

Agenda Item	<b>8.</b>
Report No	<b>RES/19/17</b>

## **HIGHLAND COUNCIL**

**Committee:** Corporate Resources Committee

**Date:** 14<sup>th</sup> June 2017

**Report Title:** Corporate Capital Near Final Monitoring Report for 2016/17

**Report By:** Director of Finance

### **1. Purpose/Executive Summary**

- 1.1 This report provides a summary of the capital expenditure made by the Council in financial year 2016/17. The figures are 'near final' as they will still be subject to external audit scrutiny as part of the final accounts process. The report also provides a status update on the Council's major capital projects - i.e. those with a total value of over £4m.
- 1.2 During the year the Council incurred £105.447m of capital expenditure, reflecting a considerable investment in the Council's asset base. This investment forms part of the ten year capital programme, agreed in December 2015, encompassing over £900m of capital investment.
- 1.3 Over two thirds of the in-year expenditure was funded by borrowing. Loans charges, which reflect the cost to the Council's revenue budget of repaying the principal and interest elements of all the Council's historic borrowing, accounted for 9.93% of the total revenue spend in 2016/17.

### **2. Recommendations**

Members are asked to:

- 2.1 i. Consider and agree the financial position of the General Fund and HRA Capital Programmes as at 31 March 2017

### 3. Capital Expenditure

- 3.1 Many capital projects, due to size or complexity, take place over more than one financial year. For the financial monitoring of the capital programme it is therefore important to focus on two factors. Firstly whether the spend in any financial year is in line with that programmed - this is important in order to make sure that spend across the entire programme matches the funding available for that year. Secondly each individual project needs to be monitored over its lifecycle, across financial years, to ensure it remains on budget.
- 3.2 When setting the capital programme it was assumed that some projects across the programme would be delivered later than anticipated- commonly referred to as 'slippage'. For this reason projects to the value of £125.863m were programmed for the year with an assumption that only £98.980m would be spent. That £98.980m figure matched the funding available, with any spend above that level requiring to be funded from additional borrowing.
- 3.3 As outlined in **Appendix 1**, during the year the Council incurred capital expenditure of £105.447m. This meant capital spend was £6.724m in excess of the planned funding level, requiring this additional sum to be funded by borrowing. The reasons for this excess are outlined in the following two paragraphs.
- 3.4 During the year there was net slippage (the additional cost of 'accelerated' projects- i.e. those spending ahead of schedule- less the costs not incurred on those slipped- i.e. those behind schedule) across the programme of £28.333m, slightly ahead of the assumed level of £26.883m. The level of slippage above that required was therefore £1.193m.
- 3.5 Over the year there were also a number of projects that overspent- i.e. projects where the spend was in excess of the budget for the entire project life. In total there were £7.917m of overspends on projects.
- 3.6 Details of the variances will be reported to the relevant strategic committees in the current committee cycle and more detail on the major projects can be seen in section 5 of this report.

### 4. Funding of the Capital Programme

- 4.1 The funding section of the table in **Appendix 1** shows how the capital programme is financed in the current year. The Council has received a capital grant of £29.028m from the Scottish Government- this reflects grant funding specifically for use in financing capital expenditure.
- 4.2 The Council has received capital receipts in the year of £1.493m- this reflects income from the disposal of assets.
- 4.3 The largest element of funding for the capital programme is borrowing. In total borrowing represents £74.926m of the capital programme funding for the year. Overall borrowing is £6.724m in excess of the planned level as detailed in section 3 of this report. The impact of this additional borrowing on the revenue budget is outlined in section 7.

## **5. Major Projects**

- 5.1 **Appendix 3** provides the detail on the major capital projects- those with a total project budget of over £4m. These projects are subject to more detailed reporting to the relevant strategic committees.
- 5.2 As previously reported to this committee a number of major projects have reported overspends which have contributed to the overall £7.917m variance as referred to in section 3.5.
- 5.3 The projects with the most significant overspends include 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.
- 5.4 Within the Care and Learning programme the projects showing overspends include the Caol Joint Campus, Cromarty Primary, modular accommodation at special schools and Portree hostel.
- 5.5 The other project currently forecasting a significant overspend is the Fort William office rationalisation. As reported to the Planning, Development and Infrastructure Committee in November 2016 the initial budget estimate for the project was reviewed in light of the tender award and inclusion of a more appropriate level of contingency. The principal reason for the increase in budget is to take account of inflation factors since the original outline business case was approved in 2012/13.

## **6. Housing Revenue Account**

- 6.1 As detailed in **Table B in Appendix 1** net expenditure for the year was £32.153m leading to a net underspend of £7.581m. This variance comprises net slippage of £7.937m and a net overspend on projects of £0.356m.
- 6.2 The net variance is comprised of an underspend on the mainstream element of the HRA capital programme of £7.823m and an overspend of £0.242m in the Council house building element.
- 6.3 The principal reasons for the underspend are retendering of contracts; late award of contracts for heating and roof replacements; delays due to awaiting information on the rewiring work required pan-Highland; a fall in the number of tenants requesting gas heating upgrades; delays in some equipment and adaptations work; and unutilised contingency sums on two of the Scape contracts.
- 6.4 The net underspend on the gross budget in conjunction with additional capital receipts raised has allowed a reduction in borrowing for the HRA of £15.041m.

