# REPORT FOR DECISION

| Agenda Item | |
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| **MEETING:** | **CABINET**<br>**OVERVIEW & SCRUTINY COMMITTEE** |
| **DATE:** | **11 JULY 2012**<br>**28 AUGUST 2012** |
| **SUBJECT:** | **CAPITAL OUTTURN 2011/12** |
| **REPORT FROM:** | **CABINET MEMBER FOR FINANCE & RESOURCES** |
| **CONTACT OFFICER:** | **STEVE KENYON, ASSISTANT DIRECTOR OF RESOURCES (FINANCE AND EFFICIENCY)**<br>**ANDREW BALDWIN, HEAD OF FINANCIAL MANAGEMENT** |

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| **TYPE OF DECISION:** | **CABINET (KEY DECISION)** |
| **FREEDOM OF INFORMATION/STATUS:** | This paper is within the public domain |

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**SUMMARY:**

This report provides Members with:

- The capital outturn figures in respect of the last financial year 2011/12;
- Major variances between the Revised Estimate and the Outturn;
- The financing of the Capital Programme in 2011/12;
- Re-profile of budgets/allocations and funding into 2012/13; and
- Details of the capital receipts received during the year.

**OPTIONS & RECOMMENDED OPTION**

Members are asked to:

a) Note the final capital outturn for 2011/2012, and explanations for major variances (Appendix A and report)

b) Note the financing of the Capital Programme in 2011/2012 (Paragraph 3.5)

d) Consider and recommend for approval the re-profiled/slippage requests and associated funding into 2012/2013 (Appendix B)

e) Note the level of Capital Receipts realised in year (Appendix C)

**Recommended Option:**

To approve the recommendations set out above.

**IMPLICATIONS:**

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| **Corporate Aims/Policy Framework:** | The successful management of capital investment in the Borough supports the delivery of all of the Council's Aims and Objectives. |
| **Financial Implications and Risk Considerations (Statement by s151 Officer):** | Capital expenditure has been incurred in accordance with the agreed Capital Programme. This links the expenditure with the objectives of the Council and the Capital Strategy. The Programme has been financed in a way that optimises to the maximum the resources available, including the prudent use of capital receipts. |
| **Statement by Executive Director of Resources:** | See statement by s151 officer above. The capital receipts used to fund the Programme were made available through disposal of assets in accordance with the policies specified in the Asset Management Plan. |
| **Equality/Diversity implications:** | No (see paragraph 8.1, page 8) |
| **Considered by Monitoring Officer:** | Yes. The presentation of an annual report on the Capital Outturn is a requirement of the Council's Financial Regulations, as part of the Council's Financial Procedure Rules. The report accords with the Council's Policy and Budget Framework and has been prepared in accordance with all Statutory Guidance and Codes of Practice. |
| **Are there any legal implications?** | Yes |
| **Wards Affected:** | All |
| **Scrutiny Interest:** | Overview & Scrutiny Committee |

**TRACKING/PROCESS** **DIRECTOR: STEVE KENYON**

| Chief Executive/ Strategic Leadership Team | Cabinet Member/Chair | Ward Members | Partners |
|---|---|---|---|
| Yes | 11/7/12 | | |
| Scrutiny Commission | | Committee | Council |
| Overview & Scrutiny Committee 28/8/12 | | | |

## 1.0 BACKGROUND

1.1 The Capital Programme is an integral part of the Council's financial planning and represents expenditure on schemes or assets where the Council or a third party will derive a long term benefit, over more than one year.

1.2 The funding for the Capital Programme comes from a variety of sources including borrowing, capital grants, external contributions, revenue contributions and capital receipts. Capital receipts are received through the disposal of the Council's assets and are detailed later in the report. Operating within statutory rules, the financing of the Programme seeks to optimise the funding resources available.

1.3 Since the introduction of the Prudential Code in 2004 the Council is required to finance and account for the capital expenditure on an accruals basis. The significance of this is that all capital expenditure incurred within the financial year is financed in that year and any outstanding capital creditors and debtors at year end will have to be accounted for and then reconciled with the actual amounts that are paid out or received in the following year.

