

FINANCE, AUDIT AND RISK COMMITTEE
17 December 2018

PUBLIC DOCUMENT

TITLE OF REPORT: SECOND QUARTER CAPITAL MONITORING 2018/19

REPORT OF: SERVICE DIRECTOR - RESOURCES
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 2018/19, as at the end of September 2018, and indicating its impact upon the approved capital programme for 2019/20 - 2021/22. The current estimate is a decrease in spend in 2018/19 of £8.666million and an increase in spend in future years of £7.387 million. The most significant individual changes are the re-profiling of funding for John Barker Place, Providing Housing at Market Rents and Hitchin Swim Centre Car Park into 2019/20 and the withdrawal of the Pension Fund Contribution.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of **£7.211million** in 2018/19 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 **£2.468million**.
- 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 future years 2019/20 by **£7.387million**.
- 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 12th October 2018.

7. BACKGROUND

- 7.1 In February 2018, Council approved the capital programme for 2018/19 to 2021/22. This was subsequently amended by reprogramming from 2017/18 and again in the 1st Quarter Monitoring Report.
- 7.2 The Medium Term Financial Strategy for 2018 to 2023 confirmed that the Council will seek opportunities to utilise capital funding 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 2018/19

- 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 expected spend from 2018/19 to 2021/2 and the funding source for each capital scheme.

- 8.2 Capital expenditure for 2018/19 is estimated to be **£7.211million**. This is a reduction of **£8.646million** on the forecast in the 1st quarter report (reported to Cabinet on 31st July 2018). The decrease in spend in 2018/19 is largely due to the re-profiling of spend into future years. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

| | 2018/19 £M | 2019/20 £M | 2020/21 to 2023/24 £M |
|--|---------------|---------------|-----------------------------|
| Original Estimates approved by Full Council February 2018 | 12.511 | 1.828 | 2.737 |
| Changes approved by Cabinet in 2017/18 Capital Outturn report (reprogramming from 2017/18) | 5.644 | 0 | 0 |
| Revised Capital estimates at start of 2017/18 | 18.155 | 1.828 | 2.737 |
| Changes at Q1 | -2.298 | 0.150 | -1.490 |
| Addition to capital programme for lift at Town Hall / Museum | 0.020 | 0 | 0 |
| Changes at Q2 detailed in this report | -8.666 | 6.387 | 1.000 |
| Current Capital Estimates | 7.211 | 8.365 | 2.247 |

- 8.3 Table 2 lists changes to the 2018/19 Capital Programme and the impact in subsequent years:

Table 2: Scheme Timetable Revision:

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

| Scheme | 2018/19 Working Budget £'000 | 2018/19 Forecast Spend £'000 | Difference £'000 | Reason for Difference | Estimated impact on 2019/20 onwards £'000 |
|---------------------------------|---------------------------------------|---------------------------------------|---------------------|---|---|
| Provide Housing at Market Rents | 2,850 | 500 | -2,350 | This budget was moved to the newly appointed Service Director for Commercial who commence employment in June 2018, therefore, the total spend is significant less than originally projected. Works in progress to establish a property company. Current year spend will relate to Harkness Court. | 2,350 |
| HAG John Barker | 1,096 | 0 | -1,096 | Settle (formerly North Herts | 1,096 |

| Scheme | 2018/19 Working Budget £'000 | 2018/19 Forecast Spend £'000 | Difference £'000 | Reason for Difference | Estimated impact on 2019/20 onwards £'000 |
|---|---|---|-----------------------------|--|--|
| Place | | | | Homes) have submitted revised plans for pre-application advice and are waiting for confirmation from their Board to proceed with the revised application. | |
| Hitchin Swim Centre Car Park | 498 | 0 | -498 | A revised plan will be prepared to increase the number of parking spaces at the current car parking site. | 498 |
| Hitchin Multi-Storey Lifts Refurbishment | 360 | 0 | -360 | On hold until the Parking review is complete. | 360 |
| Letchworth Multi-storey Parapet / Soffit Decoration | 138 | 0 | -138 | | 138 |
| St Marys Car Park Lighting | 60 | 0 | -60 | | 60 |
| Install On Street Charging | 50 | 0 | -50 | | 50 |
| Hitchin Multi-Storey Car Park – Safety & Equality | 39 | 0 | -39 | | 39 |
| Community Facilities Refurbishment | 671 | 379 | -292 | The next Capital Grants Member Panel is scheduled for mid January 2019 and currently there are approximately 10 potential schemes looking for significant funding. It is unlikely however that all funds awarded at the meeting will be spent before year end. | 292 |
| Cycle Strategy Implementation | 278 | 0 | -278 | A draft strategy is currently being worked on. Consultation on the strategy will not happen before 2019/20. | 278 |
| Transport Plans Implementation | 250 | 0 | -250 | The work on the transport plan has been dependent on the progress of the local plan. Recruitment will shortly be undertaken for a Transport Policy Officer, who | 250 |

