REPORT TO: SPECIAL MORAY COUNCIL ON 24 JANUARY 2024

SUBJECT: 2024/25 CAPITAL PLAN AND INDICATIVE CAPITAL PLAN 2024 – 2034

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

1.1 To ask Council to agree the Council's capital budget for 2024/25 and to consider the Council's indicative ten year Capital Plan for 2024 to 2034.

1.2 This report is submitted to the Council in terms of the Council's Administrative Scheme section (II) (22) and (23) relating to the approval of the annual estimates of capital and revenue expenditure for all services.

2. RECOMMENDATION

2.1 It is recommended that the Council approves :

(i) Capital expenditure of £49,662,000 for 2024/2025 as set out in the indicative ten year Capital Plan in APPENDIX 1; and

(ii) That this will be increased by expenditure on Moray Growth Deal as agreed in the funding agreement with Scottish Government for 2024/25.

2.2 It is recommended that the Council notes

(i) the indicative ten year capital plan inclusive of cap set out in APPENDIX 2, and

(ii) that the plan remains unaffordable without increased external funding.

3. BACKGROUND

3.1 The Council for many years has considered its capital budget alongside its revenue budget for the coming year. As decisions on capital expenditure have an impact on revenue spend it has been considered good practice to view both capital and revenue together. However, recent changes to loans pool accounting practices mean that there is no impact on the revenue budget for 2024/25 from capital spend in 2024/25.

3.2 Increasing interest rates are resulting in increased costs of borrowing for the capital plan and in the context of the requirement for the Council to make savings, this inevitably brings the capital plan into focus for a reduction in planned expenditure. In addition to this, the general capital grant provided by Scottish Government has been significantly reduced in the draft settlement and this should be recognised as a further limiting factor for capital expenditure in 2024/25. As with other revenue savings, the earlier savings can be identified and approved the better the Council can plan and implement these.

3.3 Capital planning requires a longer term focus as there is frequently a considerable lead-in time for projects. For this reason the Council has prepared an indicative ten year plan. In their Report to Those Charged with Governance, considered by Council on 25 October 2023 (paragraph 5 of the Minute refers) the Council's auditors identified a risk to the Council from the level of borrowing required by the indicative ten year plan and recommended a review of the plan for affordability. This had previously been recongnised by the Council as a requirement and incorporated in both the Short to Medum Term Financial Strategy approved by Council on 27 September 2023 and in the Medium to Long Term Financial Strategy approved on 25 October 2023.

3.4 Accordingly, the basis for preparing the Council's capital budget has been reviewed. The Capital Plan is reviewed annually, and given the current need for savings the Capital Plan has been subject to in-year reviews with a view to reducing expenditure in the short term. The latest version of the 10 year Capital Plan is based on a full review carried out in July – October 2021. Since then 2 further reviews with a view to reducing cost have been carried out, with reductions made on both occasions, but the focus on both occasions was reducing spend in the short term. The current review (carried out August to November 2023) focussed on the full 10 year span of the plan.

3.5 The prime cost driver for the Capital Plan is asset management and so the focus for reviewing the ten year plan was asset management based. Budget managers were asked for the potential to:

- Reduce the asset base
- Reduce the asset standard
- Lengthen the period over which capital is spent (effectively increasing the asset life)

3.6 Although there may be scope to reduce the asset base for some asset types, this is likely to be a long term process and in many cases dependent on the conclusion of work already commenced. The following table summarises the conclusion of the review of the potential to make these amendments.

Asset class	Scope to reduce asset base	Scope to re-programme
Bridges	Close bridges when fail / restrict weight	New prioritisation methodology agreed

