

Item: 7

Policy and Resources Committee: 20 September 2022.

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 2021/22.

2. Recommendations

The Committee is invited to note:

2.1.

Net slippage amounting to £235,000 in relation to the approved General Fund and Non-General Fund capital programmes as at 31 March 2022.

2.2.

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

It is recommended:

2.3.

That the sum of £451,000, accelerated from 2022/23, be reprofiled back to 2021/22 in respect of overspends on projects contained within General Fund capital programme.

2.4.

That the sum of £686,000 be carried forward from 2021/22 to 2022/23 and onwards in respect of slippage on projects contained within Non-General Fund capital programme.

2.5.

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

3. General Fund

3.1.

A total of £455,000 net slippage was recorded on General Fund projects in 2021/22. 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 £451,000 is recommended for carry back into 2021/22 from 2022/23.

3.2.

This position is due to the approval of reprofiled budgets in the early part of 2022. At that point the Plant and Vehicle Replacement Programme and the Corporate Improvement Programme, in respect of the expansion of the Early, Learning and Childcare, were projecting underspends against the 2021/22 budgets of £600,000 and £700,000 respectively.

3.3.

The final year-end spend position was much better than anticipated and this has resulted in the requirement to reprofile budget back from 2022/23 into 2021/22 in respect of both programmes referred to at section 3.2 above.

4. Non-General Fund

A total of £1,514,000 net slippage was recorded on Non-General Fund projects in 2021/22. After allowing for overspends on completed projects, underspends/overspends on annual programmes of expenditure and, following consideration of project updates, a total of £686,000 is recommended for carry forward and re-profiling.

5. Corporate Governance

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

6. Financial Implications

6.1.

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

6.2.

As a whole the 2021/22 capital programme was established on the basis of a programme expenditure limit of £28,012,000, including £15,497,000 of General Fund projects and £12,515,000 of Non-General Fund projects.

6.3.

During financial year 2021/22 further projects were added and/or removed from the capital programme and a reprofiling exercise took place, resulting in a revised expenditure limit of £15,876,000.

6.4.

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

6.5.

In accordance with the Financial Regulations:

- Capital slippage is defined as capital projects which have not progressed in accordance with the provisions made within the approved capital programme.
- 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.
- 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.
- Where slippage in capital projects is identified, the Chief Executive and Corporate Directors are responsible for informing the Head of Finance and for reporting delays and revised timescales to the Policy and Resources Committee.

6.6.

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

6.6.1.

Slippage on the capital programme can have a positive impact on the Council's cashflow over the short term. For financial year 2021/22, reprofiling and slippage has resulted in an additional cash balance of £13,038,000 being held by the Council at 31 March 2022. 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 £13,038,000 over 12 months at a return of 0.24% per annum equates to £31,291.

6.6.2.

However, in the current economic climate the effect of delaying delivery of the capital programme can have a serious adverse impact on future cashflow and budgets as the cost of the works themselves can increase due to the effects of inflation. The Building Costs Information Service currently forecasts that the cost of construction works across the United Kingdom will increase by 17% over the period 2022 to 2027, with material costs increasing by 15% over the forecast period. The main risks to

material prices will be disruption of world supply chains and oil price rises, which will be exacerbated by the effects of the war in Ukraine. The forecast tender prices increase by the end of 2022 is 6.9% which means a one-year delay on delivery of works totalling £13,038,000 could cost an additional £900,000.

6.6.3.

While the level of development undertaken for the detailed Stage 2 Capital Project Appraisals, together with the capacity of the in-house team to deliver the capital programme are relevant factors, the Council also has to ensure that it has in place the finances necessary to deliver 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 £13,038,000 at an average rate of 3.08% per annum would represent an interest cost of £401,157 per annum.

6.6.4.

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

6.6.5.

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

6.7.

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

6.8.

With programme slippage from 2021/22 being carried forward into financial years 2022/23 to reflect current timescales for completion, individual capital projects have been re-profiled in order to improve budget monitoring and reporting arrangements going forward. The revised capital programmes are attached as Appendix 2 to this report.

