

TITLE OF REPORT: CAPITAL PROGRAMME OUTTURN 2011/12

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

This report for Cabinet on 19 June is presented to the FAR Committee for consideration and comment.

1. SUMMARY

- 1.1 To update Cabinet on the final outturn of the 2011/12 capital programme and identify the impact on the 2012/13 programme and on available capital funding resources.
- 1.2 To obtain Cabinet's approval for the funding of the capital programme and to the amount of capital receipts applied towards the 2011/12 capital outturn.
- 1.3 To obtain Cabinet's approval for changes to individual scheme expenditure for 2011/12 and 2012/13 onwards.

2. FORWARD PLAN

- 2.1 This Report contains a recommendation on a key decision and was first included in the Forward Plan on 1 March 2012.

3. BACKGROUND

- 3.1 Members were advised in June 2011 of the outturn position of the capital programme for the financial year 2010/11. Total capital expenditure in 2010/11 was £3.287million and a remaining useable capital receipt balance of £2.729million was available. The projected capital expenditure for 2011/12 at this time was £9.706million.
- 3.2 The June report advised Members that after considering the current expenditure programme and the expected capital receipts from the asset disposal programme the Council would have used all of the available capital receipts during 2012/13. However, If asset disposals were not forthcoming this could happen during 2011/12. Members were also reminded the Council has the option of prudential borrowing for the capital programme and that Members had already given authority for borrowing towards the Museum development scheme. At the time of the June report officers were still continuing to progress the potential option of using the Council's set aside housing receipts for the funding of the capital programme and a report on this topic would follow. Subject to final discussions with the external auditors this issue is now resolved and is discussed in paragraph 4.9.
- 3.3 The 1st quarter monitoring report advised that the projected expenditure for 2011/12 had decreased by £2.066million to £7.640million. This decrease in spend was mainly due to a revision in the timetable for completion of schemes, leading to slippage into 2012/13 of £1.934million. Despite this slippage it was expected that some prudential borrowing would be needed during the course of the year to fund some of the capital programme.

- 3.4 The 2nd quarter monitoring report advised that the projected expenditure for 2011/12 had decreased by £683k to £6.957million. This net decrease in spend was partly due to a revision in the timetable for completion of schemes, leading to slippage into 2012/13 of £802k, partly due to an increase of spend on a scheme of £50k and partly due to a new scheme proposed of £69k.
- 3.5 The 3rd quarter monitoring report advised that the projected expenditure for 2011/12 had again reduced due to a revision in the timetable for completion of schemes, leading to slippage into 2012/13. The projected expenditure was £6.329million, a reduction of £628k over that previously reported.

4. CAPITAL PROGRAMME

Capital Programme Outturn 2011/12

- 4.1 Summaries of the capital programme by priorities and by service are shown in appendix A together with the overall funding surplus year on year. The full programme is detailed in Appendix B and shows the revised costs of schemes, together with the provisional programme from 2012/13 to 2015/16.
- 4.2 The outturn expenditure for 2011/12 was £4.784million. This is a reduction of £1.545 million on the forecast reported in the February 3rd quarter monitoring report. The reduction in spend is largely accounted for by slippage of £1.431million into 2012/13 but there are under spends on schemes of £173k which are partly offset by scheme over spends of £59k. A reconciliation of the reduction in spend is detailed in Table 1.

Table 1: 2011/12 Reconciliation of Underspend:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Reconciliation of 2011/12 Capital Under Spend

	£,000	£'000
Working Budget		6,329
Slippage	-1,431	
Scheme under-spend (outturn lower than original budget)	-173	
Scheme over-spend (outturn higher than original budget)	+59	
Net increase/decrease in expenditure		-1,545
Year End Outturn		4,784

- 4.3 Table 2 contains a list with explanations of the schemes where there was less expenditure incurred by the 31 March 2012 than expected and the budget is required to be slipped into 2012/13.

