

The background of the slide features a large, light blue watermark of the Coat of Arms of the City of Edinburgh. The crest includes a crown with four thistles, a shield divided into four quarters (a saltire, a stag's head, a ship, and an eagle), and a motto scroll at the bottom.

Agenda Item 14

Capital Programmes Update Report

Falkirk Council

Title: Capital Programmes Update Report
Meeting: Executive
Date: 6 December 2022
Submitted By: Director of Transformation, Communities & Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to provide an update to Members on the 2022/23 Capital Programmes for Housing and the General Fund Services.
- 1.2 This will support the 2022-27 Council Plan enabler of Financial Sustainability.

2. Recommendations

2.1 The Executive is asked to:

- (1) note the forecast spend by Services for both the General Fund Services (£42.1m) and Housing Capital Programmes (£60.9m).**
- (2) note the Prudential Indicators.**

3. Climate Change Implications

- 3.1 The recommendations in the report do not give rise to any material implications for the Council's climate change targets and obligations. However, as the projects in the Programme move forward Services will potentially have decisions to make which could have climate change implications. Rising costs due to inflation and supply chain delays may impact our ability to deliver within planned timescale. Any substantial changes to projects which have climate change implications will be reported to Members.
- 3.2 The approval by the Executive on 23 August to accelerate spend on the vehicle replacement programme has enabled the Council to invest an additional £2m in electrified vehicles this year. It was previously reported that it is anticipated that these vehicles would deliver carbon reductions in excess of 1,000 tonnes per annum and move the Council closer to phasing out diesel and petrol light commercial vehicles. At the time of writing, the Vehicle Replacement Programme spend against the in year budget of £3.2m is progressing well with 47.4% of the programme committed and full spend expected.

4. Background

- 4.1 The Capital Programmes for Housing and General Fund Services were approved in January 2022 and March 2022 respectively and subsequently adjusted following the report to the Executive on the 23 August 2022.
- 4.2 The 2022/23 budgets for both programmes are part of a five year plan and as such there will be movement in spend across the years. The update report to Executive in August sets out general risks and uncertainties which could impact on both the HRA and General Fund Services capital programmes as well as some project specific risks. These risks and uncertainties remain, particularly with regard to cost increases and delivery delays.
- 4.3 The August Executive report also noted that Services have rescheduled c£35m of the budget and slippage from 2022/23 and earlier to 2023/24. As such the revised budget for the General Fund Services sits at c£44.7m and current forecast spend against budget of £42.1m. The Capital Programme Review was approved by Council 28 September 2022. This review focussed on future year capital programme with only a £0.3m of budget being vired between budget categories within Waste Services.

