

**Item: 8****Policy and Resources Committee: 18 June 2024.****Review of Top Sliced Asset Replacement Programmes.****Report by Head of Finance.**

1. Overview

- 1.1. The last full review of the General Fund annual top sliced asset replacement programmes was completed in April 2014 for financial year 2014/15 and remains substantially unchanged at £3,921,000 for financial year 2024/25 with a resultant reduction in real terms over this period. There is significant pressure on these top-sliced asset replacement programmes to meet the demands placed on the programmes to keep existing assets serviceable.
- 1.2. An increase in budgets by £1,579,000 (40%), representing the impact of inflation over this period, to a total of £5,500,000 for financial years 2025/26, 2026/27 and 2027/28 is proposed, subject to review after 3 years to ascertain the sustainability of the asset replacement programme budgets.
- 1.3. The General Capital Grant awarded for financial year 2024/25 from the Scottish Government has seen a reduction of £959,000 on the previous year, to £4,915,000, which reduces the affordability of the capital programme going forward.
- 1.4. Previously, the annual award of General Capital Grant allowed the funding of the annual top sliced asset replacement programmes. However, budget pressures on these programmes versus the falling level of General Capital Grant means this is unlikely to be possible going forward.
- 1.5. Expenditure above the General Capital Grant level will require funding through Prudential borrowing.
- 1.6. Increasing annual top sliced asset replacement programmes demonstrates a focus on maintaining existing assets, ensuring that our roads and buildings are maintained at levels expected by the Orkney public, and that our IT, plant and vehicles achieve modern standards of security, safety and emissions.
- 1.7. Should the increase in the annual top sliced asset replacement programmes be approved, including the focus on maintaining existing assets, this will be taken forward in the Capital Strategy currently being developed.

- 1.8. Increasing the annual top sliced asset replacement programmes will reduce the 'headroom' available for capital investment over the period of the strategy. Current 'headroom' is in the region of £32.0m. This change to the annual top sliced asset replacement programmes will reduce the 'headroom' by approximately £4.5m to £27.5m.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
- i. Note that increasing annual top sliced asset replacement programmes demonstrates a focus on maintaining existing assets.
 - ii. Agree an increase of 40% in the total allocated to annual top sliced asset replacement programmes, representing the impact of inflation over the period 2014/15 to date, resulting in a total budget of £5,500,000 for each of financial years 2025/26, 2026/27 and 2027/28, allocated as follows:
 - General Fund Capital Improvement Programme – £2,000,000.
 - Road Asset Replacement Programme – £1,500,000.
 - IT Replacement Programme – £600,000.
 - Plant and Vehicle Replacement Programme – £1,400,000.
 - iii. Agree removal of the current £150,000 lower limit required by the Capital Project Appraisal procedure for asset replacement programme works.
 - iv. Instruct the Head of Finance to submit a report to the Committee during financial year 2027/28 to assess the sustainability of the annual top sliced asset replacement programmes against General Capital Grant funding.
 - v. Instruct the Corporate Director for Enterprise and Sustainable Regeneration and the Corporate Director for Neighbourhood and Infrastructure Services to ensure that the Capital Strategy, currently being developed, reflects the above.

3. Background

- 3.1. Top sliced annual asset replacement programmes were established in financial year 2008/09 as the Council sought to meet the challenges of austerity, IT modernisation and security, asset aging and deterioration. The last full review was completed in April 2014, for financial year 2014/15, and set budgets as follows:
- General Fund Capital Improvement Programme – £1,300,000[^].
 - Road Asset Replacement Programme – £600,000^{*}.
 - IT Replacement Programme – £420,000.
 - Plant and Vehicles Replacement Programme – £1,200,000.

(^ The Corporate Improvement Programme budget increased to £1,351,000 in 2017/18.)

