1.1 This report details the revisions proposed to the capital plan approved in February 2023 for the period 2024-25 to 2025-26 and extends the capital plan for a further year to 2026-27. The mV î # ô Ů ɔ rogramme. This

pandemic along with the UK exit from the European Union, the Russian invasion of Ukraine and sanctions on Russian owned entities which have resulted in significant price increases as well as disruptions to the supply chain and longer

stay constant over the next five years.

1.4 The settlement received for 2024-25, excluding any ring-fenced funding, was £8.834m therefore £0.937m less than anticipated. However the 2023-24 final settlement was £0.046m higher than budgeted for within the capital programme therefore this can offset the £0.937m reduction resulting in a funding gap of £0.891m each year. This equates to a decrease across the already approved

expenditure against the project, thereby showing the gross cost of the project.

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1.8 The capital plan as at December 2023, including the new block allocat n

2.1 This report details the revisions proposed to the capital plan approved in February 2023 for the period 2024-25 to 2025-26 and extends the capital plan for a further year to 2026-27. The revisions are based on updated capital funding assumptions, phasing and cost changes.

three year capital programme. Members may wish to review the amount allocated to PSHG.

3.1.6 As part of the revision to the funding assumptions for the capital plan, a detailed review of anticipated capital receipts has been undertaken by Commercial Services. During 2023-24 the level of capital receipts has fallen below what was estimated which has an impact on the funding of the capital programme. However, adding on the anticipated capital receipts for 2026-27 there is an estimated overall increase in sales income across the capital programme of £0.499m. The estimated level of receipts will be kept under review as market conditions change, as will values following due diligence undertaken by prospective purchasers on the condition of asset. The assets to be disposed of are listed in Appendix 1.

3.1.7 The restricted capital funding of £5.122m is noted within Appendix 2. This relates to income which is restricted to specific projects and has been matched with expenditure against the project, thereby showing the gross cost of the project.

3.1.8 Included in the funding table below is prudential borrowing in relation to the Harbour Investment Programme. The Council is currently working to a ten year asset management plan for Piers and Harbours which is being funded through prudential borrowing utilising a fee increase over and above inflation to pay for the loan charges incurred.

3.1.9 There is also funding from the loans fund review, earmarked reserves, COVID-19 funding and previously agreed additional funding allocations made.

3.1.10 The estimated capital funding to 2026-27 is set out in the table below.

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £000
					37.385
					0.139
					-1.874
					0.623
					0.755
					6.042
					2.131
					6.634
					0.051
					-4.132
					2.384
					0.027
					1.000
					4.122
					83.895

the UK exit from the European Union and the Russian invasion of Ukraine, continues to affect worldwide supply chains. This has the impact of reducing the availability of supplies and materials resulting in cost increases through a combination of higher prices and longer materials delivery lead times.

In recent years additional funding of £10.803m has been allocated to the capital programme for this purpose which has mitigated the impact to date however, as detailed in the table below, £2.703m remains unallocated to projects facing inflationary pressures.

Funding for Capital Inflationary Pressures	£m

3.5.6 As a result of a significant weather event on 7 October 2023, Argyll and Bute Council activated the Bellwin scheme in relation to the recovery costs associated with the incident. The funding from this scheme is welcomed however eligibility criteria of costs are restrictive. Capital expenditure does not qualify therefore any long term replacements to infrastructure such as bridges cannot be claimed through the scheme. Works to the value of £3.248m have been identified in the short term with future long term works costing circa £1.1m being identified, both will require capital funding.

3.5.7 The Capital Programme has been structured to address the majority of the Council's high risk assets. In 2024-25, service asset managers will develop business cases and plans to tackle the other high risk assets which are not addressed by projects within the Capital Programme for 2024-25 to 2026-27.

3.6.1 The capital plan as at 31 December 2023, including the new block allocation for 2026-27, has been compared to the estimated funding (noted in section 3.1).

Total Surplus / (Gap) prior Cost Pressures		**(2.076)**

Note that the utilisation of the £1.883m balance for capital contract increases should be done with caution as projects continue to see substantial price increases since initial tenders were undertaken. The removal of this Fund could result in existing projects no longer being able to reach completion.

3.7.3 A further option is that the PSHG allocation could be reduced to match the actual funding received from the Scottish Government which would generate a saving of £0.276m across three years.

3.7.4 Borrowing could be taken out to cover the gap in the programme however this creates a revenue cost. Every £1m of borrowing for the capital programme creates a revenue pressure of circa £0.064m on average per annum.

