

Item: 7

Policy and Resources Committee: 22 September 2020.

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 2019/20.

2. Recommendations

The Committee is invited to note:

2.1.

The net slippage figure of £5,734,000 in relation to the General Fund and Non-General Fund capital programmes as at 31 March 2020.

2.2.

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

It is recommended:

2.3.

That the sum of £2,446,000 be carried forward from financial year 2019/20 to financial years 2020/21 and onwards in respect of net slippage on projects contained within General Fund capital programmes.

2.4.

That the sum of £3,288,000 be carried forward from financial year 2019/20 to financial years 2020/21 and onwards in respect of slippage on projects contained within Non-General Fund capital programmes.

2.5.

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

3. Re-profiling Exercise

3.1.

A re-profiling exercise was completed during financial year 2019/20, in January 2020 with the annual budget figures reduced by the following amounts:

- General Fund budget for 2019/20 reduced by £7,210,000.
- Non-General Fund budget for 2019/20 reduced by £1,412,000.

3.2.

The amounts shown above have been re-profiled into financial year 2020/21 and onwards.

4. General Fund

4.1.

A total of £3,105,000 net slippage was recorded on General Fund projects in financial year 2019/20. 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 £2,446,000 is recommended for carry forward and re-profiling.

4.2.

The total of £2,446,000 includes an underspend of £1,105,000 on the 2019/20 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 2019/20 being added to the annual improvement programme for financial year 2020/21.

5. Non-General Fund

A total of £3,461,000 net slippage was recorded on Non-General Fund projects in financial year 2019/20. After allowing for £263,000 of house purchases, overspends on completed projects, underspends/overspends on annual programmes of expenditure and, following consideration of project updates, a total of £3,288,000 is recommended for carry forward and re-profiling.

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 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 2019/20 capital programme was established on the basis of a programme expenditure limit of £33,288,000, including £19,639,000 of General Fund projects and £13,649,000 of Non-General Fund projects.

7.3.

During financial year 2019/20 further projects were added and/or removed from the capital programme resulting in a revised expenditure limit of £35,108,000.

7.4.

Further delays were identified in delivery of the approved programme of capital works for financial year 2019/20, resulting in a total of £8,622,000 being re-profiled into financial year 2020/21 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 2019/20, reprofiling and slippage has resulted in an additional cash balance of £14,356,000 being held by the Council at 31 March 2020 based on the recommended carry forward capital slippage figure of £5,734,000, plus the previously reprofiled budget of £8,622,000. 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 £14,356,000 over 12 months at a return of 1.00% per annum equates to £143,560.

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 11.8% per annum going forward. This is much higher than normal and can be attributed to the impact of Covid-19 on the construction industry. Based on £14,356,000, a one-year delay could cost £1,694,008.

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 £14,356,000 at an average rate of 2.61% per annum would represent an interest cost of £374,692 per annum.

7.7.4.

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.

7.7.5.

No acceleration of capital debt repayment took place in financial year 2019/20, with a decision being taken to set aside additional funds in the General Fund Reserves to alleviate additional cost pressures that will arise during financial year 2020/21 as a result of the Covid-19 pandemic. This decision will also impact on the affordability of the capital programme going forward.

7.7.6.

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 slippage on both the General Fund and Non-General Fund Capital Programmes.

7.9.

With programme slippage from 2019/20 being carried forward into financial years 2020/21 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.

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 2019/20.

Appendix 2: Revised Capital Programmes.

