Planning permission application submitted by contractor in November 2022. Objections were received which meant it went to the Planning Committee. It was subsequently granted subject to conditions in April 2023. These conditions were discharged at end of October 2023.

Work commenced 23 November 2023, completion expected October 2024.

Replacement Tug No3

Freyja of Scapa is the third in the series of tugboats in the Kocacay range, purchased by the Council.

The invitation to tender for the supply of third tugboat was published on 2 June 2022 and the contract was awarded in September 2022. The boat was cleared for service by the Maritime and Coastguard Agency (MCA) for service.

The final retention payment was made in October 2023.