REPORT TO: **MORAY COUNCIL ON 6 MARCH 2024**

SUBJECT: **CAPITAL PLAN 2023/24**

BY: **DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT and FINANCE)**

1. REASON FOR REPORT

1.1 To advise the Committee of capital expenditure to 31 December 2023 and of updated estimates of projected expenditure under the capital plan for 2023/24 profiled into quarters.

1.2 This report is submitted to Committee in terms of Section III (B) 9 of the Council's Administrative Scheme relating to monitoring progress of projects in the approved capital plan including any revisions to the price or phasing on a quarterly basis.

2. RECOMMENDATION

2.1 It is recommended that the Committee:

(i) Considers and notes expenditure to 31 December 2023 of £15,841,000, which is £6 million less than estimated in detail at the end of quarter 2;

(ii) Considers and notes the current projected expenditure of £25,178,000 for 2023/24, as set out in APPENDIX 1 in detail and as adjusted at top level in paragraph 7.1 below;

(iii) Considers and notes the projected overall expenditure for projects spanning more than one financial year, as set out in APPENDIX 2; and

(iv) Approves amendments to the 2023/24 and 2024/25 capital plan as detailed in section 6.1 of this report.

3. BACKGROUND

3.1 The capital plan for 2023/24 totalling £59,186,000 was approved by Moray Council on 1 March 2023 (paragraph 4 of the Minute refers). Amendments approved by the Council at its meetings on 8 March 2023 (paragraph 7 of the Minute refers), 28 June 2023 (paragraph 8 of the minute refers) and

6 December 2023 (paragraph x of the Minute refers), and at Corporate Committee on 28 August 2023 (paragraph 7 of the minute refers) have been implemented. The budgets for Moray Growth Deal (MGD) projects have been adjusted to reflect change requests approved by Scottish and UK Governments and Full Business Case (FBC) submissions, with a further adjustment to reflect delays in FBC submission as approved by MGD Programme Board. The result of these amendments is a total capital plan for 2023/24 of £40,943,000.

3.2 As some sizeable projects span more than one financial year, this report includes a separate **APPENDIX 2,** giving details of expenditure on such projects in order to give a complete financial overview of these major projects.

4 CAPITAL PLAN 2023/24

4.1 A copy of the summary capital plan is included as **APPENDIX 1** showing actual expenditure to 31 December 2023 of £15,841,000. This is just under 40% of the currently approved Capital Plan. General Capital Grant of £9,555,000 has been received from the Scottish Government. Other grants and contributions of £868,000 have also been received, of which £203,000 is to support Moray Growth Deal. Capital receipts of £826,000 for the sale of land and buildings and vehicles have been generated during 2023/24 to date. The Council previously took advantage of flexibilities allowed by the Scottish Government that allowed the Council to use capital receipts to fund spend on Transformation projects. This flexibility ended in 2022/23 and unused receipts of £4,331,000 were transferred to the Useable Capital Receipts Reserve and will be used in 2023/24 to fund capital expenditure. In addition to this, Developer Contributions of £603,000 have been received in this financial year to date. Developer contributions of £124,000 are planned to be used in 2023/24.

4.2 Expenditure on land and buildings to 31 December 2023 totals £5,394,000. The main items of expenditure are £1,281,000 on the schools BB programme, including £368,000 on RAAC remediation at Forres Academy and £1,439,000 on the NESS Energy from Waste plant.

4.3 Expenditure on infrastructure assets to 31 December 2023 totals £7,136,000. The main items of expenditure were £3,089,000 on road improvements and £1,295,000 on various harbours projects.

4.4 Expenditure on vehicles, plant and equipment to 31 December 2023 totals £2,592,000. The main item of expenditure was £1,987,000 on the Vehicle and Plant Replacement Programme.

5 PROJECTED OUTTURN

5.1 Projects are graded for confidence of achieving projected expenditure with high confidence rated as green, medium confidence as amber and low confidence as red. This RAG rating is used as the basis of a high-level adjustment of the detailed out-turn projections in **APPENDIX 1**. A summary of the ratings is given in the table below.

Risk Status	RAG	No of Projects	Budgeted Expenditure 2023/24 £000
High confidence of spend to estimate	G	104	60,363
Medium confidence of spend to estimate	A	4	5,686
		116	**66,049**

5.2 Red rating

A red status highlights areas where there is low level of confidence in estimated expenditure. At this late stage in the year there are no projects rated as having low confidence in estimated expenditure.

