

CAPITAL PLAN SUMMARY REPORT

1. EXECUTIVE SUMMARY

- 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 revisions are based on updated capital funding assumptions, phasing and cost changes.
- 1.2 The Council has experienced a reduction in the level of its General Capital Grant settlement over the last five years, falling from £12.262m in 2019-20 to £8.834m in 2024-25 which has put significant pressure on the ability to deliver the capital programme. This pressure is amplified further by the impact of the COVID-19 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 lead in times. These all have an effect on the overall contract price and make it extremely challenging to manage expenditure and the availability of supply across the life of the programme.
- 1.3 In February 2023 the Council approved estimated capital grant settlements for 2024-25 and 2025-26 of £9.771m to reflect what was actually received in 2023-24. This estimation was based on the Capital Spending Review undertaken by Scottish Government which advised that the capital settlements were likely to 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 capital programme of £1.782m for 2024-25 and 2025-26 combined.
- 1.5 In addition to the £8.834m general capital grant there is ring-fenced funding of £0.379m for Walking Cycling & Safer Streets which will also be built into the capital programme.
- 1.6 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum, similar to previous years. However, it should be noted that the amount received from Scottish Government in relation to this is only £0.941m therefore an additional allocation of £0.276m over the three year capital programme is passed to Private Sector Housing Grants.
- 1.7 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.

1.8 The capital plan as at December 2023, including the new block allocation for 2026-27, has been compared to the estimated funding and there is a gap up to 2026-27 of £2.076m. After adjusting for the anticipated shortfalls and cost pressures as detailed within section 3.5 of this report, the total gap within the capital programme is £29.843m.

CAPITAL PLAN SUMMARY REPORT

2. INTRODUCTION

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.

3. DETAIL**3.1 Estimated Capital Funding 2024-25 to 2026-27**

3.1.1 Funding for the capital plan comes from the Scottish Government (General Capital Grant and Specific Ring-Fenced Capital Grants), other capital grants, capital receipts from asset disposals, revenue contributions to capital, prudential borrowing and borrowing funded by the loan charges provision in the revenue budget.

3.1.2 The Local Government Finance Circular published on 19 December 2023 provides detail of the provisional total capital funding allocations for 2024-25. The provisional total funding allocations form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2024 presented to the Scottish Parliament. The Finance Order is due to be laid in Parliament on 7 February with Stages 1-3 between 8 February and 27 February with the Finance Order Debate taking place on 28 February.

3.1.3 The General Capital Grant allocation for 2024-25, excluding any ring-fenced funding amounts to £8.834m which includes a general capital grant flooding allocation of £0.156m.

3.1.4 The estimated General Capital Grant for 2026-27 is based on the 2024-25 settlement of £8.834m therefore comparing this to the settlement for 2023-24, and again taking into account the flooding allocation of £0.156m, this results in a decrease of £0.891m in 2026-27. The Scottish Government had previously advised that the indicative General Capital Grant settlements up to 2025-26 would remain constant at the same level as the 2021-22 settlement, however the settlement for 2024-25 has proven this not to be the case.

3.1.5 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum. This amount has remained at the same level since 2016-17. The settlement from the Scottish Government includes an allocation of £0.941m for Private Sector Housing therefore £0.092m less each year than what is currently built in to the budget position. To reduce the allocation by £0.092m each year would result in a saving of £0.276m across the

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
General Capital Grant	9.569	9.569	9.569	8.678	37.385
Change to General Capital Grant - Post Budget 2023-24	0.047	0.046	0.046		0.139
Change to General Capital Grant - Post Budget 2024-25		-0.937	-0.937		-1.874
General Capital Grant Flooding Allocation	0.155	0.156	0.156	0.156	0.623
Specific Scottish Government Grants	0.376	0.379			0.755
Campbeltown Flood Scheme Allocation	5.424		0.618		6.042
Local Government Pay Deal	2.131				2.131
Additional Scottish Government Grants	5.879	0.364	0.391		6.634
Capital Grant - Area Control Accounts	0.051				0.051
Less Allocation to Private Sector Housing Grants	-1.033	-1.033	-1.033	-1.033	-4.132
Capital Receipts	0.484	0.750	0.750	0.400	2.384
Capital Receipts - Vehicles	0.027				0.027
Capital Receipts - HWD	1.000				1.000
Restricted Funding/Ring Fenced Capital Grant	1.485	2.553	0.084		4.122
Harbour Investment Programme	3.200	24.110	39.000	17.585	83.895

TIF - Borrowing paid from NDR	0.113	0.563			0.676
Prudential Borrowing/Borrowing supported by loans charges	3.276	17.004	1.393		21.673
Additional Funding from Revenue	0.142				0.142
Funded by Reserves	1.009	2.296	0.191		3.496
Loans Fund Review	2.694	1.331	0.000		4.025
COVID Funding	0.095	0.558	0.279		0.932
Unallocated General Fund	7.759	1.042	0.000		8.801
Service Concessions	4.772	4.816	0.550		10.138
Funding Consistent with Revenue Budget	48.655	63.567	51.057	25.786	189.065

3.2 Summary of Capital Plan reported as at 31 December 2023

3.2.1 The capital plan included in the December capital monitoring is summarised in the table below:

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
Executive Director - Douglas Hendry:					
Education	6.037	5.006	3.521	0.000	14.564
Facility Services - Shared Offices	1.910	3.343	0.977	0.000	6.230
Major Projects/CHORD	8.989	2.461	0.105	0.000	11.555
Executive Director - Kirsty Flanagan:					
ICT	1.474	1.593	1.221	0.000	4.288
Roads and Infrastructure	24.731	46.640	44.028	17.623	133.022
Development and Economic Growth	3.424	2.653	0.000	0.000	6.077
Health and Social Care Partnership	0.972	2.085	0.477	0.000	3.534
Live Argyll	1.084	0.636	0.427	0.000	2.147
Total	48.621	64.417	50.756	17.623	181.417

3.3 Proposed Revisions to Capital Plan

3.3.1 As part of the capital planning process, departments reviewed the approved capital plan in terms of the timing and cost of projects and updated the Priority Investment Plans (PIPs) accordingly.

3.3.2 The main adjustments reflect:

- Adding in a further year of flood prevention funding which is now £0.156m (2024-25 and 2025-26 allocations need to be increased by £0.001m).
- The inclusion of new funding for Cycling Walking Safer Streets totalling £0.379m.
- The inclusion of new funding for Community Bus Fund in 2023-24 of £0.233m.

