

ANGUS COUNCIL

POLICY & RESOURCES COMMITTEE – 30 AUGUST 2022

2022/23 FINAL CAPITAL BUDGET - GENERAL FUND

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report presents to members the updated 2021/2026 General Fund Capital Plan, incorporating the 2022/23 capital monitoring budget. The report also asks for approval of additional funding for

1. RECOMMENDATION

1.1 It is recommended that the Committee:

- (a) note the contents of this report and that there remains a degree of uncertainty around the financial impact the current market volatility is having on the capital programme which may continue for some time to come;
- (b) note the update regarding the Lochside Leisure Centre Demolition project and approve the additional funding required for this project based on tenders received as set out in Section 6;
- (c) approve the contents of the updated 2021/2026 General Fund Capital Plan (attached at **Appendix 1**);
- (d) note that the 2022/23 capital budget represents the Council's approved budget for General Fund capital monitoring purposes.

2. ALIGNMENT TO COUNCIL PLAN

2.1 The projects undertaken through the Council's capital programme (as detailed in **Appendix 1**, attached) reflect the Council's corporate priorities and contribute as a whole to the specific targets and objectives within the Council Plan and the Community Plan.

3. BACKGROUND

- 3.1 At the special meeting of Angus Council on 3 March 2021 the Council approved the 2021/2026 General Fund Capital Plan, incorporating the provisional 2022/23 capital budget of £27.111m (report 65/22 refers). A comprehensive update of departmental capital programmes (based on the unaudited actual position at the close of the 2021/22 financial year) was undertaken over the summer months to inform the 2022/23 final capital budget position.
- 3.2 This is usually a straightforward exercise however in recent years this has been more challenging due to the impact of the COVID-19 pandemic and more recently the war in Ukraine, on global supply chains and labour resource availability, resulting in delays on a number of capital projects. The impact of longer lead times for materials supplies and price inflation will continue to affect the construction industry in 2022/23 and beyond.
- 3.3 This exercise therefore also intended to capture, both in terms of timescales and costs, any continuing impact from the COVID-19 pandemic as well as the materials supplies and price volatility issues that are currently being experienced. Officers were also provided the opportunity to submit bids requesting additional funding from the capital contingency as part of this process.

- 3.4 The Capital Projects Monitoring Group (CPMG) met on 11 August 2022 to review the updated capital plan/additional funding bids and to scrutinise and challenge the officers in attendance on their proposed spending plans in terms of robustness and achievability.

4. UPDATED CAPITAL RESOURCES POSITION

- 4.1 Updated estimated capital resources totalling £133.546 million over the 5 year period of the 2021/2026 Capital Plan are detailed in Table 1 below, alongside a comparison of the Provisional Budget Volume position approved at March's budget setting meeting (reports 65/22 and 68/22 refer).

Table 1 – 5 Year Position

	Updated Resource Position £m	Total Resources Per R68/22 £m	Increase / (Decrease) £m
Scottish Government general capital grant	51.039	50.277	0.762
Corporate capital receipts (from sale of assets)	2.885	3.190	(0.305)
CFCR (via Special Repayment Strategy)	2.926	2.926	-
Corporate revenue contribution	0.500	0.500	-
Corporate Capital Fund contribution	3.060	3.060	-
Corporate borrowing	73.136	73,281	(0.145)
Total Resources	133.546	133.234	0.312

- 4.2 Whilst the above table reflects an overall increase in resources of £0.312 million it must be noted that this does not represent headroom for new capital projects. These resources are required in order to fund slipped expenditure from 2021/22.
- 4.3 The £0.762 million increase in general capital grant is due to additional earmarked funding relating to the Playpark Renewal programme, Nature Restoration Fund and also its application to non-enhancing capital expenditure within the existing capital plan. There has been no official change to the overall level of Scottish Government general capital grant awarded in 2022/23.
- 4.4 The decrease in estimated corporate capital receipts of £0.305 million is due to the actual income received from asset sales in 2021/22 being lower than anticipated.
- 4.5 The decrease in estimated corporate borrowing of £0.145 million is brought about by the rephasing of expenditure across the capital programme and the various movements in application of other sources of funding.