5.3 Amber rating

An amber rating of confidence to spend budget highlights areas where there are issues impacting on the ability to project spend – generally indicating factors outwith the budget manager's control. The following have been identified by budget managers as having an amber status:

Project	Para.	Capital Plan 2023/24 £000s	Projected Expenditure 2023/24 £000s
Land and Buildings			
NESS Energy for Waste Plant	5.6	5,304	5,304
ELC - Portgordon	5.7	110	110
Infrastructure			
Bridges (1 projects)	5.7	38	38
Vehicles, Plant and Equipment			
Children's Play Area Equipment	5.8	234	262
TOTAL		**5,686**	**5,714**

5.6 Spend on the Council's share of the costs of the construction phase of the NESS Energy for Waste Plant is dependent on the contractors achieving agreed milestones which trigger payments and may be subject to change. This is the last year of construction and the plant is now operational. However, under the terms of the agreement the primary supplier is permitted to claim for exceptional costs associated with a delay outwith their control. The Project Board, representing the Local Authorities' interests, is in commercial negotiations as to the value of this claim. Until these negotiations progress to a later stage it is not possible to quantify any liability.

5.7 Work required at the Early Learning and Childcare (ELC) facility at Portgordon by the Care Inspectorate were put on hold until the final accounts were received for the ELC facility at Aberlour, to determine affordability. . Final accounts have now been agreed and the Portgordon works will be carried out in 2024/25, at an estimated cost of £50,000. Carry forward will be requested. The final underspend in 2023/24 remains uncertain until Property Services fees for quarters 3 and 4 are charged.

5.8 Expenditure on the planned project at Lea Bridge in Forres is dependent on the findings of inspections.

5.8 Expenditure on children's play areas is dependent on delivery times for equipment and remains uncertain, with long delivery times experienced.

5.9 Details of the projected variances as at December 2023 from the current approved capital programme, summarised in **APPENDIX 1,** are set out below:

Description	**Ref**	**Underspend/ (Overspend) £000s**
Land and Buildings		
Early Learning and Childcare (ELC Projects)	5.10	138
Moycroft	5.11	96
Industrial Estates	5.12	69
Infrastructure		
Flood Risk Management	5.13	(180)
Harbours	5.14	35
Vehicles, Plant and Equipment		
Orchard Road Signals	5.15	(45)
Moray Leisure Centre	5.16	103
Moray Growth Deal	5.17	
TOTAL		**843**

Land and Buildings

5.10 **Early Learning and Childcare (ELC) Projects –** Tenders for various ELC projects have seen both increased prices and lack of supplier engagement. The final account for the ELC project in Aberlour has come in underbudget. Some other projects are forecast to be overspent due to higher tender prices, with an overall underspend of £138,000 forecast, subject to finalising Property Services fees.

5.11 **Moycroft –** This project was complete in November 2020. As discussions with the contractor to agree the amount of the final bill were in train in 2022/23, an estimate of the amount was made and accrued. The final bill agreed is less than this estimate, resulting in an underspend of £96,000.

5.12 **Industrial Estates –** There has been slippage in the programme of refurbishment of industrial units, due to delays in agreeing works with tenants and in securing contractors. Upgrades to roads in industrial estates has slipped because of delays in finalising the specification of work required. It is recommended that the projected underspend of £69,000 is carried forward into 2024/25.

Infrastructure

5.13 **Flood Risk Management –** Compensation negotiations for the Findhorn Flood Alleviation Scheme are ongoing and officers are working with the District Valuer, landowners and their agents to try and reach agreement. There is an element of uncertainty in how much these compensation payments will be agreed and this has resulted in an overspend this year.

There are still three agreements outstanding on the Findhorn Scheme and it is hoped that these will be settled before the end of 2024. However, one of these agreements is subject to potential legal action, which increases the uncertainty over cost and timing.

5.14 **Harbours –** Various Harbour works are forecast to be underspend overall by a total of £35,000.

Vehicles, Plant and Equipment

5.15 **Orchard Road Signals –** As reported at the end of quarter 2, late invoices totalling £45,000 for the installation of signals equipment were received.

5.16 **Moray Leisure Centre –** a contingency of £103,000 had been held in the capital budget in case of mechanical or electrical failure. At this late stage in the year expenditure is not considered to be likely within 2023/24. It is recommended that this underspend along with the previously reported projected underspend of £700,000 on Moray Leisure under Land and Buildings is carried forward into 2024/25.

Moray Growth Deal

5.17 Elements of slippage are anticipated across the Growth Deal Projects: £67,000 on the Bus Revolution; £112,000 on Early Years STEM; £225,000 on Housing Mix Delivery; and £272,000 on the Cultural Quarter with an overspend of £52,000 anticipated on the Manufacturing Innovation Centre. All are due to slippage and reprofiling of the spend is recommended.

6. AMENDMENTS TO CAPITAL PLAN

6.1 The following amendments to the capital plan are recommended:

Amendments	**Para**	**2023/24 £000s**	**2024/25 £000s**
Industrial Estates	5.12	(69)	69
Moray Leisure Centre	5.16	(803)	803
Moray Growth Deal	5.17	(624)	624
TOTAL		**(1,496)**	**1,496**

7. ESTIMATED OUT-TURN

7.1 Budget managers project expenditure for the year based on a review of individual projects. However, past experience suggests that at the aggregate level this is not always an accurate estimate of overall levels of expenditure and this has been particularly so during the past few years with many uncertainties in tendering and supply lines making accurate budget forecasting extremely difficult. Consequently the detailed estimated outturn from budget managers has been revised to reflect aggregate levels of slippage based on expenditure to date and on levels of expenditure in the last two financial years (£31 million in 2021/22 and £28 million in 2022/23) .