| Scheme | 2018/19 Working Budget £'000 | 2018/19 Forecast Spend £'000 | Difference £'000 | Reason for Difference | Estimated impact on 2019/20 onwards £'000 |
|-------------------------------------|---|---|-----------------------------|---|--|
| | | | | will be able to undertake this work. | |
| On Street Charging – Pay & Display | 235 | 0 | -235 | A review of the parking strategy will be presented to Cabinet in January 2019. Work will not commence before 2019/20. | 235 |
| Green Infrastructure Implementation | 185 | 0 | -185 | A draft strategy is currently being worked on. Consultation on the strategy will not happen before 2019/20. | 185 |
| Bancroft Recreation Ground MUGA | 170 | 0 | -170 | Working with Groundwork Hertfordshire to produce the specification and undertake the procurement. Works are expected to commence in April. | 170 |
| Walsworth Common Pitch Improvements | 100 | 0 | -100 | Will commence once the current football season has finished. | 100 |
| Off Street Car Parks Resurfacing | 91 | 0 | -91 | Car Parks are in satisfactory condition so budget not required in 18/19. | 91 |
| Baldock Town Hall Improvements | 75 | 9 | -66 | Part of the planned improvements works have commenced however an asbestos survey was carried out prior to the contractors starting which revealed a significant amount of the hazardous material within the ceiling of one of the areas due to be refurbished. The decision has been taken to delay works within this area until the material has been removed. | 66 |
| Royston Leisure Centre | 0 | 0 | 0 | The outline business case did not provide a payback within the current contract period. The proposal has been deferred to allow it to be kept under review. This could be within the current | 1,000 |

| Scheme | 2018/19 Working Budget £'000 | 2018/19 Forecast Spend £'000 | Difference £'000 | Reason for Difference | Estimated impact on 2019/20 onwards £'000 |
|---|---------------------------------------|---------------------------------------|---------------------|--|---|
| | | | | contact period, if there were to be a change in circumstances or external funding was available. | |
| Section 106 Projects | 0 | 60 | 60 | To date, a total of £59k of S106 funds have been released for community schemes. | 129 |
| | | | | | |
| Total Minor (under £25k) slippage on other projects | | | 0 | | 0 |
| | | | | | |
| Total Revision to Budget Profile | | | -6,198 | | 7,387 |

- 8.4 There are also changes to the overall costs of schemes in 2018/19. These changes total a net decrease of £2.468million and are detailed in Table 3.

Table 3: Changes to Capital Schemes Commencing in 2018/19:

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

| Scheme | 2018/19 Working Budget £'000 | 2018/19 Forecast Spend £'000 | Difference £'000 | Comments |
|---------------------------------------|---------------------------------------|---------------------------------------|---------------------|--|
| Museum Services Development | 5 | 80 | 75 | The contractors who originally ceased work because of the issues with 14/15 Brand Street in March 2016 have come back with new quotes for completing the work for the design and retail fit out. This is within the tolerance limit for capital schemes and will be funded from grant received from The Heritage Lottery Fund. |
| Hitchin and Royston Fitness Equipment | 0 | 27 | 27 | Expenditure relates to costs incurred 17/18 but were not accrued. This amount has been added to the SLL loan total. |
| N H Leisure Centre Development | 220 | 172 | -48 | Project completed last year. The final account has now been negotiated and agreed with the contractor. |

| Scheme | 2018/19 Working Budget £'000 | 2018/19 Forecast Spend £'000 | Difference £'000 | Comments |
|---------------------------------------|---|---|-----------------------------|--|
| Pension Capitalisation Contribution | 2,500 | 0 | -2,500 | This required approval from the Department for Communities and Local Government (DCLG) to grant a capitalisation request, where capital funding is used for what would usually be considered to be revenue purposes. The application was denied on the basis that our reserves would still be above the minimum level at the end of 2020/21. As we are now approaching a need to borrow to fund Capital this contribution is unlikely to offer sufficient revenue savings to justify the Capital expenditure and there will therefore be no further request to DCLG. |
| Other minor changes | | | -22 | |
| Total revision to scheme spend | | | -2,468 | |

Capital Programme 2018/19 Funding onwards

8.5 Table 4 below shows how the Council will fund the 2018/19 capital programme.

Table 4: Funding the Capital Programme:

| | 2018/19 Balance at start of year £M | 2018/19 Forecast Additions £M | 2018/19 Estimated Use of Funding £M | 2018/19 Forecast Balance at end of year £M |
|---|---|---|---|---|
| Useable Capital Receipts | 3.090 | 0.109 | (0.571) | 2.628 |
| Set-aside Receipts | 10.252 | | (5.920) | 4.332 |
| <i>S106 receipts</i> | | | (0.146) | |
| <i>Other third party grants and contributions</i> | | | (0.574) | |
| Total | 13.342 | 0.109 | (7.211) | 6.960 |

- 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 limit on capital projects that dependent on the value of the scheme and on this basis over the duration of the programme it should be anticipated that the total spend over the period could be around £2.3million higher than the estimated £17.823million.
- 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 2018 was negative £10.3million.
- 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 2018/19 onwards.
Appendix B, Capital Programme Detail including Funding 2018/19 onwards,

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 2018/19 Budget Estimates Book.