| | 1 Apr 2019 - 31 March 2020 | | | | 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 | 64 | 185 | (121) | (121) | Project on-going |
| Arcadia Park | 201 | 230 | (29) | (29) | Project on-going |
| Operational Environmental Services | | | | | |
| Burial Grounds - Mainland Extensions | 264 | 200 | 64 | 64 | Project on-going |
| Burial Grounds - Mainland Major Improvements | 0 | 2 | (2) | (2) | Project on-going |
| Burial Grounds - Island Extensions | 48 | 50 | (2) | (2) | Project on-going |
| Burial Grounds - Island Major Improvements | 0 | 5 | (5) | (5) | Project on-going |
| Roads | | | | | |
| Cycling, Walking & Safer Routes / 20 mph scheme | 50 | 36 | 14 | 0 | Grant funded project |
| Roads Asset Replacement Programme | 1,238 | 1,362 | (124) | 0 | Annual programme - no carry forward of unspent budget |
| Kirkwall flood prevention scheme | 81 | 0 | 81 | 0 | Project complete |
| Kirkwall Places and Spaces | 648 | 555 | 93 | 93 | Project on-going |
| Transportation | | | | | |
| Electric vehicle charging infrastructure | 153 | 180 | (27) | (27) | Funding for 19/20 accrued into 20/21 |
| Airfields Infrastructure | 5 | 0 | 5 | 0 | Project complete |
| Golden Mariana Replacement | 1,083 | 1,535 | (452) | (452) | Boat has been delivered and work on-going to make it suitable for route |
| Resurfacing of Westray runway | 17 | 46 | (29) | 0 | Project complete |
| Resurfacing of North Ronaldsay runway | 3 | 26 | (23) | 0 | Project complete |
| Resurfacing of Eday runway | 5 | 0 | 5 | 0 | Project complete |
| Social Care | | | | | |
| Replacement facilities St Peter's house | 2,940 | 2,868 | 72 | 72 | Project complete retention due in 20/21 |
| New Care Facility, Kirkwall | 73 | 70 | 3 | 3 | Project on-going |
| Other Housing | | | | | |
| Housing Loans | 485 | 500 | (15) | 0 | Annual programme - no carry forward of unspent budget |
| Serviced Sites for Sale | 7 | 0 | 7 | 0 | Project complete |
| Education | | | | | |
| New build KGS (Excluding pool) | 200 | 0 | 200 | 0 | Project complete |
| New Stromness Primary School | 100 | 0 | 100 | 0 | Project complete |
| KGS Halls of Residence | 50 | 0 | 50 | 0 | Project complete |
| Leisure Pool | 50 | 0 | 50 | 0 | Project complete |
| Extension to St Andrew's School | 102 | 100 | 2 | 2 | Project on-going |
| Leisure & Cultural | | | | | |
| Refurb. improve Scapa Flow Visitor Centre and Museum | 528 | 818 | (290) | (290) | Project on-going |
| St Magnus Cathedral Doors | 0 | 116 | (116) | (116) | Project on-going |
| Central Administration and Asset Replacement | | | | | |
| IT replacement programme | 447 | 420 | 27 | 0 | Annual programme - additional costs funded by grant receipts |
| Plant & Vehicle Replacement | 1,256 | 1,200 | 56 | 0 | Annual programme - additional costs funded by sale receipts and contributions |
| Alterations to Garden House, Kirkwall | 89 | 265 | (176) | (176) | Project on-going |
| Disaster recovery and business continuity suite | 0 | 260 | (260) | (260) | Revised project now on-going |
| Scottish Water Vesting | 2 | 0 | 2 | 0 | Project on-going with possible refund of costs from Scottish Water |
| Replacement Audio Casting | 16 | 31 | (15) | (15) | Project on-going |
| Replacement Telephone System | 0 | 80 | (80) | (80) | Project on-going |

| | 1 Apr 2019 - 31 March 2020 | | | | Comment |
|--|----------------------------|--------------------------|------------------------------|------------------------------------|---|
| | Actual Spend £000's | Revised Budget £000's | Over/(Under) Spend £000's | (Slippage)/ Acceleration £000's | |
| Corporate Property Improvements | | | | | |
| Corporate Improvement Programme | 733 | 2,903 | (2,170) | (1,105) | Annual programme - carry forward of grant funded ELC budget |
| | 10,938 | 14,043 | (3,105) | (2,446) | |

| | 1 Apr 2019 - 31 March 2020 | | | | 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 | 263 | 0 | 263 | 0 | One-off purchases approved under delegated powers |
| Carness | 1,284 | 1,415 | (131) | (131) | Project on-going |
| Scapa Flow Oil Port | | | | | |
| Pilot Vessel | 1,141 | 1,467 | (326) | (326) | Project complete but retention still due |
| Replacement Tugs | 5,567 | 7,960 | (2,393) | (2,393) | Project on-going |
| Minor Improvements | 13 | 150 | (137) | 0 | Annual programme - no carry forward of unspent budget |
| Miscellaneous Piers | | | | | |
| Minor Improvements | 0 | 300 | (300) | 0 | Annual programme - no carry forward or acceleration |
| Gill Pier Refurbishment | 89 | 14 | 75 | 0 | Project complete |
| Low Carbon Transport and Active Travel Hub | 576 | 1,016 | (440) | (440) | Project on-going |
| Hatston Pier Road Reconstruction | 4 | 2 | 2 | 2 | Project on-going |
| Corporate Property Improvements | | | | | |
| SRF Property Maintenance | 45 | 119 | (74) | 0 | Annual programme - no carry forward of unspent budget |
| | 8,982 | 12,443 | (3,461) | (3,288) | |