5. Considerations

5.1 General Risks and Uncertainties

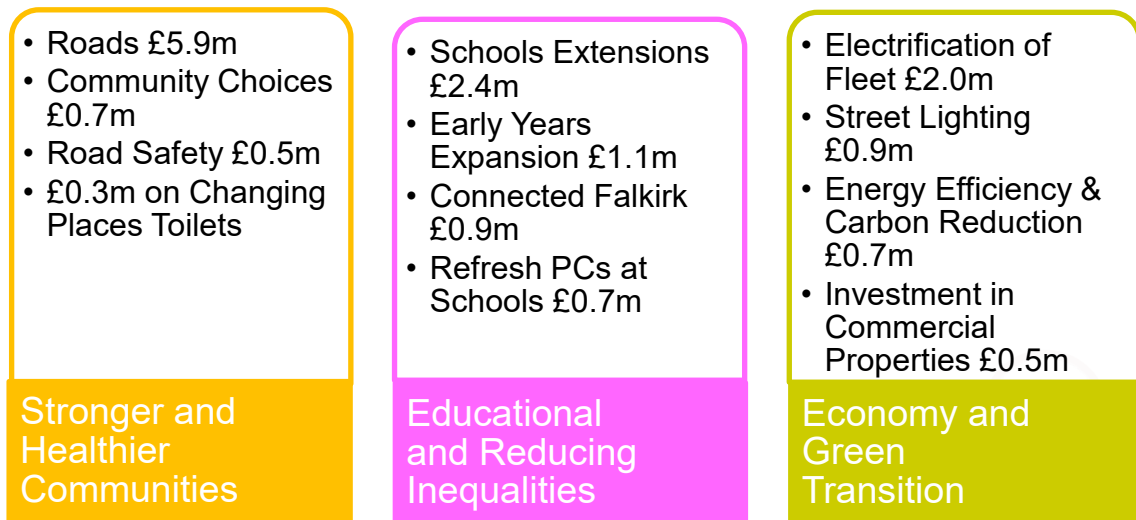
- 5.1.1 Risks and uncertainties relating to inflation, high interest rates, the conflict in Ukraine, Brexit and Covid-19 all continue to prevail. These issues have resulted in sharp increases in costs across the board and emphasises the importance of ensuring that slippage is avoided where possible to ensure the impact of these risks and uncertainties are minimised.
- 5.1.2 The annual inflation rate in the UK rose to 10.1% (Source: Office for National Statistics – October update), representing a further rise from 9.9% in July .The Bank of England Base Lending Rate is currently 3.0%. This will affect the cost of borrowing and means that there will be less spending power to deliver the capital programme
- 5.1.3 Where there is a reduced need to borrow due to programme slippage, this will bring short term benefit to the revenue budget. However, there is a risk that the Council's investment activity is not appropriately spread across future years if plans are reprofiled to future years. This increases the Council's exposure to risk and uncertainty, particularly in a climate of rising interest rates, high inflation and cost pressures.
- 5.1.4 These risks are likely to impact on the affordability of General Fund Services and Housing Capital Programmes and in turn may impact on

service delivery. The situation will be closely monitored with updates provided regularly.

5.2 General Fund Services Capital Programme

5.2.1 The forecast for the General Fund Services Capital Programme is c£42.1m against a revised budget of £44.7m; a potential underspend of c£2.7m. The forecast position on slippage shows a much-improved position compared to previous years. This is welcome and reflects improved scrutiny and accountability through the Strategic Asset Modernisation Board. However, risks to delivery of the capital programme remain as set out in para 5.1 and summary of the 2022/23 outturn position is shown in Appendix 1.

5.2.2 The diagram below highlights some of the largest areas of investment in 2022/23, grouped by Council priority:



5.2.3 The forecasted underspend for the General Fund Services Capital Programme as shown in para 5.2.1 is c£2.7m with the movement analysed in the following table:

	£'m
Variance reported to August 2022 Executive	0.000
Projected underspend per table 5.2.1	(2.677)
Movement in Forecast Variance 2022/23	(2.677)
Breakdown of Movement:	
Projects funded from External Sources	(0.284)
Planning Obligations	0.159
Slippage (see paragraph 5.2.5)	(2.552)
Movement in Forecast Variance 2022/23	(2.677)

- 5.2.4 The net decrease in externally funded projects is due to the slippage for Co2 monitors in schools (£0.170m) and the Place Based Investment Grant (£0.114m). This is offset by an increase of £0.159m from the use of Planning Obligations.
- 5.2.5 There have been delays in some projects which have increased the Slippage resulting in reprofiling of expenditure for the Capital Programme. The main reasons for the increases in Slippage are as follows:

Project	£'m	Comments
School Extensions	(1.260)	Reflects the updated build timescales for Maddiston PS and Denny PS
Purchase of PPP Schools	(0.100)	Reflects the re-assessment of the work associated with this project
Grangemouth Sports Complex	(0.282)	Rephasing of project expenditure profile following award of contract
Kinneil Foreshore Bridge Demolition	(0.070)	Project has been delayed due to ongoing discussions to secure access rights for works to be undertaken
Changing Places Toilets	(0.083)	Project at Falkirk Stadium is progressing. The wider programme is being reviewed to ensure locations are compatible with emerging Strategic Property Review proposals
I.T. Management Info System	(0.125)	The specification has changed due to the integration to Office 365
A.I. Automation	(0.250)	Social Work Timesheet project has been paused. Other projects will be identified to use the resource in 2022/23.
Community Choices	(0.350)	Awards are allocated by ward and are dependent on the bids received and voted on. Allocation of funds will also be dependent on groups readiness for funding. A further round of Community Choices is underway.
Various / Misc.	(0.032)	Miscellaneous
Increase in Slippage	(2.552)	

5.3 Resources – General Fund Services

- 5.3.1 The overall forecast resource requirement is c£2.7m less than the revised budget and the figure reported to the August Executive. Due to the slippage reported above, borrowing has reduced by £1.5m and the external funding to be applied has reduced by c£1.2m.
- 5.3.2 The projected level of expenditure would require borrowing of £15.3m. However, as detailed in section 5.1, there are risks with delivery of the programme and this may reduce the amount of borrowing required in 2022/23.

5.4 Housing Capital Programme

5.4.1 The approved 2022/23 budget is £72.1m, with a forecast of £60.9m. This represents a potential underspend of £11.2m. The diagram below highlights some of the main areas of housing investment in 2022/23:



5.4.2 A summary of the Housing Investment Programme is included in Appendix 2. The main movements in forecast expenditure since the last Executive report in August equates to an increase in forecast expenditure of c£0.2m as detailed below:

- An increase of £2.0m on External Fabric Improvements which includes budget carried forward from 2021/22 for insulation work.

- An increase in the Windows & Doors replacement project of c£1.0m which includes carry forward relating to backlog of work.
- A decrease of £3.1m in the New Builds programme is forecasted due to some projects being pushed back as a result of increased costs and uncertainty of value for money and affordability. This topic was covered in the latest Scottish Housing Investment Programme (SHIP) report that was presented to the Executive in October 2022.
- The forecast for the Kitchen & Bathroom Replacement Programme has been reduced by a further £0.25m due to contractor availability.
- The Air Source Heat Pumps project for the high flats has been delayed due to an ongoing legal dispute resulting in additional slippage of c£1m.
- The forecast expenditure for Property Buy Back scheme has been increased by £2.0m due to an increase in the costs and an increase in purchases ahead of plan. A corresponding increase to income of £0.4m has also been forecast, in recognition of these additional purchases.

5.5 Resources – Housing

5.5.1 The Housing Investment Programme forecast (£60.9m) will be funded by borrowing of £46.5m, a contribution from Revenue of £7.0m, New Build grant of £4.1m, Buy Back grant of £3.2m and the Travelling Persons site grant of £0.07m. The borrowing is £14.8m less than budget due to the net slippage reported in section 5.4.1.

5.5.2 As a result of the movements in forecasts reported in para 5.4.2 (£0.2m) the borrowing requirement forecast has increased by £3.9m due to New Build grants forecast reducing by £(4.1m) and Buy Back grants have increased by £0.4m.

5.6 Prudential Indicators

5.6.1 A series of Prudential Indicators are used to demonstrate that capital spending plans are affordable, prudent and sustainable. They are approved by Members each year as part of the Budget process. There are eight indicators for the Council as a whole and three for Housing only. Appendix 3 sets out the indicators for 2022/23.

5.7 Capital Investment Plans & Treasury Management

5.7.1 Capital Investment plans and Treasury Management are intrinsically linked. The report to the August Executive estimated that long-term borrowing of £104.3m would be required for 2022/23. This estimate is based on borrowing required for the Capital Programmes alongside replacement of debt due to be repaid. As the capital outturn projections change, these in turn impact on the borrowing requirement. The latest projection for the

long-term borrowing requirement is £106.7m which represents an increase of £2.4m. The details are set out in the table below.