1.4 Amounts for schemes that wait for grant funding to be claimed are also accrued in the financial year.

1.5 The indications for supported capital allocations from the government are now made on a two year basis with firm indications for amounts allocated being supplied for the following year. This means that the uncertainty of finances for schemes extending over one year is now greater and managers will have to plan more carefully for longer term schemes. Only a limited number of capital grants can be carried forward to fund schemes that have slipped between financial years.

1.6 The report also gives details of the major variances between the revised estimate and the outturn and gives explanations for these variances.

1.7 The following three appendices are attached to the report to provide Members with additional detail and support the recommendations made:

- **Appendix A** shows a summary of the Capital Programme expenditure against the Revised Estimate analysed by each Department.

- **Appendix B** lists capital projects that have not completed by the end of financial year and are re-profiled into 2012/13 and future years analysed by category of funding source.

- **Appendix C** shows a summary of asset disposals that occurred in the year and the realised usable part of the receipt that was either expended in the year to support the funding of the programme, set aside for future capital investment or set aside for repayment of borrowing.

## 2.0 CAPITAL OUTTURN 2011/2012

### 2.1 Approved Capital Budget and Outturn

2.2 The total Capital Budget approved by Council on 23 February 2011 with all in year movements for the financial year 2011/12 and the final expenditure outturn are shown in the table below:

| Capital Budget 2011/12 | £m | £m |
|---|---|---|
| **Original approved budget** | | **16.311** |
| Value of schemes re-profiled from 2010/11 programme | 20.728 | |
| Amendments to budget in year | 2.169 | 22.897 |
| **Revised programme for 2011/12** | | **39.208** |
| Value of schemes re-profiled to 2012/13 and future years | | (13.026) |
| **Final Capital Programme 2011/12** | | **26.182** |
| **Capital Outturn for 2011/12** | | **26.574** |
| Variance | | (0.392) |

2.3 Members are reminded, for completeness and not included in the figures above, that the Voluntary Aided schools in Bury receive the Capital Grant allocations from the Department for Education. The allocations are awarded directly to the schools and the expenditure funded by these amounts was accounted for by the Voluntary Aided schools' governors and **not** by the Council. In 2011/12 the grant totalled **£1.371m**.

2.4 Capital expenditure that was achieved from schemes carried out during the year totalled **£26.574million** against the final approved Programme funding (excluding the amounts for the VA schools and the re-profiled amounts) of **£26.182million.** There was an overall negative variance at the end of the year of **£0.392million**.

2.5 The negative variance shown arises from timing differences and will be carried forward into the following financial year to be offset against a future capital receipt. The receipt will be realised at a future date from the sale of the developed associated asset.

## 3.0 CAPITAL PROGRAMME FUNDING

3.1 The Capital Programme is funded from the variety of funding sources as specified in paragraph 1.2. The methodology used for the financing the Capital Programme is particularly important and the emphasis is placed on the optimisation of resources available.

3.2 The objective is to achieve best possible financial position for the Council and one that will have minimal effect on the Council's future financial position.

3.3 This is realised through maximising the use of government supported borrowing, capital grants and external contributions. The Capital Programme also requires and uses contributions from capital receipts and the revenue budget.

3.4 The introduction of the Prudential regime as explained at paragraph 1.3 requires the Authority to finance its capital expenditure on an accruals basis. In 2011/12 the amount financed after accruing for all payments made or to be made for contract work, goods and services supplied by 31st March 2012 was **£26.574 million.**

3.5 The financing of expenditure carried out during the year and reported inclusive of all accruals for the year for both expenditure and income is detailed below:

| **Expenditure:** | **£000's** | **£000's** |
|---|---|---|
| Fixed assets | 24,127 | |
| Intangible assets | 255 | |
| Vehicle, Plant and Equipment | 2,192 | |
| **Total** | | **26,574** |
| **Financed by:** | | |
| Loan | 4,484 | |
| Capital Receipts | 831 | |
| Grants & Contributions | 15,724 | |
| Provisions | 0 | |
| General Fund Revenue and Reserves | 388 | |
| Housing Revenue Account | 184 | |
| Major Repair Allowance | 4,963 | |
| **Total** | | **26,574** |

3.6 As a result of statutory controls over council finances the Council's ability to determine the level of its Capital Programme is limited to the level of contributions it can make to the Capital Programme from revenue and reserves and the level of unsupported borrowing that it can service in financing costs.

