

Item: 7

Policy and Resources Committee: 25 September 2018.

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 2017 to 2018.

2. Recommendations

The Committee is invited to note:

2.1.

The net slippage figure of £1,630,000 in relation to the General Fund and Non-General Fund capital programmes as at 31 March 2018, following two re-profiling exercises that took place during financial year 2017 to 2018, when a total of £10,120,000 of expenditure was re-profiled into financial year 2018 to 2019 and onwards.

2.2.

That the Head of Finance has further re-profiled the existing General Fund and Non-General Fund five-year capital programmes, in order to reflect the net slippage and current timescales for completion of individual capital projects.

It is recommended:

2.3.

That the sum of £1,275,000 be carried forward from financial year 2017 to 2018 to financial years 2018 to 2019 and onwards in respect of net slippage on projects contained within General Fund capital programmes.

2.4.

That the sum of £355,000 be carried forward from financial year 2017 to 2018 to financial years 2018 to 2019 and onwards in respect of slippage on projects contained within Non-General capital programmes.

2.5.

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

3. Re-profiling Exercise

3.1.

Two re-profiling exercises have been completed during financial year 2017 to 2018, in July 2017 and January 2018 respectively, with the annual budget figures reduced by the following amounts:

- General Fund budget for 2017 to 2018 reduced by £8,508,000.
- Non-General Fund budget for 2017 to 2018 reduced by £1,612,000.

3.2.

The amounts shown above have been re-profiled into financial year 2018 to 2019 and onwards.

4. General Fund

4.1.

A total of £271,000 net slippage was recorded on General Fund projects in financial year 2017 to 2018. After allowing for £1,004,000 of ad-hoc purchases, 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 £1,275,000 is recommended for carry forward and re-profiling.

4.2.

The total of £1,275,000 no longer includes a project budget for replacement of the Golden Mariana, at an estimated cost of £500,000. This project was due to have been completed in financial year 2014 to 2015 with funding from the in-year underspend on the Corporate Improvement Programme. The purchase was not completed in financial year 2014 to 2015, with the budget subsequently approved for carry forward every financial year since that date, to allow for completion of the purchase of a new vessel. The Service has now indicated that £500,000 would be insufficient to source a suitable replacement and that a separate Capital Project Appraisal will be required to request an adequate budget to source a suitable vessel.

4.3.

It is recommended that underspends totalling £327,000 on the Road Asset Replacement Programme should be carried forward into financial year 2018 to 2019 and beyond, due to delays with delivery of planned works during 2017 to 2018, as a result of exceptional circumstances.

5. Non-General Fund

A total of £906,000 net slippage was recorded on Non-General Fund projects in financial year 2017 to 2018. However, following consideration of project updates, a total of £355,000 is recommended for carry forward and re-profiling. The £551,000 not recommended for slippage represents underspends where the projects are complete and will incur no further expenditure and underspends/overspends on annual programmes of expenditure funded from revenue sources in the current year.

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 2017 to 2018 capital programme was established on the basis of a programme expenditure limit of £19,708,000, including £15,442,000 of General Fund projects and £4,266,000 of Non-General Fund projects.

7.3.

During financial year 2017 to 2018 further projects were added and/or removed from the capital programme resulting in a revised expenditure limit of £26,062,000.

7.4.

Further delays were identified in delivery of the approved programme of capital works for financial year 2017 to 2018, resulting in a total of £10,120,000 being re-profiled into financial year 2018 to 2019 and beyond.

7.5.

Further ad-hoc reprofiling has taken place following approval of revised Capital Project Appraisals in respect of the burial ground improvement programme and the project to redevelop Garden House for the Third Sector resulting in a final expenditure limit for financial year 2017 to 2018 of £15,937,000.

7.6.

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.

7.7.

In accordance with the Financial Regulations:

7.7.1.

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

7.7.2.

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.

7.7.3.

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.

7.7.4.

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.

7.8.

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:

7.8.1.