- The inclusion of new funding for Nature Restoration Fund in 2023-24 of £0.489m.

All of these amounts above result in additional funding and additional expenditure so has no overall impact to the budget gap.

3.3.3 Other amendments include re-profiling of anticipated expenditure across the programme. The revisions are summarised in the table below.

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
Executive Director - Douglas Hendry:					
Education	0.000	0.000	0.000	0.000	0.000
Facility Services - Shared Offices	0.000	0.000	0.000	0.000	0.000
Major Projects/CHORD	0.000	0.000	0.000	0.000	0.000
Executive Director - Kirsty Flanagan:					
ICT	0.000	0.000	0.000	0.000	0.000
Roads and Infrastructure	0.233	0.001	0.001	0.156	0.391
Development and Economic Growth	0.489	0.379	0.000	0.000	0.868
Health and Social Care Partnership	0.000	0.000	0.000	0.000	0.000
Live Argyll	0.000	0.000	0.000	0.000	0.000
	0.722	0.380	0.001	0.156	1.259

3.4 Proposed Block Allocations 2026-27

3.4.1 The block allocation to Services for 2026-27 is based on the General Capital Grant award for 2024-25 of £8.834m less the flooding allocation of £0.156m and adjusted to remove the PSHG allocation of £1.033m leaving a block allocation available to spend on capital projects of £7.645m.

3.4.2 The block allocation is allocated to services based on a proportionate percentage basis. Services have each prepared PIPs in which they outline the projects they would propose to spend their block allocation on.

3.5 Cost Pressures and Risks

3.5.1 As capital projects are based on cost estimates at a point in time, there is always a risk they will cost more than originally planned, particularly where there has been project delays. Where there are major change projects there is a high likelihood of the project requiring more budget than is currently in the capital programme which has been emphasised over the last three years with projects still catching up from the impact of COVID-19.

3.5.2 Although the direct impact of COVID on most local services has reduced or even ceased altogether over the last 12 months, COVID-19 in conjunction with

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
COVID-19 Funding	0.257
February 2021 Budget Meeting - Capital Cost Pressures	4.646
February 2022 Budget Meeting - Capital Cost Pressures	3.900
February 2023 Budget Meeting - Capital Cost Pressures	2.000
Total Additional Funding Allocated to Capital	10.803
Allocated to Projects within Capital Programme	(5.779)
Committed for future years	(2.321)
Balance Remaining	2.703

- 3.5.3 At the budget meeting in February 2023 additional funding was allocated to Rothesay Pavilion which will allow the project to progress towards success by supporting completion of Stage 1. This stage of the project is currently on time and to budget. At February 2023, the costs to complete stages 2 and 3 were £13.1m. These estimates were based on January 2023 prices and were not market tested at that point. Policy and Resources Committee subsequently endorsed £9m of Rural Growth Deal Funding to be used for Rothesay Pavilion which would leave a gap of £4.1m. However, current estimates to complete stages 2 and 3 are now £20.125m, therefore increasing the gap from £4.125m to £11.559m. Existing funders may contribute circa £2.7m which would reduce the gap to £8.859m, however, this funding is not certain. It should also be noted that these figures will not be certain until after the tender exercise is complete on 26 April.
- 3.5.4 The Councils bid to the Scottish Government's Learning Estate Investment Programme (LEIP) for funding for a new school campus on Mull was successful. While this is good news and will provide welcome investment in the school estate it does come with a financial pressure that will require to be funded if the project is to proceed. The Scottish Government will fund up to 50% of eligible costs therefore the Council will be required to fund in excess of £20m. £9m of earmarked reserves were previously allocated for this project therefore leaving a pressure of circa £11m. Detail regarding this potential project is included in Appendix 4.
- 3.5.5 Surveys have been completed across the Council's Learning Estate in relation to Reinforced Autoclaved Aerated Concrete (RAAC) with only 1 building confirmed as having it present with steps underway for its removal. This will include a decant of the students for approximately 9 months plus total removal and replacement of the roof during 2024. The estimated costs associated with this are £3m which will require additional funding.

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 Comparison of Revised Plan to Estimated Capital Funding

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).

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
Capital Plan as at December 2023	48.621	64.417	50.756	17.623	181.417
Proposed revisions to capital plan	0.722	0.380	0.001	0.156	1.259
Estimated future years block allocation				7.645	7.645
Projected overspend as at December 2023	0.024	0.458	0.000	0.338	0.820
Total Revised Plan	49.367	65.255	50.757	25.762	191.141
Total Revised Funding	48.655	63.567	51.057	25.786	189.065
Total Surplus / (Gap)	(0.712)	(1.688)	0.300	0.024	(2.076)

3.6.2 The total gap currently within the capital programme to 2026-27 is £2.076m. Various elements contribute to this gap as summarised in the table below. After adjusting for the cost pressures identified within section 3.5.1 of this report, the total gap within the capital programme is £29.843m, see table below.

Summary	Detail	£m
Projected overspend as at 31 December 2023	As reported in December Capital monitoring report there is an anticipated overspend of £0.820m in the Capital Plan. This is made up of Campbeltown Flood Scheme (£0.710m) and Waste POPs Infrastructure (£0.110m).	(0.820)
2024-25 Capital Grant	Funding adjustment due to reduction in General Capital Grant received for 2024-25.	(0.891)
2025-26 Capital Grant	Capital grant was estimated at the same level as the 2023-24 reduced settlement however there has been a decrease in the 2024-25 settlement.	(0.891)

Capital Receipts Adjustments within existing programme	Additional capital receipts for year 3 of the programme.	0.499
Vehicle Sales	Vehicle Sales as at December 2023 have been received totalling £0.027m which were not previously built into the funding.	0.027
Total Surplus / (Gap) prior Cost Pressures		(2.076)
Cost Pressure	The removal of RAAC from 1 school within Councils Learning Estate as detailed in paragraph 3.5.5.	(3.000)
Cost Pressure	The additional costs associated with the weather incident in October 2023 which are not covered by the Bellwin Scheme as detailed in paragraph 3.5.6.	(4.348)
Cost Pressure	Stage 2 and 3 of Rothesay Pavilion assuming funding will be received from external bodies and that costs will not rise as part of tender exercise as detailed in paragraph 3.5.3.	(8.859)
Other Potential Pressures	Council contribution to new school campus funded through LEIP as detailed in paragraph 3.5.4.	(11.560)
Remaining Surplus / (Gap)		(29.843)

3.6.3 Council should give consideration as to how to fund the £29.843m gap within the capital programme. It should be noted that this gap assumes that external funders will provide £2.7m in additional funding towards the completion of Rothesay Pavilion.