	Forecast in August £'m	Latest Forecast £'m	Variance £'m
Capital Programmes Net of Capital Receipts	62.3	64.7	2.4
Service Repayments of Debt	(9.0)	(9.0)	-
Replacement of Long-Term Borrowing	11.0	11.0	-
Replacement of Short-Term Borrowing	40.0	40.0	-
Total Long Term Borrowing Requirement	104.3	106.7	2.4

5.7.2 The increase in borrowing for the Capital Programme is due to a net increase in expenditure funded by borrowing across General Fund Services and Housing Capital Programmes.

5.7.3 It is assumed that borrowing repaid in 2022/23 will be replaced by further borrowing. The Council does not borrow in advance of need and is carrying large cash balances, with current projections indicating that no additional borrowing will be required until January 2023. As the current year capital programme is delivered, the borrowing requirement will continue to be monitored however current cash balances may mean that further borrowing is deferred until future years.

6. Consultation

6.1 All Services have been consulted on this report. There is no requirement to carry out further consultation on this report. The Strategic Asset Modernisation Board meets approximately once a month and projections against projects, as well as any factors impacting on the whole capital programme are discussed. However, Services must advise Finance of any slippage on forecast expenditure as soon as it is identified. The projections for spend are provided directly by Services. Services may be required to provide detailed explanations for slippage against these projections, in line with the processes previously agreed.

7. Implications

Financial

7.1 The projected outturn of the 2022/23 capital programme will be closely monitored and the impact on the revenue budget estimated as part of the revenue financial updates to Executive. Services are asked to ensure that Finance are regularly informed of any material changes to their projects and projections to ensure all information reported to Members is as

accurate as possible. However, there will doubtless be further slippage, in large part due to the risks and uncertainties set out in section 5.1 of this report.

- 7.2 Future capital programme budgets will be adjusted to take account of projects which have slipped or been rescheduled for the General Fund Services and Housing Capital Programmes. There is a risk that rising prices will require a further recalibration of the Capital Programmes going forward. Finance will work closely with Services to review current and long-term capital programme priorities and will report to Members in due course.

Resources

- 7.3 There are no direct resource implications as a result of the recommendations in this report.

Legal

- 7.4 There are no legal implications arising from the report recommendations.

Risk

- 7.5 The most significant risks and uncertainties are set out in section 5.1 of this report. Services are asked to provide regular updates on the status of their projects to the Strategic Asset Modernisation Board. Services endeavour to provide robust updates across projects, whilst recognising the uncertainties in the wider economy.
- 7.6 There is a risk that the cost of projects which are slipped or rescheduled beyond 2022/23 may increase because of construction inflation, in part driven by supply shortages. This will continue to be monitored and the impact reported to Members. Some projects may need to be delayed or paused as a result of cost increases.

Equalities

- 7.7 The recommendations in this report do not require an equality and poverty impact assessment to be carried out. However, such assessments should be carried out for each project within the capital programme.

Sustainability/Environmental Impact

- 7.8 The recommendations in this report do not require a sustainability assessment. However, many of the projects within the capital programme will have an impact on sustainability and/or the environment and will have impact assessments.
- 7.9 Moving forward, it is important that the Council continues to develop clear linkages between sustainability and capital investment, ensuring that sustainability is embedded in decision making. In future projects will be required to demonstrate how carbon reduction can be achieved or carbon

emissions offset in line with the Council's declared climate emergency and its work to achieve net zero emissions by 2030.

8. Conclusion

- 8.1 The projected outturn by Services for the 2022/23 for the General Fund Services is £42.1m which is £2.7m lower than budget. The outturn for the 2022/23 Housing capital programme is £60.9m, which is a projected underspend of £11.2m against budget.
- 8.2 There is a high level of risk around deliverability and affordability of the capital programme for 2022/23, as set out in section 5.1 of this report. Further consideration will be given to how best to assess and report on these risks at individual project level.

