



**REPORT TO: ECONOMIC GROWTH, HOUSING & ENVIRONMENTAL
SUSTAINABILITY COMMITTEE ON 24 AUGUST 2021**

SUBJECT: CAPITAL PLAN 2021/22

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

1. REASON FOR REPORT

- 1.1 To advise the Committee of the expenditure to 30 June 2021 under the capital plan for financial year 2021/22 and of estimates of projected expenditure profiled into quarters.
- 1.2 This report is submitted to the Economic Growth, Housing and Environmental Sustainability Committee following a decision of Moray Council on 17 June 2020 to agree a simplified committee structure as a result of the COVID-19 pandemic. In the case of this committee the combining of the delegated responsibilities of Economic Development and Infrastructure, Community Services (Housing and Property) and Finance (budget, capital and revenue monitoring) (para 9 of the minute refers).

2. RECOMMENDATION

2.1 It is recommended that the Committee:

- (i) considers and notes expenditure to 30 June 2021 of £5,481,000;**
- (ii) considers and notes the current projected expenditure of £43,663,000 for 2021/22 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;**
- (iv) consider and note the budget monitoring information contained in Appendix 3, which replaced the separate monitoring report to Economic Development and Infrastructure Services Committee on Capital Expenditure falling within its remit; and**
- (v) approves amendments to the 2021/22 and 2022/23 capital plan as detailed in section 6.1 of this report.**

3. BACKGROUND

- 3.1 The capital plan for 2021/22 totalling £37,322,000 was approved by Moray Council on 3 March 2021 (paragraph 3 of the Minute refers). Amendments approved by the Council at its meeting on 30 June 2021 (paragraph 17 of the Minute refers) have been incorporated to give a current approved capital plan for 2021/22 totalling £45,786,000. The current projected expenditure is £43,663,000, 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. Budget managers were asked to consider projects in order to determine if there was any scope for deferment until market conditions improved and areas identified are described in section 5 of this report. Further work will be undertaken to ascertain if there is scope for further deferments and this will be reflected in future capital monitoring reports. Priority for expenditure will be given to areas where there is time-limited external funding and to spend on health and safety or other legislative requirements.
- 3.2 Policy and Resources Committee on 10 May 2016 agreed to amendments to the information provided in response to the Audit Scotland report “Major Capital Investment in Councils” (paragraph 7 of the Minute refers). Accordingly this report includes a separate **APPENDIX 2**, giving details of expenditure on projects which span more than one financial year.

4. CAPITAL PLAN 2021/22

- 4.1 A copy of the summary capital plan is included as **APPENDIX 1** showing actual expenditure to 30 June of £5,481,000. This is just under 12% of the currently approved Capital Plan. General Capital Grant of £2,096,000 has been received from the Scottish Government. Other grants and contributions of £104,000 have been received, consisting of a grant for part of the cost of design work for a Moray Growth Deal project and the use of Developers Contribution to fund the purchase of leisure equipment. In addition to this, Developer Obligations yet to be used totalling £521,000 have been received in quarter 1 of this financial year and capital receipts of £51,000 for the sale of assets. Capital receipts would normally be used as funding for the Capital Plan but the Council is taking advantage of the time-limited concession given by Scottish Government to use capital receipts to fund transformation of services where this results in financial savings and consequently this sum is not included in the summary at **APPENDIX 1**.
- 4.2 Expenditure on land and buildings to 30 June 2021 totals £4,361,000. The main item of expenditure is £2,626,000 for the Council's contribution to the construction of the NESS Energy for Waste plant. Other items of expenditure include £458,000 on works to bring the school estate to BB standard, and £853,000 on the expansion of Early Learning and Childcare, mainly at Keith. The expansion of Early Learning and Childcare is funded by capital grant from the Scottish Government.

- 4.3 Expenditure on infrastructure assets to 30 June totals £701,000. The main item of expenditure was £371,000 on works to various bridges throughout the council area.
- 4.4 Expenditure on vehicles, plant and equipment to 30 June totals £419,000. The main item of expenditure was £305,000 on the Vehicle & Plant Replacement Programme.