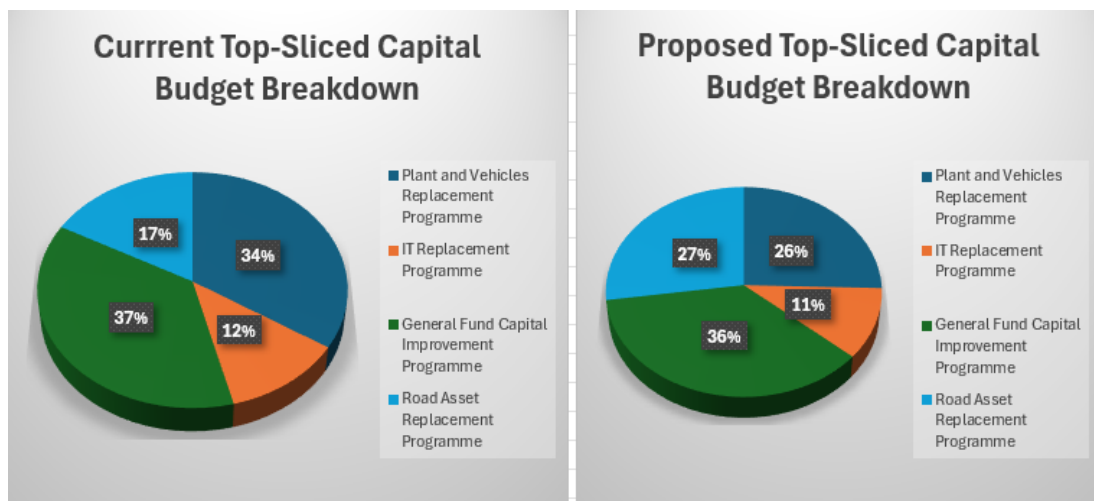
(* The Road Asset Replacement Programme was increased to £950,000 through Policy and Resources Committee of 27 September 2016.)

- 3.2. The undernoted trading accounts of the Council also have asset replacement programmes but do not have access to the General Capital Grant, and have therefore been excluded from this review, as each can review their programmes annually, through their respective Committees.
- Housing Revenue Account.
 - Scapa Flow Oil Port.
 - Miscellaneous Piers and Harbours.
 - Strategic Reserve Fund.
- 3.3. The General Fund top-sliced asset replacement programmes budget for 2024/25 remains substantially unchanged at £3,921,000 since 2014/15. Without any allowance for the effects of inflation the resultant spending power has been eroded in real terms over this period.
- 3.4. Although a number of indices can be used to establish a composite measure for the effects of inflation across these annual programmes, two indices were considered: the Retail Price index (RPI) which has increased by 53% over the last 10 years from April 2014 to April 2024; and the Consumer Price Index (CPI) which has increased by 34% over the same period. The report is recommending a 40% increase in top-sliced asset replacement programmes budgets, being approximately the median of these two measures.
- 3.5. A 40% increase is substantial, and further review of the actual spend against each programme over the last 10 years demonstrates some trends which have influenced the proposed revised budgets.
- Underspends on current Plant and Vehicle Replacement Programme in recent years due to resources in the Fleet team, and supply delays post COVID.
 - Requirement to review policy on Fleet replacement cycles.
 - Regular underspends on the IT Replacement Programme.
 - Recent Member and public concerns over the condition of some of Orkney roads.
 - Backlog, and spending pressures, identified in the Capital Improvement Programme.

3.6. The following table details the proposed changes to the top-sliced asset replacement programmes:

| | Budgeted Programme | Proposed Programme | Inflation (%) |
|--|--------------------|--------------------|---------------|
| General Fund Capital Improvement Programme | 1,351,000 | 2,000,000 | 48% |
| Road Asset Replacement Programme | 950,000 | 1,500,000 | 58% |
| IT Replacement Programme | 420,000 | 600,000 | 43% |
| Plant and Vehicles Replacement Programme | 1,200,000 | 1,400,000 | 17% |
| | 3,921,000 | 5,500,000 | 40% |

3.7. The Movement in the split can be illustrated by the following charts:



Capital Programme

3.8. In setting a capital programme the Council must ensure that its investment plans are affordable, prudent, and sustainable, having due regard to both the capital and associated revenue implications for each project.

