

<b>Agenda Item</b>	<b>6</b>
<b>Report No</b>	<b>RES/14/19</b>

## **HIGHLAND COUNCIL**

**Committee:** Resources Committee

**Date:** 23<sup>rd</sup> May 2019

**Report Title:** Near Final Corporate Capital Monitoring Report 2018/19

**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 financial year 2018/19. The report also provides detail of how that capital expenditure was funded. The position is described 'near final' pending the completion of the year-end accounts and audit process.
- 1.2 During the year the Council has incurred £96.201m of capital expenditure. This investment forms part of the revised five year capital programme, agreed in March 2018, encompassing over £490m of capital investment. This level of investment is £14.349m lower than the amount budgeted as project spend in 2018/19 has not met the profile assumed in the capital programme.
- 1.3 Borrowing of £50.335m 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 10.1% of the total revenue spend in 2018/19.

### **2. Recommendations**

- 2.1 Members are invited to consider the near final 2018/19 financial position of the General Fund and HRA Capital Programmes.

### 3. Capital Expenditure

- 3.1 **Appendix 1** shows the General Fund net capital budget for 2018/19 of £110.550m and net expenditure of £96.201m. Expenditure is therefore £14.349m below the budgeted level and reflects spending on projects not matching the profile assumed when setting the revised programme in March 2018. This underspend will be carried over to future financial years to match the actual profile of capital project spend.
- 3.2 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.
- 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.

### 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 £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 has received capital receipts in the year of £0.498m- 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 £50.335m is required to fund the capital expenditure for 2018/19. Of this sum £6.123m relates to self-funding projects, i.e. projects which generate an income or deliver expenditure savings which cover the cost of the associated borrowing.

### 5. Housing Revenue Account

- 5.1 As detailed in **Appendix 2** net expenditure for the year to date is £41.952m against an annual budget of £51.436m. This results in an underspend of £9.484m.
- 5.2 The mainstream element of the programme is showing slippage as project management resources has been focussed on completing the outstanding 2017/18 programme works, including the retendering of several projects to provide value for money. There is slippage on the Council house building element resulting from 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 charges 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 a new asset is brought into use. As such capital projects paid for in 2018/19 will affect the principal element of the loans charges budget in 2019/20 and beyond.

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.

The position reported reflects the near final position for 2018/19 and these figures will form part of the Council’s unaudited annual accounts. There remains a risk that matters will be identified as part of the audit of those accounts that will require an adjustment to the reported position.

- 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: 16<sup>th</sup> May 2019

Author: Edward Foster, Head of Corporate Finance and Commercialism

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/73257/item_3_capital_programme_201819_to_202223)

[https://www.highland.gov.uk/download/meetings/id/75261/item\\_6\\_-\\_capital\\_expenditure\\_monitoring](https://www.highland.gov.uk/download/meetings/id/75261/item_6_-_capital_expenditure_monitoring)

<b>Capital Expenditure Monitoring Report - Service Summary</b>
--

<b>1 April - 31st March 2019</b>
----------------------------------

**Table A: General Fund**

	Actual Near Final Outturn £000	Annual Net Budget £000	Year End Net Variance £000	Carry Forward/ Back £000	Anticipated Year End Under/Over £000
<b>General Fund</b>					
Care and Learning	34,662	43,593	(8,931)	(8,931)	0
Community Services	18,338	19,910	(1,572)	(1,572)	0
Corporate Resources	9,452	17,018	(7,566)	(7,566)	0
Development and Infrastructure	33,749	29,460	4,289	4,289	0
Discretionary Fund	0	569	(569)	(569)	0
<b>Total General Fund</b>	<b>96,201</b>	<b>110,550</b>	<b>(14,349)</b>	<b>(14,349)</b>	<b>0</b>
<b>Funding</b>					
General Capital Grant	45,368	45,368	0	0	0
Capital Receipts	498	750	(252)	(252)	0
Self -Financing Projects	6,123	6,123	0	0	0
Borrowing	44,212	58,309	(14,097)	(14,097)	0
Planned Over Programming and Slippage - Borrowing	0	0	0	0	0
<b>Total General Fund</b>	<b>96,201</b>	<b>110,550</b>	<b>(14,349)</b>	<b>(14,349)</b>	<b>0</b>

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

Appendix 2

**1 April - 31st March 2019****Table B: Housing Revenue Account**

	Actual Near Final £000	Annual Budget £000	Year End Variance £000
Gross Expenditure Budget	41,952	51,436	(9,484)
<b>Funding</b>			
Sale of Council House Receipts	725	0	725
Government Grant Income	7,579	13,194	(5,615)
RHI Income	296	0	296
Sale of LIFT Properties	2,215	1,742	473
CFCR	2,773	4,648	(1,875)
Landbank Contribution	876	1,162	(286)
Borrowing	27,488	30,690	(3,202)
<b>Total HRA</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Capital Expenditure Monitoring Report - Plan Update</b>
--

<b>1 April - 31st March 2019</b>
----------------------------------

<b>Capital Plan</b>	£000
Approved plan 2018/19	58,892
Roundings	(1)
Net slippage brought forward from 2017/18	43,501
<b>Capital plan at 1 April 2018</b>	<b>102,392</b>
Adjustment to Flooding Grant for 18-19	2,035
Self Financing projects - Solar PV	94
Self Financing projects - Whin park hydro	49
Self Financing projects - Bridge Street	4,193
Self Financing projects - Local Full Fibre Network	1,787
<b>Capital plan at 31st March 2019 per Appendix 1</b>	<b>110,550</b>