5. **PROJECTED OUTTURN AND PROJECT DEFERRALS**

- 5.1 Budget managers have been requested to update projected estimates of expenditure on capital projects in 2021/22. 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 2021/22 £000
High confidence of spend to estimate	G	70	28,392
Medium confidence of spend to estimate	A	32	8,984
Low confidence of spend to estimate	R	6	6,287
		109	43,663

- 5.2 The spend projections provided by budget managers are based on the best information available at this time. There are various unknowns surrounding the impact that the situation in the wider construction industry and in supply chains will have and this is reflected in the value of projected expenditure in amber and red.

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 2021/22 £000s
Land and Buildings	
Early Learning Childcare Expansion	2,423
Libraries and Leisure – swimming pool refurbishment	300
Parks & Open Spaces (2 projects)	19
Infrastructure	
Timber traffic structural work	500
Vehicles, Plant and Equipment	
Vehicle and Plant Replacement Programme	3,045
TOTAL	6,287

5.4 Capital spend to enable the expansion of Early Learning and Childcare is almost complete. However final costs for works in Keith are yet to be established – additional costs were incurred because of ground conditions on site which became apparent after works had commenced. The final remaining project, which is yet to commence, is refurbishment of nursery accommodation in Aberlour Primary School and cost estimates for this are being made. Given the current state of the construction market it may be deemed prudent to delay the work until a later stage. Work on swimming pools is dependent on conditions surveys, which are to be carried out later this year, thereafter feasibility studies, business cases and design work. Similarly work arising from tree surveys is dependent on survey results. It is now planned to defer all but essential work on lands and parks to meet health and safety requirements but there is no guarantee that further urgent works will not be required. The type of work to be deferred includes works associated with tree survey, cemetery and open space infrastructure and play areas. The department recommend postponing timber traffic structural work until 2022/23 as the schemes put forward for Scottish Government funding have not been successful to date and it seems unlikely that this match-funding component of the Capital Plan will be needed this year. The lead time for vehicle replacements is very long due to issues with the supply of small components to complete vehicles. There is therefore a high degree of uncertainty as to when vehicles will be delivered.

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:

Budget heading	Projected Expenditure 2021/22 £000s
Land & Buildings	
School BB Works (16 projects)	4,727
Findrassie Primary School	450
Cemetery Provision in Moray	80
Infrastructure	
Road Safety Provision	247
Cycling, Walking, Safer Streets (CWSS)	421
Road Improvements – Drainage Works	460
Street Lighting – Replacement Columns and Lights	550
Shougle Bridge	240
Wards Road Junction Improvements	250
Findochty Pontoons	600
Buckie Harbour Infrastructure – Ice Plant	104
Vehicles, Plant & Equipment	
Orchard Road Signals	28
Chemical Waste Disposal Points	170
Children's Play Areas	235
Schools ICT Strategy	239
Telephony/Contact Centre System	183

Budget heading	Projected Expenditure 2021/22 £000s
TOTAL	8,984

- 5.6 The Covid-19 pandemic restrictions on contractors working practices have resulted in an increase in costs of construction. The impact of Brexit has also seen material and equipment costs increase and we are experiencing procurement delays. The resultant cost increases to the BB Schools programme are being managed by regular review of the scope of works but continued variance on the components of this programme of work is anticipated. Planned spend on Findrassie Primary School in 2021/22 is for consultation on the design brief and initial design work. There is a degree of uncertainty as to how far this will be completed within the financial year. The timing of spend on cemeteries has also been varied from that originally planned.
- 5.7 Projects allocated to road safety provision and CWSS are being reviewed so as to maximise CWSS spend, as this is time-limited specific grant funded. Drainage works are planned to be carried out after the majority of roads capital spend has taken place and are therefore vulnerable to an early onset of cold weather, as the teams will then be reallocated to gritting. Street lighting column replacement has been highlighted as amber because of the interdependence between this programme and the higher priority LED replacement programme. Shougle Bridge is rated amber because of potential delays – negotiations with landowners are currently underway; Findochty pontoons because of delays getting the requisite Marine Scotland licence; Buckie ice plant because of delays in delivery of the plant and requirement for the contractor (based in Holland) to self-isolate for 14 days before and after the site visit – now that this has been reduced to 10 days work will begin on 9 August 2021.
- 5.8 Orchard Road traffic signals experienced difficulties in tendering and will now be carried out in-house with uncertainty as to how much spend will be achieved this financial year. The installation of chemical waste disposal points was delayed due to procurement difficulties. Play area upgrade design is being carried out in conjunction with local communities and some delay may be experienced as a result of the process. Schools ICT strategy commenced slightly later in the year than in previous years as the budget is a carry forward from previous years and consequently not approved until 30 June 2021. Telephony requirements are changing due to staff working from home and the revised requirements are unlikely to be established until staff return to office working.
- 5.9 A summary of the projected variances as June 2021 from the current approved capital programme, summarised in **APPENDIX 1**, is set out below:

Description	Ref	Underspend/ (Overspend) £000s
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Description	Ref	Underspend/ (Overspend) £000s
Land and Buildings		
Schools BB Works	5.10	(72)
Lossiemouth High School	5.11	921
Findrassie Primary School	5.12	48
Resurface & Rejuvenate 3G Pitches	5.13	130
Early Learning Childcare Expansion	5.14	(1,538)
Moycroft	5.15	(174)
Cemetery Provision in Moray	5.16	(70)
Tree Survey Operational Works	5.17	40
Parks & Opens Spaces Infrastructure	5.18	179
Infrastructure		
A95 Meikle Cantlay Landslip	5.19	693
Street Lighting – Replacement Columns and Lights	5.20	250
Road Safety – Disability Adaptations	5.21	26
Road Safety Provision	5.22	30
MacDowall Bridge	5.23	67
Wards Road Junction Improvements	5.24	122
Findhorn Flood Alleviation	5.25	(52)
Vehicles, Plant & Equipment		
Vehicle and Plant Replacement Programme	5.26	527
Orchard Road Signals	5.27	192
Upgrade Recycling Centres	5.28	275
TOTAL		1,344

Land and Buildings

- 5.10 **Schools BB Projects** – The Covid-19 pandemic restrictions on contractors working practices has resulted in an increase in costs. The impact of Brexit has also seen material and equipment costs increase and we are experiencing procurement delays. Because of these issues, the scope of works are regularly reviewed and, as a result, may be subject to change. The projections are based on the best information currently available.
- 5.11 **Lossiemouth High School** – The projected underspend is a result of timing differences. During 2020/21, budget was carried forward to 2021/22 based on the planned programme of works at that point. However, works were able to progress quicker than anticipated which created an overspend in 20/21 and a projected underspend in 2021/22. These two variances cancel each other out. Under the terms of the contract, the contractor was entitled to recover reasonable costs due to the delays experienced following Covid-19 government restrictions. Negotiations on these additional costs have concluded between the Council and hub North Scotland. The Scottish Government have been contacted to request assistance with the additional costs with full evidence of costs claimed being provided to assist their determination. The outcome of this will be reported when Scottish Government have responded.

- 5.12 **Findrassie Primary School** – Contractor engagement has been delayed to facilitate community consultation on the design brief, which is to be completed by October 2021. The consultation was delayed due to the pandemic. Contractor supported Stage 2 design is now due to commence in November 2021. Stage 2 is timed to take up to six months it is therefore likely this will extend into 2022/23. The impact on the project of this delay would be low as this is being mitigated with planned early supplier engagement.
- 5.13 **Resurface & Rejuvenate 3G Pitches** – It is currently proposed to resurface the 3G pitch at Buckie in the current financial year, with the remaining balance used to resurface the pitch at either Keith or Speyside in 2022/23. Decisions on these projects are pending a report to the Education, Communities and Organisational Development Committee on 11th August.
- 5.14 **Early Learning Childcare Expansion** – Most projects have been completed but there remains uncertainty over the cost of works in Keith, where additional work above that originally anticipated was incurred due to the condition of drainage (which was not apparent until work had commenced) and work related to roads access. Final costs are being calculated. The cost of refurbishment of the nursery accommodation at Aberlour Primary School is being revised and given the current issues for the construction industry may be delayed until the market settles down.
- 5.15 **Moycroft** – The overspend in quarter 1 is a result of legacy costs from 2020/21. Scottish Water and Covid disruption costs are still yet to be confirmed, however, initial estimates have indicated that these could be in the region of £85,000. An invoice that was submitted late and now allocated to this year is for £45,000. Final invoices have still to be submitted and may vary the final cost of the project up or down.
- 5.16 **Cemetery Provision in Moray** – The original projected expenditure in 2021/22 of £10,000 was to cover internal project management costs for the new Elgin Cemetery. The timing of the project has been advanced and specialist technical and design services to progress this project to the next stage are being tendered for. It is recommended that budget of £70,000 is brought forward from 2022/23 to cover this increase in expenditure in the year.
- 5.17 **Tree Survey Operational Works** – No works have commenced under this budget allocation of £40,000. Following a request for departments to consider capital budgets for deferral it is therefore proposed that the full budget allocation of £40,000 be deferred to 2022/23.
- 5.18 **Parks & Opens Spaces Infrastructure** – It is currently only planned to carry out priority and health safety works under this heading, resulting in £21,000 spend against a budget of £200,000. It is proposed that the resulting underspend of £179,000 be deferred to 2022/23.

