

Agenda item	<b>6.</b>
Report no	<b>RES/21/18</b>

## HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 24 May 2018

**Report Title:** Corporate Capital Near Final Monitoring Report for 2017/18

**Report By:** Director of Corporate Resources / Depute Chief Executive

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

- 1.1 This report provides a summary of the capital expenditure made by the Council during financial year 2017/18 and identifies the sources of funding used for that investment.
- 1.2 Expenditure on capital in 2017/18 was made in accordance with the capital programme approved by Members in December 2015. A new, more affordable, capital programme was approved by Members in March 2018.
- 1.3 Total spend for the full financial year was £88.305m reflecting a significant investment in the Highland economy. Significant projects completed in-year include the Inverness West Link, the Gaelic primary school in Portree, the new Fort William Offices and ongoing investment in the road infrastructure across the region.
- 1.4 The December 2015 capital programme had programmed in an assumed £60m of slippage by the end of financial year 2017/18. The overall level of expenditure reflects a net underspend of £59.359m against that programmed. Delivering the required level of slippage should help ensure that loans charges remain within budget in future years.
- 1.5 Over half of this year's capital expenditure will need to be funded by borrowing which is repaid over the long term through the Council's revenue loans charges budget. The impact of this year's capital expenditure will begin to be felt in the 2018/19 revenue budget.
- 1.6 The report also looks for member approval to commit expenditure against a Care and Learning project in the new capital programme and homologation of a decision made on an award from the Capital Discretionary Fund.

## 2.

## Recommendations

### 2.1 Members are invited to:

- Agree the near final position of the General Fund and HRA Capital Programmes as at 31 March 2018;
- Homologate the decision of the Chair, in conjunction with Group Leaders to agree to waive condition 1 for applications to the Capital Discretionary Fund and provide the committed funds to Linnhe Leisure as set out in paragraph 6.3.
- To delegate approval for signing the agreements and associated documents for Alness, and the set-up of a project board, as described in section 7 of this report.

### 3. **Capital Expenditure**

- 3.1 **Appendix 1** shows the General Fund net capital budget for 2017/18 of £147.664m and net expenditure for the year of £88.305m. This results in an underspend of £59.359m on the programme for the financial year.
- 3.2 This underspend comprises net slippage of £66.775m on projects- i.e. projects which are delayed, behind schedule in terms of their spending profile, or are no longer going ahead under the revised capital plan. The overall position also encompasses net project overspends of £7.416m.
- 3.3 A revised capital programme was agreed by Council in March 2018 and that programme made assumptions about the level of slippage from 2017/18 that would require to be carried forward into 2018/19. Now that financial year 2017/18 has been completed the actual value of those carry forwards will be calculated to ensure that the new programme's projects are appropriately funded going forward.
- 3.4 **Appendix 3** 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 previous years of the programme and additional funded projects.
- 3.5 Under the new committee reporting arrangements the Environment, Development and Infrastructure Committee now receives a report detailing the delivery of individual projects within the programme. A link to that report has been provided in the background papers section 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 has been financed in the current year. The Council has received a capital grant of £36.598m 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 £2.279m which reflects income from the disposal of assets.
- 4.3 The largest element of funding for the capital programme is borrowing. In total borrowing of £49.428m is required to fund capital expenditure in 2017/18.

## **5. Housing Revenue Account**

- 5.1 As detailed in **Appendix 2** net expenditure for the year was £38.065m against an annual budget of £46.930m, a net underspend of £8.865m.
- 5.2 The net underspend, combined with income generated from the sale of Council houses and other funding sources means actual borrowing required to support HRA capital is £14.971m below the budgeted level.

## **6. Capital Discretionary Fund- Linnhe Leisure**

- 6.1 Resources Committee, at its meeting on 24 August 2016, agreed revised criteria for considering all applications. Condition 1 of these criteria is that applications should not be for more than 50% of the total project cost.
- 6.2 Funding of £250,000 was allocated to Linnhe Leisure on 8 February 2017 subject to the success of other funding bids. A letter was received from the Company outlining that other funding bids had not been successful and asking for Condition 1 referred to above to be waived.
- 6.3 Committee may recall that the roof works were part of a wider project to undertake a significant refurbishment of the building. The Company has highlighting that without further external funding it does still require to undertake major repairs to the roof. Failure to effect repairs will place the Centre at risk of closure, with the liability for the building returning to the Council.
- 6.4 The Chair of this Committee, in conjunction with Group Leaders, agreed in April to waive condition 1 for applications to the Capital Discretionary Fund and that the requested funding be paid to Linnhe Leisure. Committee is asked to homologate that decision.