3.7 Funding Options Identified to reduce gap and address pressures

3.7.1 The following are options Members may wish to consider to help bridge the gap in the capital programme:

Remove LEIP and undertake refurbishment works with the £9m earmarking already set aside	11.560
Use some of one-off Strathclyde Pension Fund Gain	2.000
Use some Crown Estate Allocation from 24-25 and 25-26	2.000
Earmarked Reserves released to the General Fund (refer to Reserves and Balances report within budget pack for detail)	2.212
Use Asset Management Fund	2.070
Use Capital Contract Increases towards Forecast Overspend	0.820
Total Funding Options	20.662

This would still leave a gap of £9.181m that will require additional funding.

3.7.2 Further funds that may be considered are noted in the table below.

Use Capital Contract Increases remaining balance	1.883
Priority Investment Fund	6.150
Pension Fund Gain Remaining Balance	3.750
Total Funds	11.783

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 Updated Capital Plan

- 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.

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
Executive Director - Douglas Hendry:					
Education	6.037	5.006	3.521	1.988	16.552
Facility Services - Shared Offices	1.910	3.343	0.977	0.382	6.612
Major Projects/CHORD	8.989	2.461	0.105	0.000	11.555
Executive Director - Kirsty Flanagan:					
ICT	1.474	1.593	1.221	0.688	4.976
Roads and Infrastructure	24.988	47.099	44.029	21.940	138.056
Development and Economic Growth	3.913	3.032	0.000	0.000	6.945
Health and Social Care Partnership	0.972	2.085	0.477	0.382	3.916
Live Argyll	1.084	0.636	0.427	0.382	2.529
Total	49.367	65.255	50.757	25.762	191.141

4. CONCLUSION

- 4.1 The capital plan funding assumptions have been updated, the plan extended for a further year and block allocations allocated to services for the additional year. Taking into consideration the current capital programme and cost pressures there is a reported gap of £29.843m. If borrowing was taken out to fund this gap every £1m of borrowing for the capital programme creates a revenue pressure of circa £0.064m on average per annum.
- 4.2 The capital programme faces other significant pressures in the years beyond 2024-25 with the key areas highlighted within section 3.5 of this report. Consideration should also be given as to how these can be funded and the further pressures highlighted within the PIPs.

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. IMPLICATIONS

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 Regulatory requirements in relation to Health and safety.

5.4 HR - There are risks that the funding available will have an impact on the sustainability of the Property Design Team and the design team within Roads and Amenity Services.

5.5 Fairer Scotland Duty – None.

5.5.1 Equalities – None.

5.5.2 Socio-Economic Duty – None.

5.5.3 Islands Duty – None.

5.6 Climate Change – The Council is committed to addressing climate change and reviews of how Services are delivered is ongoing within the available budget resources.

5.7 Risk - There are risks around level of capital receipts which could result in red risk assets not being addressed.

5.8 Customer Service – None.

5.9 The Rights of the Child (UNCRC) - None

Kirsty Flanagan

Executive Director/Section 95 Officer

6 February 2024

Councillor Gary Mulvaney - Policy Lead for Finance and Commercial Services

APPENDICES:

Appendix 1 - Proposed Asset Disposals

Appendix 2 - Restricted Funding

Appendix 3 - Proposed Capital Plan 2024-27

Appendix 4 – LEIP

For further information please contact Anne Blue, Head of Financial Services
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Appendix 1 - Proposed Asset Disposals

Property
Glencreran Schoolhouse
Land at Former Police Station, Garelochhead
Site of former Cowal Teacher's Centre, Sandbank
Ground at Baliscate Roads Depot
Ashfield Primary School
Bridge of Orchy School
Auchenlochan access
Shop, 3 Montague Street
Ground at 26B Hillfoot Street
Area of ground adjoining Pier House Fionnphort, Isle of Mull
Land at Broom Road,
Ardchonnell Primary School
Former Girl Guide Hut, Dunclutha Lane
Former Erray Road Depot
Former Registrar Office, Witchburn Road
Witchburn Road site, former Finance Office
Ground at 125 Frederick Street
Former Appin Roads Depot
Blairvadach site, Shandon, Helensburgh (Phase 2)
Dunclutha Children's Home
Site behind former Lochgilphead High School (site 2)
Former Lochgilphead Primary School

Appendix 2 - Restricted Funding

	2023-24 £m	2024-25 £m	2025-26 £m	Total £m
Education				
Scottish Government Island Funding - Tigh Na Rhuda	0.000	0.000	0.050	0.050
Education Total	0.000	0.000	0.050	0.050
Roads & Infrastructure Services				
STTS	0.387	0.000	0.000	0.387
Rural Growth Deal - Public Convenience Upgrades	0.200	0.000	0.000	0.200
Roads & Infrastructure Services Total	0.587	0.000	0.000	0.587
Development & Economic Growth				
H&L Cycleways	0.150	0.000	0.000	0.150
SPT Cycleways	0.000	0.290	0.000	0.290
SPT Bus Infrastructure	0.000	0.025	0.000	0.025
Coastal Communities Funding (Crown Estate)	0.605	0.000	0.000	0.605
Rural Growth Deal - RGD Projects	0.137	0.000	0.000	0.137
Rural Growth Deal - Dunoon STEM Hub	0.000	1.750	0.000	1.750
Waitrose Section 75 - RGD - Clyde Engineering	0.025	0.000	0.000	0.025
Scottish Island Fund - Tobermory Rails Phase 2	0.250	0.000	0.000	0.250
Development & Economic Growth Total	1.167	2.065	0.000	3.232
Major Projects				
Helensburgh Waterfront Development	1.000	0.000	0.000	1.000
Kilmory Business Park	-0.522	0.488	0.034	0.000
Rothesay Pavillion	0.253	0.000	0.000	0.253
Major Projects Total	0.731	0.488	0.034	1.253
TOTAL FUNDING	2.485	2.553	0.084	5.122

