



REPORT TO: CORPORATE COMMITTEE ON 30 AUGUST 2022

SUBJECT: CAPITAL PLAN 2022/23

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

1. REASON FOR REPORT

- 1.1 To advise the Committee of expenditure to 30 June 2022 under the capital plan for financial year 2022/23 and of estimates of projected expenditure profiled into quarters.
- 1.2 This report is submitted to Committee in terms of Section III (B) 9 of the Council's Scheme of Administration 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 30 June 2022 of £4,394,000;**
- (ii) Considers and notes the current projected expenditure of £55,929,000 for 2022/23 profiled into quarters, as set out in APPENDIX 1;**
- (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 2022/23 and 2023/24 capital plan as detailed in section 6.1 of this report.**

3. BACKGROUND

- 3.1 The capital plan for 2022/23 totalling £51,426,000 was approved by Moray Council on 22 February 2022 (paragraph 4 of the Minute refers). Amendments (largely carry forwards from 2021/22) approved by the Council at its meeting on 23 February 2022 (paragraph 7 of the Minute refers) have been incorporated to give a current approved capital plan for 2022/23 totalling £62,607,000. The current projected expenditure is £55,930,000, but this estimate should be treated with caution due to volatile conditions within the Construction Industry and in supply chains of materials. These issues are resulting in contractors declining to tender for works or increasing prices significantly above estimates and also in delays in construction works and delivery of goods. Consequently, this figure should be treated as the maximum spend expected in year.
- 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 projects.

4. CAPITAL PLAN 2022/23

- 4.1 A copy of the summary capital plan is included as **APPENDIX 1** showing actual expenditure to 30 June of £4,393,000. This is just over 7% of the currently approved capital plan. General Capital Grant of £2,092,000 has been received from the Scottish Government. Other grants and contributions of £105,000 have also been received, consisting of funding to enable the 1:1 provision of CO2 monitors in schools and Early Learning and Childcare settings (1:1 provision means having one monitor per classroom and teaching space), and for Speyside Way Upgrades funded by the Low Carbon Travel and Transport Challenge Fund (LCTT). In addition to this, Developer Contributions of £137,000 have been received in quarter 1 of this financial year and capital receipts of £198,000 for the sale of land and buildings and vehicles.
- 4.2 Expenditure on land and buildings to 30 June 2022 totals £1,761,000. The main items of expenditure are £352,000 on works to bring the school estate to BB standard and £440,000 for the Council's contribution to the construction of the NESS Energy for Waste plant. Expenditure of £500,000 has also been spent on Place Based Investment, a programme established by the Scottish Government to ensure that local investment is relevant to local communities and for the benefit of local people. This expenditure, which relates to the acquisition of buildings at Buckie Harbour, is funded by capital grant from the Scottish Government.
- 4.3 Expenditure on infrastructure assets to 30 June 2022 totals £1,136,000. The main item of expenditure was £604,000 on roads resurfacing works carried out throughout the council area.

4.4 Expenditure on vehicles, plant and equipment to 30 June 2022 totals £1,497,000. The main item of expenditure was £1,189,000 on the Vehicle and Plant Replacement Programme, all of which is slippage from 2021/22 due to the current lead time for the delivery of vehicles.

5. **PROJECTED OUTTURN AND PROJECT DEFERRALS**

5.1 Budget managers have been requested to update projected estimates of expenditure on capital projects in 2022/23. Projects are graded for confidence of achieving projected expenditure with high confidence rated as green, medium confidence as amber and low confidence as red. A summary of the ratings is given in the table below.

Risk Status	RAG	No of Projects	Projected Expenditure 2022/23 £000
High confidence of spend to estimate	G	94	42,379
Medium confidence of spend to estimate	A	15	11,355
Low confidence of spend to estimate	R	5	2,195
		114	55,929

5.2 The spend projections provided by budget managers are based on the best information available at this time. However, given the uncertainties referred to in paragraph 3.1 a green RAG rating really only indicates that no specific issues have been identified to date.

