



REPORT TO: MORAY COUNCIL ON 6 DECEMBER 2023

SUBJECT: CAPITAL PLAN 2023/24

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

1. REASON FOR REPORT

- 1.1 To advise the Committee of expenditure to 30 September 2023 under the capital plan for financial year 2023/24 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 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 30 September 2023 of £8,120,000;**
- (ii) considers and notes the current plan, prior to amendment of £63,531,000 for 2023/24 based on approved expenditure adjusted for known differences in planned expenditure which have been identified to date, 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) considers and notes the amended projected expenditure in the year as detailed in section 7.1; 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 meeting on 8 March 2023 (paragraph 7 of the Minute refers), and 28 June 2023 (paragraph 8 of the minute refers), and at Corporate Committee on 28 August 2023 (paragraph 7 of the minute refers) have been incorporated to give a current approved capital plan for 2023/24 totalling £69,400,000. The amendments recommended in this report would result in a capital plan of £65,379,000, but this should not be considered an estimate of actual spend for the year. The figure includes expenditure on five Moray Growth Deal (MGD) projects as estimated in Outline Business Cases (OBC) – these projects have submitted Full Business Cases (FBC) to the Scottish Government for approval and the OBC estimates appear unlikely to be achievable in this financial year. The MGD Programme is being reprofiled to reflect draft FBCs and following that the Capital Plan will be adjusted accordingly. Although budget managers have expressed confidence that a high proportion of the projects will spend to current budget there has been a very low spend to date (11.70%). Continued volatile conditions in the construction industry and in supply chains of materials are causing contractors to decline to tender for works or tender for prices significantly above estimates, resulting in reduced scope of works being retendered.

- 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.
- 3.3 The indicative 10 year capital plan is being reviewed as part of the financial planning process to reflect the impact of continued construction inflation and further increased interest rates on the affordability of the plan. As a short term savings measure, capital budget managers have also been asked to review planned expenditure for 2023/24 with a view to delaying projects or otherwise reducing expenditure in 2023/24.

4. CAPITAL PLAN 2022/23

- 4.1 A copy of the summary capital plan is included as **APPENDIX 1** showing actual expenditure to 30 September 2023 of £8,120,000. This is just under 12% of the currently approved Capital Plan. General Capital Grant of £6,812,000 has been received from the Scottish Government. Other grants and contributions of £843,000 have also been received. In addition to this, Developer Contributions of £413,000 have been received in quarter 1 of this financial year and capital receipts of £608,000 for the sale of land and buildings and vehicles. 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.
- 4.2 Expenditure on land and buildings to 30 September 2023 totals £2,956,000. The main items of expenditure is £496,000 on projects under the Moray Growth Deal. Expenditure of £419,000 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 for the benefit of local

people. This expenditure is funded by capital grant from the Scottish Government.

- 4.3 Expenditure on infrastructure assets to 30 September 2023 totals £2,934,000. The main items of expenditure were £300,000 on Road Safety projects and £685,000 on various Harbours projects.
- 4.4 Expenditure on vehicles, plant and equipment to 30 September 2023 totals £2,230,000. The main item of expenditure was £1,682,000 on the Vehicle and Plant Replacement Programme, a proportion of which is slippage from 2022/23 due to the current lead time for the delivery of vehicles.

5. **PROJECTED OUTTURN AND PROJECT DEFERRALS**

- 5.1 Budget managers have been asked to update projected estimates of expenditure on capital projects in 2023/24. The spend projections provided by budget managers are based on the best information available at this time. 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	Budgeted Expenditure 2023/24 £000
High confidence of spend to estimate	G	104	31,793
Medium confidence of spend to estimate	A	4	9,254
Low confidence of spend to estimate	R	8	22,994
		116	64,041

5.2 **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	Para.	Capital Plan 2023/24 £000s	Projected Expenditure 2023/24 £000s
Land and Buildings			
Refurbishment and Upgrade of Pools	5.3	600	
Early Learning and Childcare (ELC) (1 project)	5.3	110	2
Moray Growth Deal (3 projects led by partners)	5.4	21,667	
Depots	5.4	1,500	-
Keith Salt Shed	5.4	117	17
TOTAL		23,994	19

- 5.3 Refurbishment work on some of the planned leisure facilities projects was dependent on the outcome of the Council's bid for funding from Phase 3 of the Learning Estate Investment Programme (LEIP). The Council has been

notified that its bid for Buckie High School was unsuccessful and work will be required to decide the future requirements there and there is therefore no certainty on the spend requirements. However, a minimal level of works may be needed to ensure that the facilities remain operational in the meantime if urgent requirements were to materialise. The ELC base at Portgordon requires improvements as a result of a recent Care Inspectorate inspection but there have been issues with the tender process, both in terms of increased prices and lack of supplier engagement. Work is ongoing to ascertain the best way forward on this project.