## **7. Implications**

- 7.1 Resource – Capital spend for the year was £6.724m in excess of the budgeted level. This sum has been financed from additional borrowing. The costs of financing this additional borrowing fall upon the loans charges budget- part of the Council's revenue budget.

The loans charge budget is showing an underspend for the year, primarily due to any new borrowing being undertaken on a short term basis to take advantage of very low borrowing rates. All borrowing does however have to be repaid and any capital project overspends will have a consequential impact on the Council's revenue budget in future years.

7.2 Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon  
Clever, Risk, Gaelic – no specific implications

Designation: Director of Finance

Date: 2<sup>nd</sup> June 2017

Author: Edward Foster, Head of Corporate Finance

Background Papers: None

### Table A: General Fund

## Funding

**Table B: Housing Revenue Account**

Annual	Year End	Year End
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	Budget £000	Outturn £000	Variance £000
Gross Expenditure Budget	39,734	32,153	-7,581
<b>Funding</b>			
Sale of Council House Receipts	(1,278)	(4,210)	(2,932)
Government Grant Income	(8,467)	(9,493)	(1,026)
RHI Income	0	(344)	(344)
Other Income	0	(745)	(745)
CFCR	(2,790)	(4,828)	(2,038)
Landbank Contribution	(2,195)	(2,570)	(375)
Borrowing	(25,004)	(9,963)	15,041
<b>Total HRA</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 March 2017</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 March 2017 per Appendix 1</b>	<b>125,863</b>

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

Appendix 3

	Approved Budget December 2015 £000	Current Approved Budget £000	Total Project Spend to March 2017 £000	Forecast Total Project Spend £000	Forecast End of Project Variance £000	Project Completion Dates	
						Planned at March 2015	Current Estimate
<b>CARE &amp; LEARNING</b>							
COMMUNITY & LEISURE FACILITIES							
Inverness Leisure Phase 1	3,500	3,660	3,716	3,730	70	Jul-15	Jul-15
Inverness Leisure Phase 2	3,000	3,190	228	3,120	(70)	Mar-19	Mar-20
SECONDARY SCHOOLS PROGRAMME							
Inverness High School	10,000	10,000	495	10,000	0	Aug-18	Mar-19
Inverness Royal Academy	39,010	39,010	36,643	39,010	0	Jun-17	Jun-17
Lochaber High School Phase 3 & 4	15,935	16,185	15,873	16,185	0	Sep-15	Oct-15
Portree High - Elgin Residence	4,020	4,020	4,461	4,620	600	Dec-15	May-16
Tain 3 - 18 Campus	45,000	45,000	1,079	45,000	0	Aug-18	Jul-20
Wick Community Campus	5,350	5,350	4,677	5,350	0	Apr-17	Aug-17
PRIMARY SCHOOLS PROGRAMME							
Beaulieu - New Primary	10,000	10,000	6	10,000	0	Aug-19	Aug-20
Dunvegan - New Primary	10,000	10,000	9	10,000	0	Aug-18	TBC
Fort William - Caol/RC Joint Campus	15,690	15,940	16,135	16,940	1,000	Dec-16	Feb-17
Fort William - New Gaelic Primary	8,000	7,750	7,830	7,900	150	Jun-15	Jun-15
Fort William - Lundavra Primary	12,000	12,000	11,989	12,250	250	Oct-15	Oct-15
Portree - New Gaelic Primary	9,285	10,800	1,124	10,800	0	Jul-17	Dec-17
Wick - New Noss Primary	16,650	16,650	16,124	16,650	0	Oct-16	Apr-17
SPECIAL SCHOOLS PROGRAMME							
Cauldeen Annexe	N/A	5,000	0	5,000	0	N/A	Aug-17



St Clements/St Duthus - Modular Accommod.	4,580	4,580	5,009	5,030	450	Aug-15	Aug-15
<b>CORPORATE DEVELOPMENT</b>							
ICT Reprovision	12,200	15,200	3,676	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	21,770	43,352	0	Mar 2021	Mar 2021
Inshes Roundabout	6,975	6,975	780	6,975	0	Mar 2020	Mar 2020
Kinnairdie Link Road, Dingwall (Incl Junction at County Buildings)	7,258	7,258	1,319	7,258	0	Mar 2019	Mar 2019
A862 Muir of Ord Railway Bridge	5,360	5,360	3,816	5,360	0	Mar 2018	Jul 2017
<b>LEISURE FACILITIES</b>							
Torvean Golf Course	8,227	8,227	6,204	8,227	0	Mar 2019	Mar 2019
Canal Parks Enhancement	4,144	4,144	878	4,144	0	Mar 2018	Mar 2018
<b>FLOOD PREVENTION</b>							
River Ness Flood Prevention - Tidal Section (Incl Streetscaping)	34,708	34,708	37,380	37,814	3,106	Mar 2017	Aug 2016
<b>STRATEGIC ASSET MANAGEMENT</b>							
Wick Office	8,500	8,500	8,491	8,750	250	Mar 2016	Nov 2016
Fort William Office Rationalisation	5,801	5,801	3,024	7,221	1,420	Mar 2017	Mar 2018