CAPITAL PLAN 2023 - 2027
Overall Summary

APPENDIX 3

Service	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total
Education	6,037	5,006	3,521	1,988	16,552
Shared Offices	1,910	3,343	977	382	6,612
ICT	1,474	1,593	1,221	688	4,976
RIS	24,988	47,099	44,029	21,940	138,056
DEG	3,913	3,032	0	0	6,945
HSCP	972	2,085	477	382	3,916
Live Argyll	1,084	636	427	382	2,529
CHORD	8,989	2,461	105	0	11,555
Overall Total	49,367	65,255	50,757	25,762	191,141

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Asset Sustainability	Education	Asbestos Control/Removal Works	7	0	0	0	7
		Block Allocation - Education	216	866	520	1,988	3,590
		Digital Inclusion 20-21	9	0	0	0	9
		Free School Meals	379	900	1,495	0	2,774
		Homeless Houses - Housing Quality Standard	1	0	0	0	1
		Internal Refurbishment Budget	7	0	0	0	7
		Primary Schools	3,370	2,420	1,280	0	7,070
		School Houses - Housing Quality Standard	13	0	0	0	13
Asset Sustainability Total			4,854	5,006	3,521	1,988	15,369
Service Development	Education	Bowmore Primary School - Gaelic Medium Grant	38	0	0	0	38
		CO2 Monitoring - Covid Mitigation in Schools	113	0	0	0	113
		Early Learning and Childcare - 1140 Hours	320	0	0	0	320
Service Development Total			471	0	0	0	471
Strategic Change	Education	Campbeltown Schools Redevelopment	38	0	0	0	38
		Dunoon Primary School	234	0	0	0	234
		Kirn Primary School	34	0	0	0	34
		Replacement of Oban High School	406	0	0	0	406
Strategic Change Total			712	0	0	0	712
Overall Total			6,037	5,006	3,521	1,988	16,552

Shared Office

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Asset Sustainability	Shared Offices	Argyll House, Dunoon	9	0	0	0	9
		Asbestos Capital Property Works	51	0	0	0	51
		Block Allocation	152	298	427	382	1,259
		Bowmore Area Office	76	0	0	0	76
		Burnett Building	3	107	0	0	110
		Capital Property Works	38	0	0	0	38
		Fire Risk Assessment Works	14	0	0	0	14
		Helensburgh and Lomond Civic Centre - Emergency Heating Pipew	130	0	0	0	130
		Hill Street Dunoon Rewire	33	0	0	0	33
		Kilmory Castle	0	1,409	0	0	1,409
		Legionella Control Works	144	0	0	0	144
		Manse Brae Roads Office	2	0	0	0	2
Our Modern Workspace	683	480	0	0	1,163		
Asset Sustainability Total			1,335	2,294	427	382	4,438
Strategic Change	Shared Offices	Campbeltown Office Rationalisation	1	0	0	0	1
		Clean Energy - NDEEF1	224	143	0	0	367
		Clean Energy - NDEEF2	50	540	550	0	1,140
		Helensburgh Office Rationalisation (FPB,REC)	300	0	0	0	300
		Net Zero	0	366	0	0	366
Strategic Change Total			575	1,049	550	0	2,174
Overall Total			1,910	3,343	977	382	6,612

CAPITAL PLAN 2023 - 2027
Major Projects

APPENDIX 3

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Strategic Change	CHORD	CHORD - Dunoon	27	0	0	0	27
		CHORD - Helensburgh -Public Realm Imprv	28	0	0	0	28
		CHORD - Oban	626	0	0	0	626
		CHORD - Rothesay	6,737	1,973	71	0	8,781
		Helensburgh Waterfront Development	977	0	0	0	977
		HWD - FFE	34	0	0	0	34
		Kilmory Business Park Phase 2AA	560	488	34	0	1,082
Strategic Change Total			8,989	2,461	105	0	11,555
Overall Total			8,989	2,461	105	0	11,555

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Asset Sustainability	ICT	Block Allocation - ICT	0	132	0	688	820
		PC Replacement	518	648	669	0	1,835
		Server Sustainability	352	425	400	0	1,177
		Telecomms Network	256	72	152	0	480
Asset Sustainability Total		1,126	1,277	1,221	688	4,312	
Service Development	ICT	Applications Projects	348	316	0	0	664
Service Development Total			348	316	0	0	664
Overall Total			1,474	1,593	1,221	688	4,976

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Asset Sustainability	RIS	Block Allocation	0	0	4,268	3,823	8,091
		Bridge Strengthening	373	1,313	0	0	1,686
		Bute Sea Wall Repairs	59	621	0	0	680
		Coastal Change Adaptation	41	246	0	0	287
		Coastal Protection	6	193	0	0	199
		Environmental Projects	200	821	0	0	1,021
		EV Quick Chargers	62	0	0	0	62
		Footway Improvements	450	300	0	0	750
		Glengorm - Cell and Transfer Station (PB)	89	0	0	0	89
		Helensburgh CHORD - Signage etc	10	0	0	0	10
		Helensburgh Flood Mitigation	1	427	0	0	428
		Investment in Active Travel	189	200	0	0	389
		Lighting	440	600	0	0	1,040
		Local Bridge Maintenance Fund	173	4,827	203	0	5,203
		Play Park Renewal	0	547	391	0	938
		Public Convenience Upgrades	282	0	0	0	282
		Roads Reconstruction	7,419	8,000	0	0	15,419
		Roads Reconstruction - Helensburgh CHORD	47	0	0	0	47
		Roads Reconstruction - Oban CHORD	3	0	0	0	3
		Tobermory Car Park	96	0	0	0	96
Asset Sustainability Total			9,940	18,095	4,862	3,823	36,720
Service Development	RIS	Fleet Management	325	1,180	0	0	1,505
		Fleet Management - Prudential Borrowing	1,941	246	0	0	2,187
		Lismore Ferry Replacement	15	20	0	0	35
		Lochgilphead Depot Rationalisation	33	0	0	0	33
		Oban Depot Development	9	0	0	0	9
		Preliminary design for Regional Transport projects (tif)	16	0	0	0	16
Service Development Total			2,339	1,446	0	0	3,785
Strategic Change	RIS	Harbour Investment Programme PB	3,200	24,110	39,000	17,585	83,895
		Street Lighting LED Replacement	61	613	0	0	674
Strategic Change Total			3,261	24,723	39,000	17,585	84,569
Overall Total			15,540	44,264	43,862	21,408	125,074