5.3 **Red rating**

A red status highlights areas where there is low level of confidence in estimated expenditure. The following have been identified by budget managers as having a red status:

Project	Projected Expenditure 2022/23 £000s
Land and Buildings	
New 3G Pitches	700
Refurbishment and Upgrade of Pools	-
Infrastructure	
Bridges (3 projects)	1,335
Timber traffic structural work	160
TOTAL	2,195

5.4 Work on some of the planned Leisure Facilities projects are dependent on the Learning Estate Strategy and will also be informed by conditions surveys of the facilities. An update on the Learning Estate Strategy and proposed investment programme in sport and leisure facilities will be made to the Transforming Learning Board and thereafter to the Education, Leisure and Children's Services Committee later in the year. At this stage there is no certainty on spend requirements. The budget for timber traffic structural work

is used as match funding when applying for grants. The Council was only successful in one of its bids and it is therefore unlikely that the balance of funding above that required for match-funding for the successful bid will be spent in the current financial year (see paragraph 5.17). Three bridge projects are currently predicting a status of red (Bridge of Slateford, Aldunie Bridge/Dykeside Bridge and Shougle Bridge). Current construction industry inflation, along with complex negotiations with landowners are contributing to this.

5.5 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	Paragraph	Projected Expenditure 2022/23 £000s
Land & Buildings		
Findrassie Primary School	5.6	450
Parks & Open Spaces Infrastructure	5.6	140
Industrial Portfolio Projects	5.6	-
Infrastructure		
Kerb Edge Replacement	5.7	-
Street Lighting – Replacement Columns and Lights	5.7	800
Bridges (2 projects)	5.7	3,015
Vehicles, Plant & Equipment		
Moray Leisure Centre Equipment	5.8	-
Vehicle & Plant Replacement Programme	5.8	5,563
Children’s Play Area Equipment	5.8	253
ICT Capital Spend	5.8	1,134
TOTAL		11,355

5.6 The tender process for the new Findrassie Primary School has taken longer than originally envisaged and contract award is now expected in the second quarter of 2022/23. Capacity issues within the Land and Parks team have seen delays in progressing Parks Infrastructure projects. Various issues including land purchase negotiations and design issues, along with resource issues within the department due to increased workloads have impacted on Industrial Estates projects. One project is on hold and it is unclear what expenditure is likely in 2022/23.

5.7 Staff vacancies within the Roads Department are impacting on plans for Kerb Replacement projects and Street Light Column Replacements. Bridges projects for a new Craigellachie Bridge and Boat O Brig Bridge at Orton are both classed as Amber based on Tender returns and construction industry inflation.

5.8 Spend requirements for Moray Leisure Centre equipment will form part of the sports and leisure investment plan being developed. Until that is approved no expenditure is envisaged on Moray Leisure Centre. The lead time for vehicle replacements is very long due to issues with the supply of small components to complete vehicles and there is therefore a high degree of uncertainty as to when vehicles will be delivered. There is a similar situation with regards to Play Area Equipment. Establishing the requirements for the next phase of the telephony project, which are dependent on future flexible working and the Property Asset Management Appraisal (PAMA) office review, and staff resourcing for the legacy server replacement programme mean there is a degree of uncertainty around the amount of spend against the ICT capital programme.

5.9 Details of the projected variances as at June 2022 from the current approved capital programme, summarised in **APPENDIX 1**, is set out below:

Description	Ref	Underspend/ (Overspend) £000s
Land and Buildings		
Lossiemouth High School	5.10	281
Findrassie Primary School	5.11	(100)
Leisure Facilities – Works Arising from Condition Surveys	5.12	40
Refurbishment and Upgrade of Pools	5.13	300
Industrial Portfolio	5.14	4,324
Economic Development – Town Centre Improvement Plans	5.15	200
Infrastructure		
Kerb Edge Replacement	5.16	50
Timber Traffic	5.17	590
Bridges	5.18	920
Vehicles, Plant & Equipment		
Moray Leisure Centre Equipment	5.19	400
Gull Proof Bins	5.20	(2)
Replacement Household Waste Recycling Centre (HWRC)	5.21	300
ICT Capital Spend	5.22	72
TOTAL		7,375

