

Agenda Item	<b>7</b>
Report No	<b>RES/55/17</b>

## HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 15 November 2017

**Report Title:** Corporate Capital Monitoring Report to 30 September 2017

**Report By:** Director of Corporate Resources

### **1. Purpose/Executive Summary**

- 1.1 This report provides a summary of the capital expenditure made by the Council up to the second quarter of financial year 2017/18. The report also provides a forecast year end position.
- 1.2 During the first two quarters of the year the Council has incurred £40.424m of capital expenditure. This investment forms part of the ten year capital programme, agreed in December 2015, encompassing over £900m of capital investment.
- 1.3 Forecast spend for the full financial year is £99.878m which reflects a net underspend of £45.858m against programmed expenditure. The December 2015 capital programme had programmed in an assumed £60m of slippage by the end of financial year 2017/18. Whilst slippage has not reached that level, the prudent management of the loans fund has been able to mitigate any ensuing impact on the revenue budget.
- 1.4 Borrowing of £62.430m will be required 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 9.93% of the total revenue spend in 2016/17.

### **2. Recommendations**

- 2.1 Members are invited to consider the financial position of the General Fund and HRA Capital Programmes as at 30 September 2017.

### **3. Capital Expenditure**

- 3.1 **Appendix 1** shows the General Fund net capital budget for 2017/18 of £145.636m, net expenditure to date of £40.424m, and an estimated net underspend of £45.858m on the programme for the financial year.
- 3.2 This underspend comprises slippage of £49.709m on projects which will be carried over to later financial years and service overspends of £3.850m brought forward from 2016/17.
- 3.3 **Appendix 3** 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 previous years of the programme.
- 3.4 Under the new committee reporting arrangements the Environment, Development and Infrastructure Committee now receives a report detailing the delivery of individual projects within the programme. A link to that report has been provided in the background papers section of this report.

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

- 4.1 The funding section of the table in **Appendix 1** shows how the capital programme is financed in the current year. The Council will receive a capital grant of £36.598m from the Scottish Government- this reflects grant funding specifically for use in financing capital expenditure.
- 4.2 The Council is forecasting to receive capital receipts in the year of £0.750m- this reflects income from the disposal of assets.
- 4.3 The largest element of funding for the capital programme is borrowing. In total borrowing of £62.430m would be required to fund the forecast level of expenditure for 2017/18.

### **5. Housing Revenue Account**

- 5.1 As detailed in **Appendix 2** net expenditure for the year to date is £13.221m against an annual budget of £46.930m. Forecast spend for the year is £39.654m leading to a net underspend of £7.276m.
- 5.2 The net underspend, combined with income generated from the sale of Council houses is forecast to mean actual borrowing required to support HRA capital will be £12.626 below the budgeted level.

### **6. Implications**

- 6.1 Resource – The cost of financing borrowing falls upon the loans charges budget- part of the Council's revenue budget. The loans charge budget comprises two main elements- the 'principal' element reflects the repayment of the capital borrowed. The 'interest' element reflects that cost of financing that borrowing.

Under loans fund accounting rules Highland Council accounting policy is that the principal element of any repayment of borrowing begins in the year after that in which capital expenditure was incurred. As such capital projects paid for in 2017/18 will affect the principal element of the loans charges budget in 2018/19.

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 a short term basis to take advantage of very low borrowing rates.

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.

- 6.2 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.

- 6.3 Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Gaelic – no specific implications.

Designation: Director of Corporate Resources

Date: 6 November 2017

Author: Edward Foster, Head of Corporate Finance & Commercialism

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/72717/item\\_5\\_capital\\_expenditure\\_monitoring\\_to\\_30\\_september\\_2017](https://www.highland.gov.uk/download/meetings/id/72717/item_5_capital_expenditure_monitoring_to_30_september_2017)

**Capital Expenditure Monitoring Report - Service Summary****1 April - 30th September 2017****Table A: General Fund**

	Actual Net Year to Date £000	Annual Net Budget £000	Year End Estimated Net Outturn £000	Year End Net Variance £000	Carry Forward/ Back £000	Anticipated Year End Under/Over £000
<b>General Fund</b>						
Care and Learning	12,946	69,823	30,023	(39,800)	(39,800)	0
Chief Executive's Office	47	113	47	(66)	(66)	0
Community Services	8,215	17,426	20,058	2,632	2,632	0
Corporate Development	1,928	18,615	11,890	(6,725)	(6,225)	(500)
Development and Infrastructure	17,288	37,891	36,017	(1,874)	(6,224)	4,350
Discretionary Fund	0	1,768	1,743	(25)	(26)	0
<b>Total General Fund</b>	<b>40,424</b>	<b>145,636</b>	<b>99,778</b>	<b>(45,858)</b>	<b>(49,709)</b>	<b>3,850</b>
<b>Funding</b>						
General Capital Grant	19,993	36,598	36,598	0	0	0
Capital Receipts	305	750	750	0	0	0
Self -Financing Projects	0	5,865	5,865	0	0	0
Borrowing	20,126	42,425	42,425	0	0	0
Planned Over Programming and Slippage - Borrowing	0	59,998	14,140	(45,858)	(49,709)	3,850
<b>Total General Fund</b>	<b>40,424</b>	<b>145,636</b>	<b>99,778</b>	<b>(45,858)</b>	<b>(49,709)</b>	<b>3,850</b>

**Capital Expenditure Monitoring Report - Housing Revenue Account**

Appendix 2

**1 April - 30th September 2017**

**Table B: Housing Revenue Account**

	Actual Year to Date £000	Annual Budget £000	Year End Outturn £000	Year End Variance £000
Gross Expenditure Budget	13,221	46,930	39,654	(7,276)
<b>Funding</b>				
Sale of Council House Receipts	(3,395)	0	(4,095)	(4,095)
Government Grant Income	(2,489)	(10,311)	(10,311)	0
RHI Income	(103)	0	(205)	(205)
Sale of LIFT Properties	0	0	(1,050)	(1,050)
CFCR	0	(3,439)	(3,439)	0
Landbank Contribution	0	(930)	(930)	0
Borrowing	(7,234)	(32,250)	(19,624)	12,626
<b>Total HRA</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Capital Expenditure Monitoring Report - Plan Update</b>
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<b>1 April 2017 - 30th September 2017</b>
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<b>Capital Plan</b>	
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	£000
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Approved plan 2017/18	123,234
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Net slippage brought forward from 2016/17	29,629
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Net overspends brought forward from 2016/17	<u>(8,227)</u>
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<b>Capital plan at 1 April 2017</b>	<b><u>144,636</u></b>
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Net additional to Programme - Extra Investment in Roads	1,000
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<b>Capital plan at 30th September 2017 per Appendix 1</b>	<b><u><u>145,636</u></u></b>
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