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Service Development	DEG	Ardrishaig North Active Travel	112	13	0	0	125
		Cycleways - H&L (FSPT)	300	290	0	0	590
		Dunoon Cycle Bothy	292	12	0	0	304
		Dunoon STEM Hub	713	1,750	0	0	2,463
		Gibraltar Street Public Realm Improvements	222	0	0	0	222
		Helensburgh Public Realm - Arts Strategy Fund	50	0	0	0	50
		Hermitage Park	26	0	0	0	26
		Rural Growth Deal	162	0	0	0	162
		SPT - bus infrastructure	0	25	0	0	25
		Town Centre Funds	718	0	0	0	718
Service Development Total			2,595	2,090	0	0	4,685
Strategic Change	DEG	01 TIF - Lorn/Kirk Road	1	0	0	0	1
		09 TIF - Oban Airport Business Park	56	45	0	0	101
		TIF - Halfway House Roundabout	56	518	0	0	574
Strategic Change Total			113	563	0	0	676
Overall Total			2,708	2,653	0	0	5,361

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Asset Sustainability	HSCP	Ardfenaig	27	0	0	0	27
		Block Allocation	0	1,058	184	382	1,624
		Capital Property Works	79	0	0	0	79
		Digitalising telecare	100	0	0	0	100
		East King Street Childrens Home	58	0	0	0	58
		Glencruitten Hostel	81	36	143	0	260
		Gortonvogie	1	0	0	0	1
		Greenwood/Woodlands	216	0	0	0	216
		Lochgilphead Resource Centre	16	0	0	0	16
		Shellach View	144	0	0	0	144
		Struan Lodge Boiler	59	0	0	0	59
		Tigh An Rudha HFE	109	991	150	0	1,250
		Tobermory Top Flat	28	0	0	0	28
Asset Sustainability Total			918	2,085	477	382	3,862
Service Development	HSCP	Dunclutha Childrens Home	54	0	0	0	54
Service Development Total			54	0	0	0	54
Overall Total			972	2,085	477	382	3,916

Category	Service	Project	2023-24 £000s	2024-25 £000s	2025-26 £000s	2026-27 £000s	Total £000s
Asset Sustainability	Live Argyll	Aqualibrium	343	48	40	0	431
		Capital Property Works	52	317	213	382	964
		Corran Halls Gaelic Centre	113	46	84	0	243
		Kintyre Community Education Centre - Lift Shaft Refurbishment	2	0	0	0	2
		Lochgilphead Community Ed Centre	122	200	40	0	362
		Lochgilphead Library Relocation	14	0	0	0	14
		Riverside Leisure Centre - Health Suite Upgrade	204	0	0	0	204
		Riverside Leisure Centre - Spa Pool Upgrade	17	0	0	0	17
		Rothesay Swimming Pool	40	25	50	0	115
		The Moat Centre	77	0	0	0	77
		Victoria Halls, Helensburgh	78	0	0	0	78
Asset Sustainability Total			1,062	636	427	382	2,507
Service Development	Live Argyll	Riverside Leisure Centre Refurbishment	1	0	0	0	1
Service Development Total			1	0	0	0	1
Strategic Change	Live Argyll	Carbon Management	21	0	0	0	21
Strategic Change Total			21	0	0	0	21
Overall Total			1,084	636	427	382	2,529

Learning Estate Investment Programme (LEIP) – Mull Campus Update

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 position. This would be an intensive pre-construction phase taking place during 2024 and most of 2025.
- 1.4 The project team have been working closely with Hub North and the Northern Alliance – who also supported the original bid. These organisations, jointly owned by the Council's (and other public sector partners) and private sectors, are responsible for working collaboratively and delivering community infrastructure in our region. This partnership is particularly relevant to LEIP given 5 of the 10 national projects have been earmarked for the 'North' and there are significant collaboration opportunities with working inter-authority with partners in Orkney, Moray, Shetland and Aberdeen City in developing our LEIP projects. A programme approach is currently being considered for these Council's to deliver efficiency in terms of design development, purchasing materials, economies of scale, contract labour and sharing best practices.
- 1.5 Even with regional collaboration, the delivery of a new campus on Mull will be one of the most significant projects in terms of cost and complexity the Council has delivered for many years. The funding offered by the SG is not a grant nor is it for the full cost of the building – it will cover **up to 50%** of eligible costs and SG will then offer financing for this sum over 25 years. This means the entire design, land acquisition (if required) and build costs will require to be met -up front - by the Council with up to 50% being recouped in coming years. Building modern schools to high digital and environmental standards comes at a cost

premium and this increases when island weighting is applied due to logistical challenges of getting labour and materials to site. Overall affordability of the project must be considered closely by Members and is referred to in this report.

- 1.6 Affordability of this project was a key consideration when the bid was submitted in October 2022 and at that point was already stretching upper tolerance levels. The updated cost plan and programme that has been worked on since the October 2023 announcement indicates that overall cost will have increased by around 10% and forecast opening of October 2028. Through a combination of the 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.
- 1.7 It is acknowledged if a decision is taken to not proceed with the LEIP Project this would be disappointing for many on Mull and surrounding islands however as an alternative, a package of significant upgrading works to the existing Tobermory Primary and High School would be required. These would be funded from the £9m previously earmarked for LEIP and works are likely to include:

A. Works to enhance Building Fabric improving condition and prolonging life of the asset

- a. Partial re-roof
- b. Roughcast improvements
- c. Solar Panels and energy efficiency works
- d. Drainage works
- e. Partial rewire
- f. LED Lighting
- g. Ventilation upgrades
- h. Address remedial damp areas

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

2.0 RECOMMENDATION

As per the recommendations in the Introductory Report of Budget Pack, the Council are recommended to:-

- 2.1.1 Note the successful award of a major bid funding bid;
- 2.1.2 Note the funding provided by Scottish Government is not a capital grant for full cost of project – in summary SG will provide **up to 50%** of eligible

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 programme forecast as outlined at **Appendix A + B**;
- 2.1.5 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.