Infrastructure

- 5.19 **Meikle Cantlay Landslip** – Only one tender was received for this project, and it was significantly higher than originally forecast. Other suppliers did not

submit a tender due to having large volumes of other works and no capacity to deliver the project. This project will therefore be deferred until 2022/23 and it is therefore requested to carry forward the full budget of £693,000.

- 5.20 **Street Lighting Replacement Columns & Lights** – The priority within the department is to complete the LED Lighting Programme in 2021/22. In previous years other staff from within roads have supported the column replacement works, however, increased roads budget will result in these staff being deployed in this area throughout the year. It is therefore requested that the budget is reduced by £250,000 to £550,000.
- 5.21 **Road Safety Disability Adaptations** – Expenditure on this heading is planned to be on essential disabled bay lining plus work outstanding where orders have already been raised. Following a request for departments to consider capital budgets for deferral in response to construction industry supply chain issues, the balance of £26,000 is recommended for deferral to 2022/23. Deferral will allow effective consultations regarding the best locations for dropped kerbs to be re-established, following the easing of pandemic restrictions.
- 5.22 **Road Safety Provision** – This heading is projecting to underspend by £30,000 due to the fact that the Roads department are not going to be undertaking anti-skid treatment works this year due to surveys not identifying any priority areas requiring treatment.
- 5.23 **MacDowall Bridge** – The budget for this project was estimated based on the best information available at the time. As is good practice, it included an element for issues such as risk allowance and unforeseen circumstances. The project is nearing completion and the allowances for these factors have not been required, creating an underspend on the project. The budget in 2021/22 is recommended to be reduced by the projected underspend of £67,000.
- 5.24 **Wards Junction Improvements** – This scheme is fully funded by s75 developer obligations held by the Council. It is possible that the scheme will come in under budget, and should this happen the balance of monies will be returned to the developer in line with the requirements of the underpinning legal agreement.
- 5.25 **Findhorn Flood Alleviation** – Expenditure of £165,000 has been incurred on to outstanding land compensation claims against a budget of £113,000 to the end of quarter 1. The balance of the budget for compensation claims is held in future years and it is recommended that budget of £52,000 is brought forward to cover the overspend in 2021/22.

Vehicles, Plant and Equipment

- 5.26 **Vehicle and Plant Replacement Programme** – The vehicle supply market is currently experiencing worldwide problems with the supply of small components to complete vehicles so lead times are currently very long. Fleet Services will be able to commit the capital but delivery and payment times are difficult to predict at the moment. Updates on this situation will be reported in

future monitoring reports. No amendments to the budget are proposed at this time.

- 5.27 **Orchard Road Signals** – This project has experienced difficulties in awarding tenders and it is now likely that the work will be undertaken by the Council's Roads department. There are competing priorities and limited resources within the department and it is now anticipated that the project will slip to early in 2022/23. It is therefore proposed to carry forward the amount of the projected underspend to 2022/23 to allow the project to be completed. This project is fully funded by Developer Contributions.
- 5.28 **Upgrade Recycling Centres** – The budget of £275,000 against this heading was originally earmarked for upgrades to Gollachy Household Waste Recycling Centre (HWRC). This has been deferred previously due to uncertainty over the life of the facility. The detail of the work to be undertaken is still be scoped so it is recommended that the full budget of £275,000 is deferred 2022/23 until market conditions in the construction industry improve.

