

Agenda Item	<b>4</b>
Report No	<b>RES/02/17</b>

## Corporate Capital Monitoring to 31 December 2016

### Report by Director of Finance

#### Summary

This report provides an overview of expenditure on the General Fund and Housing Revenue Account (HRA) capital programmes for the period from 1 April to 31 December 2016 and the estimated position for the 2016/17 financial year. The report also provides an overview of the status of all major capital projects with a value over £4m.

#### 1. Background

- 1.1 In December 2015 the Council approved a ten year capital programme incorporating over £900m of capital investment in the council's infrastructure.
- 1.2 This report assesses how spend is progressing in financial year 2016/17, the second year of the programme, and also provides an overview of the status of all major projects, i.e. those with a value over £4m.

#### 2. General Fund Capital Programme Expenditure

- 2.1 **Appendix 1** shows the General Fund capital budget net of direct project income for 2016/17 of £125.863m, net expenditure to date of £68.394m and an estimated net underspend of £10.311m on the programme for the financial year.
- 2.2 This underspend comprises slippage of £18.010m on projects which will be carried over to later financial years and service overspends of £7.699m.
- 2.3 **Appendix 2** reconciles the capital plan approved by Highland Council on 17 December 2015 to the current position, taking account of net slippage and overspends brought forward from financial year 2015/16; agreed changes to the programme and additional direct project income.

#### 3. Funding of the Capital Programme

- 3.1 The funding section of Table A in **Appendix 1** illustrates how the capital expenditure for the year is planned to be funded. Any changes in the forecast expenditure outturn will impact on the level of borrowing required.
- 3.2 The capital grant budget for the year is £29.028m which is £0.519m more than the original budget, relating to changes in grants for flood protection work.
- 3.3 The capital programme assumed that there would be £26.883m of slippage during the year; this assumption allowed for over-programming to enable capital spend to be maximised during the year. However at this stage the actual position is that slippage of only £10.311m is forecast.

- 3.4 The effect of the lower than budgeted level of slippage means that year end spend would exceed funding by £16.572m. If this situation transpires at the year end that shortfall would have to be filled by increasing borrowing by an equivalent amount. The level of borrowing required in year will impact on the level of loan charges made against the General Fund revenue budget.
- 3.5 Whilst the level of borrowing is expected to be higher than planned, the Council has taken advantage of low short term borrowing rates which will mitigate the impact on the general fund with an underspend of £0.150m being anticipated on the revenue budget loan charges figure. Any rise in interest rates would lead to an increase in loan charge costs and the final variance position will change depending on the actual capital expenditure at year end.

#### **4. 2016/17 General Fund Variances**

- 4.1 Care and Learning estimates net slippage of £10.583m at the year end comprising £3.507m of overspend and £14.090m from project slippage. The projects forecast to overspend include the Caol Joint Campus, Cromarty Primary, modular accommodation at special schools and Portree hostel. Slippage is forecast on a number of projects, most notably the Tain 3-18 campus.
- 4.2 An estimated £0.603m slippage on the Community Services capital programme is due to delays in bridge works; chilling works to the fish market at Kinlochbervie and play areas.
- 4.3 The Corporate Development Service anticipates a year end underspend of £12.071m. This is mainly due to the need to re-profile the spend for the new ICT contract. Minor slippage is also anticipated in the unified communications project.
- 4.4 The Development and Infrastructure service anticipates a year end overspend of £13.079m. This includes net £8.887m acceleration of projects from future years and £4.192m overspend on projects delivered in 2016/17. The West link and associated projects account for the majority of the acceleration. The overspend relates mainly to the River Ness Flood Prevention Scheme where unforeseen costs materialised late in the programme including additional compensation payments and phase one adjudication and legal costs.
- 4.5 £0.067m of the Capital Discretionary fund remains to be committed. There are outstanding commitments to the value of £1.744m and this level of budget will be transferred to the appropriate service when the agreed project has been delivered.

#### **5. Housing Revenue Account (HRA) capital programme**

- 5.1 The gross budget for the HRA Capital Programme is £39.734m. The projected outturn for net expenditure is £35.083m leading to a net variance of £4.651m. The net variance is represented by slippage of £6.517m; accelerated expenditure of £2.769m; and a net underspend of £0.903m. The net underspend comprises an underspend on the mainstream element of the HRA capital programme of £5.353m and an overspend of £0.702m in the Council house building element.

