

Agenda Item	7
Report No	RES 03/20

## THE HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 30 January 2020

**Report Title:** Corporate Capital Monitoring Report to 31 December 2019

**Report By:** Executive Chief Officer- Finance and Resources

### 1. Purpose/Executive Summary

- 1.1 This report provides a summary of the capital expenditure made by the Council in the first three quarters of financial year 2019/20. The report also provides a forecast year end position.
- 1.2 During the first three quarters of the year the Council has incurred net capital expenditure of £45.254m. This capital investment forms part of the revised five year capital programme, agreed in March 2018, encompassing over £490m of capital investment.
- 1.3 Forecast spend for the full financial year is £98.039m which reflects a net underspend of £20.839m against programmed expenditure. This underspend will be carried forward to 2020/21 as it reflects spend on projects not matching the profile assumed when the capital budget was set in 2018.
- 1.4 Borrowing of £50.199m 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 10.16% of the total revenue spend in 2018/19.

### 2. Recommendations

- 2.1 Members are asked to:
  - i. Consider the financial position of the General Fund and HRA Capital Programmes as at 31 December 2019;

### 3. Implications

- 3.1 Resource – The cost of financing borrowing falls upon the loans charges budget- part of the Council’s revenue budget. The loans charges budget comprises two main elements- the ‘principal’ element reflects the paying back of the capital borrowed. The ‘interest’ element reflects the 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 a new asset is brought into use. As such capital projects paid for in 2019/20 will affect the principal element of the loans charges budget from 2020/21 at the earliest.

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 either a short term basis to take advantage of very low borrowing rates or over a longer term should interest rates be at a favourable level.

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.

- 3.2 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.

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

### 4. Capital Expenditure

- 4.1 **Appendix 1** shows the General Fund net capital budget for 2019/20 of £118.878m, net expenditure to date of £45.254m, and an estimated net underspend of £20.839m on the programme for the financial year. The net spend position reflects £67.750m of capital expenditure, offset by specific capital funding received for early years of £22.496m.

- 4.2 The underspend solely comprises slippage on projects which will be carried over to future financial years. The underspend has increased by £8.114m since the position reported at Quarter 2. That increase is due to a slowing profile of spend across a number of projects under the Development and Infrastructure element of the programme.

- 4.3 **Appendix 3** reconciles the capital plan approved by Highland Council on 7 March 2018 to the current position, taking account of slippage on certain projects brought forward from 2018/19. In addition an adjustment has been made for flood project funding which was assumed to be specific grant funding within the capital programme but is now included in the overall capital grant settlement.

- 4.4 The Environment, Development and Infrastructure Committee received a report detailing the delivery of individual projects within the programme in November 2019. A link to that report has been provided in the background papers section of this report.

## 5. Funding of the capital programme

- 5.1 The funding section of the table in **Appendix 1** shows how the capital programme is financed in the current year. The Council is expecting to receive a capital grant of £47.077m from the Scottish Government- this reflects grant funding specifically for use in financing capital expenditure.
- 5.2 The Council is forecasting to receive capital receipts in the year of £0.763m- this reflects income from the disposal of assets.
- 5.3 The largest element of funding for the capital programme is borrowing. In total, borrowing of £50.199m would be required to fund the forecast level of expenditure for 2019/20.

## 6. Housing Revenue Account

- 6.1 As detailed in **Appendix 2** net expenditure for the year to date is £32.765m against an annual budget of £54.388m. Forecast spend for the year is £47.718m leading to a net underspend of £6.670m.
- 6.2 The principal reasons for the slippage on the mainstream element are delays to progressing works to the site mobilisation phase. The slippage on the Council house building element is a combination of delays in statutory consents, and high tender returns resulting in retendering delays. The underspend has arisen due to the tenure mix changing, resulting in a reduction in the number of properties built for council housing.

Designation: Executive Chief Officer- Finance and Resources

Date: 23<sup>rd</sup> January 2020

Author: Edward Foster, Head of Corporate Finance

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/76042/item\\_6\\_capital\\_expenditure\\_monitoring\\_report](https://www.highland.gov.uk/download/meetings/id/76042/item_6_capital_expenditure_monitoring_report)

<b>Capital Expenditure Monitoring Report - Service Summary</b>
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<b>1 April - 31st December 2019</b>
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**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	15,344	57,127	47,377	(9,750)	(9,750)	0
Community Services	10,246	14,931	15,560	629	629	0
Corporate Resources	5,385	10,830	10,560	(270)	(270)	0
Development and Infrastructure	14,279	35,478	24,030	(11,448)	(11,448)	0
Discretionary Fund	0	512	512	0	0	0
<b>Total General Fund</b>	<b>45,254</b>	<b>118,878</b>	<b>98,039</b>	<b>(20,839)</b>	<b>(20,839)</b>	<b>0</b>
<b>Funding</b>						
General Capital Grant	35,308	47,077	47,077	0	0	0
Capital Receipts	763	750	763	13	0	0
Self -Financing Projects	0	0	0	0	0	0
Borrowing	9,183	71,051	71,051	0	0	0
Planned Over Programming and Slippage - Borrowing	0	0	(20,852)	(20,852)	(20,852)	0
<b>Total General Fund</b>	<b>45,254</b>	<b>118,878</b>	<b>98,039</b>	<b>(20,839)</b>	<b>(20,852)</b>	<b>0</b>

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

Appendix 2

**1 April - 31st December 2019****Table B: Housing Revenue Account**

	Actual Net Year to Date £000	Annual Net Budget £000	Year End Estimated Net Outturn £000	Year End Net Variance £000
Gross Expenditure Budget	32,765	54,388	47,718	(6,670)
<b>Funding</b>				
Sale of Council House Receipts	114	0	114	114
Government Grant Income	7,465	18,879	13,436	(5,443)
RHI Income	251	0	275	275
Sale of LIFT Properties	1,129	0	1,156	1,156
CFCR	0	2,456	2,508	52
Landbank Contribution	874	1,754	420	(1,334)
Borrowing	22,932	31,299	29,809	(1,490)
<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 - 31st December 2019</b>
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<b>Capital Plan</b>	2019/20 £000
Approved plan 2019/20	95,655
Roundings	0
Net slippage brought forward from 2018/19	14,321
<b>Capital plan at 1 April 2019</b>	<b><u>109,976</u></b>
Adjustment to Flooding Grant for 19-20	8,902
<b>Capital plan at 31st December 2019 per Appendix 1</b>	<b><u><u>118,878</u></u></b>