

Agenda Item	4.b
Report No	RES/36/23

Committee: Corporate Resources

Date: 7 December 2023

Report Title: Corporate Capital Monitoring report for Quarter 2 2023/24

Report By: Head of Corporate Finance

1. Purpose/Executive Summary

- 1.1 This report provides Members with the corporate capital monitoring statement for the second quarter of the 2023/24 financial year to 30 September 2023, which presents a summary of the actual spend together with a forecast 2023/24 year end outturn position.
- 1.2 Net spend on capital projects to the end of Q2 2023/24 totalled £43.658m for the General Fund against a net annual budget figure of £121.653m. Net spend on capital projects for the Housing Revenue Account (HRA) totalled £23.348m against a net annual budget figure of £69.473m.
- 1.3 The forecast net outturn for the General Fund for 2023/24 totals £116.325m and this would give rise to a forecast net underspend against budget of £5.328m. The forecast net outturn for the HRA for 2023/24 totals £59.115m and this would give rise to a forecast net underspend against budget of £10.358m.
- 1.4 The report also highlights how the planned capital expenditure for 2023/24 will be funded, with borrowing being a major source across both the General Fund and HRA.
- 1.5 This report also updates Members of the monitoring position of the Council's major projects in the General Fund Capital Programme.

2. Recommendations

- 2.1 Members are asked to:
 - i. **Note** the net spend to the end of Q2 2023/24, the forecast year end outturn and the funding profile; and
 - ii. **Note** the updated position of approved major capital projects.

3. Implications

- 3.1 Resource – Resource implications are discussed in the report.
- 3.2 Legal – The contents of this report and the annual accounts aim to satisfy the requirement of Sections 6 and 7 of the CIPFA Financial Management Code- ‘Monitoring financial performance’ and ‘External financial reporting’.
- 3.3 Risk – Risk implications to the budget position, and budget assumptions, will be kept under regular review and any project-specific risks identified reported to future Committees. The affordability of the Capital Programme as a whole is subject to variations in price inflation and changes in interest rates.
- 3.4 Health and Safety (risks arising from changes to plant, equipment, process, or people) – an important aspect of continued capital investment relates to managing health and safety risk. The requirement to safely maintain and enhance Council assets, essential to the delivery of frontline services, remains an increasing challenge to the Council as a number of assets reach the end of their useful economic life.
- 3.5 There are no specific Community (Equality, Poverty, Rural and Island); Climate Change / Carbon Clever; or Gaelic implications arising as a direct result of this report.

4. General Fund Capital Monitoring Q2 2023/24

- 4.1 **Appendix 1** provides a summary of the capital programme budgets, spend and income for Q2 of financial year 2023/24, along with the forecast outturn position to the end of the financial year. The actual figures provided reflect the net project expenditure, i.e. project costs incurred less project-specific income received. The net budget for 2023/24 is £121.653m. This includes a net budget of £117.701m approved by Council in March 2023 plus additional government grant funding received for 2023/24 and unspent grant funding carried forward from 2022/23.
- 4.2 Overall there has been a net expenditure of £43.658m for Q2, which reflects 36% of the annual budget (compared to 39% at same point prior year).
- 4.3 The forecast outturn position to the end of 2023/24 projects a net expenditure of £116.325m which would result in a forecast underspend against budget of £5.328m. Further details are set out in the appendices.
- 4.4 **Appendix 2** presents how the forecast General Fund net capital expenditure for 2023/24 will be funded. Borrowing continues to be the largest source of funding with £92.308m forecast, amounting to 79% of forecast net capital expenditure. The General Capital Grant is expected to be £23.517m.
- 4.5 Individual project spend forms the basis of the capital reports to Strategic Committees and links to those papers are provided below within Background Papers.