5.2 The principal reasons for the underspend are retendering of contracts (£2.791m); late award of contracts for heating replacements in Caithness and roof replacements in Badenoch & Strathspey (£0.732m); awaiting information on the rewiring work required pan-Highland (£0.496m); a fall in the number of tenants requesting gas heating upgrades in Ross & Cromarty (£0.528m); delays in the equipment and adaptations work in Badenoch & Strathspey, Skye and Ross & Cromarty (£0.275m); and the remainder for unutilised contingency sums on two of the Scape contracts.

## **6. Major Projects Reporting**

6.1 A statement detailing the progress of all the major capital projects is included at **Appendix 3**. These projects are subject to more detailed reporting to the appropriate service committee.

6.2 A number of projects show forecast costs above budget level or significant slippage in terms of project delivery schedule. Whilst the slippage is not welcomed from an individual project perspective it is necessary from the perspective of the financing of the capital programme as detailed at 3.3.

6.3 In line with the Project Management Governance Policy post-project reviews are required to be completed for all major projects. The findings of these reviews are presented to service and the corporate capital programme boards in order to enhance the delivery of future projects.

## **7. Capital Programme**

7.1 A review of the capital programme was reported to Council in December 2016. No changes were agreed to the Capital Programme agreed at December 2015 however Council agreed that Service Committee Chairs and Group Leaders would meet to decide on members' involvement in the continuing review of the Capital Programme.

## **8. Implications**

8.1 Resource implications are noted in this report. Failure to deliver the required level of slippage in the capital programme will have consequences for the level of loans charges in the current and future years.

8.2 There are no risk, legal, equalities, climate change/Carbon Clever, Gaelic or rural implications arising as a direct result of this report.

### **Recommendation**

Members are invited to consider the financial position of the General Fund and HRA Capital Programmes as at 31 December 2016.

Designation: Director of Finance

Date: 30 January 2017

Author: Edward Foster, Head of Corporate Finance

Background Papers: Service monitoring statements

<b>Capital Expenditure Monitoring Report - Service Summary</b>
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<b>1 April - 31 December 2016</b>
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**Table A: General Fund**

	Actual Net Year to Date £000	Annual Net Budget £000	Year End Estimated Net Outturn £000	Year End Net Variance £000	Carry Forward/ Back £000	Anticipated Year End Under/Over £000
<b>General Fund</b>						
Care and Learning	21,432	45,084	34,501	(10,583)	(14,090)	3,507
Chief Executive's Office	440	378	312	(66)	(66)	0
Community Services	10,957	17,217	16,614	(603)	(603)	0
Corporate Development	2,930	16,111	4,040	(12,071)	(12,071)	0
Development and Infrastructure	32,635	45,262	58,341	13,079	8,887	4,192
Discretionary Fund	0	1,811	1,744	(67)	(67)	0
<b>Total General Fund</b>	<b>68,394</b>	<b>125,863</b>	<b>115,552</b>	<b>(10,311)</b>	<b>(18,010)</b>	<b>7,699</b>

**Funding**

General Capital Grant	18,919	29,028	29,028	0	0	0
Capital Receipts	566	1,750	1,750	0	0	0
Self -Financing Projects	0	5,850	5,850	0	0	0
Borrowing	48,909	62,352	62,352	0	0	0
Planned Over Programming and Slippage - Borrowing	0	26,883	16,572	(10,311)	(18,010)	7,699
<b>Total General Fund</b>	<b>68,394</b>	<b>125,863</b>	<b>115,552</b>	<b>(10,311)</b>	<b>(18,010)</b>	<b>7,699</b>

**Table B: Housing Revenue Account**

	Actual Year to Date £000	Annual Budget £000	Year End Outturn £000	Year End Variance £000
Gross Expenditure Budget	20,878	39,734	35,083	(4,651)
<b>Funding</b>				
Sale of Council House Receipts	(3,258)	(1,278)	(4,023)	(2,745)
Government Grant Income	(3,433)	(8,467)	(5,712)	2,755
RHI Income	(249)	0	(332)	(332)
Other Income	(245)	0	(245)	(245)
CFCR	0	(2,790)	(4,810)	(2,020)
Landbank Contribution	(1,880)	(2,195)	(2,330)	(135)
Borrowing	(11,813)	(25,004)	(17,631)	7,373
<b>Total HRA</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Capital Expenditure Monitoring Report - Plan Update</b>
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<b>1 April 2016 - 31 December 2016</b>
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<b>Capital Plan</b>	2016/17 £000
Approved plan 2016/17	111,666
Net slippage brought forward from 2015/16	17,417
Net overspends brought forward from 2015/16	(1,335)
<b>Capital plan at 1 April 2016</b>	<b>127,748</b>
Additional Project Income - Gaelic School Scottish Government grant	(2,027)
Net addition to Programme, Grantown Courthouse - the borrowing for which is to be funded by revenue budget savings.	142
<b>Capital plan at 31st December 2016 per Appendix 1</b>	<b><u>125,863</u></b>

