

**TITLE OF REPORT: CAPITAL PROGRAMME OUTTURN 2013/14**

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY &amp; GOVERNANCE

***Note: This report is in draft format and will be presented to Cabinet on 24 June and is for this Committee's consideration.***

**1. SUMMARY**

- 1.1 To update Cabinet on the capital programme for 2013/14, as at the end of financial year 2013/14, indicating its impact upon the 2014/15 programme and upon available capital funding resources.
- 1.2 To obtain Cabinet's approval to changes to individual scheme expenditure for 2013/14 and 2014/15 onwards.
- 1.3 To obtain Cabinet's approval for the funding of the capital programme and to the amount of capital receipts applied towards the 2013/14 capital outturn.

**2. RECOMMENDATIONS**

- 2.1 That Cabinet notes expenditure of £11.527million in 2013/14 on the capital programme, paragraph 8.2 refers, and in particular the changes detailed in table 2 which resulted in a net increase on the working estimate of £1.958million.
- 2.2 That Cabinet considers and approves the changes to the capital programme for 2014/15 and onwards as a result of the revised timetable of scheme detailed in table 1, increasing the estimated spend in 2014/15 by £663k.
- 2.3 That Cabinet approves the £110k increase in contingency for the District Museum and Community Facility project as described in paragraph 8.6.
- 2.4 That Cabinet notes the position of the availability of capital resources, as described in paragraphs 8.8 to 8.11, and the requirement to keep the capital programme under review for affordability.
- 2.5 That Cabinet approves the application of £0.290million of capital receipts towards the 2013/14 capital programme and the drawdown of £9.662million of cash investments from set aside receipts, paragraph 8.8 refers.

**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 EXTERNAL ORGANISATIONS AND WARD MEMBERS**

- 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 14 March 2014.

#### **7. BACKGROUND**

- 7.1 Members were advised in June 2013 of the outturn position of the capital programme for financial year 2012/13. Total capital expenditure in 2012/13 was £2.472million and a remaining useable capital receipt balance of £1.2million was available as at 1 April 2013. The projected capital expenditure for 2013/14 at this time was £10.420million.
- 7.2 Members were reminded that the capital programme would need to remain constantly under close review due to the limited availability of capital receipts and the affordability in the general fund of the cost of using the Council's previously set aside capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.2million currently earns the Authority approximately £12k a year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments.
- 7.3 The Medium Term Financial Strategy for 2014 to 2019 confirmed the Council will seek opportunities to utilise capital funding (including prudent use of the set aside receipts) for invest to save schemes and proposals that generate higher rates of return than investments. This is one way the Council will allocate resources to support organisational transformation that will improve services to the public and represent value for money in line with the Council's priorities.
- 7.4 The Council will ensure the level of planned capital spending in any one-year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.
- 7.5 In September 2013 Members approved a revised projected expenditure for 2013/14 of £9.378million. This was a decrease of £1.042million over that previously reported in June. The decrease in spend was largely due to a revision in the timetable for completion of schemes, leading to the re-profiling into future years of £1.706million and partly due to a net increase in the expected spend on schemes of £664k.

- 7.6 In December 2013 Members approved a further revised projected expenditure for 2013/14 of £8.918million. This was a decrease of £460k over that previously reported in September. The decrease in spend was partly due to a revision in the timetable for completion of schemes, leading to the re-profiling into future years of £1.043million and partly due to a net increase in the expected spend on schemes of £583k.
- 7.7 At the time of writing the second quarter monitoring report for the December meeting it was not possible to disclose the final purchase price of the District Council Offices. This transaction was completed at the end of November 2013 at a total capital cost (including Stamp Duty land Tax) of £3.668million (a rent and insurance rebate reduced the total purchase cost to £3.65million). This increased the total projected capital expenditure in 2013/14 to £12.586million.
- 7.8 In March 2014 Members approved a further revised projected expenditure for 2013/14 of £10.232million. This was a decrease of £2.354million over that previously reported. The decrease in spend was partly due to a revision in the timetable for completion of schemes, leading to the re-profiling into future years of £2.387million and partly due to a net increase in the expected spend on schemes of £33k.