7. Legal Aspects

7.1.

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

7.2.

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

8. Contact Officers

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9. Appendices

Appendix 1: Capital Slippage and Acceleration 2021/22.

Appendix 2: Revised Capital Programmes.

	1 Apr 2021 - 31 March 2022				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	13	0	13	0	Project complete with no budget remaining
Arcadia Park	0	18	(18)	0	Project complete and no further costs will be incurred
Town Centre Fund	10	218	(208)	0	Project complete and no further costs will be incurred
Operational Environmental Services					
Burial Grounds - Mainland Extensions	232	140	92	92	Project on-going
Burial Grounds - Mainland Major Improvements	5	6	(1)	(1)	Project on-going
Burial Grounds - Island Extensions	6	7	(1)	(1)	Project on-going
Roads					
Cycling, Walking & Safer Routes / 20 mph scheme	98	147	(49)	(49)	Carry forward of unspent grant as approved by the Scottish Government
Roads Asset Replacement Programme	1,219	1,448	(229)	0	Annual programme - no carry forward of unspent budget
Kirkwall Places and Spaces	7	132	(125)	0	Project complete and no further costs will be incurred
Car Park Ticket Machines	84	90	(6)	0	Project complete and no further costs will be incurred
Transportation					
Electric vehicle charging infrastructure	17	171	(154)	(33)	Grant funded project
Golden Mariana Replacement	274	230	44	0	Project complete and no further costs will be incurred
Social Care					
New Care Facility, Kirkwall	141	150	(9)	(9)	Project on-going
Other Housing					
Housing Loans	480	500	(20)	0	Annual programme - no carry forward of unspent budget
Education					
Extension to St Andrew's School	1,640	1,600	40	40	Project on-going
Leisure & Cultural					
Refurb improve Scapa Flow Visitor Centre and Museum	1,573	1,572	1	1	Project complete but retention monies still due
Leisure Properties General	48	0	48	0	Unbudgeted works funded by Island Infrastructure Funding
St Magnus Cathedral Doors	210	232	(22)	(22)	Project complete but retention monies still due
Papdale East Playpark	323	573	(250)	(250)	Project on-going
Ness Campsite	112	133	(21)	(21)	Project on-going
Central Administration and Asset Replacement					
IT replacement programme	446	394	52	0	Annual programme - additional costs funded by Covid-19 recovery funding
	1,070	1,146	(76)	66	Annual programme - carry forward of £600K budget due to delivery delays due to COVID-19 was processed in early 2022 Final spend on General Fund purchases was slightly higher than anticipated therefore £66K must come back into 21/22 to cover additional spend. Budget figure includes General Fund and Non-General Fund purchases
Plant & Vehicle Replacement				(97)	Project on-going
Alterations to Garden House, Kirkwall	3	100	(97)	(97)	Project on-going
Disaster recovery and business continuity suite	257	260	(3)	(3)	Revised project now on-going
Scottish Water Vesting	1	0	1	0	Project on-going with possible refund of costs from Scottish Water
Replacement Audio Casting	15	0	15	15	Project complete
Replacement Telephone System	230	240	(10)	(10)	Project mostly complete with residual costs to be incurred
Corporate Property Improvements					
Corporate Improvement Programme	1,643	1,105	538	700	Annual programme - carry forward of £700K budget due to anticipated underspends on the ELC provision was processed in early 2022. Final spend on ELC was much higher than anticipated therefore £700K must come back into 21/22 to cover the spend
	10,157	10,612	(455)	418	