**Capital Expenditure Monitoring Report - Projects over £4m**

Appendix 3

	Approved Budget	Current Approved Budget	Total Project Spend to	Forecast Total Project Spend	Forecast End of Project Variance	Project Completion Dates	
	December 2015 £000	£000	December 2016 £000	£000	£000	Planned at December 2015	Current Estimate
<b>CARE &amp; LEARNING</b>							
<b>COMMUNITY &amp; LEISURE FACILITIES</b>							
Inverness Leisure Phase 1	3,500	3,660	3,685	3,730	70	Jul-15	Jul-15
Inverness Leisure Phase 2	3,000	3,190	228	3,120	(70)	Mar-19	Mar-20
<b>SECONDARY SCHOOLS PROGRAMME</b>							
Inverness High School	10,000	10,000	422	10,000	0	Aug-18	Mar-19
Inverness Royal Academy	39,010	39,010	34,219	39,010	0	Jun-17	Jun-17
Lochaber High School Phase 3 & 4	15,935	16,185	15,864	16,185	0	Sep-15	Oct-15
Portree High - Elgin Residence	4,020	4,020	4,446	4,620	600	Dec-15	May-16
Tain 3 - 18 Campus	45,000	45,000	484	45,000	0	Aug-18	Jul-20
Wick Community Campus	5,350	5,350	3,885	5,350	0	Apr-17	Aug-17
<b>PRIMARY SCHOOLS PROGRAMME</b>							
Beaully - New Primary	10,000	10,000	4	10,000	0	Aug-19	Aug-20
Dunvegan - New Primary	10,000	10,000	0	10,000	0	Aug-18	TBC
Fort William - Caol/RC Joint Campus	15,690	15,940	15,733	16,940	1,000	Dec-16	Feb-17
Fort William - New Gaelic Primary	8,000	7,750	7,817	7,900	150	Jun-15	Jun-15
Fort William - Lundavra Primary	12,000	12,000	11,975	12,250	250	Oct-15	Oct-15
Portree - New Gaelic Primary	9,285	10,800	2,040	10,800	0	Jul-17	Dec-17
Wick - New Noss Primary	16,650	16,650	15,380	16,650	0	Oct-16	Apr-17
<b>SPECIAL SCHOOLS PROGRAMME</b>							
Cauldeen Annexe	N/A	5,000	80	5,000	0	N/A	Aug-17
St Clements/St Duthus - Modular Accom.	4,580	4,580	4,985	5,030	450	Aug-15	Aug-15
<b>CORPORATE DEVELOPMENT</b>							

ICT Reprovision	12,200	15,200	2,755	15,200	0	Mar-18	Mar-19
					0		
<b>DEVELOPMENT &amp; INFRASTRUCTURE</b>							
<b>ROADS AND BRIDGES</b>							
Major Road Improvements							
The Inverness West Link	43,352	43,352	17,563	43,352	0	Mar 2021	Mar 2021
Inshes Roundabout	6,975	6,975	739	6,975	0	Mar 2020	Mar 2020
Kinnairdie Link Road, Dingwall (Incl Junction at County Buildings)	7,258	7,258	1,307	7,258	0	Mar 2019	Mar 2019
A862 Muir of Ord Railway Bridge	5,360	5,360	3,166	5,360	0	Mar 2018	Jul 2017
<b>LEISURE FACILITIES</b>							
Torvean Golf Course	8,227	8,227	5,440	8,227	0	Mar 2019	Mar 2019
Canal Parks Enhancement	4,144	4,144	727	4,144	0	Mar 2018	Mar 2018
<b>FLOOD PREVENTION</b>							
River Ness Flood Prevention - Tidal Section (Incl Streetscaping)	34,708	34,708	37,313	37,814	3,106	Mar 2017	Aug 2016
<b>STRATEGIC ASSET MANAGEMENT</b>							
Wick Office	8,500	8,500	8,375	8,750	250	Mar 2016	Nov 2016
Fort William Office Rationalisation	5,801	5,801	1,314	7,221	1,420	Mar 2017	Mar 2018