ARGYLL AND BUTE COUNCIL**COUNCIL BUDGET****COMMERCIAL SERVICES /
EDUCATION / FINANCE****22nd FEBRUARY 2024**

Learning Estate Investment Programme (LEIP) – Mull Campus Update

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 Strategy identified Tobermory High School as its number one priority to pursue strategic change / investment and submitted a bid for A New Campus on Mull on 31 October 2022. The school in its current condition is lowest scoring of all secondary schools in terms of its suitability to provide modern learning facilities. Investment – LEIP or otherwise is required for this school.
- 3.3 The Mull bid was one of thirty-six (36) made by other Local Authorities across Scotland. The announcement was received on 30 October 2023 confirming Mull was one of the ten successful bids investing approximately £400m in the Learning Estate across the country. Other successful island bidders included Orkney and Shetland.

4.0 RECOMMENDATION

As per the recommendations in the Introductory Report of Budget Pack, the Council are recommended to:-

- 4.1.1 Note the successful award of a major bid funding bid;
- 4.1.2 Note the funding provided by Scottish Government is not a capital grant for full cost of project – in summary SG will provide **up to 50%** of eligible costs over a 25 year period following completion. The Council will require to pay the total cost up front;
- 4.1.3 Note due to the 1year 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;
- 4.1.4 Note the updated timescale programme forecast as outlined at **Appendix A + B**;

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:-

A – Conditions of funding

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 **up to 50%** of eligible costs and SG will then offer financing for this sum over 25 years. This means the entire design, land acquisition (if required) and build costs will require to be met -up front - by the Council with up to 50% being recouped in coming years. Building modern schools to high digital and environmental standards comes at a cost premium and this increases when island weighting is applied due to logistical challenges of getting labour and materials to site. Overall affordability of the project must be considered closely by Members and is referred to in this report at Section C. Given the nature of the LEIP funding structure, this will be one of highest value projects the Council has ever delivered in terms of up-front costs so strong commitment to the project and its resourcing is required.

5.3 The LEIP funding model is also predicated on achieving a number of quality, environmental, space, function and condition standards. In effect, this will create a high standard of building that should be sustainable and flexible – this is a higher benchmark standard to any new buildings (including schools) the Council has delivered in recent years. Ensuring the buildings are digitally enabled and support local economic development is also encouraged. The full list of conditions is as follows:-

- Internal Environmental Quality (suitable internal environment for building users is vital for their health, wellbeing and learning.
- Internal Monitoring (use of sensors to ensure the highest quality internal environment is delivered as a response to Covid 19 in terms of ventilation and CO2 levels)

- Zero Emissions Heating
- Electrical Vehicle Charging
- Healthier Learning Environments
- Infrastructure Technology

Scottish Government (SG) funding will be available through the Outcomes Based Funding (OBF) model. The outcomes include:

- Condition - Local authorities must provide evidence, through their annual returns that the facility is kept in condition A or B for a period of 25 years.
- Energy Efficiency
- Digitally Enabled Learning
- Economic Growth
- Construction Embodied Carbon

- 5.4 It should be noted that not all costs are LEIP 'eligible'. It therefore needs to be considered during the design development phases and in context of overall affordability that spend on 'non-eligible' costs such as purchasing of land (if required), creation of non-learning space (for example Customer Contact Point) or Hostel would not be funded by LEIP and therefore would need to be met solely by Council or other funding source.
- 5.5 Despite the approx. 1-year delay on announcement of LEIP one of the core funding criteria has been to open the new campus to learners by the original December 2027 timeframe. The programme outlined in the Mull Campus bid was already ambitious and the additional announcement delay has added significant pressure to meet this timescales. Our updated Programme indicates that a Mull bid would now be unable to make this December 2027 timescale and now forecasting an opening of October 2028. This is a risk to the project but one the Government and Scottish Futures Trust have indicated they would be willing to have dialogue with Council's on their ability to adhere to this or other criteria.
- 5.6 The SG and Scottish Futures Trust (SFT) have also intimated that a project on Mull may be eligible for additional funding due to island locational factors. Whilst this additional '**locational uplift**' is not currently written into the conditions of funding or LEIP agreement they have confirmed there is precedent with other rural and island LEIP projects and it is likely these would be available to this project on Mull. Locational factors would cover the known additional costs that relate to construction in island or rural areas such as cost of raw materials, costs of labour, travel, extra build time, extreme weather and waste disposal. If successful in agreeing terms, the locational uplift would not cover the entire 'island weighting' factor but it would meet 50% of it. At present we forecast this locational uplift could be up to £3.5m (max) but this figure cannot be confirmed or accounted for in full until more detailed design work is completed due in 2025 and agreement with SG is reached at that time.

B- Programme

- 5.7 Given the approximate 1 year delay in funding announcement the team have updated the project delivery plan can be found at **Appendix A – Proposed Programme Business Case to Delivery** and **Appendix B – Tracker / Gant** with key milestones being as follows:-
- Q1/ Q2 2024 – Consultations begin (community / statutory)
 - Q2 2024 – Site Selection process begins
 - Q2 – 2025 – Design development, cost plan begins (RIBA Stage 2)
 - Q4 – 2025 – Planning, detailed cost, contracts to construct (RIBA Stage 4)
 - Q4 2026 to Q4 2028 – Construction
 - October 2028 new campus open
- 5.8 The Programme also includes the close and partnership working with Hub North and the Northern Alliance – who also supported the original bid. There is an agreed ‘Northern Programme Approach’ where there will be inter-authority collaboration with partners from Orkney Island Council, The Moray Council, Shetland Island Council and Aberdeen City Council in developing our LEIP projects. The Northern programme approach is currently being developed and anticipate working with these Council’s will deliver efficiency and good practice in terms of design development, purchasing materials, economies of scale, contract labour and sharing best practices. For example – joint commissioning of architectural is being looked at and input and purchasing of high value generic items like doors or windows.