5.4 Three Moray Growth Deal projects currently include figures estimated in OBC – these projects have submitted Full Business Cases to the Scottish Government for approval and the OBC estimates appear unlikely to be achievable in this financial year. The Depot and Stores Review is progressing to a revised schedule due to the impact of RAAC on team capacity. A strategic case is being developed and no spend on depots is anticipated until agreement of the strategy and subsequent OBC. Minimal spend is anticipated on the new Salt Shed in Keith by the end of the year as the project is being reviewed in line with the larger Depot and Stores Review.

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	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
Infrastructure			
Bridges (1 projects)	5.7	38	38
Vehicles, Plant and Equipment			
Vehicle and Plant Replacement Programme	5.8	3,678	3,678
Children’s Play Area Equipment	5.8	234	234
TOTAL		9,254	9,254

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 with the plant anticipated to be live in the current financial year. An element of contingency was built into the budget and it is not anticipated that this will be required in full. 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 Expenditure on the planned project at Lea Bridge in Forres is dependent on the findings of inspections.
- 5.8 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.
- 5.9 Details of the projected variances as at September 2023 from the current approved capital programme, summarised in **APPENDIX 1**, are set out below:

Description	Ref	Underspend/ (Overspend) £000s
Land and Buildings		
Schools BB Works	5.10	848
Elgin High School Extension	5.11	(25)
Learning Estate Strategy	5.12	379
Universal Free School Meals	5.13	398
Early Learning and Childcare (ELC Projects)	5.14	138
Moray Growth Deal	5.15	627
Moycroft	5.16	96
Depots	5.17	1,500
Salt Shed	5.18	100
Infrastructure		
Bridges	5.19	1,713
Flood Risk Management	5.20	(180)
Harbours	5.21	35
Vehicles, Plant and Equipment		
Orchard Road Signals	5.22	(45)
Climate Change – Solar Panels	5.23	500
TOTAL		5,959

Land and Buildings

- 5.10 **Schools BB Works** – Projects under the Schools BB Works heading are currently forecast to be £847,000 underspent. Works on fire alarm upgrades at Keith Grammar and Forres Academy have been delayed to the summer of 2024 due to issues with Reinforced Autoclaved Aerated Concrete (RAAC) and it is recommended that the underspend on these projects of £126,000 is carried forward to allow those projects to complete. It is also recommended that the remaining underspend of £721,000 be diverted to fund the works required to rectify RAAC medium term recovery including ancillary works.
- 5.11 **Elgin High School Extension** – A report to Education, Children’s and Leisure Services Committee on 19 September 2023 (paragraph 17 of the minute refers) provided an update on the the project to extend Elgin High School and approved the Outline Business Case (OBC) for the project. It also approved an increase of the capital funding of up to £19.3m. The benchmarked project fee for taking the project to full business case, with a detailed design and build proposition is £1,154,000. It is anticipated that £202,000 of the cost will be in financial year 2023/24 with the remainder in

2024/25. It is recommended that the budgets in 2023/24 and 2024/25 are amended to match this in order for this work to progress.

- 5.12 **Learning Estate Strategy** – This budget is forecast to be underspent by £379,000 due to the delay in the confirmation of Learning Estate Improvement programme (LEIP) funding from the Scottish Government. Some initial work on the Buckie High School design brief has taken place and it is therefore requested that the forecasted underspend of £379,000 is carried forward to 2024/25 to allow this work to progress.
- 5.13 **Universal Free School Meals** – Capital funding to support the roll out of universal free school meals to all pupils in P4 and P7. To date only the roll out to primary 4 and 5 has been completed. Current spend is an estimate on the spend required to purchase additional equipment to support the increased roll out. Further work is to be carried out on the required capital investment required by the end of the financial year and will be updated in future monitoring reports. It is requested that the projected underspend of £398,000 be carried forward to 2024/25.
- 5.14 **Early Learning and Childcare (ELC) Projects** - Various projects under this heading have seen issues with the tender process, both in terms of increased prices and lack of supplier engagement. The project at Aberlour is still ongoing and final account is not yet agreed but it currently forecast to be underspent. Other projects are forecast to be overspent due to higher tender prices resulting in an overall underspend of £138,000. No budget adjustments are requested at this time.
- 5.15 **Moray Growth Deal** - Housing Mix Delivery and Cultural Quarter – The budgets for these projects, which are led by the Council, included in the capital plan are based on the Outline Business Cases and are currently anticipating an underspend against the OBC profile of £627,000. The budget will be amended once the Full Business Cases have been prepared and approved by the Scottish Government and no amendments are therefore recommended at this stage.
- 5.16 **Moycroft** – This project was complete in November 2020 and discussions have been ongoing with the contractor to agree the amount of the final bill. In 2022/23 an estimate of the amount was made of the amount and accrued. The final bill agreed is less than this estimate, resulting in an underspend of £96,000.
- 5.17 **Depots** - The Depot and Stores Review is progressing but pace has been impacted by RAAC issues. No spend is anticipated until agreement of the strategy and development of Full Business Cases to implement the Strategy and it is therefore recommended that the budget of £1,500,000 is carried forward to 2024/25.
- 5.18 **Salt Shed** - Minimal spend on design, consents and site investigation works is anticipated on the new Salt Shed in Keith by the end of the year as the project is being reviewed in line with the larger Depot and Stores Review. It is therefore requested that the forecasted underspend of £100,000 is carried forward to 2024/25.

