

The Highland Council
Resources Committee – 27 August 2014

Agenda Item	10.i
Report No	RES/31/14

Capital Discretionary Fund Applications

Report by Director of Finance

Summary

The purpose of this report is to advise the Committee of the regulations governing the award of capital grants to third parties, to consider the wider cost of such grants, and to consider the financial implications arising from the applications for funding from the Capital Discretionary Fund.

1. Background

- 1.1 The Capital Discretionary Fund forms part of the Council's Capital Plan, and as such is fully funded through the borrowing commitment in the Loans Fund Revenue Budget.
- 1.2 The Council's current Capital Plan makes provision for additional funding contributions to the Capital Discretionary Fund of £0.5m per annum.
- 1.3 Whilst there are no specific criteria, the Fund has typically been used to match fund community projects, and/or support projects that deliver community benefits or financial savings.

2. Scottish Government Regulations

- 2.1 The Scottish Government Capital Grant Award letter is quite specific on what Councils can treat as capital expenditure. Basically this follows proper accounting practice that requires capital expenditure to be on the acquisition, development, or significant enhancement of an asset that belongs to the Council (ownership is a key criteria of the accounting definition).
- 2.2 However, the Scottish Government guidelines do also allow dispensation to award grants, or make payments, to third parties for areas where the Council could legitimately treat as capital expenditure if it were to incur the cost itself.
- 2.3 The specific conditions set by the Scottish Government are attached at Appendix 1 to this report. The Committee should note the specific legislation quoted, and note that as a result, the Council cannot rely on any other powers or the general power of wellbeing.

3. Financing Costs of Third Party Grants

- 3.1 As stated in paragraph 1.1 there is a direct revenue cost to the Council associated with the award of capital grants.
- 3.2 As a general “rule of thumb” the revenue costs of capital expenditure, including principal repayment and interest, is roughly 10% per annum over the life of the asset which could average up to 20 years. The true cost to the Council is therefore much higher than the value of grant awarded.
- 3.3 The actual cost for each grant is calculated separately during the financial year in which the grant is awarded.
- 3.4 The Council does however receive an annual Capital Cash Grant from the Scottish Government to partly fund the Capital Programme. Borrowing is only required to fund capital expenditure above the level of Scottish Government grant funding.

4. Current Capital Discretionary Funding Commitments

- 4.1 The existing commitments against the Capital Discretionary Fund are shown in Appendix 2. The Committee may note that there can be a significant time delay between the date of Committee approval and the date that the grant is drawn down.
- 4.2 Whilst work over the past year has clarified the status of various commitments, any significant delay in drawing down funds must question the status of the project and/or the timing of the request for funding.
- 4.3 The Committee is therefore asked to consider imposing a time limit of three years on all current and future applications. Failure to draw down funding within this timescale will lead to the offer of financial support being withdrawn.
- 4.4 At the present time one project, Halkirk Sports Facility, would fall into this category. It is recommended that officers clarify the status of this project and report back to the next Committee.

5. Applications for Funding

5.1 Resources Committee is asked to consider four applications for funding as follows:-

	£m
Uncommitted Balance on Fund (per Appendix 2)	1.339
Highland Hospice	0.200
Kinlochshiel Shinty Club	0.045
Ross and Cromarty Citizens Advice Bureau	0.040
Poolewe and District Swimming Pool Association	0.050
Highland Science Skills Academy	<u>0.150</u>
	<u>0.485</u>
Uncommitted Balance remaining	0.854
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5.2 If the Committee is minded to support all four applications, then the balance remaining on the Capital Discretionary Fund is £0.854m.

6. Implications

6.1 Resource; Legal; Equalities; Climate Change/Carbon Clever; Risk, Gaelic and Rural implications – All implications are covered in the separate individual applications to this Committee.

Recommendations

The Committee is asked to:-

- (1) Note the Scottish Government regulations regarding capital expenditure (as per Appendix 1);
- (2) Note the actual cost to the Council of capital grants;
- (3) Note existing commitments against the Capital Discretionary Fund (as per Appendix 2);
- (4) Agree to imposing a three year time limit for the drawing down of grant funding; and
- (5) Note that a status report on Halkirk Sports Facility will be brought back to the next Committee.

Designation: Director of Finance
Date: 15 August 2014
Author: Derek Yule

SCHEDULE 1

1. The Grant may only be used to fund capital expenditure of the local authority, or any third party capital expenditure incurred, whether or not disbursed in the form of grants, by any persons (public sector bodies, private sector bodies or individuals) towards expenditure which would, if incurred by the local authority, be capital expenditure. In permitting the grant to be used to fund third party capital expenditure reliance is placed on specific legislation. As such the use of the grant to fund third party capital expenditure is limited to the subject of the specific legislation listed below. Local authorities should assure themselves that any grant payments that they may make to any person would be permitted by the legislation listed below.

2. Nothing in the legislation should be interpreted as enabling the grant to be used for any revenue expenditure other than that outlined in condition 2.3.

