

**Meeting: EXECUTIVE**

Portfolio Area: Resources

**Agenda Item:**

**8**

**Date: 10 JULY 2012**

## **2011/12 CAPITAL EXPENDITURE OUTTURN**

### **KEY DECISION**

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#### **1. PURPOSE**

- 1.1 To provide Members with the outturn position on the 2011/12 capital programme including the resources used to fund that expenditure.
- 1.2 To provide Members with an update on the Council's Capital Strategy and any changes to the 2012/13 capital programme.
- 1.3 To seek approval for the Minimum Revenue Provision Contribution for 2012/13 of £105,050.
- 1.4 To provide Members with an update on the resources available to fund the Capital Strategy.

#### **2. RECOMMENDATIONS**

- 2.1 That the 2011/12 capital expenditure outturn of £17,941,820 be approved, as detailed in Appendix A to this report.
- 2.2 That the funding applied to the 2011/12 capital programme be approved as detailed in Appendix A to this report.
- 2.3 That the 2011/12 slippage of £940,300 be approved as detailed in the Appendix A to this report.
- 2.4 That the revisions to the Capital Programme following review by Leaders Service Priority Group (LSPG) as summarised in paragraph 4.5.3 be approved.
- 2.5 That the Minimum Revenue Contribution relating to 2011/12 and funded in 2012/13 of £105,050 be approved.

#### **3. BACKGROUND**

- 3.1 The 2011/12 capital programme was last approved by Members at the March Executive as part of the 3<sup>rd</sup> quarter monitoring report. The 2011/12 revised

**General Fund** capital programme was projected to be £5,567,860 and the 2011/12 revised **HRA** capital programme was projected to be £13,505,210, a total of £19,073,070. There was also a projected capital receipts surplus of £285,950 as at 31 March 2012.

- 3.2 The 2011/12 outturn position included in this report is subject to External Audit and may change as a result of the Auditor's findings. The audited accounts will be presented to the September Audit and Statement of Accounts Committees.

#### 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

##### 4.1 2011/12 CAPITAL PROGRAMME

- 4.1.1 Expenditure on the **General Fund** capital programme was £4,661,144, an under spend of £906,716 against a revised capital programme for 2011/12 of £5,567,860. This was due primarily to slippage on schemes approved in 2011/12 with £715,770 being requested to be carried over into 2012/13. The slippage relates to a number of schemes and is identified in Appendix A and is summarised in the table below:

<b>General Fund Scheme Slippage</b>	<b>£</b>
SLL enhancement Programme	(50,070)
Peartree Pavilion Improvements	(19,960)
Performance Reward Grant schemes	(21,480)
Garage Compounds	(42,570)
Parking Restriction schemes	(14,300)
Multi Storey Car Park	(15,560)
Environmental Improvements	(39,230)
Town Centre	(12,060)
Growth Area Fund Schemes	(162,270)
Major Capital Enhancements	(298,790)
ICT projects	(32,920)
Other	(6,560)
<b>Total</b>	<b>(715,770)</b>

*( ) indicates slippage or under spend /+ indicates over spend in 2011/12 budget*

4.1.2 There were under spends of £190,946 on capital schemes which are not required in 2012/13 as summarised below.

<b>Scheme Net Under spends</b>	<b>£</b>	<b>Comments</b>
Swim Centre Major Refurb (KC179)	(15,458)	Scheme costs had been over accrued in 2010/11 and a credit has arisen in 2011/12
Improvement Grants (KG010)	(48,874)	There was a recovery of prior year costs which negated the need for the budget in 2011/12
Disabled Facilities Grants (KG011)	(37,779)	This expenditure is mandatory, however the budget in 2012/13 is deemed sufficient and the under spend is not requested as slippage
Town Centre Gardens (KE222)	(64,208)	The scheme is complete, but further improvements could be carried out. However the level of grant funding previously estimated is lower than the actual given.
Residential Parking (KE100)	(34,074)	This expenditure was grant funded through the JMP, however the grant was a 'revenue grant' and used in the General Fund and the scheme did not commence.
Woodchipper (KE309)	13,175	This plant item was identified as capital (over £5,000) and was required to be included in the capital programme. This was funded fully from revenue expenditure.
Other	(3,728)	
<b>Total</b>	<b><u>(190,946)</u></b>	

