

Agenda Item	<b>7.</b>
Report No	<b>RES/26/19</b>

## THE HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 28<sup>th</sup> August 2019

**Report Title:** Corporate Capital Monitoring Report to 30th June 2019

**Report By:** Executive Chief Officer- Finance and Resources

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

- 1.1 This report provides a summary of the capital expenditure made by the Council in the first quarter of financial year 2019/20. The report also provides a forecast year end position.
- 1.2 During the first quarter of the year the Council has incurred net capital expenditure of £4.645m. This net position reflects £14.232m of capital expenditure, offset by specific capital funding received for early years of £9.587m. This capital investment forms part of the revised five year capital programme, agreed in March 2018, encompassing over £490m of capital investment.
- 1.3 Forecast spend for the full financial year is £109.847m which reflects a net underspend of £9.031m against programmed expenditure. This underspend will be carried forward to 2020/21 as it reflects spend on projects not matching the profile assumed when the capital budget was set in 2018.
- 1.4 Borrowing of £62.020m will be required 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 10.16% of the total revenue spend in 2018/19.

### **2. Recommendations**

- 2.1 Members are asked to:
  - i. Consider the financial position of the General Fund and HRA Capital Programmes as at 30 June 2019;
  - ii. Extend the commitment of £0.250m to the Elsie Normington Foundation by a further year with a full review to be taken in August 2020 should funding draw down not have commenced by then;

- iii. Approve £0.150m of capital expenditure on the Inverness Coach and Lorry Park with the associated loans charges and running costs to be fully funded by income generated by the facility.

### **3. Implications**

- 3.1 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 the 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 2019/20 will affect the principal element of the loans charges budget from 2020/21 at the earliest.

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 either a short term basis to take advantage of very low borrowing rates or over a longer term should interest rates be at a favourable level.

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.

- 3.2 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.

In relation to the lorry parking proposal, the project is deemed affordable based on an assumed level of income being generated by the project that will be sufficient to cover both running costs and the costs of borrowing. A failure to generate sufficient income to meet those costs will result in a net cost to the Council's revenue budget.

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

#### **4. Capital Expenditure**

- 4.1 **Appendix 1** shows the General Fund net capital budget for 2019/20 of £118.878m, net expenditure to date of £4.645m, and an estimated net underspend of £9.031m on the programme for the financial year. The net spend position reflects £14.232m of capital expenditure, offset by specific capital funding received for early years of £9.587m.
- 4.2 The underspend solely comprises slippage on projects which will be carried over to future financial years.
- 4.3 **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 2018/19. In addition an adjustment has been made for flood project funding which was assumed to be specific grant funding within the capital programme but is now included in the overall capital grant settlement.
- 4.4 The Environment, Development and Infrastructure Committee 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.

#### **5. Funding of the capital programme**

- 5.1 The funding section of the table in **Appendix 1** shows how the capital programme is financed in the current year. The Council is expecting to receive a capital grant of £47.077m from the Scottish Government- this reflects grant funding specifically for use in financing capital expenditure.
- 5.2 The Council is forecasting to receive capital receipts in the year of £0.750m- this reflects income from the disposal of assets.
- 5.3 The largest element of funding for the capital programme is borrowing. In total borrowing of £62.020m would be required to fund the forecast level of expenditure for 2019/20.

#### **6. Housing Revenue Account**

- 6.1 As detailed in **Appendix 2** net expenditure for the year to date is £7.060m against an annual budget of £54.388m. Forecast spend for the year is £51.885m leading to a net underspend of £2.503m.
- 6.2 The net variance comprises net slippage of £0.052m and a net overspend of £0.128m on the mainstream element of the programme and net slippage of £1.805m and an underspend of £0.774m in the Council house building programme. The slippage on the Council house building element is a combination of delays in statutory consents, and high tender returns resulting in retendering delays.

#### **7. Capital Discretionary Fund**

- 7.1 As part of the March 2018 programme Members agreed not to continue allocating funding to the capital discretionary fund. As such no new bids have been accepted for the fund since then. Any commitments made by the fund prior to that point continue to be honoured and the approved programme therefore agreed a one-off sum of £1.327m to reflect those previously made commitments.

