

TITLE OF REPORT: FIRST QUARTER CAPITAL MONITORING 2015/16

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

EXECUTIVE MEMBER: COUNCILLOR T.W. HONE

1. SUMMARY

- 1.1 To update Cabinet on the capital programme for 2016/17, as at the end of June 2016, indicating its impact upon the 2017/18 programme. The current forecast is that this will decrease total spend in 2016/17 by **£1,415k** and lead to **£1,699k** of spend being reprogrammed in to 2017/18 and 2018/19. The significant scheme changes are the regeneration of John Barker Place and Walsworth Common.
- 1.2 To seek approval for changes to the capital programme that have been agreed by Council. These relate to Capitalisation of Pension Contributions (£2,500k), North Herts Museum (£154k) and District Council Office refurbishment (£2,430k). This would give a total spend in 2016/17 of £19,709k.
- 1.3 To note the funding available for the capital programme and the current forecasts on how this is used. The changes above reduce the level of available resources in terms of capital and set-aside receipts. The potential for additional capital receipts is dependent on available opportunities and whether assets are used for revenue income or capital receipts. An update on assets that could be available to be sold will be provided to Cabinet in November.

2. RECOMMENDATIONS

- 2.1 Cabinet is requested to ask any questions which may arise from the report's contents and note this report.
- 2.2 That Cabinet approves the adjustments to the projected capital programme for 2016/17 for the North Hertfordshire Museum for an increase in budget of up to a maximum of **£154k** agreed by full Council on the 19 May 2016.
- 2.3 That Cabinet approves the adjustments to the projected capital programme for 2016/17 for the District Council Office refurbishment for an increase in budget of up to a maximum of **£2,430k** agreed by full Council on the 14 July 2016.
- 2.4 That Cabinet approves the adjustments to the projected capital programme for 2016/17 for the Capitalisation of Pension Contributions for an increase in budget of up to a maximum of **£2,500k** agreed by full Council on the 11 February 2016.
- 2.5 Cabinet approves the adjustments to the 2016/17 Capital Programme identified in **table 2** and **paragraph 7.4**, a **£1,415k reduction** in the 2016/17 working budget.
- 2.6 Cabinet is requested to note the forecast changes to the 2017/18 Capital Programme identified in **table 2** and **paragraph 7.4**, a **£1,699k increase** in spend. These will be incorporated in to the 2017/18 budget setting papers to be approved by Council in February 2017.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Cabinet is required to approve revisions to the capital programme.
- 3.2 Cabinet is required to ensure that the capital programme is fully funded.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was referred to in the Forward Plan on 13 May 2016.

7. CAPITAL BUDGET AND FORECASTS

- 7.1 Council approved the capital programme for February of £8,617k for 2016/17 and £11,053k for 2017/18 to 2019/20. Table 1 below details changes to this budget to get to the current working budget:

Table 1- Current working budget

	2016/17 £k	2017/18 to 2019/20 £k
Original approved budget	8,617	11,053
Quarter 3 2015/16 Capital Monitor- Reprogramming of 2015/16 schemes in to 2016/17 (March)	5,895	0
Quarter 3 2015/16 Capital Monitor- Additional IT schemes (March). Approved by Council in April.	270	833
Quarter 4 2015/16 Capital Monitor- Reprogramming of 2015/16 schemes in to 2016/17 (June)	941	0
Quarter 4 2015/16 Capital Monitor- Additional North Herts Leisure Centre funding (June). Approved by Council in January.	317	0
Additional funding for the Capitalisation of Pension Contributions. Approved by Council in February	2,500	0
Additional funding for North Herts Museum. Approved by Council in May. Subject to confirmation by Cabinet.	154	0
Additional funding for District Council Office refurbishment. Approved by Council in July. Subject to confirmation by Cabinet. Includes contingency amount	2,430	0
Current working budget	21,124	11,886

- 7.2 Cabinet are asked to approve the adjustments to the capital programme that relate to decisions made by Council i.e. £154k for North Herts Museum, £2,430k for District Council Office refurbishment and £2,500k for the Capitalisation of Pension Fund Contributions. See recommendations **2.2, 2.3 and 2.4.**
- 7.3 Project Managers are responsible for monitoring both total expenditure and the timing of that expenditure. It is important to monitor the timing of the expenditure as this reflects both the delivery of the scheme and also allows the effective management of cash balances (treasury). Table 2 below highlights those schemes where there are forecast to be differences in the total spend on a project in 2016/17, and whether this is due to the timing of spend so will impact on the capital programme for 2017/18. For significant variances (+/- £25K or +/- 25%), an explanation is provided.

Table 2- Changes in spend for 2016/17, and impacts on 2017/18

Scheme	2016/17 Working Budget £k	2016/17 Forecast spend £k	Difference £k	Reason for difference	Estimated impact on 2017/18 onwards £k
John Barker Place	1,096	0	-1,096	NHH intend to widen the regeneration scheme to include Freemans Close. This will involve submitting a new planning application and cause a slippage in the timetable. 50% of the cost will be payable in 17/18 with the other 50% in 18/19.	1,096
Vehicles Waste & Street Clean	200	0	-200	New waste contract due to start in 2017/18	200
Waste and Street Cleansing Data Mgmt	60	35	-25	The New IT software will be £25K less than the original estimate.	0
Baldock Rd Changing Rooms	50	0	-50	The Project will not be completed as a grant from the Football Foundation was not secured. Facilities have been made available for use by the Football Club which is close to the current site to address the need for changing rooms.	0
Walsworth Common Pavilion	300	0	-300	Waiting for s106 funding to be received before starting. Not expected to be received until 2017/18.	300
Walsworth Common Pitch Improve	103	0	-103	Waiting for s106 funding to be received before starting. Not expected to be received until 2017/18.	103
S106 funded projects	0	220	220	A total of £67K of S106 funds have been released for community schemes in the 1 st quarter	0
North Herts Leisure Centre Development	3,213	3,341	128	Provide additional contingency provision, some or all of which may be required as the project progresses. Negotiations with the construction contractor are ongoing to minimise any additional costs,	0