| | Total Budget £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|--------------------------------------|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| General Fund Summary | | | | | | |
| A Other Housing | 2,500 | 500 | 500 | 500 | 500 | 500 |
| B Community Social Services | 15,632 | 3,013 | 974 | 4,340 | 5,905 | 1,400 |
| C Education | 2,982 | 102 | 400 | 1,300 | 1,167 | 13 |
| D Cultural and Recreational Services | 3,586 | 528 | 1,457 | 1,551 | 50 | 0 |
| E Roads | 6,121 | 2,046 | 1,225 | 950 | 950 | 950 |
| F Transportation Services | 1,787 | 1,308 | 479 | 0 | 0 | 0 |
| G Environmental services | 995 | 312 | 468 | 215 | 0 | 0 |
| H Planning & Protective Services | 515 | 265 | 250 | 0 | 0 | 0 |
| J Administration Services | 18,069 | 3,523 | 5,088 | 3,516 | 2,971 | 2,971 |
| Expenditure Total | 52,187 | 11,597 | 10,841 | 12,372 | 11,543 | 5,834 |

| | | Total Budget £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|-----------------------------|--|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Other Housing | | | | | | | |
| OH1 | Housing Loans | 2,500 | 500 | 500 | 500 | 500 | 500 |
| | A | 2,500 | 500 | 500 | 500 | 500 | 500 |
| Social Care | | | | | | | |
| SC9 | Replacement facilities St Peter's house | 3,864 | 2,940 | 924 | 0 | 0 | 0 |
| SC10 | New Care Facility, Kirkwall | 11,768 | 73 | 50 | 4,340 | 5,905 | 1,400 |
| | B | 15,632 | 3,013 | 974 | 4,340 | 5,905 | 1,400 |
| Education | | | | | | | |
| ED12 | Extension to St Andrew's School | 2,982 | 102 | 400 | 1,300 | 1,167 | 13 |
| | C | 2,982 | 102 | 400 | 1,300 | 1,167 | 13 |
| Leisure and Cultural | | | | | | | |
| LC9 | Refurb. improve Scapa Flow Visitor Centre and Museum | 3,406 | 528 | 1,297 | 1,531 | 50 | 0 |
| LC12 | St Magnus Cathedral Doors | 180 | 0 | 160 | 20 | 0 | 0 |
| | D | 3,586 | 528 | 1,457 | 1,551 | 50 | 0 |

| | | Total Budget £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|---|---|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Roads | | | | | | | |
| RD5 | Cycling, Walking & Safer Routes / 20 mph scheme | 132 | 36 | 96 | 0 | 0 | 0 |
| RD6 | Roads Asset Replacement Programme | 5,162 | 1,362 | 950 | 950 | 950 | 950 |
| RD23 | Kirkwall Places and Spaces | 827 | 648 | 179 | 0 | 0 | 0 |
| E | | 6,121 | 2,046 | 1,225 | 950 | 950 | 950 |
| Transportation | | | | | | | |
| TR8 | Electric vehicle charging infrastructure | 180 | 153 | 27 | 0 | 0 | 0 |
| TR10 | Golden Mariana replacement | 1,535 | 1,083 | 452 | 0 | 0 | 0 |
| TR14 | Resurfacing of Westray runway | 46 | 46 | 0 | 0 | 0 | 0 |
| TR15 | Resurfacing of North Ronaldsay runway | 26 | 26 | 0 | 0 | 0 | 0 |
| TR16 | Resurfacing of Eday runway | 0 | 0 | 0 | 0 | 0 | 0 |
| F | | 1,787 | 1,308 | 479 | 0 | 0 | 0 |
| Central Administration and Asset Replacement | | | | | | | |
| CA2 | IT replacement programme | 2,020 | 420 | 340 | 420 | 420 | 420 |
| CA4 | Plant & Vehicle Replacement | 6,000 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| CA12 | Alterations to Garden House, Kirkwall | 646 | 89 | 40 | 517 | 0 | 0 |
| CA13 | Disaster recovery and business continuity suite | 260 | 0 | 260 | 0 | 0 | 0 |
| CA16 | Replacement audio-casting equipment | 31 | 16 | 15 | 0 | 0 | 0 |
| CA17 | Replacement telephone system | 240 | 0 | 240 | 0 | 0 | 0 |
| J | | 9,197 | 1,725 | 2,095 | 2,137 | 1,620 | 1,620 |