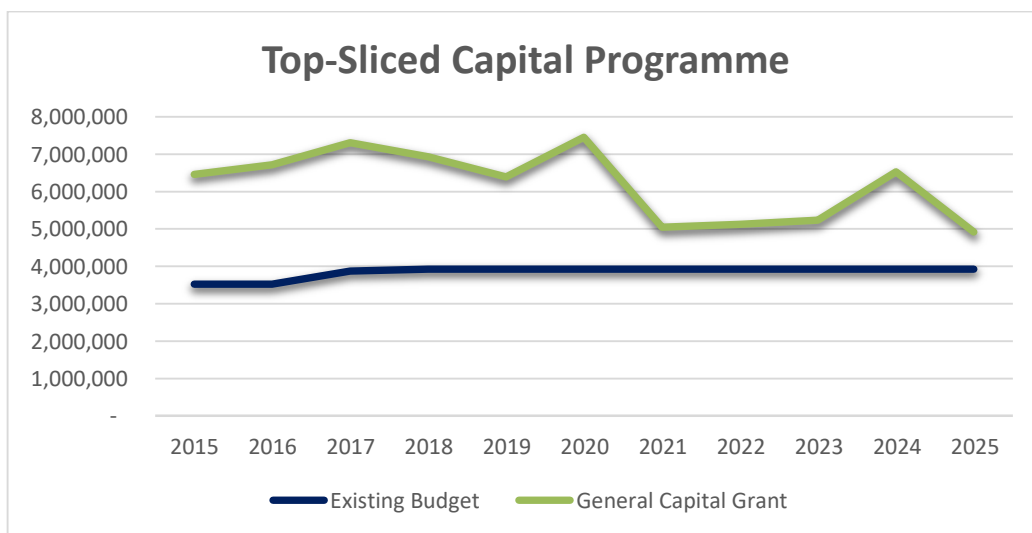
3.9. The Council has adopted the Definition of Capital Expenditure, and the stated accounting procedures, as contained within the CIPFA/LASAAC Statement of Recommended Practice (SORP):

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.

3.10. The development of 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.

3.11. The annual award of General Capital Grant has historically allowed the funding of the annual asset replacement programmes, as the following graph illustrates.



3.12. The General Capital Grant awarded for financial year 2024/25 from the Scottish Government has seen a reduction of £959,000 on the previous year, to £4,915,000. For information, if the General Capital Grant had been maintained in real terms, either by RPI or CPI, the value of the grant would have been between £9.9m and £8.7m (based on 2014/15 settlement of £6.458m).

3.13. To deliver the proposed top sliced asset replacement programmes officers are expected to draw funding from external sources, where possible. However, it is anticipated that borrowing through the Loans Fund, or Prudential borrowing, will be required unless the General Capital Grant increases in future years' settlements.

3.14. It is a requirement of the Capital Project Appraisal “notwithstanding the existence of an annual property improvement or asset replacement programme, the CPA process shall apply to all planned capital works to the value of £150,000 or greater on a per property, plant or equipment basis.” This level has also been in place for a considerable time, and it is suggested that this lower limit be removed to allow

programme planners freedom to deliver effective improvement works, in accordance with the Financial Regulations and Contract Standing Orders.

- 3.15. The Asset Management Sub-committee receives the detailed spending plans annually to scrutinise, and ensure programmes are being used for their intended purposes.
- 3.16. Any change to the capital programme will impact the 'headroom' available for capital investment over the period of the strategy. Current 'headroom' is in the region of £32.0m. This change to the annual top sliced asset replacement programmes will reduce the 'headroom' by approximately £4.5m to £27.5m.
- 3.17. From section 3 onwards, any number of headings and sections can be inserted as necessary to provide relevant background, including a history of the subject, if it has been considered before, together with any other relevant information – for example the options appraisal or process that was carried out before a recommendation has been arrived at.

4. Comparison to other Local Authorities

- 4.1. The Council, along with the other Scottish local authorities, was recently asked to provide information on the level of debt repayments as percentage of net revenue streams and whether it had any plans to cap the level of borrowings to address revenue pressures.
- 4.2. The responses from the other local authorities varied considerably, with the majority still considering their options in relation to Capital Programmes, as follows:
 - Significant reduction in capital plans over the next 5 years and a cap on borrowing at 8.5%.
 - Agreed a cap of 10% on financing costs.
 - Huge issues in terms of backlog maintenance and significant improvements to the school estate, so will be increasing debt levels and not considering a cap.
 - Borrowing levels in the short term are causing a huge issue and adding multiple millions to revenue pressure due to high interest rates. Capital programme has been reviewed and projects stripped out.
 - No limits imposed but no borrowings approved beyond the 5-year programme.
 - Several attempts at reprioritising the programme and deferring projects where possible but found this difficult due to pressures from increasing pupil numbers, new housebuilding and backlog maintenance of buildings and roads.