7.2 As at the 30<sup>th</sup> June £0.540m of committed expenditure remains to be drawn down as outlined in the table below:

Description	Approved	Total Approved £	Drawn down to date £	Outstanding Commitment £
South Loch Ness Trail	HC 10/03/16	72,000	-60,000	12,000
Cromarty Harbour Trust	HC 10/03/16	50,000	-21,445	28,555
Elsie Normington Foundation	Resources 24/08/16	250,000	0	250,000
Linnhe Leisure t/a Nevis Centre	Resources 08/02/17	250,000	0	250,000
				<b>540,555</b>

7.3 All funds, except those relating to the Elsie Normington Foundation, are expected to be fully drawn down in the remainder of the year.

7.4 When applications were made previously to the Capital Discretionary Fund it was usual for the Council to commit to funding on the proviso that the project to which funds had been committed began within three years of the date of commitment. In the case of the Elsie Normington Foundation the three year period has now elapsed and funds have not yet been drawn down. Correspondence outlining the causes for the delay in the project can be seen at **Appendix 4**.

7.5 Committee is asked to extend the commitment of £0.250m to the Elsie Normington Foundation by a further year with a full review to be taken in August 2020 should funding draw down not have commenced by then.

## 8. Income Generation proposal- Inverness coach and lorry park

8.1 A proposal has been drawn up by Community Services to refurbish and upgrade this facility to provide overnight secure Coach and Lorry Parking. The facility will support tourism and Inverness Coach Friendly status and reduce coaches parking overnight on public roads. 26 parking bays will be allocated to HGV/Coach Pay & Display with 20 bays of short stay Pay and Display.

8.2 The total cost capital cost of the project is forecast to be £0.150m. A capital sum of this amount is equivalent to an annual loans charge of £7,400- covering both interest and principal elements. The additional annual running costs of the facility are forecast to be £3,438- covering ticket machines and other infrastructure. Management of the facility will be covered by existing resources. In total, additional annual costs linked to this proposal are expected to be £10,838.

8.3 The planned tariff for the facility is £1 for up to 2 hours, £5 for up to 6 hours and £10 for up to 24 hours. A number of scenarios for occupancy of the facility have been forecast, with the most likely scenarios anticipated to generate annual income in the region of £19,000 to £29,000.

8.4 The expected annual surplus between costs and income will be in the region of £8,162 to £18,162. This sum will contribute towards the delivery of Community Services car parking income targets which are currently showing a substantial shortfall.

- 8.5 In a situation where borrowing costs rise by 1% and there is a 25% increase in total project capital cost the annual loans charge is anticipated to rise to £10,500. Even in this scenario the lowest end of the forecast income range would still comfortably cover annual costs.
- 8.6 Members are asked to approve £0.150m of capital expenditure on the Inverness Coach and Lorry Park with the associated loans charges and running costs to be fully funded by income generated by the facility.

Designation: Executive Chief Officer- Finance and Resources

Date: 15<sup>th</sup> August 2019

Author: Edward Foster, Head of Corporate Finance

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/75583/item\\_7\\_capital\\_expenditure\\_monitoring\\_report](https://www.highland.gov.uk/download/meetings/id/75583/item_7_capital_expenditure_monitoring_report)

[https://www.highland.gov.uk/download/meetings/id/70711/item\\_19c\\_capital\\_discretionary\\_fund -](https://www.highland.gov.uk/download/meetings/id/70711/item_19c_capital_discretionary_fund_-_elsie_normington_foundation_%E2%80%93_the_haven_centre_%E2%80%93_application_to_capital_discretionary_budget_201617_and_review_of_option_to_purchase_land)

[\\_elsie normington foundation %E2%80%93 the haven centre %E2%80%93 application to capital discretionary budget 201617 and review of option to purchase la](https://www.highland.gov.uk/download/meetings/id/70711/item_19c_capital_discretionary_fund_-_elsie_normington_foundation_%E2%80%93_the_haven_centre_%E2%80%93_application_to_capital_discretionary_budget_201617_and_review_of_option_to_purchase_land)

[nd](https://www.highland.gov.uk/download/meetings/id/70711/item_19c_capital_discretionary_fund_-_elsie_normington_foundation_%E2%80%93_the_haven_centre_%E2%80%93_application_to_capital_discretionary_budget_201617_and_review_of_option_to_purchase_land)