## **7. Care and Learning Capital Programme 2018/19 to 2022/23- Ainess Academy**

- 7.1 Planning approval for the new Academy was agreed on 17th April, and the focus of current activity is on progressing contractual agreements with Hub North Scotland for delivery of the project. As has previously been reported, the construction programme for the project has always been based upon March 2020 completion of the building, to meet Scottish Government requirements. The current work on contractual agreements has two key elements as outlined in sections 7.2 and 7.3 below.
- 7.2 The first element is an agreement for an advanced works package which comprises initial site preparation and setup works, including demolition of outbuildings and excavations. The scope of the package has still to be finalised, but is expected to be in the region of £2m. This agreement will allow early commencement of on-site works, pending finalisation of the full DBDA (Design, Build, Development Agreement) contract. The use of advanced work packages is common to many Hubco projects, with the Council also having undertaken a similar approach for the Wick Campus. The expected commencement of advanced works on site is June 2018.

- 7.3 The second element is finalisation of the full DBDA contract, which reflects the entire scope of the construction of the new school and community facilities, and once signed also subsumes the scope of the advanced works package. The sign off of the DBDA contract is programmed for July/August 2018. The expected cost of the DBDA contract is £33.1m. The Council in March agreed a budget for the Alness project of £35m which also includes direct Council costs not covered by the DBDA contract, including ICT provision, equipment and internal Council fees.
- 7.4 Committee is asked to agree to delegation arrangements for sign off of both the above agreements, and associated project documentation and submissions, given programme deadlines do not align with Committee dates. Delegation would be to either the Director of Development and Infrastructure or the Depute Chief Executive/Director of Corporate Resources, in consultation with either the Chair of the Environment, Development and Infrastructure Committee or the Chair of the Corporate Resources Committee.
- 7.5 The approach of entering into an advanced works package prior to signing off the full DBDA contract is not without risk to the project. Whilst failure to complete the project by 2020 may put into jeopardy the receipt of £14.7m of Scottish Government funding (conditional on project completion by March 2020) continuing with the approach outlined above does expose the Council to significant cost risk.
- 7.6 Commitment to the advanced works package, which remains to be finalised and costed, will be undertaken in advance of the final construction cost being known, and the final DBDA contract being entered into. As a result there is a risk of advanced works being progressed before there is certainty on the final affordability position. The nature of the advanced works agreement, being a simplified form of agreement, also provides the Council with less assurance around cost, cashflow, delay events and warranty of works.
- 7.7 There is also the risk of the Council being liable to meet the demobilising costs of the contractor after the Advanced Works have been completed and remobilising to commence the main contract works if there should be a time gap between the two sets of works.
- 7.8 These risks are mitigated to some extent by the relatively modest scope of the advanced works (in the context of the entire project cost) and that ultimately the advanced works scope will be subsumed by the full DBDA, once signed.
- 7.9 There has and continues to be close working between all parties, and the Council has been explicitly clear on its budget cap for the project. The delegation arrangements proposed for the full DBDA contract are predicated upon the project cost coming within the estimated budget, with any variation above the Council's affordability requiring further discussion and agreement by Committee.
- 7.10 Notwithstanding the risks relating to contractual matters there are other project specific risks relating to wildlife surveys and land title that may delay the commencement of works and have ensuing cost implications. Officers will provide appropriate updates on these matters to the delegated authority prior to the sign off of the DBDA contract.

- 7.11 The Care and Learning Service currently has its own project board that provides governance and oversight for all of the projects within the Care and Learning capital programme. Given the complexities of this particular project it is proposed that a project board, specific to this project and with appropriate representation from the Legal, Finance and Property services, is established immediately to oversee the successful delivery of the Alness Academy project with as minimal a risk as possible to the Council.