	£000
Projected Spend notified per departments	40,094

Amend for slippage on Amber projects (50%)	(2,843)
Amend for slippage on Green projects (20%)	(12,073)
Revised Estimated Out-turn	**25,178**

7.2 This compares with an adjusted estimated out-turn reported at the end of quarter 2 of £29,901,000, a reduction of £4,654,000. As noted in paragraph 2.1, spend for quarter 3 is £6 million less than previously estimated. However, improved delivery times for replacement vehicles are now forecast to result in expenditure in quarter 4 of £1,756,000 higher than forecast as at the end of September, so the estimate in paragraph 7.1 is consistent with the previous forecast adjusted for expenditure during quarter 3.

8. RISK

8.1 Budget managers have been asked to identify any specific areas of risk for the projects in the capital plan for which they are responsible.

Generic risks

8.2 Projects can be subject to risks which are outwith the direct control of the Council, such as poor weather conditions. Some assets such as harbours are particularly vulnerable to bad weather events but there is potential for weather conditions to impact across all lands and buildings and infrastructure projects.

8.3 Lack of staff resources and staff turnover can impact on project timescales and other emerging work priorities can impact in scheduled works and this is reflected in delays where work planned to be out-sourced is being brought in-house as a result of poor response to tender requests.

8.4 There is a risk that time-limited funding is not spent within time-frame and that the Council therefore loses the opportunity to improve or create assets at no or reduced cost to the Council.

8.5 There is a risk that contract inflation might increase the eventual cost of projects in future years of the capital plan and a risk that any deferment of projects relating to asset condition might result in element failure, potentially incurring unbudgeted costs. The figures in the 10 year plan are based on current costs and are likely to increase by the time the project is undertaken.

8.6 A risk to the capital plan in recent years has been an increase in the cost of materials and scarcity of many materials which are key for the construction industry. This was partly a world-wide reaction to the pandemic, and partly due to Brexit, but global conflicts are increasing having an impact.

8.7 The cost to the Council of borrowing is based on current interest rates. Inflation is stabilising and falling, but interest rates appear likely to stay at around the current level for some time, although forecasts have been volatile with a number of factors bearing on the Bank of England

Project specific

8.8 The Climate Change Route Map to Net Zero, setting out how the Council plans to achieve its target of net zero carbon by 2030, has not been incorporated into the capital plan. As projects in the plan are developed carbon factors will be taken into account. The impact will be increased costs for many projects. Where specific actions in the Route Map entail capital expenditure these will be included in the capital plan, subject to a business case being approved for the inclusion of the action.

8.9 The main current risk for the vehicle replacement programme arises from pressures due to targets for local authorities to de-carbonise their fleets, which also entails developing the infrastructure to support electric vehicles.

8.10 The Council's Learning Estate is generally of a poor condition and this carries the risk of unplanned work being required to avoid unplanned school closures.

8.11 No other project risks have been specifically identified by budget managers. There are risks relating to Moray Growth Deal projects which are monitored by the MGD Programme Board – these will be added to the risks reported on the Council's Capital Plan as and when Full Business Cases are approved and projects led by partners go live.

9. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))
Effective budget management is an essential component of delivery of Council priorities on a sustainable basis.

The capital plan is one of the vehicles through which the Council's priorities can be delivered. The approved capital plan for 2023/24 and the outline ten year plan incorporates measures designed to address the LOIP priorities of building a better future for our children and young people, empowering and connecting communities and developing a diverse, inclusive and sustainable economy.

(b) Policy and Legal
There are no policy or legal implications arising directly from this report.

(c) Financial implications
The financial implications are highlighted within the report and **Appendices 1 and 2** to the report.

(d) Risk Implications
Budget managers are aware of their responsibilities for managing budget allocations and approval for variance will be sought from Council in line with the financial regulations. Risks specific to items within the capital plan are highlighted in paragraph 7 of this report.

(e) Staffing Implications
There are no staffing implications arising directly from this report

(f) Property
There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

There are no equalities issues arising from this report.

(h) Climate Change and Biodiversity Impacts
There are no climate change or biodiversity issues arising directly from this report. Achieving net zero will have significant implications for future planned capital expenditure

(i) Consultations
Capital budget managers and all Heads of Service have been consulted and any comments incorporated in the report.

10. <u>CONCLUSION</u>

10.1 Capital expenditure for 2023/24 amounts to £15,841,000 to the end of December 2023.

10.2 Capital expenditure for 2023/24 is currently projected to be £25,178,000 but with a high degree of uncertainty due to current construction industry conditions and other external factors.

10.3 Amendments to the Capital Plan amounting to a decrease of £1,496,000 in 2023/24 and an increase of £1,496,000 in 2024/25 are recommended.

Author of Report:	Lorraine Paisey, Chief Financial Officer
Background Papers:	
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