

## The Highland Council

### Resources Committee – 24 August 2016

|                    |                  |
|--------------------|------------------|
| <b>Agenda Item</b> | <b>6</b>         |
| <b>Report No</b>   | <b>RES/41/16</b> |

### Corporate Capital Monitoring to 30 June 2016

#### Report by Director of Finance

#### **Summary**

This report provides an overview of expenditure on the General Fund and Housing Revenue Account (HRA) capital programmes for the period from 1 April to 30 June 2016 and the estimated position for the 2016/17 financial year. The report also provides an overview of the status of all major capital projects with a value over £4m.

#### **1. Background**

- 1.1 In December 2015 the Council approved a ten year capital programme incorporating over £900m of capital investment in the Council's infrastructure.
- 1.2 This report assesses how spend is progressing in financial year 2016/17, the second year of the programme, and also provides an overview of the status of all major capital projects, i.e. those with a value over £4m.

#### **2. General Fund Capital Programme Expenditure**

- 2.1 **Appendix 1** shows the General Fund net capital budget for 2016/17 of £127.748m, net expenditure to date of £4.923m, and an estimated net underspend of £18.781m on the programme for the financial year.
- 2.2 This underspend comprises slippage of £25.226m on projects which will be carried over to later financial years and service overspends of £6.445m.
- 2.3 **Appendix 2** reconciles the capital plan approved by Highland Council on 17 December 2015 to the current position, taking account of net slippage and overspends brought forward from financial year 2015/16.

#### **3. Funding of the Capital Programme**

- 3.1 The funding section of Table A in **Appendix 1** illustrates how the capital expenditure for the year is planned to be funded. Any changes in the forecast expenditure outturn will impact on the level of borrowing required.
- 3.2 The capital grant for the year has now been confirmed at £26.435m which is £2.074m (7.85%) less than has been budgeted. When the capital budget was set in December 2015 it was assumed that the level of funding from the Scottish Government would continue on a 'flat cash' basis- in actual fact a reduction in funding occurred.
- 3.3 The capital programme assumed that there would be £26.883m of slippage during the year. This assumption allowed for over-programming to enable capital spend to be maximised during the year. As things stand only £19.398m of slippage is forecast by year end.

- 3.4 The combined effects of the reduced capital grant and lower than budgeted level of slippage means that year end spend would exceed income by £9.559m. If this situation transpires at year end that shortfall would have to be filled by increasing borrowing by an equivalent amount.
- 3.5 The level of borrowing required in year will impact on the level of loan charges incurred in the Council's General Fund revenue budget. Whilst the level of capital borrowing is forecast to be higher than that planned in the December 2015 capital programme, in line with the Treasury Management Strategy Statement the Council has taken advantage of favourable short term borrowing rates, significantly lower than those forecast, which will mitigate the impact of this on the revenue budget.
- 3.6 Overall, a £0.5m revenue budget underspend on loans charges is currently being forecast as a result of this approach to borrowing. Any rise in interest rates will present the Council with a cost risk associated with increased loans charges. This underspend figure may change depending on the year-end expenditure outturn.

#### **4. 2016/17 General Fund variances**

- 4.1 The Care and Learning Service anticipates a year end underspend of £5.000m. Slippage totalling £7.600m is forecast across a number of projects, most significantly the Tain 3-18 Campus, Dornoch Sports Centre and Portree High School Hostel. Some slippage has been mitigated by accelerated spend from the school estate Life Cycle and Roll Pressures budgets. A number of projects are due to be completed this year which will overspend to a collective estimate of £2.600m. These projects include Cromarty Primary School, the Caol Joint Campus and Thurso Swimming Pool. The service needs to decide how those overspends will be accommodated within the service programme.
- 4.2 The Corporate Development Service anticipates a year end underspend of £13.997m. This is mainly due to the need to re-profile the spend for the new ICT Contract and it is intended to do this once the contract award decision is made and the future service provider known. This will include use of the Digital Outreach Budget , which has been agreed by the ICT Re-provision Board and Capital Programme Board, in order to meet the increased costs associated with the decision made by ECAS Committee to roll-out one-to-one devices to pupils from 2017 and as part of the new contract delivery. Minor slippage is also anticipated in the Unified Communications project.
- 4.3 The Development and Infrastructure service anticipates a year end overspend of £0.971m. This includes £2.874m of slippage on projects where expenditure will be delayed until later financial years and £3.845m of overspends. The overspend relates mainly to the River Ness Flood Prevention Scheme where unforeseen costs materialised late in the programme including additional compensation payments and phase 1 adjudication and legal costs.
- 4.4 An underspend of £0.755m is anticipated in the Carbon CLEVER budget due to the ongoing challenges in identifying and approving suitable projects.
- 4.5 More detailed reports on individual service capital programmes are reported to the relevant service committee.