Asset class	Scope to reduce asset base	Scope to re-programme
Car parks	Close / repurpose / sell land if Council owned (some held on Common Goods / Trusts) Surface car parks are net income generative Capital costs requirements mainly relate to multi-storey car parks	No routine upgrades currently included in plan
Cemeteries	New cemeteries – based on projected demand. Old cemeteries – Health and Safety issues require a level of spend. Impractical to dispose of	Dependent on statutory duties to make provision. Only new cemetery in plan is for Elgin. Generally little scope to reprogramme work required on safety grounds for this or any other asset type.
Corporate equipment and furniture	Replacement cleaning etc equipment, audio visual for chambers – dependent on office review	Spend has been minimised as smarter working office review phases progress; chambers equipment subject to recently renewed contract
Corporate offices	See smarter working review	See smarter working review
Depots	See depot review	See depot review – OBC being reported Q4 2023/24
ELC facilities	Partly dependent on demand. Could reduce level of council provision if there is capacity in the market for private sector to absorb, however this may increase revenue costs and adds risk to service delivery. Could set finite level of provision the council is willing to make.	Most current expenditure arises from Care Inspectorate requirements therefore limited scope to extend spend profile
Flood risk management & flood protection	New schemes dependent on SG funding. Old schemes – residual compensation budget only	No unfunded programme assumed, There are AMPs for current FASs but no major element renewals included in capital plan, all AMP requirements low level maintenance

Asset class	Scope to reduce asset base	Scope to re-programme
Harbours	Sell / decommission harbours (a complex legal process) Closure of harbours would require capital spend to prevent usage.	Based on condition surveys so not much scope to extend spend profile if harbours remain operational, as these generally entail Health & Safety considerations for harbour users.
ICT	Dependent on staff numbers / ways of working / buildings	This is an area where Council infrastructure needs to be current in order to ensure security. Device and software provision also needs to be at the forefront to leverage the greatest digital benefit, which adds risk to any reduction of the current programme.
Industrial portfolio	Sell individual units to tenants / sell whole estates as a package	Policy decision has been been taken to delay new land acquisitions / new build at present Opportunity to sell individual units / packages of units / entire estates should be investigated and options appraised
Libraries and leisure facilities	Sale / CAT Strategy to be developed following budget consultation, however, there are maintenance issues that if not addressed could impact on future service delivery at a number of current sites. Moray Leisure Centre is one site with condition concerns that requires to be considered,	Limited scope to extend spend profile as little works done in recent years. Scope would be for reduced number of sites/facilities to be maintained There are ongoing discussions with Moray Leisure Ltd about the Centre.
Parks and open spaces (paths, walls etc)	In some instances sale / CAT. Some held on / common good so trickier	Largely reactive on Health & Safety grounds so limited scope to extend spend profile.
Play areas	CAT? Dismantle and not replace old equipment?	Programme was for 2 play areas a year, currently being grant funded by SG

Asset class	Scope to reduce asset base	Scope to re-programme
		In absence of SG funding could review to replace only 1 play area a year.
Roads	More likely that the asset will be extended with the adoption of new roads	Could allow further deterioration, scope to do this within current agreed asset standard of mid table for Road Condition Index
Road safety/traffic signs etc	Unlikely	Programme minimal
Schools	Learning Estate review. Overall school rolls are expected to fall but despite this may need new schools to accommodate new build in Elgin. Mitigation from additional capacity in current schools buildings	Proposed revised plan factors in a longer period to complete BB. Potential to reduce asset base through closure – clear statutory requirements as to how this is done.
Street lighting	Possible to decommission some columns rather than replace?	LED programme complete (and was a spend to save) Column replacement programme ongoing and unlikely to be able to extend timeline as there could be a risk of challenge if an accident arising from a life expired/decommissioned column
Vehicle and plant	Dependent on service delivery. Investigate replacing pool cars with eg block booking from a car club (issues of coverage)	Likely to cost more in revenue (maintenance and down time) Potential savings from move to electric vehicles needs to be assessed v increased capital costs.
Waste management equipment and facilities	Review coverage / accessibility (in depot review) Equipment largely demand led	See depot review

3.7 It is clear that reduction of the Council's asset base must be a medium to long term aim but that there are interdependencies with various asset class reviews being carried out. Realistically, reduction in asset base must focus on buildings.

