

## **Item: 3**

### **Policy and Resources Committee: 3 March 2026**

#### **Capital Programme Affordability**

#### **Report by Head of Finance**

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## **1. Overview**

- 1.1. In order to effectively manage the risks associated with delivery of the Council's Capital Programme, a structured framework of planning, evaluation and monitoring should be maintained.
- 1.2. In December 2024, the Council approved a Capital Strategy, which forms part of the framework for financial planning. At the same meeting updated procedures for Capital Project Appraisals were also approved.
- 1.3. Capital projects fall into two main categories: annual top-sliced improvement and replacement programmes; and other projects. Revised General Fund annual top-sliced improvement and replacement programme budgets were approved by the Council in July 2024 at £5,500,000.
- 1.4. The General Capital Grant awarded for financial year 2026/27 from the Scottish Government has seen a reduction of £296,000 on the previous year to £7,550,000.
- 1.5. The Financial Settlement no longer includes any Specific Capital Grants. The Inter-Island Connectivity funding of £2,000,000 is now included in the General Capital Grant and Cycling, Walking and Safer Streets has been replaced by Active Travel Tier 1 funding.
- 1.6. The net loan charges budget of £3,100,000 equates to headroom for the General Fund Services to borrow a maximum of £29,800,000 from the Loans Fund over the next 5 years, from 1 April 2026 to 31 March 2031.
- 1.7. The existing approved capital programme, attached at Appendix 1, has been factored into the headroom calculations, referred to at section 1.6 above, which ensures the funding is in place to allow them to proceed to completion.
- 1.8. No accelerated debt repayments have been made in the last three financial years, and this is unlikely to happen in financial year 2025/26 due to the General Fund budget overall forecasting a deficit.

## **2. Recommendations**

2.1. It is recommended that members of the Committee:

- i. Note the Scottish Government financial settlement for 2026/27 in respect of capital funding of £7,550,000 General Capital Grant.
- ii. Agree the net loan charges budget of £3,100,000, which equates to headroom for General Fund services to borrow a maximum of £29,800,000 from the Loans Fund over the next 5 years, from 1 April 2026 to 31 March 2031.

## **3. Background**

3.1. The CIPFA Prudential Code, introduced in April 2004, gave councils the freedom to invest in capital projects within the limitation of legislative controls, provided their programmes can be shown to be affordable, prudent, and sustainable. The Treasury Management Strategy Statement (TMSS) is reported annually to the Policy and Resources Committee to assess the affordability of the Council's capital plans.

3.2. The Council has adopted the Definition of Capital Expenditure, and the stated accounting procedures, as contained within the CIPFA/LASAAC Statement of Recommended Practice (SORP), as follows:

*“Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, should be capitalised, provided the fixed asset yields benefit for a period of more than one year.”*

## **4. Annual top-sliced improvement and replacement programmes**

4.1. The operation of annual top-sliced property improvement or asset replacement programmes must follow the underlying principles of the Capital Strategy and the Capital Project Appraisal (CPA) process, and this should be evidenced through the regular reporting of the planning, approval and delivery stages to the relevant Service Committee or Sub-committee.

4.2. The following top-sliced improvement and replacement programmes have annual budgets:

- General Fund Capital Improvement Programme\*
- Road Asset Replacement Programme\*
- IT Replacement Programme\*

- Plant and Vehicles Replacement Programme\*
  - Housing Revenue Account
  - Scapa Flow Oil Port Minor Capital Improvement Programme
  - Miscellaneous Piers and Harbours Minor Capital Improvement Programme
  - Strategic Reserve Fund Capital Improvement Programme
- (\* denotes General Fund programmes)

- 4.3. On 18 June 2024, the Policy and Resources Committee recommended increasing General Fund top-sliced improvement and replacement programmes by 40%, resulting in a total budget of £5,500,000 for each of the three years 2025/26, 2026/27 and 2027/28.
- 4.4. A review is required during financial year 2027/28 to assess the sustainability and allocation of funds to the top-sliced programmes.

## 5. Capital Programme Affordability

- 5.1. The Settlement from the Scottish Government includes a General Capital Grant award for financial year 2026/27 of £7,550,000. The Scottish Government has reallocated previously ring-fenced or specific grant amounts to ‘general’ funding as shown below.

<b>Description</b>	<b>2025/26</b>	<b>2026/27</b>
General Capital Grant	£5.750m	£7.550m
Active Travel / Cycling, Walking and Safer Streets	£0.096m	£0m
Ferries / Inter-Island Connectivity	£2.000m	£0m
<b>TOTAL</b>	<b>£7.846m</b>	<b>£7.550m</b>

- 5.2. The loan charges budget is set at £3,500,000, including allocations of £200,000 each for management of the capital programme and a contribution to the Capital Project Appraisal Fund. After factoring in the existing capital programme, attached at Appendix 1, the net loan charges budget of £3,100,000 equates to headroom for General Fund Services to borrow a maximum of £29,800,000 from the Loans Fund over the next 5 years, from 1 April 2026 to 31 March 2031.
- 5.3. Given the limited headroom available in the Council’s capital programme, the ability to leverage in external funding is essential for projects to progress and the sustainability of the capital programme. Capital projects can be funded by several sources, as follows:

- Scottish Government General Capital Grant and other specific grants.
  - Capital grants from other external sources.
  - Capital receipts generated through the sale of assets.
  - Capital contributions from internal reserves.
  - Capital financed from current revenue income or surpluses.
  - Borrowings from the Loans Fund.
- 5.4. The Council's trading accounts, i.e. the Housing Revenue Account, Scapa Flow Oil Port, Miscellaneous Piers and Harbours, the Quarry and the Strategic Reserve Fund, must finance their capital projects, and repay any capital borrowings from within their own budgets.
- 5.5. The development of a Capital Strategy and the updated procedures for Capital Project Appraisals, approved by the Council in December 2024, will hopefully see Service proposals being brought forward in due course.