5. Major Capital Projects

- 5.1 **Appendix 3** provides a summary of the whole life financial position for the Council’s major projects at the end of Q2 2023/24. The reporting of major projects provides an estimated outturn over the entire life of each major project, spanning multiple financial years where relevant. The estimated outturn is presented alongside the whole life budget, as per the approved Capital Programme, and the actual expenditure incurred

and project-specific income received to date. The recent September 2023 review of the Capital Programme has brought approved project budgets in line with current market conditions and hence why those assessments are rated as Green. Those rated as Red for Costs are ongoing projects with either an overspend recorded or where specific factors continue to generate uncertainty over the final cost position.

5.2 As a reminder, the major projects appendices include a review of the level of risk associated with each project's **cost, scope and timing**, using a RAG rating system, as follows:

- **Red** – there are major concerns the project will not deliver as intended.
- **Amber** – there is some concern the project will not deliver as intended.
- **Green** – the project is on track to deliver as intended.

6. HRA Capital Monitoring Q2 2023/24

6.1 **Appendix 4** presents the net outturn figures for the HRA Capital Programme to the end of Q2 2023/24, along with the forecast net outturn to the end of the financial year. It reports a net outturn figure of £23.348m which reflects 34% of the annual budget of £69.473m. The forecast annual net outturn to the end of 2023/24 is £59.115m which therefore projects an underspend of £10.358m against budget, being issues related to labour and material shortages at both Highland and national level. The current programme seeks to deliver 175 new homes by 31 March 2024. A further 200 new homes are on a site that will be completed in 2024/25. Additional projects to deliver a further 118 homes in future years are also scheduled to start on site during 2023/24.

6.2 Despite the economic challenges faced, the Council remains committed to delivering projects on time and within budget. The mainstream HRA Capital Programme is based on the HRA Capital Plan 2022-2027, through which resources are allocated at area level and local projects approved at an Area Committee level. The new Council house build programme was approved in April 2023 as part of the Council's Strategic Housing Investment Programme 2023-2028.

6.3 **Appendix 5** presents how the forecast HRA net capital expenditure for 2023/24 will be funded. Borrowing continues to be the largest source of funding with £36.917m forecast, amounting to 62% of forecast net capital expenditure. The other major sources of funding include the Scottish Government Grant of £19.500m and the Council's Landbank Fund of £2.192m.

Designation: Head of Corporate Finance

Date: 21 November 2023

Authors:

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Background Papers:

- *Communities & Place Committee General Fund Capital Monitoring:*
https://www.highland.gov.uk/download/meetings/id/82478/item_6_capital_monitoring_%E2%80%93_quarter_2_202324

- *Economy & Infrastructure Committee General Fund Capital Monitoring:*
https://www.highland.gov.uk/download/meetings/id/82399/item_5_capital_monitoring%E2%80%93q2_202324
- *Housing & Property Committee General Fund Capital Monitoring:*
https://www.highland.gov.uk/download/meetings/id/82374/7_property_capital_monitoring_statement_and_progress_update
- *Housing & Property Committee HRA Capital Monitoring:*
https://www.highland.gov.uk/download/meetings/id/82372/5_housing_revenue_account_hra_capital_monitoring_report_quarter_2_monitoring_report_to_30_september_2023
- *General Fund Capital Programme 2023/24 - Approved March 2023:*
https://www.highland.gov.uk/download/meetings/id/81258/item_3_revenue_and_capital_budgets_202324_and_medium-term_financial_outlook
- *General Fund Capital Programme 2024/25 – 2028/29 - Approved September 2023:*
https://www.highland.gov.uk/download/meetings/id/82168/item_12_capital_programme_review

MONITORING OF CAPITAL EXPENDITURE - 1ST APRIL 2023 TO 30TH SEPTEMBER 2023 (Q2 2023/24)