## **8. ISSUES**

### **Capital Programme 2013/14**

- 8.1 Summaries of the capital programme by priorities and by service are shown in appendix A together with the overall funding analysis and projected availability of capital receipts. The full programme is detailed in Appendix B and shows the revised costs of schemes, together with the provisional programme from 2013/14 to 2016/17. The funding source for each capital scheme is shown in appendix C.
- 8.2 The outturn capital expenditure for 2013/14 (including all the changes detailed in the paragraphs that follow) is £11.527million. This is an increase of £1.295million over that previously reported at the end of the third quarter. The increase in spend is mainly due to the capitalised contribution to the Pension Fund of £2.447million, agreed by Council in February 2014, but this is partly offset by a revision in the timetable for completion of schemes, leading to the re-profiling into future years of £663k and is also partly due to a net decrease in the expected spend on other schemes of £489k.
- 8.3 The following capital schemes have completed during 2013/14:
- New multi use leisure facilities and a new air conditioning unit at Hitchin Swimming Centre;
  - New wheelie bins for residents to enable the collection of co-mingled recyclables;
  - New wheelie bins for the weekly collection of waste from flats;
  - Purchase of the District Council Offices, releasing an annual revenue saving of £200k per annum, and replacement of the roof to the Council Chamber;
  - Capitalised lump sum payment to the pension fund to relieve the increasing pressure on revenue budgets to fund the pension liability;
  - Grant Payment to Howard Cottage Housing Association for the delivery of affordable housing at Dark Lane, Sandon;
  - A total of £496k of Disabled Facility Grants have been delivered;
  - A new interactive splash pad in Avenue Park, Baldock;
  - Continued improvement and renovation of the District neighbourhood parks, including Avenue Park and Priory Gardens;

- Start of the construction of the District Museum and community facility at Hitchin Town Hall;
- Re-surfaced the car parks at St Mary's and Portmill Lane, Hitchin;
- Improved lighting in Letchworth Multi-storey car park;
- Replacement roof to the Royston Civic Offices;
- An upgrade to the financial system software (delivering ongoing cashable savings of £10k per annum).

8.4 Table 1 lists the schemes now projected to start or continue in 2014/15:

**Table 1: Scheme Timetable Revision:**

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

Scheme	2013/14 Working Budget £'000	2013/14 Outturn £'000	Variance £'000	Comments
Area Visioning	43	7	-36	Fully committed to projects with remaining funds expected to be drawn down in 2014/15.
Customer Relationship Software	42	0	-42	Replacement of the current Lagan system which is used to manage comments, compliments and complaints will be implemented in the first quarter of 2014/15.
Jackmans Pavilion	50	-2	-52	The Football Foundation have indicated they would prefer to grant fund a new pavilion on Baldock Road Recreation Ground. This pump priming is therefore intended to be used for Baldock Road. The feasibility study is complete and the Council produced a detailed design that meets the requirements of the Football Foundation and have secured planning permission. The Council is now acting in a facilitating role to assist local sporting bodies progress with the scheme.
Great Ashby Community Extension	33	-2	-35	The scheme completed in 2012/13 but further payments to the contractor are expected as part of the retention period. The final account with the contractor remains outstanding.
Neighbourhood Park Renovations	259	175	-84	The delivery of the neighbourhood park renovation action plans continues with the final budget earmarked for Ransoms Recreation ground and Walsworth Common.
Westmill Community Centre Roof Replacement	150	0	-150	These funds remain allocated for emergency use only until the new Community Facility replaces the existing building.
North Herts Museum and Community	600	575	-25	Construction of the refurbished

Scheme	2013/14 Working Budget £'000	2013/14 Outturn £'000	Variance £'000	Comments
Facility				facility continues into 2014/15. See paragraph 8.6 for a further update on this project.
Royston Civic Centre Site redevelopment	41	0	-41	Viability work completed. The site has complex land ownership arrangements and progress will be subject to discussions with the land owners.
Weekly Collection of Waste from flats	385	346	-39	The remaining budget of this scheme funded by grant.
Other minor slippage			-159	
<b>Total Revision to Budget Profile</b>			<b>-663</b>	

8.5 There are also changes to the overall costs of schemes in 2013/14. These changes total an increase of £1.958million and are detailed in Table 2:

**Table 2: Changes to Capital Schemes Commencing in 2013/14:**

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

Scheme	2013/14 Working Budget £'000	2013/14 Revised Projection £'000	Increase/ Decrease £'000	Notes
Capitalised Pension Fund Contribution	0	2,447	2,447	Additional payment to the pension fund, as agreed by Council on the 13 <sup>th</sup> February 2014.
Disabled Facility Grants	773	496	-277	Although there remains a backlog of grants to deliver a number of orders remained in-complete at year end for a variety of reasons, such as staff resource issues both in-house and in third parties.
Health & Safety Compliance Work	0	-27	-27	The compliance programme work completed during the year was lower in value than estimated and could be funded from revenue repairs and maintenance budgets.
Council Chamber Re-roofing	150	84	-66	Underspend on the original estimate.
Server Strategy	47	0	-47	This is the final amount of budget that remains of the project which originally started in 2009/10 and is now complete. Total spend over the life of the project was £193k.
Hitchin Swimming Centre multi-use facilities and Air Conditioning	1,200	1,177	-23	The new facilities were opened in March 2014 and delivered within the overall budget for these two aspects of the scheme. The final works on the changing village were continuing at year end into 2014/15 and the estimated full cost of these is £660k, bringing the total cost of improvements to £1.837million.
<b>Other minor changes</b>			<b>-49</b>	
<b>Total revision to scheme spend</b>			<b>1,958</b>	

8.6 The Quantity Surveyor has advised Project Board it would be prudent to increase the contingency of £60k for the construction of the North Herts Museum and Community Facility at Hitchin Town Hall by £110k. This increase will bring the total project estimate to £4.685million. A number of significant uncontrollable variations to the construction contract have already reduced the existing contingency, which is currently estimated to be under £10k. The key variations are as follows:

- Asbestos identified between 15/16 Brand Street which would not have been an area included in the existing survey;
- Removal of the lamp post in Brand Street;
- Payment to the electricity company for changes to the electricity supply was larger than original estimate;
- More expensive bricks were required to conform to planning and conservation consent;
- Structural design changes to strengthen the front of the building were necessary to comply with the specifications that were not identified in initial survey.

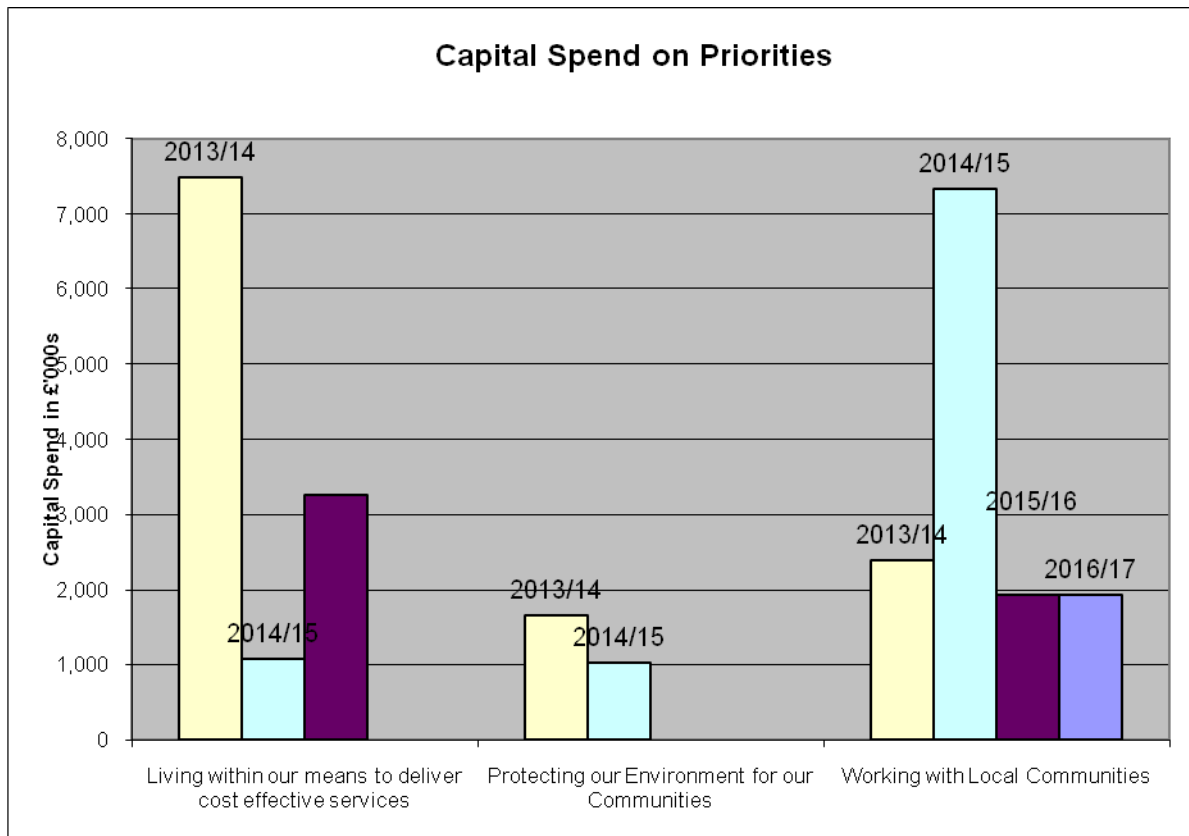
#### **Link to the Council's Priorities**