Slippage on the capital programme can have a positive impact on the Council's cashflow over the short term. For financial year 2017 for 2018, reprofiling and slippage has resulted in an additional cash balance of £11,750,000 being held by the Council at 31 March 2018 based on the recommended carry forward capital slippage figure of £1,630,000, plus the previously reprofiled budget of £10,120,000. 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 £11,750,000 over 12 months at a return of 0.61% per annum equates to £71,675.

7.8.2.

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 4.1% per annum going forward. Based on £11,750,000, a one-year delay could cost £481,750.

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 £11,750,000 at an average rate of 3.7% per annum would represent an interest cost of £434,750 per annum.

7.7.4.

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 2017 to 2018 being carried forward into financial years 2018 to 2019 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

Gareth Waterson, Head of Finance, extension 2103, Email
gareth.waterson@orkney.gov.uk.

Colin Kemp, Corporate Finance Senior Manager, extension 2106, Email
colin.kemp@orkney.gov.uk.

10. Appendices

Appendix 1: Capital Slippage and Acceleration 2017 to 2018.

Appendix 2: Revised Capital Programmes.

	1 Apr 2017 - 31 March 2018				Comment
	Actual Spend £000's	Annual Budget £000's	(Under)/ Overspend £000's	(Slippage)/ Acceleration £000's	
General Fund Capital Programme					
Planning					
Access to Countryside	6	10	(4)	0	Project complete
World Heritage Area	5	21	(16)	(16)	Project on-going
Operational Environmental Services					
Burial Grounds - Mainland Extensions	128	128	0	0	No (slippage)/acceleration - budget re-profiled following revised CPA
Burial Grounds - Mainland Major Improvements	2	2	0	0	No (slippage)/acceleration - budget re-profiled following revised CPA
Burial Grounds - Island Extensions	70	70	0	0	No (slippage)/acceleration - budget re-profiled following revised CPA
Burial Grounds - Island Major Improvements	3	3	0	0	No (slippage)/acceleration - budget re-profiled following revised CPA
Roads					
Long Stay Car Park Stromness	1	12	(11)	0	Project complete
Cycling, Walking & Safer Routes / 20 mph scheme	50	30	20	0	Grant funded project
Roads Asset Replacement Programme	851	1,178	(327)	(327)	Slippage on delivery of 17/18 programme
Scapa Link Road	5	13	(8)	0	Project complete
Replacement of Tar Plant at Cusiter Quarry	652	684	(32)	(32)	Final retention due to be paid in 18/19
Kirkwall flood prevention scheme	1,741	1,890	(149)	(149)	Project to be completed in 18/19
Transportation					
Electric vehicle charging infrastructure	32	38	(6)	0	Project complete
Airfields Infrastructure	159	198	(39)	0	Project complete
Golden Mariana replacement	0	500	(500)	0	Budget no longer sufficient - separate CPA to be submitted by Service
Resurfacing of Sanday runway	193	143	50	50	Project on-going
Resurfacing of Westray runway	31	143	(112)	(112)	Project on-going