	1 Apr 2021 - 31 March 2022				Comment
	Actual Spend £000's	Revised Budget £000's	Over/(Under) Spend £000's	(Slippage)/ Acceleration £000's	
Non-General Fund Capital Programme					
Housing Revenue Account					
Carness	983	961	22	0	Purchase complete
Repeater Road	204	256	(52)	(52)	Project complete but retention monies still due
McDonald Park	70	154	(84)	(84)	Project complete but retention monies still due
Coplands Road, Garson	900	980	(80)	(80)	Project complete but retention monies still due
Heating Upgrade	0	322	(322)	(322)	Project on-going
Carness Phase 2	42	20	22	22	Project on-going
Orkney College					
Plant & Vehicle Replacement	22	22	0	0	Purchase complete
Scapa Flow Oil Port					
Replacement Tugs	353	632	(279)	0	Project complete and no further costs will be incurred
Minor Improvements	0	85	(85)	0	Annual programme - no carry forward of unspent budget
Replacement Tug No 3	5	15	(10)	(10)	Project on-going
Miscellaneous Piers					
Minor Improvements	216	620	(404)	0	Annual programme - no carry forward of unspent budget
Low Carbon Transport and Active Travel Hub	156	119	37	0	Project complete and no further costs will be incurred
Hatston Pier Road Reconstruction	0	25	(25)	(25)	Project on-going
Hatston Terminal Passenger Walkway	153	195	(42)	(42)	Project complete but retention monies still due
Stromness Terminal Passenger Walkway	0	44	(44)	(44)	Project complete but retention monies still due
Reclamation at Hatston Pier - Phase 1	1	50	(49)	(49)	Project on-going
Corporate Property Improvements					
Investment Properties Buy/Sell	645	645	0	0	Strategic purchase funded by the SRF
SRF Property Maintenance	0	119	(119)	0	Annual programme - no carry forward of unspent budget
	3,750	5,264	(1,514)	(686)	
Totals for financial year 2021/22	13,907	15,876	(1,969)	(268)	

		Total					
		Budget	2021/22	2022/23	2023/24	2024/25	2025/26
		£000	£000	£000	£000	£000	£000
General Fund Summary							
A	Other Housing	4,756	500	1,030	2,000	726	500
B	Community Social Services	13,508	141	6,159	7,208	0	0
C	Education	6,398	1,640	2,449	1,959	350	0
D	Cultural and Recreational Services	4,217	2,218	1,999	0	0	0
E	Roads	8,338	1,768	3,370	1,300	950	950
F	Transportation Services	401	368	33	0	0	0
G	Environmental services	17,826	243	877	4,286	9,585	2,835
H	Planning & Protective Services	236	236	0	0	0	0
J	Administration Services	16,587	3,916	3,758	2,971	2,971	2,971
	Expenditure Total	72,267	11,030	19,675	19,724	14,582	7,256
Other Housing							
OH1	Housing Loans	2,500	500	500	500	500	500
OH7	Soulisquoy OH infrastructure	2,256	0	530	1,500	226	0
A		4,756	500	1,030	2,000	726	500
Social Care							
SC10	New Care Facility, Kirkwall	13,508	141	6,159	7,208	0	0
B		13,508	141	6,159	7,208	0	0
Education							
ED12	Extension to St Andrew's School	3,878	1,640	2,160	78	0	0
ED13	New Kirkwall Nursery	2,520	0	289	1,881	350	0
C		6,398	1,640	2,449	1,959	350	0
Leisure and Cultural							
LC9	Refurb. improve Scapa Flow Visitor Centre and Museum	2,879	1,573	1,306	0	0	0
LC12	St Magnus Cathedral Doors	232	210	22	0	0	0
LC13	Papdale East Play Park	749	323	426	0	0	0
LC14	Ness Campsite	357	112	245	0	0	0
D		4,217	2,218	1,999	0	0	0
Roads							
RD5	Cycling, Walking & Safer Routes / 20 mph scheme	290	98	192	0	0	0
RD6	Roads Asset Replacement Programme	5,484	1,448	1,186	950	950	950
RD23	Kirkwall Places and Spaces	132	132	0	0	0	0
RD24	Car Park Ticket Machines	90	90	0	0	0	0
RD25	Cursiter Quarry Expansion	2,182	0	1,832	350	0	0
RD26	Coastal Change Adaptation	160	0	160	0	0	0
E		8,338	1,768	3,370	1,300	950	950
Transportation							
TR8	Electric vehicle charging infrastructure	171	138	33	0	0	0
TR10	Golden Mariana replacement	230	230	0	0	0	0
F		401	368	33	0	0	0
Central Administration and Asset Replacement							
CA2	IT replacement programme	2,074	394	420	420	420	420
CA4	Plant & Vehicle Replacement	6,546	1,212	1,734	1,200	1,200	1,200
CA12	Alterations to Garden House, Kirkwall	537	3	534	0	0	0
CA13	Disaster recovery and business continuity suite	260	257	3	0	0	0
CA16	Replacement audio-casting equipment	15	15	0	0	0	0
CA17	Replacement telephone system	240	230	10	0	0	0
J		9,672	2,111	2,701	1,620	1,620	1,620
Corporate Property							
	Corporate Improvement Programme	6,915	1,805	1,057	1,351	1,351	1,351
J		6,915	1,805	1,057	1,351	1,351	1,351
Planning							
PL7	Arcadia Park	18	18	0	0	0	0
PL8	Town Centre Fund	218	218	0	0	0	0
H		236	236	0	0	0	0