Table 2: 2011/12 Scheme Slippage:

Scheme	2011/12 Working Budget £'000	2011/12 Actual Spend £'000	Variance £'000	Comments
Transport Plans Implementation	+142	+15	-127	The implementation of transport plans is to be funded from the Growth Area Fund monies awarded to the Authority and will continue during 2012/13.
Total scheme estimate: £318k.				
Parish Amenities Capital Improvement Fund	+119	+148	+29	The majority of available funds are committed to approved schemes. A total of £197k remains to be spent in 2012/13. This includes a pledge of £50k
Total Scheme cost: £1.25million				

Scheme	2011/12 Working Budget £'000	2011/12 Actual Spend £'000	Variance £'000	Comments
				towards the Codicote Sports Centre proposals for which a final decision will be taken during June 2012.
Area Visioning Total Scheme cost: £330k	+67	+36	-31	The majority of available funds are committed to approved schemes (£7k remains uncommitted). The £31k is all that remains of the Area Visioning
Car Park Management Systems Total scheme estimate: £300k.	+300	+4	-296	The Council received a procurement challenge which delayed the process of awarding the contract. This has since been resolved and the new parking machines were installed in April.
Howard Park and Gardens Total Scheme cost: £3million	+2,028	+1,872	-156	The Park and Gardens were fully opened to the public before the end of the financial year. The final elements of the construction contract will continue during 2012/13 and a contingency budget remains for any final unforeseen additional costs. It is not anticipated the full budget will be required.
Server Strategy Total scheme estimate: £240k.	+56	+9	-47	This capital allocation remains for the ongoing implementation of the Server Strategy, pending a decision on shared services.
Museum Service Development Total scheme estimate: £3.48million	+130	+27	-103	The Council and Trust have approved the North Hertfordshire Museum/Hitchin Town Hall project subject to confirmation that the conditions to be applied by Futurebuilders are satisfactory. Once final negotiations are completed officers will meet to configure the project and the scheme profile will be updated.
Royston Civic Centre site redevelopment Total scheme estimate: £60k	+60	+14	-46	In discussion with land owners on particular development options for the site. The remaining funds will be needed to continue to progress the scheme.
Letchworth and Hitchin multi-storey car park works: Total scheme estimates: £670k	+651	+316	-335	Concrete repairs and markings and signage have been completed at Letchworth multi-storey car park. The remaining budgets will be spent on lifts and lighting improvements.
Installation of Trial on street charging Total scheme estimate: £50k	+50	0	-50	This scheme has not yet progressed. There is also a provisional allocation of £235k in the capital programme for further roll-out of on-street charging should the trial prove successful.
Health & Safety Compliance Works Total scheme estimate:	+75	+18	-57	The scheme for improvements to the health and safety of Council properties to be compliant with the ongoing contract are underway and will continue in

Scheme	2011/12 Working Budget £'000	2011/12 Actual Spend £'000	Variance £'000	Comments
£75k				2012/13.

Great Ashby Community Centre Extension Total scheme estimate: £326k	+225	+20	-205	The contract for this project has been awarded and construction should be completed in 2012/13.
Other minor slippage			-7	
Total Slippage			-1,431	

- 4.4 There are also schemes which commenced and/or finished in 2011/12 but the overall cost of the scheme has changed, these are detailed in Table 3.

