

Agenda Item	4.
Report No	RES/10/20

THE HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 3rd June 2020

Report Title: Near Final Corporate Capital Monitoring Report 2019/20

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 financial year 2019/20. 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 £104.308m 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 £14.570m lower than the amount budgeted as project spend in 2019/20 has not met the profile assumed in the capital programme.
- 1.3 Borrowing of £56.343m 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 2019/20.

2. Recommendations

- 2.1 Members are invited to consider the near final 2019/20 financial position of the General Fund and HRA Capital Programmes.

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's 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.

The position reported reflects the near final position for 2019/20 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.

- 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 and net expenditure of £104.308m. Expenditure is therefore £14.570m 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.
- 4.2 The underspend has decreased by £6.269m since the position reported at Quarter 3. That decrease is due to an improving profile of spend in the last quarter of the financial year across a number of projects under the Development and Infrastructure element of the programme.
- 4.3 The **Care and Learning** near final outturn for net expenditure is £49.332m, representing 86.4% of the 2019/20 programmed figure, leading to a net variance of £7.795m. The net variance is represented by slippage of £13.046m and accelerated expenditure of £5.251m. £10.7m of the slippage is in respect of Alness Academy (£2.2m); Milton of Leys Primary School (£1.3m); Health and Social Care Programme (£2.5m); Early Learning and Childcare building programme (£2.8m); and School Estate Investment Programme (£1.9m). The bulk of the accelerated expenditure is £2.5m on Merkinch Primary School and £1.7m on Inverness High School refurbishment project.
- 4.4 The **Community Services** near final outturn for net expenditure is £14.324m, representing 96% of the 2019/20 programmed figure, leading to a net variance of £0.595m. The net variance is represented by slippage of £3.398m and accelerated expenditure of £2.803m. £1.9m of the slippage is in respect of the roll-out of LED lighting works (£1.2m); Roads and Bridges Structural Works (£1m); and extensions to burial grounds (£0.6m). The bulk of the accelerated expenditure is £1.8m on vehicle and plant purchases and £1m on car park improvement works and equipment where agreement has been received in rolling out car park charging.
- 4.5 The **Corporate Services** near final outturn for net expenditure is £10.784m, representing 99.2% of the 2019/20 programmed figure, leading to a net variance of £0.086m.
- 4.6 The **Development and Infrastructure Service** near final outturn for net expenditure is £29.868m, representing 84.2% of the 2019/20 programmed figure, leading to a net variance of £5.6m. The net variance is represented by slippage of £18.688m and accelerated expenditure of £13.088m. £17.2m of the slippage is in respect of major flood works, 80% grant funded from the Scottish Government (£7.9m); Waste Management Strategy and Landfill Site Restoration programme (£7.9m); and major road and bridge schemes (£1.4m). The bulk of the accelerated expenditure is £2.3m contribution to the cost of the new Inverness Justice Centre; £2.9m on Public Sector Housing Grants; £3m for emergency property works and property rationalisation in Dingwall and Inverness; £2.2m on major road and bridge schemes; and £0.9m of design works for the Uig Ferry Terminal.
- 4.7 **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.

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 has received a capital grant of £47.077m from

the Scottish Government- this reflects grant funding specifically for use in financing capital expenditure. Of that figure £8.902m relates to funding for specific flood schemes.

- 5.2 The Council has received capital receipts in the year of £0.888m- 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 £56.343m is required to the capital expenditure for 2019/20.

6. Housing Revenue Account

- 6.1 As detailed in **Appendix 2** net expenditure for the financial year 2019/20 is £50.768m against an annual budget of £54.388m. This results in an underspend of £3.620m.
- 6.2 The mainstream element of the programme is showing marginal slippage attributable to COVID-19, however the majority relates to Project Management work being programmed over two year programme 2019-21. Spreading the programme over the two year period allowed the Council and Contractors to avoid high peaks in demand and inflated tender costs. It is now reasonable to say that all works have now slipped due to the current situation. It is hoped to complete majority of projects within 2020-21 but this will be potentially impacted by further delays.
- 6.3 There is minimal slippage on the Council house building element, however there were 18 individual house purchases resulting in an overspend of £2.3m against a budget of £1.320m which will be met through the overall Council housing building programme.

Designation: Executive Chief Officer- Finance and Resources

Date: 17th May 2020

Author: Mike Mitchell, Services Finance Manager

Background Papers:

https://www.highland.gov.uk/download/meetings/id/76370/item_7_corporate_capital_monitoring_report_to_31_december_2019

Capital Expenditure Monitoring Report - Service Summary
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1 April - 31st March 2020

Table A: General Fund

	Actual Net Near Final £000	Annual Net Budget £000	Year End Net Variance £000	Carry Forward/ Back £000	Anticipated Year End Under/Over £000
General Fund					
Care and Learning	49,332	57,127	(7,795)	(7,795)	0
Community Services	14,324	14,919	(595)	(595)	0
Corporate Resources	10,784	10,870	(86)	(86)	0
Development and Infrastructure	29,868	35,468	(5,600)	(5,600)	0
Discretionary Fund	0	494	(494)	(494)	0
Total General Fund	104,308	118,878	(14,570)	(14,570)	0
Funding					
General Capital Grant	47,077	47,077	0	0	0
Capital Receipts	888	750	138	0	138
Self -Financing Projects	0	0	0	0	0
Borrowing	56,343	71,051	(14,708)	(14,708)	0
Planned Over Programming and Slippage - Borrowing	0	0	0	0	0
Total General Fund	104,308	118,878	(14,570)	(14,708)	138

Capital Expenditure Monitoring Report - Housing Revenue Account

Appendix 2

1 April - 31st March 2020**Table B: Housing Revenue Account**

	Actual Net Near Final £000	Annual Net Budget £000	Year End Net Variance £000
Gross Expenditure Budget	50,768	54,388	(3,620)
Funding			
Sale of Council House Receipts	230	0	230
Government Grant Income	12,400	18,879	(6,479)
RHI Income	317	0	317
Sale of LIFT Properties	1,484	0	1,484
CFCR	2,015	2,456	(441)
Landbank Contribution	1,330	1,754	(424)
Borrowing	32,992	31,299	1,693
Total HRA	0	0	0

Capital Expenditure Monitoring Report - Plan Update
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1 April - 31st March 2020

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	<u>109,976</u>
Adjustment to Flooding Grant for 19-20	8,902
Capital plan at 31st March 2020 per Appendix 1	<u><u>118,878</u></u>