

TITLE OF REPORT: THIRD 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 progress with delivering the capital programme for 2016/17, as at the end of December 2016, indicating its impact upon the approved capital programme for 2017/18 - 2020/21. The current estimate is a decrease in spend in 2016/17 from that reported at quarter 2 of **£8.727 million**, and an increase in spend in future years of **£8.541 million**. The significant scheme changes are to the refurbishment of the District Council Offices building and the North Herts Leisure Centre development.
- 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.

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 **£8.727 million reduction** in the 2016/17 working budget.
- 2.3 That Cabinet approves the adjustments to the Capital Programme for 2017/18 onwards identified in **table 2** and **paragraph 7.4**, a **£8.541 million increase** in total spend.

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 20 January 2017.

7. CAPITAL BUDGET AND FORECASTS

- 7.1 In February 2016, Council approved the capital programme for 2016/17 to 2019/20. This was subsequently amended by reprogramming from 2015/16 and changes in forecasts at quarter 1 and quarter 2. In February 2017, Council approved the capital programme for 2017/18 to 2020/21 of £16.140 million. Table 1 below details changes to this budget from that reported at quarter 2 to get to the current estimate of capital expenditure:

Table 1- Current capital estimates

	2016/17 £M	2017/18 £M	2018/19 to 2020/21 £M
Estimates as at Q2 2016/17	18.158	15.001	
Capital Programme 2017-2021		8.465	7.675
Quarter 3 2016/17	-8.727	8.771	-0.230
Current Estimates	9.431	17.236	7.445

- 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
Capital enhancement programme	47	0	-47	Allocated to address any major health and safety issues arising from condition surveys of all operational Council premises. No issues arose.	0
Council property improvements following condition surveys	600	200	-400	Delayed due to the time taken to commission suppliers to undertake the necessary works. Officers are currently working with Stevenage BC and Broxbourne BC to jointly tender a new single supplier contract to carry out necessary works identified from condition surveys and other inspections.	400
Energy Efficiency Measures	60	0	-60	This budget was originally planned to be spent primarily on the purchase and installation of solar panels. However due to reductions in feed-in tariffs, these schemes will now be re-	60

Scheme	2016/17 Working Budget £k	2016/17 Forecast spend £k	Difference £k	Reason for difference	Estimated impact on 2017/18 onwards £k
				evaluated.	
Enhancements to Hitchin and Letchworth Multi-Storey Car Parks and St Mary's Car Park	625	1	-624	While some progress has been made with these projects, other priorities have meant that sufficient officer resource has not been available to ensure the identified improvements are delivered in this financial year.	624
St Mary's car park. Structural repairs to steps	25	0	-25		25
Making good trip hazards, Hitchin Town Centre	25	1	-24		24
Refurbishment of District Council Offices (DCO)	5,718	800	-4,918	Works on the DCO are expected to commence in March 2017.	4,918
Replacement of Walsworth Common Access Bridge	185	0	-185	These works are currently out to tender. The contract is expected to be awarded in April.	185
Storage Facilities	750	700	-50	A review of project costs has identified that £50k of the total provision relates to revenue spend. Those identified revenue items where costs are now known are included in the revenue monitoring report.	0
Refurbishment and improvement of community facilities	336	0	-336	This scheme launched in October and the "Community Facilities Capital Project Funding Scheme Panel" was established in December. There has been a lot of interest and to date two applications have been received. The Panel is due to meet in March to decide on awards of funding, by which time it is expected that more applications will have been received.	336
S106 Projects	240	330	90	To date, a total of £323k of S106 funds have been released for community schemes.	0
Microsoft Enterprise Agreement	115	460	345	The projected outturn reflects the total cost of the four year licensing agreement with Microsoft. The spend profile in the capital programme reflected the profile of the annual cash payments to Microsoft. While the payment schedule has not changed, for accounting purposes the full cost is recognised upfront in the accounts. The investment will then be amortised over the life of the	-345

Scheme	2016/17 Working Budget £k	2016/17 Forecast spend £k	Difference £k	Reason for difference	Estimated impact on 2017/18 onwards £k
				agreement.	
Hitchin Swimming Pool Car Park extension	278	2	-276	An application has been submitted to the Planning Inspectorate for permission to build an access road on common land. If consent is granted then a planning application will be prepared.	276
North Herts Leisure Centre Development	3,286	1,389	-1,897	The re-profiling of spend follows the 10 week delay in completing construction reported at Q1. In addition, the latest cost report from the appointed quantity surveyor identified further costs of £93k relating to the café and changing rooms not previously accounted for within the construction contract. The Council's leisure contractor has agreed to the use of profit-share resource to mitigate the financial impact on NHDC of this increase in cost.	1,990
Renew pathways at Bancroft Recreation Ground, Hitchin	50	15	-35	These works will not commence until the completion of the Play Area work, which is due to finish by the end of April.	35
Total of explained variances	12,340	3,898	-8,442		8,528
Green Space Strategy Review					
Clothall Road boundary fence and gate	15	0	-15		0
Icknield Way Cemetery pathways and roadways improvements	40	0	-40		0
King George V Recreation Ground Improvements	60	0	-60		0
New Wheeled Sports Provision, Baldock	100	0	-100		0
Swinburne Playing Fields Improvements	30	0	-30		0
Walsworth Common Enhancements to wheeled sports provision	20	0	-20		0
Total Green Space Strategy Review	265	0	-265		0
Other minor variances	5,553	5,533	-20		13
Overall total	18,158	9,431	-8,727		8,541

7.4 Cabinet are asked to approve the differences highlighted in the table above (a **£8.727 million reduction** in spend), as an adjustment to the working budget for 2016/17 (recommendation 2.2). Cabinet are asked to approve the estimated impact on the capital programme budget for 2017/18 onwards (a **£8.541 million increase** in budget).

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 availability of revenue funding. Capital receipts are the proceeds from the sale of assets (e.g. land). Future sales of assets 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 2020/21 £M
Current working budget (Table 1)	18.158	16.140
Changes against working budget (table 2)	-8.727	8.541
Total funding required	9.431	24.681
Funding sources		
Government Grant	0.674	3.450
Revenue funding	0.004	0.000
Other capital contributions	0.881	0.413
Developer contributions (s106)	0.535	0.379
Capital receipts	2.470	7.130
Set-aside receipts	4.867	13.309
Total funding (to match above)	9.431	24.681
Capital receipts balances		
Brought-forward	5.462	2.992
Assumed additions	0.000	5.690
Funds used (as above)	-2.470	-7.130
Carried forward	2.992	1.552
Set-aside receipts balances		
Brought-forward	18.827	13.960
Funds used (as above)	-4.867	-13.309
Carried forward	13.960	0.651

- 8.4 The capital programme therefore needs 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 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 duration of the programme it should be anticipated that the total spend could be £3.41 million higher than the estimated £34.11 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 3 was £3.2 million. It is forecast that during quarter 4, the level of capital reserves will fall below £20 million. A review of funding at this point, as required by the Medium Term Financial Strategy, was incorporated in the Corporate Business Planning report presented to Cabinet in December.

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

- 16.1 Report Writer – Antonio Ciampa, Accountancy Manager, Tel 474566,
antonio.ciampa@north-herts.gov.uk

Contributor – Norma Atlay, Strategic Director of Finance, Policy & Governance
Tel 474297, norma.atlay@north-herts.gov.uk

Ian Couper, Head of Finance, Performance and Asset
Management, Tel 474243, ian.couper@north-herts.gov.uk

Dean Fury, Corporate Support Accountant, Tel 474509,
dean.fury@north-herts.gov.uk