6. **AMENDMENTS TO CAPITAL PLAN**

- 6.1 The following amendments to the capital plan are proposed:

Amendments	Para	2021/22 £000s	2022/23 £000s
Land & Buildings			
Cemetery Provision in Moray	5.16	70	(70)
Tree Survey Operational Works	5.17	(40)	40
Parks and Open Space Infrastructure	5.18	(179)	179
Infrastructure			
A95 Meikle Cantlay Landslip	5.19	(693)	693
Street Lighting Replacement Columns and Lights	5.20	(250)	-
Road Safety Disability Adaptations	5.21	(26)	26
Road Safety Provision	5.22	(30)	30
MacDowall Bridge	5.23	(67)	-
Ward Road Junction Improvements	5.24	(122)	-
Findhorn Flood Alleviation	5.25	52	-
Vehicles, Plant and Equipment			
Orchard Road Signals	5.27	(192)	192
Upgrade Recycling Centres	5.28	(275)	275
Other Amendments			
Place Based Investment Programme	6.2	770	-
Committee Services Hybrid ICT System	6.3	70	-
School Learning Estate	6.4	25	
Moray Growth Deal – Digital Health Project	6.5	954	-
Funding			
Grant funding	6.2 6.5	(1,724)	
CFCR	6.3	(70)	
TOTAL		(1,727)	1,365

- 6.2 **Place Based Investment Programme** – At a meeting of Moray Council on 30 June (item 11 of the Minute refers) a report on the Place Based Investment Programme recommended a plan of expenditure which meets the Programme's main objectives. This was approved and the capital plan has been amended to reflect additional expenditure of £770,000 which is fully funded by a grant from the Scottish Government.
- 6.3 **Committee Services Hybrid ICT System** – At a meeting of Moray Council on 30 June (item 23 of the Minute refers) a report on Committee Governance recommended the purchase of an IT system to enable hybrid meetings to take place. The costs of this system meet the definition of capital expenditure and will be funded as Capital from Current Revenue (CFCR) from covid ear-marked reserves.
- 6.4 **School Learning Estate** – The Council is currently working on various aspects of the Learning Estate Strategy to ascertain future capital requirements. As part of this, there is the opportunity to submit a bid for funding as part of the third phase of the Scottish Government's Learning Estate Investment Programme (LEIP). To enable bids to be prepared it is requested that budget of £25,000 be brought forward from future years of the capital plan.
- 6.5 **Moray Growth Deal Digital Health Project** – The Council has received advance notification from the Scottish Government of their intention to award a specific capital grant of £954,327 in 2021/22 to support the delivery of the Rural Centre of Excellence for Digital Health and Care Innovation Project. This is part of the Moray Growth Deal. The capital plan will be amended to reflect expenditure of this amount, which will be fully funded by the Grant.

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 A new and emerging risk to the capital plan is a forecast increase in the cost of materials. Scotland Excel have informed the Council of unavoidable increases to costs on two of their frameworks and intelligence is coming from a number of sources that materials may be difficult to source and costlier if they are available. This is partly a world-wide reaction to the pandemic, and partly due to Brexit. The construction industry is also over-heated and recent procurement exercises have stalled. Budget managers have been asked to identify where construction works can be deferred and deferrals have been recommended above, with further areas likely to be identified.
- 7.3 The Council is currently seeking to establish whether the Scottish Government will contribute to the additional costs due to Covid-19 in respect of both the Lossiemouth High School and Linkwood Primary School new build projects. Should the Council have to bear either all or a proportion of these costs, it would be necessary to consider the options available to meet or contain the costs and these would depend on the funding gap the Council had to address.

- 7.4 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.
- 7.5 The main risk for the vehicle replacement programme is manufacturers failing to deliver to agreed timescales and this risk is heightened at this time.
- 7.6 Projects can be subject to risks which are outwith the direct control of the Council, such as poor weather conditions.
- 7.7 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.
- 7.8 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 cost to the Council.
- 7.9 Looking to the future there is a need to invest significantly in our infrastructure to underpin the Council's priorities of Our People, Our Place, Our Future and work will be brought forward in early course to look at potential capital requirements and how this might best be funded, with a potential call on reserves to support this.
- 7.10 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 2021/22 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) Consultations

All capital budget managers have been consulted in the development of estimated actuals as part of the preparation of this report. Members of the Asset Management Working Group, all Heads of Service and 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 year amounts to £5,481,000 to the end of June 2021.

9.2 Capital expenditure is currently projected to be £1,344,000 lower than the approved capital plan for 2021/22 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 of £1,727,000 (after taking into account additional funding) in 2021/22 and an increase of £1,365,000 in 2022/23 are recommended.

Author of Report:	Laurie Milne, Senior Accountant
Background Papers:	
Ref:	LM/LJC