SERVICE: GENERAL FUND

	BUDGET	ACTUAL			FORECASTS			VARIANCE		
Project Description	2023/24 Capital Budget	2023/24 Actual Expenditure	2023/24 Actual Income	2023/24 Actual Net Year to Date	2023/24 Forecast Expenditure	2023/24 Forecast Income	2023/24 Forecast Outturn	2023/24 Variance F'cast v Budget	2023/24 Acceleration / (Slippage)	2023/24 Overspend / (Underspend)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
COMMUNITY AND LEISURE FACILITIES	758	69	59	128	930	(172)	758	0	0	0
SCHOOLS	51,297	13,927	(2,409)	11,518	47,007	(360)	46,647	(4,650)	(1,800)	(2,850)
HEALTH & SOCIAL CARE PROGRAMME	850	54	(4)	50	854	(4)	850	0	0	0
ICT	3,969	845	0	845	3,969	0	3,969	0	0	0
ROADS AND BRIDGES	21,764	13,658	(204)	13,454	27,748	(5,205)	22,543	779	779	0
ACTIVE TRAVEL & TRANSPORT	310	1,495	(671)	824	7,029	(6,719)	310	0	0	0
PARKING	1,360	117	(389)	(272)	2,674	(1,272)	1,402	42	42	0
LIGHTING & COMMUNICATIONS	1,220	672	(20)	652	1,740	(520)	1,220	0	0	0
FLOOD PREVENTION	2,003	1,824	0	1,824	2,992	0	2,992	989	989	0
WASTE MANAGEMENT	3,031	235	0	235	3,808	(2,453)	1,355	(1,676)	(1,676)	0
HARBOURS & FERRIES	7,242	10,820	(2,184)	8,636	19,914	(11,929)	7,985	743	743	0
BEREAVEMENT SERVICES	2,226	218	0	218	1,268	0	1,268	(958)	(958)	0
COMMUNITY SPACES	899	201	(388)	(187)	874	(718)	156	(743)	(743)	0
PUBLIC CONVENIENCES	167	507	(267)	240	1,040	(801)	239	72	72	0
PROPERTY STRATEGIC ASSET MANAGEMENT	9,584	6,226	(1,306)	4,920	10,589	(505)	10,084	500	500	0
VEHICLES & PLANT	5,647	1,294	(273)	1,021	5,147	(500)	4,647	(1,000)	(1,000)	0
PLANNING & DEVELOPMENT	5,926	8,583	(9,657)	(1,074)	34,088	(27,707)	6,381	455	465	(10)
ENERGY EFFICIENCY SALIX	650	40	0	40	769	0	769	119	119	0
HOUSING (NON HRA)	2,750	756	(170)	586	6,080	(3,330)	2,750	0	0	0
OVERALL TOTAL	121,653	61,541	(17,883)	43,658	178,520	(62,195)	116,325	(5,328)	(2,468)	(2,860)

FUNDING OF CAPITAL EXPENDITURE - 1ST APRIL 2023 TO 30TH SEPTEMBER 2023 (Q2 2023/24)

SERVICE: GENERAL FUND

	2023/24 Capital Budget	2023/24 Actual Net Year to Date	2023/24 Forecast Outturn	2023/24 Variance F'cast Outturn v Budget	2023/24 Acceleration / (Slippage)	2023/24 Overspend / (Underspend)
Funding	£000	£000	£000	£000	£000	£000
General Capital Grant	23,517	12,419	23,517	0	0	0
Capital Receipts	500	18	500	0	0	0
Borrowing	97,636	31,221	92,308	(5,328)	(2,468)	(2,860)
TOTAL FUNDING	121,653	43,658	116,325	(5,328)	(2,468)	(2,860)