5. CAPITAL CONTINGENCY

- 5.1 There were two additional funding requests submitted as part of the capital plan update exercise however neither bid is considered suitable for recommendation for capital funds at this time.
- 5.2 The balance on the corporate contingency is currently £3.464 million. Within that balance are amounts earmarked for specific purposes (totalling £3.466 million), although some of these are precautionary in nature and may not ultimately materialise. If all of those existing potential calls on the contingency proved to be required then the contingency would be exhausted but this is unlikely to happen in the short term and the adequacy of the contingency will be reviewed again as part of the 2023/24 budget setting process. Included within this earmarked sum is £0.973 million which was originally set aside for COVID-19 pandemic additional capital costs (per report 212/21). This provides some flexibility should it be required, not only in terms of any further COVID-related costs coming through but also if prices start exceeding budget estimates due to the current market volatility with the supply and cost of building materials. In the event that this provision proves insufficient however it may be necessary to review the capital budget again and defer or cancel some projects to remain within our affordability limits.

6. LOCHSIDE LEISURE CENTRE - DEMOLITION

- 6.1 At the meeting of Angus Council of 16 December 2021 (Report 365/21 refers) members agreed to proceed with the demolition of Lochside Leisure Centre. Tenders for the demolition and associated works were invited under the delegated authority of the Director of Infrastructure. The works comprise the demolition of the former Lochside Leisure in Forfar together with all associated services and external works. The adjacent mobile units are being offered to the community to uplift and re-use. The works also include removal of surrounding hard landscaping and select trees and reinstatement of all areas to form grassed areas and the removal of all asbestos materials as identified within the Angus Council Asbestos Report.
- 6.2 Tender documents were issued to sixteen contractors. The contractors were selected using the Scotland Excel Demolition and Deconstruction 1119 Framework - Lot 2 and tender documents were sent out to those on the list for the Angus Area. Tenders were lodged electronically on the Public Contracts Scotland website on Friday 5 August 2022 and remain open for acceptance until Thursday 3 November 2022. A total of 10 contractors submitted a bid for the works. The total cost of the works utilising the offer from the most economically advantageous tender is some £155,500 higher than the remaining budget for the project and it is therefore necessary to identify additional funding to enable the works to go ahead.
- 6.3 The original budget provision for the demolition and all associated works was £500,000. Some of this funding has been spent in previous financial years on the separation of services to the Rangers Centre, emergency works, statutory approvals, fees, etc. At 31 March 2022 some £377,000 of the original budget remains to take forward the demolition and remaining associated works. Table 2 below shows the main areas of variance in cost from that previously budgeted for based on tenders returned in 2019.

Table 2 – Areas of Cost Increase

Project Item	Tender Cost/Existing Budget Jan 2019 £000	Tender Cost Aug 2022 £000	Increase £000	Comments
Demolition, landscaping and remedial works including professional fees and expenses	397	515	118	Market pricing
Separation of services connections to Rangers Centre	62	88	26	Unexpected contaminated materials found and removed
Street Lighting works	10	15	5	Revised design and market pricing
Other costs including bat survey, asbestos testing, statutory approvals, landscaping	14	21	7	Markey pricing and additional bat survey
Securing Empty Building and Associated Maintenance Works	17	17	0	
TOTALS	500	656	156	

- 6.4 Given the pressures on the Council's capital budget and capital contingency as referred to in Section 5 above it is recommended that the additional cost to enable the demolition and associated works to go ahead (£155,500) be met from the Council's General Fund Reserve which is the source of the existing funding provision. Sufficient uncommitted Reserves are available to accommodate this extra cost.

7. UPDATED 2021/2026 CAPITAL PLAN AND 2022/23 CAPITAL MONITORING BUDGET

- 7.1 The updated 2021/2026 Capital Plan, reflecting the impact of 2021/22 actual expenditure on the budget and phasing of projects for 2022/23 onwards, is attached at Appendix 1.