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Appendices

Appendix 1 - General Fund Services Forecast 2022/23

Appendix 2 - Housing Forecast 2022/23

Appendix 3 - Prudential Indicators 2022/23

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

Five Year Capital Programme 2022/23 to 2026/27 – Council 02 March 2022
Housing Investment Programme 2022/23 to 2026/27 – Council 19 January 2022
Capital Programme Review – Council 28 September 2022

2022/23 CAPITAL PROGRAMME**GENERAL PROGRAMME - SUMMARY****FORECAST 2022/23****APRIL 2022 TO OCTOBER 2022**

EXPENDITURE	2022/23 REVISED BUDGET	2022/23 FORECAST	2022/23 FORECAST VARIANCE
SERVICE INVESTMENT PLANS	£000	£000	£000
CHILDREN'S SERVICES	7,939	6,131	(1,808)
PLACE - INVEST FALKIRK	11,209	11,077	(132)
PLACE - ENVIRONMENT & OPERATIONS	13,395	13,395	0
PLACE - GROWTH, PLANNING & CLIMATE	6,198	6,270	72
ADULT SERVICES (SOCIAL WORK)	644	561	(83)
TRANSFORMATION, COMMUNITIES & CORPORATE	5,364	4,639	(725)
TOTAL EXPENDITURE 2022/23	44,749	42,073	(2,676)

RESOURCES	2022/23 REVISED BUDGET	2022/23 FORECAST	2022/23 FORECAST VARIANCE
FALKIRK COUNCIL BORROWING	13,161	15,338	2,177
SCOTTISH GOVERNMENT BLOCK GRANTS	15,857	15,857	0
SCOTTISH GOVERNMENT SPECIFIC GRANTS	5,468	5,481	13
CAPITAL RECEIPTS - SALES	1,080	680	(400)
EXTERNAL FUNDING	3,138	3,672	534
RESERVES (DMR, CFCR and R&R)	1,045	1,045	0
SLIPPAGE ALLOWANCE	5,000	0	(5,000)
TOTAL RESOURCES 2022/23	44,749	42,073	(2,676)

2022/23 CAPITAL PROGRAMME**HOUSING INVESTMENT PROGRAMME - SUMMARY****FORECAST 2022/23****APRIL 2022 TO OCTOBER 2022**

EXPENDITURE	2022/23 REVISED BUDGET	2022/23 FORECAST	2022/23 FORECAST VARIANCE
HOUSING INVESTMENT PLANS	£000	£000	£000
ELEMENTAL IMPROVEMENTS	28,050	29,891	1,841
ENERGY EFFICIENCY	7,000	4,014	(2,986)
ESTATE IMPROVEMENTS	2,300	1,800	(500)
OTHER PRIORITY AREAS	1,000	600	(400)
HEALTH & SAFETY	350	1,300	950
NEW BUILD HOUSING	25,800	13,607	(12,193)
PROPERTY BUY BACKS	7,000	9,084	2,084
LHS INITIATIVES & OTHER WORKS	570	570	0
TOTAL EXPENDITURE 2022/23	72,070	60,866	(11,204)
RESOURCES	2022/23 REVISED BUDGET	2022/23 FORECAST	2022/23 FORECAST VARIANCE
BUDGETED PRUDENTIAL BORROWING	61,200	46,468	(14,732)
SCOTTISH GOVERNMENT - NEW BUILD	8,000	4,072	(3,928)
SCOTTISH GOVERNMENT - BUY BACK	2,800	3,200	400
SCOTTISH GOVERNMENT MORTGAGE TO RENT GRANT	0	56	56
CAPITAL FUNDED FROM REVENUE	0	7,000	7,000
OTHER / MISC.	70	70	0
TOTAL RESOURCES 2022/23	72,070	60,866	(11,204)