## **5. Housing Revenue Account (HRA) capital programme**

- 5.1 The gross budget for the HRA Capital Programme for the year is £39.734m. The service is aiming for full budget spend although it is recognised that there is a risk that the budget will be underspent at the year end.

## **6. Major Projects Reporting**

- 6.1 A statement detailing the progress of all the major capital projects can be seen at **Appendix 3**. These projects are subject to more detailed reporting to the appropriate service committee.
- 6.2 A number of projects are showing forecast costs above budget level or significant slippage in terms of project delivery schedule. Whilst the slippage is not welcomed from an individual project perspective it is necessary from the perspective of the financing of the capital programme as detailed at 3.3.
- 6.3 In line with the Project Management Governance Policy post-project reviews are required to be completed for all major projects. The findings of these reviews will be consolidated to try to identify if there are any recurring issues, identified across a number of projects, that are leading to project overspends. Some such issues have already been identified as contributory factors in the need for a review of the capital programme.

## **7. Review of the Capital Programme**

- 7.1 As previously reported to this committee a review of the capital programme will be taking place during the remainder of the financial year. This review has been necessitated by a number of factors including:
- The emergence of new priority projects requiring consideration against those projects already approved;
  - Significant deviations from the December 2015 programme already identified, in terms of project scope, cost and timing;
  - The need to better capture the impact of inflation in individual project budgets and the programme as a whole;
  - The capacity within the Council to resource and deliver the volume of projects already approved;
  - Consideration of an appropriate level of overprogramming to factor into the plan;
  - Council redesign- the potential impact on the Council's asset base of decisions made during the redesign process
  - Loans charges- the current low interest rate environment may afford the opportunity to deliver either an increased capital programme or revenue budget savings from loans charges;
  - Limited market interest in tendering for certain projects;
  - Changes in government policy and the possibility of new government funding being made available for specific projects;
  - The need to better capture the impact of capital investment on the revenue budget- specifically whether projects will increase the revenue budget gap by having associated additional costs, or whether projects deliver a return on investment directly to the Council by enabling budget savings to be made.

7.2 The outcome of the review will be reported later in the financial year and timed to allow any impact on the revenue budget to be factored into the 2017-18 budget setting process.

## **8. Implications**

8.1 Resource implications are noted in this report.

8.2 There are no risk, legal, equality, climate change/Carbon Clever or Gaelic implications arising as a direct result of this report.

### **Recommendation**

Members are invited to consider the financial position of the General Fund and HRA Capital Programmes and the status of the Council's Major Capital Projects as at 30 June 2016.

Designation: Director of Finance

Date: 15 August 2016

Author: Edward Foster  
Head of Corporate Finance

Background Papers: Service capital monitoring statements

**Capital Expenditure Monitoring Report - Service Summary****1 April - 30 June 2016****Table A: General Fund**

|                                | Actual<br>Net<br>Year to Date<br>£000 | Annual<br>Net<br>Budget<br>£000 | Year End<br>Estimated Net<br>Outturn<br>£000 | Year End<br>Net<br>Variance<br>£000 | Carry<br>Forward/<br>Back<br>£000 | Anticipated<br>Year End<br>Under/Over<br>£000 |
|--------------------------------|---------------------------------------|---------------------------------|--|-------------------------------------|-----------------------------------|---|
| <b>General Fund</b>            |                                       |                                 |  |                                     |                                   |   |
| Care and Learning              | 3,168                                 | 46,992                          | 41,992                                       | (5,000)                             | (7,600)                           | 2,600   |
| Chief Executive's Office       | 0                                     | 66                              | 66   | 0                                   | 0                                 | 0   |
| Community Services             | 2,617                                 | 17,167                          | 17,167                                       | 0                                   | 0                                 | 0   |
| Corporate Development          | 36                                    | 16,111                          | 2,114  | (13,997)                            | (13,997)                          | 0   |
| Development and Infrastructure | (1,165)                               | 44,267                          | 45,238                                       | 971                                 | (2,874)                           | 3,845   |
| Carbon CLEVER                  | 125                                   | 880                             | 125  | (755)                               | (755)                             | 0   |
| Discretionary Fund             | 142                                   | 2,241                           | 2,241  | 0                                   | 0                                 | 0   |
| <b>Total General Fund</b>      | <b>4,923</b>                          | <b>127,724</b>                  | <b>108,943</b>                               | <b>(18,781)</b>                     | <b>(25,226)</b>                   | <b>6,445</b>                                  |
| <b>Funding</b>                 |                                       |                                 |  |                                     |                                   |   |
| General Capital Grant          | 0                                     | 28,509                          | 26,435                                       | (2,074)                             |                                   |   |
| Capital Receipts               | 0                                     | 1,750                           | 1,750  | 0                                   |                                   |   |
| Self -Financing Projects       | 0                                     | 5,850                           | 5,850  | 0                                   |                                   |   |
| Borrowing                      | 4,923                                 | 64,732                          | 74,908                                       | 10,176                              |                                   |   |
| <b>Total General Fund</b>      | <b>4,923</b>                          | <b>100,841</b>                  | <b>108,943</b>                               | <b>8,102</b>                        |                                   |   |
| <b>Net Slippage</b>            | <b>0</b>                              | <b>26,883</b>                   | <b>18,781</b>                                | <b>(8,102)</b>                      |                                   |   |

