

Item: 3

Policy and Resources Committee: 25 February 2025

Capital Programme Affordability

Report by Head of Finance



1. Overview

- 1.1. In order to effectively manage the risks associated with delivery of the Council's Capital Programme, a structured framework of planning, evaluation and monitoring should be maintained.
- 1.2. In December 2024, the Council approved a Capital Strategy, which forms part of the framework for financial planning. At the same meeting updated procedures for Capital Project Appraisals was also approved.
- 1.3. Capital projects fall into two main categories: annual top-sliced improvement and replacement programmes; and other projects. Revised General Fund annual top-sliced improvement and replacement programme budgets were approved by the Council in July 2024 at £5,500,000.
- 1.4. The General Capital Grant awarded for financial year 2025/26 from the Scottish Government has seen an increase of £626,000 on the previous year to £5,541,000.
- 1.5. Specific Capital Grants have increased from £3,225,000 to £10,096,000 – mainly in respect of Ferries/Inter-Island connectivity. £8m of the Ferries / Inter-Island Connectivity Grant is however expected to be switched to an Inter Islands Connectivity Revenue Grant in the final Finance Circular on the 2025/26 Local Government Settlement.
- 1.6. The net loan charges budget of £3,100,000, equates to headroom for the General Fund Services to borrow a maximum of £24,800,000 from the Loans Fund over the next 5 years, from 1 April 2025 to 31 March 2030.
- 1.7. The existing approved capital programme, attached at Appendix 1, has been factored into the headroom calculations, referred to at section 1.6 above, which ensures the funding is in place to allow them to proceed to completion.

- 1.8. No accelerated debt repayments have been made in the last three financial years and is unlikely to happen in financial year 2024/25 due to the General Fund budget overall forecasting a deficit.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
- i. Note the Scottish Government financial settlement for 2025/26 in respect of capital funding of £5.541m General Capital Grant and specific grants of £10.096m.
 - ii. Agree the net loan charges budget of £3,100,000, which equates to headroom for the General Fund Services to borrow a maximum of £24,800,000 from the Loans Fund over the next 5 years, from 1 April 2025 to 31 March 2030.

3. Background

- 3.1. The CIPFA Prudential Code, introduced in April 2004, gave councils freedom to invest in capital projects within the limitation of legislative controls, provided their programmes can be shown to be affordable, prudent and sustainable. The Treasury Management Strategy Statement (TMSS) is reported annually to the Policy and Resources Committee to assess the affordability of the Council's capital plans.
- 3.2. The Council has adopted the Definition of Capital Expenditure, and the stated accounting procedures, as contained within the CIPFA/LASAAC Statement of Recommended Practice (SORP), as follows:

“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.”

4. Annual top-sliced improvement and replacement programmes

- 4.1. The operation of annual top-sliced property improvement or asset replacement programmes must follow the underlying principles of the Capital Strategy and the CPA process, and this should be evidenced through the regular reporting of the planning, approval and delivery stages to the relevant Service Committee or Sub-committee.

4.2. The following top-sliced improvement and replacement programmes have annual budgets:

- General Fund Capital Improvement Programme*
 - Road Asset Replacement Programme*
 - IT Replacement Programme*
 - Plant and Vehicles Replacement Programme*
 - Housing Revenue Account
 - Scapa Flow Oil Port Minor Capital Improvement Programme
 - Miscellaneous Piers and Harbours Minor Capital Improvement Programme
 - Strategic Reserve Fund Capital Improvement Programme
- (* denotes General Fund programmes)

4.3. On 18 June 2024, the Policy and Resources Committee recommended General Fund top-sliced improvement and replacement programmes for the three years (2025/26, 2026/27 and 2027/28) at a total of £5,500,000.

4.4. A review is required during financial year 2027/28 to assess the sustainability and allocation of funds to the top-sliced programmes.

5. Capital Programme Affordability

5.1. The Settlement from the Scottish Government includes a General Capital Grant award for financial year 2025/26 of £5,541,000. This is £626,000 higher than the previous year. However, like General Revenue Grant funding, the Scottish Government has reallocated previously ring-fenced amounts to 'general' funding.

5.2. Specific Capital Grants have increased from £3.225m to £10.096m in the Local Government Finance Circular No. 10/2024, however it is anticipated that £8.0m of the Ferries / Inter-Island Connectivity Grant will be switched to a Revenue Grant in the final circular setting out the settlement for 2025/26:

Description	2024/25	2025/26
Active Travel / Cycling, Walking & Safer Streets	£0.200m	£0.096m
Free School Meals	£0.025m	
Ferries / Inter-Island Connectivity	£3.000m	£10.000m