3.7 The alternative way for the Council to fund new capital projects is by way of replacing older assets with new ones through disposal of the surplus properties held in within Council's assets. The availability of proceeds from the disposal is linked to market conditions that attach an element of risk to the final level of this type of income available each year.

3.8 In 2011/2012 the Council financed schemes to a total value of **£0.831m** from capital receipts. The total amount of realised usable capital receipts from the sale of assets in 2011/12 was **£1.462m**.

3.9 The positive balance of general usable capital receipts at year end will be carried forward into 2012/2013 to assist with the build up of balance of earmarked capital receipts approved and required for imminent specific projects.

3.10 Effective financing implies the use of cash available in the year instead of the use of unsupported borrowing that would attract higher financing costs. This was applied to some schemes that have slipped into 2012/13 that originally had approved funding from capital receipts.

3.11 Accordingly, the borrowing requirement is delayed until it becomes absolutely necessary. This also ensures that a healthy cash flow for the Council is maintained at all times.

## 4.0 CAPITAL PROJECTS REPROFILED TO FUTURE YEARS AND SLIPPAGE OF FUNDING

4.1 Explanations were given earlier in the report to the specific nature of the Capital Programme that demands budget allocations in every financial year to be continuously modified as the schemes develop. This ultimately means that the capital budget changes significantly from the original approved to final figure.

4.2 A direct result of the continuous change to the budget through the year is the difficulty in timing the delivery of capital schemes to the funding that is used in the budgeting process. The process accepts that capital spend is not always completed within the financial year in which the scheme is approved. Explanations for the reasons are given in the table shown in Appendix B.

4.3 The majority of re-profiled schemes are the major projects for which approvals were given for a longer term delivery. The report seeking approval to the Council Annual Budget meeting specified that these will be delivered over several years and the detailed design, planning and cost estimates require a considerable amount of time before they are fully quantified.

4.4 The total amount that was re-profiled to the next and future years was **£13.026m** as reported above in the table at paragraph 2.2 and the details of projects are shown in Appendix B.

4.5 The table below shows the different elements of funding approved by full Council in February 2011 for the 2011/12 financial year that was not spent in the year. The amounts were part of the three year rolling capital programme, from 2011/12 to 2013/14 compiled and presented by Operational officers of the Authority.

| | **£m** |
|---|---|
| **2011/12 Capital schemes re-profiled into 2012/13** | **13.026** |
| Financed by: | |
| Capital grants and contributions | 10.360 |
| Major Repair Reserve | 0.074 |
| Earmarked capital receipts | 0.690 |
| Revenue / Reserve | 0.343 |
| Loan | 1.559 |
| **Total** | **13.026** |

4.6 The value of the schemes re-profiled into 2012/13 will be financed in 2012/13 and future years from balances carried forward as usable reserves on the Balance Sheet. The amount shown as loan of £1.559m represents previous years' approvals made by Council for projects that are long term such as Pimhole Regeneration, Philips Park, Empty Homes Strategy and Children Services supported projects that require several years to complete.

4.7 There should be no further impact on Council's own resources as a result of this and all funding has been allowed for within the existing cost of borrowing.

4.8 The unused allocation from the Major Repairs Allowance for council house repairs can be transferred to a reserve account and available for 2012/13 spend.

4.9 To further and complete the quarterly monitoring process, Cabinet **w**ill be requested to note the schemes re-profiled in the above table and recommend to Council approval of the carry forward of funding into 2012/13.

4.10 The Capital Programme approved by Council in February 2012 for the 2012/13 financial year will be updated with the slippage of funding as recommended by Cabinet and approved by Council.