**Table B: Housing Revenue Account**

|  | Actual<br>Year to Date<br>£000 | Annual<br>Budget<br>£000 | Year End<br>Outturn<br>£000 | Year End<br>Variance<br>£000 |
|--|--------------------------------|--------------------------|-----------------------------|------------------------------|
|--|--------------------------------|--------------------------|-----------------------------|------------------------------|

|                          |       |        |        |   |
|--------------------------|-------|--------|--------|---|
| Gross Expenditure Budget | 4,317 | 39,734 | 39,734 | 0 |
|--------------------------|-------|--------|--------|---|

**Funding**

|                                |         |          |          |      |
|--------------------------------|---------|----------|----------|------|
| Sale of Council House Receipts | (575)   | (1,278)  | (1,278)  | 0    |
| Government Grant Income        | (400)   | (8,467)  | (8,467)  | 0    |
| RHI Income                     | (71)    | 0        | (71)     | (71) |
| Other Income                   | (1)     | 0        | (1)      | (1)  |
| CFCR                           | 0       | (2,790)  | (2,790)  | 0    |
| Landbank Contribution          | (1,778) | (2,195)  | (2,195)  | 0    |
| Borrowing                      | (1,492) | (25,004) | (24,932) | 72   |

|                  |          |          |          |          |
|------------------|----------|----------|----------|----------|
| <b>Total HRA</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
|------------------|----------|----------|----------|----------|

**Capital Expenditure Monitoring Report - Plan Update****1 April 2016 - 30 June 2016****Capital Plan**

|   | 2016/17<br>£000 |
|---|-----------------|
| Approved plan 2016/17                       | 111,666         |
| Net slippage brought forward from 2015/16   | 17,393          |
| Net overspends brought forward from 2015/16 | <u>(1,335)</u>  |
| <b>Capital plan at 1 April 2016</b>         | <b>127,724</b>  |