| | | Total Budget £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|---|--|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Corporate Property | | | | | | | |
| # | Corporate Improvement Programme | 8,872 | 1,798 | 2,993 | 1,379 | 1,351 | 1,351 |
| J | | 8,872 | 1,798 | 2,993 | 1,379 | 1,351 | 1,351 |
| Planning | | | | | | | |
| PL6 | Stones of Stenness Car Park | 285 | 64 | 221 | 0 | 0 | 0 |
| PL7 | Arcadia Park | 230 | 201 | 29 | 0 | 0 | 0 |
| H | | 515 | 265 | 250 | 0 | 0 | 0 |
| Operational Environmental Services | | | | | | | |
| OES2 | Burial Grounds - Mainland Extensions | 715 | 264 | 236 | 215 | 0 | 0 |
| OES3 | Burial Grounds - Mainland Major Improvements | 62 | 0 | 62 | 0 | 0 | 0 |
| OES4 | Burial Grounds - Island Extensions | 132 | 48 | 84 | 0 | 0 | 0 |
| OES5 | Burial Grounds - Island Major Improvements | 86 | 0 | 86 | 0 | 0 | 0 |
| G | | 995 | 312 | 468 | 215 | 0 | 0 |

| | | Total Budget £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|---------------------------------|----------------------------------|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Non General Fund Summary | | | | | | | |
| K | Housing Revenue Account | 9,813 | 1,284 | 5,992 | 2,537 | 0 | 0 |
| L | Orkney College | 0 | 0 | 0 | 0 | 0 | 0 |
| M | Scapa Flow Oil Port | 14,692 | 6,858 | 7,384 | 150 | 150 | 150 |
| N | Miscellaneous Piers and Harbours | 3,813 | 894 | 2,019 | 300 | 300 | 300 |
| O | Strategic Reserve Fund | 595 | 119 | 119 | 119 | 119 | 119 |
| Expenditure Total | | 28,913 | 9,155 | 15,514 | 3,106 | 569 | 569 |

| | | Total Budget £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|--------------------------------|--|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Housing Revenue Account | | | | | | | |
| HRA17 | Carness | 4,029 | 1,284 | 2,661 | 84 | 0 | 0 |
| HRA18 | Watersfield | 602 | 0 | 260 | 342 | 0 | 0 |
| HRA19 | Repeater Road | 364 | 0 | 346 | 18 | 0 | 0 |
| HRA20 | McDonald Park | 318 | 0 | 305 | 13 | 0 | 0 |
| HRA21 | Garson | 1,100 | 0 | 800 | 300 | 0 | 0 |
| HRA22 | Design and Build | 3,400 | 0 | 1,620 | 1,780 | 0 | 0 |
| | K | 9,813 | 1,284 | 5,992 | 2,537 | 0 | 0 |
| Scapa Flow Oil Port | | | | | | | |
| SF5 | Pilot Vessel | 1,467 | 1,141 | 326 | 0 | 0 | 0 |
| SF6 | Replacement Tugs | 12,475 | 5,567 | 6,908 | 0 | 0 | 0 |
| SF7 | Minor Improvements | 750 | 150 | 150 | 150 | 150 | 150 |
| | M | 14,692 | 6,858 | 7,384 | 150 | 150 | 150 |
| Miscellaneous Piers | | | | | | | |
| MP1 | Minor Improvements | 1,500 | 300 | 300 | 300 | 300 | 300 |
| MP11 | Gill Pier Refurbishment | 14 | 14 | 0 | 0 | 0 | 0 |
| MP13 | Low Carbon Transport and Active Travel Hub | 1,016 | 576 | 440 | 0 | 0 | 0 |
| MP14 | Hatston Pier Road Reconstruction | 299 | 4 | 295 | 0 | 0 | 0 |
| MP15 | Hatston Terminal Passenger Walkway | 492 | 0 | 492 | 0 | 0 | 0 |
| MP16 | Stromness Terminal Passenger Walkway | 492 | 0 | 492 | 0 | 0 | 0 |
| | N | 3,813 | 894 | 2,019 | 300 | 300 | 300 |
| Strategic Reserve Fund | | | | | | | |
| SRF1 | SRF Property Maintenance | 595 | 119 | 119 | 119 | 119 | 119 |
| SRF3 | Investment Properties buy /sell | 0 | 0 | 0 | 0 | 0 | 0 |
| | O | 595 | 119 | 119 | 119 | 119 | 119 |