GRANT MAKING POWERS OF SCOTTISH MINISTERS – LEGISLATIVE DETAILS	
<i>Condition 2.2: The Grant may be used to fund capital expenditure of the local authority</i>	
Section 37 of the Local Government in Scotland Act 2003	Scottish Ministers may make grants to local authorities in respect of their capital expenditure. Capital expenditure is that expenditure that falls to be capitalised in accordance with proper accounting practices (section 39 of the Act)
<i>Condition 2.3: The Grant may be used to fund third party capital expenditure, either directly or through the provision of grants to third parties (public sector bodies, private sector bodies or individuals) which would, if incurred by the local authority, be capital expenditure. Grant making powers are as detailed below:</i>	
Section 37 of the Local Government in Scotland Act 2003	Scottish Ministers may make grants to local authorities in respect of their capital expenditure. Reliance is placed on this section to allow unitary authorities (councils) to make grants to other local authorities such as police or fire boards.
Section 13 of The Flood Prevention (Scotland) Act 1961	Expenditure incurred by a local authority in carrying out flood prevention operations in accordance with a flood prevention scheme. Flood Prevention Schemes are those which have been promoted by the authority and confirmed by Scottish Ministers in accordance with legislation
Section 21 of the Coast Protection Act 1949	Scottish Ministers may make grants towards any expenditure incurred under this Act by a coast protection authority, or incurred by a local authority in carrying out of coast protection work under the enactments relating to roads.
Section 70 of the Transport (Scotland) Act 2001	Scottish Ministers may make grants to any persons for any purposes relating to transport. Reliance is placed on this section to allow unitary authorities (councils) to make grants to regional transport partnerships or bridge authorities.

<p>Section 126 of the Housing Grants, Construction and Regeneration Act 1996</p>	<p>Expenditure incurred in connection with activities which contribute to the regeneration or development of an area.</p> <p>Extract from Act provision:</p> <p>Activities which contribute to the regeneration or development of an area include, in particular—</p> <p>(a) securing that land and buildings are brought into effective use;</p> <p>(b) contributing to, or encouraging, economic development;</p> <p>(c) creating an attractive and safe environment;</p> <p>(d) preventing crime or reducing the fear of crime;</p> <p>(e) providing or improving housing or social and recreational facilities, for the purpose of encouraging people to live or work in the area or of benefiting people who live there;</p> <p>(f) providing employment for local people;</p> <p>(g) providing or improving training, educational facilities or health services for local people;</p> <p>(h) assisting local people to make use of opportunities for education, training or employment;</p> <p>(i) benefiting local people who have special needs because of disability or because of their sex or the racial group to which they belong.</p>
<p>Section 90 (1) (a) of the Housing Scotland Act 2001</p>	<p>Grants for housing purposes</p> <p>(1) The Scottish Ministers may make grants to a local authority for the purposes of—</p> <p>(a) the authority's functions in connection with—</p> <p>(i) providing, improving, adapting, repairing, maintaining and managing housing,</p> <p>(ii) undertaking, and assisting the undertaking of, the development, redevelopment and improvement of the physical, social, economic and recreational environment related to housing,</p> <p>(iii) preventing or alleviating homelessness,</p>
<p>Section 96 of the Housing (Scotland) Act 2006</p>	<p>Any power of a local authority to make grants or loans (including the powers to make payments under section 91(1) and to provide assistance under section 95(1)(b)), and any function of a local authority in relation to the making of grants or loans, under this Part is exercisable by the Scottish Ministers as it is by the local authority.</p>
<p>Section 153 (1) and (3) of the Environmental Protection Act 1990 as amended by SSI 83 of 2002</p>	<p>Scottish Ministers may give financial assistance for environmental purposes. Section 153 (1) includes:</p> <p>(nn) any scheme for the storage, treatment or disposal of any material or product for the purpose of preventing or reducing environmental damage.</p>

Capital Discretionary Fund

Appendix 2

	£000	
Carry Forward from 2013/14	1,810	
Allocation 2014/15	500	
Total CDF 2014/15	<u>2,310</u>	
<i>Less : Drawdown/transferred to Services during 2014/15</i>		
Sleat and Strath Amateur Football Club (AFC), Isle of Skye	-30	(FHR Committee 26/02/14)

2014/15 CDF Balance per Targets	<u>2,280</u>
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Approved commitments not yet drawdown/transferred to Services

	£000	
Halkirk Sports Facility	200	(Resources Committee 17/08/11)
Dingwall Townhouse Tollbooth	30	(FHR Committee 30/01/13)
Alexandra Bridge, Tain	40	(FHR Committee 10/04/13)
Kirkmichael (Black Isle) Heritage Centre Project	70	(FHR Committee 28/08/13)
North Coast Leisure	15	(FHR Committee 09/10/13)
Improved Car Parking at Foyers	65	(FHR Committee 22/01/14)
War Memorials (£50k pa 14/15 - 17/18) (Note 2)	200	(FHR Committee 22/01/14)
Inverness, Badenoch & Strathspey CAB	281	(FHR Committee 22/01/14)
Redevelopment of Eden Court Theatre Orchestra Pit	40	(FHR Committee 26/02/14)

Uncommitted Balance after Approved Commitments	<u>941</u>
	1,339

Notes :

1. £500k pa for CDF included in 10 year capital programme for 2013/14-2022/23 (last 5 years indicative only).
2. Agreement in principle to fund the total war memorials cost up to £310,000 should grant funding not be achieved.