Land and Buildings

5.10 **Lossiemouth High School** – The remaining costs for the project include the remainder of the soft landscaping works that are still to be carried out. Spend to date in previous financial years include additional Covid costs. The effect of these costs on the overall project can be seen in **Appendix 2**. Under the terms of the contract, the contractor was entitled to recover reasonable costs due to the delays experienced following Covid-19 government restrictions. Scottish Government have confirmed that they will not be making any contribution towards these costs.

- 5.11 **Findrassie Primary School** – As part of the 2021/22 out-turn reported to Moray Council on 29 June 2022 (paragraph 17 of the minute refers) a carry forward of £50,000 was requested from an underspend of £188,000. This was an error - the recommended carry forward should have been £150,000 and it is therefore recommended that the budget in the current financial year is increased by the amount omitted from the carry forward report - £100,000.
- 5.12 **Leisure Facilities Works Arising from Condition Surveys** – Works instructed as a result of conditions surveys are anticipated to cost £40,000 less than the allowance in the capital plan for 2022/23. However the final cost will not be confirmed until works are complete.
- 5.13 **Refurbishment & Upgrade of Swimming Pools** – The programme of works under this heading are dependent on the development of the Learning Estate Strategy. The timing and amount of spend is currently uncertain and will be reported to future Committees once finalised. Conditions surveys indicate that some work is required in early course but the likelihood of this being procured in 2022/23 is considered low. It is recommended that the full budget of £300,000 be carried forward to 2023/24 to allow the work to be carried out.
- 5.14 **Industrial Portfolio**
Forres Industrial Estates – There are two projects within the capital plan, both involving acquisition of land and subsequent development of service sites. For the first, the land owner of the site is now seeking to retain the site and alternative options are being investigated. Meantime the project is effectively on hold. It is unlikely that purchase will complete in the current financial year so it is recommended that the full budget of £281,000 is carried forward to 2023/24. The delay in purchasing the necessary land will mean that the subsequent development of serviced sites and units on the land acquired will also be delayed and it is recommended that the budget of £2,798,000 be carried forward to 2023/24 for the projects to be progressed on completion of the land acquisition.

Economic Recovery Industrial Estate Forres – This is a joint project with Highland and Islands Enterprise. There are a number of landowners involved in negotiations for site acquisition and this is likely to take longer than originally envisaged. It is therefore recommended that the full budget of £545,000 is carried forward to 2023/24.

Economic Recovery Industrial Estate Speyside – This project has complex design issues, including a sloping site, steep access road and the potential requirement for a lengthy cycle path. It is therefore recommended that the full budget of £700,000 is carried forward to 2023/24.

- 5.15 **Economic Development Town Centre Improvement Plans** – As part of the Economic Recovery Plan agreed at the Economic Growth, Housing and Environmental Sustainable Committee on 6 October 2020 (paragraph 9 of the minute refers) £200,000 was allocated to works to improve and adapt town centres resulting from Masterplanning. The funds were to be spent in the 2022/23 financial year but it is now recommended that budget is carried forward to 2023/24 to allow further time for project development and community consultation to deliver projects that support the economic recovery of the town centres.