|  |
|--|
| <b>Capital Expenditure Monitoring Report - Projects over £4m</b> |
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|   | Approved Budget<br>March 2015<br>£000 | Current Approved Budget<br>£000 | Total Project Spend to June 2016<br>£000 | Forecast Total Project Spend<br>£000 | Forecast End of Project Variance<br>£000 | Project Completion Dates<br>Planned at March 2015      Current Estimate |        |
|---|---------------------------------------|---------------------------------|--|--------------------------------------|--|---|--------|
| <b>CARE AND LEARNING</b>                      |                                       |                                 |  |                                      |  |   |        |
| <b>COMMUNITY AND LEISURE FACILITIES</b>       |                                       |                                 |  |                                      |  |   |        |
| Inverness Leisure Phase 1                     | 3,500                                 | 3,730                           | 3,701                                    | 3,980                                | 250                                      | Jul-15  | Jul-15 |
| Inverness Leisure Phase 2                     | 3,000                                 | 3,000                           | 0  | 2,750                                | -250                                     | Mar-19  | Mar-20 |
| <b>SECONDARY SCHOOLS PROGRAMME</b>            |                                       |                                 |  |                                      |  |   |        |
| Inverness High School                         | 10,000                                | 10,000                          | 364                                      | 10,000                               | 0  | Aug-18  | Mar-19 |
| Inverness Royal Academy                       | 39,010                                | 39,010                          | 31,309                                   | 39,010                               | 0  | Jun-17  | Jun-17 |
| Lochaber High Phase 3 & 4                     | 15,885                                | 16,185                          | 15,619                                   | 16,185                               | 0  | Sep-15  | Oct-15 |
| Elgin Residence, Portree                      | 4,020                                 | 4,020                           | 4,136                                    | 4,620                                | 600                                      | Dec-15  | May-16 |
| Tain 3-18 Campus                              | 45,000                                | 45,000                          | 166                                      | 45,000                               | 0  | Aug-18  | Jul-20 |
| Wick Community Campus                         | 5,350                                 | 5,350                           | 3,015                                    | 5,350                                | 0  | Apr-17  | Apr-17 |
| <b>PRIMARY SCHOOLS PROGRAMME</b>              |                                       |                                 |  |                                      |  |   |        |
| Beauly Primary School                         | 10,000                                | 10,000                          | 0  | 10,000                               | 0  | Aug-19  | Aug-20 |
| Fort William - Caol/RC Joint Campus           | 15,690                                | 15,940                          | 13,262                                   | 16,690                               | 750                                      | Dec-16  | Feb-17 |
| Fort William - New Gaelic Primary             | 8,000                                 | 7,750                           | 7,737                                    | 7,900                                | 150                                      | Jun-15  | Jun-15 |
| Fort William - Lundavra Primary               | 12,000                                | 12,000                          | 11,812                                   | 12,350                               | 350                                      | Oct-15  | Oct-15 |
| North West Skye - New Primary School          | 10,000                                | 10,000                          | 0  | 10,000                               | 0  | Aug-18  | TBC    |
| Portree - New Gaelic Primary                  | 9,285                                 | 10,800                          | 1,073                                    | 10,800                               | 0  | Jul-17  | Dec-17 |
| Wick - New Noss Primary                       | 16,650                                | 16,650                          | 14,847                                   | 16,650                               | 0  | Oct-16  | Feb-17 |
| <b>SPECIAL SCHOOLS PROGRAMME</b>              |                                       |                                 |  |                                      |  |   |        |
| St Clements St Duthus - Modular Accommodation | 4,580                                 | 4,580                           | 4,979                                    | 5,030                                | 450                                      | Aug-15  | Aug-15 |
| <b>CORPORATE DEVELOPMENT</b>                  |                                       |                                 |  |                                      |  |   |        |
| ICT Re-provision                              | 15,200                                | 15,200                          | 0  | 15,200                               | 0  | Mar 18  | Mar 19 |
| <b>DEVELOPMENT &amp; INFRASTRUCTURE</b>       |                                       |                                 |  |                                      |  |   |        |



|                                     |        |        |        |        |       |        |        |  |
|-------------------------------------|--------|--------|--------|--------|-------|--------|--------|--|
| ROADS AND BRIDGES                   |        |        |        |        |       |        |        |  |
| Major Road Improvements             |        |        |        |        |       |        |        |  |
| The Inverness West Link             | 43,352 | 43,352 | 4,432  | 43,352 | 0     | Mar-21 | Mar-21 |  |
| Inshes Roundabout                   | 6,975  | 6,975  | 307    | 6,975  | 0     | Mar-20 | Mar-20 |  |
| Kinnairdie Link Road, Dingwall      | 7,258  | 7,258  | 1,262  | 7,258  | 0     | Mar-19 | Mar-19 |  |
| A862 Muir of Ord Railway Bridge     | 5,360  | 5,360  | 1,428  | 5,360  | 0     | Mar-18 | Jul-17 |  |
| LEISURE FACILITIES                  |        |        |        |        |       |        |        |  |
| Torvean Golf Course                 | 8,227  | 8,227  | 3,654  | 8,227  | 0     | Mar-19 | Mar-19 |  |
| Canal Parks Enhancement             | 4,144  | 4,144  | 536    | 4,144  | 0     | Mar-18 | Mar-18 |  |
| FLOOD PREVENTION                    |        |        |        |        |       |        |        |  |
| River Ness Flood Prevention         | 34,708 | 34,708 | 34,843 | 37,814 | 3,106 | Mar-17 | Aug-16 |  |
| STRATEGIC ASSET MANAGEMENT          |        |        |        |        |       |        |        |  |
| Wick Office                         | 8,500  | 8,500  | 8,365  | 8,700  | 200   | Mar-16 | Nov-16 |  |
| Fort William Office Rationalisation | 5,801  | 5,801  | 699    | 5,801  | 0     | Mar-17 | Mar-18 |  |