<b>Capital Expenditure Monitoring Report - Service Summary</b>
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<b>1 April - 30th June 2019</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	(2,584)	57,127	49,377	(7,750)	(7,750)	0
Community Services	4,288	14,931	15,897	966	966	0
Corporate Resources	1,889	10,801	9,605	(1,196)	(1,196)	0
Development and Infrastructure	1,052	35,478	34,427	(1,051)	(1,051)	0
Discretionary Fund	0	541	541	0	0	0
<b>Total General Fund</b>	<b>4,645</b>	<b>118,878</b>	<b>109,847</b>	<b>(9,031)</b>	<b>(9,031)</b>	<b>0</b>
<b>Funding</b>						
General Capital Grant	11,769	47,077	47,077	0	0	0
Capital Receipts	69	750	750	0	0	0
Self -Financing Projects	0	0	0	0	0	0
Borrowing	(7,193)	71,051	71,051	0	0	0
Planned Over Programming and Slippage - Borrowing	0	0	(9,031)	(9,031)	(9,031)	0
<b>Total General Fund</b>	<b>4,645</b>	<b>118,878</b>	<b>109,847</b>	<b>(9,031)</b>	<b>(9,031)</b>	<b>0</b>

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

Appendix 2

**1 April - 30th June 2019**

**Table B: Housing Revenue Account**

	Actual Net Year to Date £000	Annual Net Budget £000	Year End Estimated Net Outturn £000	Year End Net Variance £000
Gross Expenditure Budget	7,060	54,388	51,885	(2,503)
<b>Funding</b>				
Sale of Council House Receipts	92	0	92	92
Government Grant Income	1,216	18,879	18,579	(300)
RHI Income	182	0	675	675
Sale of LIFT Properties	166	0	166	166
CFCR	0	2,456	3,013	557
Landbank Contribution	0	1,754	1,754	0
Borrowing	5,404	31,299	27,606	(3,693)
<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 - 30th June 2019</b>
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<b>Capital Plan</b>	2019/20 £000
Approved plan 2019/20	95,655
Roundings	0
Net slippage brought forward from 2018/19	14,321
<b>Capital plan at 1 April 2019</b>	<b>109,976</b>
Adjustment to Flooding Grant for 19-20	8,902
<b>Capital plan at 30th June 2019 per Appendix 1</b>	<b><u>118,878</u></b>



Children  
and  
Young  
People  
love  
to  
Play  
and  
Socialise

Some  
need  
more  
Support

ENF  
provides  
the  
support  
that  
they  
need



Ed Foster  
Head of Corporate Finance  
Highland Council  
Glenurquhart Road  
Inverness

09.06.19

Dear Mr Foster

### **CAPITAL DISCRETIONARY GRANT FOR ELSIE NORMINGTON FOUNDATION**

I contacted Derek Yule recently and he suggested that I write to yourself, since you are taking over the post of HC Head of Finance.

You may know, that ENF have been busy fundraising for the past few years with the vision to build a specialist play and respite facility for our most severely disabled young in the Highlands. A grant of £250k was approved by Highland Council and was given three years to raise the total money and draw it down.

We are not yet in a position to draw this down, due to the fact that there have been considerable delays with the flood prevention scheme in Smithton / Culloden area design issues, so detailed planning permission has not yet been secured. As a result, we cannot go ahead with the purchase of the land until these two issues have been secured. At present, we have approximately 30 'live funding applications' all waiting in the wings until these issues are resolved, with some funders requesting that we raise £2 million before they will commit funds to our project.

It is of high importance that this HC funding of £250K is kept secure for ENF for the following reasons:

1. The Council's pledge has helped to secure other large funders to contribute e.g. Robertson Trust £383K and Hugh Fraser £75K
2. The Council's contribution has helped with HIE discussions and which could lead to, at the very least, a match funding bid.
3. The Council's contribution has helped and will help with our Big Lottery application.
4. The Council's pledge of £250K is assisting us to reach 50% - which would then unlock a number of other trust bids.
5. We have reached £1.3 million of donations and pledges.



6. We have the weekly support of the Inverness Courier and the wider public in looking to get this amazing integrated development for young people with severe and complex needs and for their carers.

7. There is huge public support for our project and many donations and fundraisers done by large amounts of people in community

I trust that this pledge will be retained for us until we have reached our funding target. I look forward to hearing from you,

Yours sincerely

A handwritten signature in black ink that reads "Elsie Normington". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Elsie Normington (BEM)  
Chairperson