

CABINET
27 MARCH 2018

PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

9

TITLE OF REPORT: THIRD 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 December 2017, and indicating its impact upon the approved capital programme for 2018/19 - 2021/22. The current estimate is a decrease in spend in 2017/18 of £4.167million from that reported when the Capital Programme for 2018/19-2021/22 was approved by Council in February 2018, and an increase in spend in future years of £4.139 million. The most significant individual changes are the inclusion of the purchase of kitchen caddies to support the new weekly collection of food waste service from May 2018 and the re-profiling of the capital expenditure allocations for new waste vehicles and housing investment into 2018/19.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of **£10.903million** in 2017/18 on the capital programme, paragraph 8.2 refers, and approves the adjustments detailed in table 3 which resulted in a net decrease on the working estimate of **£0.028million**.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2018/19 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2018/19 by **£4.139million** (re-profiled from 2017/18).
- 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 2nd February 2018.

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 and second 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 2021/22 and the funding source for each capital scheme.

8.2 Capital expenditure for 2017/18 is estimated to be **£10.903million**. This is a reduction of **£4.167million** on that forecast when the capital programme for 2018-22 was recommended by Cabinet to Council for approval in February (reported to Cabinet on 23 January 2018). 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 2021/22 £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 1st Quarter	-5.451	5.234	0
Changes approved by Cabinet at 2nd Quarter	-0.619	0.923	0

	2017/18 £M	2018/19 £M	2019/20 to 2021/22 £M
Revised Capital Programme 2018 – 2022 approved by Council	0.550	1.930	1.343
Capital Estimates at Q3	15.070	12.510	4.565
Changes at Q3 detailed in this report	-4.167	4.139	0.000
Current Capital Estimates	10.903	16.649	4.565

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
NH Museum & Community Facility	146	101	-45	The remaining fit out will impact on 14/15 Brand street premises, so the works have been put on hold until premises arrangements have been resolved.	45
St Mary's car park. Structural repairs to steps	35	0	-35	A product is being tested which seems to be working well. Any further work will be deferred until fully tested.	35
Storage Facilities	40	7	-33	Scoping works are underway with a view to carrying out the installation of a mezzanine floor in 2018/19.	33
Waste and Street Cleansing Vehicles	3,600	0	-3,600	The Waste contractor will procure the vehicles themselves, however the budget is still likely to be required to cover the capitalised cost of the vehicles used in the contract.	3,600
Provide housing at market rents	200	0	-200	A business case for a property company is to be determined by the Cabinet Sub Committee. The cost of any capital works will only happen once the company is established, which requires Cabinet approval	200

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2018/19 onwards £'000
Hitchin Outdoor Pool Showers and Toilets	75	0	-75	The lowest tender price submitted for the Hitchin and Letchworth sites was £36k greater than the total budget. The project will be deferred to the new year so value engineering can be done in this year to determine if the costs can be reduced.	75
Letchworth Outdoor Pool Showers and Toilets	75	0	-75		75
Total Minor (under £25k) slippage on other projects			-76		76
Total Revision to Budget Profile			-4,139		4,139

8.4 There are also changes to the overall costs of schemes in 2017/18. These changes total a net decrease of £0.028million 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
Purchase of Kitchen Caddies	0	132	132	Purchase of Kitchen Caddy Liners was agreed at Full Council on 23.11.17
Letchworth Multi Storey Safety Edge Protection Fencing	120	0	-120	A structural survey confirmed that the walls are not strong enough to have fencing attached to them.
Hitchin & Royston Fitness Equipment	520	490	-30	The final tendered price for the equipment and associated works was less than the original price quoted.
Other minor changes			-10	
Total revision to scheme spend			-28	

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	1.200	(1.865)	2.556
Set-aside Receipts	16.642		(7.620)	9.022
<i>S106 receipts</i>			(0.328)	
<i>Other third party grants and contributions</i>			(1.090)	
Total	19.863	1.200	(10.903)	11.578

- 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 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 section 8 of the report.
- 10.2 The Authority operates a tolerance of at least 10% on capital projects (dependent on value) and on this basis over the duration of the programme it should be anticipated that the total spend over the period could be around £3.2million higher than the estimated £32.117million.
- 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 was 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 Pentana (the Council's Performance & Risk management software). Some of the major capital projects have been included as the Council's Top Risks (e.g. 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>