

Agenda Item	7.
Report No	RES/38/19

THE HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 20th November 2019

Report Title: Corporate Capital Monitoring Report to 30th September 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 two quarters of financial year 2019/20. The report also provides a forecast year end position.
- 1.2 During the first two quarters of the year the Council has incurred net capital expenditure of £14.054m. This net position reflects £36.550m of capital expenditure, offset by specific capital funding received for early years of £22.496m. 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 £106.153m which reflects a net underspend of £12.725m 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 £58.326m 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 30th September 2019;
 - ii. Approve £0.420m of capital expenditure on Storr Car Park Phase 2 with the associated loans charges and running costs to be fully funded by income generated by car parking charges from the whole Storr site.

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 car 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 £14.054m, and an estimated net underspend of £12.725m on the programme for the financial year. The net spend position reflects £35.550m of capital expenditure, offset by specific capital funding received for early years of £22.496m.
- 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 £58.326m 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 £19.090m against an annual budget of £54.388m. Forecast spend for the year is £44.750m leading to a net underspend of £9.638m.
- 6.2 The principal reasons for the slippage on the mainstream element are delays to progressing works to the site mobilisation phase. The slippage on the Council house building element is a combination of delays in statutory consents, and high tender returns resulting in retendering delays. The underspend has arisen due to the tenure mix changing, resulting in a reduction in the number of properties built for council housing.

7. Income Generation Proposal – Storr Car Park Phase 2

- 7.1 There are 4 elements to develop works at the Old Man of Storr, 2 phases of development to Storr Car Park, construction of toilet facilities and woodland restoration. Funding for Phase 1 of the car park, toilet facilities and woodland restoration have come from various sources consisting Visit Scotland through the Rural Tourism Infrastructure Fund, LEADER and the Council's capital programme. Phase 2 of the car park is to be fully funded by income generated from both phases of the car park.

- 7.2 Phase 2 of the proposal has been drawn up by Community Services to create car parking facilities at Storr Car Park. This facility will support tourism and alleviate traffic management issues at the Old Man of Storr. This phase consists of 50 long stay bays.
- 7.3 The total capital cost of the project is forecast to be £0.420m. A capital sum of this amount is equivalent to an annual loans charge of £20,700 – covering both interest and principal elements. The additional annual running costs of the facility are forecast to be £5,000 – 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 £25,700.
- 7.4 The planned tariff for the facility is £3 for up to 3 hours, £5 for up to 6 hours and £7 for up to 12 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 £18,000 to £29,000. Phase 1 of the car park is expected to generate income in the region of £73,000 to 96,000.
- 7.5 Combining the income streams of both phases will generate more than sufficient income to meet both capital borrowing costs and ongoing infrastructure maintenance costs.
- 7.6 Members are asked to approve £0.420m of capital expenditure on Phase 2 works to Storr Car 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: 1st November 2019

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/76042/item_6_capital_expenditure_monitoring_report

Capital Expenditure Monitoring Report - Service Summary
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1 April - 30th September 2019

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	(3,761)	57,127	47,377	(9,750)	(9,750)	0
Community Services	7,416	14,931	15,397	466	466	0
Corporate Resources	4,535	11,080	9,914	(1,166)	(1,166)	0
Development and Infrastructure	5,864	35,478	33,203	(2,275)	(2,275)	0
Discretionary Fund	0	262	262	0	0	0
Total General Fund	14,054	118,878	106,153	(12,725)	(12,725)	0
Funding						
General Capital Grant	23,538	47,077	47,077	0	0	0
Capital Receipts	720	750	750	0	0	0
Self -Financing Projects	0	0	0	0	0	0
Borrowing	(10,204)	71,051	71,051	0	0	0
Planned Over Programming and Slippage - Borrowing	0	0	(12,725)	(12,725)	(12,725)	0
Total General Fund	14,054	118,878	106,153	(12,725)	(12,725)	0

Capital Expenditure Monitoring Report - Housing Revenue Account			
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1 April - 30th September 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	19,090	54,388	44,750	(9,638)
Funding				
Sale of Council House Receipts	114	0	114	114
Government Grant Income	5,309	18,879	18,579	(300)
RHI Income	175	0	175	175
Sale of LIFT Properties	206	0	1,156	1,156
CFCR	0	2,456	2,873	417
Landbank Contribution	0	1,754	420	(1,334)
Borrowing	13,286	31,299	21,433	(9,866)
Total HRA	0	0	0	0

Capital Expenditure Monitoring Report - Plan Update
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1 April - 30th September 2019

Capital Plan	2019/20 £000
Approved plan 2019/20	95,655
Roundings	0
Net slippage brought forward from 2018/19	14,321
Capital plan at 1 April 2019	109,976
Adjustment to Flooding Grant for 19-20	8,902
Capital plan at 30th September 2019 per Appendix 1	<u>118,878</u>