	1 Apr 2017 - 31 March 2018				Comment
	Actual Spend £000's	Annual Budget £000's	(Under)/ Overspend £000's	(Slippage)/ Acceleration £000's	
Other Housing					
Housing Loans	282	500	(218)	0	Annual programme - no carry forward of unspent budget
Serviced Sites for Sale	8	0	8	0	Project complete
Education					
New Build KGS (Excluding Pool)	1,387	1,177	210	0	Project complete
Stromness Primary School New Build	388	328	60	0	Project complete
KGS Halls of Residence	280	278	2	0	Project complete
Leisure Pool	346	352	(6)	0	Project complete
Evie School	358	216	142	10	Project complete with remaining budget to be accelerated
Extension to St Andrew's School	49	53	(4)	(4)	Project on-going
Leisure & Cultural					
Refurb. improve Scapa Flow Visitor Centre and Museum	103	100	3	3	Project on-going
Social Care					
Replacement facilities St Peter's house	1,030	1,200	(170)	(170)	Project on-going
New Care Facility, Kirkwall	314	679	(365)	(365)	Project on-going
Central Administration and Asset Replacement					
IT replacement programme	370	420	(50)	0	Annual programme - no carry forward of unspent budget
Plant & Vehicle Replacement	1,195	1,200	(5)	0	Annual programme - no carry forward of unspent budget
Disaster recovery and business continuity suite	0	194	(194)	(194)	Project on-going
Upgrade of PARIS system	88	57	31	31	Project on-going
Scottish Water Vesting	4	0	4	0	Project on-going with possible refund of costs from Scottish Water
Stromness Pierhead Regeneration (projects 1,2 and 3)	139	0	139	0	Project complete
Corporate Property Improvements					
Corporate Improvement Programme	1,479	1,351	128	0	Annual programme enhanced by grant funding
SRF Property Maintenance	815	119	696	0	Annual programme including transfer of former Stromness Primary School
Investment Properties buy /sell	452	0	452	0	Ad-hoc strategic purchase
	13,016	13,287	(271)	(1,275)	

	1 Apr 2017 - 31 March 2018				Comment
	Actual Spend £000's	Annual Budget £000's	(Under)/ Overspend £000's	(Slippage)/ Acceleration £000's	
Non- General Fund Capital Programme					
Scapa Flow Oil Port					
Pilot Vessel	14	50	(36)	(36)	Project on-going
Replacement Tug	5	50	(45)	(45)	Project on-going
Minor Improvements	44	48	(4)	0	Annual programme - no carry forward of unspent budget
Miscellaneous Piers					
Minor Improvements	196	300	(104)	0	Annual programme - no carry forward of unspent budget
Gill Pier Refurbishment	1,327	1,562	(235)	(235)	Project on-going
Housing Revenue Account					
House Purchases	85	85	0	0	Project complete
Watersfield Phase 2	9	0	9	0	Project complete
Walliwall	3	474	(471)	0	Project complete
Carness	28	67	(39)	(39)	Project on-going
Orkney College					
Plant & Vehicles	33	14	19	0	Project complete
	1,744	2,650	(906)	(355)	
TOTAL CAPITAL PROGRAMME	14,760	15,937	(1,177)	(1,630)	

		Total					
		Budget	2017/18	2018/19	2019/20	2020/21	2021/22
		£000	£000	£000	£000	£000	£000
General Fund Summary							
A	Other Housing	2,500	500	500	500	500	500
B	Community Social Services	23,504	1,344	6,011	6,246	8,532	1,371
C	Education	5,477	2,410	1,583	1,243	228	13
D	Cultural and Recreational Services	3,288	103	2,990	141	54	0
E	Roads	7,932	3,299	1,783	950	950	950
F	Transportation Services	1,442	960	480	0	2	0
G	Environmental services	1,521	203	661	327	302	28
H	Planning & Protective Services	31	15	16	0	0	0
J	Administration Services	16,964	3,178	3,378	3,847	3,458	3,103
Expenditure Total		62,659	12,012	17,402	13,254	14,026	5,965
Other Housing							
Housing Loans		2,500	500	500	500	500	500
A		2,500	500	500	500	500	500
Social Care							
Replacement facilities St Peter's house		8,752	1,030	5,348	2,254	120	0
New Care Facility, Kirkwall		14,752	314	663	3,992	8,412	1,371
B		23,504	1,344	6,011	6,246	8,532	1,371
Education							
New Build KGS (Excluding Pool)		1,177	1,177	0	0	0	0
Stromness Primary School New Build		328	328	0	0	0	0
KGS Halls of Residence		278	278	0	0	0	0
Leisure Pool		352	352	0	0	0	0
Evie School		226	226	0	0	0	0
Extension to St Andrew's School		3,116	49	1,583	1,243	228	13
C		5,477	2,410	1,583	1,243	228	13
Leisure and Cultural							
Refurb. improve Scapa Flow Visitor Centre and Museum		3,288	103	2,990	141	54	0
D		3,288	103	2,990	141	54	0
Roads							
Long Stay Car Park Stromness		12	12	0	0	0	0
Cycling, Walking & Safer Routes / 20 mph scheme		30	30	0	0	0	0
Roads Asset Replacement Programme		5,206	851	1,505	950	950	950
Scapa Link Road		13	13	0	0	0	0
Replacement of Tar Plant at Cusiter Quarry		742	652	90	0	0	0
Kirkwall flood prevention scheme		1,929	1,741	188	0	0	0
E		7,932	3,299	1,783	950	950	950
Transportation							
Electric vehicle charging infrastructure		38	38	0	0	0	0
Airfields Infrastructure		204	198	6	0	0	0
Golden Mariana replacement		500	500	0	0	0	0
Resurfacing of Sanday runway		194	193	0	0	1	0
Resurfacing of Westray runway		94	31	62	0	1	0
Resurfacing of North Ronaldsay runway		265	0	265	0	0	0
Resurfacing of Eday runway		147	0	147	0	0	0
F		1,442	960	480	0	2	0