External factors affecting cost

3.8 Since the last full scale review of the capital plan construction inflation has seen considerable increases in costs for many projects. Budget managers were asked to review their budgets for inflation. The most significant impact was on the projected cost of the Learning Estate, where costs were also projected to increase based on more up to date information from condition surveys as well as on updated costs of construction. Over the ten year period from 2023/24 to 2033/34 total costs were anticipated to rise by 44%, despite reprofiling the BB programme across 15 years as opposed to ten. Costs of construction are also forecast to rise where contractors have workforces travelling from the central belt, as they are moving to a four day working week to allow for travel time and this increases time taken and therefore the costs of project management. The core element of the current ten year plan - that is those elements not funded by specific grant or other restricted funding – was forecast at £427 million. Despite an element of delay in programmed spend as described, the revised programme, if unamended, would rise to £537 million.

Revised approach to capital planning

3.9 Having spent some years moving to an asset management planning basis for the development of the capital plan, in the course of which knowledge of the state of the Council's assets has greatly increased, increased need for investment to maintain appropriate asset standards has become apparent. During that period construction costs have increased and the cost of borrowing has increased. Identification of asset management costs remains of vital importance for long-term planning but it is evident that the Council cannot afford a demand led capital plan. It is therefore recommended that the Council, in common with many others, significantly restricts the overall budget to be spent on capital through application of a cap on expenditure. The need for such an iterative approach is explicitly recognised in the asset management planning cycle descrived in the council's Corporate Asset Management Plan.

3.10 The Council has an approved Performance Indicator for the cost of financing capital expenditure and the revised Capital Strategy, which was the subject of a previous report to this meeting of Council, proposes that this is used to develop a cap on capital expenditure. Detailed development of meaningfully capped capital expenditure will take some lead-in time and it is proposed that as an interim measure for 2024/25, further slippage components are introduced to the capital plan. The auditor's report noted increased slippage in capital expenditure in the past 2 financial years and the capital monitoring report to Council on 6 December 2023 (paragraph x of the Minute refers) noted expenditure of 11.7% of the approved capital plan as at 30 September 2023. A significant element for slippage therefore appears to be reasonable reflecting staffing and capacity levels as well as market conditions.

3.11 Calculation of the slippage factor for 2024/25 and indicative caps for 2025/26 onwards are included in **APPENDIX 2**. Work will be undertaken on how the cap can be allocated across asset classes and progress reported. The capital plan remains unaffordable in the latter part of the ten year period, even with very significantly capped expenditure – shown as "Headroom for 10% ceiling" in **Appendix 2**. Without significant Scottish Government funding the Council's aspirations for its Learning Estate will not be achieved. An update on the Learning Estate Strategy will be given to the next meeting of the Education, Children's and Leisure Services Committee.

4. CAPITAL BUDGET

4.1 The Council's Financial Regulations require approval of detailed capital spend by Service Committees. Accordingly the draft plan at **APPENDIX 1** and indicative 10 year plan at **APPENDIX 2** are at a summary level for each asset class. This section of the report indicates what is envisaged to be encompassed by the summary budget for 2024/25, any specific considerations in developing the budget, and for 2024/25 the impact of applying the proposed level of slippage pro rata to base budget, with adjustments as set out below.

4.2 **Bridges**. The proposed initial allocation of £965,000 is based on the recently approved prioritisation process for bridge refurbishments, covering work on three bridges plus an allowance for footbridges, totalling £965,000. A slippage factor of £165,000 is proposed. This could be met in part if contingencies / risk allowances are not needed in full or could result in the delay of letting one contract with any disruption that entails. In addition to this a further £1,500,000 is allowed as potential match funding for Cloddach bridge in the event of this project being included – no slippage factor is proposed because of the conditions of external funding. If the project is not approved the saving of £1,500,000 would be offset against the slippage factor. In total this amounts to £2,300,000.

4.3 **Car parks**. This budget is partly for waterproofing work on multi storey car parks but also includes an allowance of £150,000 for resurfacing and upgrade of lighting in car parks. There has been no budget for resurfacing and upgrade of lighting in recent capital plans and it is recommended that this is reinstated. A slippage factor of £79,000 is proposed, resulting in a budget of £421,000.