4.1.3 Expenditure on the **HRA** capital programme was £13,280,676 an under spend of £224,534. This related to slippage on schemes approved in 2011/12 with £224,530 being requested to be carried over into 2012/13. The slippage relates to a number of schemes and is identified in Appendix A and is summarised in the table below:

<b>Scheme Slippage</b>	<b>£</b>
<b>HRA</b>	
Decent Homes	118,500
Health and Safety	(43,160)
Planned Works	(86,330)
Other Schemes	(92,180)
ICT and equipment	(121,360)
<b>Total</b>	<b><u>(224,530)</u></b>

*() indicates slippage or under spend /+ indicates over spend oin 2011/12 budget*

4.1.4 In 2011/12 894 properties were made decent and the works included:

- Kitchens completed - 848

- Bathrooms completed – 740
- Electrics completed – 416
- Heating completed – 534

## 4.2 2011/12 CAPITAL RESOURCES

- 4.2.1 The actual **capital receipts** received in 2011/12 were £211,756 which was £70,756 higher than the estimate of £141,000. The receipts related to nine Right to Buys (RTBs) and repaid discounts. From the 1 April 2012 Members approved that all RTB sales will be spent exclusively on the HRA capital programme as part of the new HRA self financing regime.
- 4.2.2 The balance of capital receipts available to fund future capital spend is £5,254 as at 31 March 2012, although there were higher receipts than estimated, receipts were used in preference to borrowing in 2011/12. However, the Town Centre Gardens capital scheme required additional receipts of £25,000 as a result of the actual grant funding being less than the capital programme assumptions.
- 4.2.3 The balance of receipts as at 31 March 2012 is the lowest value of capital receipts the Council has held, arising from a combination of recessionary factors; the inability to sell surplus assets and the inability to achieve the estimated sale price to fund the capital programme.
- 4.2.4 The down turn in land and housing sales has resulted in the need to **borrow** for the General Fund capital programme. The actual capital expenditure requiring funding from borrowing was £1,803,028, compared to a budgeted borrowing requirement of £2,490,701 a reduction of £687,673. Most of the reduction in 2011/12 borrowing requirement relates to scheme slippage and the 2012/13 estimated borrowing requirement has increased by £687,673 to £3,796,972, with a further £92,921 currently unapproved.
- 4.2.5 The Council has a requirement to make a **Minimum Revenue Provision (MRP)** in the General Fund to reflect the repayment of the borrowing over the life of the assets which were purchased. The Council makes this payment one year in arrears, regardless of whether physical borrowing has taken place. The total MRP for 2012/13 as a result of the need to borrow in 2011/12 is £105,050.
- 4.2.6 The decision whether to physically go and borrow from the market or the Public Loans Works Board is a Treasury Management decision. Interest rates are at an historic low and the Council has chosen not to externally borrow but to absorb the expenditure by effectively reducing its investments which are earning 0.7% interest.
- 4.2.7 The capital programme also uses **grants and contributions** from Government and third parties such as developers in the form of S106 or planning agreements. Most of this income is linked to specific projects and cannot support an unrelated scheme in the capital programme. The current Capital Strategy contains S106s that have been earmarked to support current and future capital schemes. The value of resources available, (including capital receipts) to support the General Fund and HRA capital programmes respectively as at 31 March 2012 was £3,427,306 and

£291,693. However, included within this (General Fund Grants and other Contributions) total is £2,001,405 of Growth Area Funding which has been allocated to a number of schemes within the capital programme. The resources available to fund future capital expenditure is summarised in the following table:

<b><u>How the Programme was Funded 2011/12</u></b>						
	<b>Brought Forward</b>	<b>Received in Year</b>	<b>Used in Year (General Fund)</b>	<b>Used in Year (HRA)</b>	<b>Available to fund future year expenditure (General Fund)</b>	<b>Available to fund future year expenditure (HRA)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>GENERAL FUND</b>						
MRA	(414,044)	(6,590,618)		6,938,894		(65,768)
Usable Capital Receipts	(201,735)	(218,756)	359,433	55,803.81	(5,254)	
Section 106 Receipts (Capital)	(1,029,680)	(140,435)	267,485		(902,630)	
Grants and Other Contributions GF	(3,701,820)	(758,098)	1,940,495		(2,519,423)	
Grants and Other Contributions HRA	(106,456)	(258,430)		138,960		(225,926)
<b>TOTAL</b>	<b>(5,453,735)</b>	<b>(7,966,336)</b>	<b>2,567,413</b>	<b>7,133,658</b>	<b>(3,427,306)</b>	<b>(291,693)</b>
			<b>Required General Fund</b>	<b>Required HRA</b>	<b>Total Borrowing /Revenue used</b>	
			<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Borrowing			1,803,028	5,929,310	7,732,338	
Revenue Contributions to Capital			142,323	217,707	360,030	
			<b>4,512,764</b>	<b>13,280,675</b>		

### 4.3 2012/13 CAPITAL RESOURCES

4.3.1 The 2012/13 **General Fund** capital receipts projection has been updated and the value of capital receipts estimated for 2012/13 is now £47,500, this is £620,000 lower than the 2012/13 original estimate. The reduction is due to one land sale which is unlikely to materialise in the near future. Furthermore the land sales projected for 2013/14 to 2015/16 have been reduced by a total of £3,720,000 as a result of the inability to sell at an acceptable value and the potential to transfer the assets into a joint venture vehicle.

4.3.2 The impact of the reduction in receipts is to increase the underlying need to borrow and there is a need to borrow a further £92,921 in 2012/13 in addition to the extra £1,000,000+ per year required for 2013/14 onwards.

- 4.3.3 The identified shortfall in Appendix A had been reduced by £2,855,670 (see paragraph 4.5.3) as a result of the work of Leader's Services Priority Group (LSPG) which was included in the March update. This work is not yet complete and it is anticipated that the projected gap in Appendix A maybe reduced further. However in the interim the General Fund MTFS has been updated to reflect the financial pressure.
- 4.3.4 The 2012/13 **HRA** capital programme has been updated for the final borrowing completed for the self financing deal on the 28 March 2012. As a result of the lower borrowing rates achieved the programme now includes a new build programme of £1,000,000 for 2012/13, £3,000,000 2013/14 and thereafter £2,000,000.
- 4.3.5 The HRA capital receipts projection has increased by £55,500 based on ten RTB sales in 2012/13. However there have been five completions to date as a result of the higher discount available from the 1 April 2012 of £75,000. The council has signed up to the Government's offer of retaining RTB receipts from the sales over and above the HRA Business Plan (10 in 2012/13). The receipts have to be used to provide new housing and can only be used up to 30% of the build cost with the rest coming from borrowing or reserves. The council is able to use the HRA new build budget to fund the 70% required. Failure to spend the receipts within five years would mean returning the monies to the Government at an interest rate 4% above the base rate, currently this would be 4.5%.

#### **4.4 CAPITAL EXPENDITURE 2012/13**

- 4.4.1 The **General Fund** programme has been adjusted for some scheme changes which are:
- Reduction in ICT spend of £221,000 for new software licence costs. This relates to software licences that have now become due but are a revenue cost of £75,000 per year. Consequently the capital programme has been reduced and the General Fund MTFS updated for the new pressure.
  - A new scheme of £100,000 for 'High Street Innovation' has been included in the programme this is funded 100% from government grant.
- 4.4.2 The **HRA** programme has been increased for the new build programme identified in paragraph 4.3.4 which is £1,000,000 in 2012/13. The overall HRA programme has also been reduced by £175,350 relating to staff time spent on capital works. With the return to the Council of the housing management function the calculation of the cost of technical assistance has reduced. The impact on the HRA and programme have been neutralised because the revenue contribution to capital for the HRA programme has been reduced by the same amount.