CAPITAL MAJOR PROJECT WHOLE LIFE REPORTING - 2023/24 Q2

GENERAL FUND		WHOLE LIFE BUDGET			ACTUALS TO DATE Q2 2023/24			FORECAST TO END OF PROJECT			PROJECT ASSESSMENT			COMMENTS
Project Description	LIFE BUDGET EXPENDITURE	LIFE BUDGET INCOME	LIFE BUDGET NET	ACTUAL EXPENDITURE TO DATE	ACTUAL INCOME TO DATE	ACTUAL NET TO DATE	FORECAST EXPENDITURE	FORECAST INCOME	FORECAST NET	COST	TIMING	SCOPE	COMMENTS	
	£000	£000	£000	£000	£000	£000	£000	£000	£000					
Tain 3-18 Campus	74,000	-800	73,200	15,389	-800	0	74,000	-800	73,200	G	G	G	Construction work underway; to be complete in December 2024. Budget of £74m includes contingency.	
Broadford Primary	21,000	-594	20,406	762	-604	158	21,000	-594	20,406	G	G	G		Design in progress.
Nairn Academy	59,020	-20	59,000	2,186	-20	2,166	59,020	-20	59,000	G	G	G		Design in progress.
Naver Bridge	11,575		11,575	34		34	11,575		11,575	A	A	A	Construction work approved as part of revised capital programme. Works progressing towards tender stage and this will allow confirmation of final price.	
Caol FPW	10,948	-500	10,448	11,515	-500	11,015	11,690	-500	11,190	R	G	G	Project complete. Contract included contingency bringing total to £11,870m. Total spend including additional £500k funded by Scottish Water will be £11,690m. Retention of £175k is due in 24/25.	
Uig Ferry Terminal and Link Span	63,994	-38,399	25,595	48,470	-24,631	23,839	63,994	-38,399	25,595	R	A	A	Construction works ongoing. Completion programmed for August 2024. Capital spend to be repaid from future income stream. Red status on price due to inflationary risk and outage costs.	
Inverness Castle	35,905	-20,350	15,555	16,618	-13,500	3,118	35,905	-20,350	15,555	A	G	G	Contract let, on programme, estimated completion Spring 2025. Fixed price contract currently on track.	
Recycling Improvement Fund (RIF)	6,550	-6,550	0	0	0	0	6,550	-6,550	0	G	G	G	Full funding received from Zero Waste Scotland through the Recycling Improvement Fund to deliver significant capital expenditure phased over period 2024 to 2026.	

MONITORING OF CAPITAL EXPENDITURE - 1ST APRIL 2023 TO 30TH SEPTEMBER 2023

SERVICE: HOUSING REVENUE ACCOUNT

Project Description	Revised Net Budget	Actual Net Year to Date	Year End Estimated Net Outturn	Year End Net Variance	(Slippage)/Acceleration Net	Anticipated Year End (Under)/Over
	£000	£000	£000	£000	£000	£000
Capital Programme 2023/24						
Equipment and Adaptations	1,043	552	955	(88)	(88)	
Major Component Replacement	2,240	1,407	2,689	449	449	
Heating/Energy Efficiency	17,355	4,928	12,494	(4,861)	(4,861)	
External Fabric (Major Component Replacement)	1,308	158	842	(466)	(476)	10
External Fabric (Environmental Improvements)	1,249	155	997	(252)	(252)	
Healthy, Safe and Secure	1,214	368	886	(328)	(328)	
Contingencies/Retentions	1,752	0	650	(1,102)	(1,102)	
Total 2023/24 Programme	26,161	7,568	19,513	(6,648)	(6,658)	10
Insurance Works				0		
Total 2023/24 Programme	26,161	7,568	19,513	(6,648)	(6,658)	10
Council House Building Capital Programme						
New Council House Buildings	37,712	12,186	34,102	(3,610)	(3,610)	
Individual House Purchases	5,600	3,594	5,500	(100)	(100)	
Total Council Building Programme	43,312	15,780	39,602	(3,710)	(3,710)	0
OVERALL TOTAL	69,473	23,348	59,115	(10,358)	(10,368)	10

MONITORING OF CAPITAL EXPENDITURE - 1ST APRIL 2023 TO 30TH SEPTEMBER 2023

SERVICE: HOUSING REVENUE ACCOUNT

Funding	Revised Net Budget	Actual Net Year to Date	Year End Estimated Net Outturn	Year End Net Variance
	£000	£000	£000	£000
Investment Programme				
RHI Income	0	6	6	6
Government Grant	19,500	6,513	19,500	0
Landbank	2,400	0	2,192	(208)
Evergreen Infrastructure Loan Fund	500	0	500	0
Borrowing	47,073	16,829	36,917	(10,156)
GROSS FUNDING	69,473	23,348	59,115	(10,358)