4.4 **Climate Change**. £750,000 was included as a lump sum allowance which was included in 2023/24 and not spent. Plans are being developed and will be reported in due course. It is therefore envisaged that this budget will be carried forward into 2024/25. A slippage factor of £119,000 is proposed, resulting in £631,000 budget.

4.5 **Corporate buildings**. This budget of £65,000 is for replacement office furniture and building cleaning equipment. The allocation is an annual, historic allocation. A slippage factor of £10,000 is proposed.

4.6 **Fleet.** The £3,530,000 allocation for fleet replacement is based on an asset management plan which considers the average optimum replacement timeline of different vehicle types. Actual conditions of vehicles are then taken into account when the replacement programme is agreed with service departments. The programme is based on a like-for-like replacement. A strategy for fleet decarbonisation is being prepared. A slippage factor of £558,000 is proposed, reducing the budget for 2024/25 to £2,972,000.

4.7 **Flood risk management and coastal protection**. The £74,000 allocation for 2024/25 is for coastal protection. This allows for an annual programme of works. A slippage factor of £12,000 is proposed.

4.8 **Harbours**. The capital plan for harbours is based on inspections of the condition of the Council's six harbours and the first three years in the plan are based on planned asset management arising from the most recent inspections. However, the nature of the asset is such that the detail of the works required can frequently not be ascertained until works have commenced. A slippage factor of £34,000 is proposed. This would reduce the initial allocation of £217,000 to £183,000.

4.9 **ICT**. A slippage factor was incorporated into the allocation for 2023/24, based on past expenditure against budget. A further slippage factor of £65,000 is proposed for 2024/25. The Council is dependent on ICT however a range of factors, including staffing resource impact on the ability to spend the capital budget. As more applications move to the Cloud, there may be less need for capital and more for revenue as cloud based systems are viewed as the provision of services and not assets and so cannot be classified as capital expenditure. A budget of £346,000 after slippage is proposed for 2024/25.

4.10 **Industrial Portfolio**. As a result of the last review of the capital plan all significant expenditure on the industrial portfolio was deferred and the allocation of £198,000 for 2024/25 is for minor upgrades only. A slippage factor of £31,000 is proposed, resulting in a budget of £167,000.

4.11 **Learning Estate**. At £40,213,000 the proposed allocation amounts to 69% of the proposed capital plan for 2024/25. £32,500,000 is planned spend on Elgin High School extension and the replacement Forres Academy. The conditions of LEIP funding for Forres Academy make timeous spend an imperative and so the £25,750,000 budgeted for Forres Academy has been largely excluded from the allocation of the slippage factor, however slippage at the early stages of a major project is likely. A slippage factor of £3,412,000 is proposed.

4.12 **Libraries and Leisure**. Development of the leisure and libraries strategy will impact on the required capital allocation and at this stage no amendment to the 2024/25 allocation within the indicative ten year plan approved in March 2023 is recommended. Based on the same percentage slippage generally applied across the programme a slippage factor of £442,000 is proposed. Major works will be dependent on the strategy and so this factor could perhaps be increased. However, condition surveys may identify further works required. No significant allocation towards Moray Leisure Centre is currently included. A provisional budget of £2,418,000 for Libraries and Leisure in total is recommended.

4.13 **Parks and Open Spaces**. The allocation of £1,062,000 includes £630,000 expenditure on a replacement cemetery in Elgin. It also includes play park refurbishment which will be funded from Scottish Government grant. A slippage factor of £168,000 is proposed. The increased grant funding facilitates achieving the slippage factor.

4.14 **Road improvements**. Based on previous expenditure against capital budget a slippage factor was included in 2023/24 and a slightly higher factor - £664,000 – is proposed for 2024/25. This leaves a budget of £3,536,000 for 2024/25.

4.15 **Street lighting**. The allocation of £800,000 is historic. There is a considerable backlog of life-expired street lighting columns but the workload which can be carried out is limited by the size of the team. A slippage factor of £120,000 is proposed.

4.16 **Traffic and road safety**. This allocation covers a range of road safety measures and new road markings, replacement and new road signs and replacement traffic equipment. It has traditionally been underspent, with the interplay with active travel external funding enabling expenditure to be reallocated to such funding. A slippage factor of £58,000 is proposed, which would leave a budget of £315,000.