8.7 The total programme from 2013/14 to 2016/17 of £28million contributes towards the three existing priorities of:

- Living within our means to deliver cost effective services;
- Protecting our Environment for our Communities;
- Working with Local Communities.

The Council has adopted three new priorities for 2014/15 and onwards and so it will be demonstrated how the programme contributes to the delivery of these new priorities in future reports.

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



#### Capital Programme 2013/14 Funding onwards

- 8.8 The balance of useable capital receipts available at the start of the year to fund capital expenditure for 2013/14 and onwards was £1.243million. The 2013/14 capital spend requires funding of £9.952million from the Council's capital resources. A total of £0.290million is proposed to be used from useable capital receipts and the remaining £9.662million is proposed to be used from the set aside receipts. Use of the set aside receipts will increase the Council's Capital Financing Requirement (CFR) and this will be reflected in the Treasury Activity review of 2013/14.
- 8.9 There will be a balance of £1.337million remaining in useable capital receipts at 1 April 2014 for funding of future capital spend. There have been two asset disposals during 2013/14 which have resulted in capital receipts of £385k. These were disposal of land at Dark Lane, Sandon and Templars Lane, Preston.
- 8.10 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 2013/14 a total of £1.55million of third party contributions and grants has been applied. This includes £482k of S106 receipts.
- 8.11 The capital programme will need to remain permanently under close review due to the limited availability of capital receipts and the affordability in the general fund of the cost of using the Council's set aside capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.2million currently earns the Authority approximately £12k a year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments. When the CFR reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider borrowing for further capital spend. The CFR at the 31 March 2014 is negative £23million.

## 9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference specifically include "to monitor expenditure on the capital programme". 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 section 8 of the report. The Authority can call upon disposal of its non-core assets if needed and if considered affordable.
- 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 £2.8million higher than the estimated £28million. 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). The key risks arising from the project may be recorded on Covalent the Council's Performance & Risk management software. Some of the major capital projects have been included as the Council's Top Risks (such as the new District Museum and changes to the waste service). The Top Risks are monitored by the Finance Audit and Risk Committee.

## 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 2013/14 onwards.  
15.2 Appendix B, Capital Programme Detail 2013/14 onwards,  
15.3 Appendix C, Capital scheme Funding 2013/14 onwards,

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### **17. BACKGROUND PAPERS**

- 17.1 2012/13 Year End Statement of Accounts

[http://www.north-herts.gov.uk/index/council\\_and\\_democracy/budgets\\_and\\_spending/statement\\_of\\_accounts.htm](http://www.north-herts.gov.uk/index/council_and_democracy/budgets_and_spending/statement_of_accounts.htm)

- 17.2 2013/14 and 2014/15 Budget Estimates Book.

[http://www.north-herts.gov.uk/index/council\\_and\\_democracy/budgets\\_and\\_spending/budgets\\_for\\_this\\_year.htm](http://www.north-herts.gov.uk/index/council_and_democracy/budgets_and_spending/budgets_for_this_year.htm)