## **8. Implications**

- 8.1 Resource – The cost of financing borrowing falls upon the loans charges budget- part of the Council's revenue budget. The loans charge budget comprises two main elements- the 'principal' element reflects the repayment of the capital borrowed. The 'interest' element reflects that cost of financing that borrowing.

Under loans fund accounting rules Highland Council accounting policy is that the principal element of any repayment of borrowing begins in the year after that in which capital expenditure was incurred. As such capital projects paid for in 2017/18 will affect the principal element of the loans charges budget in 2018/19.

The other element of the loans charges budget relates to the actual interest costs on external borrowing. The Council's current treasury management strategy is for any new borrowing to be undertaken on a short term basis to take advantage of very low borrowing rates.

All borrowing does however have to be repaid and expenditure on any capital project will have a consequential impact on the Council's revenue budget in future years.

- 8.2 Risk- the ability to fund projects is determined by the capacity within the loans charges budget. Adverse movements in the Council's average cost of borrowing could restrict the total amount of capital funding available.
- 8.3 Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Gaelic – no specific implications

Designation: Director of Corporate Resources

Date: 17 May 2018

Author: Edward Foster, Head of Corporate Finance

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/73600/item\\_6 -  
\\_capital\\_expenditure\\_monitoring\\_report](https://www.highland.gov.uk/download/meetings/id/73600/item_6_-_capital_expenditure_monitoring_report)

<b>Capital Expenditure Monitoring Report - Service Summary</b>
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<b>1 April - 31st March 2018</b>
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**Table A: General Fund**

	Actual Net Near Final £000	Annual Net Budget £000	Year End Net Variance £000	Carry Forward/ Back £000	Year End Under/Over £000
<b>General Fund</b>					
Care and Learning	25,897	71,850	(45,953)	(46,236)	283
Chief Executive's Office	116	182	(66)	(66)	0
Community Services	18,564	17,571	993	(1,588)	2,581
Corporate Development	4,476	18,615	(14,139)	(12,100)	(2,039)
Development and Infrastructure	37,723	37,891	(168)	(6,759)	6,591
Discretionary Fund	1,529	1,555	(26)	(26)	0
<b>Total General Fund</b>	<b>88,305</b>	<b>147,664</b>	<b>(59,359)</b>	<b>(66,775)</b>	<b>7,416</b>
<b>Funding</b>					
General Capital Grant	36,598	36,598	0	0	0
Capital Receipts	2,279	750	1,529	0	1,529
Self -Financing Projects	5,865	5,865	0	0	0
Borrowing	43,563	44,453	(890)	0	(890)
Planned Over Programming and Slippage - Borrowing	0	59,998	(59,998)	(66,775)	6,777
<b>Total General Fund</b>	<b>88,305</b>	<b>147,664</b>	<b>(59,359)</b>	<b>(66,775)</b>	<b>7,416</b>

**Capital Expenditure Monitoring Report - Housing Revenue Account**

Appendix 2

**1 April - 31st March 2018****Table B: Housing Revenue Account**

	Actual Near Final £000	Annual Budget £000	Year End Variance £000
Gross Expenditure Budget	38,065	46,930	(8,865)
<b>Funding</b>			
Sale of Council House Receipts	4,746	0	4,746
Government Grant Income	7,992	10,311	(2,319)
RHI Income	316	0	316
Sale of LIFT Properties	52	0	52
CFCR	5,103	3,439	1,664
Landbank Contribution	2,577	930	1,647
Borrowing	17,279	32,250	(14,971)
<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 2017 - 31st March 2018</b>
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<b>Capital Plan</b>	2017/18 £000
Approved plan 2017/18	123,234
Net slippage brought forward from 2016/17	29,629
Net overspends brought forward from 2016/17	<u>(8,227)</u>
<b>Capital plan at 1 April 2017</b>	<b><u>144,636</u></b>
Net additional to Programme - Extra Investment in Roads	1,000
Portree Gaelic School	2,027
Roundings	<u>1</u>
<b>Capital plan at 31st March 2018 per Appendix 1</b>	<b><u><u>147,664</u></u></b>