- Low percentage of debt to net revenue stream but have used reserves to prop up the capital programme in the past.
- Have approval for an extra £1.5m Prudential Borrowing annually for the next 5 years but still face an annual shortfall.
- Options to generate funds are limited given land sale prices.
- Capital programme reduced, based on affordability concerns.

4.3. Specific benchmarking against other similar local authorities shows the following:

- Comhairle nan Eilean Siar has limited their capital programme to the level of their General Capital Grant, plus any additional specific grant. Focus on maintaining current assets, with ‘development’ projects ruled out early in the capital appraisal process.
- Shetland Islands Council Capital Expenditure Policy recommends no growth in asset base with all capital expenditure focused on maintaining existing assets.
- Argyll and Bute Council Capital Investment Strategy states: “based on the current planning the importance of ‘asset sustainability’ is recognised and ongoing investment is needed to be allocated to our existing assets to ensure they remain relevant and fit for purpose. This is the significant proportion of our funding to keep the ‘like for like’ still functioning.”.

5. Consultation with officers

- 5.1. The top sliced asset replacement programmes sit under Neighbourhood and Infrastructure Services. Proposed revision to the programmes was discussed with relevant officers to ensure that enhanced programmes could be delivered and continue to achieve value for money for the Council. This included consideration of officer capacity, supplier/contractor capacity and competitiveness, planning and lead in times.
- 5.2. The proposed revision to top sliced asset replacement programmes has been accepted by relevant officers.
- 5.3. The removal of the lower limit of the Capital Project Appraisal process for capital replacement programmes was also welcomed.
- 5.4. The proposed revision to top sliced asset replacement programmes was also considered by CLT on 20 May 2024, and agreed.
- 5.5. Separate reports will be presented through the Asset Management Sub-committee in relation to the detailed spending plans for the Plant and Vehicle Replacement Programme, the IT Replacement Programme and the Corporate Asset

Improvement Programme, whilst the detail of the Roads Asset Replacement Programme will be reported through the Development and Infrastructure Committee.

For Further Information please contact:

Erik Knight, Head of Finance, extension 2127, Email: Erik.Knight@orkney.gov.uk

Implications of Report

- 1. Financial** Included throughout report.
- 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** The allocation of resources, including the general level of capital expenditure, is a referred function of the Policy and Resources Committee.
- 4. Human Resources** N/A
- 5. Equalities** See Appendix 1.
- 6. Island Communities Impact** See Appendix 2.
- 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** Where resources allow, improvement works can include ‘greener’ solutions.
- 10. Risk** Improvement of existing assets can help reduce risks associated with these assets.
- 11. Procurement** Any contractual arrangements will have to meet the requirements of the Financial Regulations and Contract Standing Orders.

- 12. Health and Safety** Well-maintained assets will assist the Council in ensure Health and Safety for staff and public.
- 13. Property and Assets** Included throughout report.
- 14. Information Technology** Up to date IT systems should help reduce risk to the Council.
- 15. Cost of Living** N/A

List of Background Papers

- Policy and Resources Committee, 15 April 2014, Capital Asset Replacement Programme
- Policy and Resources Committee, 27 September 2016, Road Asset Replacement Programme
- Asset Management Sub Committee, 30 January 2024, Plant and Vehicle Replacement Programme
- Development and Infrastructure Committee, 6 February 2024, Road Asset Replacement Programme
- Policy and Resources Committee, 27 February 2024, Capital Programme Affordability
- Asset Management Sub Committee, 19 March 2024, ICT Capital Replacement Programme
- Asset Management Sub Committee, 19 March 2024, Corporate Asset Replacement Programme
- Shetland Islands Council Capital Expenditure Policy
- Argyll and Bute Council Capital Investment Strategy

Appendices

Appendix 1 – Equality Impact Assessment.

Appendix 2 – Island Communities Impact Assessment.