- 5.3. The loan charges budget is set at £3,500,000, including allocations of £200,000 each for management of the capital programme and a contribution to the Capital Project Appraisal Fund. After factoring in the existing capital programme, attached at Appendix 1, the net loan charges budget of £3,100,000 equates to headroom for the General Fund Services to borrow a maximum of £24,800,000 from the Loans Fund over the next 5 years, from 1 April 2025 to 31 March 2030.
- 5.4. Given the limited headroom available in the Council's capital programme, the ability to leverage in external funding is essential for projects to progress and the sustainability of the capital programme. Capital projects can be funded by several sources, as follows:
- Scottish Government General Capital Grant and other specific grants.
 - Capital grants from other external sources.
 - Capital receipts generated through the sale of assets.
 - Capital contributions from internal reserves.
 - Capital financed from current revenue income or surpluses.
 - Borrowings from the Loans Fund.
- 5.5. The Council's trading accounts, i.e. the Housing Revenue Account, Scapa Flow Oil Port, Miscellaneous Piers and Harbours, the Quarry and the Strategic Reserve Fund, must finance their capital projects, and repay any capital borrowings from within their own budgets.
- 5.6. The development of a Capital Strategy and the updated procedures for Capital Project Appraisals, approved by the Council in December 2024, will hopefully see Service proposals being brought forward in due course.

For Further Information please contact:

Erik Knight, Head of Finance, extension 2103, Email Erik.Knight@orkney.gov.uk

Implications of Report

1. Financial

Financial implications are included throughout the report.

Section 7 of the Financial Regulations covers the Capital Programme. They state that approval by the Council of the Capital Programme constitutes approval of the individual projects or provisions contained therein. Corporate Directors can incur expenditure within approved revenue and capital budgets. Such expenditure must be in accordance with the Council's policies and objectives and subject to compliance with the Financial Regulations.

2. Legal

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

Section 35 of the Local Government in Scotland Act 2003 requires the Council to determine and keep under review the maximum amount which it can afford to allocate to capital expenditure.

3. Corporate Governance - None

4. Human Resources - None

5. Equalities – N/A

6. Island Communities Impact – N/A

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– N/A

10. Risk– N/A

11. Procurement– N/A

12. Health and Safety– N/A

13. Property and Assets – annual top-sliced capital improvement and replacement programmes are detailed in the report.

14. Information Technology – N/A

15. Cost of Living – N/A

List of Background Papers

Policy and Resources Committee, 27 November 2024, Capital Strategy

Policy and Resources Committee, 27 November 2024, Capital Project Appraisal Procedure

Policy and Resources Committee, 18 June 2024, Review of Top-sliced Asset Replacement Programmes

Policy and Resources Committee, 27 February 2024, Capital Programme Affordability

Policy and Resources Committee, 20 February 2024, Treasury Management Strategy Statement

Appendix

Appendix 1 – Approved Capital Programme 2024/25 to 2029/30

Orkney Islands Council: Approved Capital Programme 2024/25 to 2029/30

	Total Budget	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000	£000	£000
General Fund Summary							
Other Housing	3,510	585	585	585	585	585	585
Community Social Services	5,158	2,900	2,258	0	0	0	0
Education	2,151	2,151	0	0	0	0	0
Cultural and Recreational Services	673	479	181	13	0	0	0
Roads	8,969	2,473	1,596	1,500	1,500	950	950
Transportation Services	2,466	1,082	1,088	266	30	0	0
Environmental services	95	95	0	0	0	0	0
Planning & Protective Services	1,216	1,216	0	0	0	0	0
Administration Services	21,511	3,569	4,000	4,000	4,000	2,971	2,971
Expenditure Total	45,749	14,550	9,708	6,364	6,115	4,506	4,506
Sources of Funding							
Capital Financed from Current Revenue	0	0	0	0	0	0	0
Government Grants	31,046	5,783	5,983	5,000	5,000	4,640	4,640
Other Grants	735	735	0	0	0	0	0
Capital Receipts	1,410	235	235	235	235	235	235
Capital Contributions	2,276	2,210	53	13	0	0	0
Income Total	35,467	8,963	6,271	5,248	5,235	4,875	4,875
Borrowing	10,282	5,587	3,437	1,116	880	(369)	(369)

	Total Budget	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000	£000	£000
Non General Fund Summary							
Housing Revenue Account	1,963	1,963	0	0	0	0	0
Orkney College	0	0	0	0	0	0	0
Scapa Flow Oil Port	900	150	150	150	150	150	150
Miscellaneous Piers and Harbours	9,622	475	4,888	3,244	415	300	300
Strategic Reserve Fund	714	119	119	119	119	119	119
Expenditure Total	13,199	2,707	5,157	3,513	684	569	569
Sources of Funding							
Capital Financed from Current Revenue	3,553	708	569	569	569	569	569
Government Grants	1,356	1,356	0	0	0	0	0
EU Grants	0	0	0	0	0	0	0
Other Grants	0	0	0	0	0	0	0
Capital Receipts	0	0	0	0	0	0	0
Capital Contributions	0	0	0	0	0	0	0
Income Total	4,909	2,064	569	569	569	569	569
Borrowing	8,290	643	4,588	2,944	115	0	0