**For Further Information please contact:**

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**Implications of Report**

1. **Financial** - Financial implications are included throughout the report.  
Section 7 of the Financial Regulations covers the Capital Programme, stating that approval by the Council of the Capital Programme constitutes approval of the individual projects or provisions contained therein. Corporate Directors can incur expenditure within approved revenue and capital budgets. Such expenditure must be in accordance with the Council's policies and objectives and subject to compliance with the Financial Regulations.
2. **Legal** - Section 95 of the Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of its financial affairs. As part of that, the Council is expected to have regard to economy, efficiency and effectiveness in its use of resources.  
Section 35 of the Local Government in Scotland Act 2003 requires the Council to determine and keep under review the maximum amount which it can afford to allocate to capital expenditure.
3. **Corporate Governance** - None
4. **Human Resources** - None
5. **Equalities** – N/A
6. **Island Communities Impact** – N/A

7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
  - Growing our economy.
  - Strengthening our Communities.
  - Developing our Infrastructure.
  - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
  - Cost of Living.
  - Sustainable Development.
  - Local Equality.
  - Improving Population Health.
9. **Environmental and Climate Risk**– N/A
10. **Risk**– N/A
11. **Procurement**– N/A
12. **Health and Safety**– N/A
13. **Property and Assets** – annual top-sliced capital improvement and replacement programmes are detailed in the report.
14. **Information Technology** – N/A
15. **Cost of Living** – N/A

### **List of Background Papers**

Policy and Resources Committee, 18 June 2024: Item 8 – Review of Top-sliced Asset Replacement Programmes.

Policy and Resources Committee, 27 November 2024: Item 6 – Capital Strategy.

Policy and Resources Committee, 18 February 2025: Item 3 – Treasury Management Strategy Statement.

Policy and Resources Committee, 25 February 2025: Item 3 – Capital Programme Affordability.

### **Appendix**

Appendix 1 – Approved Capital Programme 2025/26 to 2030/31.

## Orkney Islands Council: Approved Capital Programme 2025/26 to 2030/31

	Total Budget	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund Summary</b>							
Other Housing	3,510	585	585	585	585	585	585
Community Social Services	1,684	1,684	0	0	0	0	0
Education	390	390	0	0	0	0	0
Cultural and Recreational Services	1,114	179	917	18	0	0	0
Roads	8,426	2,354	1,722	1,500	950	950	950
Transportation Services	4,237	3,101	1,076	30	30	0	0
Environmental services	78	78	0	0	0	0	0
Planning & Protective Services	1,043	923	120	0	0	0	0
Administration Services	21,611	4,698	4,000	4,000	2,971	2,971	2,971
<b>Expenditure Total</b>	<b>42,093</b>	<b>13,992</b>	<b>8,420</b>	<b>6,133</b>	<b>4,536</b>	<b>4,506</b>	<b>4,506</b>
<b>Sources of Funding</b>							
Capital Financed from Current Revenue	0	0	0	0	0	0	0
Government Grants	37,662	10,739	7,985	5,018	4,640	4,640	4,640
Other Grants	749	13	736	0	0	0	0
Capital Receipts	1,410	235	235	235	235	235	235
Capital Contributions	1,132	841	278	13	0	0	0
<b>Income Total</b>	<b>40,953</b>	<b>11,828</b>	<b>9,234</b>	<b>5,266</b>	<b>4,875</b>	<b>4,875</b>	<b>4,875</b>
<b>Borrowing</b>	<b>1,140</b>	<b>2,164</b>	<b>(814)</b>	<b>867</b>	<b>(339)</b>	<b>(369)</b>	<b>(369)</b>

	Total Budget	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	£000	£000	£000	£000	£000	£000	£000
<b>Non General Fund Summary</b>							
Housing Revenue Account	6,968	5,794	1,158	16	0	0	0
Orkney College	804	119	685	0	0	0	0
Scapa Flow Oil Port	870	120	150	150	150	150	150
Miscellaneous Piers and Harbours	10,762	1,615	500	7,747	300	300	300
Strategic Reserve Fund	51,114	2,419	14,219	26,119	8,119	119	119
<b>Expenditure Total</b>	<b>70,518</b>	<b>10,067</b>	<b>16,712</b>	<b>34,032</b>	<b>8,569</b>	<b>569</b>	<b>569</b>
<b>Sources of Funding</b>							
Capital Financed from Current Revenue	4,699	1,854	569	569	569	569	569
Government Grants	3,775	3,171	604	0	0	0	0
Other Grants	985	50	935	0	0	0	0
Capital Receipts	0	0	0	0	0	0	0
Capital Contributions	0	0	0	0	0	0	0
<b>Income Total</b>	<b>9,459</b>	<b>5,075</b>	<b>2,108</b>	<b>569</b>	<b>569</b>	<b>569</b>	<b>569</b>
<b>Borrowing</b>	<b>61,059</b>	<b>4,992</b>	<b>14,604</b>	<b>33,463</b>	<b>8,000</b>	<b>0</b>	<b>0</b>