Equality Impact Assessment

The purpose of an Equality Impact Assessment (EqIA) is to improve the work of Orkney Islands Council by making sure it promotes equality and does not discriminate. This assessment records the likely impact of any changes to a function, policy or plan by anticipating the consequences, and making sure that any negative impacts are eliminated or minimised and positive impacts are maximised.

| 1. Identification of Function, Policy or Plan | |
|--|--|
| Name of function / policy / plan to be assessed. | Top sliced asset replacement programmes |
| Service / service area responsible. | Finance / Neighbourhood and Infrastructure Service |
| Name of person carrying out the assessment and contact details. | Erik Knight, Head of Finance Erik.Knight@orkney.gov.uk |
| Date of assessment. | 7 May 2024 |
| Is the function / policy / plan new or existing? (Please indicate also if the service is to be deleted, reduced or changed significantly). | Existing, 40% increase in provision of capital budgets for 3 year period |

| 2. Initial Screening | |
|--|--------------------------|
| What are the intended outcomes of the function / policy / plan? | Increase in budget |
| Is the function / policy / plan strategically important? | Yes |
| State who is, or may be affected by this function / policy / plan, and how. | Staff, and service users |
| How have stakeholders been involved in the development of this function / policy / plan? | No |

Appendix 2

| | |
|--|--|
| <p>Is there any existing data and / or research relating to equalities issues in this policy area? Please summarise.</p> <p>E.g. consultations, national surveys, performance data, complaints, service user feedback, academic / consultants' reports, benchmarking (see equalities resources on OIC information portal).</p> | <p>No</p> |
| <p>Is there any existing evidence relating to socio-economic disadvantage and inequalities of outcome in this policy area? Please summarise.</p> <p>E.g. For people living in poverty or for people of low income. See The Fairer Scotland Duty Guidance for Public Bodies for further information.</p> | <p>No. Programmes will be evaluated and planned with relation to need, risk, changes in legislation, corporate priorities and budget restraints.</p> |
| <p>Could the function / policy have a differential impact on any of the following equality areas?</p> | <p>(Please provide any evidence – positive impacts / benefits, negative impacts and reasons).</p> |
| <p>1. Race: this includes ethnic or national groups, colour and nationality.</p> | <p>No</p> |
| <p>2. Sex: a man or a woman.</p> | <p>No</p> |
| <p>3. Sexual Orientation: whether a person's sexual attraction is towards their own sex, the opposite sex or to both sexes.</p> | <p>No</p> |
| <p>4. Gender Reassignment: the process of transitioning from one gender to another.</p> | <p>No</p> |
| <p>5. Pregnancy and maternity.</p> | <p>No</p> |
| <p>6. Age: people of different ages.</p> | <p>No</p> |
| <p>7. Religion or beliefs or none (atheists).</p> | <p>No</p> |
| <p>8. Caring responsibilities.</p> | <p>No</p> |
| <p>9. Care experienced.</p> | <p>No</p> |

| | |
|---|----|
| 10. Marriage and Civil Partnerships. | No |
| 11. Disability: people with disabilities (whether registered or not). | No |
| 12. Socio-economic disadvantage. | No |

3. Impact Assessment

| | |
|---|-----|
| Does the analysis above identify any differential impacts which need to be addressed? | No |
| How could you minimise or remove any potential negative impacts? | N/A |
| Do you have enough information to make a judgement? If no, what information do you require? | Yes |

4. Conclusions and Planned Action

| | |
|---|---------|
| Is further work required? | Yes/No. |
| What action is to be taken? | N/A |
| Who will undertake it? | N/A |
| When will it be done? | N/A |
| How will it be monitored? (e.g. through service plans). | N/A |

Signature: 
 Name: ERIK KNIGHT

Date: 7 May 2024
 (BLOCK CAPITALS).