Central Administration and Asset Replacement

IT replacement programme	2,100	420	420	420	420	420
Plant & Vehicle Replacement	6,000	1,200	1,200	1,200	1,200	1,200
Alterations to Garden House, Kirkwall	980	0	32	567	368	13
Disaster recovery and business continuity suite	420	0	230	190	0	0
Upgrade of PARIS system	114	88	26	0	0	0

J 9,614 1,708 1,908 2,377 1,988 1,633

Corporate Property

Corporate Improvement Programme	6,755	1,351	1,351	1,351	1,351	1,351
SRF Property Maintenance	595	119	119	119	119	119

J 7,350 1,470 1,470 1,470 1,470 1,470

Planning

Access to Countryside	10	10	0	0	0	0
World Heritage Area	21	5	16	0	0	0

H 31 15 16 0 0 0

Operational Environmental Services

Burial Grounds - Mainland Extensions	877	128	173	246	302	28
Burial Grounds - Mainland Major Improvements	70	2	35	33	0	0
Burial Grounds - Island Extensions	483	70	413	0	0	0
Burial Grounds - Island Major Improvements	91	3	40	48	0	0

G 1,521 203 661 327 302 28

Non General Fund Summary

K Housing Revenue Account	4,836	587	2,521	1,644	84	0
L Orkney College	14	14	0	0	0	0
M Scapa Flow Oil Port	10,998	67	9,231	1,400	150	150
N Miscellaneous Piers and Harbours	4,456	1,627	1,929	300	300	300

Expenditure Total

20,304 2,295 13,681 3,344 534 450

Housing Revenue Account

House Purchases	85	85	0	0	0	0
Watersfield Phase 2	0	0	0	0	0	0
Glaitness Farm House	0	0	0	0	0	0
Sanday Houses	0	0	0	0	0	0
Walliwall	474	474	0	0	0	0
Carness	4,277	28	2,521	1,644	84	0

K 4,836 587 2,521 1,644 84 0

Orkney College

L Plant & Vehicles	14	14	0	0	0	0
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14 14 0 0 0 0

Scapa Flow Oil Port

Towage Services Plant & Vehicles	0	0	0	0	0	0
Pilot Vessel	2,250	14	2,036	200	0	0
Replacement Tug	8,100	5	7,045	1,050	0	0
Minor Improvements	648	48	150	150	150	150

M 10,998 67 9,231 1,400 150 150

Miscellaneous Piers

Minor Improvements	1,500	300	300	300	300	300
Hatston Pier Extension	0	0	0	0	0	0
Vessel Traffic Service (VTS)	0	0	0	0	0	0
Gill Pier Refurbishment	2,956	1,327	1,629	0	0	0

N 4,456 1,627 1,929 300 300 300