Infrastructure

- 5.19 **Bridges** - A941 New Craigellachie Bridge – Work is currently ongoing on this project with the next phase due to start in quarter 2. At this stage it is projected that there will be an underspend of £274,000 in this financial year. Aldunie Bridge Cabrach/Dykeside Bridge – Unbudgeted expenditure of £2,000 has been incurred in the current financial year relating to minor works carried over from this project which was carried out in 2022/23. The project had a budget of £485,000 and outturned £425,000 in 2022/23 and will still be under budget after taking this expenditure into account. Cloddach Bridge – The Council at its meeting on 25 October 2023 (paragraph 6 of the minute refers) approved engaging external consultants to prepare the Full Business Case for replacing Cloddach Bridge. The community has raised £120,000 towards this cost with the Council paying the balance. It is recommended that the forecasted underspend of £1,441,000 be carried forward to next year pending future decision following completion of the business case.
- 5.20 **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.
- 5.21 **Harbours** – Work on various Harbour projects are forecast to be underspend by a total of £153,000 due to the risk allowance built into budgets not being required. It is requested to use £118,000 to increase the budget for capital dredging, the tender for which has come in over the initial budget of £255,000.

Vehicles, Plant and Equipment

- 5.22 **Orchard Road Signals** – Late invoices totalling £45,000 for the installation of signals equipment were sent by the provider after year end which were not taken into account in previous reporting. The overall rise in project costs has been down to the increase in construction costs experienced between 2020 (when the Project Mandate was completed) and 2023 (when the project was completed). Additional work was also required to provide new electronically controlled gates for a property whose access lies within the junction area.
- 5.23 **Climate Change** – This was a generic allowance for expenditure related to climate change and no definite proposals have yet been made although proposals to install solar panels on various Council buildings are currently being drafted. These are at an early stage of development and no spend is anticipated on this heading in 2023/24. The potential for external funding is being investigated. It is therefore recommended that the budget of £500,000 is carried forward in full.

6. AMENDMENTS TO CAPITAL PLAN

6.1 The following amendments to the capital plan are recommended:

Amendments	Para	2023/24 £000s	2024/25 £000s
Land and Buildings			
Schools BB Works	5.10	(126)	126
Elgin High School Extension	5.11	25	-
Learning Estate Strategy	5.12	(379)	379
Universal Free School Meals	5.13	(398)	398
Depots	5.17	(1,500)	1,500
Salt Shed	5.18	(100)	100
Infrastructure			
Bridges	5.19	(1,441)	1,441
Vehicles, Plant and Equipment			-
Climate Change	5.23	(500)	500
TOTAL		(4,021)	4,046

7. ESTIMATED OUT-TURN

7.1 The estimated outturn from budget managers has been revised to reflect levels of slippage based 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	63,441
Amend for Moray Growth Deal Projects	(21,667)
Amend for slippage on red projects	(708)
Amend for slippage on Amber projects (50%)	(4,627)
Amend for slippage on Green projects (30%)	(9,538)
Revised Estimated Out-turn	29,901

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. This consideration will form part of the review of the 10 year plan.
- 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 is partly a world-wide reaction to the pandemic, and partly due to Brexit, but the war in Ukraine is also having an impact. This is still seen as a risk but the impact and likelihood is reducing.
- 8.7 The cost to the Council of borrowing is based on interest rates at the time. Continued relatively high levels on inflation are expected to mean that the current pattern of interest rate rises is likely to continue and this will have an impact on the cost to the Council and this will underpin the review of the 10 year plan as part of the financial planning process for 2024/25 and beyond.

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 is extended lead in times of up to 24 months due to industry conditions, although lead in times are now gradually shortening. There are pressures on the programme 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

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.

10. CONCLUSION

10.1 Capital expenditure in the first quarter of the year amounts to £8,120,000 to the end of September 2023.

10.2 Capital expenditure is currently projected to be £29,901,000 lower than the approved capital plan for 2023/24 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 £4,021,000 in 2023/24 and an increase of £4,046,000 in 2024/25 are recommended.

Author of Report: Laurie Milne, Senior Accountant
Background Papers:
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