Infrastructure

- 5.16 **Kerb Edge Replacement** – Lack of staff resources within the Service has meant that work to identify locations for kerb replacement works has not been carried out and an underspend of £50,000 is currently projected.
- 5.17 **Timber Traffic** – This budget is used as match funding for bids to the Strategic Timber Transport Fund (STTF). The Council submitted a bid for funding but was only successful in receiving funding for one project. The total cost of the works is currently estimated to be £400,000 with the Strategic Timber Transport Fund STTF contributing 60% of eligible costs of works. It is therefore recommended that the underspend of £590,000 be carried forward to support prepare future bids which meet the criteria of the fund.
- 5.18 **Bridges**
- A941 New Craigellachie Bridge – Tenders have been returned for this project and were lower than budget. At this stage it is projected that the project will cost £3,000,000, currently £786,000 less than budget.
- A941/100 Blackwater Bridge – There is now one project being undertaken at this bridge and the anticipated cost is £400,000. Scottish Government has awarded Lifeline Bridge funding of £230,000 towards the cost of the work.
- Boat O Brig Bridge Orton – There is a budget of £4,000 for design and preparatory work in 2022/23, with construction planned for 2023/24. Expenditure of £15,000 is currently anticipated for 2022/23.
- Bridge of Slateford – Design works on this project have been delayed and there is now a risk that the works will be carried out in the winter months adding risk and cost. Based on the current market conditions it is currently expected that the costs will be £250,000. Scottish Government has awarded Lifeline Bridge funding of £113,000 towards the cost of the work.
- Kirkhill Drive, Lhanbryde – The construction work for this project is now planned to be undertaken in 2023/24 so it is recommended to carry forward £200,000, leaving £30,000 in 2022/23 to enable design work to be completed and allow work to start on site early in 2023/24.

Aldunie Bridge Cabrach/Dykeside Bridge – Tenders have been returned for this project and were higher than anticipated. It is now expected that this joint project will now cost in the region of £485,000, an increase of £180,000.

U118E/10 Shougle Bridge – Tender has been awarded and costs are projected to be £550,000.

Vehicles, Plant and Equipment

- 5.19 **Moray Leisure Equipment** – Expenditure on Moray Leisure Centre will be part of the sports and leisure capital investment programme referred to in paragraph 5.8 above.
- 5.20 **Vehicle and Plant Replacement** – At the moment the service project that this budget of £5,563,000 will be fully committed in 2022/23. Of this £2,032,000 was carried forward from 2021/22. Global factors such as the war in Ukraine, the pandemic and Brexit have caused major manufacturer factory shutdowns making it difficult to predict delivery times of vehicles and all the expenditure in 2022/23 to date has been on vehicles ordered during 2021/22. It is therefore recommended to carry forward the same level of slippage to 2023/24 to take account the delays being experienced.
- 5.21 **Gull Proof Bins** – This heading is currently projecting a small overspend of £2,000 due to an increase in the unit price of bins.
- 5.22 **Replacement HWRC Elgin** – A land assessment is currently underway for the construction of a new HWRC for Elgin. Some sites have been identified as suitable for the project and well within budget. However if the land in question is not purchased, another assessment will be required and costs could change significantly. The sites under consideration are commercially sensitive.
- 5.23 **ICT Capital Spend** – It is currently anticipated that expenditure on ICT capital projects is likely to be between 80%-90% of the approved budget. However there is uncertainty around the requirements for the future phase of the telephony project and resourcing for the legacy server replacement programme. Once the requirements are finalised costs will be updated.

6. AMENDMENTS TO CAPITAL PLAN

6.1 The following amendments to the capital plan are proposed:

Amendments	Para	2022/23 £000s	2023/24 £000s
Land & Buildings			
Findrassie Primary School	5.11	100	-
Refurbishment & Upgrade of Swimming Pools	5.13	(300)	300
Industrial Portfolio	5.14	(4,324)	4,324
Economic Development – Town Centre Improvement Plans	5.15	(200)	200
Nature Restoration Fund	6.2	124	-
Infrastructure			
Timber Traffic	5.16	(590)	590
Principal Bridge Inspections	6.3	245	300
Vehicles, Plant & Equipment			
Vehicle & Plant Replacement	5.18	(2,032)	2,032
Grant Funding			
Nature Restoration Fund	6.2	(124)	-
TOTAL		(7,101)	7,746

6.2 **Nature Restoration Fund** – The Nature Restoration Fund Scottish Government funding for actions which help nature recover Funding is included in the General Capital Grant. The Council's share of the funding is £124,000. Detailed plans for this funding will be reported to the meeting of Economic Development and Infrastructure Services Committee at its meeting on 6 September.