Table 3: Changes to Overall Cost of Capital Schemes in 2011/12

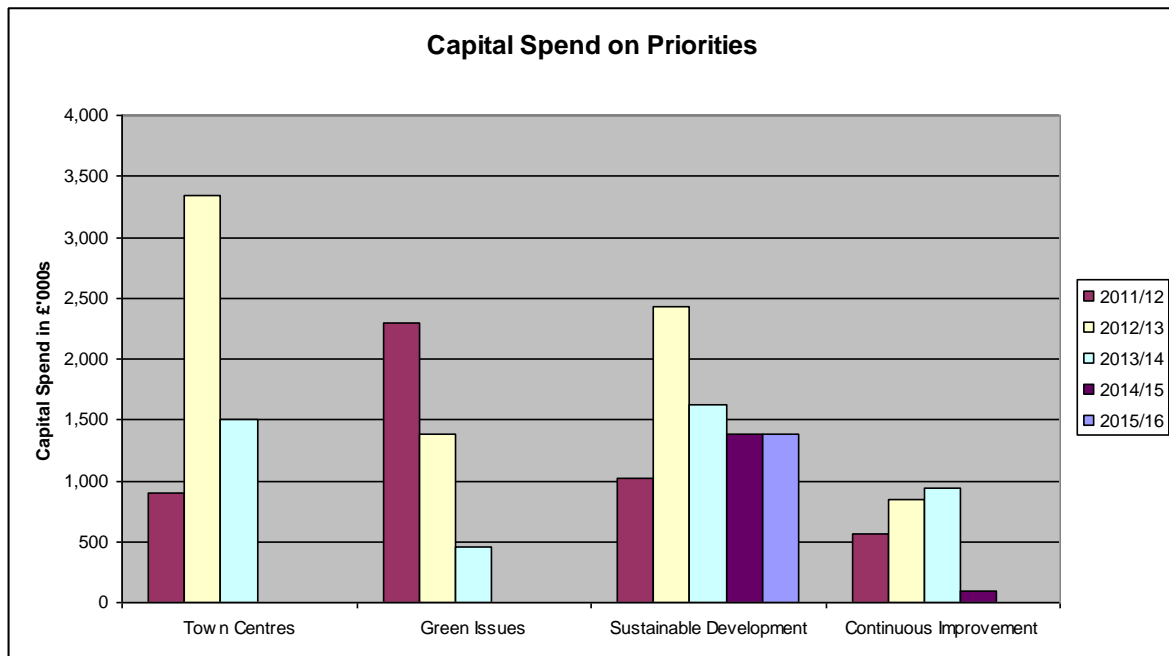
(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2011/12 Working Budget £'000	2011/12 Actual Spend £'000	Increase/Decrease £'000	Notes
Cycling Route at Royston Railway Crossing	+200	+172	-28	This represents the Council's contribution to the HCC scheme to install a cycle and pedestrian crossing below the Hitchin to Cambridge railway line. The official opening is due to take place in mid June 2012.
Tenant Cash Incentive Scheme	+105	+67	-38	There is an ongoing allowance in the capital programme for three payments each year. Two were drawn down during 2011/12.
Disabled Facility Grants	+807	+768	-39	There is an ongoing allowance in the capital programme for £745k of disabled facility grants each year. The Council receives funding of £259k towards this spend.
IT Projects: Service at North Herts and Archiving:	+68	0	-68	These IT capital schemes have come to an end and the remaining budget is not needed at this time. Any new capital investment in IT will need to be approved by Members and will be subject to a business case.
Other minor variances			+59	
Total Decrease In Expenditure			-114	

Link to the Council's priorities

- 4.5 The total programme from 2011/12 to 2015/16 of £20.164million consists of £17.729million of investment towards the three priorities of Town Centres, Sustainable Development and Green Issues and £2.433million of other investment for continuous improvement in services.

Chart 1: Distribution of capital spend on the Council's priorities



Capital Funding 2011/12

- 4.6 The funding sources required for the 2011/12 capital programme have reduced by £1.545million since the third quarter monitoring report. This is due to the slippage and changes to the capital programme detailed above.
- 4.7 The availability of third party contributions and grants to fund capital investment is continuously sought in order to alleviate pressure on the Council's available capital receipts and allow for further investment. In 2011/12 a total of £2.694million of third party contributions and grants has been used to fund the capital programme.
- 4.8 After the application of third party contributions and grants and the use of £36k from the IT reserve, the remaining 2011/12 capital spend of £2.054million will be funded by drawing down the Authority's cash investments. The impact of not applying useable capital receipts will be to reduce the extent to which the Authority's Capital Finance Requirement (CFR) is negative and will of course reduce the amount of cash investments available to earn interest (£2million at current rates will achieve about £40,000 per annum in interest).
- 4.9 Members have previously been advised of the inadequate amount of useable capital receipts available to fund the capital programme in 2011/12. The balance of useable capital receipts at 1 April 2012 available to fund capital expenditure for 2011/12 and onwards was £1.093million and receipts during the year have totalled just £104k. Officers have now received advice from Treasury Advisors who recommend that, given the extent to which the CFR is negative, capital expenditure can be funded by drawing down cash investments (set aside receipts). They also advise that it is not likely it would be considered prudent to raise any more external borrowing. In other words such action could be considered to be in breach of the requirements of S.1 of the Local Government Act 2003. The Council's external auditors are being asked as part of the audit of the accounts to confirm the interpretation of the Treasury advisors and the Capital Strategy for 2012/13 and onwards will then be adjusted accordingly.

