

TITLE OF REPORT: SECOND QUARTER CAPITAL MONITORING 2016/17

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 September 2016, indicating its impact upon the 2017/18 programme. The current forecast is that this will decrease total spend in 2016/17 by **£1.551 million** and lead to **£1.416 million** of spend being reprogrammed in to 2017/18. The significant scheme changes are the Cycle Strategy Implementation, On Street Charging Pay & Display, Transport Plans Implementation and Bancroft Recreation Park.
- 1.2 To note the funding available for the capital programme and the current forecasts on how this is used. 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 presented to Cabinet in a separate report.

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 2016/17 Capital Programme identified in **table 2** and **paragraph 7.4**, a **£1.551 million reduction** in the 2016/17 working budget.
- 2.3 Cabinet is requested to note the forecast changes to the 2017/18 Capital Programme identified in **table 2** and **paragraph 7.4**, a **£1.416 million 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 £8.617 million for 2016/17 and £11.053 million 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 £M	2017/18 to 2019/20 £M
Original approved budget	8.617	11.053
Approved amendments reported at Qrt 1	12.507	0.833
Quarter 1 2016/17	-1.415	1.699
Working budget	19.709	13.585
Quarter 2 2016/17	-1.551	1.416
Current working budget	18.158	15.001

- 7.2 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 from the working budget in the total spend on a project in 2016/17, and indicates whether this is due to the timing of spend and therefore the 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
Record Council Meetings	64	0	-64	Progress with this project is dependent on the completion of the refurbishment of the DCO.	64
Cycle Strategy Implementation	278	0	-278	Staff resources are being directed to the production of the Local Plan and to the review of the Parking Strategy. This will enable the Cycle Strategy to reflect the forthcoming sites and policies within the submission version of the Local Plan.	278
Transport Plans Implementation	209	0	-209	Staff resources are being directed to the production of the Local Plan and to the review of the Parking Strategy, which will have implications on these projects.	209
Green Infrastructure Implementation	185	20	-165	Staff resources have been directed to the production of the Local Plan. Work on the Baldock Station to Letchworth Industrial Link Project is expected to recommence with HCC in this financial year. Remaining work	165

Scheme	2016/17 Working Budget £k	2016/17 Forecast spend £k	Difference £k	Reason for difference	Estimated impact on 2017/18 onwards £k
				will not commence until at least 2017/18 when further Green Infrastructure Projects will be reviewed in light of Masterplanning work, which will emerge as part of the strategic site allocations work within the Local Plan.	
Royston Civic Centre Redevelop	41	0	-41	This project will be reviewed in light of the Asset Management Strategy to assess whether it remains a priority or if the funds should be reallocated to other projects that may emerge from the Parking Strategy Review, which is anticipated to be completed in spring 2017.	41
Warren Car Park Redevelopment	100	0	-100	This project is linked to the Civic Centre redevelopment. If the Civic Centre project is not to be continued then these funds can be released for reallocation.	100
On Street Charging Pay & Display	285	0	-285	The Council's Parking Strategy Review will encompass this project. The Parking Strategy Review is anticipated to be completed in spring 2017. The outcome of the review will inform the decision on whether this project should be progressed.	285
Baldock Town Hall Improvements	117	0	-117	Spend is dependent on receiving requests for funds from the local community group. The group has not requested as much of the allocated funds as anticipated in 2016/17. Officers will continue to assist the group.	90
Disabled Facilities	745	654	-91	The number of applications received from North Hertfordshire Homes (NHH) this year has been lower than expected.	0
Bancroft Recreation Park MUGA	170	0	-170	This scheme was approved with a condition that £80K of external funding is required for the scheme to go ahead. Officers are currently waiting for Sport England to launch their new grant scheme.	170
Total of explained variances	2,194	674	-1,520		1,402
Other minor variances	17,515	17,484	-31		14
Overall total	19,709	18,158	-1,551		1,416

- 7.3 The Rural Grants budget has been merged with the Refurbishment and Improvement of Community Facilities budget to give a total budget in 2016/17 of £0.346 million.
- 7.4 Cabinet are asked to approve the differences highlighted in the table above (a **£1.551 million reduction** in spend), as an adjustment to the working budget for 2016/17 (recommendation 2.2). Cabinet are asked to note the estimated impact on the capital programme budget for 2017/18 onwards (a **£1.416 million increase** in budget) which will be incorporated in to the 2017/18 budget setting process (recommendation 2.3).

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 contributions to fund capital tends to be low given the limited (and reducing) availability of revenue funding. Capital receipts are the proceeds of sale of 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 £M	2017/18 to 2019/20 £M
Current working budget (Table 1)	19.709	13.585
Changes against working budget (table 2)	-1.551	1.416
Total funding required	18.158	15.001
Funding sources		
Government Grant	0.674	2.705
Revenue funding	0.004	0
Other capital contributions	0.926	0.413
Developer contributions (s106)	0.448	0.393
Capital receipts	4.838	4.572
Set-aside receipts	11.268	6.918
Total funding (to match above)	18.158	15.001
Capital receipts balances		
Brought-forward	5.462	3.624
Assumed additions	3.000	1.000
Funds used (as above)	-4.838	-4.572
Carried forward	3.624	0.052
Set-aside receipts balances		
Brought-forward	18.827	7.559
Funds used (as above)	-11.268	-6.918
Carried forward	7.559	0.641

- 8.4 The Council does have land that it could sell, subject to the right opportunities for its use. A separate report to Cabinet provides an update 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 there is a need to balance the need for revenue income and the availability of capital funding.
- 8.5 The capital programme will therefore need to remain permanently under close review due to the limited availability of capital resources and the impact on revenue of using cash. When capital and set-aside receipts are used, the availability of cash for investment reduces and so therefore interest income earned, which is treated as income to the General Fund also falls. There is also an impact on revenue income 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 as longer deposits generally attract a higher interest rate return.

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 £3.316 million higher than the estimated £33.158 million. 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.
- 10.3 At the start of the year, the total of the Council's capital reserves (set-aside and capital receipts) was £24.3million. Total capital spend at the end of quarter 2 was £2.1 million. It is forecast that during quarter 4, the level of capital reserves will fall below £20 million. As detailed in the Medium Term Financial Strategy this requires that a review of funding is undertaken. This will be incorporated in to the capital programme report for 2017/18 to 2020/21.

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 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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