6.3 **Principal Bridge Inspections** – Moray Council's road network includes 376 bridges. Each bridge must undergo a general inspection every two years and a principal inspection every six years. General inspections are observational and are undertaken by a full time bridges inspector. However, principal inspections are more detailed and must be undertaken by a Technician or Engineer and signed off by a Chartered Senior Engineer. To meet the required target of every six years it is necessary to undertake approximately 63 principal inspections each year. While some of these can be undertaken in-house, the Council does not have sufficient resources within the Bridges team to undertake all of them and it will be necessary to outsource some of these each year. We currently have a backlog of inspections and will try and clear this by outsourcing additional inspections over the next two to three years. Once the backlog is cleared we will be able to assess the requirements for outsourcing this work each year. Depending on the level of on-going work it might prove preferable to attempt to recruit additional staff but recruitment of specialist professional staff is difficult and unless there is a significant level of work a post is unlikely to be attractive to potential candidates. It is therefore recommended to increase the capital plan by £245,000 in 2022/23 and £300,000 in 2023/24.

7. RISK AND EMERGING ISSUES

- 7.1 Budget managers have been requested to identify any specific areas of risk for the projects in the capital plan for which they are responsible.
- 7.2 As reported to Economic Growth, Housing and Environmental Sustainability Committee on 24 August 2021 (paragraph 7 of the minute refers) a risk to the capital plan is an increase in the cost of materials and scarcity of many materials which are key for the construction industry. Scotland Excel have informed the Council of unavoidable increases to costs on some of their frameworks and some key materials such as concrete, wood and steel are currently difficult to source and costlier if they are available. This is partly a world-wide reaction to the pandemic, and partly due to Brexit, and the war in Ukraine is also having an impact. The construction industry is also over-heated and some recent procurement exercises have stalled. The Strategic Territory Partnering Board are also monitoring market volatility.
- 7.3 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.
- 7.4 The main risk for the vehicle replacement programme is manufacturers failing to deliver to agreed timescales and this risk is heightened at this time due to the shortage of semi-conductors.
- 7.5 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. Poor responses to tender requests are an increasing phenomenon and work is on-going with organisations such as Hubco to attempt to improve market engagement, as well as support from the Procurement team to engage local suppliers and contractors. Lack of staff resources is a more intractable problem and current recruitment difficulties, coupled with additional funding streams with short time envelopes for spend, which adds pressure to staff workloads, is creating difficulties and therefore slippage in many areas of the capital programme.
- 7.6 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.
- 7.7 Projects can be subject to risks which are outwith the direct control of the Council, such as poor weather conditions and some assets such as harbours are particularly vulnerable to bad weather events.
- 7.8 The cost to the Council of borrowing is calculated based on interest rates at that time. The current pattern of interest rate rises is considered likely to continue and this will have an impact on the cost to the Council and will need to be taken into account when looking at future capital proposals.

7.9 No other project risks have been specifically identified by budget managers.

8. **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 2022/23 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 directly from this report.

(h) Climate Change and Biodiversity Impacts

There are no climate change or biodiversity issues arising directly from this report.

(i) Consultations

All capital budget managers have been consulted in the development of estimated actuals as part of the preparation of this report. The Corporate Management Team have been consulted and any comments incorporated in the report.

9. CONCLUSION

- 9.1 Capital expenditure in the first quarter of the financial year amounts to £4,394,000 to the end of June 2022.**
- 9.2 Capital expenditure is currently projected to be £6,677,000 lower than the approved capital plan for 2022/23 but with a high degree of uncertainty due to current construction industry conditions and other external factors.**
- 9.3 Amendments to the Capital Plan amounting to a decrease (net of additional grant funding) of £7,101,000 in 2022/23 and an increase of £7,746,000 in 2023/24 are recommended.**

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Background Papers:
Ref: LM/LJC/SPMAN-1293228629-737
SPMAN-1293228629-737
SPMAN-1293228629-738
SPMAN-1293228629-739