- 7.2 The 2022/23 capital monitoring budget and updated funding position is detailed in Table 3 below, alongside comparable figures from March's budget setting meeting (per report 65/22):

Table 3

2022//23 Capital Monitoring Budget and Funding	Capital Monitoring Budget £m	Provisional Capital Budget (R65/22) £m	Movement £m
Vibrant Communities & Sustainable Growth	4.968	5.369	(0.401)
Infrastructure	14.739	13.282	1.457
Education & Lifelong Learning	4.608	3.678	0.930
Digital Enablement & Information Technology	0.885	0.805	0.080
Angus Health & Social Care Partnership	1.009	1.572	(0.563)
Angus Alive	0.150	1.719	(1.569)
Tay Cities Deal	(0.148)	0.686	(0.834)
General Fund Capital Monitoring Budget 2022/23	26.211	27.111	(0.900)
Scottish Government general capital grant	11.110	10.420	0.690
Corporate capital receipts from sale of assets	0.250	0.250	-
CFCR (Balance of Special Repayments)	1.783	1.783	-
One-off capital contribution	0.903	0.210	0.693
Corporate borrowing	12.165	14.448	(2.283)
Funding 2022/23	26.211	27.111	(0.900)

- 7.3 Funding elements such as ring-fenced capital grants, external funding contributions and other internal funding contributions are reflected within the capital plan itself, netted off against the gross cost of particular projects. Anticipated capital receipts from the sale of assets are not specifically shown in the capital plan (unless by exception, where committee approval has been given to ring-fence a receipt for a particular project). Likewise, general capital grant received from the Scottish Government is not reflected on the face of the capital plan unless it is being utilised to fund third party capital expenditure.
- 7.4 The 2022/23 capital monitoring budget of £26.211 million shows a net decrease of £0.900 million when compared with the provisional capital budget position reflected in report 65/22 (£27.111m). This downward movement in 2022/23 net expenditure is due to the rephasing of expenditure, including that which has slipped from 2021/22 into 2022/23 offset by spend which was originally planned for 2022/23 moving in to 2023/24.
- 7.5 The revised estimated borrowing of £12.165 million remains affordable in terms of the allowances made within the 2022/23 revenue budget for capital financing costs, as reflected in the approved long-term affordability strategy (report 68/22 refers). Whilst this is a significant drop when compared with 2022/23's estimated borrowing per reports 65/22 and 68/22, this borrowing will still require to be incurred in the years thereafter, thereby having a neutral impact over the 5 years of the 2021/2026 Capital Plan.
- 7.6 It should also be noted that some £1.926m of the total borrowing in 2022/23 relates to departmental borrowing, where mechanisms are put in place to ensure the transfer of departmental revenue resources into the Council's capital financing costs budget.
- 7.7 The comprehensive review exercise of programmed expenditure for 2022/23 and beyond was undertaken by directors, service leaders and managers with a view to setting as realistic and achievable a capital monitoring budget as possible given the current circumstances with regard to the pandemic and market volatility. This picture will however continue to evolve financially over the coming months as tenders for new works are put in place.

7.8 The delivery of this monitoring budget, including any further review that may be necessary as the impact of the current market volatility becomes clearer, will be overseen by the CPMG and PBSG, with updates provided through regular capital monitoring reports to the Policy & Resources Committee.

8. DISTRIBUTION

8.1 Subject to the approval of the committee, the updated 2021/2026 Capital Plan (incorporating the 2022/23 capital budget) will be available on the council's website and intranet.

9. RISKS & UNCERTAINTIES

9.1 The environment the council is operating in, both as a consequence of the COVID-19 pandemic and the war in Ukraine, is highly uncertain and carries a high degree of risk, the main one being an underestimation of its financial impact on the 2021/2026 Capital Plan. Mitigation measures have been considered however, with services having reviewed their plan in detail, giving attention to both the financial and non-financial implications.

9.2 Another risk is that of slippage. Whilst this, in some cases, can be outwith the council's control, working in close partnership with contractors to ensure there is a continued and open dialogue on such matters will be essential.

10. EQUALITY IMPACT ASSESSMENT

10.1 An Equality Impact Assessment is not required.

11. FINANCIAL IMPLICATIONS

11.1 The financial implications for the Council arising from this report are as detailed in the body of the report.

11.2 The additional costs of the Lochside Leisure Centre demolition project of £155,500 are proposed to be met from the Council's uncommitted General Fund Reserve which at 31 March 2022 stood at £6.486 million. Any delay in awarding the contract for the demolition works beyond the tender acceptance date of 3 November 2022 will likely result in a further escalation of costs and will prolong the period the Forfar Common Good Fund must meet the running costs for the former leisure centre.

**IAN LORIMER
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NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

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List of Appendices:

Appendix 1 – Updated 2021/2026 Capital Plan (General Fund)