C – Cost and affordability

- 5.9 Creating modern schools has traditionally been some of highest value projects the Council delivers. Building modern schools to high digital and environmental standards as required by LEIP comes at a cost premium and this increases when island weighting is applied due to logistical challenges of getting labour and materials to site. Overall affordability of the project must be considered closely by Members and is referred to in this report.
- 5.10 The full Council made an express decision to support the bid for LEIP at their meeting on 29 September 2022. This included commentary from the Council’s Section 95 Officer. Given the passage of time and updated financial landscape an update of this advice is contained at **Appendix C**.
- 5.11 Affordability of this project was a key consideration when the bid was submitted in October 2022 and at that point was already stretching upper tolerance levels. Following an update forecast in December 2023, **the total forecast project cost now sits at £39.12m**. It must also be noted that this £39.12m is a justified projection based on the information currently available and the timescales linking construction to inflation. The forecast price and proportion the Council will be responsible for funding will fluctuate depending on a number of material factors:-
- **What site is selected** – some sites may be more or less expensive to develop (eg is there power, water, rock, roads, peat)

- 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 '**up to**' 50% of eligible costs (lower offer than 50% of total project cost may be made)
 - **Efficiencies** driven from Regional Programme Approach or Uplift in metrics from Scottish Government (additional funding) due to 'Locational Factors' – cannot quantify or account for these at this stage until detailed design completed
- 5.12 Notwithstanding these variable factors the £39.12m is a justified cost based on experience developing LEIP Projects across the Country plus addition of a 'island weighting' factor. The LEIP3 Projects in Orkney and Shetland that are similar in scope and stage to Mull, and both currently forecast over the £40m mark. It should therefore be considered this is the region of total cost and total outlay by our Council.
- 5.13 The recently updated cost plan and programme that has been worked on since the October 2023 announcement indicates that overall cost has increased by around 10% since the forecast provided at the time of the bid (1 year delay in announcement). Through a combination of the 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 prepared to take hard decisions to reduce other Council areas of capital and / or revenue spend.
- 5.14 Progressing to Outline Business Case or Full Business Case would require investment of several million pounds and require high degree of consultation and engagement with the community which if not progressed to construction would be abortive costs and unrealistically raise expectations.

D – Alternative Learning Estate Improvements

- 5.15 It is acknowledged if a decision is taken to not proceed with the LEIP Project this would be disappointing for many on Mull and surrounding islands however as an alternative a package of significant upgrading works to the existing Tobermory Primary and High School would be required. These would include:
- A. Works to enhance Building Fabric improving condition and prolonging life of the asset**
- a. Partial re-roof
 - b. Roughcast improvements
 - c. Solar Panels and energy efficiency works
 - d. Drainage works
 - e. Partial rewire
 - f. LED Lighting
 - g. Ventilation upgrades
 - h. Address remedial damp areas

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

For further information contact:

Policy Lead for Education – Councillor Yvonne McNeilly

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Executive Director with Responsibility for Commercial Services & Education – Douglas Hendry

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Appendices

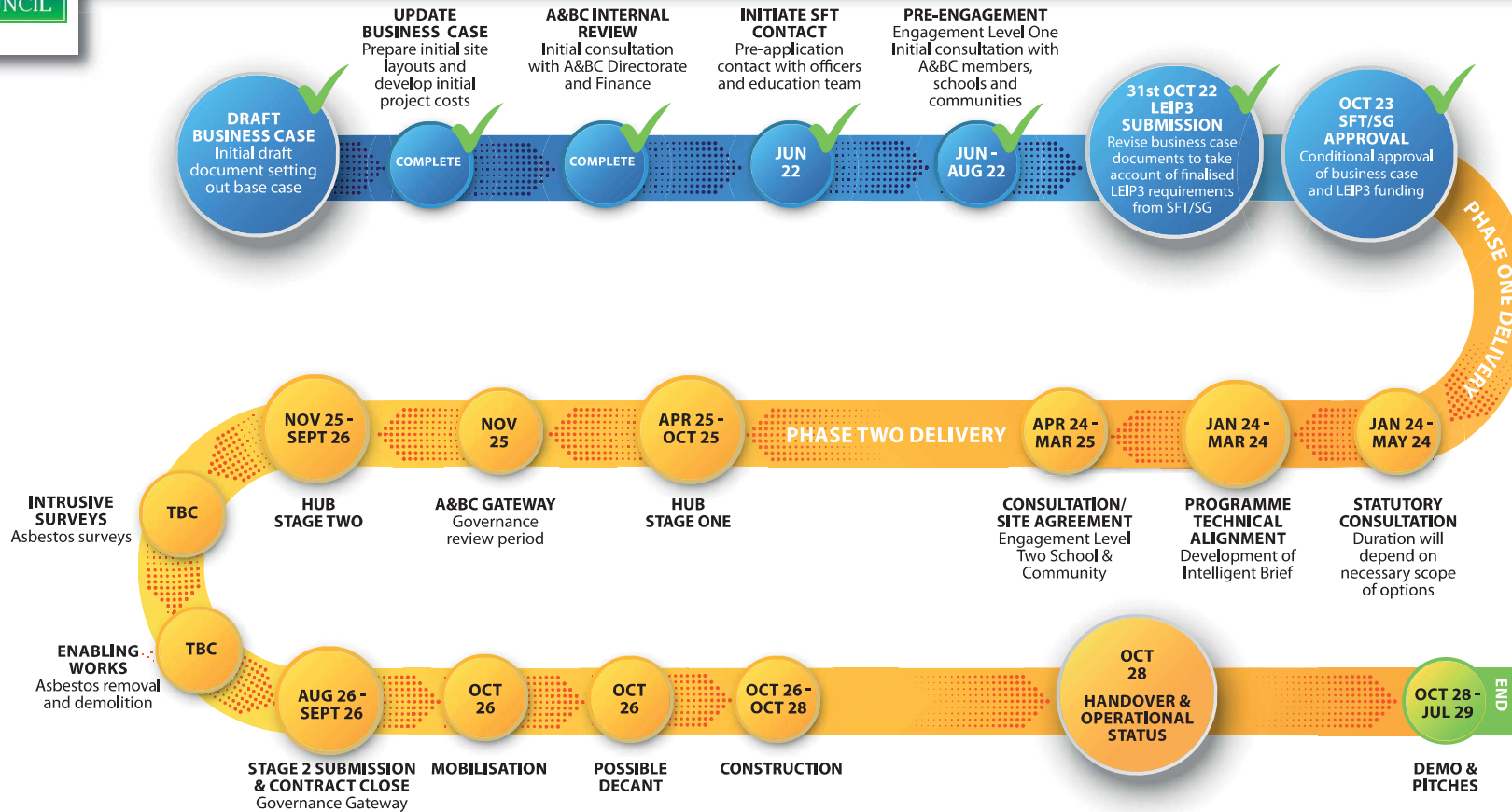
Appendix A – Proposed Programme Business Case to Delivery