Capital Programme 2012/13 and Onwards

- 4.10 The programme shown in Appendix B, includes the 2012/13 Corporate Business Planning Investment proposals which were approved by Members at Full Council on the 9 February 2012.

- 4.11 The capital programme for 2012/13 has increased by £1.431million to £7.989million from the working budget of £6.558million. This is due to the scheme slippage from 2011/12, detailed in table 2.

Asset Disposals to Fund the 2012/13 Capital Programme onwards

- 4.12 The projected capital receipts due from asset disposals in 2012/13 is £2.9million. Market conditions have proven difficult in the last couple of years to finalise asset disposals so there is the possibility these receipts will not be received in the next 12 months.
- 4.13 It is anticipated at this stage that approximately £2.7million of useable capital receipts will be used to fund the 2012/13 capital programme. Based on current estimates a further £3.9million will be needed to be drawn down from external cash investments. This would leave a remaining negative CFR of approximately £31million and would reduce income from cash investments by potentially £80k per annum.

5. LEGAL IMPLICATIONS

- 5.1 The Cabinet 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.
- 5.2 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

6. FINANCIAL AND RISK IMPLICATIONS

- 6.1 The main financial implications are covered in section 4 of the report. The Authority can call upon prudential borrowing or the disposal of its non-core assets if needed and if considered affordable.
- 6.2 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 £1.538million higher than the estimated £15.379million. 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.

7. HUMAN RESOURCE AND EQUALITY IMPLICATIONS

- 7.1 There are no direct human resource or employee equality implications.

8. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 8.1 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.

9. RECOMMENDATIONS

- 9.1 That Cabinet approves expenditure of £4.784million in 2011/12 on the capital programme, paragraph 4.2 refers.
- 9.2 That Cabinet considers the changes to the capital programme for 2012/13 and onwards, a net increase of £1.431million in 2012/13, as a result of the slippage detailed in table 2 and recommends to Council approval of the revised programme for 2012/13 and onwards.
- 9.3 That Cabinet notes the position of the availability of capital resources, as described in paragraphs 4.6 to 4.13, and the requirement to keep the capital programme under review for affordability.
- 9.4 That Cabinet:
- (a) notes the non-application of capital receipts towards the 2011/12 capital programme and the drawdown of £2.054million of cash investments, particularly in the light of advice received regarding further external borrowing, paragraphs 4.8 and 4.9 refers.

In the situation that the external auditors confirm the approach to the drawdown of cash investments.

Or, in the situation that the external auditors do not confirm the approach to the drawdown of cash investments:

- (b) approves the potential application of up to £1million of useable capital receipts with the remaining funding from external borrowing, as deemed appropriate.

10. REASONS FOR RECOMMENDATIONS

- 10.1 Cabinet is required to approve the revisions to the capital programme for 2011/12 and onwards as detailed in appendix B.
- 10.2 Cabinet is required to approve the application of capital receipts towards the 2011/12 capital programme as part of its year end procedures.
- 10.3 Cabinet is required to ensure that the capital programme is fully funded.

11. APPENDICES

- 11.1 Appendix A - Capital Programme Summary 2011/12 onwards.
- 11.2 Appendix B - Capital Programme Detail 2011/12 onwards.
- 11.3 Appendix C – Capital Scheme funding.

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13. BACKGROUND PAPERS

- 13.1 2011/12 Financial Ledger.