

FINANCE, AUDIT & RISK COMMITTEE

21 November 2017

PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

9

The following is the report to be considered by the Cabinet at its meeting to be held on 21 November 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: SECOND QUARTER CAPITAL MONITORING 2017/18

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To update Cabinet on progress with delivering the capital programme for 2017/18, as at the end of September 2017, indicating its impact upon the approved capital programme for 2018/19 - 2020/21. The current estimate is a decrease in spend in 2017/18 from that reported in the First Quarter Capital Monitoring report of £0.619million, and an increase in spend in future years of £0.923 million. The most significant individual changes are the inclusion of the purchase of new Fitness Equipment at Hitchin and Royston Leisure Centres, and the re-profiling of John Barker Place and Property Improvements into 2018/19.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of **£14.520million** in 2017/18 on the capital programme, paragraph 8.2 refers, and approves the changes detailed in table 3 which resulted in a net increase on the working estimate of **£0.304million**.
- 2.2 That Cabinet notes the changes to the capital programme for 2018/19 and onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2018/19 by **£0.923million** (re-profiled from 2017/18). These will be incorporated in to the draft capital programme for 2018/19 onwards.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4, and the requirement to keep the capital programme under review for affordability.

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 first notified to the public in the Forward Plan on the 28 July 2017.

7. BACKGROUND

7.1 In February 2017, Council approved the capital programme for 2017/18 to 2020/21. This was subsequently amended by reprogramming from 2016/17 and re-profiling at the first quarter.

7.2 The Medium Term Financial Strategy for 2017 to 2022 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for invest to save schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

8. RELEVANT CONSIDERATIONS

Capital Programme 2017/18

8.1 Summaries of the capital programme by Council priority and service are shown in appendix A together with the overall funding analysis and projected availability of capital funding balances (set aside and capital receipts). The full programme is detailed in Appendix B and shows the revised costs to date, together with the expected spend from 2017/18 to 2020/21 and the funding source for each capital scheme.

8.2 Capital expenditure for 2017/18 is estimated to be **£14.520million**. This is a reduction of **£0.619million** on that forecast in the first quarter 2017/18 report (reported to Cabinet on 26 September 2017). The decrease in spend in 2017/18 is largely due to re-profiling of spend into future years. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2017/18 £M	2018/19 £M	2019/20 to 2020/21 £M
Original Estimates approved by Full Council February 2017	8.465	4.788	3.197
Changes approved by Cabinet in 2016/17 Capital Outturn report	12.125	-0.365	0.025
Revised Capital estimates at start of 2017/18	20.590	4.423	3.222
Changes approved by Cabinet at 1 st Qrt	-5.451	5.234	0

	2017/18 £M	2018/19 £M	2019/20 to 2020/21 £M
Changes detailed in this report	-0.619	0.923	0
Current Capital Estimates at Q2	14.520	10.580	3.222

8.3 Table 2 lists changes to the 2017/18 Capital Programme and the impact in subsequent years:

Table 2: Scheme Timetable Revision:

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

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2018/19 onwards £'000
HAG John Barker Place	548	0	-548	The scheme has been revised so now awaiting a decision on the new planning application.	548
Property Improvements	380	65	-315	Some of the works initially identified from condition surveys will not be carried out this year. This is due to a review of the level of works required and a consideration of future ownership plans. The budget is based on prioritising spend from a long list of identified works, and as such the overall works budget will still be needed in future years.	315
Replacement Floodlights St Marys Car Park	60	0	-60	This work is still required but will not commence in this financial year	60
Total Revision to Budget Profile			-0.923		0.923

8.4 There are also changes to the overall costs of schemes in 2017/18. These changes total a net increase of £0.304million and are detailed in Table 3:

Table 3: Changes to Capital Schemes Commencing in 2017/18:

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

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Comments
Fitness Equipment Hitchin & Royston Leisure Centres	0	520	520	Purchase of new cardio and resistance equipment for the Hitchin and Royston leisure facilities, as approved by Full Council in August 2017. The Council's Leisure Contractor (Stevenage Leisure Limited) will

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Comments
				pay back the Council in full over 5.5 years at an agreed interest rate of 3.5%. The repayment will be made through an increase in the annual management contract sum.
Section 106 Projects	15	67	52	To date, a total of £67k of S106 funds have been released for community schemes.
Careline - Alarm Receiving Centre(ARC) ICT Compliance	0	30	30	Changes to IT security requirements and telecommunication protocols mean that a hardware upgrade is required. This change also simplifies the way that upgrades are carried out.
Disabled Facilities Grants	745	600	-145	DFG spend to the year end is uncertain because the recently formed Hertfordshire Home Improvement Agency, of which NHDC is a partner along with several other authorities, takes over responsibility for delivery of DFGs from 1 October 2017. Ultimately, it is anticipated that the Agency will provide a more streamlined and efficient service but it is likely that it will take time to build up capacity.
Access Bridge Walsworth Common	180	120	-60	Successful bid for these works came in at a lower cost than anticipated in the budget.
Letchworth Multi Storey Car Park Structural Repairs	39	0	-39	This work can be absorbed within the Letchworth Multi Storey Parapet/Soffit/Decoration Capital budget.
Home Repairs Assistance Grants	60	30	-30	Demand for HRAGs has been lower than expected so far this year. The Housing and Public Protection Service is looking to improve the advertising of these grants so that those needing support are able to access it.
Neighbourhood CCTV Equipment	60	35	-25	Although costs are yet to be finalised, it is anticipated that work will be completed this year under budget.
			Other minor changes	1
			Total revision to scheme spend	304

Capital Programme 2017/18 Funding onwards

8.5 Table 4 below shows how the Council will fund the 2017/18 capital programme.

Table 4: Funding the Capital Programme:

	2017/18 Balance at start of year	2017/18 Forecast Additions	2017/18 Estimated Use of Funding	2017/18 Forecast Balance at end of year
	£M	£M	£M	£M
Useable Capital Receipts	3.221	1.040	(2.586)	1.675
Set-aside Receipts	16.642		(10.987)	5.655
<i>S106 receipts</i>			(0.347)	
<i>Other third party grants and contributions</i>			(0.600)	
Total	19.863	1.040	(14.520)	7.330

8.6 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment.

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.

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 £2.832million higher than the estimated £28.322million.

10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. A cash balance of £1.0million currently earns the Authority approximately £8k per year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments as cash balances reduce. When the Capital Financing Requirement (CFR) reaches zero the Council will need to consider borrowing for further capital spend and will need to start charging a minimum revenue provision to the general fund for the cost of capital. The CFR at the 31 March 2017 is negative £17million.

- 10.4 The Council also aims to ensure that 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.

11. RISK IMPLICATIONS

- 11.1 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are 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 North Hertfordshire Museum). The Top Risks are monitored by the Finance, Audit and Risk Committee.

- 11.2 Cabinet receives quarterly reports on project progress and forecast spend

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their 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.

- 12.2 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 Cabinet agreement of the investment. A sound management of funds ensures that the Council has sufficient monies to support the improvement of district facilities.

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 2017/18 onwards.
Appendix B - Capital Programme Detail including Funding 2017/18 onwards.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 2017/18 Budget Estimates Book.

<https://www.north-herts.gov.uk/sites/northherts-cms/files/Budget%20Estimates%20Book%202017-18%20Final%20for%20internet.pdf>