

HIGHLAND COUNCIL

Agenda Item	6.
Report No	RES/52/18

Committee: Corporate Resources Committee

Date: 21 November 2018

Report Title: Corporate Capital Monitoring Report to 30 September 2018

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 in the first half of financial year 2018/19. The report also provides a forecast year end position.
- 1.2 During the first half of the year the Council has incurred £28.665m of capital expenditure. This investment forms part of the revised five year capital programme, agreed in March of this year, encompassing over £490m of capital investment.
- 1.3 Forecast spend for the full financial year is £102.726m which reflects a net underspend of £1.701m against programmed expenditure.
- 1.4 Borrowing of £56.608m will be required in the current year to support the forecast level of expenditure. 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 9.86% of the total revenue spend in 2017/18.

2. Recommendations

- 2.1 Members are invited to consider the financial position of the General Fund and HRA Capital Programmes as at 30 September 2018.

3. Capital Expenditure

- 3.1 **Appendix 1** shows the General Fund net capital budget for 2018/19 of £104.427m, net expenditure to date of £28.665m, and an estimated net underspend of £1.701m on the programme for the financial year.
- 3.2 This underspend solely comprises slippage or acceleration on projects which will be carried over to future financial years.
- 3.3 **Appendix 3** reconciles the capital plan approved by Highland Council on 7 March 2018 to the current position, taking account of slippage on certain projects brought forward from 2017/18. As the 2017/18 capital outturn was lower than had been anticipated when the capital programme was set, the slippage carried forward into 2018/19 is higher than the expected figure that was included in the revised programme. There is no funding implication as a result of this change.
- 3.4 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 is financed in the current year. The Council will receive a capital grant of £45.368m from the Scottish Government - this reflects grant funding specifically for use in financing capital expenditure. Of that figure £9.583m relates to funding for specific flood schemes.
- 4.2 The Council is forecasting to receive capital receipts in the year of £0.750m- this reflects income from the disposal of assets.
- 4.3 The largest element of funding for the capital programme is borrowing. In total borrowing of £56.608m would be required to fund the forecast level of expenditure for 2018/19.

5. Housing Revenue Account

- 5.1 As detailed in **Appendix 2** net expenditure for the year to date is £17.227m against an annual budget of £51.436m. Forecast spend for the year is £45.810m leading to a net underspend of £5.626m.
- 5.2 The principal reason for the slippage on the mainstream element of the programme is the prioritisation of project management resources on completing the outstanding 2017/18 programme works, including the retendering of several projects to provide value for money. The slippage on the Council house building element is a combination of delays in statutory consents, and high tender returns resulting in retendering delays.

6. Implications

- 6.1 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 paying back 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 2018/19 will affect the principal element of the loans charges budget in 2019/20.

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.

- 6.2 Risk- Any overspends on capital projects would either need to be funded from additional borrowing or by reducing spend on other programmed projects.

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.

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

Designation: Director of Corporate Resources / Depute Chief Executive

Date: 9th November 2018

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/73257/item_3_capital_programme_201819_to_202223

[https://www.highland.gov.uk/download/meetings/id/74411/item_6 -
_capital_expenditure_monitoring_report](https://www.highland.gov.uk/download/meetings/id/74411/item_6_-_capital_expenditure_monitoring_report)

Capital Expenditure Monitoring Report - Service Summary
--

1 April - 30th September 2018

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
General Fund						
Care and Learning	2,385	43,593	39,193	(4,400)	(4,400)	0
Community Services	8,805	19,774	19,164	(610)	(610)	0
Corporate Resources	4,740	16,705	15,079	(1,626)	(1,626)	0
Development and Infrastructure	12,735	23,480	28,415	4,935	4,935	0
Discretionary Fund	0	875	875	0	0	0
Total General Fund	28,665	104,427	102,726	(1,701)	(1,701)	0
Funding						
General Capital Grant	0	45,368	45,368	0	0	0
Capital Receipts	0	750	750	0	0	0
Self -Financing Projects	0	0	0	0	0	0
Borrowing	28,665	58,309	58,309	0	0	0
Planned Over Programming and Slippage - Borrowing	0	0	(1,701)	(1,701)	(1,701)	0
Total General Fund	28,665	104,427	102,726	(1,701)	(1,701)	0

Capital Expenditure Monitoring Report - Housing Revenue Account

Appendix 2

1 April - 30th September 2018

Table B: Housing Revenue Account

	Actual Year to Date £000	Annual Budget £000	Year End Outturn £000	Year End Variance £000
Gross Expenditure Budget	17,227	51,436	45,810	(5,626)
Funding				
Sale of Council House Receipts	473	0	700	700
Government Grant Income	2,820	13,194	10,440	(2,754)
RHI Income	156	0	289	289
Sale of LIFT Properties	242	1,742	1,753	11
CFCR	0	4,648	4,648	0
Landbank Contribution	0	1,162	990	(172)
Borrowing	13,536	30,690	26,990	(3,700)
Total HRA	0	0	0	0

Appendix 3

Capital Expenditure Monitoring Report - Plan Update

1 April - 30th September 2018

Capital Plan	2016/17 £000
Approved plan 2018/19	58,892
Roundings	(1)
Net slippage brought forward from 2017/18	43,501
Capital plan at 1 April 2018	102,392
Adjustment to Flooding Grant for 18-19	2,035
Increase in General Capital Grant	4,383
Reduction in borrowing	(4,383)
Capital plan at 30th September 2018 per Appendix 1	104,427