#### **4.5 CAPITAL STRATEGY MEDIUM TO LONG TERM**

- 4.5.1 The current Capital Strategy does not identify the level of works that are required to maintain the Council's assets over the medium to long term. The programme has been reduced as resources have declined however this does not address the underlying investment requirement. The Council's Strategic Management Board (SMB) requested that a new approach is taken to the Strategy which is primarily to review all the different asset class needs which are embedded within:
- Asset Management Strategy

- Fleet Strategy
- ICT Strategy
- Play Strategy
- Parks and Open Spaces Strategy

All these strands need to be brought together to identify the scale of works and resourcing needed over the medium term.

4.5.2 This work is now completed and is being scrutinised by Challenge Board and LSPG and Members will be updated as the work progresses. This will result in establishing a new Capital Strategy with significant levels of spending over the next 15 years.

4.5.3 LSPG have identified the following reductions in the future years capital programme after meeting with officers, the changes have been included in Appendix A and are summarised below:

<b>LSPG Programme Reductions</b>	<b>£</b>	<b>Year</b>	<b>Reason</b>
SLL enhancement programme (KC034)	(237,920)	2013/14	Essential Priority A works only included
SLL gym equipment (KC181)	(19,960)	2013/14	Budget no longer required
Sailing boats (KC139)	(10,000)	2013/14	Budget of £10K required for 2013/14 and included in revised programme
Litter bins (KC132)	(4,780)	2013/14	To be funded from revenue deminimus reserve if required
Landscape retaining walls (KE250)	(20,000)	2013/14	Identified works included in remaining budget
Litter bins (KE097)	(19,000)	2013/14	Budget reduced to £5K for 2013/14, if more bins require replacing this will be funded from the deminimus reserve.
Vehicle Replacements	(13,000)	2013/14	Vehicle no longer required
Multi Storey repairs (KE119)	(204,200)	2013/14	Essential Priority A works only included
Garages (KG002)	(198,260)	2013/14	Essential Priority A works only included
Major Capital Enhancements	(2,079,550)	2013/14	Essential Priority A works only included
Major Capital Enhancements	(49,000)	2014/15	Essential Priority A works only included
<b>Total reductions</b>	<b>(2,855,670)</b>		
<b>LSPG increases</b>			
Multi Storey efficient lighting	80,000	2012/13	Upgrade MSCP lighting system to increase control and flexibility to lighting levels and reduce annual energy consumption.
Garages stock condition	25,000	2012/13	To fund stock condition survey of garages, saving of £198K given in 2013/14
Total Increases	<b>105,000</b>		
<b>Net Reductions</b>	<b>(2,750,670)</b>		

## **5. IMPLICATIONS**

### **5.1 Financial Implications**

5.1.1 This report is financial in nature and consequently financial implications are included in the above.

### **5.2 Legal Implications**

5.2.1 None identified at this time.

### **5.3 Policy Implications**

5.3.1 The approval of the revised budget framework includes a link for the Council's service planning requirements to ensure service priorities are identified. In addition the budget framework represents a development of a policy led budgeting approach across Council services and the overall Capital Strategy.

### **5.4 Equality and Diversity Implications**

5.4.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund and HRA capital programme. None of the budget changes reported will change any existing equalities and diversity policies and it is not expected that these budget changes will impact on any groups covered by statutory equalities duties.

## **BACKGROUND DOCUMENTS**

- Capital Strategy Update November 2011 (Executive)
- Capital Strategy Update January 2012 (Executive)
- Capital Strategy February 2012 (Council)

## **APPENDICES**

- Appendix A – 5 Year Capital Strategy