**5.0 MONITORING ARRANGEMENTS**

5.1 The Capital Programme depends on available and acquired resources that are more than often generated from a wide variety of sources and are difficult to estimate long in advance.

5.2 The planning, approval, spend during the year, and outturn strongly indicate the need for regular monitoring and for flexibility during the year in order to achieve the capital investment objectives as set down in the Capital Strategy.

5.3 At the same time an important objective is to maximise the capital resources available to the Council that support the programme and after that to ensure that the available funds are used in the most effective way.

5.4 In order that issues connected to the preparation and the delivery of the programme are identified at an early stage there is a senior officer level Capital Programme Management Group that meets on a monthly basis. Monitoring reports on the Capital Programme position are also included in the quarterly corporate financial management reports considered by the Strategic Leadership Team, the Cabinet and subsequently scrutinised by the Overview and Scrutiny Committee.

5.5 The Capital investment requirement for the Council is considered over a three year, rolling programme.

**6.0 RISK MANAGEMENT**

6.1 Several risks have been identified with the delivery of the capital programme and the financing or funding of expenditure realised in the year.

6.2 Projected outturns throughout the year are based on the best knowledge of the Project Managers at the end of each quarter and tend to change significantly from one report to the next if there are major changes in circumstances. Regular budget monitoring and reporting through the Capital Programme

Management Group provide the updates for the forecast and enable analysis of these changes by the officers in charge.

6.3 If corrective action needs to be taken this is normally done in a timely manner to ensure the flow of the programme for the year and minimise the impact on the financial resources available.

6.4 The management techniques applied include the traffic light process which is used to assess budgets in terms of forecast over and underspending and secondly the identification of 'hot spots' based on risk factors that are inherent in individual budget areas Reports containing this information have been provided on a regular basis to Strategic Leadership Team, Overview & Scrutiny Committee, Cabinet, Audit Committee and Star Chambers.

6.5 It is envisaged that this style of reporting will be continued into the next and future financial years.

6.6 The availability of funding required to support the programme is partly controlled by external providers and there is always a risk that the finances required for the year are either not realised or timing issues arise. These instances are outside Council's control and could put the completion of certain projects at risk.

6.7 One of the significant sources of funding for the capital programme are capital receipts realised and these have been reduced in recent years in line with the effects from the national and global financial crisis. This has had a negative effect on the mix and size of the capital projects that have been approved by Council. The Council has taken steps to mitigate the negative effect on the programme by streamlining the number of projects approved at the beginning of the year in favour of additional approvals being considered only as resources become available. Capital expenditure reliant on capital receipts is only taking place when the receipt is actually realised.

## 7.0 REVIEW OF COMPLETED SCHEMES

7.1 For all schemes where Council approved funding in excess of £250,000 a Completion Review Form is completed by Project Managers. This ensures that the monitoring process for larger schemes can be extended to evaluate, highlight and assess outcomes directly in line with the Council's aims and objectives. Explanations for variances are also included.

7.2 The Summary of Accounts which is published after the statement of accounts are audited and approved will show in £'000 and percentages the contribution made by the Capital Programme in the year towards Council's priorities, aim and objectives.

## 8.0 EQUALITY AND DIVERSITY

8.1 There are no specific equality and diversity implications.

## 9.0 FUTURE ACTIONS

9.1 See Section 5 of this report for details of the continuation of the monitoring arrangements.

**Councillor Tony Isherwood**
**Cabinet Member for Finance and Resources**

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***Background documents:***

*Capital Cost Tab and Financing Working Papers, 2011/2012*
*Council Approved Capital Programme 2011/12*

***For further information on the details of this report, please contact:***
Mr S. Kenyon, Assistant Director of Resources (Finance and Efficiency), Tel. 0161 253 6922
E-mail: S.kenyon@bury.gov.uk,
or
Mr. A Baldwin, Head of Financial Management, Tel. 0161 253 5034,
E-mail: A.Baldwin@bury.gov.uk