		Total Budget £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Operational Environmental Services							
OES2	Burial Grounds - Mainland Extensions	396	232	164	0	0	0
OES3	Burial Grounds - Mainland Major Improvements	60	5	55	0	0	0
OES4	Burial Grounds - Island Extensions	79	6	73	0	0	0
OES5	Burial Grounds - Island Major Improvements	85	0	85	0	0	0
OES7	Integrated Waste Facility	17,206	0	500	4,286	9,585	2,835
G		17,826	243	877	4,286	9,585	2,835
Non General Fund Summary							
K	Housing Revenue Account	11,254	2,177	6,840	2,036	201	0
L	Orkney College	22	22	0	0	0	0
M	Scapa Flow Oil Port	8,882	722	7,535	325	150	150
N	Miscellaneous Piers and Harbours	10,466	893	3,040	5,247	986	300
O	Strategic Reserve Fund	1,240	764	119	119	119	119
	Expenditure Total	31,864	4,578	17,534	7,727	1,456	569
Housing Revenue Account							
HRA17	Carness	961	961	0	0	0	0
HRA18	Moar Road	751	0	751	0	0	0
HRA19	Repeater Road	256	204	52	0	0	0
HRA20	McDonald Park	154	70	84	0	0	0
HRA21	Garson	980	900	80	0	0	0
HRA22	Design and Build	3,395	0	3,395	0	0	0
HRA23	Heating upgrade	322	0	322	0	0	0
HRA24	Carness Phase 2	2,364	42	1,666	656	0	0
HRA25	Soulisquoy HRA infrastructure	2,071	0	490	1,380	201	0
K		11,254	2,177	6,840	2,036	201	0
OC1	L Plant & Vehicles	22	22	0	0	0	0
		22	22	0	0	0	0
Scapa Flow Oil Port							
SF5	Pilot Vessel	0	0	0	0	0	0
SF6	Replacement Tugs	632	632	0	0	0	0
SF7	Minor Improvements	685	85	150	150	150	150
SF8	Replacement Tug No 3	7,565	5	7,385	175	0	0
M		8,882	722	7,535	325	150	150
Miscellaneous Piers							
MP1	Minor Improvements	1,820	620	300	300	300	300
MP13	Low Carbon Transport and Active Travel Hub	119	119	0	0	0	0
MP14	Hatston Pier Road Reconstruction	295	0	295	0	0	0
MP15	Hatston Terminal Passenger Walkway	195	153	42	0	0	0
MP16	Stromness Terminal Passenger Walkway	44	0	44	0	0	0
MP17	Kirkwall Pier Water Break Tank System	200	0	170	30	0	0
MP18	Reclamation at Hatston Pier - Ph 1	7,793	1	2,189	4,917	686	0
N		10,466	893	3,040	5,247	986	300
Strategic Reserve Fund							
SRF1	SRF Property Maintenance	595	119	119	119	119	119
SRF3	Investment Properties buy /sell	645	645	0	0	0	0
O		1,240	764	119	119	119	119