3.8.1 The table below shows a summary of the updated capital plan and further detail is contained within Appendix 3. This excludes the anticipated shortfalls and cost pressures identified as these are subject to Member approval.

4.3 Estimated funding for the 2026-27 capital programme has been based on the General Capital Grant received in 2024-25. The Scottish Government has previously confirmed that the indicative General Capital Grant settlements up to 2025-26 will remain constant at the same level as the 2021-22 settlement however the reduction in 2024-25 has proved this is not the case.

5.1 Policy – Sets out the approach to capital planning.

5.2 Financial – Outlines the funding and commitments for the capital plan 2024-27.

5.3 Legal - The funding for new expenditure may not address all the Statutory and Regu [illegible]

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1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to update Committee on the Council's Learning Estate Investment Programme (LEIP) project to deliver a New Campus on Mull. Mull was chosen to be the Council's sole bid to LEIP and priority for strategic investment due to being the only secondary school in our region to be graded as 'Poor' in terms of learning suitability.

1.2 The successful LEIP announcement was made on 30th October, approximately a year later than the Scottish Government (SG) had originally outlined that they would make a decision. Since the announcement the project delivery team have been re-mobilised to commence the initial stages of the project and respond to the SG offer of LEIP funding.

1.3 This report provides an update in terms of the project and importantly the new financial environment and economic considerations that must be considered. Currently, there is no site selected for a new campus on Mull and extensive community engagement, design development and a full options appraisal would be required to progress with the project to an Outline or Full Business Case

costs over a 25 year period following completion. The Council will require to pay the total cost up front;

2.1.3 Note due to the 1 year time delay of LEIP announcement the requirement to open the new Campus by December 2027 (which was the original timescale) cannot be met – now forecast for October 2028 at earliest;

2.1.4 Note the updated timescale

3.0 INTRODUCTION

3.1 In June 2022 the Scottish Government (SG) invited bids from Local Authorities for funding from their Learning Estate Investment Programme (Phase 3). This is the SG main investment programme for improving education buildings and there is unlikely to be any new funding in the lifetime of this current government.

3.2 Argyll and Bute Learning Estate Storategy identified Tobermory High School as its number its

4.1.5 Consider overall affordability of project as outlined at **Appendix C** and determine whether:

(A) Proceed with the LEIP Project in the knowledge that Members will be required to take hard decisions to reduce other Council areas of capital and / or revenue spend, in future revenue budgets / capital programmes.

Or

(B) Not to proceed with the current LEIP Project based on current capital affordability considerations and as an alternative deliver a programme of significant building fabric upgrade works to (a) prolong the operational life and (b) enhance learning and teaching spaces of the existing school buildings (Primary and Secondary) at Tobermory using £9m of previously earmarked funds.

5.0 DETAIL

5.1 Since the LEIP announcement of 30th October the Council have been moving at pace to mobilise the Project Delivery Team and update the project details and forecasts. Consideration needs to be given to the following:-

<u>A – Conditions of funding</u>

5.2 Unlike previous and other funding delivery models, LEIP is not a grant nor does it address total cost of a project. The LEIP funding will cover reW*nBT/F4 12 Tf1 0 0 1 499.42

Is a **land** purchase or compulsory purchase required (SG wont fund land purchase)
Design and function of new campus – materials and variety of uses will influence cost and SG funding
Scottish Government funding is ‘

AND

B. **Minimum** works to enhance learning and **teaching spaces to improve suitability**

a. Partial redecorations in areas
b. Additional Support Needs (ASN) upgrades
c. Home economics lab refurbishment
d. Science Lab refurbishment
e. Technical lab refurbishment
f. External landscaping for social / learning space

5.16 The value of this work will be in the region of £9m. These can be funded by existing earmarkings previously allocated for LEIP.

6.0 CONCLUSIONS

6.1 The successful bid for LEIP funding has been a welcomed opportunity to closely consider the development of new learning estate on Mull. The Council has a strong track record of building new schools over the past 15 years however for reasons set out in Para 1.6 above, the overall increased costs / timescales caused by the funding announcement, increased construction inflation, worse than anticipated budget settlement and other capital budget pressures Officers are of the view that the project would only remain affordable if Members are prepared to take hard decisions to reduce other Council areas of capital and / or revenue spend.

6th February 2024

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Executive Director for Financial Services + S95 Officer –
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