PRUDENTIAL CODE INDICATORS
FALKIRK COUNCIL [including TIF]

PRUDENTIAL INDICATOR		BUDGET 2022/23	FORECAST 2022/23	COMMENTS
1.	Ratio of Financing Costs to Net Revenue Stream	2.1%	2.0%	Shows how much of the Council's income is committed to repaying debt arising from Capital investment.
2.	Gross Borrowing	£'m	£'m	This is a key Prudential Indicator which shows that over the medium-term external borrowing will only be for a capital purpose. These figures are based on the projections of capital expenditure provided by Services.
	Gross External Borrowing	409.8	329.6	
	Accounting Adjustment – Finance Lease Liabilities	<u>68.0</u>	<u>68.8</u>	
		<u>477.8</u>	<u>398.4</u>	
	Capital Financing Requirement (includes Housing)	443.5	402.7	The capital financing requirement reflects the underlying need to borrow to finance assets. It should be noted that the sums included as “Accounting Adjustment – Finance Lease Liabilities,” are not an increase in borrowing or need to borrow, they are merely a presentational requirement of International Financial Reporting Standards (IFRS).
	Accounting Adjustment – Finance Lease Liabilities	<u>76.3</u>	<u>76.3</u>	
		<u>519.8</u>	<u>479.0</u>	
3.	Capital Expenditure	£'m	£'m	Simply the approved 2022/23 Capital Programme and the 2022/23 forecast spend. Note that the General Fund forecast takes account of prior year slippage, projects rescheduled beyond 2022/23 and added projects which are fully funded from additional contributions.
	GF	20.9	44.8	
	TIF	<u>1.4</u>	<u>10.2</u>	
		<u>22.3</u>	<u>55.0</u>	
				Note: the original budget figure excluded any additional borrowing approved at the budget meeting in March 2022 and slippage from 2021/22.

Appendix 3

PRUDENTIAL INDICATOR		BUDGET 2022/23	FORECAST 2022/23	COMMENTS
4.	Capital Financing Requirement (excludes Housing)	£'m 250.9	£'m 236.9	The Capital Financing Requirement reflects the underlying need to borrow for Capital Investment for the General Fund and TIF.
5.	Authorised Limit (AL) for External Debt:- Borrowing Accounting Adjustment - Finance Lease Liabilities	£'m 462.0 <u>68.0</u> <u>530.0</u>	£'m 462.0 <u>68.0</u> <u>530.0</u>	This sets the maximum level of External Debt, based on capital investment plans and allowing some headroom over the Operational Boundary (see 6) for exceptional circumstances.
6.	Operational Boundary (OB) for External Debt:- Borrowing Accounting Adjustment – Finance Lease Liabilities	£'m 457.0 <u>68.0</u> <u>525.0</u>	£'m 457.0 <u>68.0</u> <u>525.0</u>	This is set at a lower level than the Authorised Limit and is a robust estimate of the External Debt level arising from Capital Investment and Treasury Management activities.
7.	Actual External Debt	£'m <u>N/A</u>		This is an actual rather than estimated Indicator and will be reported when outturns become available.
8.	CIPFA Code of Practice for Treasury Management in the Public Services	The Treasury Management Code is designed to ensure prudence in treasury operations.		

PRUDENTIAL CODE INDICATORS
HOUSING ONLY

PRUDENTIAL INDICATOR		BUDGET 2022/23	FORECAST 2022/23	COMMENTS
1.	Ratio of Financing Costs to Net Revenue Stream	22.7%	19.5%	Shows how much of the Council's HRA income is committed to repaying debt arising from capital investment.
2.	Capital Expenditure	£72.0m	£60.9m	Simply the approved and forecast capital expenditure.
3.	Capital Financing Requirement	£272.5m	£242.1m	The Capital Financing Requirement reflects the underlying need to borrow for Housing Capital Investment.