Please sign and date this form, keep one copy and send a copy to HR and Performance. A Word version should also be emailed to HR and Performance at hrsupport@orkney.gov.uk

Island Communities Impact Assessment


Review of Top sliced capital programmes

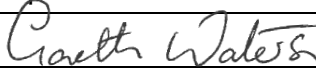
| Preliminary Considerations | Response |
|--|--|
| Please provide a brief description or summary of the policy, strategy or service under review for the purposes of this assessment. | Top sliced asset replacement programmes levels have not been reviewed for 10 years |
| Step 1 – Develop a clear understanding of your objectives | Response |
| What are the objectives of the policy, strategy or service? | Increase in top sliced asset replacement programme budgets |
| Do you need to consult? | No |
| How are islands identified for the purpose of the policy, strategy or service? | Programmes will be evaluated and planned with relation to need, risk, changes in legislation, corporate priorities and budget restraints independent of location. |
| What are the intended impacts/outcomes and how do these potentially differ in the islands? | Preservation of Council assets |
| Is the policy, strategy or service new? | No |
| Step 2 – Gather your data and identify your stakeholders | Response |
| What data is available about the current situation in the islands? | Roads have significant data on condition in each island. Corporate Asset replacement officers have data on property condition. Fleet services have data on condition of vehicles. IT have data on any networking conditions, and age profile of IT assets. |
| Do you need to consult? | No |
| How does any existing data differ between islands? | No |
| Are there any existing design features or mitigations in place? | No |
| Step 3 – Consultation | Response |
| Who do you need to consult with? | N/A |

| | |
|---|-----------------|
| How will you carry out your consultation and in what timescales? | N/A |
| What questions will you ask when considering how to address island realities? | N/A |
| What information has already been gathered through consultations and what concerns have been raised previously by island communities? | N/A |
| Is your consultation robust and meaningful and sufficient to comply with the Section 7 duty? | N/A |
| Step 4 – Assessment | Response |
| Does your assessment identify any unique impacts on island communities? | No |
| Does your assessment identify any potential barriers or wider impacts? | No |
| How will you address these? | N/A |
| <p>You must now determine whether in your opinion your policy, strategy or service is likely to have an effect on an island community, which is significantly different from its effect on other communities (including other island communities).</p> <p>If your answer is No to the above question, a full ICIA will NOT be required and you can process to Step 6.</p> <p>If the answer is Yes, an ICIA must be prepared and you should proceed to Step 5.</p> <p>To form your opinion, the following questions should be considered:</p> <ul style="list-style-type: none"> • Does the evidence show different circumstances or different expectations or needs, or different experiences or outcomes (such as different levels of satisfaction, or different rates of participation)? • Are these different effects likely? • Are these effects significantly different? | |

| <ul style="list-style-type: none"> • Could the effect amount to a disadvantage for an island community compared to the Scottish mainland or between island groups? | |
|--|----------|
| Step 5 – Preparing your ICIA | Response |
| In Step 5, you should describe the likely significantly different effect of the policy, strategy or service: | |
| Assess the extent to which you consider that the policy, strategy or service can be developed or delivered in such a manner as to improve or mitigate, for island communities, the outcomes resulting from it. | |
| Consider alternative delivery mechanisms and whether further consultation is required. | |
| Describe how these alternative delivery mechanisms will improve or mitigate outcomes for island communities. | |
| Identify resources required to improve or mitigate outcomes for island communities. | |
| Stage 6 – Making adjustments to your work | Response |
| Should delivery mechanisms/mitigations vary in different communities? | No |
| Do you need to consult with island communities in respect of mechanisms or mitigations? | No |
| Have island circumstances been factored into the evaluation process? | No |
| Have any island-specific indicators/targets been identified that require monitoring? | No |
| How will outcomes be measured on the islands? | No |
| How has the policy, strategy or service affected island communities? | No |

| | |
|--|--|
| How will lessons learned in this ICIA inform future policy making and service delivery? | N/A |
| Step 7 – Publishing your ICIA | Response |
| Have you presented your ICIA in an Easy Read format? | Yes |
| Does it need to be presented in Gaelic or any other language? | No |
| Where will you publish your ICIA and will relevant stakeholders be able to easily access it? | OIC Website |
| Who will signoff your final ICIA and why? | Corporate Enterprise and Sustainable Regeneration, S95 officer for Orkney Islands Council. |

| | |
|--------------------|---|
| ICIA completed by: | Erik Knight |
| Position: | Head of Finance |
| Signature: |  |
| Date complete: | 7 May 2024 |

| | |
|-------------------|---|
| ICIA approved by: | Gareth Waterson |
| Position: | Corporate Director Enterprise and Sustainable Regeneration |
| Signature: |  |
| Date complete: | 3 June 2024 |