

Agenda Item	6.
Report No	RES/03/18

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 28 February 2018

Report Title: Corporate Capital Monitoring Report to 31 December 2017

Report By: Depute Chief Executive/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 third quarter of financial year 2017/18. The report also provides a forecast year end position.
- 1.2 During the first three quarters of the year the Council has incurred £62.940m 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 £93.186m which reflects a net underspend of £54.478m 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 Over half of this year's capital expenditure will need to be funded by borrowing which is repaid over the long term through the Council's revenue loans charges budget. The impact of this year's capital expenditure will be felt in the 2018/19 revenue budget as the principal elements of that borrowing begin to be repaid. Loans charges currently account for around 10% of the Council's annual net revenue budget.

2. Recommendations

- 2.1 Members are invited to agree the financial position of the General Fund and HRA Capital Programmes as at 31 December 2017.

3. Capital Expenditure

- 3.1 **Appendix 1** shows the General Fund net capital budget for 2017/18 of £147.664m, net expenditure to date of £62.940m, and an estimated net underspend of £54.478m on the programme for the financial year.
- 3.2 This underspend comprises slippage of £58.819m on projects which will be carried over to later financial years and service overspends of £4.341m.
- 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 and additional funded projects.
- 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 £2.068m which reflects income from the disposal of assets.
- 4.3 The largest element of funding for the capital programme is borrowing. In total borrowing of £54.520m 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 £23.238m against an annual budget of £46.929m. Forecast spend for the year is £39.129m leading to a net underspend of £7.800m.
- 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 £13.503m 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: 15 February 2018

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/73088/item_5_capital_expenditure_monitoring_to_31_december_2017

Capital Expenditure Monitoring Report - Service Summary
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1 April - 31st December 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
General Fund						
Care and Learning	19,512	71,915	30,025	(41,890)	(42,200)	310
Chief Executive's Office	72	135	72	(63)	(66)	3
Community Services	12,553	17,426	19,959	2,533	2,533	0
Corporate Development	3,509	18,615	4,142	(14,473)	(13,973)	(500)
Development and Infrastructure	27,294	37,826	37,267	(559)	(5,087)	4,528
Discretionary Fund	0	1,747	1,721	(26)	(26)	0
Total General Fund	62,940	147,664	93,186	(54,478)	(58,819)	4,341
Funding						
General Capital Grant	27,448	36,598	36,598	0	0	0
Capital Receipts	2,068	750	2,068	1,318	0	1,318
Self -Financing Projects	0	5,865	5,865	0	0	0
Borrowing	33,424	44,453	44,453	0	0	0
Planned Over Programming and Slippage - Borrowing	0	59,998	4,202	(55,796)	(58,819)	3,023
Total General Fund	62,940	147,664	93,186	(54,478)	(58,819)	4,341

Capital Expenditure Monitoring Report - Housing Revenue Account

Appendix 2

1 April - 31st December 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	23,238	46,929	39,129	(7,800)
Funding				
Sale of Council House Receipts	(4,705)	0	(4,951)	(4,951)
Government Grant Income	(4,419)	(10,311)	(6,080)	4,231
RHI Income	(213)	0	(400)	(400)
Sale of LIFT Properties	(182)	0	(1,848)	(1,848)
CFCR	0	(3,439)	(4,856)	(1,417)
Landbank Contribution	(1,736)	(930)	(2,248)	(1,318)
Borrowing	(11,982)	(32,249)	(18,746)	13,503
Total HRA	0	0	0	(0)

Capital Expenditure Monitoring Report - Plan Update
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1 April 2017 - 31st December 2017
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Capital Plan	2016/17 £000
Approved plan 2017/18	123,234
Net slippage brought forward from 2016/17	29,629
Net overspends brought forward from 2016/17	<u>(8,227)</u>
Capital plan at 1 April 2017	144,636
Net additional to Programme - Extra Investment in Roads	1,000
Portree Gaelic School	<u>2,028</u>
Capital plan at 31st December 2017 per Appendix 1	<u><u>147,664</u></u>