Appendix B – Tracker / Gant Programme

Appendix C – Finance / Affordability Update

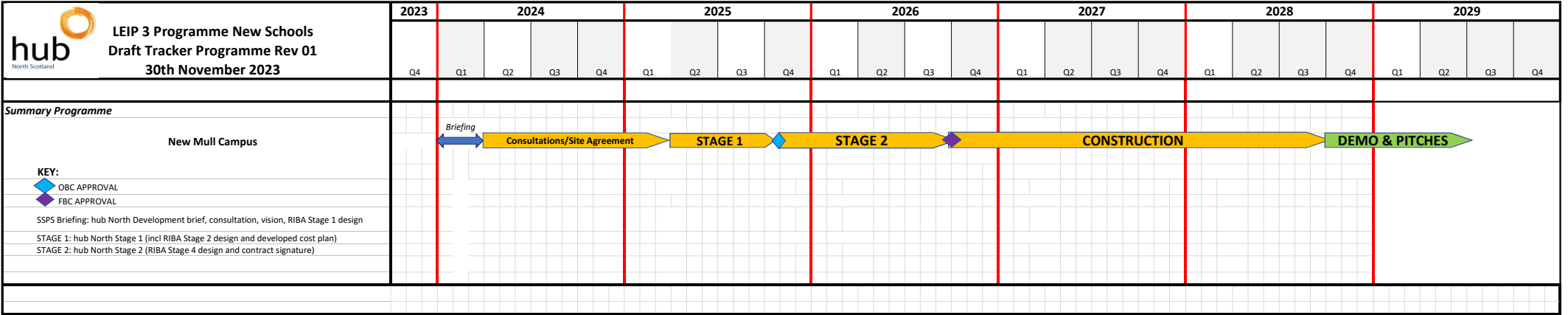
DELIVERY PROGRAMME UPDATE MULL COMMUNITY CAMPUS

BUSINESS CASE TO DELIVERY



PROJECT COST UPDATE	Description (Primary/ASN/HS/Campus)	Pupil Numbers	Site Description/acquired	Current Forecasted Cost*	Status
MULL COMMUNITY CAMPUS	Campus: To include ELC, Primary, Secondary, ASN and Argyll College	298	Preferred Site still to be determined. This programme is based on building on existing pitches and demolish existing facility; provision of hardstandings and 1 no grass pitch and 1 no 3G pitch, as this approach is likely to be the longest programme	£39.12m	Design Team procurement complete, recommendation due early Dec 23. Phase 1, 3 month briefing and alignment to commence Jan 24.

*excluding Authority direct below the line costs.



APPENDIX C

Financial and Budget Position

Part of the Council Report of 13 September 2022, requested agreement to move ahead with a bid to the Scottish Government LEIP funding programme to deliver a new Campus on Mull. The Council was advised on 30 October 2023, that the bid was successful. This fund would contribute up to 50% of the eligible costs of the project over a 25 year period, and the paper included a financial report at Appendix B.

The forecast cost of a new campus at that time was £35.5m, which did not include any land purchase costs, if required. Table below shows funding options presented at that time as well as an updated position:

	Original Option A £000	Original Option B £000	Updated Position £000	Assumptions
Cost of Construction*	35,500	35,500	39,120	As per estimates.
Estimated Cost of Land			1,000	As per estimates
LEIP earmarking	(1,000)	(1,000)	(1,000)	Agreed as part of February 2022 budget.
Capital Grant Saving over 5 years (estimate)		(3,000)		This amount would need to be top-sliced from the general capital grant – for illustrative purposes only, would require a Council decision.
Use of Service Concessions one-off gain in 22-23		(6,750)	(8,000)	Updated – using full amount of one-off Service Concession gain allocated for learning estate – for illustrative purposes only, would require a Council decision.
Net capital after funding options applied	34,500	24,750	31,120	
Cost of borrowing Net Capital Cost over 60 years	1,853	1,330	1,672	Based on 31,120 over 60 years
Revenue Saving in Energy Costs	(35)	(35)	0	Estimated saving in energy costs due to more efficient building.
LEIP Income (25 years)	(710)	(710)	(782)	Assumed 50% paid equally over 25 years.
Net Cost of Borrowing (first 25 years)	1,108	585	890	
Net Cost of Borrowing (remaining 35 years)	1,818	1,295	1,672	

*The cost of construction does not include any fixtures and fitting, IT and equipment. Costs associated with any additional staffing resource for the project are also not included.

The delay in the decision from the Scottish Government on the bid has meant that the cost of the project has risen to £39.120m, excluding any land purchase costs. Additionally, the following negative fiscal issues have arisen since the original report was presented:

- The General Capital Grant from Scottish Government for 2024-25 was £0.937m lower than the previous year. As we set a 3 year capital programme this impact is doubled for years 1 and 2 where the budget has already been set therefore causes a gap in the capital programme of almost £1.9m. Note that due to this reduction we have removed the £3m capital grant skimming detailed in the original option shown in the table above, therefore increasing the pressure further.
- Construction Sector Inflation has slowed from the unprecedented rises we saw through 2020-2023 which were at times around 15%. Construction cost inflation in Scotland has been rising around 5% per annum in the past 12 months however some forecasters predict there may be a stabilising of around 3.5% in future years. However as we have seen, this can fluctuate greatly due to global or external factors linked to supply of material, energy and labour. Notwithstanding this, given this project would take some time to complete there is a high risk that costs will increase beyond the latest figures noted in the table above;
- Recently there have been a number of pressures on the Capital Budget:
 - Surveys of the Councils Learning Estate have identified RAAC in one building which must be removed. Estimated costs associated with this are £3m.
 - As a result of a significant weather event on 7 October 2023, Argyll and Bute the Council activated the Bellwin scheme in relation to the recovery costs associated with the incident. Capital expenditure does not qualify therefore any long term replacements to infrastructure such as bridges cannot be claimed through the scheme resulting in an estimated pressure of £4.348m.
 - As a result on ongoing rises in inflation the costs associated with Rothesay Pavilion continue to rise. It is uncertain at this stage the full financial impact this is estimated to be circa £8.425m.

Should the Scottish Government fund 50% of the project then based on the updated figures above the Council would need to fund £11.560m (this would be subject to any locational uplift being applied by Scottish Government). Through a combination of the 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.

If Members decided not to proceed with the LEIP project, it should be noted that while this will reduce the pressure on the capital programme there will still be a requirement to utilise the £9m earmarking for a package of significant upgrading works to the existing Tobermory Primary and High School.