

Agenda Item	5
Report No	RES/02/21

THE HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 25th February 2021

Report Title: Corporate Capital Monitoring to 31st December 2020

Report By: Executive Chief Officer – Resources and Finance

1. Purpose/Executive Summary

- 1.1 This report provides Members with details of capital spend in the first three quarters of financial year 2020/21. Due to the impacts of the coronavirus and lockdown in the early part of the financial year actual spend to date is considerably less than would otherwise have been expected.
- 1.2 Overall capital spend in the first three quarters of the year totalled £49.920m. This spend to date is offset by specific project income received of £37.560m. Net capital spend for the first three quarters of the capital year is therefore £12.360m.
- 1.3 Construction work resumed on suspended projects from mid-June onwards in a phased manner in line with the Scottish Government and construction industry guidance. Additional costs are arising due to the suspension of work, additional measures necessary to allow resumption and the subsequent reduced productivity as work progresses.
- 1.4 As well as the impact on live construction projects, there are potential additional costs for projects at design or tender stage due to the additional site measures that will be required, potential supply chain problems, and associated inflationary and market pressures.
- 1.5 At the December 2020 of the Highland Council (held in January 2021) Members considered an update report on the 2018/19 to 2022/23 capital programme. That report provided a reprofiled version of the programme to reflect the impact of Covid 19, and other factors, on the overall cost and profile of the agreed programme.

2. Recommendations

- 2.1 Members are asked to:
- i) Note the contents of this report

3. Implications

- 3.1 Resource- As outlined in this report the impact of Covid on the capital programme is expected to lead to increased costs and extended programme timescales. The slippage in delivery timescales for the current programme could mitigate the cost impact over the programme period but will result in cost slipping into 2023/24 and beyond, limiting capacity for investment in new capital projects from that point onwards.

In the current financial year capital spend is expected to be lower than budgeted and therefore a lower amount of borrowing is likely to be required to finance that investment. This may help mitigate the lower than budgeted level of capital grant that forms part of the capital financial settlement for the current year.

- 3.2 Risk- The impact of potential further lockdowns provides a significant additional risk to the delivery of the current programme. As with the first lockdown those impacts will be on project cost and timescales.
- 3.3 There are no specific Legal Community (Equality, Poverty, Rural and Island), Climate Change / Carbon Clever or Gaelic implications arising directly as a result of this report.

4. 2020/21 spend to date

- 4.1 **Appendix 1** provides a summary of current year budgets and spend and income to date. A forecast year end position is also provided. The year-end forecast figures provided reflect the net project expenditure, i.e. project costs incurred less project specific income received.
- 4.2 Overall there has been a net expenditure of £12.360m in the first three quarters of the year. This reflects the fact that significant project income has been received but that there have been delays in incurring costs. To date £49.920m of gross expenditure has been incurred.
- 4.3 Of the project income received the largest element relates to early years funding. Other funding streams relate to active travel, timber transport, European funding, City-Region deal funding, town centre funding, regeneration funding and vacant and derelict land funding. These funding streams will be offset against specific project costs as they are incurred and will be carried forward into financial year 2021/22 if not fully spent in the current year.
- 4.4 The year end position shows a forecast net expenditure of £39.819m. This sum will be funded from the general capital grant (including flood scheme funding) receivable by the Council of £24.967m with the shortfall made up from borrowing.
- 4.5 Net spend for the year is anticipated to be some £46m less than the level originally budgeted which demonstrates the impact of the Covid pandemic on the delivery of the capital programme. Any project variances from the revised profile presented to Council in January will be carried forward into 2021/22.

- 4.6 **Appendix 2** provides the summary position for the Housing Revenue Account (HRA). As with the general fund budget a considerable amount of slippage is showing as a result of the pandemic. To the end of quarter 3 expenditure of £29.731m has been incurred with a forecast full year spend of £45.832m. The lower than budgeted expenditure will see a consequential decrease in borrowing required for the year.

5. Programme update to December Council

- 5.1 A full update on the current capital programme was provided to the December 2020 meeting of Council (held on the 7th January 2021). This included:
- Updated budgets for all programmed projects to reflect Covid and other cost increases;
 - Revised timescales for project delivery;
 - Forecasts of future project spend by year (cashflow model);
 - Narrative updates on project progress;
 - Details of all projects approved subsequent to the capital programme being set in March 2018

A link to the update paper is provided in the background papers section of this report.

- 5.2 The estimated implications of the reprofiled capital programme on the loans fund revenue budget were assessed as part of that report and are reflected later in this meeting's agenda in the Treasury Management Strategy Statement report. It is vital that Members have a clear understanding of the impact of capital investment on the revenue budget to ensure any decisions on further capital investment remain affordable.
- 5.3 As a starting point for the development of a longer-term capital programme officers have begun the development of a Capital Strategy. This will be a key document in determining future capital investment priorities within affordability limits. The Capital Strategy will be brought for Member approval in the new financial year.

Designation: Executive Chief Officer- Resources and Finance

Date: 15th February 2021

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/77562/item_17_highland_council_capital_plan_201819_to_202223_%E2%80%93_update_report

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MONITORING OF CAPITAL EXPENDITURE - 1ST APRIL 2020 TO 31ST DECEMBER 2020

SERVICE: GENERAL FUND

Project Description	2020/21 Approved Budget	2020/21 Actual Expenditure	2020/21 Actual Income	Actual Net Year to Date	Year End Estimated Net Outturn
	£000	£000	£000	£000	£000
COMMUNITY AND LEISURE FACILITIES	382	285	(82)	203	355
SCHOOLS	35,375	18,793	(25,587)	(6,794)	4,509
HEALTH & SOCIAL CARE PROGRAMME	2,150	1,176	0	1,176	1,560
ICT	152	21	0	21	1,130
ROADS AND BRIDGES	16,679	8,114	(414)	7,700	10,530
ACTIVE TRAVEL	3,215	2,069	(987)	1,082	742
LIGHTING	2,575	440	0	440	1,000
FLOOD PREVENTION	5,320	1,341	(2)	1,339	2,087
WASTE MANAGEMENT	3,338	422	0	422	1,154
FERRIES AND HARBOURS	6,034	301	(31)	270	1,043
COMMUNITY WORKS	0	91	0	91	299
LEISURE FACILITIES	178	56	(16)	40	178
STRATEGIC ASSET MANAGEMENT	6,248	2,269	(1)	2,268	3,997
VEHICLES & PLANT	2,060	2,400	(86)	2,314	2,314
PLANNING & DEVELOPMENT	186	5,616	(10,053)	(4,437)	1,203
CAPITAL CONTRIBUTIONS	164	850	0	850	1,093
SELF FUNDING PROJECTS	0	4,595	0	4,595	4,943
HOUSING (NON HRA)	2,038	1,081	(301)	780	1,682
OVERALL TOTAL	86,094	49,920	-37,560	12,360	39,819

Capital Expenditure Monitoring Report - HRA Summary
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1 April - 31st December 2020

Housing Revenue Account	Actual Year to Date £000	Annual Budget £000	Year End Estimated Net Outturn £000	Year End Variance £000
Gross Expenditure Budget	29,731	60,236	45,832	(14,404)
Funding				
Sale of Council House Receipts	6	64	70	6
Government Grant Income	9,213	20,017	17,000	(3,017)
RHI Income	233	0	260	260
Sale of LIFT Properties	19	0	19	19
CFCR	0	826	826	0
Landbank Contribution	1,316	3,180	1,736	(1,444)
Borrowing	18,944	36,149	25,921	(10,228)
Total HRA	0	0	0	0