Scheme	2016/17 Working Budget £k	2016/17 Forecast spend £k	Difference £k	Reason for difference	Estimated impact on 2017/18 onwards £k
				while the additional contingency budget requested should ensure sufficient resource is available for the project to be delivered	
Total of explained variances	5,022	3,596	-1,426		1,699
Other minor variances	16,102	16,113	11		0
Overall total	21,124	19,709	-1,415		1,699

7.4 Cabinet are asked to approve the differences highlighted in the table above (a **£1,415k reduction** in spend), as an adjustment to the working budget for 2016/17 (recommendation 2.5). Cabinet are asked to note the estimated impact on the capital programme budget for 2017/18 onwards (a **£1,699k increase** in budget) which will be incorporated in to the 2017/18 budget setting process (recommendation 2.6).

8. FUNDING

8.1 Capital spend can be financed from the following sources:

- Third party grants and contributions (e.g. government grants and developer contributions)
- Capital Receipts
- Set-aside receipts and borrowing
- Revenue funding

8.2 The council will always look to maximise third party grants and contributions, as this reduces the pressure on its resources. The use of revenue tends to be low given the limited (and reducing) availability of revenue funding. Capital receipts are the proceeds of where the council has sold assets (e.g. land). Future sales of land would increase this source of funding. The council has set-aside receipts that mainly arose from the housing stock transfer. These are one-off but there is currently quite a significant balance remaining. Once this resource is gone, the council can borrow money for capital investment. However this has a revenue cost impact in terms of interest costs and also amounts that have to be allowed for as a Minimum Revenue Provision.

8.3 Table 3 below highlights the forecast funding sources for the capital spend highlighted in table 1 and table 2.

Table 3- Forecast funding of the capital programme

	2016/17 £k	2017/18 to 2019/20 £k
Current working budget (Table 1)	21,124	11,886
Changes against working budget (table 2)	-1,415	1,699
Total funding required	19,709	13,585
Funding sources		
Government Grant	1,417	1,961
Revenue funding	4	0
Other capital contributions	1,005	333
Developer contributions (s106)	510	327
Capital receipts	4,774	4,636
Set-aside receipts	11,999	6,328
Total funding (to match above)	19,709	13,585
Capital receipts balances		
Brought-forward	5,462	3,688
Assumed additions	3,000	1,000
Funds used (as above)	-4,774	-4,636
Carried forward	3,688	52
Set-aside receipts balances		
Brought-forward	18,827	6,828
Funds used (as above)	-11,999	-6,328
Carried forward	6,828	500

8.4 At the end of 2019/20 this gives a forecast level of remaining receipts (capital receipts and set-aside receipts) of £552k. When the budget was set in February this was forecast to be £3,935k. The main reason that it is lower is due to the new schemes now being funded (as in table 1). This impact (£5,401k) is partly off-set by identifying additional funding from other sources, including an increase in the assumed level of new capital receipts and additional government grants for DFGs.

8.5 The council does have land that it could sell, subject to the right opportunities for its use. Cabinet will be provided with an update in November on potential asset sales over the next few years. Some of this land could also be used to generate revenue income (e.g. building houses for market rent). Each piece of land can only be used for one of these purposes and therefore need to balance the need to revenue income and available capital funding.

8.6 The capital programme will need to remain permanently under close review due to the limited availability of capital resources and the impact on revenue impact of using cash. When capital and set-aside receipts are used, the availability of cash for investment reduces and so therefore interest income earned also falls. There is also an impact where it is thought that funding will be needed, but then the scheme is delayed. The funding will be kept accessible rather than in longer-term investments, which reduces the interest earned.

9. LEGAL IMPLICATIONS

9.1 Cabinet's terms of reference specifically include "to monitor quarterly expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the

financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.

- 9.2 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in sections 7 and 8 of the report.
- 10.2 The Authority operates a 10% tolerance limit on capital projects and on this basis over the next four-year programme it should be anticipated that the total spend over the period could be £3,301k higher than the estimated £33,010k. The authority will need to continuously review the affordability of the capital programme in the light of the asset disposal programme, availability of third party funds and impact on the general fund. The asset disposal programme has to be carefully reviewed in the light of market conditions while considering the demands for resources from the capital programme.

11. RISK IMPLICATIONS

- 11.1 As outlined in the body of the report. The process of quarterly monitoring to Cabinet is a control mechanism to help to mitigate against the risk of a project not achieving the agreed objectives.
- 11.2 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These should be recorded on a project risk log which will be considered by the Project Board (if applicable).

12. EQUALITIES IMPLICATIONS

- 12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.3 For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out; this will take place following agreement of the investment.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12. Any individual capital scheme which is subject to the award of a public service contract will be evaluated in terms of its social value through the Council's procurement processes.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications.

15. APPENDICES

- 15.1 Appendix A - Capital Programme Summary 2016/17 onwards.
Appendix B - Capital Programme Detail 2016/17 onwards.

16. CONTACT OFFICERS

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