4.17 **Waste Management**. The recurring element of this allocation is for replacement containers at recycling centres and for new and replacement wheeled bins. A further £225,000 is included in 2024/25 for upgrade of recycling facilities. A slippage factor of £63,000 is proposed. The overall budget would then be £338,000.

4.18 Two areas of spend to save are proposed: the construction of a salt shed at Keith depot, included in the draft capital plan at its original estimated cost of £117,000 and an allowance of £15,000 for small scale energy efficiency projects. As these are proposed to generate savings no slippage factor has been allocated. The requirements for the salt shed are being reviewed as part of the depot review and revised proposals will be brought forward.

4.19 A number of specific capital grants are expected in 2024/25. The only one currently confirmed is £411,000 for Cycling, Walking, Safer Streets. No slippage factor has been allocated as these funds must be spent in year.

5. RISKS

5.1 The following areas are considered to represent risks to the Council's budget in regard to the capital plan for 2024/25 and future years:

- Increasing inflation rates and interest rates
- Future settlements and level of effective ring-fencing of funds
- The condition of the Learning Estate
- De-carbonisation requirements

5.2 Mitigations to these risks are:

- Monitoring inflation and interest rates with the assistance of our treasury advisors and amending forecasts accordingly
- Collective lobbying through COSLA
- Continued development and management of the Learning Estate Strategy Delivery Programme
- Seeking funding opportunities, monitoring developments in technology.

.5.3 If the capital plan is not contained within affordable limits then there is a severe risk to the revenue budget, as increased levels of financing costs would create futher revenue budget pressures and the need for even more savings to be found.

6. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Financial Planning is integral to the Council's overall planning processes and allows the Council to direct resources to its agreed priorities.

(b) Policy and Legal

The Local Government (Scotland) Act 2003 (section 35) places a duty on local authorities to manage their capital expenditure. It also provides for Scottish Government to issue regulations for the governance of capital expenditure. In practice this means that compliance with the CIPFA Prudential Code is in effect a statutory duty.

(c) Financial implications

The Council has a funding gap for 2024/25 and a projected funding gap for 2025/26. Capital expenditure in 2024/25 will have revenue consequences in 2025/26. It is prudent to consider these in early course and minimise the impact of capital expenditure on the funding gap, thus avoiding creating additional revenue pressures and consequent need for further savings.

(d) Risk Implications

Unforeseen circumstances can give rise to unplanned capital expenditure. These can range from asset element failures through the impact of extreme weather events to sudden emergence of health and safety issues or accidental damage to one of the Council's assets by a third party.

(e) Staffing Implications

Staffing implications arise indirectly from this report as much of the capital plan is dependent on Council staff, and competing priorities, revenue and capital, can impact on the ability to deliver planned capital works.

(f) Property

There are no property implications arising directly from this report. Any property implications arising from the caital plan will be reported to the appropriate service committee as detailed capital spend plans are reported for consideration.

(g) Equalities/Socio Economic Impact

The equality duty

Under the equality duty (set out in the Equality Act 2010) the Council must have 'due regard' to the need to eliminate unlawful discrimination , harassment and victimisation as well as well as to advance equality of opportunity and foster good relations between people who are in a protected group and those who are not.

Groups protected by the Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

There are no proposals in this report which directly impact on the equality duty, however the bulk of the capital plan involves spend on schools and this clearly has most impact on younger people.

Socio-Economic Impact
The proposals do not impact on the socio-economic duty.

(h) Climate Change and Biodiversity Impacts
There are no implications for climate change and biodiversity arising directly from this report, although application of the proposed slippage factor will have implications for the timing of detailed planned spend.

(i) Consultations
CMT and Heads of Service have been consulted in the preparation of this report.

7. CONCLUSION

7.1 The Council has limited scope to reduce its asset base in the short term but has an immediate need to reduce its planned capital spend.

7.2 A cap on capital spend is proposed, with this being actioned in 2024/25 by incorporating a slippage factor into the capital plan.

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Background Papers:	
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